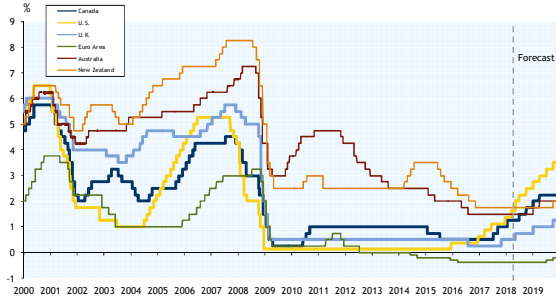


CENTRAL BANK WATCH

May 2018

Policy rates: International



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

Short-term bias



The BoC is more confident in their tightening bias but they continue to dwell on a number of headwinds. Given their cautious tone, we think the next rate increase will be put off until July, six months after the last move.



The Fed's latest policy statement wasn't as hawkish as some were looking for, but the committee sounded increasingly confident that their inflation target will be met on a sustained basis. We think they'll continue raising interest rates once a quarter, with the next move expected in June.



Between dovish comments from Governor Carney and disappointing Q1 growth, investors have pushed back their expectations for BoE tightening. We still see scope for a move in May but the decision will be a close one.



The ECB isn't likely to change their forward guidance on the future of QE until June or July. We think a brief extension of net purchases to the end of 2018 will leave a rate increase off the table until the middle of next year.



A softening trend in employment growth, which points to limited wage pressures ahead, reinforced the RBA's neutral bias in April. We think they'll remain on the sidelines throughout 2018.

Central Bank Policy Rates

		Current	Last	
United States	Fed funds	1.50-1.75	1.25-1.50	March 21, 2018
Canada	Overnight rate	1.25	1.00	January 17, 2018
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

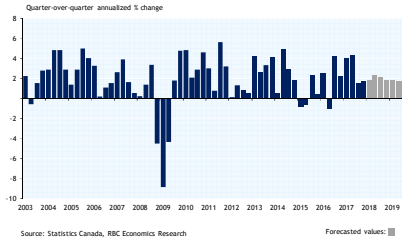
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Bank of Canada

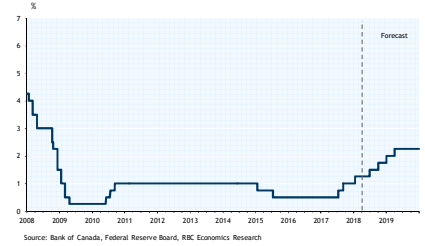
Thanks to a solid rebound in February GDP, Q1 growth is now tracking around 1.8%—right on the BoC’s revised estimate of potential growth and stronger than their 1.3% forecast for Q1.

We don’t think a modest upside surprise on Q1 growth will sway the BoC in May, but it should reinforce their tightening bias. We think they’ll next raise rates in July, six months after the last hike.

Canadian real GDP growth



Canadian overnight rate

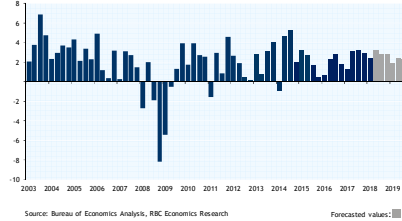


Federal Reserve

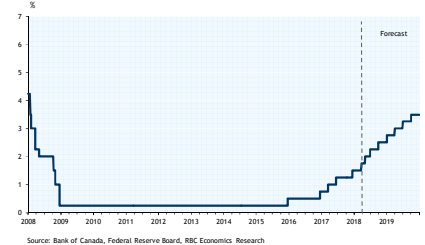
The Fed’s latest policy statement was mostly a mark-to-market on recent GDP and inflation data. They didn’t seem to be disappointed with slower Q1 growth, likely due to familiar seasonal adjustment issues.

Their May 2 policy statement was a bit less hawkish than expected, but with a June rate hike already priced in by markets, the Fed didn’t really need to talk up a move.

U.S. real GDP growth



U.S. target rate

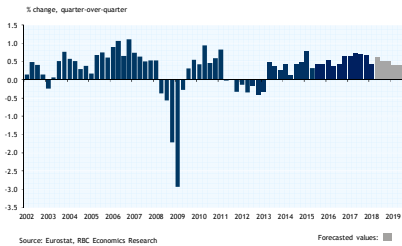


European Central Bank

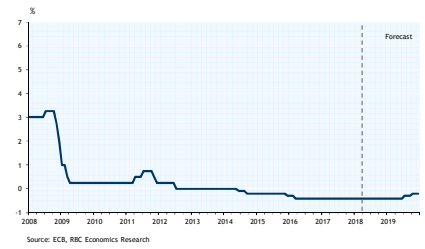
A modest slowdown in Q1 GDP growth won’t have come as a surprise to the ECB given some transitory factors that weighed on activity. April’s PMI data point to growth returning to an above-trend pace.

The ECB will discuss the future of QE over the summer. We expect a three month extension that will be more about the timing of rate hikes than providing additional stimulus through purchases.

Euro area GDP



ECB Deposit rate

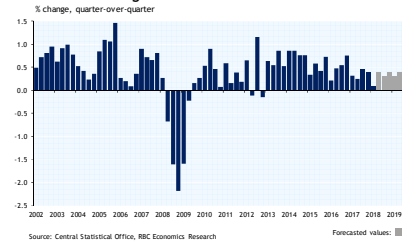


Bank of England

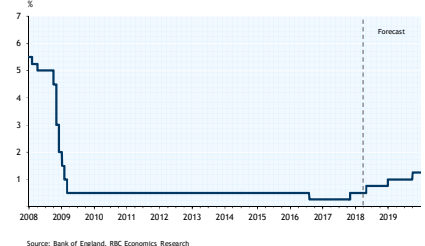
UK GDP growth slowed more than expected in Q1, and while weather had some effect, it didn’t account for all of the weakness. PMI data point to a relatively modest rebound in Q2.

Soft GDP data and a downside surprise on inflation won’t have the BoE rushing to raise rates. We still expect a hike in May but the decision looks like a much closer call than it did a month ago.

U.K. real GDP growth



U.K. policy rate

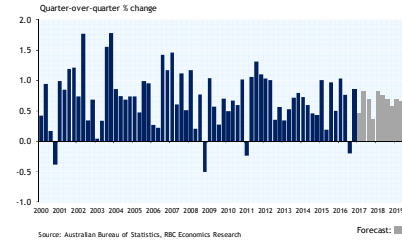


Australia

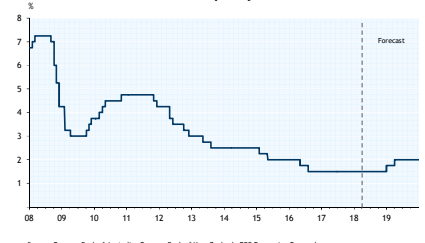
Offsetting surprises in inflation and labour market data kept the RBA firmly in neutral in May.

Inflation and wage growth have troughed but the upward trend will be slow, particularly with job gains doing little to absorb labour market slack. We continue to expect the RBA will remain on the sidelines this year.

Real GDP: Australia



Australia policy rates



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