# BANK OF CANADA ANNOUNCEMENT

July 13 2022

### What happened?

- At today's meeting, the Bank of Canada increased it's target overnight interest rate by 1.00% to 2.50%. This is the biggest increase by the Bank of Canada since 1998 and the highest overnight rate since 2008. This was a surprise, as market consensus was pricing in a 0.75% hike.
- In the Bank's Monetary Policy Report, its GDP growth forecast was reduced to 3.5% for 2022 (previously 4.2%) and 1.8% for 2023 (previously 3.2%). The inflation forecast was revised up significantly to end this year at 7.5% (from 4.5% previously) before easing less than forecasted in April to 3.2% by end 2023 (previously 2.4%).
- The Bank will also continue with quantitative tightening as planned.

### What Does This Mean?

- The tone of the release was certainly hawkish (signaling a strong focus on raising rates to cool off financial conditions), which we would expect given the persistently high inflation levels we're seeing.
- The Bank of Canada characterized this larger-than-anticipated move as "front-loading" the path to rate normalization.
- Today's announcement brings the overnight rate to the midpoint of the Bank's estimated neutral range of 2%-3%. However, the market is priced for another 125 basis points over the next six months, so we'll potentially see an eclipsing of the upper end of the range over the next meeting or two.
- As of the time of writing, the front end of the yield curve sold off, with 2-year rates moving up almost 7bps by mid-day to 3.28%. The long end of the yield curve didn't react negatively, with yields actually moving lower by 4 bps resulting in a flattening of the yield curve.
- From a credit perspective, spreads are little changed after being pressured wider since the start of the year.

### CIBC Asset Management Reaction:

- We were anticipating the Bank of Canada to hike its rate by 0.75% at today's meeting, so there was some surprise that it raised its rate by 1%.
- We believe that the Bank will remain hawkish until there is more compelling evidence that inflation is receding back towards its target of 2%.
- While the Bank is expected to be vigilant in its attempt to rein in inflationary pressures, we believe that longer-term bond yields will remain around current levels as inflation fears wrestle with recession risks going forward.

- CAM's expectation for 2022 is for the Bank to hike its rate to about 3%, or modestly higher, before it pauses to assess the impact on the economy and the trajectory of inflation.
- From a credit perspective, we continue to have a favorable outlook on corporate credit over the medium term, given our expectation for continued growth and inflation this year, with a preference for the higher-quality spectrum.