

Be certain of BoC uncertainty

By Noah Black and Taylor Schleich

Those following the Bank of Canada will have a sense that policy decisions often feel uncertain. Even when a consensus forms, as one did ahead of last week's meeting, it can feel like the central bank *could* deliver a surprise. Certainly, they've not shied away from that in the Tiff Macklem era. Just look back to 2022 when markets misjudged 5 of 8 decisions. This approach to policymaking contrasts starkly with the Fed who prefers no uncertainty, often hand holding investors into decisions. But as we explore in this *Market View*, the BoC isn't just more uncertain than the FOMC. Uncertainty surrounding BoC decisions has proven more pronounced than any other advanced economy central bank.

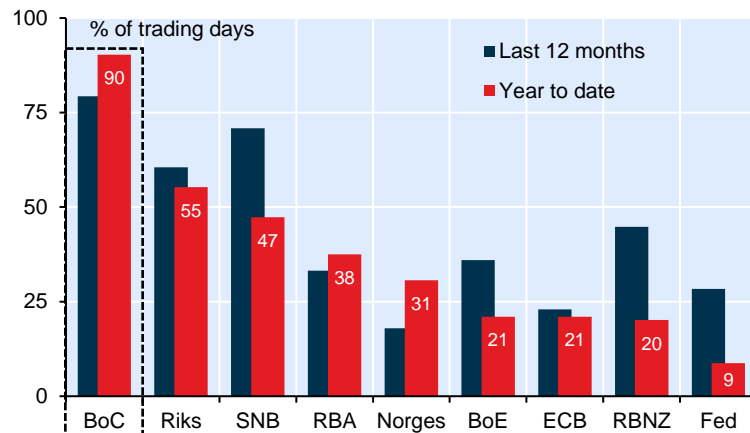
To quantify this, we calculate the percentage of time central bank expectations for the next meeting deviate from a 'certain' outcome. We define certainty as OIS pricing +/- 5 bps of a possible outcome (i.e., no change, increments of 25 bps). By this definition, for over 90% of 2025, markets have been unsure how the next BoC decision would play out. Over the past year, this percentage exceeds 75%. This finding is robust

to the size of the certainty band (e.g., if certainty were defined as +/- 10 bps of an outcome, the BoC is still most uncertain). Uncertainty does not necessarily mean volatility, however. BoC rate expectations have not swung as wildly inter-meeting as others, this year or last. Put differently, Canadian investors have sat relatively comfortably in the unknown, and the BoC has been happy to keep them there.

True to form, expectations for the BoC's July decision opened as a 'coin flip' immediately after last week's meeting. While Friday's jobs data pushed markets in the direction of a hold, this meeting is still too close to call. Another jobs report, two inflation reports, April GDP and a Business Outlook Survey will all have serious sway. We still believe a cut next month is more likely than not, which brings us to the benefits of persistent uncertainty. There are clear and frequent opportunities in trading near-dated BoC meetings for those with strong conviction on the rate path. However, you'll also need the stomach to weather the notorious volatility of Canadian economic data.

Chart 1: BoC expectations are very often uncertain...

% of days rate expectation for next decision deviates from "certain" outcome*

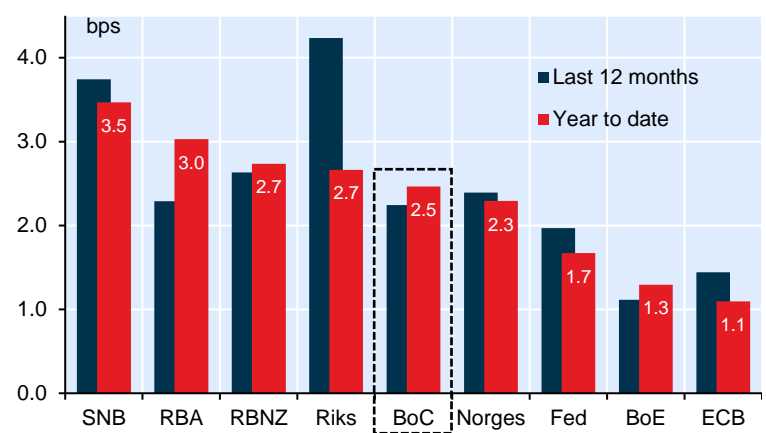


Source: NBC, Bloomberg | Note: See text box below for detailed explanation.

*A certain decision is defined as ≤5 bps from a hold, 25 or 50 bp cut/hike, etc. For example, implied rate changes of -4 bps and -21 bps are considered a certain hold and certain cut, respectively. Implied changes of -6 bps or -19 bps (or anything in between) are deemed uncertain. Similarly, -29 bps is a certain (25 bp) cut, while -31 bps is deemed uncertain.

Chart 2: ... but not necessarily volatile compared to others

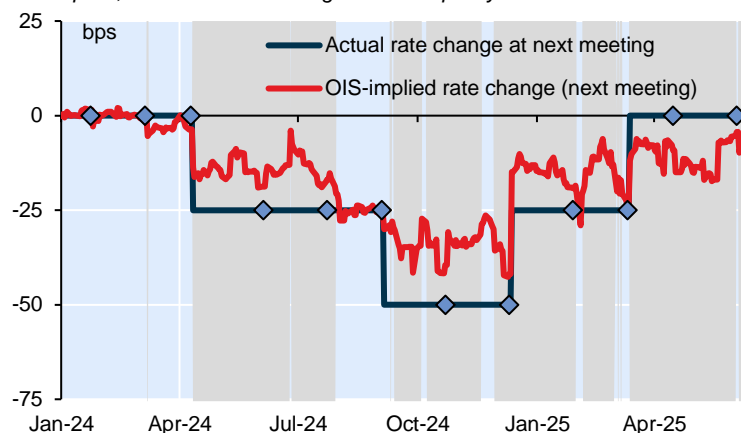
Standard deviation of daily changes in OIS-implied rate change for next decision



Source: NBC, Bloomberg | Note: Calculation excludes trading day after central bank meeting.

Chart 3: Despite steady cuts, the past year has been uncertain

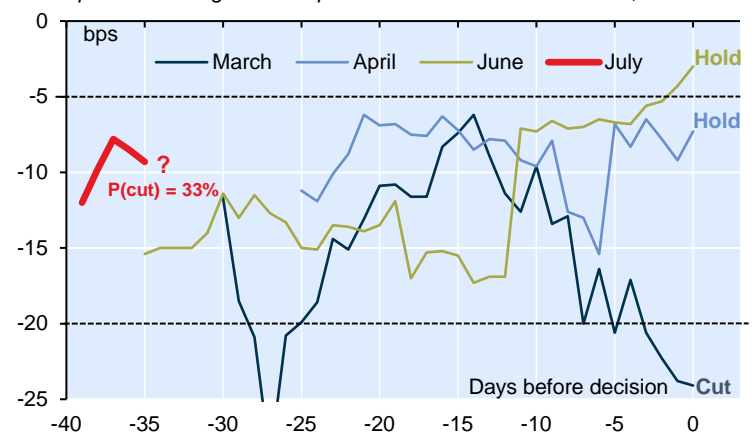
OIS-implied, actual BoC rate changes over the past year



Source: NBC, BBG | Note: Shading reflects 'uncertain' pricing. Markers denote decision days.

Chart 4: Here we go again with inter-meeting uncertainty

OIS-implied rate change in lead-up to next decision: Last 3 decisions, next decision



Source: NBC, Bloomberg | Note: Dotted lines reflect "uncertainty boundaries"



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