

BoC's Poloz Welcomes Market Volatility

- Governor Poloz's speech ([here](#)) on financial markets was largely shaken off by CAD and short-term rates which is a sensible bias at least so far. That will probably please the Governor as the speech and audience Q&A generally stuck to positive/hawkish messaging that reinforces prior communications, though not incrementally so. Additional risk may lie in the press conference at 9:30amET and possible questions are highlighted below.
- The Governor's overall message is that financial market volatility is not a disturbing sign; rather, it is a welcome sign as price discovery moves along the needed path toward neutralizing the policy rate.
- The Governor noted that the BoC treats market signals seriously, but on not being wedded to what OIS markets predict for the BoC o/n rate he stated "If we tried to guide market views so they were always aligned with our own, we would lose the cross-validation that financial markets provide."
- The Governor rejected the signals provided by the yield curve in a Canadian context with the correct remark that "To adapt the old quip, the yield curve has inverted before 10 of the last 6 Canadian recessions." That's an adaptation of the Samuelson quote applied in the US context when he said the stock market had predicted 9 of the past 5 recessions.
- Poloz goes on to discount the slope of the curve in favour of the rise in yields on longer maturities as a positive signal for world growth.
- On stock markets, Poloz says trade uncertainty is the main reason for TSX underperformance this year, not rates, not earnings and not relative competitiveness including tax policy. It's unclear what he thinks of the other influences.
- Poloz is looking past the WCS-WTI spread, as he should and for the right reasons (temporary refinery shutdowns, pipeline capacity, projects coming to completion etc).
- He is also generally not fussed by EMs and leans toward the idiosyncratic interpretation of how some countries have fared that I think is the correct bias while noting that central bank independence in some EMs is being challenged/questioned by capital flows slowing or withdrawing.
- Ahead of the Governor's press conference at 9:30amET, here are some possible questions for clients to consider that could pose limited market risk.

- "Governor, you adopted a sanguine view of financial market risks. What developments in financial markets could lead you to alter your thinking in relation to what you observe and/or expect?"

- "Governor, you didn't touch upon the real policy rate but have previously noted it is unusual to be where it is at present given the state of the economy. What do

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you now think? Are you willing to get to less neutral more quickly now in the wake of the USMCA and broader developments and then turn back to being data dependent on subsequent moves?"

- "Governor, you say 'The fact that financial market prices are formed with the discipline that comes from putting real money on the line means that central bankers ignore them at their peril' and you also say you "watch this market closely" in relation to OIS and particularly for disconnects. Governor, having shown willingness to surprise markets at times during your tenure, are you now saying that you are much less willing to do so now?"

- "Governor, you didn't mention the terms of trade in relation to developments in commodity markets, relative inflation rates and currency markets. What do you make of them now?" His possible answer could be hawkish because the ToT are holding up well.

- "Governor, how would you view possible investment stimulus in the forthcoming Fall Economic update by Minister Morneau on Nov 21st?" I suspect he'd dodge that one and say he'll address such gestures when they become facts.

- "Governor, you spoke about EM currencies, but in a speech on markets you didn't really comment on CAD. I understand your central bank's approach relative to some others, but would you care to comment on how you view its influences?"

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