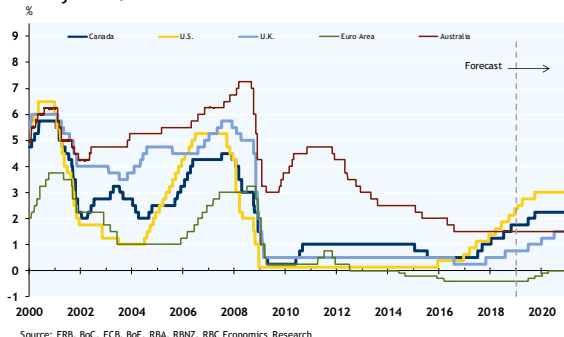


CENTRAL BANK WATCH

February 2019

Short-term bias

Policy rates: International



The BoC’s forward guidance in January was for rates to rise to neutral “over time,” and recent comments from Governing Council don’t suggest a change in thinking. We expect they’ll remain on pause through the first half of 2019 before raising rates twice by end of year.



The Fed’s dovish shift continued with their statement no longer pointing to further tightening. But we think their base case for continued expansion will play out, and an easing in some of Chairman Powell’s ‘cross-currents’ could see them get back to raising rates in June.



With Brexit uncertainty only increasing, the BoE is unlikely to change policy anytime soon. Their mantra for gradual but limited tightening remains in place, subject to a smooth Brexit, but they did seem to endorse markets’ slightly more shallow path for rates.



The euro area economy has lost some momentum and that could prompt the ECB to extend their guidance on how long interest rates will remain at current levels. Even if they opt to leave forward guidance unchanged, risks around our forecast for hikes in H2/19 is skewed to a later start.



The RBA shifted into neutral in February as slowing global growth, less domestic momentum, and dovishness from other central banks have reduced the impetus to raise rates.

Central Bank Policy Rates

		Current	Last	
United States	Fed funds	2.25-2.50	2.00-2.25	December 19, 2018
Canada	Overnight rate	1.75	1.50	October 24, 2018
United Kingdom	Bank rate	0.75	0.50	August 1, 2018
Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Australia	Cash rate	1.50	1.75	August 3, 2016

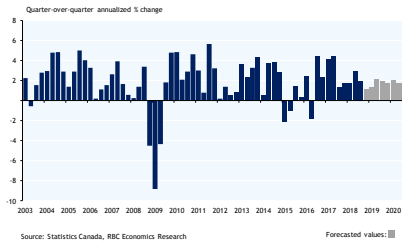
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Bank of Canada

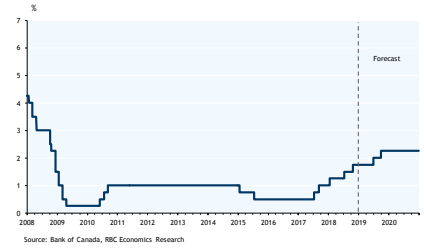
A 0.1% decline in November GDP points to a soft Q4/18, and a pullback in the energy sector means Q1/19 won't look much better. We expect growth to average just over 1% in those two quarters.

The current slowdown will keep the Bank of Canada on pause until they have greater clarity on global developments and the oil sector. We now expect their next rate increase will be held off until Q3/19.

Canadian real GDP growth



Canadian overnight rate



Federal Reserve

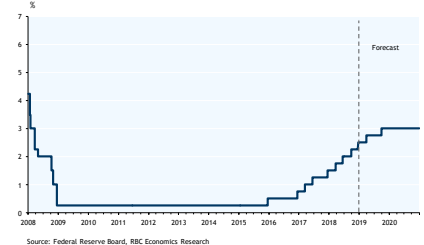
Data delays have complicated GDP monitoring but we still look for a solid 2.5% increase in Q4/18 GDP. Q1/19 is likely to be a bit slower with the government shutdown shaving 1/4 ppt off growth.

We think the Fed will want to see confirmation of above-trend growth continuing, and some improvement in 'cross-currents' before raising rates any further. Our forecast assumes a hike in June.

U.S. real GDP growth



U.S. target rate

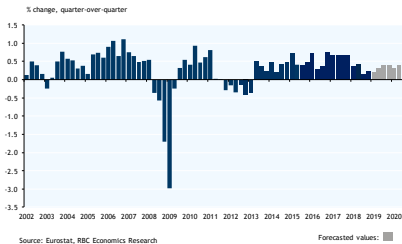


European Central Bank

The euro area has lost momentum with Italy in technical recession, Germany's industrial sector slowing, and France dealing with political unrest. It looks like growth will remain slightly below trend early this year.

We expect the ECB will begin moving the deposit rate back to zero later this year, but that is contingent on the economy returning to above-trend growth.

Euro area GDP



ECB Deposit rate

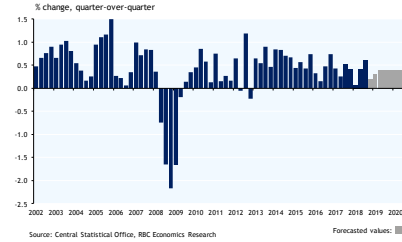


Bank of England

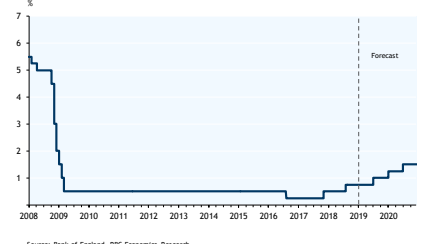
We expect UK GDP growth slipped to 0.2% in Q4/18. January's PMI readings point to much of the same early this year as Brexit uncertainty is increasingly weighing on business sentiment.

The BoE remains hamstrung by Brexit. We think the Article 50 deadline might be extended a few months, but that would still leave the central bank on the sidelines through mid-year.

U.K. real GDP growth



U.K. policy rate

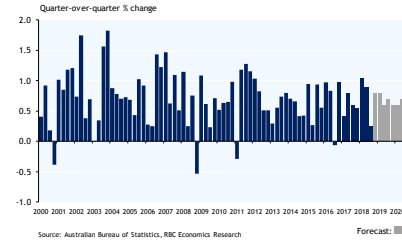


Reserve Bank of Australia

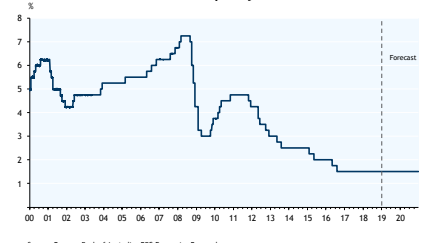
We expect the Australian economy will be held back by a slowdown in housing and weaker consumer spending. Trade tensions and less momentum globally add a dose of downside risk to the outlook.

The RBA trimmed their growth and inflation forecasts in January, underpinning their shift to a more neutral stance. We now see the cash rate on hold through 2020.

Real GDP: Australia



Australia policy rates



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