s Weston noted speculation that the $US104.5 billion ($115.4bn) fall in the Fed's foreign holdings of US Treasuries was Russia transferring its position to a third party.

"Naturally we don't actually know who transferred their holdings, but if it was Russia then it makes sense to take this proactive action," Mr Weston said.

"Despite the US Treasury market having extremely deep liquidity pools, a sale of $US105bn would scare the life out of the buyers."

Materials were mostly lower, with the major miners in the red.

BHP Billiton fell 0.53 per cent to $35.47, while rival **Rio Tinto** lost 0.36 per cent to $61.28. **Fortescue Metals** retreated 1.41 per cent to $4.91, while **Newcrest** added 0.5 per cent to $12.16. **Whitehaven Coal** fell 1.45 per cent to $1.70.

$41.78. **Myer** dropped 1.85 per cent to $2.66, while rival **David Jones** fell 0.3 per cent to $3.29. **Harvey Norman** added 0.93 per cent to $3.27 while **JB Hi-Fi** fell 0.26 per cent to $18.92.

In media, **Fairfax Media** shed 0.53 per cent to 95c and **News Corporation** lost 0.42 per cent to $18.77. **21st Century Fox** gave up 0.51 per cent to $34.86. **Ten Network** fell 4.84 per cent to 30c, while **Seven West** rose 0.25 per cent to $1.97. **Southern Cross Media** lost 0.36 per cent to $1.39.

Telstra fell 0.2 per cent to $5, while **Qantas** lost 0.46 per cent to $1.08.

Lend Lease added 0.88 per cent to $11.42, after being named preferred tenderer for the Transurban's NorthConnex project in Sydney.

Meanwhile, **Transurban** added 0.55 per cent to $7.26.

BUSINESS SPECTATOR

Dollar higher despite Crimean vote tensions

JAMES GLYNN
CURRENCIES

THE Australian dollar was higher yesterday despite heightened geopolitical risk, with Crimea voting over the weekend to leave Ukraine and become part of Russia.

Traders said the currency's strong showing was in part due to rising expectations that the central bank would raise interest rates at its next meeting.

At 5pm AEDT the dollar was trading at US90.59c, compared with US90.03c at the same time on Friday.

More than 95 per cent of Crimeans voted to break away from Ukraine and rejoin Russia, according to preliminary results, in a referendum that raises the stakes in the most acute East-West confrontation since the Cold War.

The US and European Union quickly condemned the referendum as illegal. US President Barack Obama, speaking by phone with Russian President Vladimir Putin, told him yesterday that the Crimean vote took place "under duress of Russian military intervention" and would not be recognised. "The news, though hardly unexpected, imparts a risk-off tone to early week market proceedings," said Ray Attrill, head of currency strategy at National Australia Bank.

"Focus will now be on the extent of sanctions to be imposed on Russia by the West, and how Russia responds to that."

Late in Asia trading Westpac announced it had backed away from a forecast that the next move in interest rates would be down. "Previously we expected that rates would be reduced by 25 basis points in both August and November. The forecast is now for flat rates throughout 2014. As before we do not forecast a rate hike until the third quarter of 2015," said Bill Evans, chief economist at Westpac.

Greg Gibbs, currency strategist at RBS, based in Singapore, said the Reserve Bank had signalled that cutting interest rates further would have a limited impact on the economy.

The cash rate target has been at a record low 2.5 per cent since August, driving house prices up and making the RBA cautious.

DOW JONES NEWSWIRES

RBA's Malcolm Edey says Australia has outperformed the US, British and European economies since the crisis

RICHARD GLUYAS
BANKING

AUSTRALIA has outperformed the US, Britain and the eurozone on key economic measures since the onset of the global financial crisis, with the second phase of the crisis now specifically European in focus, according to a Reserve Bank official.

Malcolm Edey, the RBA's assistant governor, financial system, said yesterday that Australia had reported lower public debt, and output and employment levels had been much stronger.

However, the key to understanding the lingering effects of the crisis in Europe was a comparison of large bank non-performing loans.

"The experience in the euro area has been very different — it was marked by a more gradual, initial deterioration but one that is still continuing," Mr Edey told the CFO Summit on the Gold Coast. "Non-performance rates in Europe are now around 8 per cent of loans, higher than the US and the UK at their peaks, and still rising."

Europe's prolonged crisis has highlighted the interplay between the banking system and

Large banks' non-performing loans

economic performance. While it's easier for banks to recover when the economy is robust and growing, the reverse is equally true — without a strong banking system, it's harder for economies to grow.

The pivotal event in the crisis — the 2008 collapse of Lehman Brothers — saw non-performing loans spike in the US in 2010, with asset quality improving since then. The British experience has been broadly similar, although the peak was higher and came about a year later, with non-performance rates in Australia always below 2 per cent.

Mr Edey said there were a number of reasons for the poor showing of the European banks through the crisis.

The first was the lack of prompt corrective action, as happened in the US, to repair bank balance sheets, both by government authorities and the banks themselves.

US measures included TARP (troubled asset relief program), the early stress tests, and various measures to recapitalise troubled banks and dispose of poorly performing assets.

"The lingering effects of the crisis can be seen not just in the effects on the banks," the RBA official said. "There are continuing effects on a wide range of variables in the major economies."

On output and employment levels, Mr Edey said that, typically, it took longer for countries to emerge from a financial crisis than an average recession.

In the US, while GDP had regained its 2008 peak in mid-2011, growth in the recovery period had been around the long-term trend, in contrast to the usual experience of rapid catch-up seen after recessions, with employment yet to regain its pre-crisis peak.

In Europe, output and employment were still well below pre-crisis levels, while Australia had avoided a recession altogether.

Australia had also been a standout performer in relation to net public debt, which was 12.1 per cent of GDP in 2013, compared with 84.8 per cent in Britain, 74.9 per cent in the euro area and 87.4 per cent in the US.

Mr Edey said the reason that the euro area had experienced a crisis in its sovereign debt markets was not only because of the size of its aggregate debt position.

"It was because of the distribution of that debt and the associated divergences in economic conditions among the euro area member countries," he said.

The pressure to pay down debt, meant that large parts of the global economy faced headwinds, given there was also balance stresses and labour market weakness to contend with.

PNG leader defends Oil Search purchase

ROWAN CALLICK
ASIA-PACIFIC EDITOR

PAPUA New Guinea Prime Minister Peter O'Neill has responded to growing attacks over his government's $1.2 billion purchase of 10.1 per cent of Oil Search by claiming the shares were obtained at a "much discounted" price.

He said the value of the shares was "likely to double over the next few years", and that PNG had already made a profit of almost $75 million on them.

The government funding was used by Oil Search to buy 23 per cent of the Elk Antelope gasfield in PNG's Gulf province, which French giant Total controls with 61 per cent, and which is now certain to become the country's second major gas project.

Criticisms of the deal have multiplied since Don Polye said he was sacked as the PNG treasurer last week because he had refused to sign off on the Oil Search transaction.

He wrote to acting Treasury secretary Dairi Vele saying that the debt incurred to buy the Oil Search stake would breach the Fiscal Responsibility Act, which limits the ratio of debt to gross domestic product.

Mr Polye said taking on the new loan "would be directly contrary to the government's policy position on debt management".

PNG Speaker Theo Zurenuoc has told Mr O'Neill that the new loan needs to be approved by the parliament, which is not currently sitting.

The 2014 budget is PNG's biggest ever, 13.8 per cent larger than that for 2013. It presumes a deficit of 5.9 per cent of GDP, including a 20 per cent increase in spending on capital projects.

State Solicitor Daniel Rolpagarea has backed the Speaker, writing to Mr Vele and advising him of "the constitutional requirements" that the loan be approved by parliament.

Mr O'Neill said the government had sought to buy back from Abu Dhabi's International Petroleum Investment Company the 14.5 per cent of Oil Search shares which it had used as collateral to take a stake in the PNG LNG project led by ExxonMobil, of which Oil Search owns 29 per cent.

But IPIC refused and asked the PNG government to pay the $77m owed under the deal, depending on the valuation of the shares on March 6.

Mr O'Neill said the shares were trading at well above the agreed price, not below as claimed by IPIC, and that the dispute over the additional charge was now "before a legal process".

He said the new loan's terms meant "the overall debt of the country will in fact be reduced".

Australia and New Zealand has been steadily evolving over the past 15 years from government, corporate and retail-managed investment-scheme ownership to largely institutional ownership," he said.

New Forests has already been named as the frontrunner to buy both hardwood and softwood timber plantations in Australia and New Zealand.

The Sydney-based group purchased Great Southern's land bank for $415m in 2010.

SARAH DANCKERT

DATAROOM P25

DAILY DEALS

VICTORIA

Industrial sale, 1 Inglis Road, Ingleburn
Melbourne-based fund manager Quintessential Equity has purchased an A-Grade industrial property in Sydney's southwest for $13.8 million. The property has a warehouse and office and has more than 44,000sq m of land suitable for further development. It was acquired from AMP Capital, which managed the property on behalf of UniSuper. Energy management company Schneider Electric Australia leases the property. Quintessential Equity director Shane Quinn said the fund was attracted to the value-adding opportunities of the property. "The longer-term strategy for the property should the tenant not choose to stay at this location is to increase the value by extending the existing warehouse facility and subdividing and selling some or all of the vacant land. This will allow us to extract additional value and increase the return to our investors," Mr Quinn said.
PRICE: $13.8m
BUYER: Quintessential Equity
SELLER: UniSuper
AREA: 65,680sq m
AGENT: Gavin Bishop, Colliers International

2-22 McDonalds Lane, Mulgrave
BMW Group Financial Services has signed a lease on office space at the Nexus Corporate estate in Melbourne's south for an annual rental of $433,333. The firm will join Adidas, ADP, Bristol-Myers-Squibb at the 12,900sq m property purchased by Salta Properties for $11m in 2012.
RENT: $433,333 per annum
TENANT: BMW Group Financial Services
LESSOR: Salta Properties
AREA: 2925sq m (leased space)
AGENT: Rob Joyes, Colliers International

ACT

Mixed use sale, 29 Jardine Street, Kingston
A private investor has purchased a mixed use property in Canberra's south for $2.25m. The property includes an office and a retail area leased to the Belgian Beer Cafe. LJ Hooker Commercial agent Andrew Green said the two-storey building fronted the northern side of Kingston Shopping Precinct. "(It has) a leafy aspect looking towards Green Square on the opposite side of the street," Mr Green said.
PRICE: $2.25m
BUYER: Private investor
SELLER: MEO
AREA: 545sq m
AGENTS: Andrew Green and Mark Thompson, LJ Hooker Commercial

QUEENSLAND

Office lease, 99 Melbourne Street, South Brisbane
Belgian mineral and metal extraction company Sibelco Group has signed a five-year lease on office space in South Brisbane for a gross annual rental of $500,325. Mel Pikos of CBRE said the tenancy, previously occupied by an engineering firm, was in an A-Grade building.
RENT: $525 per square metre per annum (gross)
TENANT: Sibelco Group
LESSOR: Private investor
AREA: 953sq m
AGENT: Mel Pikos, CBRE

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