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HD **Michael to push Hintze tips slower China**

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Australians should brace for a long period of slow growth as China's economy cools and commodity prices remain weak, according to one of Australia's best-known billionaire financiers.

Sir Michael Hintze, Australian founder and CEO of London-based hedge fund CQS Capital, said a Chinese growth rate of between 5 per cent and 7 per cent – compared with a current target of 7.5 per cent – was not an "unrealistic range over the next couple of years".

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This, he said, meant Australia's growth would "moderate" from its current rate of around 3 per cent.

As foreign investors move their money out of Australia, Mr Hintze is one of five foreign-based high-powered money managers and economists who spoke to AFR Weekend on Australia's outlook.

One of the most bearish was Nate Hyde, sovereign analyst at Boston-based Standish Mellon, who said: "I think it's going to be a long couple of years for Australia.

"Australia has not gone through the worst of it yet."

Australian Justin Wolfers, a senior fellow at Washington think-tank the Peterson Institute for International Economics, singled out Australia's capital city housing for a warning.

"Certainly I wouldn't be buying Sydney property these days," he said.

Their comments come amid a new wave of global volatility, driven mainly by the diverging economic fortunes of the world's principal economies.

Robust recovery and the wind-down of monetary easing in the US has driven a greenback rally against most currencies, while concerns about anaemic growth and deflationary pressures in Europe and Japan have added to downward pressure on the euro and yen.

Slowing growth in China has also weighed on commodity-exporting countries and currencies.

Capital flight to the safe-haven greenback has affected the Aussie dollar, which has lost more than 6 per cent against its US counterpart in the last four weeks. Australian shares have also been sold off, and there are signs the overheated property markets of Sydney and Melbourne are cooling.

Dr Wolfers said the Australian housing market would be vulnerable to a correction if there was a financial shock.

"From the outside, it's always been worrying what's happening with Sydney and Melbourne land prices," he said.

"The idea that the fundamental value of the same patch of dirt has gone up by so much in so little time in a period when people's ability to pay hasn't risen dramatically has never made sense.

"Either the old price was wrong and it was too low, or the new price is wrong and it's too high."

He said the new world order was worrying.

"We are in a world where Japan's lost decade appears to be continuing, Europe is a disaster with debate about a possible triple-dip recession, and the potential growth rate of the US economy is lower than we once thought," Dr Wolfers said.

"One looks sick, one looks like it's dying and one looks moderate."

Current house price inflation has been singled out for attention by the Reserve Bank of Australia, which is considering macroprudential controls on mortgage lending. Reserve Bank governor Glenn Stevens is also concerned about the slow pace of non-**mining** investment.

The Australian dollar's strength against its US counterpart has been partly to blame, although recent falls have given respite to exporters and businesses hobbled by cheap imports.

Loomis, Sayles & **Company** sovereign analyst Rick Harrell sees the Aussie dropping to between US80¢ and US85¢, compared with just under US88¢ late on Friday.

"I think we're just in the beginning of the Aussie dollar correction," Mr Harrell said.

Mining investment peaked at about 7.5 per cent of gross domestic product in 2013, and has since eased to about 7 per cent.

According to Standish Mellon's Mr Hyde, this is set to fall away dramatically. He said it was "probably going to 2 per cent".

Amit Lodha, London-based global **equity** portfolio manager for Fidelity Worldwide Investment, which manages $US290 **billion** ($330 **billion**) added: "Having been a source of strength previously, the Australian market's exposure to commodities such as **iron ore** is now an Achilles heel, due to weaker global demand and industry oversupply."

Despite current GDP growth of 3.1 per cent, national income has been eroded by Australia's declining terms of trade – the value of exports versus imports – and this is affecting consumer confidence, business investment and government revenues.

According to some private sector estimates, Australia's terms of trade are set to fall by a further 6 per cent, after already declining 8 per cent in the first half of 2014.

Standish Mellon's Nate Hyde agrees that falling commodity prices are bad news for Australia.

"A weak **iron ore** price is not good for any of the **iron ore** producers," he said.

Mr Hintze added: "Price is often set at the margin, and this slowdown in **China**'s growth rate is affecting the price of commodities and is likely to continue to do so.

"You are also seeing greater capital discipline at the major resource companies and capex projects are being curtailed."

Key points

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