

# FX Viewpoint

Currencies  
Global

## CAD and EUR: No signal yet of when rate cuts begin

- ◆ The BoC and ECB kept their policy rates unchanged in March, reiterating that more evidence is needed to cut rates
- ◆ Our economists expect both central banks to start easing in June
- ◆ Domestic macro developments may see downside risks to the EUR, but upside risks for the CAD, in our view

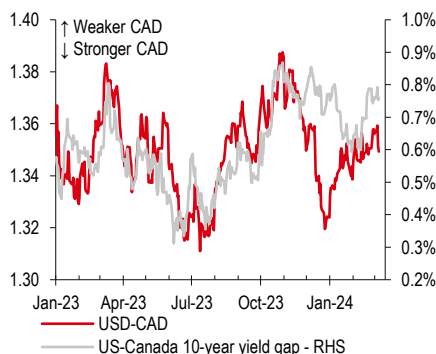
On 6 March, the Bank of Canada (BoC) left its policy rate unchanged at 5.00% for a fifth consecutive meeting, in line with market expectations. **The BoC wants to see more evidence that wage growth is moderating** and expects gradual though uneven progress on inflation. However, the BoC also highlighted that “underlying inflationary pressures persist,” and that “it’s still too early to consider lowering the policy interest rate.” **Our economists continue to expect the BoC to start to lower the policy rate by 25bp at its 5 June meeting.**

**The BoC kept its policy rate unchanged, as widely expected**

The CAD strengthened against the USD, following the BoC announcement. The USD-CAD seems to have started tracking its rate differentials again (Chart 1). **We still expect USD-CAD to grind lower over the course of the year**, as the domestic growth-inflation mix and the possibility of more fiscal stimulus in Canada over the next three years would add cyclical support to the CAD.

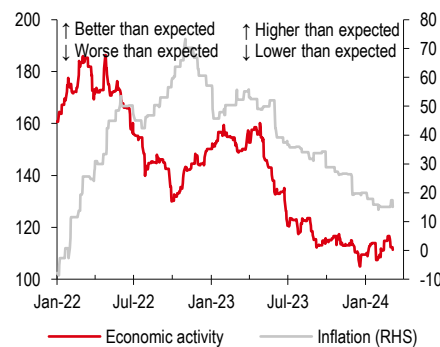
**The CAD is likely to strengthen modestly against the USD in the months ahead, in our view**

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



Source: Bloomberg, HSBC

### 2. HSBC Eurozone Surprise Indices



Source: Bloomberg, HSBC

Unlike the CAD, the EUR weakened initially on the European Central Bank’s (ECB) 7 March announcement before paring declines and eventually strengthening. As widely expected, the ECB kept rates on hold, with the key deposit rate remaining at 4.0% for the fourth meeting in a row. **The ECB revised down its GDP growth forecast to 0.6% this year** (from 0.8%), while it left growth unchanged in 2025 (1.5%) and nudged it up 0.1ppt to 1.6% for 2026. It also **lowered its inflation forecasts, with headline inflation down 0.4ppt this year to 2.3%**, largely on the back of lower energy prices, and then down 0.1ppt in 2025 to 2.0% and unchanged at 1.9% in 2026. These forecast revisions are in line with market expectations and the regional data dynamics (Chart 2). ECB President, Christine Lagarde, in the press conference said rate cuts were not discussed, but **it had just begun discussing the dialling back of its restrictive stance**. Our economists think that the March meeting is consistent with their view that **the ECB will start easing in June**.

**Keeping rates on hold in March, the ECB cut its near-term GDP growth forecast, in addition to its inflation forecasts**

Beyond the knee-jerk reaction, **the EUR is likely to weaken modestly against the USD in the months ahead**, amid slowing improvement in the Eurozone’s external balances, and alongside continued economic disappointments in the region.

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

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