

Monthly Update of Canadian Economic and Market Trends

Sumitomo Mitsui Banking Corporation, New York

Global Markets Marketing Department

July 20, 2023

Disclaimer

This presentation is for discussion purposes only and is not intended to be an offer to sell or the solicitation of an offer to buy any securities, or any commitment to underwrite, subscribe for or place any securities, is not an offer or commitment to provide any financing or extension of credit or service, and does not contain any tax or legal advice. This presentation has been prepared by SMBC Group (which may include, collectively or individually, any of the following entities in the Americas Division: Sumitomo Mitsui Banking Corporation (“SMBC”), SMBC Nikko Securities America, Inc. (“SMBC Nikko”), SMBC Nikko Securities Canada, Ltd. (“Nikko Canada”), SMBC Capital Markets, Inc. (“SMBC-CM”), SMBC Leasing and Finance, Inc., JRI America, Inc., and SMBC Rail Services LLC) and is being furnished by SMBC Group solely for use by the client or potential client to whom such materials are directly addressed and delivered. This presentation is confidential, and is the property of SMBC Group subject to copyright. Any reproduction of this presentation, in whole or in part, is prohibited, and you may not release these materials to any person, except to your advisors and professionals to assist you in evaluating these materials, provided that they are obligated, by law or agreement, to keep the presentation confidential. These materials do not constitute research, a recommendation or an offer or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy. Prior to participating in any such transaction, you should consult your own independent, competent, legal, tax, accounting and other professional advisors.

In preparing this presentation, SMBC Group has relied upon information available from third parties, including public sources, and we have assumed, without independent verification, the accuracy and completeness of such information. Specific prices, indices or measures, including ranges, listed in this document were prepared at the time the document was prepared, and are subject to change without notice. SMBC Group makes no representations to and does not warrant this presentation’s accuracy or completeness. SMBC Group expressly disclaims any liability for any use of the information set forth herein, including, without limitation, any use of the information set forth herein in the preparation of financial statements or accounting material.

These materials may contain forward looking statements, which may include projections, forecasts, income estimates, yield or return, future performance targets or similar analysis. These forward looking statements are based upon certain assumptions. All forward looking statements are based upon currently available information and SMBC Group is not obligated to provide an update. Actual events may differ from those assumptions. Opinions, projections, price/yield information and estimates are subject to change without notice. There can be no assurance that estimated returns or projections will be realized, that forward looking statements will materialize or that actual results will not be materially lower than those presented. Past performance is not necessarily indicative of future results. Any transactions or strategies addressed may not be suitable for all parties. The value, price or income from transactions or strategies may fall as well as rise. SMBC Group or an affiliate may have a position in any of the underlying instruments, assets, indices or rates mentioned in this document. You should make your own independent judgment or seek independent financial and tax advice with respect to any matter contained herein.

SMBC is subject to Japanese firewall regulations and therefore absent client consent, non-public client information may not be shared with SMBC Nikko Securities Inc.

SMBC Nikko is a US registered broker-dealer of SMBC Group. Nikko Canada is a US and Canadian registered broker-dealer of SMBC Group. SMBC-CM is provisionally registered as a US swap dealer with the CFTC. Capital markets and other investment banking activities for SMBC Group are performed by a combination of SMBC Nikko, Nikko Canada, SMBC Nikko Securities Inc. and SMBC-CM. Lending and other commercial banking activities are performed by SMBC and its banking affiliates. Derivative activities may be performed by SMBC-CM or SMBC. SMBC Group deal team members may also be employees of any of the foregoing entities. SMBC Group does not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with SMBC Group or for the purpose of avoiding U.S. tax-related penalties. © 2023 SMBC Group. All rights reserved.

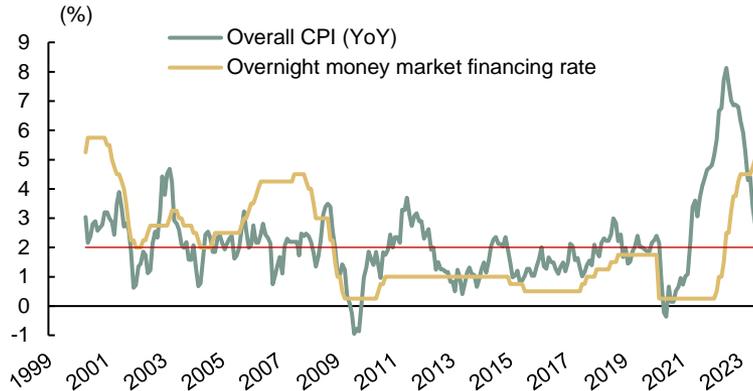
Overview

		2023/7-9	2023/10-12	2024/1-3	2024/4-6	2024/7-9
Against USD	Range	1.2900-1.4100	1.3000-1.4200	1.3000-1.4200	1.3000-1.4200	1.2800-1.4000
	End of Period	1.3500	1.3600	1.3500	1.3500	1.3400
Against JPY	Range	95.00-109.27	91.00-103.00	90.00-102.00	88.00-100.00	88.00-100.00
	End of Period	101.48	97.79	96.30	94.81	94.78

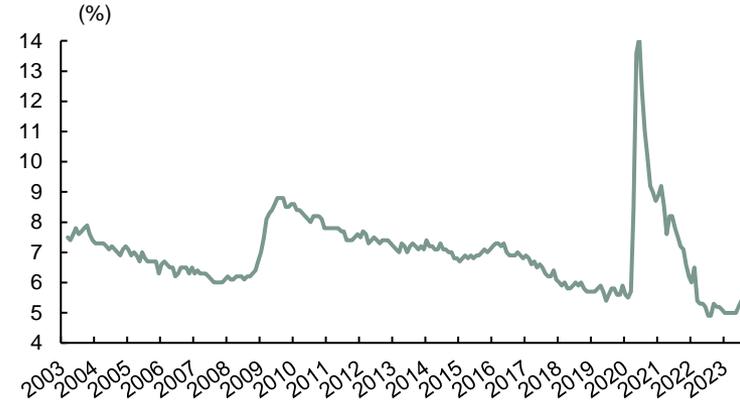
- At its monetary policy meeting on July 12, the Bank of Canada (BoC) decided to raise its key interest rate by 0.25% to 5.00%. After raising rates in January of this year, the BoC had led other major central banks in pausing interest-rate hikes to assess the cumulative effect of the 2022 rate hikes. With stronger-than-expected economic growth as well as inflation, however, the central bank shifted to raising rates again in June.
- At the post-meeting press conference, BoC Governor Tiff Macklem stressed his neutral policy stance by saying that the bank would decide on future monetary policy at each meeting by looking at the current economic environment. He also mentioned that “we would prepare to raise interest rates further if upcoming economic data show that further action is needed,” reiterating the policy stance on confronting inflationary pressures. The labor market is still expanding; although unemployment has risen slightly, wage pressures remain a concern.
- The key policy rate is at its highest level since 2001. With the key interest rate now outpacing inflation, this is a time when rising real interest rates are likely to curb economic activity. The Consumer Price Index slowed its pace of growth to 2.8% on a year-over-year basis in June, still well above the inflation target of 2%, but the pace of deceleration is fast after the peak reached last September.
- Higher nominal interest rates will inevitably increase the burden of repaying mortgages and consumer loans, which in turn will put pressure on consumer spending. There is no discernible decline in consumption at the moment. Retail sales are largely flat, excluding inflation, but service consumption is good. The BoC’s analysis also indicates that many households are still buffered by excess savings from the start of aggressive fiscal policy in 2020.
- In the currency markets, the Canadian dollar has rallied slightly against the U.S. dollar since early June. Non-commercial traders’ short positions in the FX futures market for the Canadian dollar, which have built up since the beginning of the year, have been unwinding rapidly and are now almost back at a neutral level. If the Canadian economy continues to see resiliency and the U.S. dollar interest-rate differential (Canadian dollar rate minus U.S. dollar rate) takes hold, the Canadian dollar may have more room to appreciate for the time being.

Canadian Economy and Financial Markets

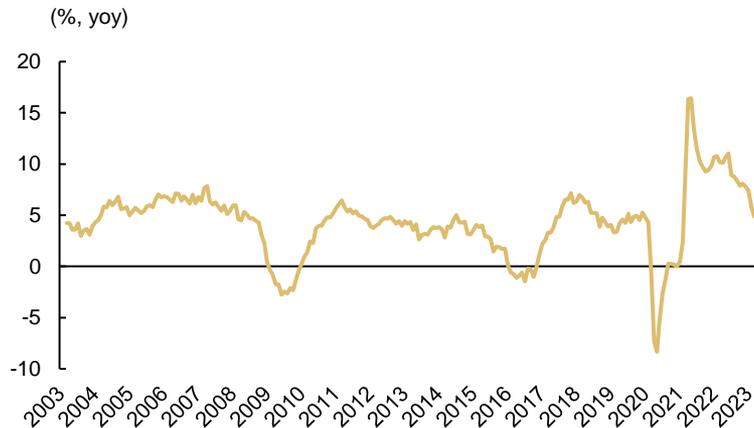
Inflation slowed to near the upper limit of the inflation target. During this period, the Bank of Canada raised interest rates in succession, and real interest rates rose to positive levels.



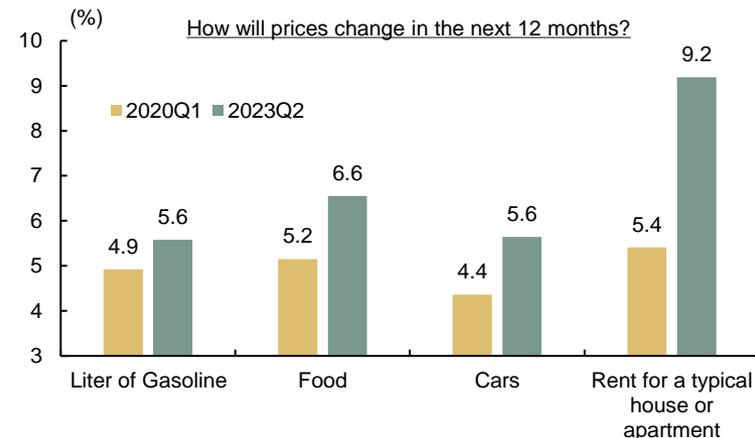
The unemployment rate rose for a second straight month to 5.4%. But it remains below historical averages and the labor market is tight.



Nominal wages are growing at a slower pace, but above inflation.

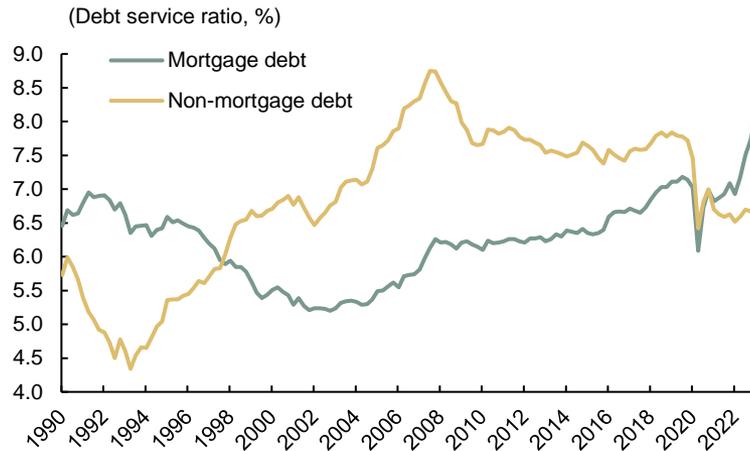


Consumer concerns about inflation are particularly pronounced in housing rents. There is a marked fear that the cost of living will increase.

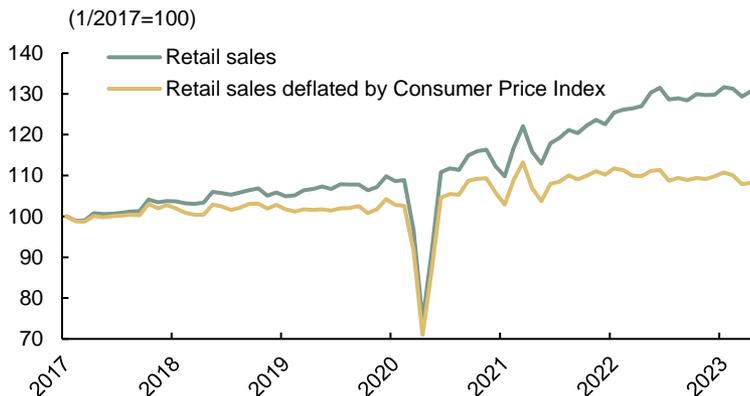


Canadian Economy and Financial Markets (continued)

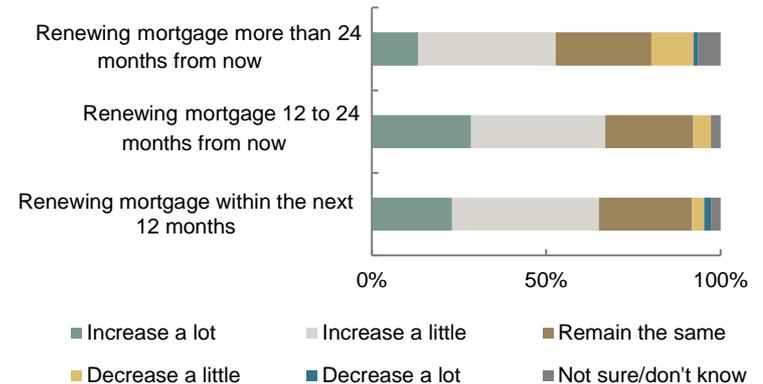
The annual debt service on loans as a percentage of disposable income is rising.



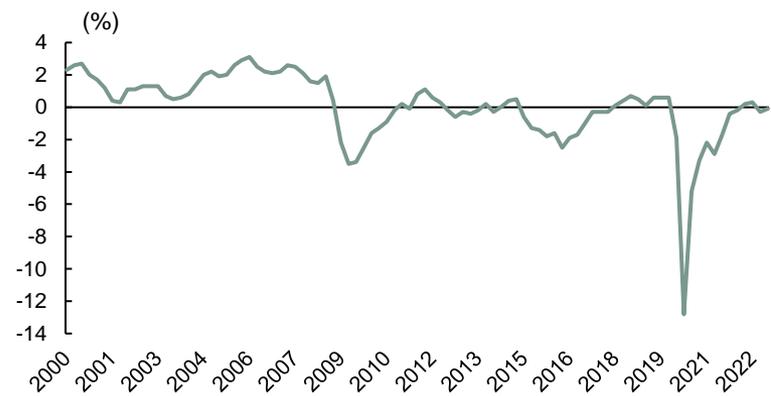
Excluding inflation, retail sales were roughly flat. While goods consumption is somewhat less robust, the strength of service consumption is boosting final demand.



Looking ahead to the next two years, more than 60% of mortgage holders expect their repayment burden to increase when they refinance.

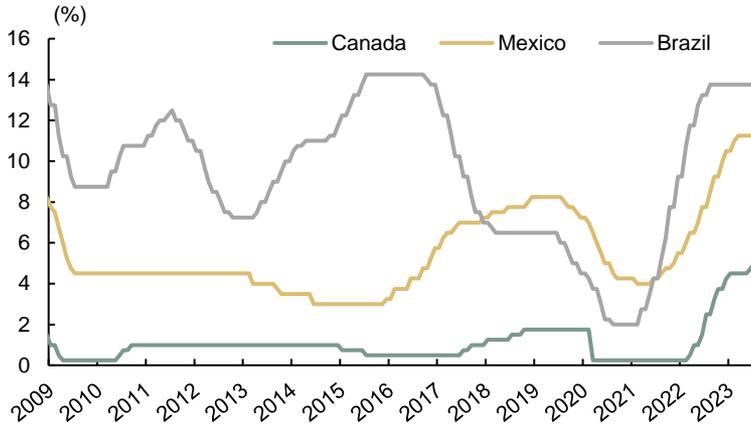


The supply-demand gap of the macro economy has entered a tightening zone. The central bank will likely remain sensitive to prolonged inflationary pressures.

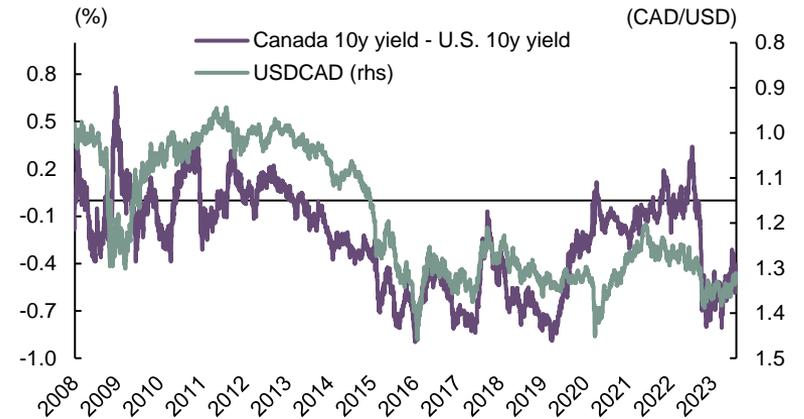


Canadian Economy and Financial Markets (continued)

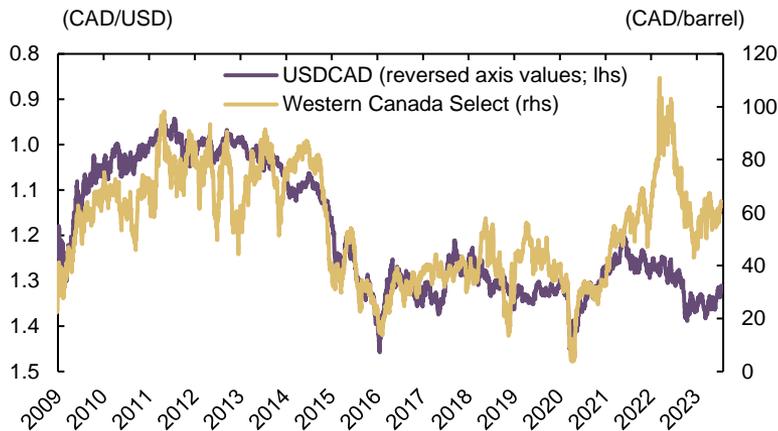
The Bank of Canada has recognized the need to resume raising interest rates after keeping the policy rate unchanged for several months.



The Canadian dollar has strengthened on the back of a narrowing interest-rate gap between Canada and the United States.



A rebound in oil prices is also helping the Canadian dollar.



Non-commercial traders have noticeably decreased their short positions in the Canadian dollar.

