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THE GLOBE AND MAIL

October 20, 2009

Bank will not 'pull an Australia'

By Virginia Galt
Globe and Mail Update

Analysts says the Bank of Canada not follow Australia by raising rates

The Bank of Canada left its benchmark interest rate at a record low 0.25 per cent Tuesday, stating that while the Canadian economy is recovering, the current strength of the Canadian dollar "is expected, over time, to more than fully offset the favourable developments since July."

Here's what the analysts had to say after parsing the bank's statement:

'The bank is serious about implications of a further rise in the loonie to above parity'

Investment adviser Andrew Pyle of ScotiaMcLeod said the Bank of Canada employed some of "its toughest language" yet in warning about the threat to economic growth posed by the high level of the Canadian dollar.

Mr. Pyle said the bank's comments tell us two things:

"The Bank is serious about the implications of a further rise in the loonie to above parity [and] it is not going to pull an Australia and raise interest rates prematurely."

Some of the loonie's recent appreciation has been attributed to speculation that the Bank of Canada would follow the lead of the Reserve Bank of Australia and raise its benchmark interest rate sooner than originally planned. However, on Tuesday, the bank repeated its conditional commitment to keep the rate at 0.25 per cent until well into next year.

"Now if we were to see sustained momentum in the U.S. economy, from the domestic sector, then the bank might ease off on this stance, but so far we're not seeing signs of that," Mr. Pyle said in a research note.

"The U.S. is getting pumped off exports and inventories this half, while Canada is left to get its growth from consumers and builders. This combination cannot persist forever, especially if the loonie goes back and retests the highs of November, 2007 [when it hit a peak of \$1.10 U.S.]"

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