

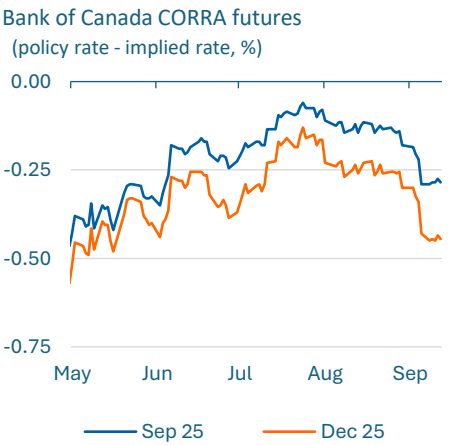
Rate cuts in US and Canada are coming this week: Lots of drama around Fed decision

15 September 2025

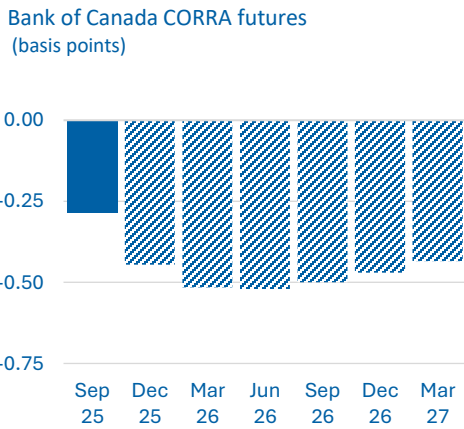
Markets are fully priced for the BoC and the Federal Reserve to reduce their policy rates this week. Both come on Wednesday with the BoC in the morning and the Fed in the afternoon. The BoC will not release an economic update, but the Federal Reserve will. Let’s all agree that the Fed’s decision is much more anticipated, more due to boardroom drama rather than the policy decision. The policy decision is important, but markets are fully priced for at least 25bp in rate cuts. Most likely a 25bp rate cut will occur. However, there could be some who feel that the case for a rate cut is still not strong enough and that inflation risks remain elevated; others who will conclude that labour market risks tip the balance to a rate cut; and there might be one, two, (or three), who feel that the Fed is behind the curve and that a 50bp rate cut is called for. Right now, the probability of at least 50bp of rate cuts only has a probability of 6% attached to it. By year end, the market is well priced for at least 75bp of rate cuts, so we will be watching what the “dot plot” shows as the view of the FOMC.

Another source of drama, Stephen Miran will be a voting member. Miran also remains a key economic advisor to President Trump. Many are concerned about the implications of Federal Reserve independence. A 25bp rate cut won’t fuel those concerns as that outcome was already shifting to the base case before the political drama really ramped up.

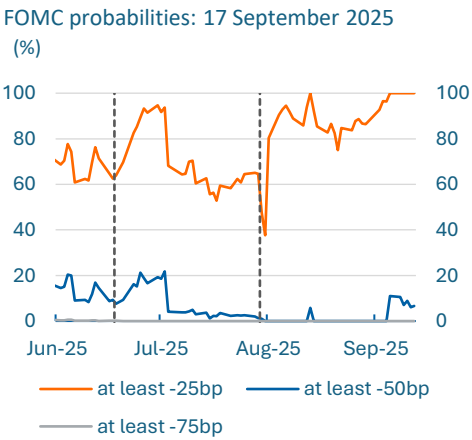
The Bank of Canada is expected to reduce the policy rate by 25bp, with another 25bp rate cut almost fully priced by year end. Ahead of that rate decision we get August CPI data. Headline is expected to be around 2% YoY, while the core measures are expected to show that underlying price pressures are still elevated, recent trends suggest BoC can cut rates with some confidence.



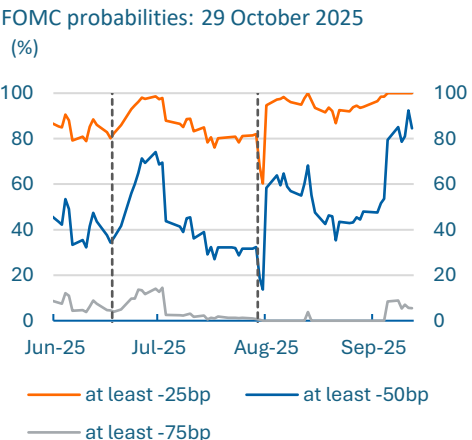
Source: Macrobond, Toronto Stock Exchange



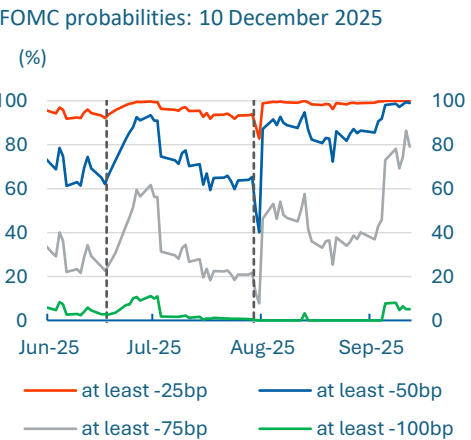
Source: Macrobond, Toronto Stock Exchange



Source: Macrobond, CME FedWatch



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State of play for inflation in Canada ahead of BoC rate decision

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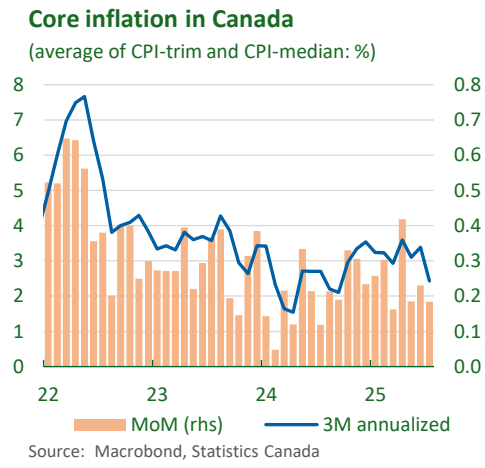
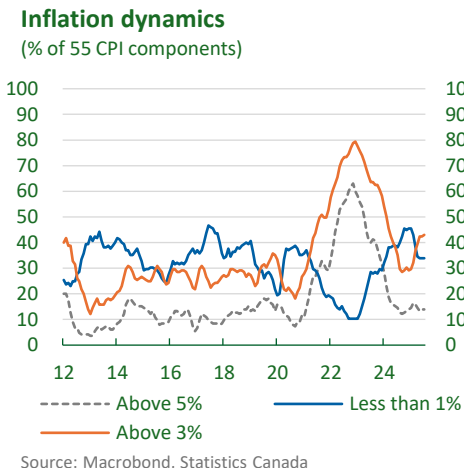
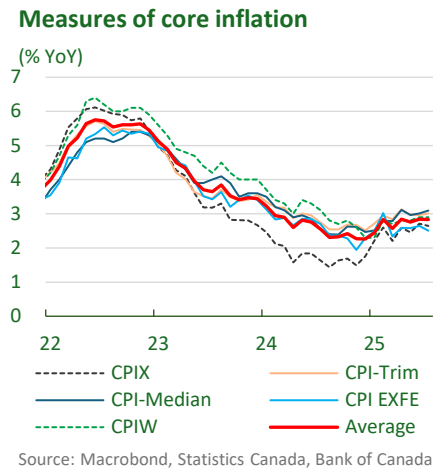
Ahead of the August CPI data, let's get some clarity on where we are. We tend to track five core CPI measures, though we do pay particular attention to CPI-trim and CPI-median. We also watch CPIX, CPIW, and classic core CPI ex food and energy.

More specifically, we look at the average of those five core measures. Note that this average has been slowly climbing through the first half of 2025. That is a concern and helped keep the BoC sidelined as it assessed underlying pricing pressures. However, it seems as though price pressures might be stabilizing with average core inflation running into a bit of a ceiling at 3% YoY. That is still too high, but not enough to outweigh concerns about the job market and the economic impact of US tariffs on the Canadian economy.

The BoC will be watching the share of CPI components that are rising at more than 3% YoY, and the share whose rate of YoY change is less than 1%. A higher share rising at more than 3% would grab some attention, but not enough to prevent a rate cut this week.

The last chart looks at the MoM and 3M annualized rates of change of CPI-trim and CPI-median. These are key to highlighting why the BoC might feel comfortable cutting the policy rate.

On a MoM basis, the average change of CPI-trim and CPI-median has been around 0.2% (looking through the April blip). On a 3M annualized basis, the average has fallen to 2.4%. This gives hope that even though the YoY readings are close to 3%, short-term indicators suggest that core inflation might be trending lower in a few months. The door is open to the BoC to reduce the policy rate, and they are likely to do so.



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