

# Is it time to consider locking in interest rates?

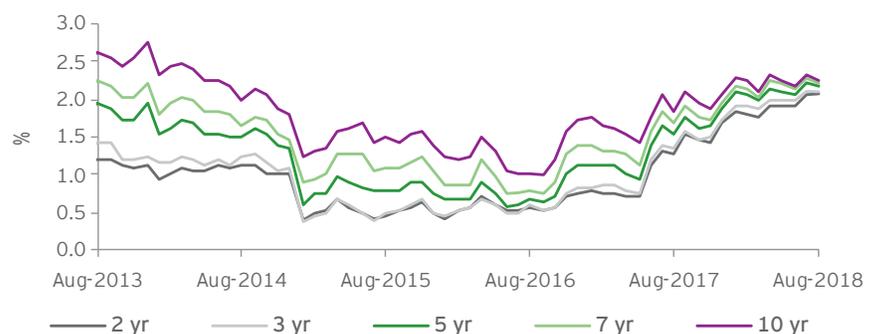
## Facts

- ▶ Many businesses don't have a risk mitigation policy for hedging interest rates (i.e. their cost of borrowing).
- ▶ Many businesses look at their interest rate options only after a material interest rate increase has gone through.
- ▶ For some debt capital intensive businesses, interest expense is a material item often ignored.

## Interest rate environment: why now might be a good time to lock in

- ▶ Based on Canadian benchmark bond yields, short-term and long-term yields are converging, indicating a good time to lock in interest rates.
- ▶ Following the fourth 0.25% interest rate increase in July, the Bank of Canada (BoC) maintained its target for the overnight rate at 1.5% in September.
- ▶ The BoC noted higher than expected inflation in July (3%), however expects CPI inflation to move back towards 2% in early 2019 and the Canadian economy continues to perform in line with BoC's projection.
- ▶ BoC observed that overall global growth has been consistent with its most recent projections and that the US economy is particularly robust, with strong consumer spending and business investment.
- ▶ Indicating a gradual approach to higher interest rates, the BoC will continue to gauge the economy's reaction to past interest rate hikes as well as take into consideration inflation.
- ▶ Higher rates may be warranted to achieve the inflation target and the BoC is monitoring this closely.

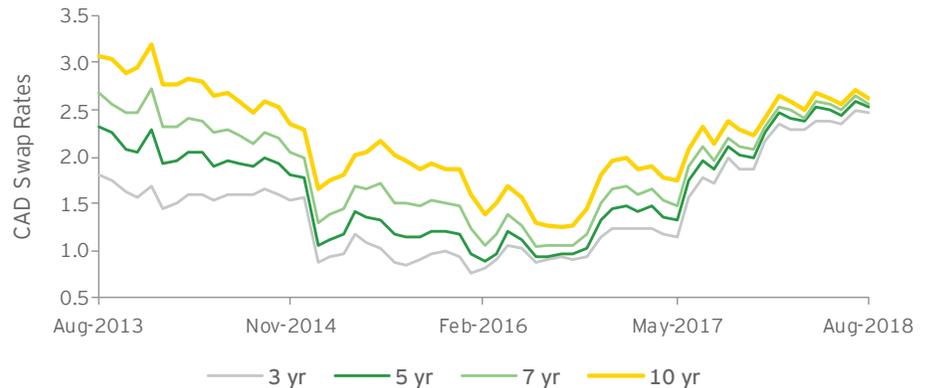
### Canadian benchmark bond yields



## What does this mean for businesses?

- ▶ Managing debt capital costs shouldn't be ignored and companies can adopt an interest hedging policy that locks in their core borrowings through a number of fixed rate instruments such as Banker's Acceptance/CDOR; LIBOR; Fixed rate term up to 5-10 years; and derivative instruments such as interest rate SWAPs, caps and collars.
- ▶ Locking in the cost of core borrowing provides certainty, stability in profit margins and mitigates the changes in short-term rates.

CAD SWAP rates



## Key considerations

- ▶ Fixed rate interest rate swap capitalizes on low interest rates and provides payment security over loan term.
- ▶ A well implemented risk management program provides management the time to focus on running their primary business, instead of trying to speculate on where interest rates will be in the future.

## CONTACTS

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