

Further Bank of Canada Rate Hikes?

Well... we've all been expecting it...

Reacting to recent media reports suggesting that further rate hikes are imminent is a sure recipe for overreacting and potentiality making a wrong move. We all can agree the economy is strong, especially with recent news about the labour market becoming even stronger.

The Bank of Canada has been raising rates, we all know this—but more importantly—we have been expecting it.

Past issues of our newsletter have repeatedly predicted what is happening. Bank press releases indicate that the bank, at this point, does not see a need to "aggressively" raise rates, but to do it gradually.

Another important thing that many people do not realize is that the impact of today's rate hikes will not be felt until 8-10 months from now. This *lag effect* is something that is

always overlooked by the popular media.

We continue to feel that a reasonable guess over the next three months or so is that the Bank of Canada will move by another .50% and that the 5 year rate will also continue to rise by 15-25 basis points. There is a small risk that the Bank may move by .75%.

Further Forecasting

Will there be a possible rate cut in the future?

We feel that we will then enter a period of little movement in both the short and long-term rates as the Bank of Canada assesses the situation and gauges the extent of how previous rate hikes are starting to impact the economy.

The Bank will also be closely watching our U.S. friends and it is widely expected that the new Federal Reserve chairman will not go beyond an additional .50% from now.

Beyond that it is very possible that, by mid-late

2007, the market will start factoring in a possible rate cut by the Bank of Canada. This will more likely occur if the Bank of Canada goes with a .7% rate hike for the balance of this year.

What Strategy is Best for Right Now?

In the life of a mortgage, 1 year is a short period of time.

Keep in mind that the increase is a mere 1 year away. In the overall length of your mortgage, this is a short period of time. Shifting now from Variable (floating) to Fixed Rate Mortgage will likely show itself as a mistake 5 years from now.

Granted, we know that floating rate mortgages will not be as attractive as they were last year, but they will continue to outperform. History has always proven this. The likelihood is that we are getting closer and closer to the end of the tightening cycle.

The last thing you want to do now, after waiting-out this cyclical tightening, is to get impatient and *fix*, just before the rate hikes stop... which is exactly when the rates will begin to drop.

As always, please don't keep me a secret; if you find this and my other commentaries helpful, please share them with your family and friends. If you, or anyone you know, is not receiving on-going mortgage planning with their mortgage, have them call us for a FREE mortgage consultation.

Please contact me for further information, or if you would like to talk specifically about your Mortgage Action Plan:



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