

## Welcome to the October 2010 Newsletter.

This month I will give 'my take' on our interest rate situation and what the Reserve Bank of Australia (RBA) might do next Tuesday. Regardless of its decision, there is another very important consideration -- one of our favourite (not) topics -- the banks.

### Will The RBA Move On Interest Rates Next Week?

One of the most pressing questions at this time every month is: *will the RBA raise interest rates?*

Whether it does or does not will be revealed next Tuesday. However notwithstanding the RBA's decision, I believe there is a far more pressing question: *will the banks raise interest rates independent of the RBA?*

For what it's worth **AND it's only my opinion**, I don't believe the RBA will raise rates next week. I'm convinced there are very good reasons not to do so including a manageable rate of inflation and reasonable unemployment numbers. However there is a much more important reason to (at least) postpone any rate rise; and that is (as the infamous John Laws once -- or twice said), those folks in 'struggle-street' are really struggling.

I get around a bit and speak with both business people and investors AND I can tell you many are struggling to survive, let alone grow their businesses and/or investment portfolios.

Regarding the far more pressing question mentioned above, unfortunately I have a very uncomfortable 'gut-feeling' that the banks are about to move rates up. And this contention is gathering momentum. Commonwealth Bank CEO Ralph Norris, at its annual general meeting, highlighted the increasing costs of funding -- usually a clear indication that a decision has already been made. This also signals to other financial institutions that a rate rise is in the wind.

On the one hand, you have to feel sorry for the banks -- it must be a real struggle having to deal with increasing costs. In support of the banks, Australia has (thus far) come through the Global Financial Crisis (GFC) pretty much with flying colours AND this is largely because of our strong banking sector.

On the other hand however, it's difficult to shed more than a single tear when you hear the plight of many of our small business owners (the largest employers in Australia). Unlike our banks, these businesses are not able to raise prices in order to maintain profit margins -- if they do, many clients will simply go somewhere else. OR maybe they should all get together and increase prices by similar percentages at approximately the same time -- although I think that's illegal isn't it?

Anyway whatever interest rate decisions are made by the RBA and/or banks over the next few months, at least the Federal Government is doing its bit - by making references to 'price signalling' and intervention by the competition regulator. That makes me feel a whole lot better -- I can feel the banks shaking in their boots.

In conclusion, I believe we need to strap ourselves in for another interest rate rise very soon, BUT this time it won't necessarily be the RBA who inflicts the pain.

Cheers

Garry