

Interest rate run-around

It looks like the Bank of Canada's effort to push up interest rates is applying mainly to borrowers, not savers or investors.

Major banks quickly yanked their prime lending rates higher following the central bank's July 20 move to increase its trendsetting bank rate by one-quarter of a percentage point. But there was hardly a ripple on the other side of the ledger, where you'll find guaranteed investment certificates and savings accounts. Big bank posted five-year GIC rates were at 2.1 per cent following the rate announcement, while the best available rate continued to be Ally's 4 per cent for non-registered five-year GICs.

Savers and investors found no relief in the bond market, either. There was almost a unanimous view that rates would rise on the 20th, but bond yields were actually declining in the lead-up to that date. It's the short end of the yield curve that is most influenced by what the Bank of Canada does, but even there bonds were impervious.

The one place where the central bank's efforts are having an impact is with T-bill yields, which have in some cases perked up a little bit as a result of the bank's move. The three-month bill's yield edged up to about 0.6 of a percentage points from 0.5 per cent at the end of June. The one-year bill's yield has gone to 1.11 per cent from 1.01 per cent at the end of June, but it's still down from a peak of 1.18 per cent in mid-July.

The net impact is close to insignificant for investors holding money market funds that primarily hold T-Bills and other short-term borrowings. Current yields for the largest of these funds ranged from 0.2 to 0.3 per cent in most cases in late July. That may be up from close to zero earlier this year, but it still isn't anything close to a worthwhile return.

There's roughly \$44-billion sitting in money market funds right now, and much more than that in other conservative parking spots like high-interest savings accounts. Investors using these products will have to remain patient as they wait for interest rates to rise back to more normal levels. Just to refresh your memory, the five-year average annual return for Canadian money market funds is 1.97 per cent. We're a long, long way from that now.