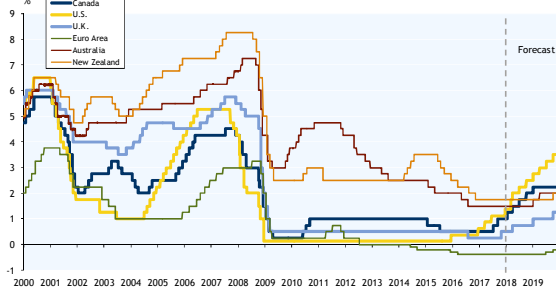


CENTRAL BANK WATCH

March 2018

Policy rates: International



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

Short-term bias



The economic backdrop continues to make the case for gradual tightening, but developments on the trade front will be equally important in the Bank of Canada's near-term decisions. That point was certainly emphasized in their March policy statement that left rates unchanged.



Fed Chair Powell noted an improving economic outlook and growing confidence that inflation will hit 2% on a sustained basis. He also hinted that four rate hikes might be needed this year. We agree and expect the next will come on March 21.



We think the UK economy will struggle to maintain an above-trend pace of growth this year. But given limited spare capacity and growing wages, the Bank of England looks set to pull back a bit on monetary policy stimulus. We think a rate hike in May will be their only move this year.



The European Central Bank continued to shape their forward guidance, laying the groundwork for an end to net bond-buying toward the end of the year. Rate hikes remain off the table until 2019.



The Reserve Bank of Australia made few changes in their latest policy statement and is showing no signs of deviating from the steady-rate course that has been in place since mid-2016.



Well-behaved inflation means the Reserve Bank of New Zealand isn't likely to shift from their neutral bias anytime soon. We think the cash rate will be held steady well into 2019.

Central Bank Policy Rates

		Current	Last	
United States	Fed funds	1.25-1.50	1.00-1.25	December 13, 2017
Canada	Overnight rate	1.25	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

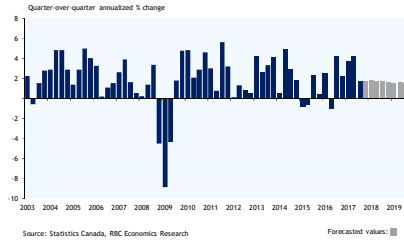
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Bank of Canada

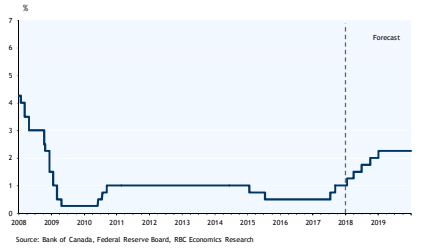
Canadian GDP growth came in below the Bank of Canada's 2.5% forecast in Q4/17, but strong domestic demand limited their disappointment.

Firmer wage and inflation data supports the BoC's tightening bias, but policymakers are right to be cautious amid growing trade concerns. How tariff discussions and Nafta talks evolve between now and April will impact the bank's next rate decision.

Canadian real GDP growth



Canadian overnight rate

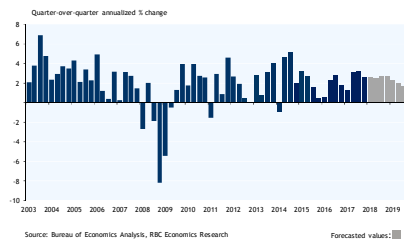


Federal Reserve

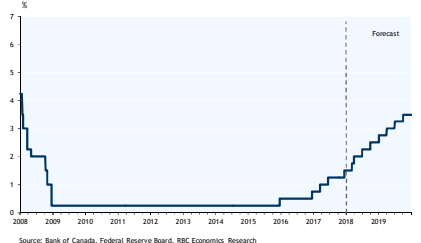
A slow start to the year for US consumer spending led us to mark down our Q1/18 GDP forecast to 2.0%. We still see stronger growth on the horizon thanks in part to tax cuts.

With the economy running at full capacity and getting a fiscal boost this year, the Fed is increasingly confident that inflation will hit 2% on a sustained basis. That should keep them hiking through 2019.

U.S. real GDP growth



U.S. target rate

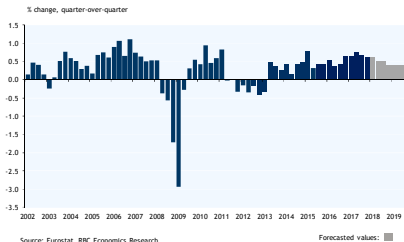


European Central Bank

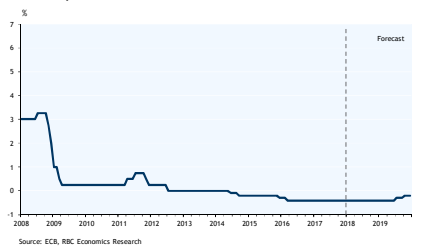
The euro area appears to have maintained solid economic momentum at the start of 2018. Unemployment is trending lower but wages are showing no sign of accelerating.

A solid growth backdrop but limited inflationary pressure means the ECB will be gradual in withdrawing stimulus. March's policy statement took another small step toward winding down QE.

Euro area GDP



ECB Deposit rate

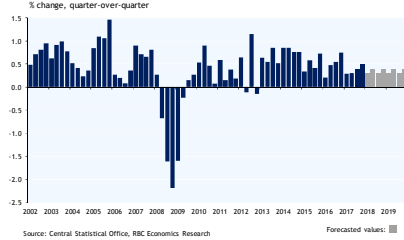


Bank of England

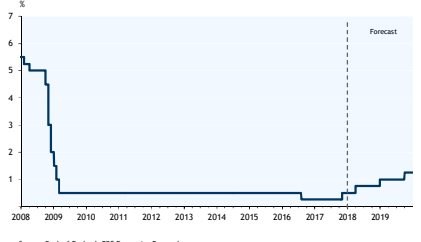
We think UK GDP growth will continue at a slightly-below-trend pace this year as the grind of Brexit negotiations weighs on sentiment.

The BoE is concerned that an at-capacity economy and rising wages will ultimately leave inflation above target if policy isn't tightened further. We think they'll raise rates in May.

U.K. real GDP growth



U.K. policy rate

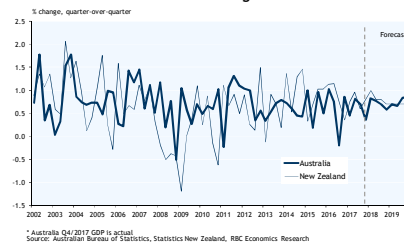


Australia

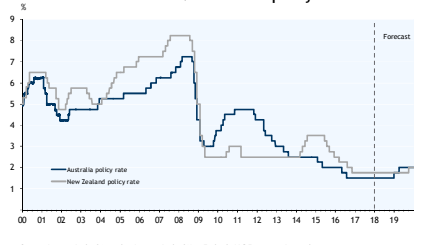
Australia's Q4/17 GDP growth came in a bit below expectations but was close to the RBA's projected 2-1/2% year-over-year increase. We expect a similar pace of expansion this year.

The RBA thinks wage growth has troughed and growth will pick up this year. But those developments will be gradual and we don't see the central bank shifting their neutral bias anytime soon.

Australia and New Zealand GDP growth



Australia and New Zealand policy rates



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