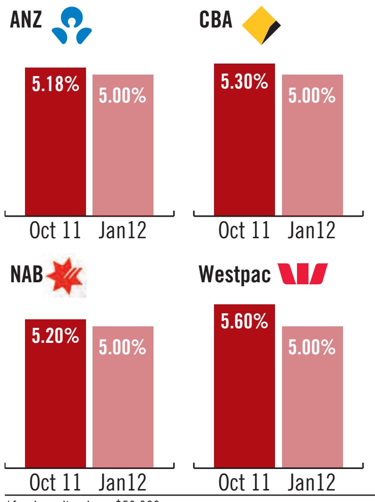
Term deposit rates

Hungry banks pay up for hard cash

John Kehoe

Best in show

1-year term deposit interest rates*



*for deposits above $50,000

Top 1-year fixed term deposit rates*

Institutions	Advertised rate
UBank	5.41%
Heritage Bank	5.40%
MyState	5.40%
AMP Banking	5.35%
Arab Bank Australia	5.30%
Bendigo Bank	5.30%
BOQ	5.30%
ING Direct	5.30%
CUA	5.25%
The Capricornian	5.25%
Hunter United Credit Union	5.22%
bcu	5.20%
Macquarie Bank	5.20%
Rabobank Australia	5.20%

SOURCE: FINANCIAL REVIEW

Tremors in global financial markets may prevent banks passing on in full any future cut in the official cash rate to home borrowers, but individual and business depositors will continue to benefit from the ongoing financial instability.

Banks are trying to shore up their funding by offering enticing interest rates to depositors.

Since November, the average rate of about 5.3 per cent offered by the major banks for 90-day retail term deposits has remained virtually unchanged, despite the 0.5 of a percentage point cut in the official cash rate, FIIG Securities says.

In a further perverse trend that highlights the fact that banks are keen to stockpile cash to survive challenging funding conditions in the first quarter of this year, interest rates offered on 90-day term deposits are now slightly above 180-day deposit rates.

FIIG Securities director of strategy and market development Stephen Nash said the correlation between the Reserve Bank cash rate and deposit rates would continue to decrease. "The 90 days appears popular for banks, because the banks were unsure what was going to happen in European funding markets in the first quarter," Dr Nash said.

Deposits now comprise almost 60 per cent of major banks' funding, compared with about 40 per cent before the global credit crisis that began in 2008.

Cashed-up businesses are also benefiting from the banks' eagerness to stockpile deposits. Ritu Boyd, a director of broker Curve Securities which helps mid-tier wholesale investors including councils, charities and companies to find the best deposit deal, said one client recently secured a rate of 6.18 per cent for a four-month deposit of up to $5 million.

"There is still an appetite from authorised deposit-taking institutions to pay up," Ms Boyd said.

Separate data from research firm RateCity show that term deposits of $50,000 or more can fetch an average rate of 5.12 per cent for six months, 5.15 per cent for one year and 5.28 per cent for three years.

RateCity chief executive Damian Smith said banks hadn't fully lowered their deposit rates in line with the RBA cash rate, because they cut rates between April and September last year in anticipation.

"Most rates came down by 50 basis points-plus before the RBA moved," Mr Smith said. "There was a massive influx of money into term deposits in August, with the collapse of the markets due to Europe."

The household savings rate was close to a 20-year high of 10.1 per cent in the September quarter last year, the most recent official statistics show.

Historically, interest rates on term deposits closely tracked the bank bill swap rate. However, a gap of more than 1 percentage point in some cases has opened up between the swap rate and term deposit rates.

The at-call market is also enticing savers, with at least one institution offering better prices than most one-year fixed-term deposits marketed by competitors. At 5.40 per cent for deposits up to $200,000, RaboDirect has the best offer for at-call deposits, which allows customers to withdraw their money at any time.

National Australia Bank's online model UBank offers the best rate for one-year term deposits of $50,000 or more at 5.41 per cent as of January 6. It is closely followed by Queensland regional Heritage Bank and MyState's online account which are advertising rates of 5.40 per cent.

AMP Bank, Bendigo Bank, Bank of Queensland and ING Direct are among the other institutions with the best rates for term depositors.

Money markets are betting the Reserve Bank will cut the official cash rate by a further one percentage point this year.

Dr Nash said bank funding pressures could mean that home borrowers might not enjoy the full relief but that on the other side of the ledger, depositors would benefit in relative terms.

"Banks are under pressure, so they will continue to focus on deposits by offering competitive rates," he said.

Peabody's dream of a Transpacific comeback

Andrew White and Matthew Cranston

Terry Peabody is described as entrepreneurial, autocratic and hardworking. Photo Glenn Hunt

Losing control of much of his life's work and more than half the $1.44 billion dollar fortune that went with it can't have been easy for Terry Peabody. On the evidence to date, the master management entrepreneur is still finding it hard to let go of the bitter episode that cost him control of Transpacific Industries at the end of the credit boom in 2008.

While successive capital raisings have diluted his stake in the company from 51 per cent to about 11 per cent Peabody has entertained plans of returning to the company he built up over 27 years and making it pay – at least in part – for the loss of fortune he has suffered.

The legal action against Transpacific over a capital raising in October (as revealed this past week in *The Australian Financial Rerview*) is just the latest in Peabody's attempts to salvage something from the business.

Pushing 73 and still with a substantial fortune to his name, Peabody could be forgiven for kicking back and enjoying the spoils of a business career that began in the 1960s when the Guam-born United States citizen moved to Australia to work as an engineer on the Snowy Mountains scheme.

And there are plenty of spoils for a man once valued at $1.44 billion.

There's a blue Bentley, a chalet in Whistler, a $10 million, 101-foot boat named for the Canadian ski resort, the Craggy Range vineyard in New Zealand and a private jet to whisk him between his favourite destinations.

Even with the collapse in Transpacific's share price from a high of $12.77 in July 2007 to 44¢ in May last year, Peabody still boasts a fortune of $594 million according to the BRW Rich List. Before Transpacific, he founded and sold Pozzolanic a business that used fly ash from power stations and to strengthen cement. He made a small fortune rescuing Western star trucks from insolvency before selling it Daimler Chrysler for a handsome profit in 2000. But backing down isn't Peabody's way, even if the legal action he is taking threatens to damage the company and himself.

"When I read that this morning I thought 'this is revenge, and it is pretty silly stuff'," says a former associate. "He still thinks that it is very much his company".

Entrepreneurial, meticulous, hard working, autocratic and demanding is how people describe Peabody.

He instilled fear in some senior staff who, so afraid to take his call, they would work out the times to be unavailable. "Executives would fly to places like the Great Barrier Reef for their holidays for five to six nights so their phones were out of range," says another former associate.

Others made sure their phones were turned off in the early hours when Peabody would try to call from his chalet in Whistler.

"When Terry got angry, he used to start tapping his fingers on the desk and start chewing the inside of his cheek," a former employee recalls.

> Executives would fly to the Great Barrier Reef so their phones would be out of range.

Peabody's influence on Transpacific lingers.

After founding the company in Brisbane in 1987 and floating it on the sharemarket in 2005 Peabody, as executive chairman, led Transpacific on a frenetic acquisition binge designed to entrench it as the dominant waste management player in Australia and New Zealand.

He didn't get everything his way. In 2006 he lost an auction for Brambles' Cleanaway business to private equity firm Kohlberg Kravis Roberts, which paid $950 millon for the trans-Tasman business.

Undeterred Peabody stunned the market by paying $1.25 billion to take the business from KKR in May 2007, delivering the privateers a $300 million return in less than a year.

That deal capped the 2007 financial year in which Transpacific completed 47 acquisitions. For 2008, even as the global financial crisis began to bite, Transpacific was hoping to complete another 40 deals.

The legacy of that acquisition binge was a $2.1 billion debt pile that nearly sank the company, stretched management resources and the forced loosening of Peabody's grip on the company.

Private equity group Warburg Pincus backed a $801 million capital raising in July 2009 that delivered it a 18 per cent stake and diluted Peabody's holding. Within a year he had stepped down as executive chairman and left the board, replaced by former Wesfarmers chief financial officer Gene Tilbrook and two Warburg Pincus appointees.

"I think the ultimate decision that he made to leave was because if he couldn't just do his thing without being accountable to a broader board I think it became difficult for him to deal with," says someone who followed events at Transpacific closely.

More than two years on, the company is still dealing with Peabody's legacy. Acquisitions have dried up – Transpacific bowed out of the auction for the NSW government's prized WSN Environmental Solutions last year. Management is still labouring to integrate its acquisitions and make enough income to pay off debt, at a time when a slowdown in industrial activity has taken a toll on a business many thought was recession proof.

It's the second regional arm of Transpacific that has landed the company in the courts. Peabody sold the rights for his 177 million shares in a $309 million renounceable entitlement issue into an institutional bookbuild. KKR, to whom he had delivered a windfall for Cleanaway, offered at the last minute to take all the shares at 66¢, rather than the 62¢ they were ultimately sold for.

Peabody's decision to not participate in the raising diluted his holding from 18.35 per cent to 11.25 per cent. But the refusal by Transpacific and its advisers Macquarie Capital to accept the opportunistic approach by KKR cost him $4.6 million, which he now wants to recover from the company.

with Carrie La Frenz and Angus Grigg