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## **Better-Management Newsletter 7 April 2016**

**Panamagate reveals China's money exodus / New Zealand is in this financial quagmire / China has created the housing bubble**

**Panamagate reveals China's money exodus**

<http://www.bbc.com/news/world-asia-china-35957228>

You will see why there is a total news blackout of the Panama papers in China. The top brass there may possibly be implicated.

Has this at last revealed the global property scandal for what it is, to the general public?

**New Zealand is in this financial quagmire**

You may recall, about 2-3 years ago I was writing to PM Key and MP Williamson (my local MP) but they preferred to ignore my warnings. Any denial they may make about knowledge of this would likely be false because firstly, they were warned by me in writing. Secondly, they knew from their own Auckland constituent immigration case files that this must have been happening – even if their Government departmental stats didn't show it (which in turn was highly improbable).

Repeated denials by Mr Key that the Auckland house price bubble was caused by Chinese money was rather foolish at the time, as the disinformation was obvious from the first. His lack of candour certainly lost him my confidence.

Now there are even more numerous Chinese ex pat property investors renting out houses in Auckland and thousands of elderly Chinese living in Auckland, either on NZ National Super, registering for National Super or waiting their 10 years to register for National Superannuation. So as a direct result fewer Kiwis can afford to own their own home. The elderly Chinese travel the buses and ferries on their gold cards and register in medical practices in their dozens. They are hardly invisible. Every street in East Auckland has dozens of houses now owned by Chinese. All attempts by MP Winston Peters to alert the public to the sham have been treated as racist. Isn't the term "racism" just so convenient? It covers so many scandals...of different kinds. For the record, I never spoke or communicated with Winston because he had his own separate sources.

Why Mr Key ignored my warnings was obviously that the National Government has been relying on the influx of Chinese students to help the economy (and many of them only came to NZ because their parents saw this as a place to retire to, where they would be paid by the NZ taxpayer).

In reality, over the last five to five years, our GDP growth has only been driven by four things.

1. The growth of dairy.
2. The rebuild of Christchurch.
3. The influx of Chinese money and students.
4. The driving of consumer demand by depressing interest rates.

These do not present real growth or productivity. All other influences were “loose change”.

The problem for New Zealand going forward is that dairy may now be in trouble, the Christchurch rebuild will soon peak and fall away and the influx of Chinese money will soon be brought under control. The Chinese economy is haemorrhaging foreign currency reserves, so they must soon stop all of the unauthorised leakage.

We Kiwis are really just part of the slowly emerging global depression so I cannot be too hard on our leaders...after all I have never given thought to what I could have done in their place.

Already in Melbourne the apartment building bubble is being burst, with many projects already started that may soon collapse. Aussies real estate agents only set up sales booths in the Pakuranga Plaza for assets they can't sell in Oz. Central London's top end property sales to Chinese have also collapsed with a rapid drop off in selling prices. Will that happen here? Remember from this Monday's Daily Reckoning..

“In particular, it looks as though the property apartment market has turned. As reported in the *Weekend Financial Review*: ‘*The long-anticipated slowdown is now hitting Melbourne's apartment market and that means many buyers of dwellings in the city centre – which has led the country's shift towards denser living – can kiss goodbye to their hopes of capital growth for the assets that are already delivering anaemic rental incomes.*’

--The biggest risk here is that it increases settlement risk on thousands of apartments that are currently under construction. Developers obtain finance from projects by pre-selling apartments. They take a deposit from the purchaser and borrow the rest. Upon completion, the purchaser pays the remainder to the developer, who repays the loan to the bank and (hopefully) earns a profit.

--But if prices continue to fall, some buyers might forgo their deposit and walk away. Or some just might not be able to borrow the funds required to complete the purchase if credit conditions have changed.

--If developers get into trouble it increases the risk of rising bad debts for the banks, hence their recent share price weakness.

--Bank share prices are now heading back to the lows of late February. Will the lows hold? If they don't, I think it will confirm that rising bad debts will hurt future earnings and put the current juicy dividends under pressure.”

### **China has created the housing bubble**

Of course, the prospective disappearance of the Chinese from the world property market (where their USD half trillion per year has propped up property prices and has driven price bubbles

from London to Vancouver and Auckland to Melbourne) could prove disastrous for some banks. We probably won't care too much about other foreign countries, but we must care about the four big Australian banks who (in Australia alone) now have between AUD1.2 to 1.5 trillion in residential property mortgages, of which about AUD 450 billion is in interest only loans.

But given the tie-in of global derivatives, if one TBTF bank anywhere goes, the CDS and swaps derivatives markets will collapse the global financial system at electronic speed...now that the IMF, ECB, the BoJ and the US Fed are powerless to intervene. Their ammo is exhausted.

Now our trust in our leaders has evaporated, let us try taking a cynical view of things shall we?

The Government isn't stupid and must know of our exposure to foreign market forces. After all John Key rushed through the "Open Bank Resolution" legislation that even the Aussies haven't yet passed. This means if Kiwi banks (even Australian owned banks) get into trouble, we will lose a proportion of our personal savings that will be used to prop up the capital adequacy of those Aussie owned banks. They are systemically too big to be allowed to fail ("TBTF").

Given the knowledge of this stuff. How badly has our confidence in our Government been eroded?

Possibly (in fact likely) the large numbers of Chinese using NZ as a back door stepping stone to living and working in Sydney and Melbourne is one clear reason why the Aussies won't give Kiwis their welfare entitlements. But surely – if so, obvious as it seems – our Prime Minister must already have been made aware of that?

Then again, how much of the decision to increase the funding of KiwiBank this week was to replace the availability of potentially disappearing new Chinese money from the NZ property market? The Government grabbed hundreds of millions from ACC and the NZ Super Fund to do this...ostensibly to separate the bank from NZ Post and provide NZ Post with funds...yeah right!

Our friends at the Reserve Bank are also aware of the funds flows and they will continue to push interest rates down to compensate for deflationary forces. Dr Wheeler, having ignored my invitation to understand the true cause of the property bubble, their main focus is probably now on avoiding the worst of the likely coming bust.

In New Zealand, it seems we always fall prey to short term opportunism from successive governments. But at any rate, confidence and trust once lost, is hard to regain.

The trail of deception is just disgraceful. Auckland and its citizens have just been pawns to political expediency and opposition parties are too ignorant or too complicit to call them to account.

But what can a poor boy do? Well, I restricted my comments to the RBNZ to verbal enquiries/comments, and in the case of PM and MP, I destroyed my emails as they contained information from confidential sources.

Cash under the mattress, non financial investments and some gold and silver is all we can really do on an individual basis .... and that strategy doesn't pay the bills. We may well be just trapped...