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# Where To From Here: Bank of Canada Policy in 2023

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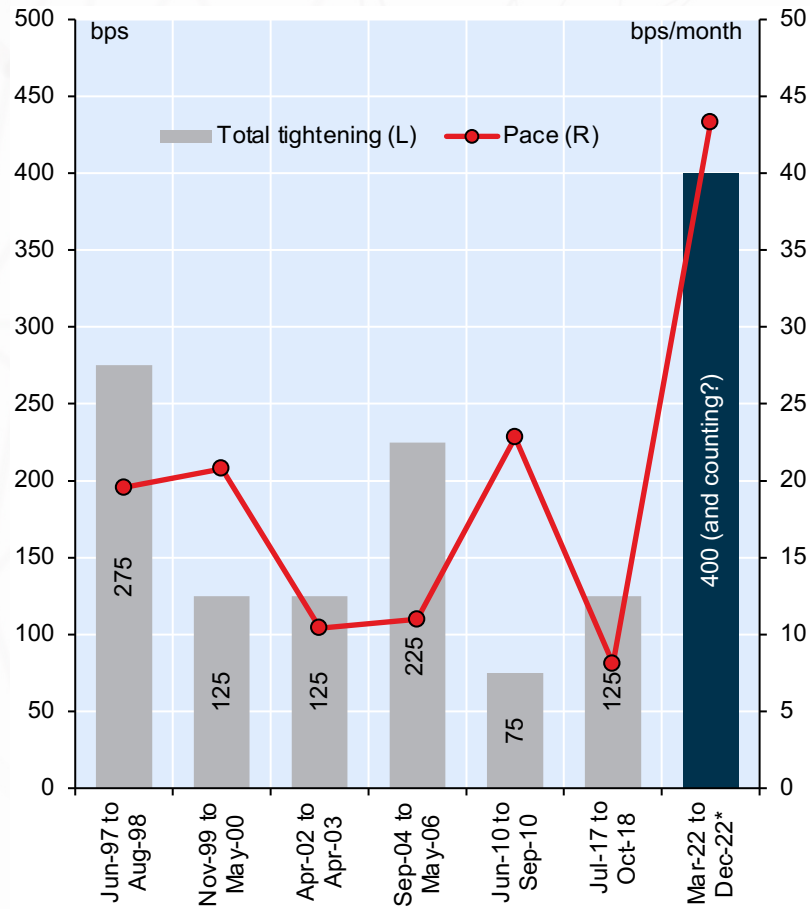
*January 10, 2023*

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# No two BoC tightening cycles the same, but this is truly extraordinary

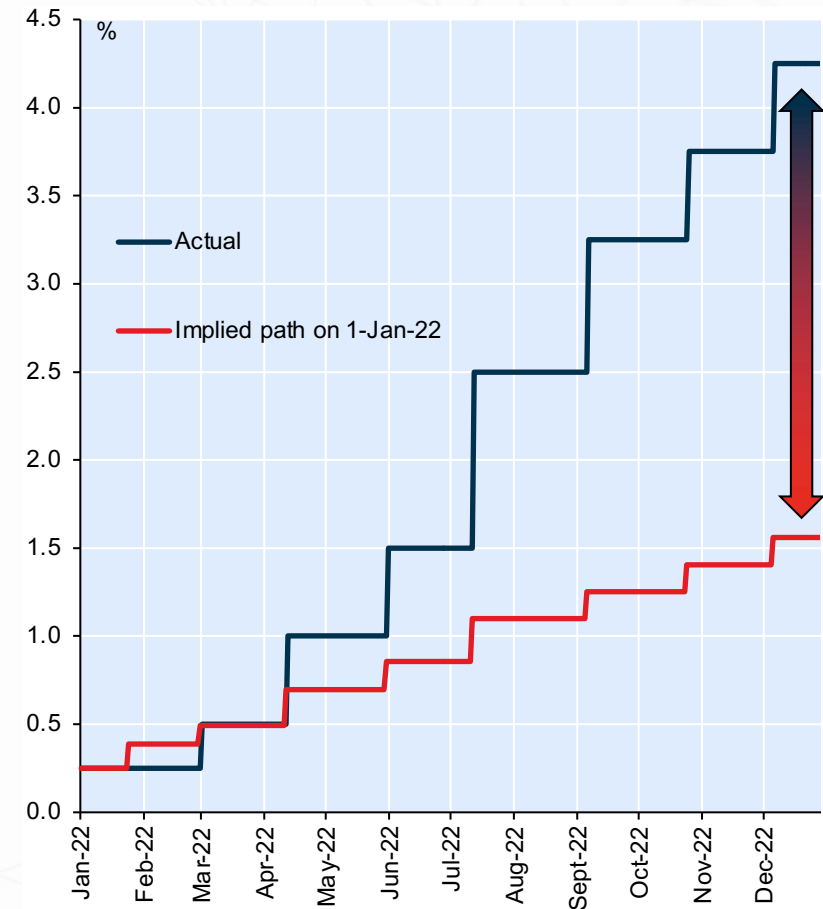
The old rules have not applied, as markets (and economists) vastly underestimated last year's response

BoC tightening cycles: Past & current



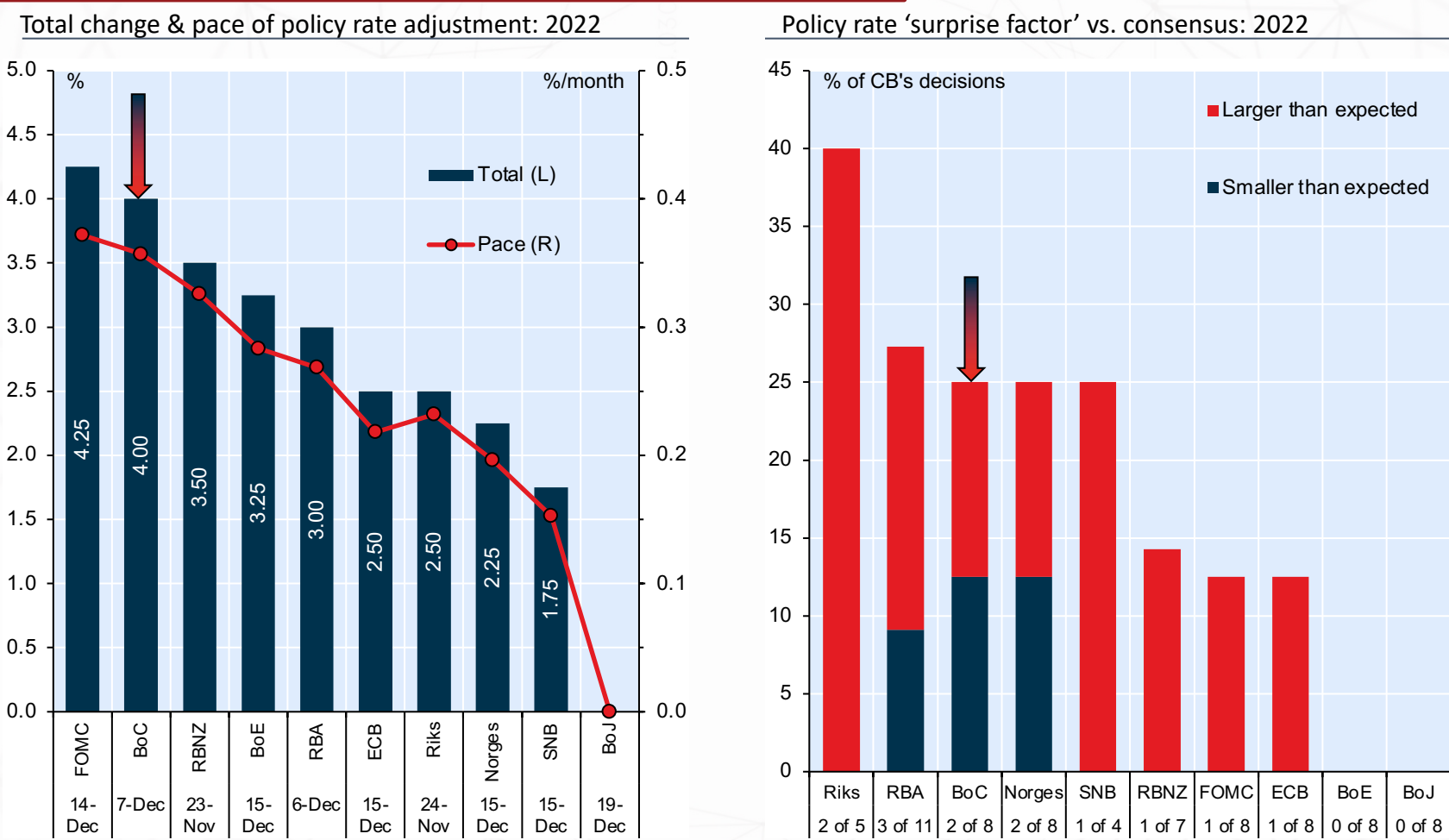
Source: NBF, BoC, Bloomberg | Note (L): Pace of tightening from first to last (or latest) hike

BoC tightening in 2022: Actual vs. expected



# Global context: This is what 2,700 bps of central bank tightening looks like

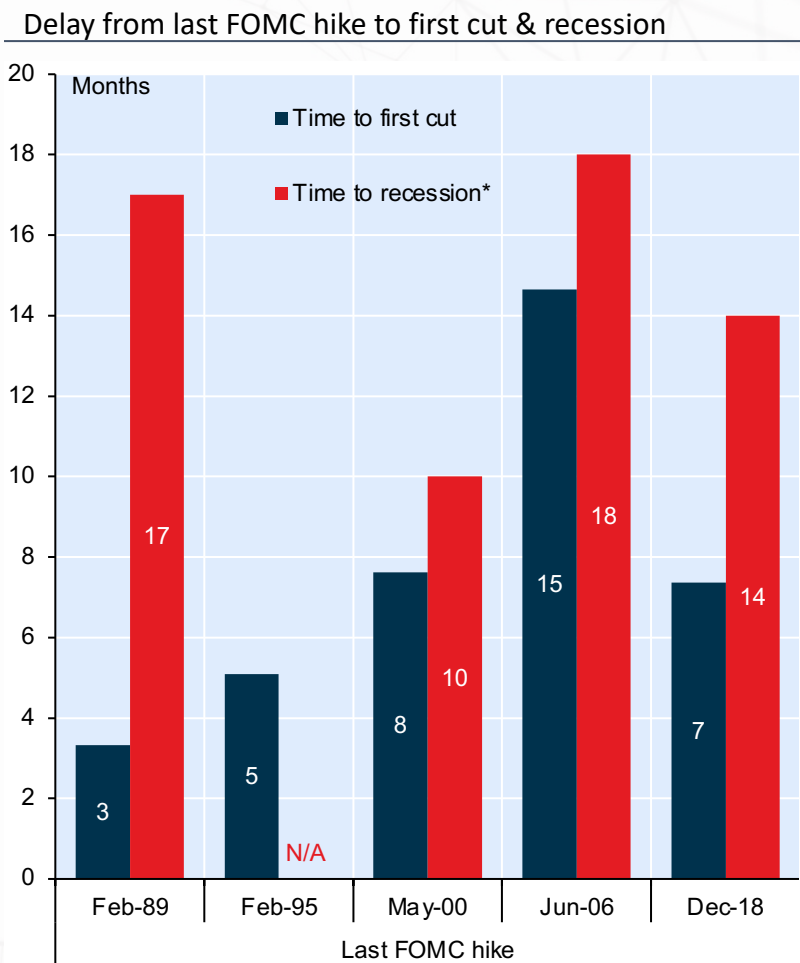
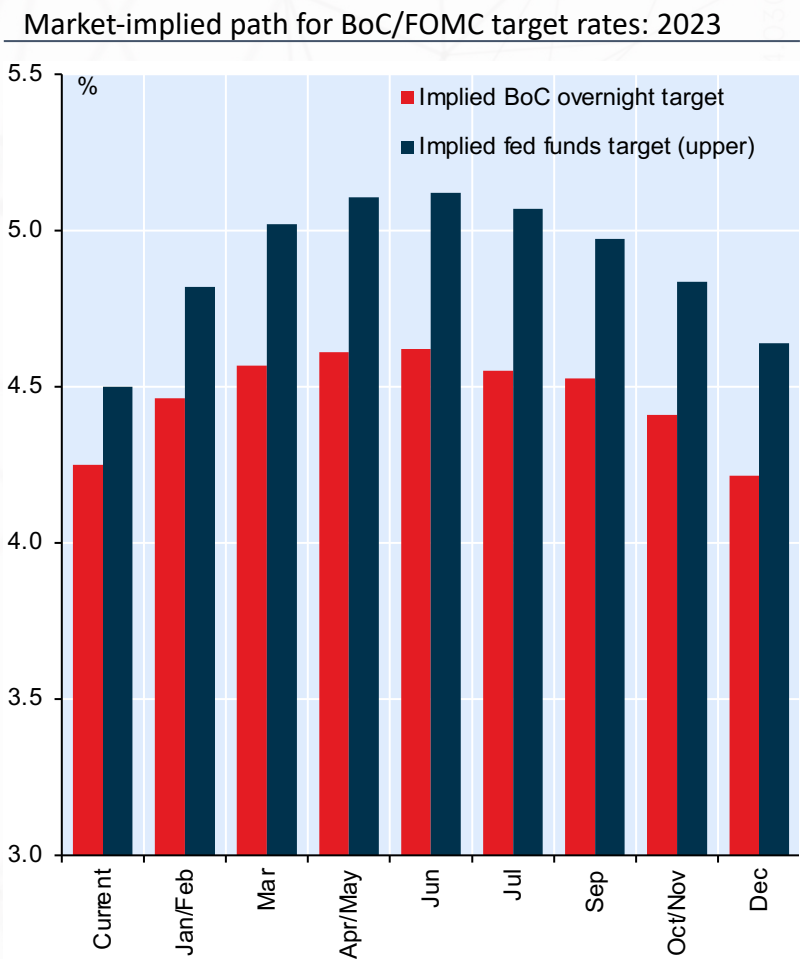
Bank of Canada hardly the only central bank throwing policy ‘curve balls’



Source: NBF, major central banks | Note (L): Pace from start of 2022 to latest policy decision | Note (R): ‘Surprise factor’ represents decision different than Bloomberg consensus

# It's now less about the *journey* & more about the *destination* (i.e., terminal)

Just how long North American policy rates remain ultra-restrictive a source of some debate

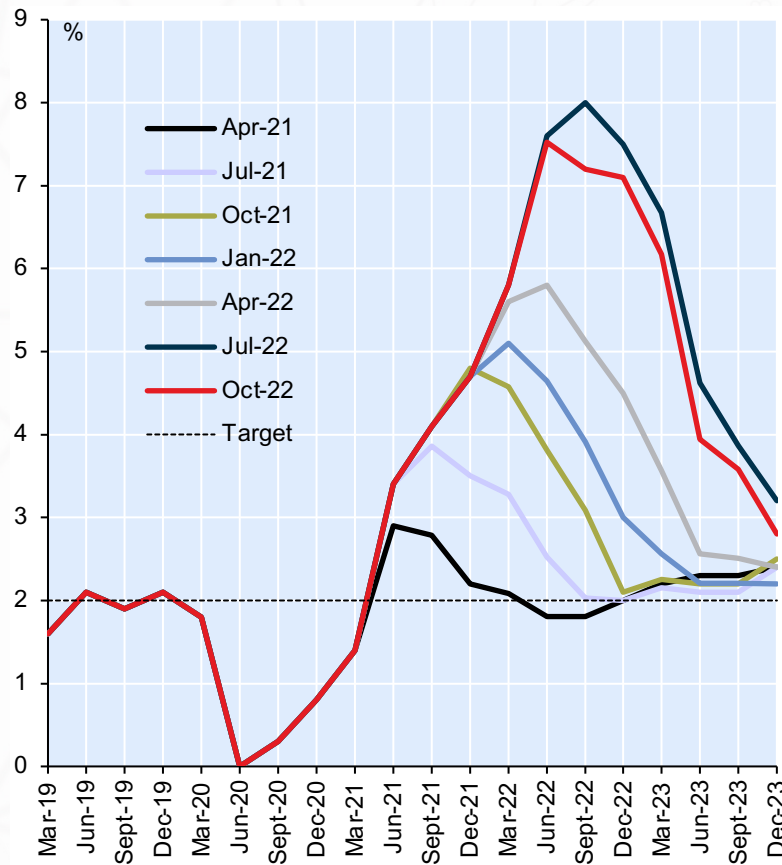


Source: NBF, Bloomberg, FRB, NBER | Note (L): Implied rates as at 6-Jan-23 | Note (R): No recession following last hike in Feb-95 before onset of next FOMC tightening cycle

# What to watch for (among other things)

Serious inflation relief a necessary but not necessarily sufficient condition for a monetary policy pivot

Evolution of BoC forecasts for Canadian inflation



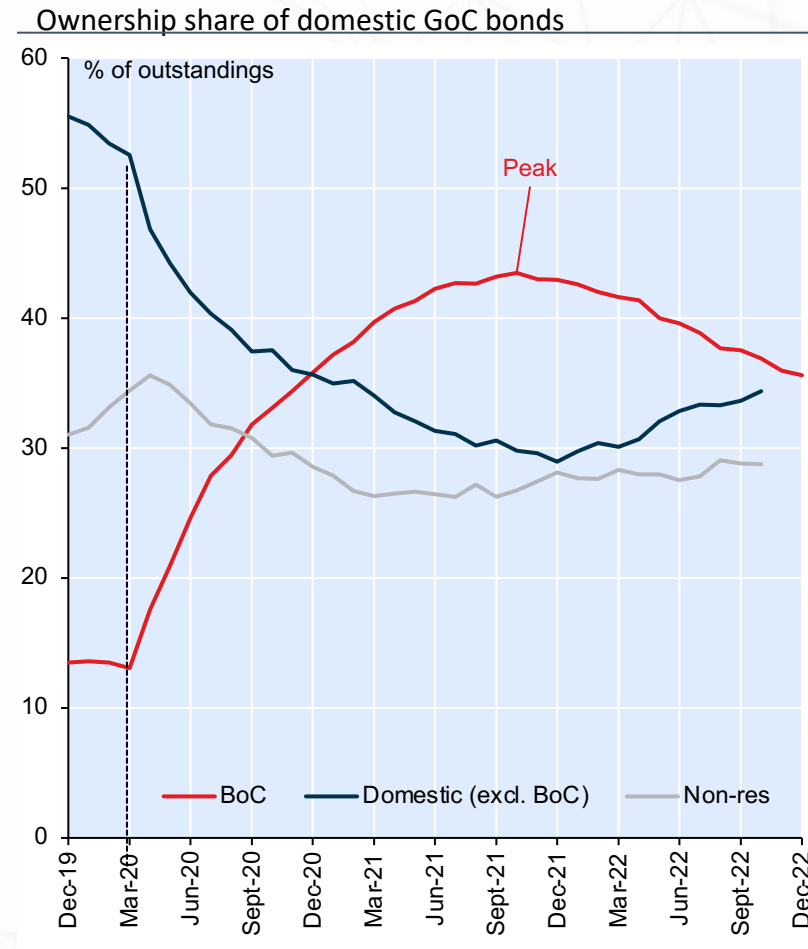
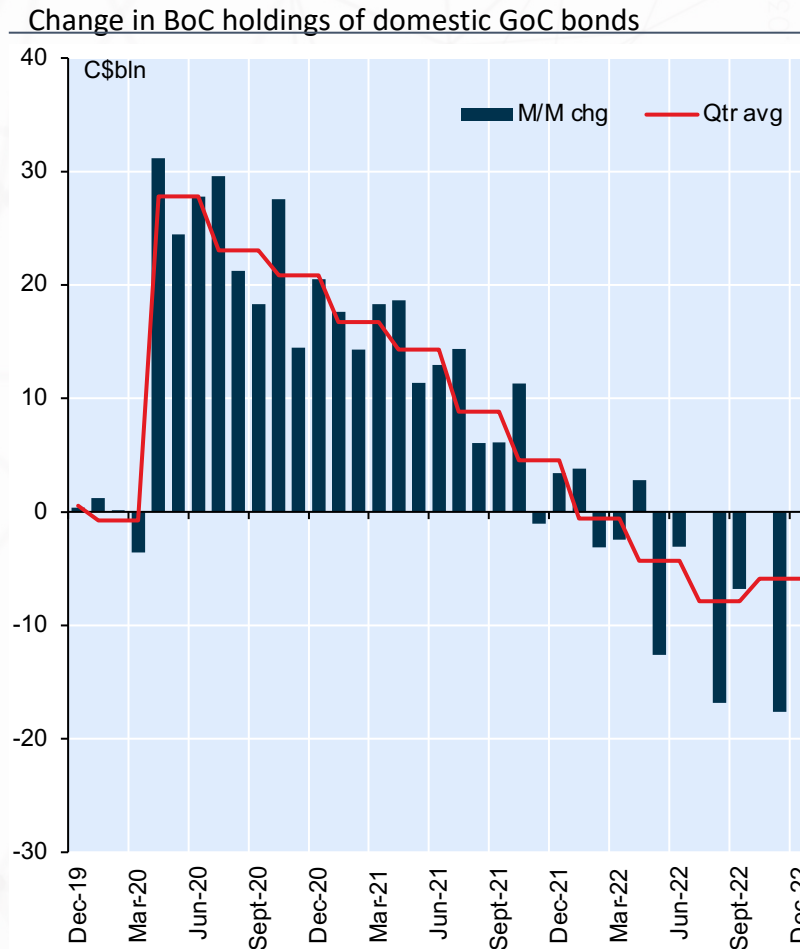
Canadian unemployment rate & wage growth



Source: NBF, BoC, StatCan | Note (L): CPI forecasts represent quarterly averages as per BoC MPRs

# Good initial progress on draining Canada's bond market holding tank

Quantitative Tightening (QT) means BoC holdings & ownership share of Canada bonds declining

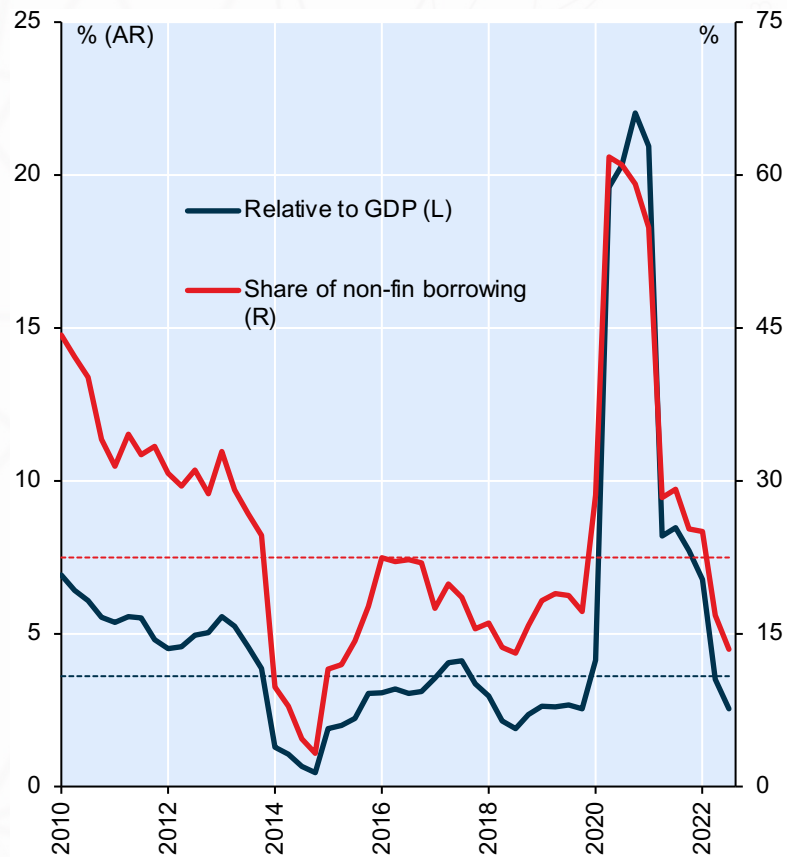


Source: NBF, BoC | Note (R): BoC ownership share to Dec-22; domestic investor & non-resident ownership share to Oct-22

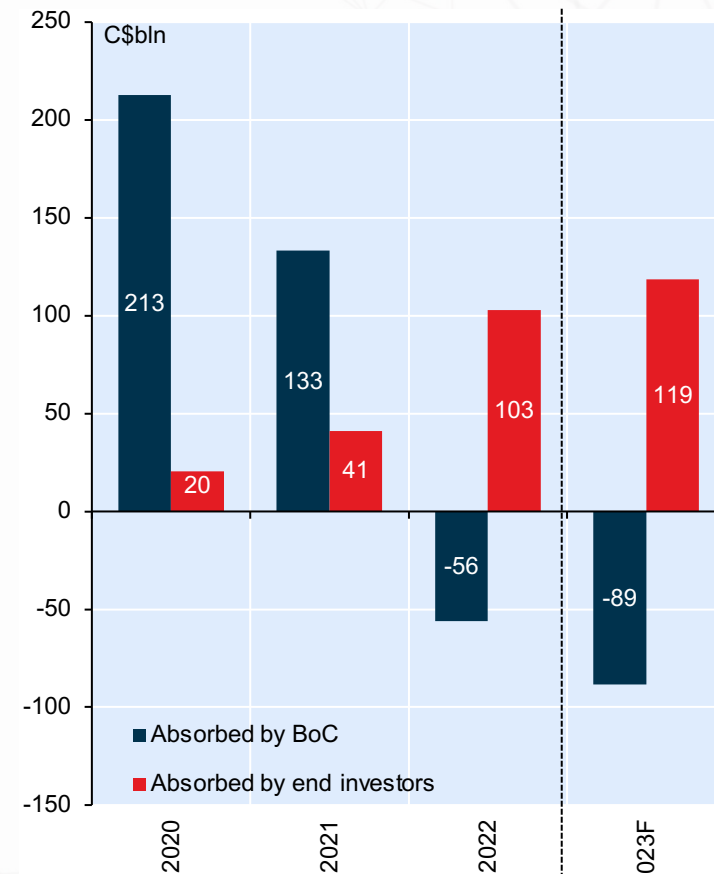
# Initial phase of BoC QT aided by reduced government net borrowing

Massive upgrades to federal-provincial finances in 2021 & 2022... but 2023 could be more challenging

Net borrowing by Canadian governments



Absorption of net GoC bond issuance



Source: NBF, StatCan, BoC | Note (L): Dotted lines refer to pre-COVID trend | Note (R): 2023 absorption assumes continued run-off & includes NBF assumption for net GoC issuance