

Sujet: Les politiques monétaires divergentes du Canada et des USA / Canada and USA diverging monetary policies

Source: Advisor Analyst

Date: 29.04.2010



Canada: Goodbye Old Friend – An American Perspective

Posted By [AdvisorAnalyst](#) On April 29, 2010 @ 7:43 pm In [Markets](#) | [No Comments](#)

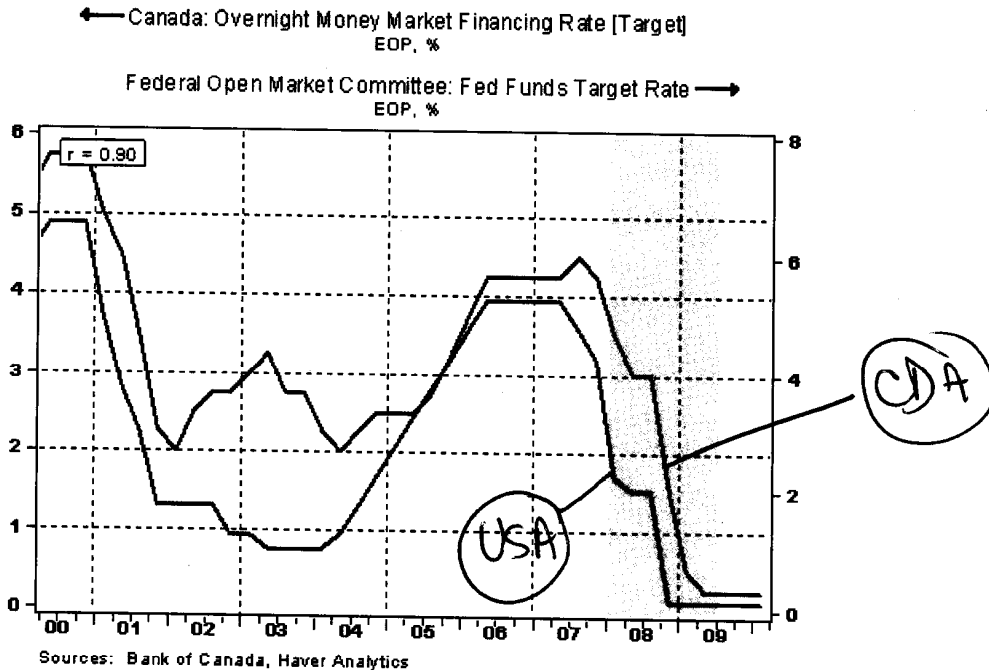
🔊 listen now

This article is a guest contribution by Richard Thies, [Northern Trust](#) ^[1].

April 20, 2010

There comes a time in every man's life when he must say goodbye to old friends. This process can be difficult, but sometimes your old friends are nothing but a bad influence. The exceptionally accommodative monetary policy shared by the US and [Canada](#) ^[2] has become a bad influence on the Canadians. When the Fed said it was going to 'keep rates low for an extended period,' the Bank of Canada (BOC) enacted a 'conditional commitment' to do the same through Q2 2010. But as often happens, the two friends drifted apart and with each passing data release it became clear that the Canadians really were no longer in the same boat as the US. This morning, the BOC paved the exit-road by ending their conditional commitment to keep rates at 0.25%, setting the stage for a June hike of the overnight rate.

Chart 1



Barring a major surprise, **Canada will thereby become the first G7 country to begin its tightening cycle.** The main factors influencing their decision appear to have been the heady rebound of the housing market and recent headline inflation^[4] numbers (Charts 2 and 3) as well as exceptional fiscal stimulus unexpectedly spilling over into the early part of this year, further fueling economic activity. **Despite these reasons, it is not without some reservation that the BOC waves goodbye to the Fed, on what is likely to be a steadily widening rate spread between the two nations – the spread will likely be around 125 bps by the end of the year.** The persistent strength of the C\$ is a problem for Canada's large export sector and the tightening will exacerbate this issue, further impairing US consumption of Canadian goods (though it is good news for upstate New York shop owners). **Also, the Canadian economy, while benefiting from commodity demand in emerging markets**^[5] **is still reliant on a rebound in the rest of the industrialized world.** In spite of the continued drags, the BOC expects the economy to return to full capacity by Q2 2010 and to experience growth of 3.7% this year, compared to our estimate of a 2.8% expansion in the US. **So, goodbye old friend, we'll see you on the exit road sometime next year.**

si les taux intérêt ↑ plus au
Canada qu'aux USA, le
dollar CDA ↑ versus \$USD.

Chart 2

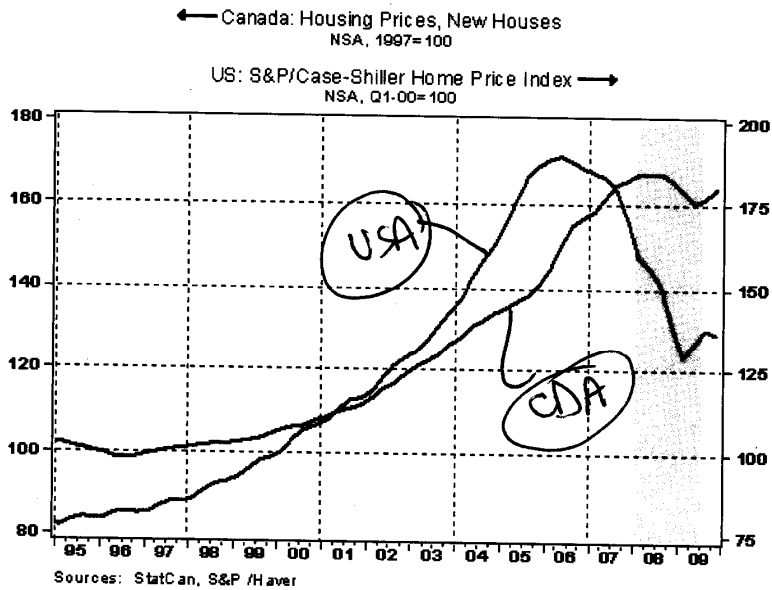
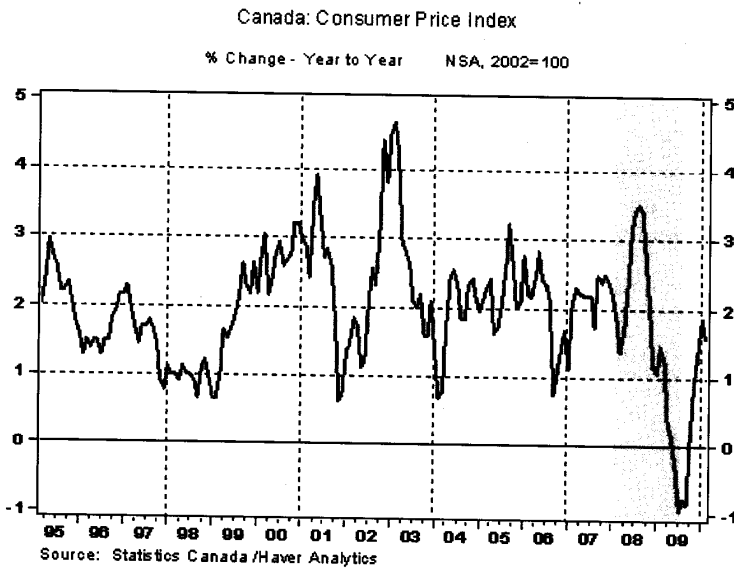


Chart 3



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.
2010 (c) copyright Northern Trust^[1]

Article printed from AdvisorAnalyst Views: <http://advisoranalyst.com/glablog>