2025 Advent Calendar

Economics and Strategy

NATIONAL BANK OF CANADA
CAPITAL MARKETS

December 9, 2025 (***Door 7***)

It's beginning to look a lot like… rate hikes?

By Taylor Schleich & Ethan Currie

As the holiday season approaches, we carry on (with glee!) through *NBC's 2025 Economic Advent Calendar.* Let's see what's behind Door #7… (*See* ***page 2*** *for full schedule of past and upcoming releases in this series).*

It's beginning to look a lot like market thinking on the Canadian economy has been re-cast over the course of a week. But that doesn't have much of a jingle to it now… Perhaps, *it's beginning to look a lot like… rate hikes?*

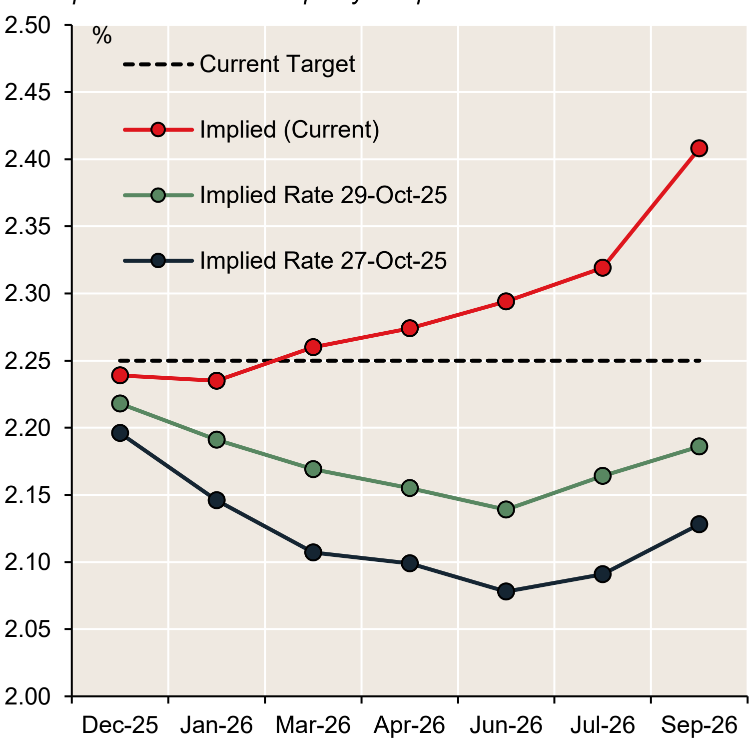
Friday's session produced a significant selloff in GoC rates (the largest single day 2-year yield increase since October 2024) catalyzed by yet another stronger-than-expected LFS report. After three months, the labour market is up ~180K jobs, fully offsetting job losses in the summer and pushing the unemployment rate down to a 16-month low. And it's not like this has been the only strong data of late. Recent inflation reports have been warm, while Q3 GDP and **revisions** to earlier quarters have brightened the growth picture. Needless to say, recent data (especially labour market data) has led to a recalibration of the policy rate and bond market outlook.

It's not every day you see such outsized GoC movement on an outright basis. It's similarly rare to see Canada-U.S. differentials move so drastically. In fact, there have been just 33 prior episodes since 2000 where GoCs have underperformed 2Y USTs by as much as they did on Friday. Empirically, these large single day moves don't always persist. In most cases, GoC yields tended to gain back ground over the next week, by an average of ~4.5 bps. After one trading day, we're already trending in that direction.

To us, that unwind may continue over the coming sessions. While recent data is consistent with pulling forward rate hike timing, we think market pricing may have gone a bit too far too quickly. As we discussed in our ***BoC Preview***, we think the Bank of Canada could take a more pragmatic approach to recent data by balancing reported strength with other data that aren't painting such a rosy picture.

How the Grinch stole rate cut expectations…

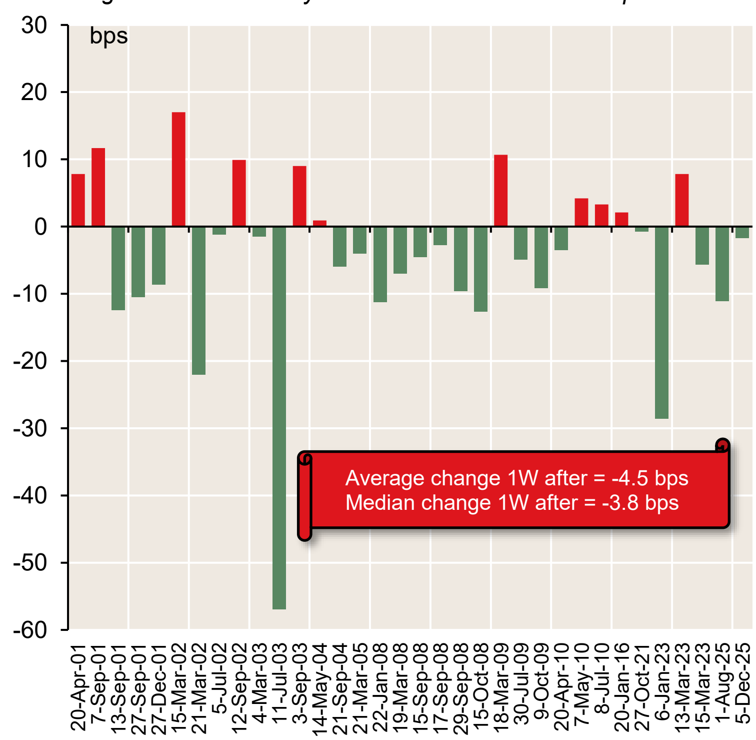
OIS-implied Bank of Canada policy rate path: Current & historical



Source: NBC, Bloomberg | OIS model used for implied rates

…perhaps the gift of GoC outperformance then?

1W change in GoC-UST 2Y yield differential after a ≥13.9 bp selloff



Source: NBC, Bloomberg | Note: X-axis is 'selloff' date, where GoC-UST 2Y differential increased by at least 13.9bps (equal to move on 5-Dec-25). Most recent data point only captures 1 trading day post-selloff date

NBC's 2025 Economic Advent Calendar

- Door 1: Let it ~~snow~~ cash flow (**link** - *released December 1st*)
- Door 2: Last ~~Christmas~~ Trump Term (**link** - *released December 2nd*)
- Door 3: The anatomy of a ho-ho-hold (**link** - *released December 3rd*)
- Door 4: The (Productivity) Nightmare Before Revisions (**link** - *released December 4th*)
- Door 5: All I want for Christmas is… consistent jobs data (**link** - *released December 5th*)
- Door 6: (Everybody's waitin' for) the man with the ~~bag~~ Bill (**link** – *released December 8th*)
- Door 7: It's beginning to look a lot like… rate hikes? (*released December 9th*)
- Door 8: ??? (*coming December 10th*)
- Door 9: ??? (*coming December 11th*)
- Door 10: ??? (*coming December 12th*)
- Door 11: ??? (*coming December 15th*)
- Door 12: ??? (*coming December 16th*)
- Door 13: ??? (*coming December 17th*)
- Door 14: ??? (*coming December 18th*)
- Door 15: ??? (*coming December 19th*)

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