

# THE AUSTRALIAN FINANCIAL REVIEW

www.afr.com | Wednesday 29 January 2020 \$4 INCLUDES GST

▶ ASX 200 falls below 7000 ▶ Airlines, miners, education providers hit ▶ \$A, bond yields slide

## Markets exposed to China shock

Vesna Poljak, James Fernyhough and Sarah Turner

Australia's close business links to China, which proved so successful in supporting the economy in its record-breaking run of growth, have emerged as a major risk to growth and earnings as the coronavirus outbreak gathers pace.

The worst day of the year for the stockmarket came as businesses with exposure to Australia's largest trading partner bore the brunt of a savage sell-off, with the S&P/ASX 200 Index sliding 96 points, or 1.35 per cent, to 6994.50. The dollar slumped below 68 cents as bond yields dipped back below 1 per cent.

Prime Minister Scott Morrison said the government was working with China to deploy Australian diplomats to Hubei province, flagging a co-ordinated effort with New Zealand that could also see Kiwi nationals repatriated.

Investors zeroed in on sectors most vulnerable to a slowdown in the world's second-largest economy, selling companies exposed to an expected drop in tourism, a lower level of foreign students, or reduced demand for Australian commodities.

Travel companies, airlines, mining companies and education providers all fell sharply, with Webjet down 13.9 per cent to \$12.37, Fortescue Metals Group down 7.3 per cent to \$11.57, and Corporate Travel Management down 7 per cent to \$18.78.

The clearest hit to the economy may come from a fall in Chinese tourist numbers. Goldman Sachs economists have calculated that a 60 per cent decrease in the number of Chinese tourists to Australia would take about 10 basis points off real GDP growth if sustained for a year.

"We note that Australia's annual tourism export earnings to China amount to around \$4 billion, based on 2018 data, or around 20 per cent of Australia's total tourism exports," lead economist Andrew Boak said. That amounted to about 0.2 per cent of GDP in 2018.

Future Fund chairman Peter Costello said the coronavirus outbreak poses an immediate risk to investment returns, identifying its spread as a possible source of downward pressure on



Chinese Premier Li Keqiang meets health officials in Wuhan to examine the response to the virus. PHOTO: EYEPRESS NEWS

the \$168 billion sovereign wealth fund's performance.

"In the short term there is obviously going to be an effect on tourism to Australia," said the former federal treasurer and current chairman of Nine, which owns *The Australian Financial Review*.

"That will affect airlines, it will affect airports, it will affect general consumption at a time when many in the tourism industry have also suffered the burden of bushfires.

"In the short term, yes, it will have an effect on the Australian economy."

As governments introduce or widen travel bans to China - including the US State Department, which asked Americans to avoid non-essential travel - more than 4000 cases have been confirmed within China and more than 100

### Health crisis



My baseline projection is that the coronavirus outbreak will get worse before it gets better, with infections and deaths possibly peaking in the second or third week of February. But I expect that both the Chinese authorities and the World Health Organisation will declare the epidemic to be under control by early April. Shang-jin Wei p10

people have died. The coronavirus, known as 2019-nCoV, is a respiratory illness that can cause pneumonia. It has been recorded in Australia, the US, and Canada. Health officials early on established the virus can be transmitted from person to person.

Faced with uncertainty, investors Continued p26

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### Life in a ghost town as virus panic sets in

Michael Smith  
AFR correspondent

Shanghai | I'm out walking the dog in what has become a dystopian ghost town when an elderly woman runs up to me yelling in Mandarin.

"Why don't you have a face mask?" I eventually work out what she is saying. I do have one on me and quickly slip it on my face.

Given I had not seen a soul out on the rainy, shuttered streets who could potentially infect me I had briefly taken it off. That was two days ago.

The level of paranoia about a deadly virus outbreak in the central Chinese city of Wuhan has increased considerably since the woman on the street approached me fearing for my safety.

My usually bustling neighbourhood of fruit shops, markets, sneaker shops and restaurants, is eerily empty. There are no electric scooters almost mowing you down on the footpath or bicycle couriers racing down the street.

The only sign of life are other dog walkers and bored looking security guards occasionally slipping off their masks to have a smoke. Temples, public events, cinemas, shops and most restaurants are closed.

Shanghai, while typically quiet during the Lunar New Year, usually picks up on the second day of the Chinese New Year when tourists and locals flood into the streets once the obligatory family reunion dinners are over.

Not this year. While the city is hundreds of kilometres away from the epicentre of the outbreak, it is still within driving distance.

Many fear some of the millions of people believed to have left Wuhan before it was quarantined could be in town. One death and 66 cases have been confirmed so far in Shanghai.

This is a stark reminder of how quickly things can move in China. Continued p10



## PM wants power for emergencies

Phillip Coorey  
Political editor

Scott Morrison says legislative change is needed to enable the federal government to declare a national state of emergency and deploy whatever resources it deems necessary after it was caught flat-footed in responding to the current bushfire crisis.

The Prime Minister, who was heavily criticised for being too slow to act, will use part of his year-opening speech today to vow that the Commonwealth will no longer wait to be asked by the states to send in the military or provide other forms of assistance when natural

disasters occur. He will cite "a clear community expectation", which has developed on the back of the fires ravaging the nation.

"After this fire season and before the next one, this is an area where we need to get clarity and make some decisions, including changing the law where necessary," he will say.

He also will flag a number of longer-term measures to improve the nation's resilience "in the face of a changing climate", describing it as a national security issue, but will stop short of pledging more to tackle climate change, which experts say is increasing the severity and frequency of the fires.

Mr Morrison will list the rapid deployment of the military, better hazard reduction burning including a national accountability scheme, more firefighting planes, and nationally consistent disaster recovery arrangements.

He also flags wide-scale hazard burning as practised for thousands of years by Aborigines to mitigate the bushfire risk. "We must learn from Indigenous Australians and their ancient practices on how to improve our resilience to these threats," a partial Continued p4

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### Drink up: No drought for Morrison & Co

Street Talk | Exclusive Morrison & Co's Utilities Trust of Australia has agreed terms to buy a stake in the Sydney Desalination Plant ahead of its mooted expansion. The deal makes UTA Sydney Desal's joint biggest shareholder with Canada's Ontario Teachers' Pension Plan ahead of the planned doubling of capacity to 500 million litres of drinking water a day, to be funded in part by its two big shareholders. It has bought its stake from The Infrastructure Fund, which had a circa 15 per cent shareholding. Morrison's deal at UTA comes as the Future Fund revealed it had acquired "a material interest in Canberra Data Centres" on December 23. Street Talk p14, Future Fund threat p17

### Stockbrokers fight back against fee ban

Stockbrokers have begun a lobbying effort after the announcement of a snap four-week consultation into whether to remove the rule allowing listed investment companies operators to pay so-called stamping fees to brokers and advisers, on the basis it resulted in an incentive to recommend products that may not be in an investor's best interests. The stockbroking industry's chief lobbyist said politicians, regulators and media commentators had waged a campaign of misinformation on listed investment fund fees. Brokers' work was transactional and quite different from financial planners' commission. Companies p13 Metrics Capital to beef up loan fund p16 Opinion Paul Health p39

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JEN MELOCCO

Jen

Welcome to our first edition of Prestige for 2020. As we enter the '20s there is a call for quality, craftsmanship and houses and interiors that offer longevity – things to be treasured. That is what we will highlight as the year moves ahead, showing the best in homes around the country. Our cover property is one such home designed by renowned architect Kerry Hill – its Hayman Island location makes it even more attractive. For those looking to get away from it all, we also investigate the opportunity to buy an apartment on a cruise ship that makes its home at ports around the globe. On firmer ground, we visit the high-end enclave of Perth's Peppermint Grove. Oversized blocks and homes that are set back from the street give a sense of space and luxury according to locals. Its location between sea and river also makes it a much sought-after suburb. 📍

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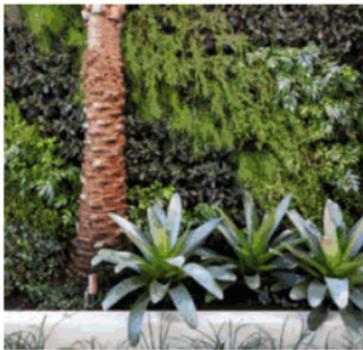
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JEM CRESSWELL PHOTOGRAPHY

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Garden drama

By KATE FARRELLY

# Hayman Island

Whitsundays \ Hayman Estates  
\$12 million

4 \ 4 \ 2

### For sale

**Agent:** Queensland Sotheby's International Realty, Carol Carter 0414 760 305  
Wake up to the wonders of the Great Barrier Reef and stunning views over the turquoise waters of the Coral Sea at this holiday retreat created by architect Kerry Hill. It comes complete with two golf buggies and an infinity pool, with a butler, chef or housekeeper only a phone call away at the nearby Intercontinental Hotel.



Open your camera and hover your phone over the app code to view listing



HOT PROPERTY



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## Modern Australiana

Our flora and fauna is inspiring designers, while a leading photographer celebrates weekends. *Compiled by PAULINE MORRISSEY*



SHARYN CAIRNS

**NINE YARDS** The latest project by design firm Golden, Nine Yards is a new eatery in South Melbourne. With its colours and natural finishes drawn from Australia's native flora and terrain, the project features custom printed Australiana upholstery from Louise Jones, rattan and Tasmanian oak veneer. [designbygolden.com.au](http://designbygolden.com.au)

**J5 CABINET** With a knack for mastering minimalist design, James Howe presents the J5 Cabinet – a superbly crafted piece. Inspired by and made in Australia. Featuring chevron-fluted doors carved from solid timber, the cabinet is fully customisable, with a choice in dimensions, timber and finish. [jameshowe.com.au](http://jameshowe.com.au)



### WEEKENDS BY KARA ROSENLUND

Photographer and stylist Kara Rosenlund has launched a new book, *Weekends*, dedicated to the quintessential spirit of summer time-out in Australia. Inviting readers into her new A-frame home on Stradbroke Island, the book provides styling and photography tips, as well as advice on how to best enjoy the weekend through interiors, food and nature. [kararosenlund.com](http://kararosenlund.com)



**WILLIE WESTON WALLPAPER** Driven by the desire to challenge the preconceptions about Indigenous art, textiles brand Willie Weston brings Aboriginal artwork to contemporary fabrics. The much loved Tiwi and Ampilatwatja artworks have been released as wallpapers, with each drawing on the artist's rich cultural background. [willieweston.com](http://willieweston.com)



MARTINA GEMMOLA