

Business Daily



Australia's leading business commentator

'Stay-ahead' Stevens breaks the mould

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S&P/ASX200

5143.7 **-12.50 -0.24%**

The market closed lower but recovered some ground after the Reserve Bank cut the cash rate to a record low.

ALL ORDINARIES

5122.7 **-11.10 -0.21%**

OVERSEAS

DOW JONES **14,968.89** **-5.07**

HANG SENG **23,047.09** **+132.00**

NIKKEI **14,180.24** **+486.20**

BIG WINNER

MIRABELA **18c** **+1.5c +9.09%**

BIG LOSER

COCA-COLA **\$12.93** **-\$1.52 -10.51%**

RBA slashes cash rate to 2.75% ...

THE ECONOMY
Jeff Whalley

THE Reserve Bank's move to cut the official interest rate to a historic low is a "seminal moment" that should usher in a new era of confidence, economists believe.

And the central bank may cut the rate deeper still into record-breaking territory as it fights to soften the impact of the high Australian dollar, they say.

Analysts believe governor Glenn Stevens has left the door open for more cuts if inflation remains in check, saying benign living costs provide the scope.

The RBA surprised many economists yesterday with its decision to cut the cash rate by 0.25 percentage points to 2.75 per cent. In a survey by Bloomberg ahead of the move, just eight of 29 economists tipped a cut.

It is the first time the cash rate has fallen below 3 per cent since the "emergency low" it hit during the financial crisis — since it started formal monthly reviews early in the 1990s.

It is also the first cut this year, following four reductions last year. Since its peak in this cycle late in 2010, the rate has fallen 2 percentage points.

Mr Stevens said growth in Australia was "below trend" and a culprit was the strong dollar, which was "little changed at a historically high level over the past 18 months".

The dollar slipped as the RBA announced its decision, losing US0.6c. Last night it was buying US101.8c — its weakest level since February.

Mr Stevens said the dollar had remained high despite a decline in export prices and interest rates. "Moreover, the demand for credit re-

portunity "to speed up the baton pass" to the non-mining sector.

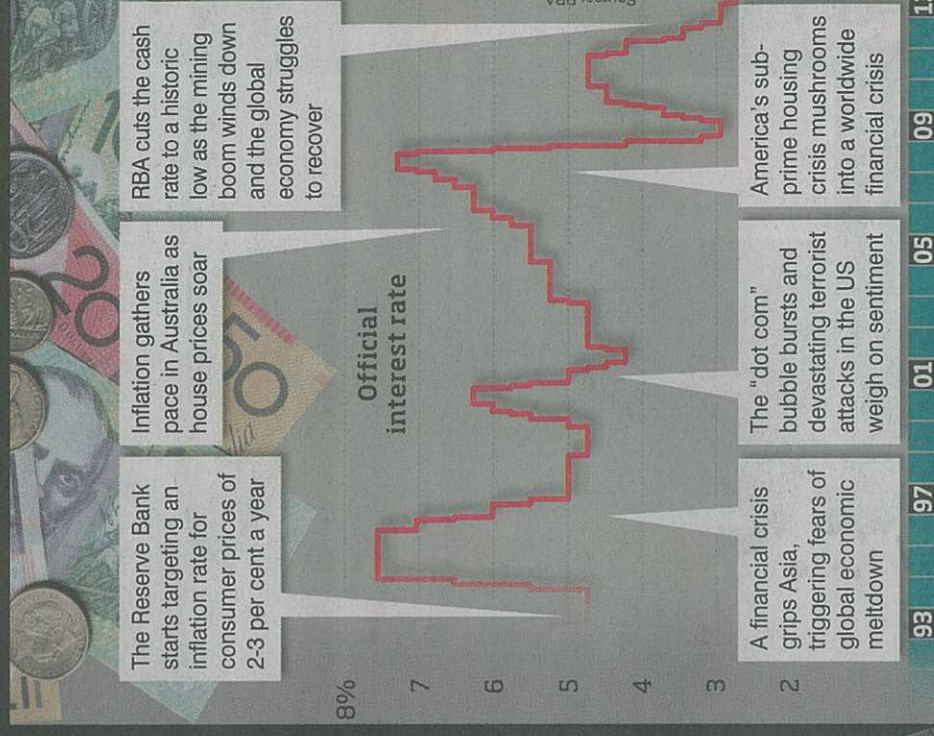
Mr Aird said he expected another cut in August. "It appears that the RBA sees some residual ability to cut rates again," he said.

Deutsche Bank chief economist Adam Boyton, one of few to call the cut, said Mr Stevens' mention of unemployment showed he was concerned about slow jobs growth. He noted the

RBA governor GLENN STEVENS

“The demand for credit remains, at this point, relatively subdued

HOW LOW CAN HE GO?



The Reserve Bank starts targeting an inflation rate for consumer prices of 2-3 per cent a year

Inflation gathers pace in Australia as house prices soar

RBA cuts the cash rate to a historic low as the mining boom winds down and the global economy struggles to recover

A financial crisis grips Asia, triggering fears of global economic meltdown

The "dot com" bubble bursts and devastating terrorist attacks in the US weigh on sentiment

America's sub-prime housing crisis mushrooms into a worldwide financial crisis

- The Australian dollar is still close to its historic highs
- Demand for loans remains weak
- The unemployment rate is rising as the labour force grows
- Inflation is lower than expected
- The eurozone is still mired in recession

... and NAB cuts to the chase

BANKING
Jeff Whalley

THE major lenders have taken advantage of falling funding costs to pass on the full rates relief bestowed by the Reserve Bank.

In a development expected to stimulate spending by easing the plight of home buyers, three of the "big four" have cut 0.25 percentage points from their standard variable mortgage rates.

National Australia Bank moved first yesterday, cutting its standard rate to 6.13 per cent, and the Commonwealth Bank quickly followed, cutting its rate to 6.15 per cent.

Westpac was next, cutting to 6.26 per cent, while subsidiary Bank of Melbourne has also cut its standard mortgage rate to 6.15 per cent.

ANZ will deliver its decision after the group's monthly rates review on Friday and is expected to follow the other banks.

NAB has now had the lowest standard variable rate among the major banks for almost four years.

The move to pass on the rate cut comes as the banks' funding costs have eased and amid a reporting season characterised by record first-half profits.

"Over the past few months we have seen some easing in new wholesale funding but at the same time competition for deposits," Westpac group executive of retail banking Jason Yetton said.

He said deposits were "the main driver of our overall funding costs".

CBA retail banking services executive Matt Omyrn said the bank's decision took into account "both domestic and offshore factors".