Central bank near-term bias

A further increase in global trade tensions—a key risk flagged by the Governing Council—should result in a more dovish tone from the BoC in September. Our forecast assumes a rate cut early next year, but there is risk of an earlier move.

Powell’s comments on mid-cycle easing suggest another cut or two from the Fed. Our forecast is for just one more move in September but risk of more easing is growing as US-China tensions escalate.

The BoE’s policy path is entirely Brexit dependent. Our base case assumption of a general election and deadline extension—meaning persistent uncertainty—could result in a rate cut in November.

The ECB laid the groundwork for additional easing and we expect rate cuts in September and December. Odds are tilted in favour of even more accommodation, with deeper cuts and a new round of QE among potential measures.

Rising global trade tensions have brought forward our expectations for RBA cuts. We think a pause in the central bank’s easing cycle (after lowering rates in June and July) will only last until November.

Central Bank Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy 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>2.00-2.25</td>
<td>2.25-2.50</td>
<td>July 31, 2019</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 16, 2016</td>
</tr>
<tr>
<td>Australia</td>
<td>Cash rate</td>
<td>1.00</td>
<td>1.25</td>
<td>July 3, 2019</td>
</tr>
</tbody>
</table>

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Bank of Canada

A string of solid monthly GDP reports has us tracking Q2 growth of 3%—a nice upside surprise relative to the BoC’s last forecast (2.3%).

Decent growth numbers are putting little pressure on the BoC to ease near-term. But a further increase in trade tensions will certainly have the BoC sounding more cautious in September. We expect a cut early next year, but there is risk of an earlier move.

Federal Reserve

US GDP growth remained above trend in Q2 (+2.1%) thanks to a solid increase in consumer spending. But “moderate” growth wasn’t enough to keep the Fed from lowering rates in July.

The Fed’s “mid-cycle” policy adjustment is expected to continue with a cut in September. We think that will be it, but rising trade tensions raise the risk of additional easing.

European Central Bank

Euro area growth slowed to 0.2% in Q2 with Germany’s economy likely contracting in the quarter. That country’s industrial sector has seen a significant slowdown, but services activity seems to be holding up fairly well.

Disappointing growth, global risks, and low inflation have the ECB pledging to add more stimulus. We look for a rate cut in September.

Bank of England

UK GDP unexpectedly declined in Q2 with growth in services softening and other sectors contracting in the quarter.

Some of the Q2 slowdown reflects payback for a strong Q1. But the economy’s underlying trend remains soft, thanks in part to uncertainty over Brexit. We think the BoE will lower rates in November, even if the Brexit deadline is extended.

Reserve Bank of Australia

GDP growth likely remained sub-trend in Q2 and core inflation drifted further from target. The RBA’s latest forecasts saw unemployment marked higher and inflation revised lower.

The RBA will likely take some time to evaluate the impact of its back-to-back cuts, but rising global risks suggest the central bank won’t sit on the sidelines for long. We expect another cut in November.

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