

**September 9, 2020**

## BoC's tempered optimism leaves low-for-long stance intact

- Overnight rate held at 0.25% and QE continuing
- Early recovery firmer than expected but momentum to slow
- Forward guidance suggests extended period of low rates

This As was widely expected, the Bank of Canada opted to keep its highly accommodative monetary policies in place today, holding the overnight rate at 0.25% and continuing QE at the current pace (purchasing at least \$5 billion in GoC bonds each week to keep rates low across the yield curve). The bank said the economic outlook at home and abroad is generally evolving as expected with activity picking up as economies re-open. Early recoveries in Canada and the US have been firmer than expected. The statement noted Canada's economy has been supported by government programs and low borrowing costs, with household spending rebounding amid pent-up demand and a "large but uneven" rebound in employment. Exports are starting to recover alongside foreign demand, and the statement made no mention of the stronger Canadian dollar as a potential headwind for the sector (the Canadian dollar averaging about 76.5 US cents over the past week, up from 74 cents in the July MPR).

Tempering any optimism about stronger-than-expected data in the re-opening phase, the bank still expects the upcoming recuperation phase will be "slow and choppy." Inflation is expected to remain well below 2% in the near term, and recent slowing in the BoC's core measures was attributed to significant economic slack. The bank maintained its commitment to keep its policy rate at the effective lower bound until that slack is absorbed and inflation is sustainably at 2%—a process that's likely to be measured in years. Governing Council tweaked its previous commitment to "provide further monetary stimulus as needed," instead saying its QE program (set to continue until the recovery is well underway) will be calibrated to provide the necessary stimulus. While that suggests the program could be expanded or tapered if required, we don't think it flags an imminent change in the bank's asset purchases.

Non-MPR meetings are followed by an economic progress report from a member of the BoC's Governing Council. Governor Macklem is scheduled to speak tomorrow on "the uneven effects of COVID-19 on different sectors and people in the economy."

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