



Waiting for rates to rise isn't always cost effective.

Scenario one: Investor puts \$10,000 in a 6% per annum one-year term deposit account with interest compounded semi-annually. Accumulated investment: \$10,609.

Scenario two: Investor leaves \$10,000 in cash account for six months at 4.25% pa compounded semi-annually. Then the investor switches to a term deposit for the remaining six months. For the investor to earn more than \$10,609, the new term deposit rate must be more than 7.7%. This means the investor needs the rate to rise by more than 1.7 percentage points in six months.

SAVINGS GRACE

Stable, secure, easily accessed – and having become highly competitive since the global financial crisis – bank deposits are making a big comeback. **Report: Jessica Gardner**

● Favourable interest rates and volatility in sharemarkets have renewed the humble bank deposit's appeal. While the preferred spot for savings was once beneath the mattress, fiercely competitive online and term deposit rates have become attractive. Shares and commodities can be volatile, and property is often expensive and not easily converted to cash, so keeping money in the bank offers a low-risk, rewarding solution.

Over the past year, the S&P/ASX 200 has risen by about 8.72 per cent, while one-year term deposit rates on offer in July 2009 were about 4.19 per cent. However, looking at the past two years, the S&P/ASX 200 has declined by about 8.63 per cent – outperformed by two-year term deposits on offer in July 2008 with interest rates of about 8.44 per cent.

The 90-day FIIG Securities Australian term deposit accumulation index for this period (the return received for continually rolling a deposit into a 90-day term deposit for two years) was 11.66 per cent.

The Reserve Bank of Australia cash rate has hiked its way out of an April 2009 low of 3 per cent, with six 0.25 percentage point increases. The rate has remained stable at 4.5 per cent since May 2010. However, most economists tip further rate rises later this year, which in turn should push up interest rates on deposit accounts.

Australian banks and credit unions are also in desperate need of funds, and the cheapest source of funds is deposits made by everyday Australians. The other option for banks is to borrow money from each other, or from overseas financial institutions, but the global financial crisis has made this option relatively expensive. Both factors, although not ideal for mortgage holders and some banks, are good news for cash depositors.

Most institutions offer an online savings account with a base interest rate at least equal to the cash rate. The most attractive rates come with conditions, such as minimum monthly

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deposits or disincentives on withdrawals, and some are only available to new account holders.

The highest interest rate is at UBank, a National Australia Bank subsidiary. It offers an interest rate of 6.51 per cent with the USaver account and includes a small bonus rate of 0.5 per cent for savers who deposit more than \$199 monthly. Without the bonus rate, UBank would still out-perform many of its competitors.

Canstar Cannex financial analyst Adam Beu believes this is a deliberate strategy by UBank to offer consistent returns that are not reliant on strict conditions. "UBank has really been pushing the rates up in terms of offering the highest base rate by nearly a whole per cent," he says.

Although most advertised rates have an expiry date, Beu says banks will often extend the bonuses to remain competitive. Many customers will look to an online saver account to kick off savings for a big purchase, but Beu says there are other ways to extract value.

Account holders can use their online savers to earn interest on rent or electricity money before paying their bills, as long as they aren't penalised for withdrawals. Similarly, retail share investors who trade frequently can keep their funds at call and earn interest between trades. But given the easy access, customers must exercise their will power to avoid pinching pennies from their savings, Beu says.

Those prone to temptation will find gains to

TOP 90-DAY, \$25K TERM DEPOSIT RATES

| Company name | Rate % |
|-------------------------|--------|
| Citibank | 6.05 |
| ME Bank | 5.90 |
| ANZ | 5.80 |
| SGE Credit Union | 5.75 |
| Australian Defence CU | 5.75 |
| RBonline | 5.75 |
| Investec Bank Australia | 5.71 |
| Heritage Building Soc | 5.70 |
| UBank | 5.61 |
| Macquarie Bank | 5.60 |
| Qld Police Credit Union | 5.60 |

Source: www.canstarcannex.com.au July 13, 2010

TOP TWO-YEAR, \$25K TERM DEPOSIT RATES

| Company name | Nominal rate % |
|---------------------------|----------------|
| ING Direct | 6.70 |
| ME Bank | 6.70 |
| Police CU SA | 6.65 |
| Heritage Building Society | 6.55 |
| Teachers Credit Union | 6.50 |
| SGE Credit Union | 6.50 |
| MCU | 6.45 |
| Credit Union SA | 6.40 |
| Warwick Credit Union | 6.40 |
| RTA Staff Credit Union | 6.35 |
| RaboDirect | 6.35 |

Source: www.canstarcannex.com.au July 13, 2010

be made in term deposits. For short-term deposits of 90 days, based on a \$25,000 deposit, Citibank offers the best rate of 6.05 per cent. While it's less than the USaver interest rate, Beu says term deposits offer decent returns without the imposed rules.

In fact, term deposits are in vogue, FIIG Securities managing director of short-term money markets, Bill Keogh says. "Pre-GFC, the term deposits were trading at the cash rate or close to the bank bill swap rate or even under," he says. "As the GFC hit in June 2008, term deposits became more fashionable; they became more competitive in the marketplace."

As terms lengthen, rates go up, but depositors locking in for longer periods must be happy to bet against future rate rises. However, Keogh warns against keeping cash in underperforming accounts just in case rates go up.

Money kept waiting in an everyday account at the typical rate of about 4 per cent would need term deposit rates to rise substantially to outperform the interest they would have earned if they had simply locked in the lower-rate term deposit at the outset, he says. (See box, above left.) The trick is to not be too greedy, as rates could, of course, go down.

The FIIG view, Keogh says, is that monetary policy will be fairly stagnant for the remainder of this calendar year and the cash rate won't rise beyond 5 per cent. **BRW**