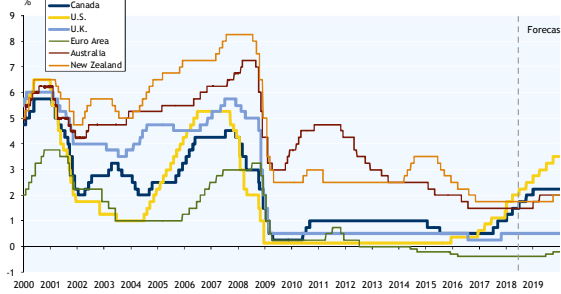


CENTRAL BANK WATCH

January 2018

Policy rates: International



Source: FRB, BoC, ECB, BoE, RBA, RBNZ, RBC Economics Research

Short-term bias



A bit less caution from Governor Poloz raised the odds of a near-term hike, and we think December's banner jobs report sealed the deal for a move in January. We now expect the Bank of Canada will raise rates once a quarter in 2018, leaving the overnight rate at 2% by end of year.



The Fed raised rates in December and continued to signal three rate increases are likely in 2018. With the US economy getting a fiscal boost we think they might have to move even faster and expect once-a-quarter hikes this year starting with a move in March.



We think 2018 will be another year of middling growth for the UK economy as Brexit headwinds continue to blow. And with currency-induced inflation becoming less prominent, we don't think the Bank of England will need to follow up on last November's rate hike.



The euro area's solid growth has led to rumblings about the end of the European Central Bank's asset purchases. But with inflation still yet to respond to better economic conditions, we don't see the central bank rushing to remove accommodation.



Australia's economy is adding jobs at an impressive rate but wages are likely to pick up only gradually. Until inflationary pressures start to firm, we expect the Reserve Bank of Australia will remain on the sidelines with a steady cash rate in 2018.



With the Reserve Bank of New Zealand's new governor not taking the reins until late-March, we don't expect much in the way of policy changes when the central bank next meets in February.

Central Bank Policy Rates

		Current	Last	
United States	Fed funds	1.25-1.50	1.00-1.25	December 13, 2017
Canada	Overnight rate	1.00	0.75	September 6, 2017
United Kingdom	Bank rate	0.50	0.25	November 2, 2017
Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Australia	Cash rate	1.50	1.75	August 3, 2016
New Zealand	Cash rate	1.75	2.00	November 10, 2016

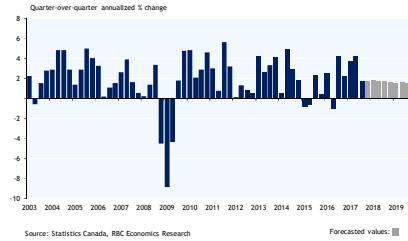
Josh Nye
Economist
(416) 974-3979
josh.nye@rbc.com

Bank of Canada

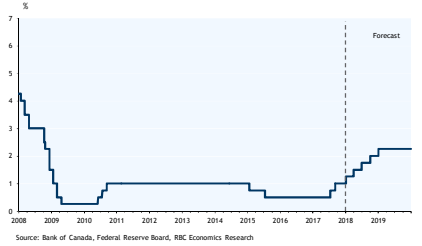
We think Canada's economy grew at a 1.7% annualized pace again in Q4, a bit short of the BoC's latest forecast. But strong job numbers should offset modest disappointment on the GDP front.

With the labour market looking very tight and wages and inflation starting to respond we now think the next rate hike will come in January rather than April.

Canadian real GDP growth



Canadian overnight rate

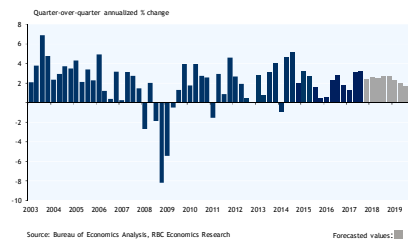


Federal Reserve

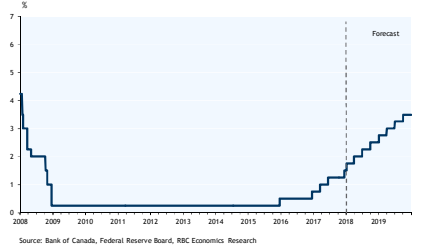
The US economy closed out 2017 with solid momentum, including a broadly-based increase in Q4 domestic spending. Tax cuts passed in December are set to boost growth over the next two years.

With fiscal stimulus likely to push the US economy into excess demand, we think the Fed will continue raising rates once a quarter in 2018—slightly faster than the three hikes envisioned in their December economic projections.

U.S. real GDP growth



U.S. target rate

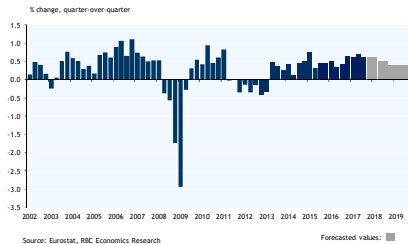


European Central Bank

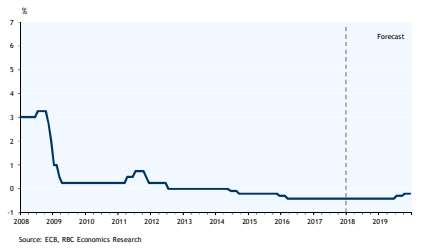
Euro area GDP grew at its fastest annual pace in five years through Q3 and momentum appears to have been sustained through the end of the year. Solid growth is reflected in labour markets but isn't showing up in inflation.

The ECB is committed to asset purchases at least through September so we don't expect serious talk of tapering until the summer.

Euro area GDP



ECB Deposit rate



Bank of England

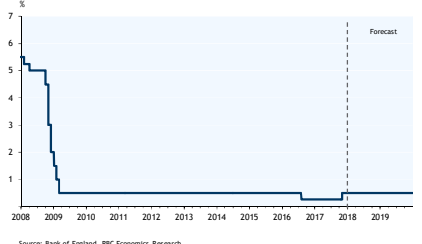
We think UK GDP growth is stuck in a 0.3-0.4% pattern that won't put much upward pressure on underlying inflation. Headline inflation is also set to slow from 3% as the earlier currency-driven increase in import prices begins to fade.

With unimpressive GDP growth and plenty of concern about Brexit developments we think the BoE will remain on the sidelines this year, making last November's rate increase a one-and-done move.

U.K. real GDP growth



U.K. policy rate

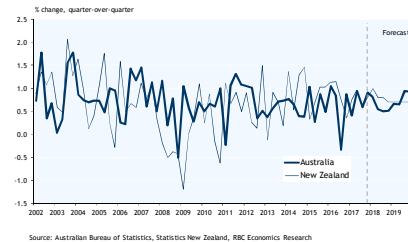


Australian and New Zealand

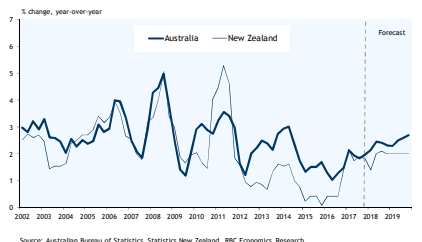
Australia is seeing a pickup in exports and business investment but consumer spending isn't expected to impress. We don't see the central bank raising their cash rate in 2018.

We think the RBNZ will remain on the sidelines under a new governor this year, keeping the cash rate at a record low of 1.75% well into 2019.

Australia and New Zealand GDP growth



Australia and New Zealand inflation



The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.