

# The Property Report

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From the desk of Compass Capital's Michael Shreeve

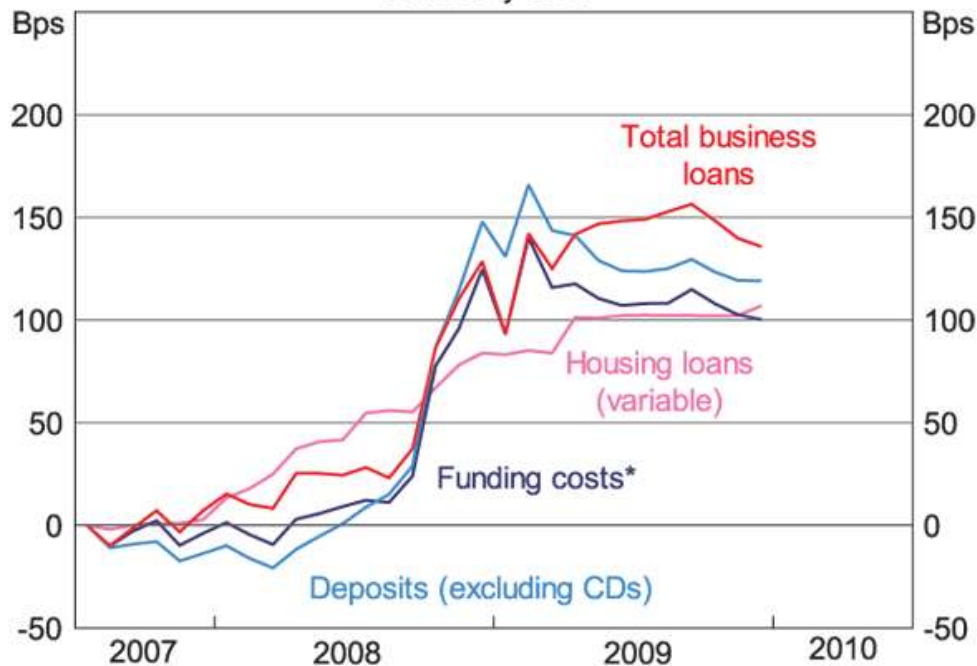
## THE RBA CASH RATE: WHY IT IS NOT AS LOW AS IT LOOKS

The RBA Cash Rate is not a goal in itself. It is simply a tool used to influence other interest rates.

The RBA chart below (presented in a recent speech by the Deputy Governor) shows that the amount by which market interest rates exceed the Cash Rate, has risen in recent years by about 1 to 1.5 percentage points.

### Cumulative Change in Margins Between Various Interest Rates and the Cash Rate

Since July 2007



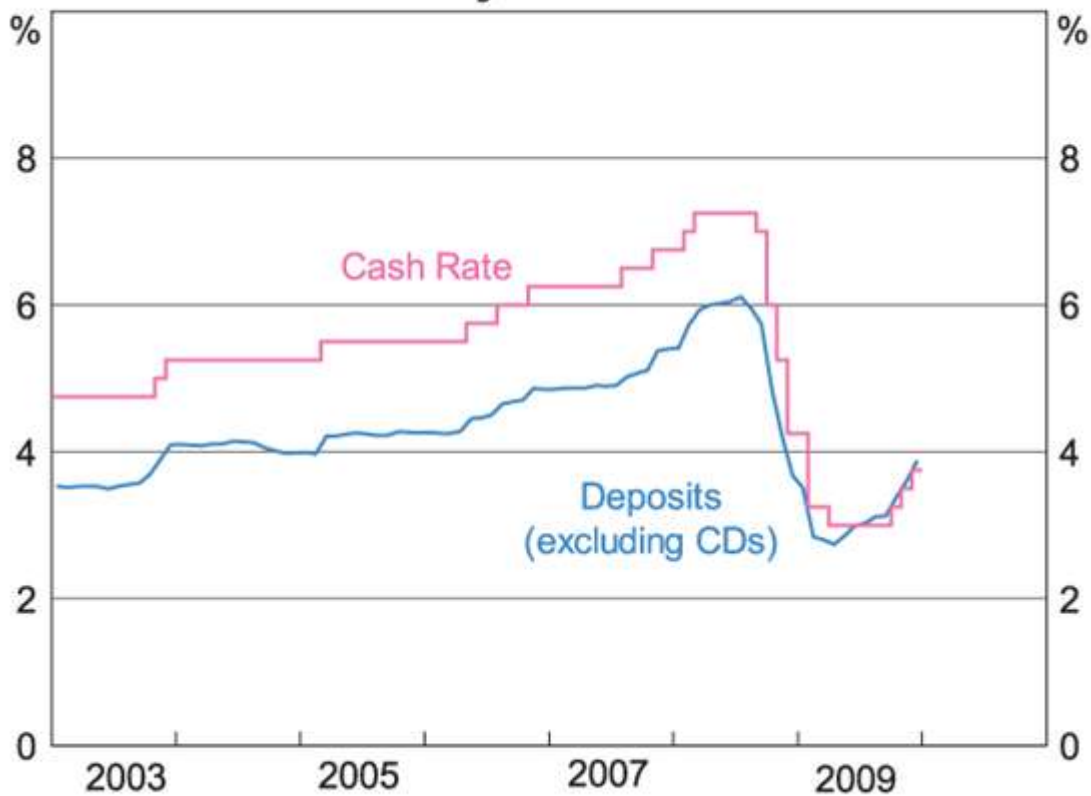
\* Average on major banks' outstanding deposits and fixed and variable rate debt securities

Sources: APRA; RBA

That is, the current Cash Rate of 3.75%, is having the same impact on market interest rates as previous Cash Rates of 4.75% to 5.25% (i.e. 5%, plus or minus a bit).

As the next RBA chart shows, the last time the Cash Rate was around 5%, was in 2003 and 2004, so the current stance of monetary policy is not at historic lows or “emergency settings”. It is, as the RBA’s Deputy Governor said today, “... reasonable to conclude that the overall stance of monetary policy is now back in the normal range, though in the expansionary segment of that range.”

## Average Cost of New Deposits to Major Banks



Source: RBA

The reason that market interest rates are 1% or more higher than they used to be (relative to the Cash Rate), is that the cost of funds for banks has also risen (relative to the Cash Rate). This is shown in the RBA table below.

**Table 3: Estimated Change in Cost of  
New Funds Relative to the Cash Rate –  
Major Banks  
Since July 2007**

	<b>Basis Points</b>
Deposits	147
– transactions	250
– savings	36
– term	250
Short-term debt (incl CDs)	13
Long-term debt	173
<b>Total</b>	<b>108</b>

Source: RBA

The fact that the stance of monetary policy is in fact considerably tighter than is indicated by consideration of the Cash Rate in isolation, should give some comfort to home owners and property investors.

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