

FINANCIAL REVIEW

www.afr.com | Friday 29 January 2021 \$4 INCLUDES GST



▶ Epic short-seller squeeze by retail investors

Day trader raid rattles world stocks

Sarah Turner

The Australian market has been caught in the grip of an epic global short squeeze originating in a share punting forum hosted by the online platform Reddit, setting-off billions of dollars of short covering by professional investment managers, and a broader market sell-off.

Amateur traders in the US market have been inflicting pain on hedge fund targets this week by piling into some of the most heavily shorted stocks on Wall Street, such as the bricks-and-mortar video games retailer GameStop and Nvidia, sending prices soaring.

Armed with stimulus cheques, the day traders have descended on trading apps such as Robinhood with wild success in the COVID-19 market recovery. But their flair for picking winners took a twist with the group known as "WallStreetBets" gaining sudden influence in hunting down short-sellers with a David versus Goliath mentality.

Their wrecking-ball effect has spooked money managers and unleashed a risk-off pulse through global markets, reflected in a tech rout that pushed ASX darlings Afterpay and Xero down 6 per cent yesterday to \$136.97 and \$132.01 respectively.

"I think that we are at a quarter to midnight [for markets]," said Anton Tagliaferrero, Investors Mutual investment director. "When you see what's going on with Tesla, with GameStop, with Afterpay, with all these speculative stocks in America... At some stage many of those stocks will be reduced to rubble."

Triple3 Partners volatility specialist Simon Ho said: "I'm going to tell my mother to get out of equities."

The short squeeze spread to the broader Australian stockmarket with heavily targeted InvoCare and Treasury Wine Estates advancing yesterday

Gaming the system

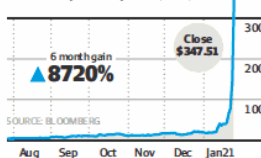


Helped by mass cheerleading on Reddit, GameStop has surpassed the combined value of

Gap, Kohl's and Macy's, three big American retailers, in three weeks. **Aaron Patrick p31**

- ▶ World Shutdown adds to drama p14
- ▶ Fed holds back as recovery falters p14
- ▶ Apple, Facebook beat expectations p16
- ▶ Bitcoin price could explode p17

GameStop share price (\$US)



to defy the drop in the ASX 200 of 1.9 per cent or 130 points to close at 6649.7.

When short sellers cover their positions, they have to buy back the stock they have borrowed, causing prices to rise, and a portfolio loss if the position has appreciated in value.

One user posting under the pseudonym Energetic-dad wrote in the Reddit group: "We look now, across the vast ocean between us, to our European and Asian fellows in this war." It was "up to you now, to help us enter this next day with fire in our hearts and our sell buttons disabled."

Mr Tagliaferrero said: "There are some sectors, sections of the market which are dramatically overheated, tremendously overvalued."

Continued p31

Mistaken identity proves a game changer

A small Australian mining company that shares a stockmarket code with GameStop shot up 50 per cent yesterday, with 18 million shares bought apparently by daytraders who mistook it for the US games retailer.

The unusual trading prompted a phone call from ASIC's compliance team. "I would have been hoping the share price kicked up because of the high-grade nickel deposit we've got in the Murrin Murrin region adjacent to the Glencore plant," said chief executive Jamie Sullivan.

"But without the company making

any real statement you'd have to put it down to pure speculation on some other stock not even listed on the ASX."

Meanwhile, the Australian version of the social media forum at the centre of the GameStop trading frenzy is cracking down on local attempts to organise a similar market play in an effort to avoid unwanted scrutiny from ASIC, threatening to ban rule breakers who want to arrange a "short squeeze".

- ▶ Companies Short squeezer 'plot' p17
- ▶ Markets Miner rockets on mania p31



New Rio boss Kellie Parker in Gove, the Northern Territory. PHOTO: ALEXANDRIA MCKEE

Be global, think local: Rio tries to rebuild trust

Brad Thompson

Kellie Parker has been appointed to the new role of chief executive Australia of Rio Tinto, as the company looks to rebuild trust in the wake of the Juukan Gorge blasts.

Ms Parker has a strong connection to Western Australia, where Rio has been under pressure from the state government and traditional owners to bolster its local leadership. She grew up in Wickham in the Pilbara. Her parents were the town pharmacists and she went to Curtin University, where she

studied occupational therapy, and rose through the ranks after joining Rio in 2001 as an injury management adviser. She said the company had a lot of work ahead of it to rebuild relationships.

"Having worked in operations from the Pilbara to far north Queensland, I know first-hand just how important strong relationships are for a company like ours to be respected and successful, and just what the consequences are when we don't get it right," she said.

- ▶ Companies Rio's new iron ore boss p19
- ▶ James Thomson Adults are back p32

Push back on China, urges new Japan envoy

Exclusive

Andrew Tillett
Political correspondent

Japan is encouraging Australia to step up joint naval exercises and patrols in the East China Sea to help preserve regional peace and stability amid increasing incursions by Chinese vessels and aircraft into Japanese and Taiwanese territory.

In an exclusive interview with *The Australian Financial Review*, Japan's incoming ambassador to Australia, Shingo Yamagami, also said Tokyo was willing to help Australia reduce its trade dependence on China after Japan also endured rough treatment at the hands of Beijing.

Mr Yamagami said he personally admired Australia's willingness to stand firm in the face of Beijing's pressure.



Shingo Yamagami

"This is a trying time for Japan's friends in Australia. The fact of the matter is the world's eyes are now on Australia," he said. "This issue between Australia and this Asian continental power has been gathering international attention."

"In this regard some might be able to say this is a golden opportunity for Australia to demonstrate to the international community what kind of country Australia is. Whether you know Australia is willing to show its steadfastness and resilience, and in what way, I don't think this is to be dictated or influenced by others."

Mr Yamagami's interview coincided with Foreign Minister Marise Payne and new US Secretary of State Tony Blinken speaking for the first time, with Mr Blinken highlighting the importance of the Quadrilateral Dialogue which also includes Japan and India.

Continued p8

- ▶ Richard Fontaine Biden's China reset p38
- ▶ Review Why China loves Musk liftoff

Labor revamp fails to quell Albo dissent

Phillip Coorey
Political editor

A major revamp of the opposition frontbench has done little to quell internal dissent over Anthony Albanese's leadership, with his detractors saying he still needs to lift his own performance if he is to take Labor to the next election.

In a far greater than expected reshuffle—which was brought forward by two days because of leaks—Mr Albanese bowed to demands from the Right faction by removing friend and Left factional ally Mark Butler from the climate change portfolio and handing

it to former shadow treasurer Chris Bowen.

Mr Butler assumed Mr Bowen's job of health and added aged care. Deputy leader Richard Marles, who is loyal to Mr Albanese but who will run for the leadership should there be a push, dropped his defence duties.

He assumed a new super portfolio which focuses on post-COVID-19 reconstruction and which enables him to cut across the roles of leadership rivals Tanya Plibersek and shadow treasurer Jim Chalmers.

Mr Marles is now Labor spokesman for national reconstruction, employment, skills, small business and sci-

ence. He took training and skills off Ms Plibersek, who is left with education, and has a roving brief to cut across Mr Chalmers and others.

Mr Albanese rejected suggestions the reshuffle was about shoring up his leadership, saying it was designed to sharpen Labor's focus on job creation as the nation emerged from the COVID-19 pandemic ahead of the next election.

And he insisted Labor would not be softening its approach to climate change, despite the Right saying Mr

Continued p4

- ▶ Phillip Coorey Unrest and panic p4
- ▶ Canberra Observed No dramas p39

China dependency 'bigger than COVID-19'

Year ahead

Sally Patten
BOSS editor

New-broom US President Joe Biden is likely to maintain his predecessor's hardline approach to US-China relations, leaving Australia caught in the middle of a hostile relationship between its major strategic and trading partners, warns Wesfarmers chairman Michael Chaney.

This, Mr Chaney argued, was one of the key risks facing the Australian economy and would continue to present a challenging balancing act for the Australian government.

"Our dependence on China for both exports and imports is a big question going forward. I think it's a much bigger issue than COVID-19," Mr Chaney said. "We've seen painful but relatively minor disruptions on some imports



Karen Moses

into China. Any major disruption to it through, for example, some sort of confrontation between the US and China would be really damaging to the Australian economy.

"I think we need to improve our relationship and I'm sure [Trade] Minister [Dan] Tehan will be endeavouring to do that as diligently as was [former trade minister Simon] Birmingham," he said.

Mr Chaney's warning on Australia's strained relationship with China came as he and other senior directors largely dismissed previous concerns that the impending end of the government's JobSeeker and JobKeeper programs and continuing border closures would cause massive damage to the economy.

Mr Chaney was one of several senior directors who spoke to AFR BOSS about the outlook for this year.

On China, Karen Moses, director of property group Charter Hall, commercial explosives company Orica and building materials supplier Boral, took a different view, predicting that Mr Biden would help to ease the strained relationship between Australia and China.

"I think the escalating risk that Australia had was wondering: are we an ally of the US or are we an ally to China?"

"We had the risk that we were going to be a casualty in the fight between the US and China. I think that with Biden coming in, that risk has reduced," Ms Moses said.

China has imposed trade sanctions on Australian barley, beef, wine, coal and lobster, prompting US bank Citic to predict a 10 per cent drop in total

exports to China over the next 12 months. Telstra chairman John Mullen said Australia would benefit from any thawing of relations between the US and China. "We need global geopolitics to be stable. We need China and America to have a relatively harmonious interaction at all levels political and economic," Mr Mullen said.

Directors were largely optimistic for the year ahead, citing high savings levels, strong consumer demand, the rollout of a COVID-19 vaccine and low interest rates.

"The mass vaccination of people, the printing of money, the almost zero cost of borrowing, they all suggest that there are not many obstacles to growth. There are not many excuses for businesses not to think about investing," said Peter Hay, the chairman of gold miner Newcrest and Melbourne Airport.

Lynas chairman Kathleen Conlon said: "I think the businesses that are not directly impacted by border restrictions are benefiting from the money that would have gone out of Australia for tourism. Instead, people are paying to upgrade their houses and things like that. So I think most sectors will do well."

Mr Mullen, however, expressed a degree of caution. "I am more cautious than many because I believe that as humans, so often we swing from one extreme of sentiment to the other and I think that 2021 may still be a difficult year for many businesses," he said.

"There is a raft of small business dependent upon tourism, education and other sectors that are going to do it tough for quite a while yet.

"I think that the economy will be patchy in 2021 with some sectors booming, some still struggling, and a lot in the middle." ► BOSS p36

From page 1

World's eyes on Australia and China

The comments also come as New Zealand's Trade Minister Damien O'Connor caused consternation in Canberra when he suggested the Morrison government could show China more respect if it wanted a better relationship with Beijing as the Kiwis have achieved.

"I guess a little more diplomacy from time to time and be cautious with wording, then they too, hopefully could be in a similar situation," Mr O'Connor told CNBC.

While Australia has accused China of breaching the free trade agreement with its succession of trade strikes, New Zealand and China this week upgraded their deal.

In a break with the other Five Eyes members including Australia, New Zealand did not put its name to a joint statement issued on January 10 condemning the latest mass arrests of democracy activists in Hong Kong.

Australian government sources said the comments had highlighted a perception New Zealand was being naive once again, while Mr O'Connor was forced to call Trade Minister Dan Tehan to clean up the gaffe.

Mr Tehan said Australia's relationship with China was based on an assessment of our national interests.

Mr Yamagami, who is technically



Ambassador-designate Shingo Yamagami at the Japanese embassy in Canberra yesterday. PHOTO: ALEX ELLINGHAUSEN

still ambassador-designate, takes up the post as Australian and Japanese relations are being drawn ever closer. Scott Morrison was the first leader to speak to and visit Japan's new Prime Minister Yoshihide Suga last year.

Mr Yamagami said historically trade and investment had been the most important pillar of the Australian-Japanese relationship but it was increasingly taking on a strategic dimension, with co-operation in security, intelligence and multilateral and regional forums. Mr Yamagami, a former

director-general of the Japanese foreign ministry's intelligence and analysis service, said strengthening intelligence sharing with Australia was one of his priorities but was coy about whether this would involve Japan joining the Five Eyes alliance, as some Japanese policymakers have expressed their eagerness to.

"It sounds very flattering to us ... at the same time we are also aware that Five Eyes consists of countries that have long shared their language, history and culture," he said.

As part of deepening military ties, Australian, Japanese and US naval ships last year conducted joint exercises five times in the region last year.

While the South China Sea is Australia's major focus given its importance as a trade route, strains are also growing in the East China Sea.

In Beijing's latest show of strength two large Chinese formations of aircraft flew through Taiwan's air defence identification zone on the weekend, while Chinese coast guard ships are operating more frequently in the

waters surrounding the disputed Senkaku Islands, which are administered by Japan.

While Australia has conducted surveillance of North Korean ship-to-ship transfers as part of enforcing United Nations sanctions in the East China Sea, Mr Yamagami believes there are opportunities for Australia and Japan to increase their presence.

"The security situation in the East China Sea has been worsening year-by-year, which continues to cause a great concern to us," he said.

"Australia's interest not only in the South China Sea but also the East China Sea is something to be warmly and strongly welcomed by Japan.

"What will happen around Taiwan is extremely important in terms of maintaining peace and prosperity in the Indo-Pacific region as a whole, not just in the East China Sea.

"We have been conducting a number of exercises and joint transits in the South China Sea. I think there is room for us to do more in the East China Sea."

Mr Yamagami said Japan had experience of China using trade as a weapon when it cut off exports of rare earths in 2010 over the Senkaku Islands dispute. Though Japan successfully challenged the ban in the World Trade Organisation, it highlighted to the government and businesses the need to diversify away from relying on China.

"This is a kind of experience we are willing to share with our friends in Australia," he said. "Australia is not walking alone on this. Japan is in the same boat."

INFANT FORMULA PLANT EXPRESSIONS OF INTEREST REQUIRED

We seek expressions of interest to acquire an **Infant Formula and Dairy Powder Blending and Canning facility in Dandenong South, Victoria**

Key Features:

- **Turn-key opportunity** – fully equipped facilities.
- The facilities meet **industry standards** and held numerous accreditations.
- **Capacity** to produce 30,000-45,000 cans of milk powder/infant formula per day (based on 3X 8 hour shifts).
- Opportunity to **enter the Australian and overseas infant formula and milk powder markets** accessing **Asian/China Markets** or for existing producers to expand their production capacity with minimal investment in time.

Please contact **Rino Zollo** at rino@coateslawyers.com.au.

Start your search

commercialrealestate.com.au

Commercial Real Estate