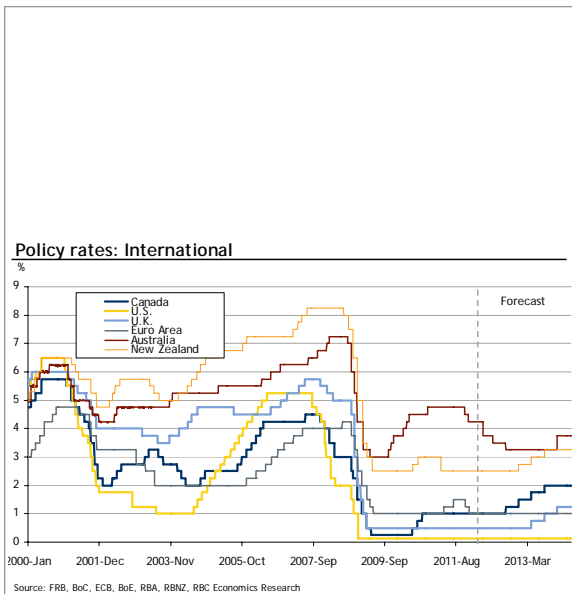


## CENTRAL BANK WATCH

May 8, 2012



### Short-term bias



We brought forward the timing of the first expected rate hike to Q4/12, yet we still anticipate policy stimulus will be removed slowly to ensure that drivers of growth remain intact.



The FOMC's April communications did not change the outlook for policy, and although a close call, odds still slightly favour further quantitative easing.



We continue to expect that the BoE will not expand its Asset Purchase Programme at May's MPC meeting, although recent evidence of underlying economic weakness will keep the possibility of further policy easing on the table.



The May ECB meeting did not yield any policy changes, and the subsequent press conference made it clear that cutting rates was not currently on the table.



The RBA cut rates by a larger than expected 50bp to 3.75% in May and left the door open for further cuts. We expect another 50bp cut bringing the OCR to 3.25% by the end of 2012.



The RBNZ delivered another steady policy decision in April, and while the accompanying statement was clearly dovish, we expect the next move will be a 25bp hike in Q1/13.

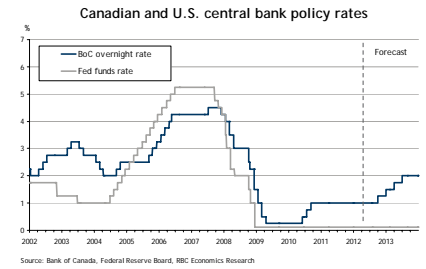
### Central Bank policy rates

		Current	Last	
United States	Fed funds	0.0-0.25	1.00	Dec. 16, 2008
Canada	Overnight rate	1.00	0.75	Sep. 8, 2010
United Kingdom	Bank rate	0.50	1.00	Mar. 5, 2009
Eurozone	Refi rate	1.00	1.25	Dec. 14, 2011
Australia	Cash rate	3.75	4.25	May. 2, 2012
New Zealand	Cash rate	2.50	3.00	Mar. 10, 2011

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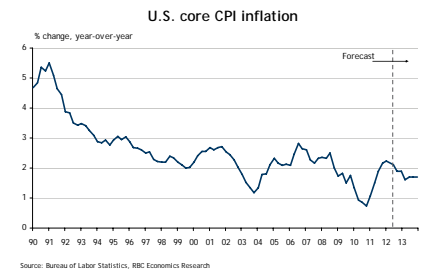
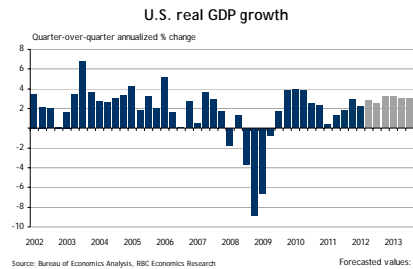
## Bank of Canada

- Canadian GDP fell 0.2% in February reflecting broad-based weakness in goods-producing industries' output that on aggregate dropped 1.0% in the month.
- The BoC left rates unchanged in April but adopted a more hawkish tone in noting that a "modest withdrawal" of stimulus "may become appropriate."



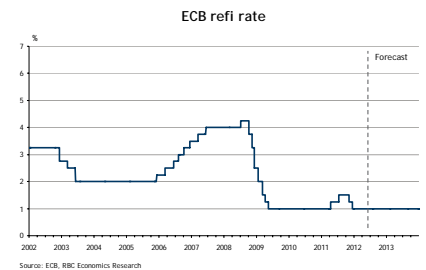
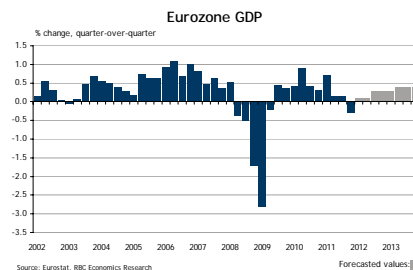
## Federal Reserve

- The advance estimate of US Q1/12 annualized GDP growth was 2.2%, down from 3.0% in Q4/11, yet the details suggests that momentum in private spending built up until the end of last year remained largely intact early in 2012.
- The FOMC's April decision saw the Fed reaffirm its commitment to maintaining the current policy rates "at least through late 2014."



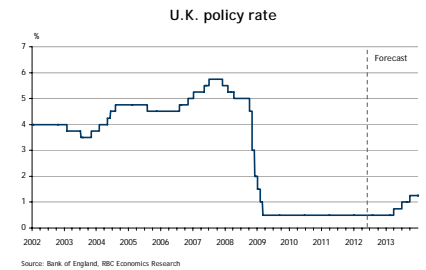
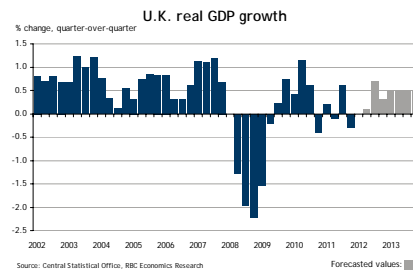
## European Central Bank

- The euro area's April PMI points to a continued contraction in output at the start of Q2/12, running contrary to our expectation that the region is emerging from recession.
- The ECB held policy steady in May, and President Draghi made it clear at the subsequent press conference that cutting rates was not currently on the table.



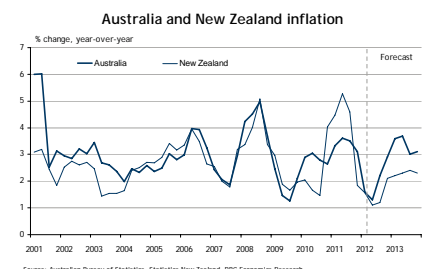
## Bank of England

- UK Q1/12 real GDP unexpectedly contracted by 0.2% on a quarter-over-quarter basis, putting the economy back into a technical recession following the 0.3% decline seen in Q4/11.
- We do not expect that the MPC will vote in favour of more quantitative easing at next week's meeting as the BoE indicated that it would look through erratically weak headline growth data.



## Australian and New Zealand

- The RBA cut rates by a larger than expected 50bp to 3.75% in its May meeting as the economy's output and inflation had both fallen well short of the central bank's official forecasts.
- The RBNZ left the OCR unchanged at 2.50% in April, but the accompanying statement was decidedly dovish in tone, noting that the elevated currency may lead the Bank to "reassess the outlook for monetary policy settings."



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