A tailored term deposit / Tailor your investments

After interest rates have been driven down sharply by the GFC, the Australian economy is showing signs of recovery with resilient exports, a rebound in confidence and a stronger housing upswing.
Obviously, this has implications for possible cash-rate adjustments by the RBA and the shape of the Australian interest rate curve. Westpac's chief economist Bill Evans expects the RBA may raise the cash-rate in the first half of next year, while the market is implying short term interest rates to increase steadily afterwards to almost 6% by the end of 2011. As a result, interest rates are expected to remain low in the short term, before moving up in the medium term.

What's your view?

As an investor, you probably do not mind receiving higher rates in the medium term but you may be worried about low rates in the short term. In this scenario, Coupon Select Deposits can offer an attractive opportunity. They are designed to pay you an enhanced Fixed Rate during periods when you expect interest rates to be low, while enabling you to benefit from a Floating Rate - including a margin over the market variable rate – when you think interest rates are on the rise again.
Coupon Select Deposits are therefore a variation of term deposits, allowing you the flexibility to tailor the sequence and term of these two different periods in line with your interest rate view.
For example, investors who expect the above scenario i.e. low interest rates for an initial period but higher rates afterwards, can select to receive the Fixed Rate for this initial period and the Floating Rate for the remainder of the deposit.

How does it work?

Coupon Select Deposits are currently aimed at investment terms between two years and five years, leaving you with the flexibility to determine the length and sequence of both the Fixed and Floating Terms.
During the Floating Term, even though you are exposed to market movements, you will continue to receive a margin over the market variable rate. During the Fixed Term, you will receive a tailored rate that passes on some of Westpac's wholesale advantage to you in the form of a Fixed Rate that is often higher than the comparable standard term deposit rate otherwise available from Westpac. Interest is paid quarterly.
For example, assume you have chosen a 3-year Coupon Select Deposit that matches your interest rate view, with an initial Fixed Term of one year, a subsequent Floating Term of two years, a Fixed Rate of 5.75% and a Floating Rate including a margin of 0.25%.
In this scenario, you will receive the Fixed Rate of 5.75% for the first year, and a Floating Rate including a margin of 0.25% for the second and third year.
To find out more contact one of our **team** or click on our **interest rate tracker** for Westpac's latest view.

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