



Rates noose relaxed

Forecasts revised as Reserve Bank changes its tune, writes Jason Bryce

DID you hear the collective sigh of relief this week from mortgage-belt suburbia? The man who controls the financial wellbeing of Australian families and homebuyers, Reserve Bank governor Glenn Stevens, clearly signalled a new and more relaxed approach to monetary policy this week. Overnight, rate analysts softened their rate-rise predictions amid speculation Australia may be nearing the top of the rate cycle.

Good news for borrowers, and savers too

BORROWERS can take advantage of the new rate environment to compare hot variable rate refinancing deals, and steer clear of fixed rates.

For savers and retirees, the implications may be that it is time to lock in the rates on offer now, because they may not go much higher.

Mr Stevens has previously told borrowers they can expect rate rises at some point, which has fuelled endless rate-rise speculation throughout this year.

The RBA's official cash rate has been set at 4.75 per cent since Melbourne Cup Day last year. Now, he has added a new form of words to the message that rates would rise "at some point".

The key is in two carefully worded lines revealed this week in the minutes of this month's board meeting.

"Further tightening in monetary policy (will) be necessary at some point," the minutes state.

"Members considered, however, that the flow of data over the past month had not added any urgency to the need for an adjustment to policy."

The message that the bank sees "no urgency" in upping rates provides a contrast to the earlier message that rates would rise "at some point" in these highly scrutinised, market-sensitive releases.

What the experts say

RATES analyst Andrew Murray, of Curve Securities, said this week's RBA release was very different from previous months.

"These are very interesting minutes, very detailed and different from previous minutes, almost dour and almost every paragraph ends with a downbeat note," he says.

"This completely dampens recent rate-rise exuberance."

Mr Murray still expects interest rates to peak at 5.25 per cent, half a percentage higher than the current RBA setting.

ANZ's head of Australian Economics Ivan Colhoun said he was revising down his rate predictions for this year.

"I think there has been a significant change of perspective," he said.

"It did seem like the RBA had a relatively short time-frame for rate rises. It seemed to be thinking sooner rather than later, but now they seem a bit more relaxed about the need for rate rises.

"Right now I am thinking that there will be, at most, just one rate rise before the end of the year."

Macquarie Securities economists Brian Redican and Ben Dinte believe there may be no more rates rises

in the foreseeable future.

"It is now possible to envisage a scenario where rates do not rise at all this year," they wrote in a research note this week.

And Mr Murray says that longer term, rates are unlikely to move too much higher.

What it means for you

KIRSTY Lamont from financial comparison website Mozo.com.au says that means there is no need to consider fixing your mortgage rate now, given interest rate rises are off the agenda for the time being.

"It is a great time to take advantage of some of the red-hot variable home loan rates on offer from competitive online lenders like UBank and Loans.com.au," she says.

Mr Murray says savers should act quickly to lock in long-term high interest rates.

"I think some of the three-year (term deposit) rates look a very good investment right now," he says. Ms Lamont says RaboDirect has the market-leading three-year term deposit rate of 6.75 per cent, but she prefers two-year terms.

"For savers, two-year term deposits currently offer the best returns without having to lock your funds away for too long.

"Making a call that three or five-year terms are better would require the use of a crystal ball to see what the global and local economic environments will be then.

"I'd challenge anyone who says they can see that far ahead!"

Ms Lamont likes ING Direct and RaboDirect's 6.70 per cent on two-year terms.

Term deposit brokers FIIG Securities say they can get 7.3 per cent for a five-year term.

"They also like AMP's

18-month term deposit that delivers 6.4 per cent a year.

ING Direct have the best one-year term deposit rate at 6.5 per cent, according to Mozo.

"The most important factor to consider when choosing a deposit term is actually your own personal circumstances, not what the Reserve Bank may or may not do," Ms Lamont says.

"There's no point locking your cash away in a three-year deposit where you'll be penalised for making a withdrawal, if you need it.

"Online savings accounts are a great option for people who need to hedge their bets and maintain access to their money."

But at-call savings accounts increasingly come with conditions as well as introductory and (much lower) base rates.

At-call interest rates can also fall if the financial institution decides it has enough cash on hand, or the RBA lowers rates.

Last year, RaboDirect attracted a huge inflow of deposits by offering market-leading introductory rates.

But some of that hot money left Rabo when the introductory rate ended.

Now, RaboDirect is again attracting hot money with a 6 per cent base rate.

Bankwest's Regular Saver account has the market-leading rate of 7 per cent. However, it has a base rate of 0 per cent if you make a withdrawal, or fail to make a deposit.

UBank also has a 6 per cent base rate and a bonus rate of 6.51 per cent if \$200 or more is deposited each month.

Virgin Money is trying to make a splash in the market with a four-month introductory rate of 6.51 per cent, reverting to a 5.35 per cent base rate. Plus, Virgin is giving away \$50 to people who open a new account.



LOOK BEFORE YOU LOCK (OR LEAP)



Savings Accounts (\$5000)

Provider	Product	Special Rate	Standard Rate	Special Rate Conditions
Bankwest	Regular Saver	7.00%	0.00%	Deposit between \$50 and \$500 per month, with no withdrawals
UBank	USaver	6.51%	6.01%	Set up an automatic savings plan of \$200 or more per month
Virgin Money	Virgin Saver	6.51%	5.35%	Bonus rate for four months

One-Year Term Deposit, \$20,000

Provider	Product	Rate
ING Direct	Term Deposit (\$10,000 - \$5,000,000)	6.50%
Defcredit	Premium Term Deposit (\$5000 - \$1,000,000)	6.50%
RaboDirect	Term Deposit (\$1000 - \$1,000,000)	6.40%

Two-Year Term Deposit, \$20,000

Provider	Product	Rate
ING Direct	Term Deposit (\$10,000 - \$5,000,000)	6.70%
RaboDirect	Term Deposit (\$1000 - \$1,000,000)	6.70%
Victoria Teachers Credit Union	Term Deposit (above \$500)	6.50%

Three-Year Term Deposit, \$20,000

Provider	Product	Rate
RaboDirect	Term Deposit (\$1000 - \$1,000,000)	6.75%
Victoria Teachers Credit Union	Term Deposit (above \$500)	6.75%
Hume Building Society	Term Investment (\$5000 - \$149,999)	6.60%