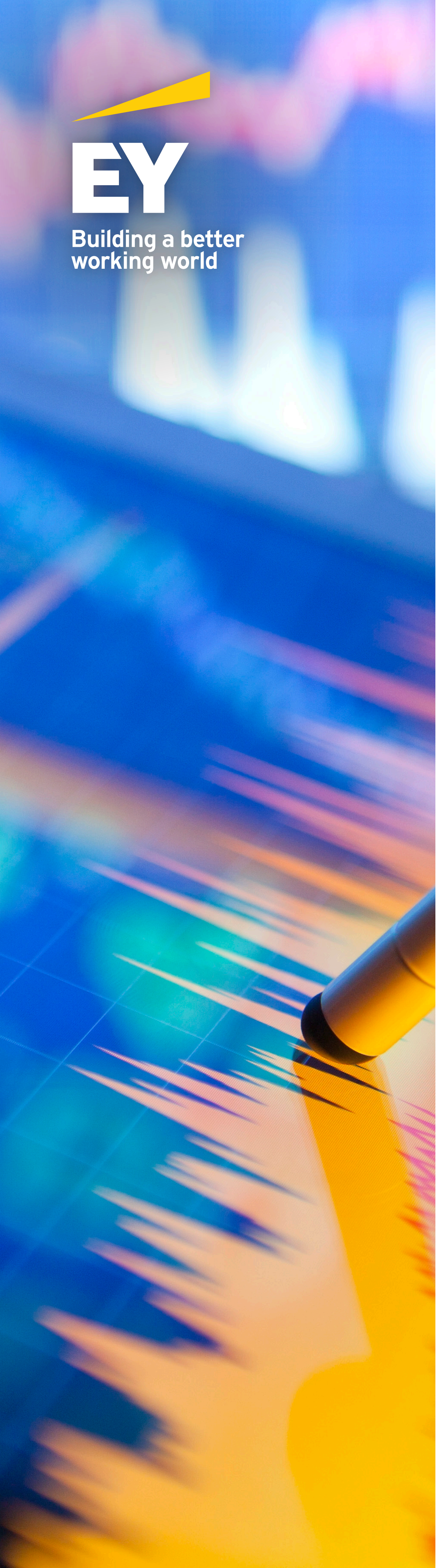


Is it time to consider locking in interest rates?

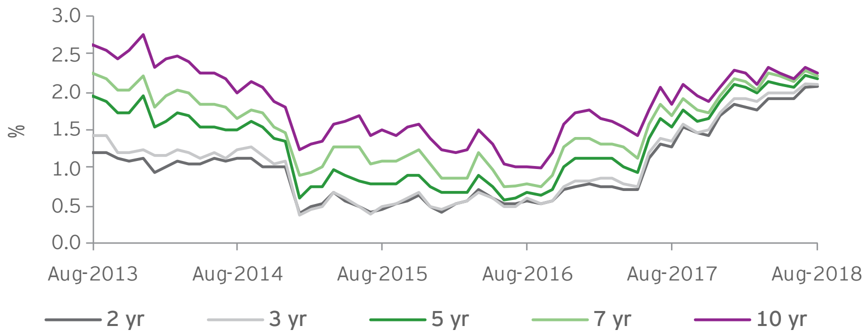
Facts

- 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.

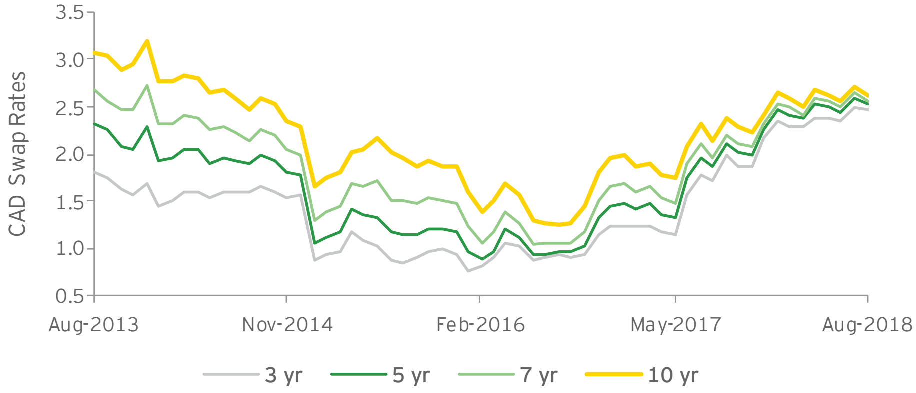
Canadian benchmark bond yields



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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