

Australia's Bank Bonds Punished on Housing Bubble Concern

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Aug. 31 (Bloomberg) -- Investors in U.S. dollar-denominated bonds issued by Australian banks are demanding higher relative yields on concern the country's property market is overheating.

House values in Australia surged 18.4 percent in 2010, causing Nobel-winning economist Joseph Stiglitz to say this month that the nation's property inflation gives "cause for concern." Westpac, National Australia Bank Ltd., Commonwealth Bank of Australia and Australia & New Zealand Banking Group Ltd. accumulated A\$798 billion (\$713.5 billion) of mortgage debt, almost 66 percent of their combined loans, according to their banking regulator.

"We don't have the same type of bets on we would have had four years ago," said Tom Farina, a director at Deutsche Insurance Asset Management in New York, who helps manage \$188 billion. While Australian homeowners may not be facing a U.S.- style meltdown, "we're certainly hitting some lofty leverage levels from a valuation perspective," he said.

Home Prices

Home prices in the most populous cities of Melbourne and Sydney climbed 24 percent and 21 percent in the year to June as Australia continued almost two decades of uninterrupted economic growth, statistics bureau data show.

Australia's ratio of household debt to disposable income was 157 percent as of March 31, central bank data show. It was 133 percent in the U.S. before the housing collapse began in 2007, according to the Federal Reserve Bank of San Francisco.

'Collateral Damage'

"I'm not persuaded by arguments that houses are sustainably priced, I'm not persuaded by the view that debt is not a problem, and I'm not persuaded that policy-makers could prevent collateral damage to banks," Gerard Minack, chief strategist for global developed markets at Morgan Stanley's Australian unit, wrote in an Aug. 17 report. "Dodging the worst of the global financial crisis didn't demonstrate that there's no bubble, in my view it just showed we dodged the prick."

Rising borrowing costs are a "revenue headwind" and may remain inflated for 18 months, Gail Kelly, the chief executive officer of Sydney-based Westpac, said when the lender reported quarterly earnings this month. They will be "permanently" higher, said Mike Smith, ANZ's Melbourne-based CEO.

"Australia's increasing population and limited supply make the market very different from the U.S. and Europe," Matt McCrum, Investment Director of Omega Global Investors Pty Ltd., a fund management firm based in Melbourne, said in a telephone interview.

Housing Shortage

Australia, a nation of 22.4 million, faces a housing shortage and needs to build about 420,000 more homes in the next decade than it did in the last, according to Harley Dale, chief economist at the Canberra-based Housing Industry Association.

The median cost of an urban home was A\$465,000 in July, research by real estate monitoring company RP Data show. The median price of a new home sold in the U.S. that month was \$204,000, while sales unexpectedly dropped to the lowest on record, according to Commerce Department data published Aug. 25.

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