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Bank of Canada—The Same, Only Different

- **BoC holds policy rate unchanged at 2.25% as universally expected**
- **The forward bias was unchanged and nothing new was offered**
- **The BoC continues to monitor two risk scenarios...**
- **...while looking through mixed developments in commodities and data**
- **The neutral tone awaits fresh forecasts in July, key H2 developments**
- **The BoC needs to address unreliable press conference feeds**

The Bank of Canada left its overnight rate unchanged at 2.25% as universally expected. The broad tone of the [statement](#) and Governor Macklem's opening [remarks](#) to his press conference continue to suggest it is in monitoring mode, avoiding overreaction to any developments whatsoever and seeking further clarity on key risks to the inflation outlook. The overall communications were in line with expectations for now and ahead of a key second half of the year. The tone was neutral as they take in more information which is entirely as expected.

Frankly, they could well have just cancelled the event. There was nothing new.

The proof will be in developments over the second half of this year. The BoC took six months to evaluate falling oil prices over 2014 before acting in early 2015 and this is the reverse. We will learn much more about data including an expected rebound, plus trade policy risks over the remainder of the year. For now, we are merely left with the placeholder statement with four more meetings to go this year.

MARKETS LARGELY IGNORED THE COMMUNICATIONS

There was little reaction. The Canadian dollar had been appreciating after soft US core CPI and then retraced much of that move to land very little changed. The Canadian 2-year yield was rising into the statement and then consolidated the move to land about 2–3bps lower post-statement. Canada's curve is performing very close to the US today. On net there is nothing much to see here. They flagged a "soft" economy amid inflation risk and emphasized that their job is managing inflation to the 2% target.

STATEMENT CHANGES

Key is that these two lines that speak to forward guidance were left entirely unchanged:

"The conflict in the Middle East is ongoing and oil prices remain elevated. Governing Council is continuing to look through the war's near-term impact on headline inflation, but will not let higher energy prices become persistent inflation. As the outlook evolves, we stand ready to respond as needed."

The statement noted that "financial conditions have loosened since the April Monetary Policy Report" and particularly flagged CAD depreciation.

The Governor's opening remarks repeated the two scenarios from the April MPR, noting that they could cut if trade goes south, or they could hike if the energy shock persists. I would note that trade is recovering with trend exports pushing higher since last Summer while the energy shock is indeed persisting and worsening at what the BoC acknowledges to be higher oil prices than they had previously assumed. They still totally ignored the heat across many other commodity prices which is just plain wrong.

I still maintain Macklem is overplaying trade policy risks. ~90% CUSMA compliance and CAD depreciation into a growing US economy is why export volume trends are resilient. Macklem is exploiting trade negotiations to buy time as he monitors the commodities.

June 10, 2026

Beyond that, the statement merely read like an accounting of known data to date. For instance, the reference to Q1 GDP merely noted it was weaker than expected which we knew, but otherwise left it at that. It went on to note that “even with some rebound” in Q2, “the economy is expected to remain in excess supply.” That too matches everyone’s expectations, conditional upon defining how strong “some rebound” turns out to be. The statement also noted “So far, there has been limited evidence of broad-based pass-through of higher energy prices to other consumer prices” which is as expected but we only have April CPI to go by and greater pressure likely lurks ahead. On May’s job gain, the BoC noted “there has been a lot of volatility in the monthly job numbers” and “when you look through the bumpiness, employment in Canada is little changed since the start of the year” and the unemployment rate has fluctuated between 6.5–7%. I’d like to know the BoC’s estimate of the breakeven rate of employment changes given tighter immigration policy and falling population.

PRESS CONFERENCE TRANSCRIPT

The video feeds for these press conferences must improve. Bloomberg’s gapped out midway and froze. CPAC’s with translation entirely froze for an extended period. More stable IT feeds are vitally important and the BoC should be applying pressure to achieve as much. Here is a truncated press conference transcript in light of other pressing deadlines this morning.

Q1. At what point do you stop looking through the near-term impact of commodity prices?

A1. It's less about a timeline and more about the conditions. We don't want to see a big rise in energy prices turn into generalized inflation. We assess generalized with very little pass through into other goods and services prices so far. [ed. of course not! We only have 1 post-war CPI report!]

A1 cont'd: If we see more pass through then that would get our attention. We will also watch inflation expectations. Near-term expectations have moved up. If we see medium-term expectations move up then that would be a sign inflation is becoming entrenched. [ed. watch the BoC's July surveys....]

Q2. Why do you expect inflation in Canada to be more muted than in the US? Is it because of more slack?

A2. That's certainly part of it. We started at 2% inflation until the war. There are some other factors pushing up US inflation like tariffs but that should start to wane absent new trade actions. And yes the economy is soft.

Q3. Does the Q1 GDP miss alter your estimate of slack and extend the normalization phase?

A3. Big picture, not a great deal has changed since our last decision in April. Largely just repeating what he said in the statement and his written opening remarks when it comes to GDP, inflation, jobs data.

Q4. Do you believe Canada is in a recession right now?

A4. Based on the data to date the economy is weak but it is not clearly in recession. [ed. lol, the BoC would NEVER say otherwise unless it is an unambiguous fact. Which it is not in any event.]

Q5. Are telling us it's unlikely the economy can get through this awkward phase on its own without some change in policy?

A5. [Rogers answering]. No. Went on to emphasize the two competing scenarios in terms of trade risk and energy shock risks. We're telling you today those risks are about balanced so the rate is about where it needs to be right now.

Q6. How are you thinking of extended uncertainty in CUSMA talks as a potential reason to cut rates?

A6. The good news is that the majority of trade is compliant and continues to be tariff free. Even with a deal I don't think you can be certain about anything. Businesses are adjusting by diversifying their trade.

Q7. Are you more or less concerned today about the risk of energy pass through to core inflation than in April?

A7. The war is ongoing, there is no clear resolution in sight. The fact the energy price futures curve has shifted up is reflecting that. The longer they are higher the bigger is the risk that starts to pass through to other goods and services prices and the more likely we need to respond. We've been very clear that we will not allow the war to become an inflation problem in Canada, but that is not the only thing going on. We will be updating our forecasts in July.

Q8. What do you view as the bigger risk to the Canadian economy: trade or energy shock?

A8. Both.

RELEASE DATE: JUNE 10, 2026

The Bank of Canada today held its target for the overnight rate at 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

The conflict in the Middle East is now in its fourth month. The resulting increases in energy prices and disruptions in global supply chains are weighing on global economic growth and pushing up inflation. At the same time, the US administration continues to propose new tariffs and trade policy uncertainty remains elevated.

In the United States, economic growth remains solid, supported by consumption and AI-related investment. In the euro area, growth is subdued, with higher energy prices weighing on activity. China's economic growth continues to be supported by strong exports.

Canadian financial conditions have loosened since the April Monetary Policy Report. Global equity markets have been buoyant and bond yields remain volatile. The Canadian dollar has weakened against the US dollar and other currencies.

In Canada, GDP edged down by 0.1% in the first quarter, weaker than expected at the time of the April MPR. Consumer spending grew 1.4% but government spending unexpectedly declined. Housing activity also declined and business investment remained weak. Exports fell while imports rose strongly as inventories were rebuilt. Employment was up in May, but looking through monthly volatility, employment in Canada is little changed since the start of the year. The unemployment rate continues to fluctuate in the 6½%-7% range with the most recent reading at 6.6% in May.

Recent data suggests that growth will resume in the second quarter but, even with some rebound, the economy is expected to remain in excess supply.

As expected, CPI inflation rose in April, reaching 2.8%. The increase reflects energy prices, both higher oil prices and the impact of the elimination of the consumer carbon tax falling out of the 12-month rate of inflation. So far, there has been limited evidence of broad-based pass-through of higher energy prices to other consumer prices. Measures of core inflation have moved down to around 2% and the share of CPI components growing above 3% is close to its historical average. Food price inflation moderated but remains high, and shelter inflation continued to slow. With global oil prices still elevated—roughly \$10 a barrel above our April MPR assumptions—total inflation is expected to hover around 3% in the near term before easing gradually towards 2%.

Against this overall backdrop, Governing Council decided to maintain the policy rate at 2.25%. Economic activity in Canada has been weak and uncertainty about US trade policy persists. The conflict in the Middle East is ongoing and oil prices remain elevated. Governing Council is continuing to look through the war's near-term impact on headline inflation, but will not let higher energy prices become persistent inflation. As the outlook evolves, we stand ready to respond as needed. The Bank is committed to maintaining Canadians' confidence in price stability through this period of global upheaval.

RELEASE DATE: APRIL 29, 2026

The Bank of Canada today held its target for the overnight rate at 2.25%, with the Bank Rate at 2.5% and the deposit rate at 2.20%.

The evolving conflict in the Middle East is causing heightened volatility and US trade policy continues to reshape global trade patterns. Both are ongoing sources of uncertainty. The Bank's April outlook assumes tariffs remain unchanged and the global benchmark price of oil declines to US\$75 per barrel by mid 2027.

The Iran war has led to sharply higher energy prices and transportation disruptions, diminishing growth prospects in oil-importing countries and boosting inflation worldwide. In the United States, growth is still expected to be solid over the projection horizon, boosted by AI-related investment and consumption growth. China's economy is being supported by robust exports. In the euro area, higher prices for oil and natural gas will weigh on economic activity.

Financial conditions have been volatile, reflecting daily developments in the Middle East and shifting market expectations for inflation and interest rates. Bond yields are modestly higher since January while equity markets, which weakened sharply at the outset of the war, have recovered. Since the start of the war, the US dollar has appreciated against most major currencies. The Canada-US exchange rate has been relatively stable.

Overall, the global economy is expected to grow by about 3% in 2026, 2027 and 2028. Projections for inflation over the next year are revised up because of the jump in energy prices.

The outlook for economic growth in Canada is little changed from the January *Monetary Policy Report* (MPR) projection. After a contraction in the fourth quarter of 2025, growth is forecast to have resumed in early 2026. Consumer and government spending are supporting economic activity, while tariffs and trade uncertainty are weighing on exports and business investment. Housing activity declined in the fourth quarter and is being held back by slow population growth, economic uncertainty and ongoing affordability issues. The labour market is soft, with subdued employment growth over the past year and job losses in sectors targeted by US tariffs. The unemployment rate remains in the 6½%-7% range, reflecting both weak hiring and fewer job seekers.

The Bank's April forecast projects GDP growth of 1.2% in 2026, rising to 1.6% in 2027 and 1.7% in 2028 as growth in exports and business investment resumes along a lower trajectory. With GDP growing slightly above potential, the current excess supply in the economy is gradually absorbed. While the war in Iran may alter its composition, overall GDP growth is little changed in the updated forecast: Since Canada is a large net exporter of oil, higher oil prices increase national income even as consumers are squeezed by higher gasoline prices.

CPI inflation climbed to 2.4% in March because of sharply higher gasoline prices. The March increase follows several months of slowing inflation data. Core inflation has been easing and held steady at just above 2% in the most recent inflation report. The proportion of components of the CPI basket rising above 3% has also declined in recent months. As expected, so far there is little evidence that oil prices have fed through more broadly to goods and services prices, but this warrants close attention in the months ahead. Near-term inflation expectations have moved up with higher gasoline prices and still-elevated food price inflation, but longer-term inflation expectations have remained anchored.

CPI inflation will likely rise further in April to about 3%. Based on the assumption that oil prices will ease, inflation is forecast to come down to the 2% target early next year and remain around 2% over the projection horizon.

Against this backdrop and taking into account the current projection, Governing Council decided to maintain the policy rate at 2.25%. We are closely monitoring the impact of the conflict in the Middle East and how the economy is responding to US tariffs and trade policy uncertainty. Governing Council is looking through the war's immediate impact on inflation but will not let higher energy prices become persistent inflation. As the outlook evolves, we stand ready to respond as needed. The Bank is committed to maintaining Canadians' confidence in price stability through this period of global upheaval.

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