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Why Canadian mortgage rates may be stealthily heading higher

Robert McLister: Rising yields on the government of Canada five-year bond signal rates could be entering a new cycle of highs

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Rising yields on the government of Canada five-year bond signal mortgage rates could be entering another cycle of highs. PHOTO BY SEAN KILPATRICK/THE CANADIAN PRESS

As I jot this note, Canada's five-year government bond yield is hitting its peak for the year. There's a growing risk we may even make new cycle highs if the next month of economic data doesn't cool.

But if you're a low-rate lover, don't despair just yet. Despite this latest hiccup in bond yields and irresponsibly large government stimulus, the highly leveraged Canadian economy isn't immune to multi-decade highs in policy rates.

That's why forward rate markets, where traders hedge against or speculate on interest rates, still see two Bank of Canada rate cuts this year, starting this summer, according to data from CanDeal DNA. That's despite the increasing likelihood that U.S. rate cuts will take longer.

On the mortgage scene, it was quieter than a mime's convention this week, save for a five-basis-point jump in four-year fixed rates. This tranquility may be short-lived, however. Those surging bond yields are likely to push up some of the most competitive fixed rates. That's particularly true for default-insured mortgages, which are more tightly linked to bond market movements. Hence, if you're out there hunting for a fixed mortgage, lock that rate in like it's the last lifeboat on the Titanic.

As for variable rates, bond markets want to see weaker employment, inflation and GDP reports on May 10, May 21 and May 31, respectively. That could give the Bank of Canada enough confidence to cut in June or July.

That's a lot to rely on, of course, and the U.S. may steer Canada's rate ship in the meantime. So expect potential rate detours before borrowing costs get better.

LOWEST NATIONALLY AVAILABLE MORTGAGE RATES

Term	Uninsured mortgages		Insured mortgages	
	Rate	Provider	Rate	Provider
1-year fixed	6.63	Ratehub	6.29	Citadel Mortgages
2-year fixed	6.19	Ratehub	5.49	Citadel Mortgages
3-year fixed	5.19	Citadel Mortgages	4.84	Citadel Mortgages
4-year fixed	5.04	Citadel Mortgages	4.89	Citadel Mortgages
5-year fixed	4.99	Citadel Mortgages	4.69	Citadel Mortgages
10-year fixed	6.18	BMO	5.84	Nesto
Variable	6.65	BMO	5.90	Nesto
5-year hybrid	6.01	Scotiabank (eHome)	5.69	Scotiabank (eHome)
HELOC*	7.20	Ratehub		

*Home equity line of credit

Rates in this chart were sourced from the Canadian Mortgage Rate Survey produced by MortgageLogic.news on April 25. Lowest nationally available rates are determined based on providers who advertise online and lend in at least nine provinces

SOURCE: ROBERT MCILISTER

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