

'On hold'—rates likely to remain unchanged next week

NO INCREASE FORECASTED UNTIL MID TO LATE 2011

The strong Canadian dollar is expected to continue to hurt exports and corporate earnings. This being the case, experts feel that the Bank of Canada will likely keep its overnight rate unchanged until the second half of 2011. The forecast suggests that the Bank of Canada overnight rate will rise to 1.50% (1% currently) and that the 5-year Government of Canada Bond yield is expected to rise to 3.00% in the second half of the year.

U.S. Federal Reserve has impact in Canada

Last year the Federal Reserve announced that it would implement further quantitative easing by spending up to \$600 billion by mid 2011 in an effort to help the struggling US economy. Some believe a rate increase may occur in July, shortly after the second round of this quantitative easing. It is expected that most Central Banks around the world are waiting for the Federal Reserve to raise rates before they start their own round of interest rate increases. Central banks around the world are waiting for signs of more growth.

Variable rate mortgages still attractive

As the Canadian economy continues to recover, the sluggish progress in the US, stronger Canadian economy and high Canadian dollar makes the Bank of Canada's job more difficult and limits their ability to increase rates. While investors take the time to evaluate the effect of quantitative easing in the US and re-evaluate inflation and growth expectations, watch for mortgage rates to remain flat for the first half of 2011. If you would like to discuss your mortgage situation, please feel free to contact me.