

## BoC's Poloz Retains Caution

- **Governor Poloz's speech ([here](#)) walked a fine line between causes for optimism and risks to the outlook.** There is something for every preconceived prior into the speech to cherry pick if so desired and with Poloz keeping his options open and perhaps more so than conveyed in some of the coverage. **That may punt the risk into the ensuing press conference (4:30pmET) with guidance on possible questions provided below. My overall interpretation is one of cautious optimism toward Canada emerging from a soft patch, but heightened uncertainty that will keep him on hold for some time during which these complex risks are evaluated.** CAD is little changed following his speech while the two year Canada yield dipped by about 1bp but is so far retaining most of today's rates sell-off.
- First, Poloz repeated *some* of the rate guidance that was used in the March 6<sup>th</sup> statement:

"That is why we said at our last interest rate announcement in March that the economic outlook **continues to warrant a policy interest rate that is below the neutral range**, to help the economy work through this downshift in growth and keep inflation close to target. Recent economic data have been generally consistent with our expectation that the period of below-potential growth will prove to be temporary."
- Absent, however, is reference such as the one in the March 6<sup>th</sup> statement to "increased uncertainty about the timing of future rate increases." The uncertainty part is there, but **rate increases (or decreases for that matter) get no reference in his speech whatsoever.** That may be intentional or unintended but I'd like to see a remark on this in the press conference that would indicate the degree of openness to going in either direction.
- Therefore, into the press conference, I would watch for the following:
  - a point blank question asking him what he thinks of market pricing for easing.;
  - does he have anything further to report since the last time he spoke on the BoC's efforts to update neutral rate and potential growth assumptions or must we wait until April 24<sup>th</sup> with bland guidance that neutral is somewhere in the 2.5–3.5% mile wide range of this published research?;
  - since he last spoke, is he more/less encouraged by global trade policy risks on net given Brexit uncertainty versus US-China trade negotiations and what may matter more to Canada?
  - how does he view the Fed budget impact;
  - further probing on what he thinks of Canada's flirtations with an inverted curve and to what degree would he be concerned?
- On the darker side of his speech, **Poloz spelled out the concerns up front with a focus upon trade policy uncertainty:**

**"Our dependence on international trade makes recent developments on this front very worrisome.** The United States has imposed tariffs

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on steel and aluminum imports from many countries, which, in turn, have placed countermeasures on a wide range of US products. The United States is engaged in a trade war with China, and extensive measures have been taken on both sides. NAFTA has been renegotiated, but the new agreement still needs to be ratified. Europeans are waiting to see whether the United States will make good on its threat to impose tariffs on their auto exports.

In short, there has been a significant increase in uncertainty around the future of the global trading system. This is having an impact on business confidence worldwide. Data from 47 countries—representing more than 80 per cent of the global economy—show that exports and business investment slowed sharply late last year. If a company cannot rely on international trade rules, it is not going to make investments to expand capacity and fuel economic growth."

- On how to sort through the whole picture that has been emerging of late, Poloz said:  
**"The data are currently giving us a mixed picture and need to be carefully monitored.** But the deeper question we face is whether Canada can continue to thrive as a trading nation."
- On further trade caution, Poloz noted the following with respect to the shift toward domestic value chains across foreign economies and how this impacts a trade dependent nation:  
**"The bottom line is that the evolving nature of globalization is contributing to slower growth in international trade.** This is true for the global economy generally, and for Canada specifically. That said, there are other factors specific to Canada that have been holding back trade in recent years. They include a loss of exporting capacity in certain sectors and competitiveness challenges in others. I will come back to this later."
- Poloz observes/repeats disappointment toward the global economy and housing market:  
**"... it is clear that the global economy is performing less well than we believed only a few months ago, and Canada is feeling the effects.** In addition, our housing sector is taking longer than previously expected to digest the combined effects of stricter mortgage guidelines and higher interest rates."
- It is worth noting that Poloz continues to repeat that "a trade war is stagflationary" and to bear in mind that this central bank has a flexible inflation targeting framework with a 2% midpoint within a 1–3% inflation target zone. It does not have the Fed's explicit dual mandate.
- **Poloz realizes this environment may be around for a long time but growth can return while risks evolve:**  
**"It is possible that we will have to deal with frictions in the global trading system for some time yet.** Even so, as we said in January, we expect that both exports and investment will return to positive growth later this year."
- **On the more optimistic sides of his speech,** Poloz acknowledges strong job growth, the role of the services sector and particularly IT-related activities that may not be well captured in traditional statistics, and the bidirectional risks of either a global trade war or trade peace. He notes "Fortunately, our economy also has areas of strength that are providing a cushion" against trade policy uncertainty, and notes a certain degree of contentment with the shock absorbing role of the currency.

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