WEEKLY ECONOMIC COMMENTARY

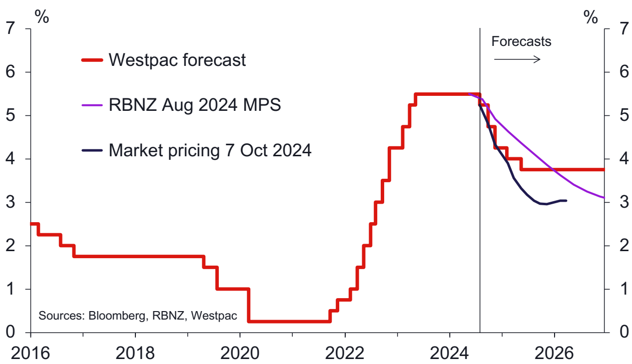
7 Oct 2024 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

What are you waiting for?

We've made some significant adjustments to our forecasts for the OCR and now expect the OCR to move more quickly to neutral than previously forecast. We now see two consecutive 50bp cuts in the OCR at the 9 October and 27 November meetings, which will take the OCR to 4.25% at the end of 2024. This will leave the OCR just 50bp above our long-term neutral rate of 3.75%.

We anticipate a much slower, highly data dependent and uncertain path lower in the OCR in 2025. We have pencilled in 25bp cuts in each of the February and May Monetary Policy Statements taking the OCR to the long-term terminal rate of 3.75% by mid-2025.

Official Cash Rate forecasts

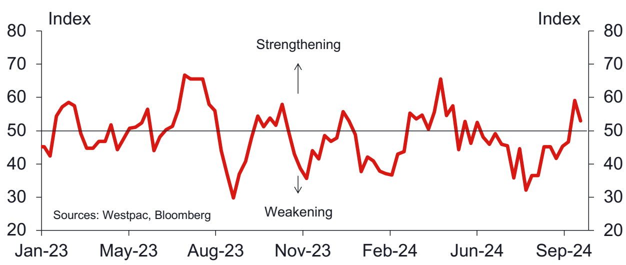


The case for a more front-loaded profile for OCR cuts primarily rests on strong signs that the forward inflation profile will be much more benign in aggregate that we have seen since 2021. We now see annual inflation falling to 2.4% in Q3 2024 and falling further to 2.2% by the end of 2024. This is a markedly lower forecast level for inflation than we have expected for quite some time and means that the mid-point of the RBNZ's target range is now tantalisingly close.

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	↗
NZ economy	↘	→	↑
Inflation	↘	↘	↘
2 year swap	↓	→	↗
10 year swap	↓	↗	↗
NZD/USD	↗	→	↗
NZD/AUD	→	↘	↘

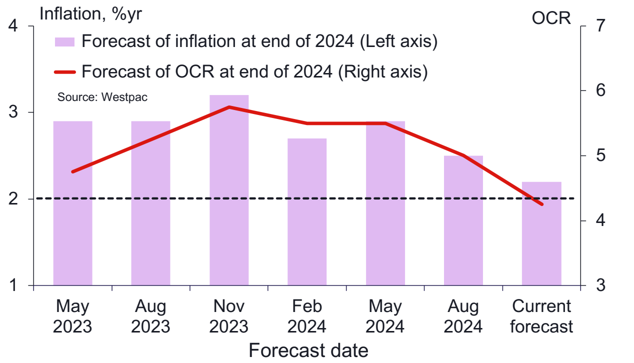
Westpac New Zealand Data Pulse Index



Key data and event outlook

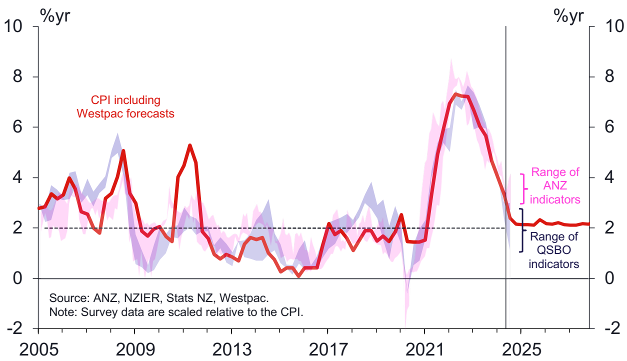
Date	Event
9 Oct 24	RBNZ OCR Review
10 Oct 24	Govt to release 2023-24 Financial Statements
11 Oct 24	NZ Selected price indexes, September
16 Oct 24	NZ CPI, September quarter
5 Nov 24	RBA Monetary Policy Decision
6 Nov 24	Labour market statistics, September quarter
7 Nov 24	FOMC Meeting (Announced 8 Nov NZT)
7 Nov 24 (tbc)	Govt financial statement, 3 months to September
11 Nov 24	RBNZ Survey of Expectations, September quarter
14 Nov 24	NZ Selected price indexes, October
27 Nov 24	RBNZ OCR Review & Monetary Policy Statement
10 Dec 24	RBA Monetary Policy Decision
16 Dec 24	NZ Selected price indexes, November
18 Dec 24 (tbc)	Half-Year Economic and Fiscal Update

Revisions to OCR and CPI forecasts



Last week's QSBO confirmed this relatively benign picture for short-term pricing pressures which contrasts with the more resilient picture from the monthly ANZBO survey. The monthly Selected Price Indices had shown weaker tradables inflation than our August Economic Overview forecasts had embodied. The QSBO is consistent with our sense that there may be more downside risks to our short-term CPI forecasts.

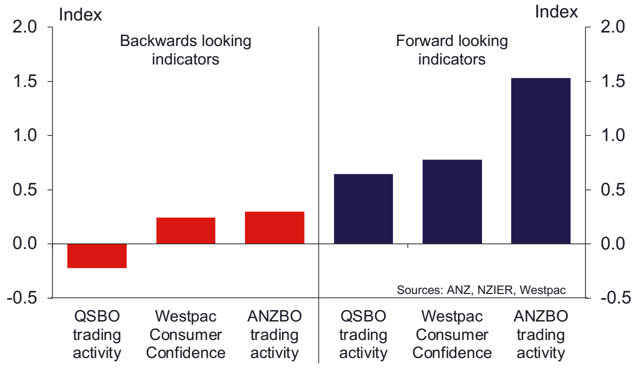
CPI and pricing indicators



These forecasts and associated risks leave us thinking that the RBNZ will not see either headline inflation or inflation expectations as an impediment to bringing the OCR to neutral levels relatively quickly. And indeed, with inflation soon to be at the middle of the 1-3% target range, there is a higher hurdle to arguing that interest rates need to be relatively high compared to neutral levels (which we assess as being around 3.75% compared to the current 5.25% OCR).

Another conundrum we have been wrestling with is the current state of economic activity and the speed at which the economy will pick up as the RBNZ eases. June quarter GDP outperformed the worst fears of the pessimists (and the RBNZ). Some indicators have been relatively positive (such as business confidence, house sales, mortgage applications and the ANZ Truckometer) whereas other indicators have reflected less optimism (consumer confidence, the PMIs, house prices, weekly employment trends).

Sentiment indicators (standardised)



The premier indicators of economic activity come from the NZIER Quarterly Survey of Business Opinion which gave a more downbeat vibe than the ANZBO survey. Economic momentum likely remains in negative territory and while businesses especially are more confident of better times next year, we have some distance to travel before those become front of mind from a policy standpoint. This means that there are still some disinflationary pressures in the pipeline. This is fortunate, as non-traded inflation remains far too high. But given the lags between activity and inflation, the RBNZ will be taking comfort that the progress made on headline inflation through lower tradables inflation will be preserved by lower non-tradable inflation in the not-too-distant future.

Another issue is that the global interest rate cycle has decisively turned in recent months. Central banks have been responding to a global inflation shock and have generally responded in similar ways. We now find the RBNZ fitting well into the group of advanced economy central banks who have already eased significantly and look set to ease by a deal more by the end of Q1 2025. The RBNZ will need to reduce the degree of restriction relatively quickly to keep pace with its peers. And now with inflation projected to be close to target, and the economy operating a fair margin below its productive capacity, there is a less obvious case for maintaining restrictive settings.

The bottom line is we think the RBNZ MPC will be asking themselves "What are we waiting for?" when considering the case for maintaining the OCR at what are reasonably tight levels – even based on Westpac's 3.75% neutral OCR let alone the RBNZ's 3% to 3.5% range of shorter run neutral OCR estimates. If the answer to that question is "not much" then the path ahead seems clear – especially given the RBNZ has a long gap between meetings from November 2024 to February 2025.

We had thought for a while that if a 50bp cut was to occur, then the November Monetary Policy Statement seemed the most compelling time given that gap in the calendar. And if the case for a 50bp cut in November is strong, then the case for that move to come in October also seems compelling. We don't think there will be enough risk in the Q3 CPI or labour market reports coming late October/early November to really shake the case for more substantial OCR adjustment before Christmas. If those risks materialise, then there is plenty of scope for the RBNZ to cut the OCR less in November if need be.

As suggested in **our recent Hawks and Doves note**, reasonable arguments can be made for both maintaining a 25bp point pace of easing and accelerating the pace to more quickly return policy to a neutral stance. The projected step up in the pace of easing in October is a more finely balanced decision (perhaps a 60% probability) whereas the probability of a larger easing in November looks much higher.

The path of the OCR in 2025 will necessarily be more uncertain. More front-loaded policy adjustment before Christmas balances the risks around the degree of adjustment required in 2025. We have pencilled in a slower adjustment in the OCR to neutral levels of 3.75% in the first half of next year. But it's plausible that less or more adjustment occurs. We don't see a case for the OCR to move below neutral right now. Over coming months, the RBNZ will need to carefully assess the responsiveness of the economy to what will be a significant adjustment in financial conditions.

We suspect the RBNZ will see modest risks of front-loading more easing in October if it has the room to scale the degree of future easing back should data suggest that appropriate. The market reaction to the stronger than expected US employment report over the weekend is a case in point. Market expectations further out into 2025 and 2026 are likely not well anchored. The RBNZ could take the opportunity to anchor those expectations better by drawing a firm corollary between greater easing now reducing the need for more easing later. Pointing markets to the future data as opposed to the current focus on trend following and reversion-to-mean type analysis will be useful in that regard.

The choice between a 25 vs 50 bp move this week is finely balanced (we see a 60:40 split in probabilities). 25bp will be more favoured if the RBNZ puts more weight on:

- A straight read of the data starting points (GDP stronger than expected, high frequency indicators bouncing back to varying degrees).
- The strength of forward-looking sentiment indicators such as business confidence.
- Consistency with their previous published interest rate track and the desire for gradualism.

A 50bp cut will likely be more favoured if:

- Their read of the monthly selected price indices and QSBO pricing indicators points to downside risks to their near-term CPI forecasts (as is the case with Westpac's forecasts).
- They weigh more highly increased signs the global interest rate cycle is turning down in the next few months combined with the long gap between meetings over the December-January period compared with global peers.
- They put weight on the indicators of the "here and now" for economic momentum which seem markedly less positive than the forward-looking sentiment indicators (QSBO activity and employment indicators, house prices, PMIs, weekly filled jobs data).

We did get some other data and announcements that are relevant to the assessment of future economic momentum. Filled jobs for August rose 0.2% which is stronger than previous readings. However, based on the past pattern of revisions, we think it will be revised to a flat result in coming months. Moreover, the latest weekly data has taken another leg down in early September which could be a portent of further weakness and would be consistent with our view the unemployment rate still has a way to rise over coming quarters.

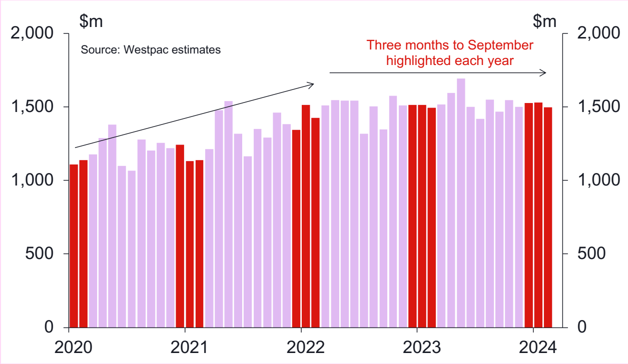
More positively for the growth outlook, the Government announced a new developer underwrite scheme on Friday and the list of projects eligible for consideration under new Fast-Track consenting legislation. These developments are unambiguously positive for growth but probably not immediately. Some, such as the developer underwrite scheme, may only have a marginal impact given their scope looks to be limited to larger developers who perhaps already have ready access to finance. The Fast-Track projects, while on a quicker than usual timeline, will take some time to bear fruit and are more likely to benefit growth later in 2025 onwards as opposed to the here and now. And while eligible for a Fast-Track consent, these projects will only go ahead if they can secure funding.

Kelly Eckhold, Chief Economist

Chart of the week.

Retail spending levels are continuing to track sideways and are yet to show signs of a pickup following July's tax cuts. Our tracker of spending on Westpac issued credit and debit cards showed that spending in the three months to September was only up 0.7% on this time last year, which is below the rate of population growth. It's also well below the rate of inflation, with price rises in non-discretionary areas like housing rents, insurance and utilities crowding out spending in other areas. Consistent with that we've seen weakness in spending on furnishings and in the hospitality sector. By region, spending has been particularly weak in Wellington and is also looking soggy in Auckland. We think spending will remain subdued over the remainder of 2024, but will start to pick up next year as softening inflation and lower interest rates ease the pain on households' back pockets.

Retail spending continuing to track sideways

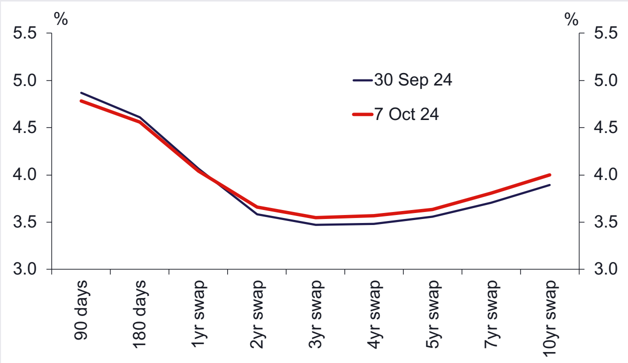


Fixed versus floating for mortgages.

Following the RBNZ's 25bp cut in August, we expect 50bp cuts at both the October and November reviews. We also expect some further, but more gradual, cuts in 2025.

A significant amount of OCR easing is already factored into longer-term mortgage rates. This suggests that it's now more attractive to fix for longer periods than it has been for a while – perhaps even for terms as long as two to three years. Mortgage rates for shorter terms of up to a year are substantially higher now but are likely to fall in the coming months towards current longer term fixed rates.

NZ interest rates



Global wrap

North America.

US non-farm payrolls rose a stronger than expected 254k in September (with 72k of upward revisions), while the unemployment rate fell 0.1ppt to 4.1%. In other news, the ISM's manufacturing index was steady at a soft 47.2. However, reported job openings rose in August and the ISM's services index rose 3.4pts to a 19-month high of 54.9. Ahead of the jobs data, Chair Powell reiterated that he foresaw two more 25bp rate cuts this year if the economy evolves as expected. This week the focus in the US will on Thursday's release of the CPI for September. Further inflation news will come with Friday's release of the PPI report and University of Michigan's consumer survey, while Wednesday's FOMC minutes will be read for further clues about the Fed's reaction function.

Europe.

Core inflation in the euro area nudged down to 2.7%y/y in September, while the final September PMI's confirmed that a loss of growth momentum, albeit by less than indicated in the flash reports. Expectations that the ECB will ease policy again this month were boosted after President Lagarde said that the Bank was increasingly confident that inflation will fall to its 2% target and that "We will take that into account in our next monetary policy meeting in October." Comments made by BoE Governor Bailey also hinted at the potential for a faster pace of policy easing. The coming week should be relatively quiet, with Germany's IP report and the UK's GDP report of greatest note.

Asia-Pacific.

Recent actions to boost China's economy were further motivated by last week's PMIs, which pointed to an economy that was very subdued in September. With markets reopening tomorrow following the Golden Week holiday, interest will centre on any further policy actions that might be announced and on whether China's stock market can build on its pre-holiday gains. On the data front, China will release September inflation and international trade data on Sunday. Elsewhere in Asia, the BoJ's Tankan survey indicated that business sentiment remained upbeat and that firms expected inflation to remain above the Bank's inflation target. Even so, new PM Shigeru Ishiba – a previous monetary policy hawk – said that economic conditions don't currently warrant a further hike in interest rates. In Australia, the coming week will bring updates on consumer and business confidence and job advertising levels, as well as the release of the minutes from the last RBA Board meeting.

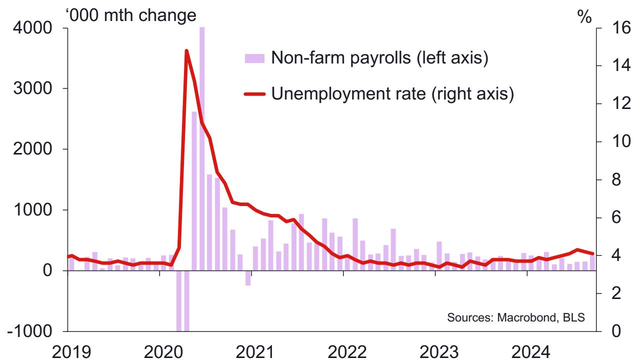
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	2.4
China	5.2	4.8	4.5	4.5
United States	2.5	2.6	1.7	1.7
Japan	1.9	0.2	1.1	0.9
East Asia ex China	3.3	4.3	4.2	4.1
India	7.8	7.0	6.8	6.5
Euro Zone	0.4	0.6	1.5	1.3
United Kingdom	0.1	0.9	1.3	1.4
NZ trading partners	3.3	3.2	3.2	3.2
World	3.2	3.3	3.2	3.2

Australian & US interest rate outlook

	4 Oct	Sep-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.35
90 Day BBSW	4.41	4.42	4.19	3.50
3 Year Swap	3.64	3.60	3.60	3.50
3 Year Bond	3.61	3.55	3.50	3.35
10 Year Bond	4.07	3.90	3.90	4.05
10 Year Spread to US (bps)	23	15	15	5
US				
Fed Funds	4.875	4.375	3.875	3.375
US 10 Year Bond	3.84	3.75	3.75	4.00

US non-farm payrolls and unemployment rate



Euro area inflation

Financial markets wrap

Interest rates.

NZ swap rates were in consolidation mode last week, having delivered large declines to multi-year lows. Market pricing for RBNZ OCR cuts was aggressive and arguably too low, even allowing for the dovish shifts by all major economists who now forecast a 50bp, rather than a 25bp, cut at this Wednesday's meeting.

The surprisingly strong US payrolls data on Friday has caused markets there to remove any chance of a 50bp Fed cut, and that has affected NZ rates markets this morning. The NZ 2yr swap rate has jumped from 3.56% to 3.66%. And pricing now implies a 70% chance of a 50bp OCR cut this week, less confident than the 90% prevailing last week.

Wednesday is now shaping up to be a nervous day for NZ rates markets, given that US payrolls data surprise. A 50bp OCR cut would push swap rates lower, while a 25bp cut would see an even larger reaction in the opposite direction. It will be difficult for the RBNZ to deliver an outcome which holds market rates steady.

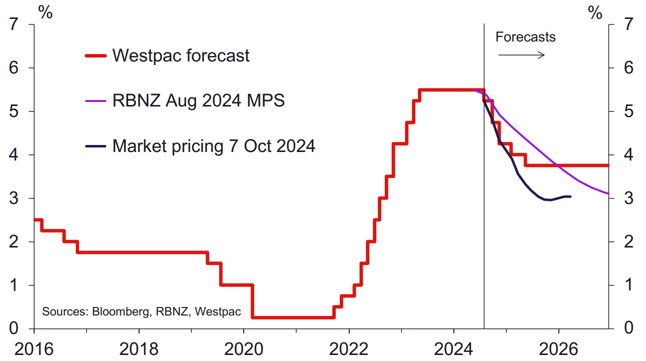
Foreign exchange.

After rising from 0.5858 to 0.6379 in August and September, a correction was due. The fall to 0.6146 this month represents the start of such a correction, which could extend lower to the 0.6000-0.6100 area before completion.

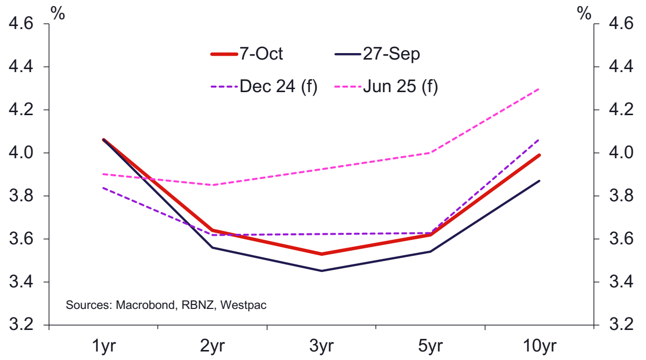
The US dollar, which earlier has weakened on expectations of large Fed rate cuts, has flipped direction as those easing expectations have been significantly pared. Markets no longer expect a jumbo 50bp rate cut, but rather more measured 25bp cuts, in the wake of some stronger US economic data. Friday's labour data was much stronger than economists or markets had expected.

Looking at the week ahead, the main events which could ruffle NZD/USD will be the RBNZ MPR and US CPI inflation data. The RBNZ is widely expected to cut by 50bp, which would help weaken NZD/USD further on the day. A US inflation data surprise would affect the US dollar.

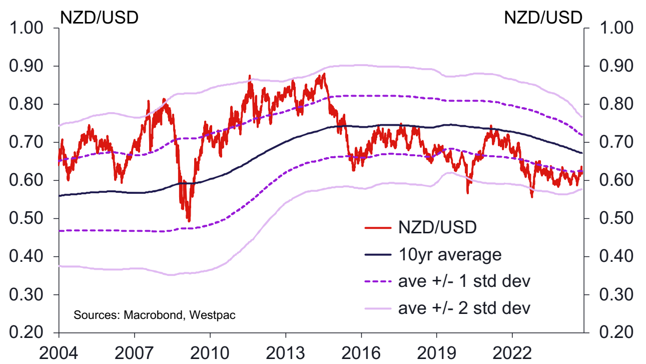
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.616	0.586-0.636	0.555-0.743	0.645	0.62
AUD	0.907	0.897-0.925	0.873-0.992	0.929	0.91
EUR	0.562	0.542-0.569	0.517-0.637	0.581	0.56
GBP	0.470	0.456-0.479	0.456-0.535	0.502	0.47
JPY	91.7	86.1-98.6	61.3-98.6	80.7	88.3

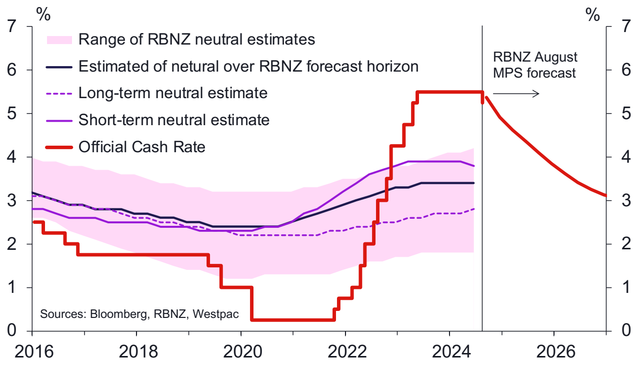
The week ahead

RBNZ Monetary policy review

Oct 9 Current OCR: 5.25%, Westpac f/c: 4.75%, Market f/c: 4.75%

We expect the RBNZ will follow August's 25bp cut with a 50bp move at the October policy review. Even after the August cut, the OCR is still at 'tight' levels. However, inflation will soon be back comfortably within the RBNZ's target band, and recent survey data indicates that there could be further downside risk. At the same time, growth is weak and spare capacity in the economy is mounting. Moving quickly now could help to fend off a deeper than needed slowdown in activity, the labour market or inflation that could necessitate a deeper easing cycle down the line.

Official Cash Rate and RBNZ estimates of neutral

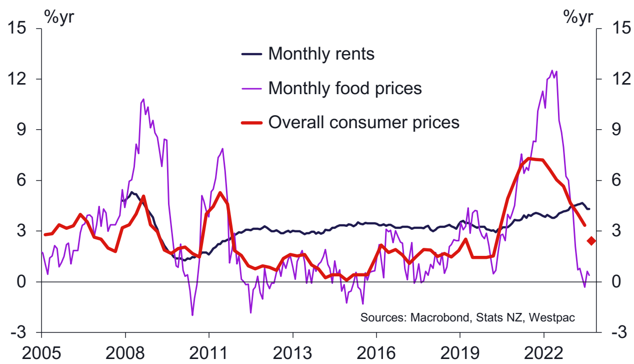


Sep selected price indices

Oct 11

The September selected prices update will be an important indicator of the quarterly CPI out on 16 October. We'll be watching to see if the softness in the prices of volatile items like international travel and fuel has continued. We'll also be keeping a close eye on domestic prices, like rents and takeaway foods. With a downturn in domestic activity in train, we have seen some softness in these areas in recent months. If that continues in September, it would be an important consideration for the RBNZ in their policy deliberations.

Selected consumer prices



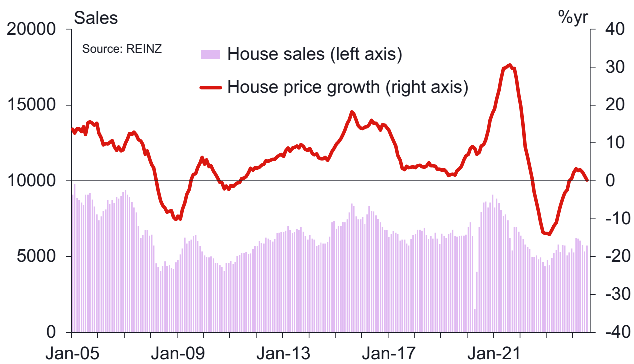
Sep REINZ house prices

Due this week. Prices, last: -0.8%yr, sales: -0.7%

Consistent with reports from real estate agencies, we expect the September housing market report will show that sales have increased, albeit from low levels. However, house price growth is expected to remain muted, due to the sizeable inventory of unsold homes.

Mortgage rates have started to drop and this will support the market over time. However, it will take time to fully pass through to housing market activity.

REINZ house prices and sales

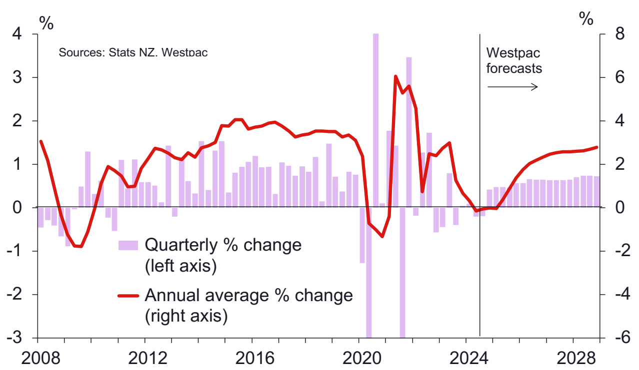


Economic and financial forecasts

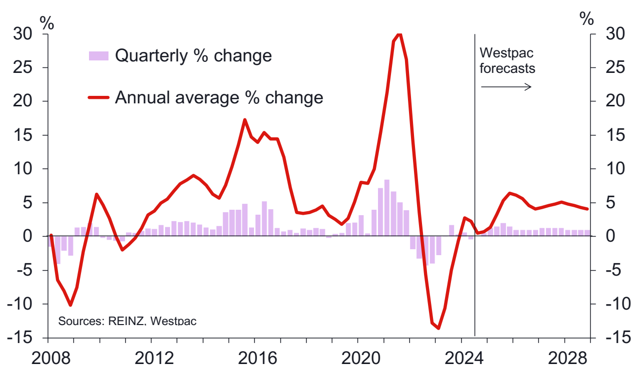
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.1	-0.2	-0.2	0.4	0.7	0.0	1.4	2.3
Consumer price index	0.6	0.4	0.9	0.3	4.7	2.2	2.2	2.1
Employment change	-0.3	0.4	-0.4	-0.2	2.9	-0.4	-0.1	1.5
Unemployment rate	4.4	4.6	5.0	5.3	4.0	5.3	5.6	4.9
Labour cost index (all sectors)	0.9	1.2	0.7	0.7	4.3	3.5	2.3	1.9
Current account balance (% of GDP)	-6.7	-6.7	-6.3	-6.0	-7.1	-6.0	-5.2	-5.5
Terms of trade	5.1	2.0	1.7	0.5	-10.7	9.6	0.4	2.4
House price index	0.4	-0.4	0.0	0.5	0.6	0.5	6.3	4.0

Financial forecasts	End of quarter				End of year			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
OCR	5.50	5.50	5.25	4.25	5.50	4.25	3.75	3.75
90 day bank bill	5.66	5.63	5.31	4.25	5.65	4.25	3.85	3.85
2 year swap	4.91	5.01	4.06	3.60	5.28	3.60	4.00	4.00
5 year swap	4.40	4.53	3.81	3.65	4.85	3.65	4.25	4.25
10 year bond	4.69	4.74	4.31	4.15	5.09	4.15	4.40	4.35
TWI	71.6	71.4	70.9	71.2	70.8	71.2	70.6	69.4
NZD/USD	0.61	0.61	0.61	0.62	0.60	0.62	0.64	0.64
NZD/AUD	0.93	0.92	0.91	0.91	0.93	0.91	0.88	0.88
NZD/EUR	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
NZD/GBP	0.48	0.48	0.47	0.47	0.49	0.47	0.48	0.47

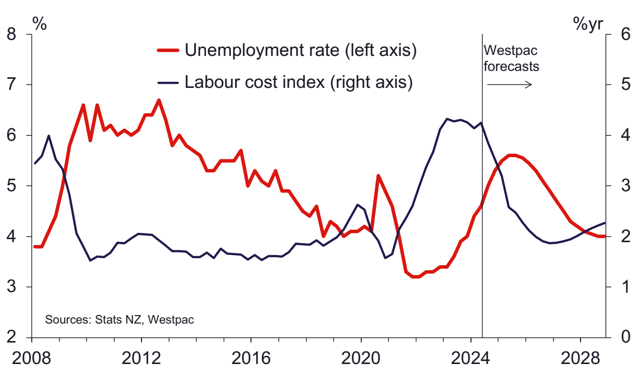
GDP growth



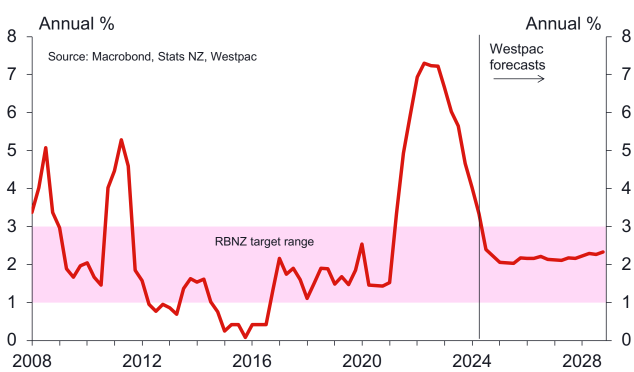
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 7					
Aus	Public Holiday	–	–	–	Labour Day (NSW, SA, ACT) & King's Birthday (Qld).
	Sep MI Inflation Gauge, %yr	2.5	–	–	Continues to step-down as rebates kick-in.
Chn	Sep Foreign Reserves, US$bn	3288	3309	–	Authorities comfortable with TWI stability.
Eur	Oct Sentix Investor Confidence, index	–15.4	–	–	Outlook dampened by weakness in Germany.
	Aug Retail Sales, %mth	0.1	0.2	–	Consumers slowly regaining their footing.
US	Aug Consumer Credit, $bn	25.5	13.4	–	Rate cuts to support credit growth, in time.
	Fedspeak	–	–	–	Kashkari.
Tue 8					
Aus	Oct Westpac-MI Consumer Sentiment, index	84.6	–	–	Still holding around deeply pessimistic levels.
	Sep RBA Minutes	–	–	–	Board did not explicitly consider a rate rise like in August.
	Sep NAB Business Conditions, index	3	–	–	Conditions continue to ease, consistent with official data.
	Sep ANZ-Indeed Job Ads, %mth	–2.1	–	–	Points to balance returning to labour market.
	RBA Deputy Governor Hauser	–	–	–	Remarks and Q&A in Sydney.
Jpn	Aug Household Spending, %yr	0.1	–2.6	–	Higher wages struggling to ignite spending.
	Aug Current Account Balance, ¥bn	3193	2983	–	Current account surplus set to move lower.
US	Sep NFIB Small Business Optimism, index	91.2	91.7	–	Lingering uncertainty keeping optimism low.
	Aug Trade Balance, $bn	–78.8	–71.3	–	Narrowing as goods consumption weakens.
	Fedspeak	–	–	–	Bostic, Musalem, Kugler, Collins.
Wed 9					
NZ	Oct RBNZ Policy Decision, %	5.25	4.75	4.75	Inflation outlook no longer a barrier to easing.
Aus	RBA Assist' Gov. (Fin Mkts)	–	–	–	Kent speaking in Sydney.
Chn	Sep New Loans CNY, ytd	14426.1	–	–	Latest stimulus measures will take time to appear in data.
	M2 Money Supply	6.3	6.4	–	Data is due October 9 to 15.
US	Sep FOMC Minutes	–	–	–	More colour behind the FOMC's 50bp rate cut.
	Fedspeak	–	–	–	Bostic, Logan, Goolsbee, Collins.
Thu 10					
Aus	Oct MI Inflation Expectations, %yr	4.4	–	–	Provides a general view on risks.
	RBA Assist' Gov. (Economic)	–	–	–	Hunter panel participation in Sydney.
US	Sep CPI, %mth	0.2	0.1	0.1	Shelter poses some downside risks.
	Initial Jobless Claims	225	–	–	Worker strikes and bad weather may test claims.
	Fedspeak	–	–	–	Daly, Williams.
Fri 11					
NZ	Sep REINZ House Sales, %yr	–0.7	–	–	TBC. Signs that buyer interest is lifting…
	Sep REINZ House Prices, %yr	-0.8	–	–	… but price growth limited for now.
	Sep Manufacturing PMI, index	45.8	–	–	Set to remain a low levels.
	Sep Food Prices, %mth	0.2	–	-0.1	Seasonal fall in fresh vegetable. prices
	Sep Rents, %mth	0.3	–	0.3	Rental inflation is easing gradually.
	Aug Net Migration, no.	3030	–	–	Annual inflow continuing to drop.
UK	Aug Monthly GDP, %mth	0	–	–	Likely to indicate a slowdown in Q3.
US	Sep PPI, %mth	0.2	0.1	–	Broadly consistent with at-target goods inflation.
	Oct Uni. of Michigan Sentiment, index	70.1	70	–	Lower borrowing costs to brighten sentiment ahead.
	Fedspeak	–	–	–	Goolsbee, Logan.
Sun 13					
Chn	Sep CPI, %yr	0.6	0.6	–	Excess supply and soft consumer demand…
	Sep PPI, %yr	–1.8	–	–	… stifling inflation pressures.

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Imre Speizer, Market Strategist | +64 9 336 9929 | +64 21 769 968 | imre.speizer@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 (‘Westpac’).

Disclaimer.

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures.

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited (“WNZL”). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;

(ii) physical separation of various Business/Support Units;

(iii) and well defined wall/cell crossing procedures;

(iv) a "need to know" policy;

(v) documented and well defined procedures for dealing with conflicts of interest;

(vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Westpac Banking Corporation.