Higher interest rates from BoC may now be two weeks away

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Higher interest rates from the Bank of Canada may now be just two weeks away after Governor Stephen Poloz said two years of ultra-low rates have done their job.

Financial markets are now pricing in better than two-thirds odds that the central bank will raise its overnight lending rate by a quarter percentage-point at its next rate-setting meeting July 12.

If the bank moves, it would be the first hike in seven years, raising the rate to 0.75 per cent from 0.5 per cent.

Mr. Poloz said Tuesday that slack in the economy is fading, thanks in part to two rate cuts it made in 2015 to deal with the fallout from the commodities price crash.

"It does look as though those cuts have done their job," Mr. Poloz said in an interview with CNBC from Portugal, where he is attending a European Central Bank conference.

"We're just approaching a new interest rate decision, so I don't want to prejudge that, but certainly we need to be at least considering that whole situation now that capacity–excess capacity–is being used up steadily."

The Canadian dollar shot up nearly 80 cents (U.S.) to near 77-cents in the hours after the comments in anticipation that higher rates will make Canadian investments more attractive.

Many economists say Mr. Poloz's comments are the strongest suggestion yet that a rate hike may be imminent.

That's a sharp reversal. In just a few weeks, the odds of a rate hike this year has moved to near certainty from a long-shot, according to markets.

Many analysts are now bracing for one and perhaps two hikes this year from the central bank – moves that would set the tone for mortgages and other commercial interest rates.

On Wednesday, the Bank of Montreal moved up its call to July 12 from October, citing Mr. Poloz's latest comments.

"He's not going to give it away, but that's a pretty strong and clear-cut signal that a July rate hike is very much on the table," Bank of Montreal rate strategist Benjamin Reitzes said in a research note.

"At long last, the Bank of Canada has acknowledged that the economy is in good shape and that the worst of the oil shock has passed."

The bank's official mandate is to keep inflation near a two per cent target. But Mr. Reitzes said the central bank may also want to "instill a bit more discipline in the housing market" by putting a chill on borrowing costs.

Mr. Poloz and top Bank of Canada officials have warned repeatedly about overheating in the housing market – particularly in B.C. and Southern Ontario.

There has been a string of good economic news in Canada, including GDP surging ahead at an annual clip of 3.7 per cent in the first quarter. There have also been strong job gains.