



Laurentian Bank Securities **ECONOMIC RESEARCH AND STRATEGY**

Bank of Canada January Decision – Opening the door to easing

When it comes to set the overnight rate target, nothing is written in stone says the BoC. The Canadian economy will need to reap the benefits of a stabilizing global economy and avoid the negative repercussions from trade and geopolitical uncertainty. BoC officials are in the familiar position of having to determine if the weakness in Canadian exports, business investment and consumer spending observed in late 2019 is temporary or persistent. In the [Monetary Policy Report](#), the BoC expects exports and business investment to strengthen due to fading trade headwinds. The weakness we observe in 2019Q4 is highly affected by trade disruptions, notably the CN strike in November and the GM strike in September and October. Also, consumer spending is projected to slightly improve in tandem with strong demographics and labour market fundamentals. We expect GDP growth to rebound around 2.0% Q/Q AR in 2020Q1. The magnitude of improvement in these domestic indicators will determine if policy rate cuts become reality or not.

The post-release market reaction was too strong in our view; investors are suddenly pricing a policy rate cut by the Fall. Of course, removing the reference at the very end of the statement that the current level of the overnight rate target is “appropriate” is not a pale move. This being said, the three core CPI inflation measures for December, released this morning, averaged 2.1% again. Furthermore, the BoC expects inflation to stay very close to its target over the 2020-21 horizon. Thus, economic data would need to be very soft in our view to embark on a new easing cycle at the March 4th, April 15th or June 3rd meetings. That is, before Stephen Poloz leaves his seat as Governor.

We maintain our forecast that the BoC will stay on the sidelines in 2020 with a 1.75% overnight rate target for now, acknowledging that today’s dovish statement could turn out to be a game changer at some point.

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