Central bank near-term bias

The BoC lowered the overnight rate by 50 basis points at its March meeting and left the door wide open to further easing. We expect another 25 basis point cut in April.

Even after a surprise 50 basis point rate cut in early-March, markets are pricing in a similar move at the Fed’s upcoming meeting on March 18. We expect a 25 basis point point reduction at that meeting.

We think it’s just a matter of time before the BoE lowers its policy rate. The MPC doesn’t meet until late-March but we think there’s potential for a 25 basis point cut before then.

The ECB is likely to take its deposit rate further into negative territory with a 10 basis point cut in March. We expect additional QE and tweaks to TLTROs will be among the central bank’s more “targeted” measures.

The RBA abandoned its earlier patient stance and cut its cash rate by 25 basis points in early-March. With other central banks doing even more, we think the RBA will cut again in April.

Central Bank Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Rate</th>
<th>Current</th>
<th>Last</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Fed funds</td>
<td>1.00-1.25</td>
<td>1.50-1.75</td>
<td>March 3, 2020</td>
</tr>
<tr>
<td>Canada</td>
<td>Overnight rate</td>
<td>1.25</td>
<td>1.75</td>
<td>March 4, 2020</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>-0.50</td>
<td>-0.40</td>
<td>September 18, 2019</td>
</tr>
<tr>
<td>Australia</td>
<td>Cash rate</td>
<td>0.50</td>
<td>0.75</td>
<td>March 4, 2020</td>
</tr>
</tbody>
</table>

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### Bank of Canada

Transitory and one-off factors, in addition to the coronavirus outbreak, are likely to keep Canadian GDP growth subdued (averaging 0.5%) in H1/20 after a paltry 0.3% gain in Q4/19.

It sounds like the BoC would have cut rates anyways, but a more decisive 50 basis point move (with more to come in April, we think) was driven by concerns about the coronavirus’ economic impact.

### Federal Reserve

The US economy carried decent momentum into 2020 and we expect growth will be close to trend at 1.7% in Q1 before the coronavirus outbreak’s impact becomes more apparent in Q2 (0.8%).

We expect the Fed to lower rates further at its March meeting, having already announced an emergency 1/2 percent reduction at the start of the month. Markets are hoping for even more easing.

### European Central Bank

Euro area PMI data improved through February but will likely take a dive in March with the coronavirus outbreak intensifying. The currency bloc is likely to see a negative print in Q2 GDP.

The ECB is likely to take its deposit rate even deeper into negative territory but will also rely on QE and TLTRs which might better address widening spreads higher funding costs.

### Bank of England

The UK’s post-election pickup in business and consumer confidence will likely be swamped by coronavirus concerns. We think GDP growth could be flat in Q2.

We think the BoE will follow other central banks in lowering rates, potentially even before its late-March meeting. We’re penciling in another cut in August but there’s risk it comes sooner.

### Reserve Bank of Australia

Already-soft domestic demand (up just 0.1% in Q4/19) will be compounded by the economic impacts of bushfires and the coronavirus outbreak.

The previously-patient RBA was first out of the gate with a 25 basis point rate cut and we’re assuming another move in April. Any additional easing is likely to be contingent on the scale of the outbreak and fiscal response.

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