Bega District News
13-Jul-2010
Page: 10
General News
By: John Kavanagh
Market: Bega NSW
Circulation: 2665
Type: Regional
Size: 342.74 sq.cms
Frequency: -T--F--

Term deposits revive nest eggs

There are great deals to be had in term deposits and online savings accounts as banks scramble for funds and investors seek safety, writes **John Kavanagh**.

Heard about the 8 per cent term deposit offer? Didn't get on to it? Too bad, it's gone. Westpac launched an offer of 8 per cent on a five-year term in the middle of December and replaced it with an offer of 7.25 per cent on February 5. You had to be quick.

The Westpac offer illustrates two things about the current state of the deposit market: There are some great deals available and the market is very fluid, with lots of special offers.

The chief economist and head of investment strategy at AMP, Shane Oliver, says many private investors may not realise how good those rates are.

"Inflation should continue at a rate of 2.5 per cent to 3 per cent over the next few years," he says. "An 8 per cent term deposit would give you a real rate of return of 5 per cent or more with very low risk."

Fixed-interest broker Andrew Murray agrees that investors may not realise what a golden opportunity current term deposit rates are.

WIN FOR SAVERS

Murray, who is a director of Curve Securities, says: "In the normal course of events, term deposit rates are set at a discount to the wholesale cost of funds. So with the bank bill swap rate [the benchmark for the cost of money in the capital market] for 180 days at 4.3 per cent or 4.4 per cent, you might expect to be offered a six-month term deposit at around 4 per cent.

"But there are lots of offers for six-month terms at 6.1 per cent and 6.2 per cent. We are seeing a war for deposits and savers are getting the spoils."

In other words, investors are getting term deposit rates that are almost 2 per cent higher than they would be normally. The reason for all this generosity is that, since the onset of the global financial crisis, banks and other financial institutions have become more dependent on retail deposits to fund their lending activities.

The flow of wholesale funds through the global capital market, which funded growth in the banking sector for most of the past decade, has slowed.

TREND TO CONTINUE

All financial institutions have been increasing the amount of funding that comes from retail deposits and they continue to do so.

Another factor to consider is the recovery in the mortgage market. Home lending slowed in 2008 but picked up last year and grew about 8 per cent. As lenders do more lending, their need for funding increases.

KPMG's 2009 financial institutions performance summary says the funding priority that financial institutions established in 2009 – reducing wholesale debt and maintaining or growing share in retail deposits – will remain a high priority in 2010.

UNUSUAL TIMES

Oliver says that if investors are thinking of taking advantage of the unusually high term deposit rates they should not wait too long. "At some point the pressure for retail deposits will ease and then the rates will fall back to normal levels," he says. "Normally, with interest rates rising you would keep your money in short-term deposits or at-call and wait until rates reach their peak before locking in.

"But these are unusual circumstances because term deposit rates are being driven by factors other than the interest-rate cycle. Cash rates will go up this year but they might not reach the levels that the long-term deposits are at now."

In contrast to their high term deposit rates, banks and other deposit-taking institutions have tended to hold back on passing some of the recent interest rate rises through to customers with at-call high-interest online accounts.

TERM DEPOSITS WIN

A significant number of financial institutions did not move their online savings account rates by the full 0.75 of a percentage point to match the change in the official cash rate between October and December. Of the 53 banks, credit unions and building societies in the Infochoice database offering high-yield online savings accounts, only 36 passed on all three of the 25-basis-point increases in the official cash rate. The managing director of fixed-interest broker FIIG Securities, Jim Stening, says the long-term rates are a standout but suggests that if investors are wary of putting too much money into deposits for 12 months or more, they should split it up among several different maturities.

Stening says he would usually talk to clients about higher yields available from corporate debt securities, hybrids and other high-yield instruments but now his attention is on term deposits.

Bega District News
13-Jul-2010
Page: 10
General News
By: John Kavanagh
Market: Bega NSW
Circulation: 2665
Type: Regional
Size: 342.74 sq.cms
Frequency: -T--F--

Investors can take advantage of great deals in term deposits and online savings accounts as banks scramble for funds and investors seek safety.