Central bank near-term bias

With our forecast assuming no further escalation in trade tensions—and a relatively modest impact on Canada and US growth—we think market pricing for a rate cut this year will ultimately go unrealized. We see the BoC on hold through next year.

Rising trade tensions have increased the odds of the Fed cutting rates this year, though comments from Governor Powell indicate policymakers will want to see some impact from tariffs before making any move.

Ongoing Brexit uncertainty, rising global trade tensions, and an expectation for modest economic growth will keep the BoE on the sidelines into next year.

The ECB pushed back its forward guidance once again in June, now indicating rates will be held at current levels at least through the first half of next year.

The RBA cut its cash rate for the first time since 2016 in June and Governor Lowe signaled further easing is likely. We think the next cut will come in August, though there is risk of a move as soon as July.

Central Bank Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate Type</th>
<th>Current</th>
<th>Last</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Fed funds</td>
<td>2.25-2.50</td>
<td>2.00-2.25</td>
<td>December 19, 2018</td>
</tr>
<tr>
<td>Canada</td>
<td>Overnight rate</td>
<td>1.75</td>
<td>1.50</td>
<td>October 24, 2018</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Bank rate</td>
<td>0.75</td>
<td>0.50</td>
<td>August 1, 2018</td>
</tr>
<tr>
<td>Eurozone</td>
<td>Deposit rate</td>
<td>-0.40</td>
<td>-0.30</td>
<td>March 10, 2016</td>
</tr>
<tr>
<td>Australia</td>
<td>Cash rate</td>
<td>1.50</td>
<td>1.75</td>
<td>August 3, 2016</td>
</tr>
</tbody>
</table>

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Canada’s Q1 GDP report showed soft headline growth but strong domestic spending and decent momentum toward the end of the quarter. We expect growth will rebound to 2.2% in Q2.

The BoC sounds pleased with recent improvement in the domestic data, though rising trade risks are hard to ignore. The Q2 Business Outlook Survey will give some insight into how businesses are coping.

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**Federal Reserve**

US consumer spending growth is expected to pick up in the current quarter, helping to offset any sluggishness in business investment due to rising trade tensions.

Unless we see more notable impact on the US economy from rising trade tensions, we don’t see the Fed validating market pricing for multiple rate cuts this year.

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**European Central Bank**

A sluggish manufacturing sector, particularly in Germany, is expected to limit euro area GDP growth to 0.3% in Q2.

The ECB pushed out its forward guidance by six months in June, now pledging to keep rates on hold through the middle of next year. Draghi also said there were preliminary discussions about measures that could be taken if the outlook deteriorates.

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**Bank of England**

The UK economy is expected to see a more modest increase in Q2 as temporary factors that boosted growth in Q1 (including stock-building ahead of a potential no-deal Brexit) fade.

The longer Brexit uncertainty persists—and keeps UK growth relatively subdued—the longer the BoE will remain sidelined.

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**Reserve Bank of Australia**

Australia saw another quarter of sub-trend GDP growth in Q2, including soft domestic spending. Activity hasn’t been strong enough to keep the unemployment rate from ticking higher.

Soft domestic data and rising global trade tensions sealed the deal for an RBA rate cut. We expect another move in August will be the last, though there is some risk of a sub-1% cash rate.

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