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THE AUSTRALIAN FINANCIAL REVIEW

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▶ Morrison calls for united G20 campaign

No winners in self-harm trade wars

Jacob Greber
Economics correspondent

Treasurer Scott Morrison has warned the deepening US tariff war with China could derail a global economy that has finally shaken off the effects of the financial crisis, and has directly challenged Donald Trump's view that countries can win trade wars.

As the International Monetary Fund described the US as among the world's most vulnerable in a trade escalation, Mr Morrison urged his counterparts in other countries to join forces and avoid inflicting "self-harm" on the worldwide economy.

"No one wins from a global trade war and that statement is more true today than at any other time in global economic history," Mr Morrison said. Mr Trump said in March: "Trade wars are good, and easy to win."

With the US and China ramping up financial market fears this month with a series of tariff measures, counter threats and more tariffs, Mr Morrison said the situation was now "quite serious" but not yet beyond salvation.

Speaking before his departure to a meeting of Group of 20 finance ministers in Buenos Aires this weekend, Mr Morrison said there was "no reason to think this cannot be kept under reasonable management".

China's economy slowed in the second quarter to its weakest pace since 2016, expanding by 6.7 per cent, just as the trade war with the US clouds the outlook. Concerns that the dispute could run out of control have already hit markets for commodities such as copper and crude oil, as well as equity valuations.

The Trump administration threatened last week to slug with tariffs

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The reckoning

By declaring 'free but fair trade' Trump is serving notice the US will not open its market on generous terms if trading partners do not reciprocate.

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Property loan ban for super

Cate Bakos, pictured in Yarraville, Melbourne, has four investment properties in her self-managed super fund. She believes investors are encouraged to buy real estate without fully considering their ability to finance purchases. Westpac has stopped lending to SMSFs wanting to buy property in response to growing credit and market risks, regulatory pressure and funding costs. News p6 PHOTO: ELKE MEITZEL

Keep coal burning for long term

Mark Ludlow

Existing coal-fired power stations will need to be used for as long as possible before they can be replaced with renewable energy sources, the national market operator has proposed, saying this was the cheapest long-term option.

In a move that will embolden Coalition backbenchers about the future of coal in the National Electricity Market, the Australian Energy Market Operator's plan to be released today warns against the early retirement of coal-fired power plants, saying they provide essential low-cost energy as well as stability in the power system.

"Maintaining existing coal-fired generation up to the end of its technical life is a key element of a low-cost approach," the report says.

AEMO's plan, a key recommendation of last year's Finkel Review, also found the total investment required to replace the retiring generation capacity and meet demand would cost between $8 billion and $27 billion.

It also found spending more money on extra transmission assets – to move electricity between the big states – at a cost of between $450 million and $650 million, would help deliver some cost savings on the final bill.

The AEMO report comes as Energy Minister Josh Frydenberg attempts to land the Turnbull government's National Energy Guarantee at a meeting of the Council of Australian Governments energy council meeting next month. It also follows last week's report by the Australian Competition and

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CKI pipeline bid hits critical project hurdle

Exclusive

Phillip Coorey
Political editor

A proposed $13 billion takeover of the east coast gas pipeline network by Hong Kong's CKI Group has become the first major foreign investment bid to be scrutinised by the Turnbull government's newly created Critical Infrastructure Committee.

The bid for pipeline company APA Group, which would give Cheung Kong Infrastructure control of almost 60 per cent of Australia's pipelines, is now being assessed by the Australian Competition and Consumer Commission.

The ACCC, should it decide the bid is anti-competitive and would hurt domestic gas prices, may spare the government having to knock it back on national security grounds, further souring relations with China.

Sources said the government is anxious about the prospect of rejecting another Chinese-linked bid. The Critical Infrastructure Committee, an addendum to the Foreign Investment Review Board, was formed on the back of contentious foreign investment decisions involving Chinese-owned or linked companies. ▶ News p7

▶ News Libs keen to govern with Mayo p4
▶ Turnbull resists population inquiry p4

Employers should pay labour hire like staff

A federal Labor government will change the Fair Work Act so that employers must pay labour hire the same as direct employees. Opposition Leader Bill Shorten will make the commitment in a speech to union leaders at the ACTU Congress today which promises a sweeping crackdown on the labour hire sector if Labor wins government. "Our policy is based on a simple principle: if you are doing the same job, you should get the same pay," Mr Shorten will say. ▶ News p3

Leaders meet

Why Putin wins out of Trump meeting

World p9

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Jack Davis
Development Manager, Retail

Westpac to quit SMSF lending

Duncan Hughes

Westpac has rocked the increasingly nervous property market by withdrawing new loan offers to self-managed superannuation funds looking to invest in property.

The bank, the nation's second-largest mortgage lender, and its subsidiaries, Bank of Melbourne, St George Bank and BankSA, will withdraw from lending to small super funds at the end of this month, following a review of funds' prospects and its exposure.

The move has shocked mortgage brokers and financial advisers, who act as intermediaries between borrowers and the banks, but complements a change in lending strategy the banks have rolled out in recent weeks.

It will also make already jittery property investors even more nervous about the outlook amid falling prices, rising costs and oversupply, particularly for apartments in the inner suburbs of Melbourne, Sydney and Brisbane.

Other major lenders have also been tightening their lending to self-managed funds, in response to tightening regulations, toughening investment markets and the shift from investment to principal and interest products.

"We continually review our products and services to ensure they meet the requirements of our customers," a Westpac spokesman said.

"In order to simplify and streamline our self-managed super fund products, we will be withdrawing from sale our SMSF home loan product and business lending to SMSFs, effective Tuesday July 31, 2018."

The group will continue to service customers with existing loans through switching loans and extending loan maturity. What the banks can do will depend on credit policy.

Leveraged investment in superannuation products is a highly controversial strategy, with industry leaders warning about scheme members creating too much credit and market risk by overexposure to real estate.

More than 600,000 investors have more than $700 billion in SMSFs, which is an amount bigger than Sweden's gross domestic product.

About 4 per cent is invested in SMSFs, of which a large percentage is the self-employed investing in their work places, such as surgeries, factories, warehouses or consulting rooms.

Regulators are increasingly fearful of systemic problems being caused by SMSF investors encouraged to leverage their superannuation and invest in a single residential property because of the lack of diversification and increasing dangers of loss in a falling property market where it is difficult to find tenants.

One of the key findings of the David Murray-led financial system inquiry in 2014 was that leverage should be banned in superannuation funds to mitigate the risk of financial instability. The government rejected his advice and Mr Murray said that was a mistake.

Mr Murray, who was recently appointed chairman of AMP, the nation's largest financial conglomerate, is expected to launch an internal review of its SMSF lending practices.

Professor Deborah Ralston, chairperson of the SMSF Association, said "there is a place" for property in SMSFs in a diversified, multi-asset investment strategy.

The Australian Securities and Investments Commission has also raised concerned about dodgy advice being given to unsophisticated SMSF investors.

Cate Bakos says many investors are struggling with high costs. PHOTO: ELKE MEIRZEL

Cash flow key to DIY super property, says investor

Duncan Hughes

Cate Bakos, who has four investment properties in her self-managed super fund, believes many investors are encouraged to buy real estate without fully considering their ability to finance purchases in the long term.

Westpac Group yesterday said it has stopped lending on SMSFs in response to a mix of growing credit and market risks, regulatory pressure and funding costs being experienced by all lenders.

"The key issue is cash flow," said Mrs Bakos, who has a rented period house in Hobart, two commercial lock-ups, and her Yarraville office in a fund with her husband Ian.

Many investors are being squeezed by rising costs, falling prices and increased pressure to find tenants in markets where over-supply of new apartments is forcing discounting.

In addition, many apartment buyers are discovering they are liable for maintenance costs covering up to 400 items, which are often not fully disclosed until warranties expire 12 months after settlement.

> **Property should never be a short-term investment.**
> Cate Bakos, buyers' agent

Ms Bakos, a buyers' agent, said tougher scrutiny of loans by lenders has halved the number of investors buying property for their SMSFs during the past year. Many borrowers are also being squeezed because lenders are reducing the size of the loan in the period between the pre-approval and purchase. "I am a big fan of long-term investment. Property should never be a short-term investment. Many investors are struggling to cover the high settlement, maintenance and debt-funding costs," she said.

There are also the additional costs of establishing a SMSF, monitoring performance and complying with the strict accounting and legal rules.

"You need good advice. Just because you think you understand or prefer property does not mean it is good for your SMSF."

The potential risk is amplified in a SMSF because of contributory caps that limit the amount the scheme member can spend on a property.

Big lenders cut home loan rates by up to 55 basis points

Duncan Hughes

Commonwealth Bank, Westpac Group and Suncorp are slashing honeymoon rates on home loan products, in a bid to stimulate growth as real estate markets slow.

Three of the top five mortgage lenders are flexing their balance sheet muscle to offer discounts of up to 55 basis points for investors and home buyers on introductory rates.

The new offers enable the banks to beat competition for lucrative new business but will increase repricing pressure for existing medium and long-term borrowers.

"As the nation's largest lender, we are always looking to deliver value to our home loan customers," CBA executive Daniel Huggins said.

The new discounts cut lender honeymoon headline rates for two-year fixed products for investors and homebuyers below the benchmark 4 per cent, despite increased funding pressure.

The latest round of cuts by the nation's first, second and fifth largest lenders will also increase pressure on other banks to follow suit.

CBA has announced cuts of up to 30 basis points on its two-year fixed rate introductory products covering principal and interest for owner-occupiers and investors and interest-only borrowers. The bank is not imposing monthly loan service fees and establishment fees. For example, its principal and interest, owner-occupier two-year introductory rate has been cut by 20 basis points to a headline rate of 3.69 per cent.

Suncorp is increasing the discount on its one- and two-year fixed rates by 55 basis points to a headline rate of 3.99 per cent. Westpac is offering cuts of up to 50 basis points and free international trips. The bank and subsidiaries, Bank of Melbourne, St George Bank and Bank SA, are also targeting borrowers' growing fears about "security and stability" in turbulent real estate and capital markets. For example, five-year principal and interest repayments borrowers are being offered a 40-basis-point discount of the headline rate of 4.09 per cent.

At the same time as the banks are sweetening their introductory rates, they are also targeting quality borrowers via tighter criteria, in response to pressure from regulators to prevent reckless borrowing.

The moves come as lenders struggle with pressure to raise rates because of rising funding costs. Big four banks, which continue to face damaging revelations from the banking royal commission, are under additional public pressure to maintain existing rates until the Reserve Bank of Australia raises cash rates.

ING, Macquarie Bank and listed-lender Homeloans recently increased mortgage rates and/or fees in response to rising funding costs, falling demand and the need to protect net interest margins. Other smaller mortgage-centric lenders are also raising rates by up to 10 basis points despite short-term pressure on their margins slightly easing as the three-month bank bill swap rate declines.

The BBSW is a short-term money market benchmark interest rate.

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