RBA to cut rates in 2015: Still want to invest in term deposits?

Almost all of Australia's economists are predicting the Reserve Bank of Australia (RBA) will raise the official cash rate next year to around 3% from its current level of 2.5%.

But they're most likely wrong.

Not that that's something new.

As the saying goes, economists have predicted 8 out of the past 3 recessions.

But the most likely scenario appears to be a further cut to the cash rate. Weakness in the Australian and global economies, coupled with rising unemployment, a massive budget deficit, falling GDP and mining investment steadily declining.

An additional factor appears to be the heat coming out of the property market. When the RBA lowers rates, mortgage rates tend to follow, which can see property prices get out of control, as investors and home buyers take advantage of the cheap debt.

If property prices are cooling, it means the RBA has less to worry about should it feel the need to lower rates to boost other sectors of the economy.

Bond markets are already pricing in an 80% chance of a 25 basis point cut to interest rates in 2015. Economists on the other hand appear to be disregarding the bond market, forecasting interest rates to rise, following in the steps of the US Federal Reserve.
Global Asset manager AllianceBernstein suggested last week that economists were underestimating the impact of crashing commodity prices. Australia's top three exports last year were iron ore, coal and natural gas. And the top ten includes gold, petroleum and aluminium.

Deutsche Bank economists now also expect the RBA to cut rates by 50 basis points, or half a percent, taking the cash rate to 2%.

Should the RBA cut rates next year, that is likely to see the Australian dollar fall further – as it becomes less attractive for global investors to park their cash in the country. Expectations the US will raise interest rates will compound the effect, further pushing down our dollar.

Not only would the dollar fall, but term deposit rates, which are already barely covering the hidden cost of inflation, would also fall – making dividend paying stocks even more attractive.

Could we see the Australian dollar at 60 US cents in 2015?

It's a distinct possibility, giving our exporters and companies with large offshore operations a massive leg up. Companies I already own including CSL Limited (ASX: CSL), Cochlear Limited (ASX: COH), Flight Centre Travel Group Ltd (ASX: FLT) and **TFS Corporation Limited (ASX: TFC)** would be big beneficiaries.

Now might be the time to consider how you could take advantage of the Aussie dollar trading at 85 US cents.

Source: http://www.fool.com.au/2014/12/02/rba-to-cut-rates-in-2015-still-want-to-invest-in-term-deposits/

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