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The BoC adopts a more cautious tone

World

Although January saw the first phase of a trade agreement between China and the United States, geopolitical uncertainty remains high as the year begins. First, customs tariffs are still high and continue to slow trade. Next, China's growing coronavirus outbreak represents an additional risk, as prolonged production shutdowns will directly impact the global supply chain. Tensions in the Middle East also resurfaced in January when the United States assassinated a top Iranian leader. Finally, we will keep a close eye on the American primaries, which include highly progressive candidates in Bernie Sanders and Elizabeth Warren.

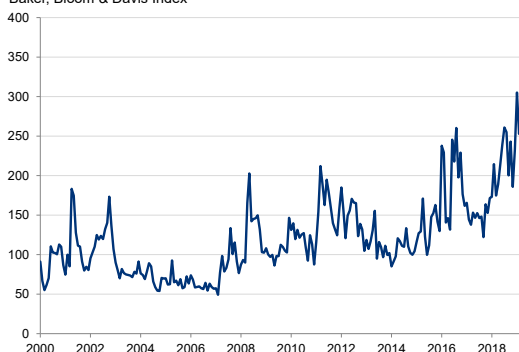
North America

In Canada, despite strong job creation numbers and an inflation rate that is under control at around 2%, the Bank of Canada (BoC) surprised the markets this month as it adopted a more cautious tone at its monetary policy meeting. The most important item in the press release was the sharp downgrade in the GDP growth forecast for the last quarter of 2019, which dropped from 1.3% (quarter over quarter annualized) to just 0.3%. Recovery is expected in 2020; however, slow growth is expected in the first quarter, with a modest rebound to 1.3%. The bond market now integrates an approximately 60% probability of a rate cut by the BoC by the summer.

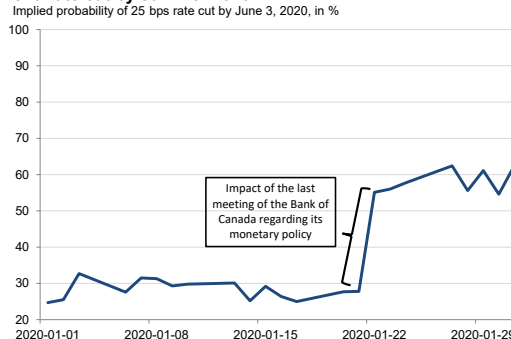
Financial markets

The Canadian dollar depreciated in January as the rather cautious comments from the BoC surprised the markets, at the same time as the Federal Reserve maintained its rather neutral tone. Moreover, the expected economic impacts of the Chinese coronavirus outbreak contributed to the 15% drop in the price of oil in January, weighing heavily on the value of the loonie. That said, we expect the value of the loonie to rise in the medium term although our read of the Canadian economy remains rather positive, which leads us to believe that the BoC may maintain the status quo in terms of its monetary policy. Furthermore, according to our models, the Canadian dollar is now undervalued by more than two cents compared to the U.S. dollar.

Global economic policy uncertainty index
 Baker, Bloom & Davis Index

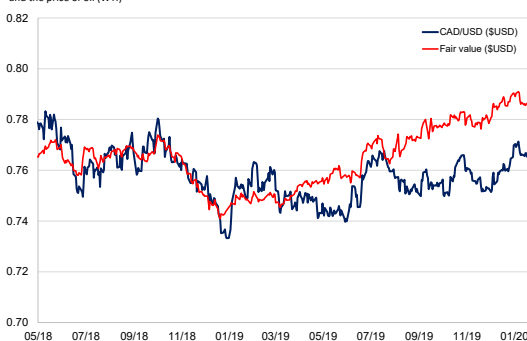


Canada: the market now gives a high probability of a rate cut by summer 2020
 Implied probability of 25 bps rate cut by June 3, 2020, in %



CAD/USD relative to its fair value

Fair value model based on the spread between Canada and U.S. two-year interest rates and the price of oil (WTI)



Ecostrategist in brief

The publication in its usual form as at January 31, 2020 will not be published. The next one will be as at February 29, 2020.

Fund returns as at January 31, 2020 are available as follows:

- ia.ca > [Fund performance and overview](#)