WHAT DETERMINES MORTGAGE RATES IN CANADA?

A generation ago, it wasn't uncommon to see mortgage rates top double digits. But for a good portion of the last decade, the rates have remained historically low. While it's always hard to predict where mortgage rates will go in the future, it is worth looking at their history and an explanation for what influences their fluctuation.

VARIABLE MORTGAGE RATES

Variable mortgage rates are determined by commercial banks' prime rates, which are mainly swayed by the Bank of Canada's key interest rate. That means an increase in the key interest rate almost automatically leads to a similar increase in variable mortgage rates. The Bank of Canada will typically raises its key interest rate in an effort to combat inflation.

FIXED MORTGAGE RATES

Fixed rate mortgage loans are primarily influenced by the yield on Canadian government bonds (bond yields) of corresponding maturity. The correlation between the fixed rates and the yield on five-year Canadian government bonds is almost a near match. This is the case because bond rates represent the benchmark for financial institutions' cost of funds.

FACTORS INFLUENCING BOND YIELDS

There are a number of factors that influence government bond yields. Since they are guaranteed by the Canadian government, these bonds are generally among the least perilous assets. Since a large amount of bonds are traded daily in the market, the supply and demand game in the bond market determines their price, and therefore their yield.

WANT TO KNOW MORE? CALL ME TODAY!

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