

# FX Viewpoint

Currencies  
Global

## CAD and EUR: Rate cuts begin in June

- ◆ The CAD holds steady, after the BoC's first rate cut since 2020
- ◆ The EUR strengthened after the ECB delivered its widely expected 25bp cut, but raised its inflation projections for 2024 and 2025...
- ◆ ...we still see downside risks to the EUR in the months ahead

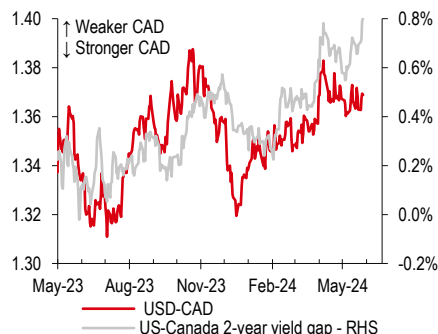
At the 5 June meeting, the Bank of Canada (BoC) began its easing cycle with a 25bp cut, taking its policy rate to 4.75%. This was the first rate cut since March 2020. The BoC noted that inflation is easing, while growth remains subdued. BoC Governor Tiff Macklem mentioned that **it is reasonable to expect further cuts**. Indeed, both markets and our economists expect two more 25bp cuts this year.

**Canada becomes the first G7 nation to cut rates**

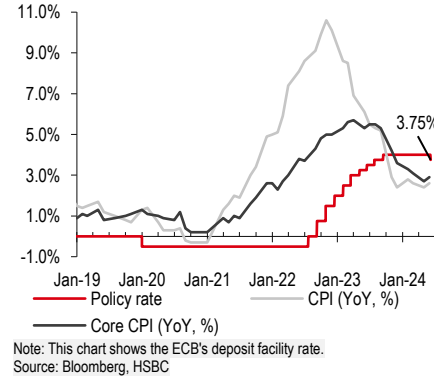
Nevertheless, **the reaction in USD-CAD was limited**. The CAD initially lost close to 0.5% against the USD, but eventually regained most of the lost ground (*Bloomberg*, 5 June 2024). After all, the rate cut by the BoC was almost completely priced in by markets ahead of the event and it seems unlikely that the BoC will ease more than expected this year. Perhaps, more importantly, recent moves in USD-CAD have largely been driven by its 2-year rate differentials (Chart 1), in particular US rates developments. We expect USD-CAD to move largely sideways.

**USD-CAD is likely to move sideways, barring a big shift in its rate differentials**

### 1. USD-CAD and its rate differentials



### 2. Eurozone: Policy rate vs. inflation



Conversely, the EUR strengthened initially on the European Central Bank's (ECB) 6 June announcement before paring gains. The ECB cut all policy rates by 25bp, the first cut since September 2019, taking the deposit rate to 3.75% (Chart 1). The widely expected decision was not unanimous, with one member voting for rates to remain on hold. More surprisingly, the ECB removed the explicit easing bias in the statement, even though **inflation forecast revisions for 2024 and 2025 were small** (i.e., 0.2ppts higher to 2.5% and 2.2%, respectively) and the forecast for 2026 was left unchanged at 1.9%. Meanwhile, the GDP growth forecast for 2024 was nudged up by 0.3ppts to 0.9%, while the one for 2025 was lowered by 0.1ppt to 1.4%.

**The ECB cut rates for the first time in nearly five years, but without an easing bias**

ECB President Christine Lagarde stressed that it will remain data dependent. When describing the data the ECB will need to consider the next cut, the president referred to "much later in the summer". Our economists expect two more 25bp rate cuts this year, while markets currently price in one to two additional cuts. The ECB has also confirmed that it will **reduce the holdings of securities under the pandemic emergency purchase programme (PEPP) by EUR7.5bn per month on average over the second half of the year**.

**Our economists and markets both see more ECB rate cuts ahead**

Beyond the recent reaction, **EUR-USD is likely to decline in the months ahead** on rate differentials and slowing improvement in the Eurozone's external balances.

**We still see downside risks to the EUR in the months ahead**

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