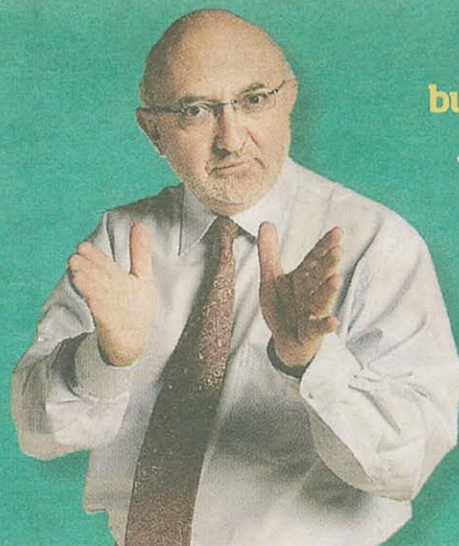


Business Daily



INSIDE

IN THE BLACK
Exchange of fortune



Australia's leading business commentator

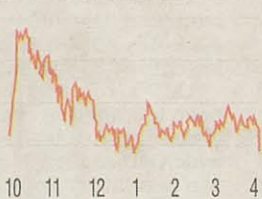
Up, up and away... but not the rates

TERRY McCRANN
Page 39

S&P/ASX200

4826.4

-5.3 -0.11%
The market closed flat after profit-taking eroded earlier gains on the IT and materials sectors.



OVERSEAS

DOW JONES	NASDAQ	HANG SENG	NIKKEI
12,226.34	2782.27	23,396.42	10,754.03
+95.89	+1.22	+58.40	+129.94

BIG WINNER

LYNAS CORP
\$2.11
+16c +8.21%

BIG LOSER

EQUINOX MINERALS
\$5.84
-38c -6.11%

MORE MARKET DETAILS PAGE 38

Casualties of war

Costly toll tipped for bank rivals

BANKING

Peter Taylor

THE price war erupting in Australia's mortgage market threatens to hit profitability in the banking industry and spill over into other products, wreaking even further havoc.

Industry experts are warning that the banks are hurtling into a dangerous battle that will ultimately have little impact on market share but almost certainly savage profit margins.

Banks who join the stoush will not only write new loans at lower margins but also have to absorb extra costs from increasing "churn" as borrowers stake out better deals, says Credit Suisse.

The last comprehensive home loan war that engulfed the domestic banking industry, back in the 1990s, saw prices tumble relative to the official interest rate, the global investment bank says.

In the first detailed study into the likely consequences of the new war, a team of Credit Suisse analysts led by Jarrod Martin says the battle represents "a threat to overall industry profitability".

"The legacy of prior mortgage wars is lower margins," the analysts say in a client note. "History shows that mortgage price wars reduce profitability and lead to little change in market share."

According to their research, the gap between the average mortgage rate and the official cash rate tumbled from 3 percentage points to 1.7 percentage points during the aggressive war in the mid-1990s.

That battle was spearheaded by the Commonwealth Bank — which cut its mortgage pricing by 1.45 percentage points in two devastating strikes on its rivals that came nine



BATTLE LINES DRAWN

THE HOME LOAN PRICE WAR ESCALATES

"We believe that customers should have the freedom to walk down the road and find a better deal if they are unhappy with their bank."
NAB head of retail banking Lisa Gray

"We are determined to protect our position."
CBA head of retail banking Ross McEwan

"I have never seen a time when competition was so aggressive between the individual players. It's quite remarkable."
Nomura analyst Victor German

months apart. National Australia Bank launched a similar war in New Zealand about six years ago.

In both cases, the market share of major banks had changed little when the warfare ceased. "We see the emerging price war... as unlikely to see any significant or sustained shift in mortgage

market share," the Credit Suisse analysts say.

NAB, which has dramatically outpaced its biggest rivals in mortgage growth in recent months, opened fire last month with a campaign to poach customers from the CBA and Westpac.

The Credit Suisse analysts argue that the unfold-

ing price war is "a result of a protracted period of subdued asset growth for the banks, particularly in business lending".

But they warn that it could mushroom into a much bigger battle — with the "threat of a mortgage price war boiling over into other segments and there-

fore eroding profitability across larger revenue pools".

In a note titled "War! Who is it good for?", Nomura analyst Victor German agrees that competition in the retail space appears to be intensifying.

Swan's AMP-AXA nod, Page 38

RBA's in no rush on rates

THE ECONOMY

Felicity Williams

THE Reserve Bank has signalled that it will keep official interest rates on hold for the time being in a move welcomed by business groups.

The central bank left the cash rate unchanged at 4.75 per cent at its monthly board meeting yesterday, in a decision that was widely anticipated by economists.

RBA governor Glenn Stevens however, surprised some experts by saying that the bank's "mildly restrictive" policy position was appropriate given the national economic outlook.

Economists interpreted Mr Stevens' words as a sign that the RBA might hold off on its next increase until the third quarter of 2011.

UBS interest rate strategist Matthew Johnson said that the bank was likely to pause until August.

"They usually start signalling a move in the first month, then tweak their message a little in the second month and then move in the third month," he said.

"(You) would think that the next move is at least two meetings away."

UBS is forecasting the RBA will lift interest rates by 25 basis points in August and again in September.

TD Securities senior strategist Roland Randall said that rates were heading up but there was no pressure for it to happen soon.

"We retain our forecast that interest rates will rise, possibly as soon as May if the April CPI (consumer price index) report is a strong one," he said.

The Australian Retailers Association was among business groups that welcomed the RBA's decision to leave the cash rate on hold.

Executive director Russell Zimmerman said it was "the right decision to ensure retailers are not put under further pressure as frugal consumer behaviour continues to produce poor trading conditions".

The RBA last raised rates — by a quarter of a percentage point — in November.