



PREVIEW: BoC Rate Decision and Governor Statement due Wednesday 10th June, 2026 at 14:45BST/09:45EDT

SUMMARY: The BoC is widely expected to leave its policy rate unchanged at 2.25% for a fifth consecutive meeting as it balances trade uncertainty against lingering inflation risks. The Bank sits at the lower end of its estimated neutral range, providing scope to remain patient while assessing the impact of the upcoming USMCA review, which begins in July, and developments in the Middle East. Markets continue to lean hawkish, pricing around 35bps of tightening by year-end, although economist consensus remains centred on unchanged policy through 2026. Bank of America argues markets are overpricing the prospect of hikes, expecting rates to remain unchanged through year-end and citing Canada's technical recession, labour market softness and uncertainty surrounding USMCA negotiations as factors that raise the bar for tighter policy.

RECENT DATA: Economic data has presented a mixed picture. Q1 GDP contracted modestly for a second consecutive quarter, reinforcing concerns over growth, although Q2 appears to be rebounding with April flash GDP rising 0.4% M/M and May payrolls surging by 87.8k while unemployment fell to 6.6% (exp. 6.9%, prev. 6.9%). Inflation has also moderated. Headline CPI rose 2.8% Y/Y in April (exp. 3.1%), while the BoC's preferred core measures eased to 2.05%, the lowest since January 2021, and inflation excluding food and energy slowed to 1.5%. The recent strong labour market report has helped offset some of the growth concerns, but downside risks remain ahead of the USMCA review.

TRADERS' FOCUS: Attention will centre on whether policymakers are more attentive to inflation or growth risks. In April, Governor Macklem said the current policy rate was "appropriate" to help the economy adjust to tariffs and return inflation to target, but warned that consecutive rate hikes could be required if energy-driven inflation pressures broadened. The latest meeting minutes showed governors believed conditions could change quickly and that rates may need to rise to guard against persistent inflation, while also stressing the need to be prepared for adverse outcomes stemming from US trade policy. Officials appeared divided on the likely effects of both the Middle East conflict and the USMCA review, leading to differing assessments of the most likely policy path. Analysts at BMO expect the Bank to tone down references to consecutive hikes, arguing there is currently little impetus to move rates in either direction. Markets will also be watching for acknowledgement of Canada's technical recession, alongside any emphasis on the apparent Q2 recovery, stable core inflation and the Bank's position near the lower end of neutral as justification for maintaining a wait-and-see approach.

TRADE/GEOPOLITICS: The trade-off between growth and inflation remains central to the BoC's outlook. Additional US tariffs or a more disruptive-than-expected USMCA review could weigh further on economic activity and potentially increase the case for lower rates. Conversely, a prolonged conflict involving Iran could push energy prices higher, feeding through to consumer prices and keeping the Bank alert to upside inflation risks. Policymakers have repeatedly highlighted the uncertainty surrounding both developments, suggesting they remain prepared to adjust policy in either direction should the outlook materially change.

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