FP MONTREAL

THE TUMBLING LOONIE

Dollar falls to six-year low thanks to slumping oil, interest rates

OTTAWA The Canadian dollar continued its slide south on Thursday, dipping below the 80-cent U.S. mark to its lowest level in nearly six years.

Canada's major banks are forecasting the loonie to continue on its downward path — a trajectory that will likely alter what sectors of the economy see the decline as a positive or a negative.

"There are always winners and losers when the currency sits at any given level," said Avery Shenfeld, chief economist for CIBC World Markets.

Shenfeld said the lower dollar should provide a boost to the Canadian export sector and improve job prospects. On the flip side, Shenfeld noted that the weaker loonie will make it more expensive for Canadians to buy imported goods and to travel abroad.

The dollar fell again Thursday to 79.3 cents U.S., its lowest value since April 2009.

CIBC released a report Thursday that predicts the dollar will bottom out at 77 cents U.S. in the middle of 2015 before it starts climbing back up in the second half of the year.

"But we do have to remember that by historic standards, the Canadian dollar actually isn't that weak," Shenfeld said.

"We've just come off a period of a few years where it was quite overvalued compared to where it historically had been."

The country's weakening oil and gas sector are partly responsible for the falling dollar, as is the Bank of Canada's recent cut to its trend-setting interest rate.

With these conditions — among others — the loonie is expected to continue its decline, Scotiabank strategist Camilla Sutton wrote in a note to clients Thursday.

The dollar fell about 7.4 per cent since the start of the year and 15 per cent since its July 2014 high, Sutton wrote.

"The environment has turned rapidly against (the Canadian dollar) and we are likely to see ongoing weakness in 2015," she wrote.

Sutton added if oil markets fail to stabilize, the loonie will fall even further, particularly since the Bank of Canada has tied its decisions on the country's trend-setting interest rate directly to crude.

Last week, the central bank blamed the oil slump for its unexpected move to cut its interest rate for the first time since 2009, nudging it down to 0.75.

"The Bank of Canada denies that it's directly targeting the exchange rate but knows that, by cutting interest rates, a byproduct of that will be a weaker Canadian dollar," Shenfeld said.

Several banks, including CIBC, TD Bank and the National Bank of Canada, are now predicting the central bank will cut its interest rate by another quarter percentage point in March.

"The Bank of Canada rarely moves interest rates only once," Shenfeld said.

"It's like potato chips: Once you eat one, you're at least on the course for a second."

The Canadian Press

Canada's dollar fell to 79.3 cents U.S. on Thursday, its lowest level since April 2009. The lower loonie will help the country's export sector and improve job prospects, but will make it more expensive for Canadians to buy imported goods and to travel abroad. *CANADIAN PRESS FILES*

The changing definition of 'prime'

Full amount of Bank of Canada's rate cut wasn't given to consumers

GARRY MARR and BARBARA SHECTER
FINANCIAL POST

TORONTO In the past, when banks have declined to pass along the full rate cut offered by the Bank of Canada — as all the major banks did this week — that gap never came back: The spread between the banks' prime rate and the central rate remained permanently enlarged, to the detriment of borrowers.

And with the Bank of Canada possibly ready to cut rates again in March — a scenario that is being actively discussed, according to industry sources — Canada's major banks may once again on only part of the reduction.

The central bank's overnight lending rate typically tends to move up and down in lockstep with the prime lending rate of financial institutions. But this week's decision by the big banks to refuse to completely match the central rate cut, dropping prime by just 15 of the 25-basis-point cut made by the Bank of Canada, is not without precedent.

But it does put into question the very meaning of "prime," at least as far as how banks communicate it to clients. The prime rate has been heavily marketed to consumers borrowing with home-equity lines of credit and variable-rate mortgages, which account for about a quarter of the mortgage market, a significant segment.

Vince Gaetano, a principal with monstermortgage.ca, says while contracts might not say it, consumers signing up for loans may have been told verbally that Bank of Canada rate reductions or increases will define their borrowing rate.

"I've always been told the Bank of Canada has eight meetings a year and it's important you put those eight meetings on your calendar because depending on what they do, your rate might move," he said.

The problem for the banks is their existing base of customers with loans or credit lines tied to prime. They immediately enjoy interest savings anytime the bank's prime rate falls.

Banks can deal with new customers by simply reducing the rate they offer below prime. Variable-rate mortgages are now being negotiated for as much as 70 basis points off prime, or 2.15 per cent, today.

Banks are able to insulate against further drops by reducing the discount — but only for customers who are signing up for new loans.

The banks waited about six days to drop their prime rate from three per cent to 2.85 per cent after the Bank of Canada lowered its rate from one per cent to 0.75. The spread is now 210 basis points, after being as narrow as 175 points in 2009.

Back then, something similar happened: The central bank lowered rates by 75 basis points and banks followed with a 50-basis-point cut — and the 25-point difference then became permanently entrenched. Even as prime proceeded to rise with Bank of Canada rate hikes, the spread never returned to 175 points.

"This is the discussion that is going on right now," said one source. "What you will probably see is another 15-basis-point cut if the Bank of Canada reduces rates by 25 basis points."

Avery Shenfeld, chief economist at CIBC World Markets, said Thursday that he's adding a further 25 basis-point-cut to his forecast for the Bank of Canada, given the central bank's "evident impatience with respect to oil's hit to growth."

Discussion at a Bank of Montreal investor day conference Thursday turned to the financial institution's decision to reduce prime to 2.85 per cent, a move that came shortly after Royal Bank of Canada became the first to lower its rate.

"If the (central bank) rate moves again, I think we'll do the exact same thing, which is step back and reflect ... on the balanced approach, and we'll act accordingly," Cam Fowler, group head of Canadian personal and commercial banking at Bank of Montreal, said, without offering further specifics.

Bill Whyte, chief member services officer at Meridian, Ontario's largest credit union, said everybody is intently watching the situation with the goal of staying competitive.

The Bank of Canada's key interest rate was cut by 25 basis points, to 0.75 per cent, last week, and some analysts believe that the central bank will reduce the rate further in March. *AFP/GETTY IMAGES FILES*

Tembec to invest $50 million in Ontario

ROSS MAROWITS
THE CANADIAN PRESS

Tembec plans to invest about $50 million over the next five years to upgrade its Ontario sawmills, but it will put off any spending in Quebec until the province lowers wood costs, which are the highest in North America.

The Quebec-based forestry company said Thursday it can't justify investing in the province where log costs are 20 per cent higher than in Ontario.

Chief executive James Lopez said Quebec could lose hundreds of millions of dollars in investments if Tembec's rivals also put off spending until the government changes its policies.

"The longer they wait, the longer we have to wait. I just hope they don't wait so long that some of these mills become uncompetitive and we have to shut then down because they are losing money," Lopez told reporters before the company's annual meeting.

Tembec is prepared to spend as much as $35 million to upgrade its three mills in Quebec if the provincial government makes changes to charge market prices for wood instead of using an auction system that establishes higher minimum prices.

The investments by the company would be used to modernize its equipment and bring its sawmills up to the same standards as the industry in British Columbia.

Some jobs would be lost with automation, but Lopez said shifts would be added at some mills to maintain overall employment. Tembec employs 450 workers at its Quebec sawmills and 650 in Ontario out of the 3,500 total it employs in Canada and Europe.

Earlier Thursday, Tembec said it lost $62 million, or 62 cents per share, in the first quarter. That compared with a net profit of $2 million or two cents a year earlier.

The results were hit by lower sales, the impact of a strike that cost $5 million, a $37-million charge to refinance its debt and a $17-million non-cash loss related to the impact of the lower Canadian dollar on the value of debt denominated in U.S. dollars.

Sales for the three-month period ended Dec. 27 fell to $332 million from $354 million a year earlier.

Sixty to open boutique hotel in Montreal

ROCHELLE LASH
SPECIAL TO THE MONTREAL GAZETTE

The boutique brand Sixty Hotels, which operates in New York City and Los Angeles, says it will open its first international venture in downtown Montreal in late 2016.

Sixty Montreal is to be a design-centric, 120-room hotel on René Lévesque Blvd. near Bleury St., with event spaces, a lounge and a restaurant. Its signature will be a summertime rooftop pool, which will have a bar and skyline views. It will be a dual-purpose building with an additional 70 apartments for long-term rentals, for people who want a home away from home with hotel services.

The location puts it within a few blocks of the Quartier des Spectacles and Montreal's vibrant summer festival scene, as well as the Palais des congrès, the financial district and Old Montreal, and it will also be less than six blocks from Place Ville Marie.

"Montreal has so many diverse and inspiring neighbourhoods, as well as fantastic global appeal," Jason Pomeranc, co-owner of Sixty Hotels, said in a phone interview from New York City. "The city is a natural fit for Sixty."

Pomeranc's partners are his brothers, Michael and Lawrence Pomeranc, hotelier Stephen Brandman and the Benisti family of Montreal, owners of the fashion company Point Zero.

"Building a hotel was a natural progression for us with our previous experience in real estate — we developed Point Zero sur le Lac in (Blainville) Quebec with more than 500 homes," said Olivier Benisti, owner of Point Zero.

"And we see this partnership with Sixty Hotels as a great brand extension of Point Zero, as both focus on lifestyle."

Sixty has a definitely modern meme.

> *Montreal has so many diverse and inspiring neighbourhoods, as well as fantastic global appeal.*

"Travellers are looking for value," Pomeranc said, "but they are also looking for that modern 360-degree lifestyle experience of progressive design, entertainment and creative cuisine and cocktails.

"We will have eclectic, chic interiors and good food which match Montreal's style. Our goal is to integrate our brand's DNA with the essence of Montreal."

The designers face a challenge. Sixty Montreal will take over La Tour Centre-Ville, an undistinguished three-star property at 400 René Lévesque Blvd. W.

NEUF Architect(e)s of Montreal, which has designed Estérel Suites & Spa near Ste-Adèle, Hôtel Aloft in Dorval, and Hôtel Quintessence and Le Westin Resort & Spa in Mont Tremblant, will lead the transformation of the old building. ICRAVE, a New York-based design firm, will create the interior design.

Pomeranc was nonplussed by a recent report that the hotel scene in Montreal is in a slump.

"That referred to the overall picture, but the city still has lots of room for development, especially in the upper market.

"Montreal is a unique destination with creative culture and exciting nightlife and it is poised for a larger moment on the international stage."