Interest Rates: Is Bank of Canada Done for This Year?

Description

After seeing two consecutive interest rate hikes this year, many investors are wondering if the Bank of Canada is going to act again in the next three months, or if it will pause to let the market digest the changing dynamics of the economy.

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Interest rate futures, a tool for investors to gauge the monetary policy direction, signal a third rate hike this year.

But one more move by Governor Stephen Poloz in 2017 isn’t a done deal, according to many analysts, who believe that the central bank will adopt a wait-and-see approach for the remaining part of this year.

This gradual approach in monetary tightening makes sense at a time when Canada is going through a crucial negotiation with the U.S. over the future of the North American Free-Trade Agreement (NAFTA). The latest developments suggest that the U.S. is trying to conclude the negotiations by the end of this year.

The outcome of this trade deal is very important for the Canadian economy, which ships about 70% of its exports to the U.S. President Donald Trump has called NAFTA a “disaster” and threatened to withdraw the U.S. from the agreement if he’s not satisfied with the talks.

The second reason likely to keep the central bank on the sidelines is Canada’s muted inflation and some uncertainty over the strength of the ongoing economic expansion going into 2018.

Some economics are expecting a little slowdown in growth going forward as a stronger Canadian dollar and cooling housing markets weaken the local investment activity. The Canadian dollar has surged more than 7% this year.

Outlook for dividend stocks

A more gradual approach towards monetary tightening means income investors could see some respite in the sell-off they've seen this year in some of the top dividend-paying companies, such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), **BCE Inc.** (TSX:BCE)(NYSE:BCE), and **RioCan Real Estate Investment Trust** (TSX:REI.UN).

Expecting a more hawkish stance by the central bank, many investors have stayed away from the rate-sensitive stocks, sending Enbridge and RioCan, for example, down more than 6% this year.

But as chances of more rate hikes diminish, we're seeing some rebound in these stocks. Both Enbridge and RioCan are up ~4% in the past one month.

For income investors, the direction of future interest rates is important to look for buying opportunities in dividend stocks or to add to their positions. The current weakness in some utility and REIT stocks is a good entry point for those who were looking for a right moment.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:ENB (Enbridge Inc.)
5. TSX:REI.UN (RioCan Real Estate Investment Trust)

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