



# Business Insights

Information and analysis from TD Commercial Banking

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## INTERNATIONAL TRADE

# How businesses can flourish in today's global economy

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As Canada has become more integrated into the world economy over the past few decades, its exports and imports have grown dramatically — from 22% of GDP in 1980 to well over 40% today for exports and 35% for imports.

Clearly, many Canadian businesses have been reaping the benefits of increasingly open international markets to increase sales and improve their bottom lines.

### Room for global growth

Yet a closer look shows that Canadian businesses have only begun to scratch the surface with respect to global opportunities. For one, the bulk of companies that trade internationally deal exclusively with the United States.

And while this reliance on the U.S. has declined over the past few years, the drop was more a reflection of the recent U.S. slowdown and impact of the surge in the Canadian dollar than a move by exporters to diversify towards other countries. In fact, Canada's share of imports in booming markets, such as China, has actually been falling.

Secondly, Canadian exports are dominated by large companies. For example, the 50 largest exporters in Canada account for roughly half of all goods shipped abroad. On the flip side, only about one in five small and medium-sized businesses (SMEs) are exporters.



While Canada's overall trade balance is in the black, there is room for improvement. For example, exports to China have fallen in recent years, while Chinese imports have soared.

Looking ahead, it will become increasingly difficult for Canadian companies to rely on their own domestic markets for growth. Canada currently accounts for only 2% of the global economy. What's more, Canada's relatively mature market is likely to expand at a much slower rate than that of the world.

### Obstacles can be overcome

Many SMEs have been deterred by the risks and obstacles in doing business abroad, some of which

*Continued on Page 2*

## In this issue

**3**  
**Using derivatives to manage financial risk**  
How derivatives can help your business manage risk in global markets

**4**  
**New cheque standards**  
Getting familiar with the new cheque specifications

**5**  
**Economic outlook**  
What the year ahead holds for Canadian businesses

**6**  
**Wire payments**  
The benefits of online wire payments for your business

**Our goal is to help you achieve yours**

## How businesses can flourish in today's global economy

*Continued from Page 1*

loom larger in perception than reality. Obstacles exist, of course, but so do ways to overcome them, as outlined below:

- ▶ **Resources.** There are abundant resources available to potential exporters and importers. Many organizations are well-equipped to help SMEs, including Export Development Corporation (EDC), the Business Development Bank of Canada (BDBC), and the Department of Foreign Affairs.
- ▶ **Financing.** Institutions like the TD Bank Financial Group, the EDC, and BDBC stand ready to help businesses obtain financing and manage risks.
- ▶ **Shipping costs.** Technological progress has dramatically reduced shipping costs. Since 1980, the real cost of sea freight has fallen by 11%, the cost of air transport by 25%, and the cost of a three-minute telephone call by 67%.
- ▶ **Foreign exchange.** A variety of financial institutions are available to help manage exchange rate risk and volatility, including establishing hedging contracts.
- ▶ **Other languages and cultures.** Language barriers and cultural differences can be reduced over time. The use of English as the language of international business has been expanding. At the same time, Canada's increasingly diverse workforce

offers the opportunity for Canadian companies to overcome these barriers more easily.

### Productivity gains are crucial

As globalization continues, the need to ramp up productivity will be critical regardless of the size of business or nature of its market. Companies must strive to move up the value-added chain by shifting production towards goods and services that have greater profit margins. Employing and training skilled staff, investing in capital, and adopting new technologies will be necessary measures in moving towards this goal.

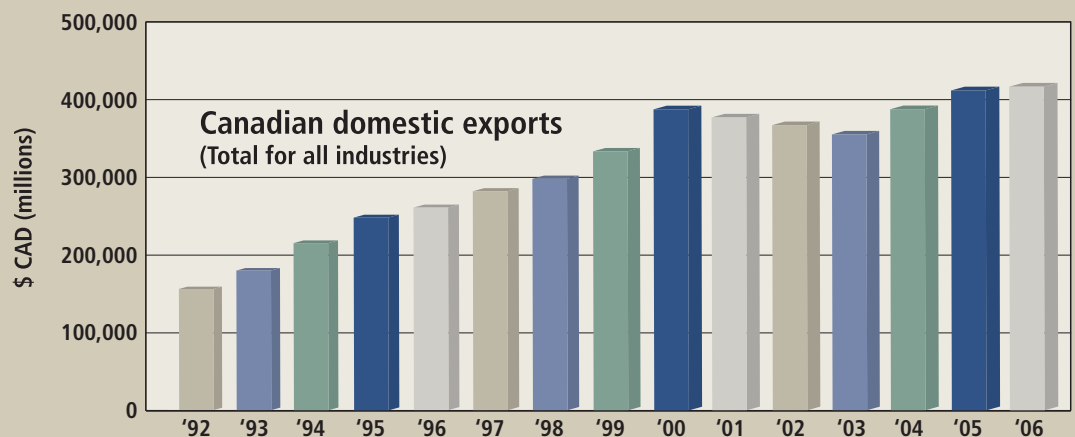
Government also has a role to play in promoting trade and productivity growth. It is critical that Canada expands and improves its border arrangements and immigration policies, ensures adequate infrastructure, sets competitive tax rates, and invests in public education. These changes can help to create the environment where Canadian businesses can flourish.

We've come a long way in the past few decades, but we have much further to go if we want to have a robust growing economy and a high standard of living in years to come. Canadian businesses need to reach out to the rest of the world and take a few risks — and all Canadians will reap the rewards. ●

Over the past decade, export-intensive manufacturers have tended to deliver the strongest performance.

## Taking a chance on global success

Canadian businesses are entering the global marketplace at a slower pace since 2000, than they were in the 1990s. The slowing of the U.S. economy and the appreciation of the Canadian dollar may be partially behind this, but we are also facing increasing competition from low-cost producing nations such as China. The graph below shows Canadian domestic exports to all countries since 1992.



Source: Statistics Canada, 2007.

# How derivatives can help manage financial risk in global markets

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**T**he one constant in financial markets is change. Over the past five years, the Canadian dollar has appreciated from US\$0.625 to its current level of approximately US\$0.85, which has had a severe impact on the export sector. In the same period, the Canadian Overnight Rate and Prime Rate have increased by 225 basis points (two and a quarter percentage points).

The market is no longer expecting the Bank of Canada (BOC) to cut interest rates this year. The BOC's main focus is now on keeping inflation in check. As a result, longer-term interest rates in Canada could increase and the CAD/USD spot (exchange) rate may become more volatile.

TD Commercial Banking can help your business manage these financial risks through derivative products. Derivatives are used to hedge interest rates, exchange rates, and commodity prices, for a specified period of time.

## Managing foreign-exchange risk

Foreign-exchange-rate risk can be managed by using several derivative products. Short-term FX Forwards are a good way to fix the exchange rate on specific foreign-dollar transactions.

Businesses that have long-term exposure to currency fluctuations can take advantage of products designed specifically to manage long-term risks. For example, Cross Currency and Par Forward Swaps allow businesses with a known stream of U.S. dollar revenues or expenses to convert the entire series of U.S. dollar flows to Canadian dollars.

## Managing interest rate risk

Long-term interest rate risk for commercial businesses is most often managed by an in-



Moving into foreign markets may feel like a leap into the unknown, but there are many reliable ways to reduce the level of risk for your business.

terest rate swap. Whether a business requires a new term loan or is already borrowing via a floating-rate facility, an interest rate swap can fix the rate on the underlying debt.

The benefits of an interest rate swap include:

- ▶ **Competitive rates.** As swaps are market-traded instruments, they offer better rates than traditional fixed-rate loans.
- ▶ **Flexible terms.** Swaps offer terms up to 30 years (depending on credit availability) and customized amortization schedules.
- ▶ **Ease of amendments.** Changes to term, amortization, maturity date, and other details can be made without mandatory penalties.
- ▶ **Ability to cancel.** A swap can be cancelled, and the underlying debt can be prepaid at any time. The unwind settlement depends on the difference between current market rates and the rate that was

originally locked in. You may end up receiving money at cancellation if term rates increase, or you may end up having to pay if rates go down.

## Managing commodity-price volatility

You can also hedge your exposure to fluctuations in commodity prices. TD Commodity & Energy Trading (TD Energy), a subsidiary of TD Securities, works with oil and gas producers in western Canada, and large manufacturing companies and utilities in eastern Canada, to manage the volatility in their energy prices.

Rather than purchasing their natural gas from a utility or a third party, larger businesses can come to TD Energy for their natural gas supplies. This offers your business several advantages:

*Continued on Page 4*

## Managing risk in global markets

Continued from Page 3

► **In-depth market knowledge.** We offer advice and detailed market research on the direction of energy prices.

► **Aggressive pricing.** We buy and sell oil and gas on the wholesale market, and that means we can offer you wholesale pricing.

► **Risk strategies.** We create a plan that insulates your business against the dramatic volatility that exists within each market.

We also work with transportation/trucking companies, airlines, and manufacturing companies to manage their fuel-price risk.

In addition, we assist businesses that have exposure to volatility from copper and aluminum prices. Although we don't actually buy or sell physical jet fuel, copper, or aluminum the way we do natural gas, we're able to assist these businesses by using financial hedging products.

Managing financial risk effectively is key to your business success in global markets — and we can help. Contact your TD Commercial Banking Representative to discuss which of these products may be appropriate for your business needs. ●

## INDUSTRY INSIDER

# New cheque standards

Implementation of the new cheque-clearing process is set to begin August 2008, to be phased in over a year. Businesses are encouraged to prepare for this transition by ensuring that all new cheques — including any customized versions — meet the new “image-friendly”

Standard 006 specifications. New cheques ordered through TD Bank Financial Group or directly from Davis + Henderson will meet the new standards.

Below is an example of a business cheque that meets the new imaging standards, with key features highlighted. ●

**Disallowance of elements that may hinder the capture of quality cheque images, such as inverse printing**

**New printing requirements are on the reverse of the cheque**

**Adoption of a numeric date field and date field indicators**

**Standardized positions for key fields on the cheque, such as the amount field**

**Security features that do not interfere with image capture**

**Increase in minimum length of cheque to 6 1/4" or 15.88 cm**

**Mandatory serial numbers in the MICR line**

## ECONOMIC OUTLOOK

# The year ahead for Canada

BY CRAIG ALEXANDER, VICE PRESIDENT AND DEPUTY CHIEF ECONOMIST, TD BANK FINANCIAL GROUP

**Our dollar is expected to be relatively stable, averaging 84 to 86 U.S. cents in 2007. It may dip on a further pullback in commodity prices, but should regain lost ground, and might even strengthen.**



**T**he Canadian economic outlook for 2007 is multifaceted. Overall, there is no question that the economy is in the grips of a slowdown. After posting 2.9% growth in 2005, it looks like the pace of expansion slipped to 2.7% in 2006 and is headed for modest growth of close to 2.2% in 2007. However, this national performance masks some important underlying themes that generally point to favourable business conditions.

## Good news on the homefront

The current slowdown is largely the product of weakness in the manufacturing sector, which is struggling with the past appreciation in the Canadian dollar and a recent weakening in U.S. demand. The good news is that the weakness on the export front is being partially offset by robust domestic economic conditions.

In particular, Canadian consumers have had their wallets open. This is not surprising given that unemployment is at a 30-year low and personal income is rising significantly faster than inflation. Meanwhile, business investment has also been robust, reflecting past strong gains in corporate profits and healthy corporate balance sheets.

Looking ahead, the U.S. economic weak-

ness is expected to subside in the second half of 2007, suggesting that Canadian manufacturing conditions should also improve. On the domestic front, the pace of consumer spending and business investment may moderate a bit, but the pace of growth should remain solid. The implication is that the Canadian economy is likely to deliver a soft performance in the first half of 2007, but the tide will likely turn in the second half of the year and business conditions are expected to improve heading into 2008.

There is also a major regional dimension to the economic outlook. The western provinces are expected to remain at the top of the rankings in economic performance in 2007, while portions of central and eastern Canada will be below the national average. However, the regional differences are expected to narrow, as national economic conditions improve in late 2007 and throughout 2008.

## Stability for interest rates

In terms of the financial outlook, the Bank of Canada is unlikely to alter short-term interest rates from current levels, or the changes will be minimal if any occur. Longer-term interest rates are also expected to be relatively flat, as the bond market has already factored in the economic slowdown and recovery. So, the overall assessment is that interest rates will remain low by historical standards and generally supportive to business activity. ●

## Loonie stays steady

Our dollar's fortune has appeared to rise and fall in conjunction with the performance of the commodity market. But even while commodities may have peaked, we see the dollar remaining steady within a limited trading range this year, then heading gradually upwards toward the end of 2008.

Forecast by TD Economics as at Jan. 11, 2007. All forecasts are for end of period.  
Source: Federal Reserve of New York, TD Economics.



# The advantages of going online to send wire payments

**W**ire payments are the fastest and safest way of delivering large or time-sensitive payments. Through our Internet-based Web Business Banking, your company can send wire payments virtually anywhere in the world directly from an office computer, or even your personal home computer.

Using our online service for wire payments provides several benefits for your business:

► **Flexibility.** You choose how you prefer to set up your payments. You can use defined or fixed templates — such as payment templates that limit wire payments to pre-selected beneficiaries; you may import data from external databases; or you may create a payment manually.

► **Convenient reporting.** Accessing your payment history is simply a matter of selecting “sent to bank” or “in progress,” and you can generate custom reports of this information using a variety of queries.

► **Control.** You can allow several people in your company to access the system, with varying degrees of authority. This ability gives you more control over your outgoing payments and provides a record of user activity to ensure accountability.

► **Security.** Along with standard security measures like 128-bit encryption, we also offer other security options such as authentication devices for an additional level of security.

► **FINTRAC compliance.** TD Commercial Banking’s Wire Payment online service is also compliant with FINTRAC regulations. (FINTRAC is the Financial Transactions Reports Analysis Centre of Canada, which monitors money laundering, terrorist financing, and other potential criminal activity.)

Whether you send one or multiple wire payments a month, TD Commercial Banking’s Wire Payment online service is fast and easy, and you’ll save money by eliminating the costs associated with making wire payments through a branch. Best of all, it simplifies cash flow management.

For more information on how you can begin using our wire payment services, visit [www.tdcommercialbanking.com/banking/wirepayments.jsp](http://www.tdcommercialbanking.com/banking/wirepayments.jsp) or



You can use our wire payment online service at home or at the office — it’s convenient and flexible.

[www.tdcommercialbanking.com/wire\\_payments.jsp](http://www.tdcommercialbanking.com/wire_payments.jsp) (for U.S. dollar wire payments), or contact your TD Commercial Banking Representative. ●

- UNDERSTANDING - EXPERTISE - SOLUTIONS - COMMITMENT -

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