BoC Preview—"Yes, A Rate Cut Remains On The Table"

Forgive me for titling this article after a direct quote delivered by Governor Poloz during the press conference that accompanied the last time he delivered a policy decision back on January 18th. I did so because I think it remains relevant going into next week's statement and markets are likely offside the Governor (chart 1).

The statement will be delivered on Wednesday at 10amET. There will be no accompanying press conference or forecasts this time and the overnight rate is expected to remain unchanged. It is likely best kept short and sweet in part because not a whole lot has changed since then, and many of the uncertainties flagged by Poloz at the time remain in place today.

That said, a more nuanced way of referencing a generally dovish tone is likely. His comments in the last press conference are unlikely to become codified in the statement itself. Having just updated forecasts in the January Monetary Policy Report, don't expect clues about potential forecast revisions just yet. The following are among the considerations likely weighing on Poloz's mind and are all at risk of appearing in the statement. Since Poloz conditioned the persistent rate cut bias "as long as those downside risks were still present" one would have to conclude they are.

1. **Inflation:** Recent inflation reports have been dovish in nature (here). Headline inflation of 2.1% surpassed expectations due to energy prices in January. Excluding gasoline, CPI was 1.5% and excluding all energy, inflation was 1.4% y/y. Further, the BoC's three core inflation measures continue to move further beneath the BoC's 2% inflation target (chart 2) and now average 1.6% while the common component metric that BoC research has preferred sits at 1.3%.
2. **Exports:** Chief among the concerns will be that there has only been one good month for export volumes out of the past four and therefore this frustrates hope for the rotation of growth away from excess reliance on the household sector toward exports and investment (chart 3).
3. **US policy:** there is no more clarity available from potential US fiscal, regulatory and trade policies today than there was back on January 18th.
4. **Other growth signals:** They have been generally mixed with upsides coming from manufacturing, wholesalers, and housing starts but downsides coming through exports while retail sales volumes were up solidly in November but gave it all back plus a little in December. Jobs have been the brightest part of the picture, but wage growth is a paltry 1% y/y and thus posing little cost-push type of inflation pressure.
5. **CAD:** Versus the USD, the Canadian dollar has been roughly flat since just before the last BoC statement. Therefore, the following comment from the last statement could easily be repeated about how CAD is "exacerbating ongoing competitiveness challenges and muting the outlook for exports."
6. **Trade policy:** While the recent Trudeau-Trump meeting resulted in flagging only a need to 'tweak' the US-Canadian trade relationship, this does not mean Canada is immune to trade policy shifts. The ongoing risk of a US border tax and its impact upon US consumers and global protectionism would still raise vulnerabilities to the one-third of Canadian GDP that is reliant upon exports.

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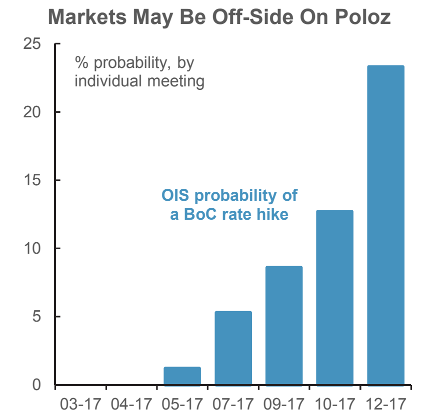
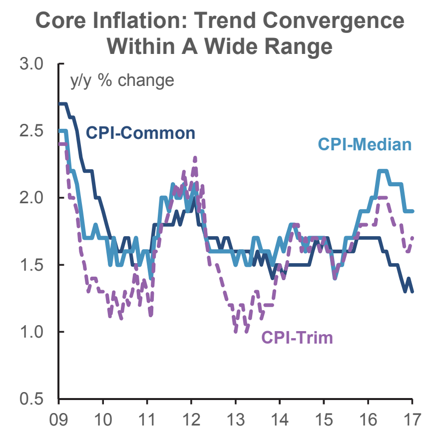
Chart 1



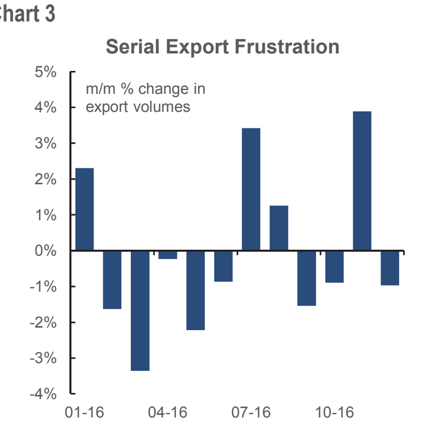
Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, Statistics Canada.