

Interest rate increases just starting

Central bank raises key rate quarter point, says more hikes needed in months ahead

OTTAWA

The Bank of Canada nudged up its trend-setting interest rate yesterday to a two-year high of 3.25 per cent while warning more increases are on the way.

Financial markets had widely expected the quarter-point increase to the central bank's key overnight rate and predicted it will continue tightening by as much as one full percentage point over the coming year.

The central bank is determined to

cool Canada's strong economic growth just a little to keep things from overheating and triggering inflation pressures.

Small, quarter-point increases in borrowing costs won't likely rattle consumers or have any real impact on the political scene.

Still, the central bank's key policy rate influences consumer borrowing costs, such as variable-rate mortgages and the prime rate, which commercial banks charge their best customers.

Some banks moved quickly yesterday

to match the central bank's quarter-point rate hike by boosting their prime rates by a similar amount to an even five per cent.

The Canadian dollar continued to trade at levels not seen since January, 1992, rising 0.01 of a cent at 86.42 cents US.

The central bank said risks to Canadian growth appear balanced for now and inflation risks are softening.

Still, it broadly hinted at further increases, likely continuing at the Bank of Canada's next scheduled rate announcement date of Jan. 24.

"In line with the outlook, some further reduction in monetary stimulus will be required to maintain a balance

between aggregate supply and demand over the next four to six quarters and keep inflation on target," the central bank said in a release.

Translation: higher borrowing costs are on the way to keep a lid on inflation, said economist Eric Lascelles at TD Securities.

"In light of recent economic strength, today's rate hike is entirely justified," said Lascelles.

"What's more, the Canadian economy will need further monetary inoculations to prevent inflation from becoming uncomfortably hot."

At the same time, the central bank doesn't seem terribly fussed about the pace of GDP growth and won't likely

increase the size of its rate hikes to tighten more quickly, added Doug Porter, deputy chief economist at BMO Nesbitt Burns.

"The language of the press release suggests that there are more rate hikes to come, although there was also absolutely no hint that the bank plans to accelerate the pace of tightening."

And the central bank still sees storm clouds on the horizon.

Soaring energy prices, budget and trade deficits in the United States and currency imbalances in Asia all pose threats to global growth as early as 2007, central bankers warned.

• Canadian Press

From physics to financial whiz

Jump from theory to high finance not so unusual, says award-winning prof

WATERLOO

BY ROSE SIMONE
RECORD STAFF

After getting a degree in theoretical physics, Phelim Boyle decided to apply his love of mathematical modelling to the world of high finance.

Now, more than 30 years later, the University of Waterloo professor is headed to the United Nations in New York City to receive a top international award in his field of financial engineering.

Boyle, scientific director of the Institute for Quantitative Finance and Insurance at the University of Waterloo, has been named financial engineer of the year by the International Association of Financial Engineers.

He was chosen by his peers for the award, sponsored by SunGard, a major financial services software firm based in Pennsylvania.

It is widely regarded as one of the highest honors someone in his field can get.

The award will be presented at a gala dinner at the United Nations on Feb. 2.

Boyle is most famous for a seminal paper he wrote in 1977 that pioneered the use of the "Monte Carlo method" for pricing options, which are a type of financial contract.

The technique is now used by every major financial house to project, for example, how a portfolio with many stocks will behave over time and how the movement of one of those stocks will affect the others.

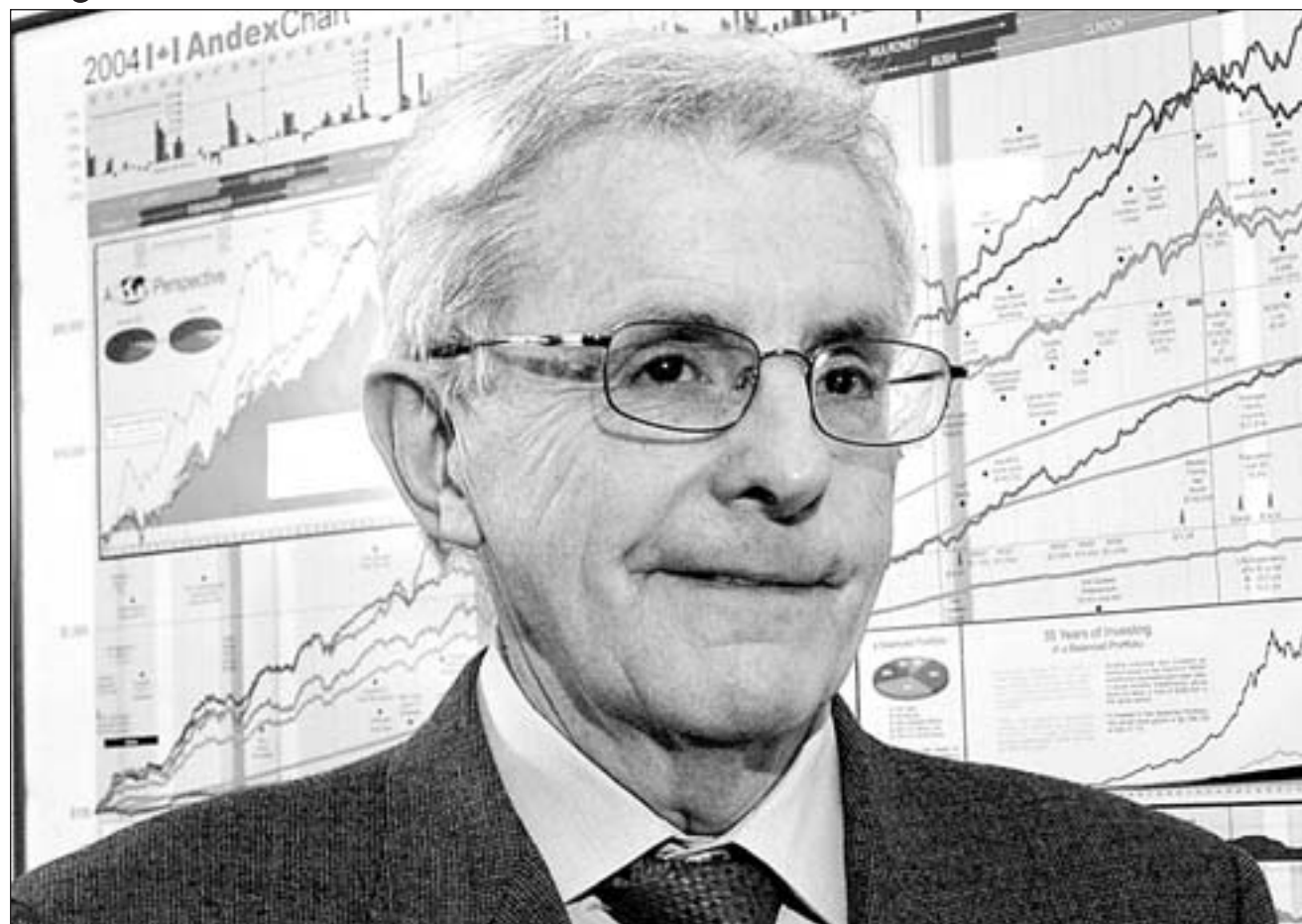
It is used for transactions worth billions of dollars.

Over the decades, Boyle has also helped develop new financial instruments that have bridged the fields of insurance and investment.

The award "is a huge honour for him, and for Waterloo and Canada," said his 35-year-old son, Feidhlim Boyle.

It puts Boyle on a prestigious list.

Two of the past winners — Robert Merton and Myron Scholes — were recipients of a Nobel Prize in economics.



RECORD STAFF

UW Prof. Phelim Boyle is the second Canadian to be named financial engineer of the year by the International Association of Financial Engineers. He is best known for a 1977 paper that pioneered the use of the Monte Carlo method for pricing options.

The late Fischer Black, renowned for the Black-Scholes options pricing model, was also a recipient.

Many of the past recipients have come from business schools at Harvard, Stanford or Yale and the Massachusetts Institute of Technology, or from big-name investment banks such as Goldman Sachs.

Boyle is only the second Canadian to get this award since the prize was instituted in 1993, and the first from the University of Waterloo.

"It is a big deal and I am very pleased," Boyle said in an interview this week.

"Other people who have won the award are recognized as leaders in the field, and it is nice to join them."

Raised on a small farm in northern Ireland, Boyle received scholarships that enabled him to get through school.

He earned his PhD in theoretical physics before turning to the world of finance.

Boyle says there weren't too many jobs for physicists at the time, so he took his actuarial exams.

This isn't all that unusual, Boyle adds.

Several other recipients of this award came out of physics. They discovered this is another field where they can apply their love of mathematical modelling.

"As it turned out, I was probably better at it than I am in physics," Boyle says.

"It is intellectually challenging, like chess."

While at the University of British Columbia, Boyle wrote a paper that applied the Monte Carlo method from statistics to options.

That work is still recognized as one of the most important papers to change the way contracts are valued in the financial industry.

Boyle has since worked on developing new types of options that help com-

panies better meet their liabilities.

Boyle says derivatives — financial contracts with a value derived from other financial instruments such as stocks or bonds — have changed finance as much as the Internet has changed communications.

New types of insurance contracts based on financial products are now a big growth industry, Boyle says.

Although Boyle is reaching official retirement age at the University of Waterloo in June, he has no intention of retiring. He says he will be working as a professor at Wilfrid Laurier University, which recently changed its retirement policies.

He says he will also help his son Feidhlim, who has an MBA from Cornell University and worked at Goldman Sachs, but now is back in Waterloo and wants to start an investment firm.

The father-and-son team wrote a book on derivatives a few years ago. rsimone@therecord.com

IPO pegs value of Satellite Radio at \$800M

TORONTO

Canadian Satellite Radio Holdings Inc. has priced its initial public offering of common stock, issuing 3.4 million subordinate voting shares at \$16 each for a total of \$55 million.

The shares being sold to the public represent 6.8 per cent of the company, indicating a total equity value for Canadian Satellite Radio of close to \$800 million, the company said yesterday.

The share offering, under the Toronto Stock Exchange symbol XSR.SV, is to be completed Monday, with the proceeds used to complete the company's initial infrastructure and launch of the XM Canada satellite radio service.

John Bitove, CSR's chairperson, chief executive officer and majority shareholder, forged a deal with U.S.-based XM Satellite Radio Inc. to provide largely commercial-free radio signals across Canada.

The XM Canada service, priced at

\$12.99 a month, began broadcasting its offering of more than 80 channels Nov. 22 with retail sales starting last week, in time for the holiday shopping season.

Bitove declined to say how many subscriptions have been sold so far, but predicted that satellite radio will catch on more than twice as fast as cell-

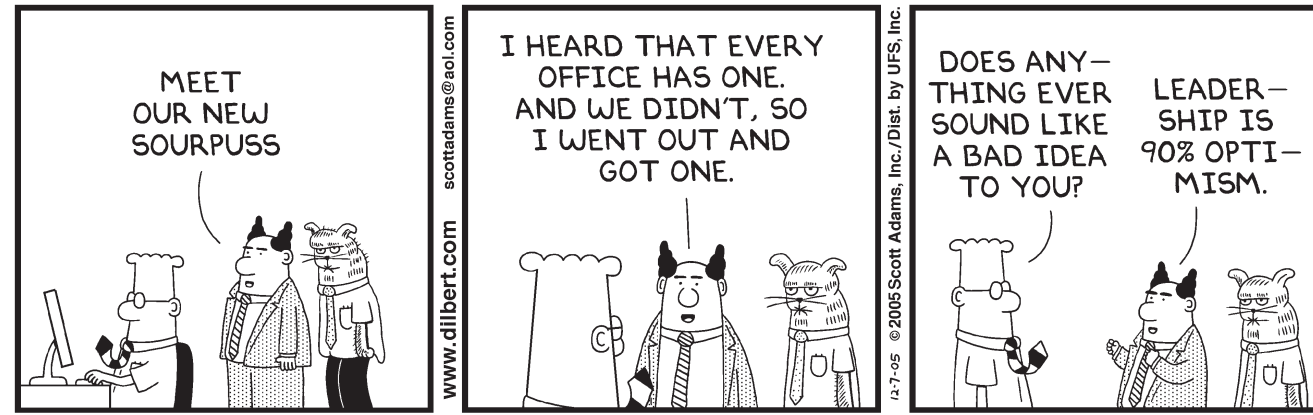
phones did.

After the share offering, Bitove's private CSR Investments will retain about 55 per cent of Canadian Satellite Radio, with 22 per cent held by XM Holdings and seven per cent by General Motors of Canada, which is offering XM satellite radios in its vehicles.

The underwriting syndicate, led by RBC Capital Markets and Genuity Capital Markets, has an option on another \$5.5 million worth of shares, raising the IPO to \$60.5 million, providing net proceeds of \$56.9 million after fees.

• Canadian Press

DILBERT



Boost education funding, Microsoft chief says

Ballmer says Canada risks falling behind China, India as Ottawa mulls productivity

OTTAWA

Improving education systems is crucial if Canada wants to boost its productivity to make the country more prosperous, says the chief executive of U.S. software giant Microsoft Corp.

China and India are producing more computer scientists than employers can find graduating from North American schools, where the numbers of students in those disciplines is actually declining, Steve Ballmer told an Ottawa conference on innovation yesterday.

That can make those countries more appealing locations for setting up operations, perhaps to the detriment of Canada and the United States.

"I think that the key thing almost everywhere . . . is to say, 'How are our educational institutions doing?'" an animated Ballmer said during a question-and-answer session after his speech.

"Are we investing enough and does that lead to a good strong base of educated talent?"

His questions come as Canada de-

bates ways to improve its lagging productivity.

It has become a key concern for federal Finance Minister Ralph Goodale, who's talking more and more about slipping prosperity and what's needed for Canadians to improve their own living standards while making the economy more productive for the future.

Meanwhile, Microsoft announced yesterday it will pump \$4.5 million into a training partnership with Canadian governments.

The Canada's Partners in Learning and Unlimited Potential programs fund grants to give community organizations, educators and students access to the latest computer technologies and training.

"These kinds of grass root initiatives are vital to sustaining innovation, promoting a skilled workforce and driving economic prosperity," Ballmer said in a news release.

The investments will include cash contributions for research, teacher training and development, curriculum repositories and student achievement programs.

The PiL program works with school boards across Canada and provides grants, licences for donated computers and subscription licensing. UP funds are provided to local charitable and not for profit organizations to support technology skills training.

• Canadian Press

VIENNA, AUSTRIA Oil inches toward \$60 US

Crude futures edged higher yesterday to settle just below \$60 US a barrel amid worries that colder weather in the northeastern United States could boost demand for heating fuels.

Light, sweet crude for January delivery rose three cents to close at \$59.94 a barrel on the New York Mercantile Exchange. The contract reached an intraday high of \$60.80 a barrel on Monday, its highest level in a month. Oil prices are nearly 16 per cent below the late August all-time high of \$70.85 after hurricane Katrina battered the Gulf of Mexico coast.

"The continuation of cool weather in the United States is expected to bring big spikes in heating fuel demand," said Tobin Gorey, commodities strategist at the Commonwealth Bank of Australia in Sydney.

Nymex heating oil fell 1.76 cent to settle at \$1.772 a gallon.

TORONTO

Thomsons worth \$22.6B

Media magnate Kenneth Thomson and his family remain the richest people in Canada with personal assets estimated around \$22.6 billion, according to Canadian Business magazine.

Thomson, who controls private holding company Woodbridge Co. Ltd. and has extensive holdings in electronic media conglomerate Thomson Corp. (TSX:TOC), was followed on the list by Galen Weston, chairman and CEO of food giant George Weston Ltd. (TSX:WN) at \$9.28 billion.

Also near the top of the list were the Irving family, controllers of Irving Oil Ltd. of Saint John, N.B., at \$5.36 billion, eBay founder Jeff Skoll at \$5.07 billion and Vancouver businessman Jim Pattison at \$4.5 billion.

Among celebrities, actor Keanu Reeves tumbled from the list of Canada's 100 richest in 2005.

Singer Celine Dion had dropped off in 2004 and actor Jim Carrey did the same in 2003.

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