



# Bank of Canada Preview

*December 3, 2018*

Avery Shenfeld (416) 594-7356

## Bank of Canada Preview: Shading the Story

For a central bank that says it wants to eschew “forward guidance,” the Bank of Canada sounded pretty sure of itself when it hiked rates in October. Not only did it drop the pledge to keep further hikes “gradual” so as to leave room for two successive increases, but it spoke confidently about pushing ahead to an overnight rate in the 2.5-3.5% range, or a further 75 to 175 basis points from where we now stand, an estimate that CIBC economics judged to be too aggressive given the mediocre growth backdrop, but which the Bank of Canada defended as consistent with model-driven estimates of where the neutral rate sits.

That was then, this is now. While it’s found some stability, WTI oil prices are about \$20 weaker than when the October MPR came out. Canada’s heavy oil benchmark, WCS has rebounded to within reach of the Bank of Canada’s assumed 2019 average, but only because of production cuts that will take two ticks off annualized real GDP growth in each of Q4 and Q1. More broadly, wage inflation seems to be in retreat, and GDP growth has been zero over the most recent two months. South of the border, both the Fed Chair and Vice Chair sounded less assured that American overnight rates would keep climbing as steadily as they have in the past year.

That sets up the Bank of Canada for an obvious pause in rates this week, but the more interesting question is how much it will choose to walk back its assuredness that 2.5-3.5% is where we’re headed thereafter. The pattern in non-MPR meetings, excepting those after a big data shocker, would lean towards sticking close to its prior view, and only shading the story slightly.

In its one page statement, as well as in Governor Poloz’s speech the next day, the central bank will have to acknowledge the modest hit to national GDP growth from oil production cuts, and the potentially weaker track for oil sector capital spending. It should give at least some mention to tame wages and the dampening impact on headline CPI of softer gasoline prices.

It will, however, be able to claim that Q3 GDP was in line with its projections, as its 1.8% forecast was topped by two ticks. Being a non-MPR meeting, it won’t be issuing a revised outlook, but if it chooses to provide full disclosure, it should mention at least some downside risks to its 2.1% Q4 call, given the weak finish to the third quarter and the impacts of oil production cuts. That said, Poloz could also mention a few more positive developments on the trade side, particularly between the US and China.

### Market Implications

We were on the dovish end of the consensus of forecasters in expecting only another 50 bps in hikes next year, but since we made that call, the market has moved to that same conclusion, with a stretched out

timetable for getting there. As a result, even if, as we expect, Poloz does walk back a bit of the hawkish talk but falls short of a complete U-turn, there isn't really room at this point for short rates to rally, or for a dent in the Canadian dollar as a result.

Instead, look for other developments to play a larger role in steering both rates and the FX market. We'll need to see reasonable hiring, and signs of strength in non-energy export volumes in October, to keep a January rate hike in play. Although we don't see room for more than two BoC hikes next year, our expectation that OPEC+ production cuts will prompt a further rebound in global crude benchmarks could firm up market expectations for BoC hikes and give a bit more support to the loonie.

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2018 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.