Central bank near-term bias

The BoC maintained its neutral forward guidance in July but struck a dovish tone, sounding more concerned about global developments. We think the BoC will remain on hold near-term but have penciled in a rate cut early next year.

In his congressional testimony, Fed Chair Powell seemed to endorse market expectations for a July cut. We think that move, and a follow-up cut in September, will be seen as enough “insurance” against trade and global growth risks.

Uncertainty at home and abroad is weighing on the UK economy and has the BoE sounding more dovish. We now expect a rate cut in November, after a likely extension of the October 31 Brexit deadline.

Easier monetary policy is now the ECB’s base case. We think it will lower its deposit rate further into negative territory over the second half of this year.

The RBA cut rates at back-to-back meetings but its latest guidance suggests a near-term pause. We think the cash rate is ultimately heading lower, though not until next year.

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 20, 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 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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The Bank of Canada revised up its Q2 growth forecast by 1 percentage point on the back of stronger-than-expected March and April GDP reports.

But the central bank expressed greater concern about global growth and trade tensions, and marked down its 2020 growth forecast. While the BoC’s official guidance remains neutral, we think odds favour a cut early next year.

A strong pickup in consumer spending should keep the US economy growing at an above-trend rate (2.2%) in Q2.

Despite solid growth and a healthy labour market, the Fed sounds increasingly concerned about trade policy and global developments. We now expect it will lower rates in July and September, providing a bit of accommodation to offset those headwinds.

While the services sector has shown signs of improvement lately, manufacturing remains a drag on activity and should keep the euro area economy from growing at an above-trend rate.

With the economy not generating much inflationary pressure (and inflation expectations coming down) it looks like the ECB will add more stimulus over the second half of the year.

UK GDP was likely flat in Q2 with the services sector posting only modest growth while manufacturing saw an unwind of Brexit-related stockpiling.

The latest comments from BoE Governor Carney showed more concern about trade developments and their impact on the UK economy—a far cry from the earlier guidance for gradual and limited rate hikes. We now expect a rate cut in November.

The Reserve Bank of Australia’s latest estimate of NAIRU suggests the economy is even further from full employment than previously thought—and thus further from generating any inflationary pressure.

The RBA is expected to pause its easing cycle over the second half of this year, though cuts from other central banks and persistently sub-trend growth should see it lower the cash rate further in 2020.