

ECONOMIC RESEARCH AND STRATEGY



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BoC Decision – Fast Tightening Cycle Coming to an End

Market participants just received news about the most dovish 50bps hike they will see in their lifetime. As we noted in our job market writeup last Friday, factors favoring a 50bps hike today slightly outweighed those favoring a 25bps increase. In today's statement, the BoC says global momentum including in the U.S. slowed but not enough relative to the October MPR expectations. Domestically, the BoC expresses the same idea: high interest rates bites but not enough at this stage relative to the objective of restoring price stability.

In the past, tightening cycles generally ended with a 25bps hike. This time could be different. The BoC sends the signal that the end of tightening cycle is near. Back in October, the BoC mentioned the policy rate needed to rise further. But with today's 50bps hike to 4.25% and the path towards economic stagnation at home, the narrative has changed. 4.25% could turn out to be the so-called terminal rate. The near-term path of economic conditions and CPI inflation will determine if a 25bps increase in January is required or not. Jumbo hikes of 50bps+ are certainly over and odds at the moment appear against a 25bps hike at the March BoC meeting. After January's meeting, the speed of moderation in CPI inflation, closely linked to the magnitude of economic momentum to come, will also determine the length of the plateau at which the BoC policy rate at 4.25%+ will stay during 2023.

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