

World central banks start thinking of rate hikes

For the first time in nearly three years, the Bank of Korea increased its base interest rate by 25 basis points (bps) to 0.75%, marking the first Asian and the second free market central bank globally to make such a move. The increase was made in a bid to balance the country's economic recovery against the risks of surging debt and inflation. The first central bank to increase rates was Iceland's, which also adjusted rates upward by 25 bps a few days earlier. These rather timid rate hikes pale in comparison to that of the Bank of Russia, which instituted a 100-bps rate hike in March 2021, followed by a further 225-bps increase in July 2021.

Nearly all economies are facing the same issue of large-scale inflation that is threatening to come unhinged. Central banks that are engaging in quantitative easing (QE), including the U.S., the ECB, the Bank of Japan, the Bank of England, and the Bank of Canada, will not hike rates until after they end their asset purchases. Asset purchases are designed to push down long-term rates, and rate hikes are designed to push up short-term rates. When these two efforts coincide, a flattening of the yield curve is likely to occur and there is even the



potential for a negative yield curve.

There appears to be pressure in the U.S. to end QE, and Federal Reserve governors are lining up behind a 'sooner rather than later' approach. Both the Bank of Canada and Bank of Japan have trimmed their respective QE to nearly nothing. The Bank of England started bond purchase reductions in May 2021. The Riksbank of Sweden announced an end to its bond-buying program as of late 2021. Australia reduced bond-buying beginning in July 2021.

After the asset purchases have ended, the central banks can contemplate rate hikes.

Fiscal snapshot

Bank of Canada

	Bank Rate	Bank Prime Lending Rate
August 2021	0.50	2.45
July 2021	0.50	2.45
August 2020	0.50	3.95

Government of Canada benchmark bond yields

	5-Year	10-Year	Long
August 2021	0.84	1.22	1.79
July 2021	0.81	1.20	1.76
August 2020	0.40	0.63	1.17

Indicative commercial mortgage spreads* Over Government of Canada bond yields

Conventional	5-Year	10-Year
August 2021	1.40 - 1.90	1.50 - 2.00
August 2020	1.60 - 2.00	1.70 - 2.10
Insured	5-Year	10-Year
August 2021	0.85 - 1.00	0.95 - 1.10
August 2020	0.90 - 1.20	0.90 - 1.20

*Spreads are indicative of high quality real estate in major Canadian markets. Source(s): Bank of Canada

Highlighted transaction

Asset type	Suburban Office
Location	Major Canadian City
Facility details	Construction facility for \$54M for a two-year term was arranged at a competitive rate of interest

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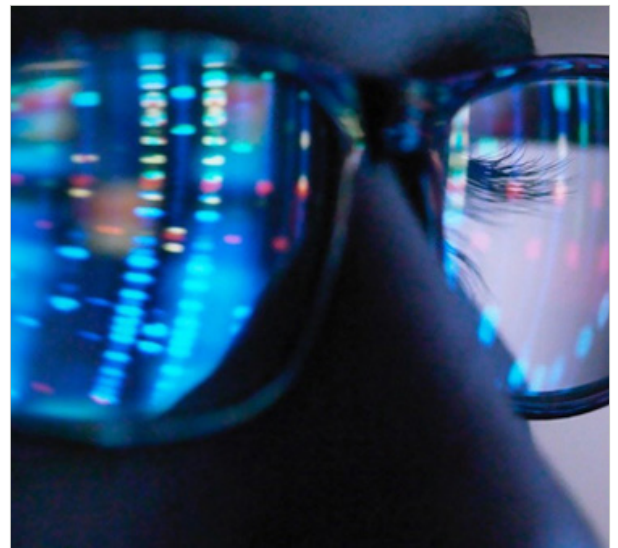
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