INTERVIEW: Cut In Australian Interest Rates May Push Aussies Toward Gold –Economist

(Kitco News) - The Reserve Bank of Australia surprised many by cutting the main interest rate 25 basis points to 2.75% this week, and the move might encourage Australian citizens to consider alternative investments, including gold, said the chief economist of a bullion dealer there.

The RBA said that "the inflation outlook would afford scope to ease further, should that be necessary to support demand."

The RBA was expected to cut interest rates, but not until later this year, so the timing was what caught most people off guard, market analysts said. On Friday the RBA also repeated its forecast for below trend growth for the country.

As interest rates begin to fall in Australia, it will hurt conservative investors who are seeing the yield dropping on their cash deposits. Jordan Eliseo, chief economist for ABC Bullion, said that since 2010 when the RBA started reducing rates, interest rates have fallen two percentage points to 2.75%, which "represents a major challenge to Australia's savers and retirees who like to keep their money in term deposits or at call bank accounts."

Australia largely avoided the global financial crisis that started in 2008, mostly because of the mining boom helped spur economic growth Down Under. But as mining slows, it could have a significant negative impact on the Australian economy, Eliseo said.

Because of the strength in the Australian economy and higher interest rates on cash deposits, Australians have largely stayed out of buying bullion in a major way, even during April when a $200-an-ounce plunge in prices triggered a massive global buying spree. Eliseo told Kitco News in an interview that ABC Bullion saw an uptick in demand, but nothing like the buying seen in Asia. ABC Bullion is Australia's oldest and largest independent bullion dealer.

The higher interest rates have kept Australians from feeling the need to purchase gold, along with strong housing prices, he said. But with the RBA cut and with housing prices now starting to soften, Australians may start to look for other safe investments, he said.

Eliseo said at the height of the global financial crisis, many Australians were able to lock up money in term deposits at 6% or 7% annually for five years, but “a lot of that money is maturing now and will be looking for a new home” especially as housing prices are weakening. That makes investment property less desirable.

There’s also a uniquely Australian investment called “superannuation,” a mandatory retirement fund that employers contribute to, but one that citizens can also invest in. The size of the entire fund is roughly AU$1.5 trillion, he said, with just under AU$500 billion of that in a “self-managed superannuation” where citizens can control where the money is invested. “A lot of Australians aren't particularly engaged with this money, even though it represents a large portion of their real net wealth. These funds have totally ignored bullion as an investment,” Eliseo said.

However, as interest rates fall in Australia, citizens may start to look at shifting that part of their investments to other alternatives, he said.

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