

THE BURNING QUESTION

Will I miss out on a better rate if I lock in a term deposit now for more than seven months?

Bill Keogh, managing director, short-term money markets for FIIG Securities, crunches the numbers



You can invest \$100,000 in a government-guaranteed term deposit for seven months at 6.25% at the time of writing. That will earn you \$3596 in interest by the end of the term.

An alternative strategy would be to leave your money in cash for three months, to allow for further increases in official interest rates, and then invest for another four months. I think the likely path of monetary policy is for cash to increase from 4.5% to 5%, so you'll receive an average of 4.75% over the next three months. Based on this assumption you'd need to earn 7.29% from a four-month term

deposit to break even and earn the \$3596 in interest you would earn with the seven-month term deposit of 6.25%pa!

The question is: could you earn 7.29% for a four-month term deposit in three months time? Probably not. Apart from market expectations that official cash rates will continue to rise to around 5%, it is unlikely term deposit rates for a four-month period will be at or near 7.25% in three months' time. So you would be better off investing for the seven-month term now. If the global economic sentiment changes, and market expectations move towards a lowering of cash rates, then things change and you should invest now.