

# Bank of Canada - the non decision decision....

...yet change is afoot. Evolutionary change but change none the less.

**The non decision decision. The Bank of Canada left rates unchanged at 25bps as expected, focusing all of the interest on the changes in the post meeting statement. A rather slimmed down document from the text heavy January statement. Overall, the tone is in the context of the January MPR as would be expected, yet the texture of the language is beginning to change. Make no mistake though, the story remains well contained and controlled by the BoC.**

To be certain the BoC acknowledges the upside on growth and a CPI that is running ahead of forecasts. An indeed they address the matters in terms that don't raise the alarm or suggest that there is necessary policy response before the expiry of the BoC's pledge to hold rates at 0.25% through to the end of Q2/10. A pledge that was reaffirmed in today's document, again, as was widely expected.

But at the same time, there were some important changes to the statement architecture which we believe would be consistent with the BoC beginning some of the leg work that would be associated with transitioning off the sidelines and the onset of rates hikes in the post pledge period. True, our radars are sensitive to any changes in the language and would be inclined to view it in these terms. So there in lay the caveats. That said, the Bank dropped from the text the familiar language/reference to the Bank retaining considerable flexibility in the conduct of monetary policy. To us this is viewed in the context of the BoC eliminating its supplementary programs that were aimed at supporting market liquidity at the time of market crisis. By and large the value of these programs has waned considerably against the back drop of market recovery and so their cancellation would come as no surprise. And in that context, the changes to the language are not all that startling. Yet it is indicative of steps being taken - while at this stage not indicative of monetary change. But so too is it important to note that the BoC now sees the main macroeconomic risks to the inflation projection as "roughly balanced". Gone is the familiar statement that "the Bank judges that , as a consequence of operating at the effective lower bound, the overall risks to its inflation projection are tilted slightly to the downside". Again, some nuancing but a suggestion that the BoC may no longer be operating at the lower bound in the near term. Again, indicative of the need for a policy change at some point.

A policy change is coming, but it is looking like evolutionary change rather than revolutionary in keeping with the nature of the crisis/recession, response and recovery. We continue to forecast a rate hike in September of 2010.

# Disclosure appendix

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