

# WESTPAC WEEKLY ECONOMIC COMMENTARY

## 2022: Tiger or tabby?

24 January 2022



Hihi

### Westpac Economics Team

✉ [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

🌐 [westpac.co.nz/economics](https://westpac.co.nz/economics)



Happy New Year everyone! 2022 is the Year of the Tiger. And whether the economy is tiger-like this year or perhaps more akin to a tabby remains to be seen. Either way, there are some key trends that we will be closely watching this year that will go a long way to determining how the economy fares.

First up, we are watching how the housing market fares as it butts up against rising interest rates. Recall that our view is that interest rates are the chief determinant of changes in house prices. So the rapid run-up in prices as interest rates fell over 2020 and 2021 ought to change course as interest rates rise.

Already we have seen a big rise in mortgage rates over the last few months of 2021, and the December sales figures out last week gave us the first clear steer that that's having the expected impact. The number of house sales has dropped back, with sales down around 8% for the month and nearly 30% on a year ago. And sale prices actually fell (-0.5%) for the month. That's the first time that has happened since the Covid lockdown in 2020.

Specifically, we've been predicting that as mortgage rates rise, we'll see moderate price declines kick in from the second half of this year, continuing through into 2023. However, the timing of that turnaround has always been fluid, and if it turns out to be sooner, then we're still comfortable with the direction of our forecast.

Secondly, inflation is also going grab its share of economic headlines this year. Indeed, the December quarter Consumers Price Index data due this week are likely to raise a few eyebrows. We expect the quarter to show an annual inflation rate of 5.7%, which would be highest rate in 31 years.

Where the RBNZ worries about inflation is not just when prices go up (or surge in this case), but when high inflation becomes entrenched. And for that to happen, you really need wage inflation to come to the party. So a key question is: will 2022 finally be the year of big pay increases?

There's every reason to think so. Businesses are crying out for workers. Last week's Quarterly Survey of Business Opinion was a case in point. Firms reported that labour shortages were the single biggest constraint on growth.

Workers are in the best position in a long time to negotiate a pay rise, or alternatively to switch to a higher-paying job. Yet the evidence so far that this is happening is patchy. Our employment confidence survey, also published last week, found that both current and expected earnings growth remains relatively low.

And while hard wage data has shown a recent uptick, wage growth is still running at historically modest levels.

Why is that? Maybe there's something different about the Covid environment, or maybe it's just a matter of time before the proof comes through. For now we are in the latter camp, but either way, wage growth is going to be one of the key economic variables to watch this year.

Finally, Covid is going to continue to throw curve balls at the economy over 2022 whether we like it or not. It was only a matter of time before omicron made its way into the community, and as it takes hold its prevalence is likely to exceed anything that we've seen in this country so far in the pandemic.

The Australian experience offers some insights. There, case numbers surged to record highs to the point that testing capacity was unable to cope. And while not as severe as previous strains, the sheer numbers have overwhelmed hospitals in some of the harder hit states.

In an economic sense, omicron has also taken Australian businesses by surprise. Notably, essential services like food are struggling to cope with sick or isolating workers off work right across the supply chain. This has resulted in shortages of a larger number of locally-produced goods for the first time during the pandemic, whereas previously most shortages centred on imported goods.

From the New Zealand perspective, to date essential industries like food have been a source of stability and economic strength. And while we don't think that is going to change at a high level, we do expect Covid to continue to throw up fresh challenges over the course of the year.

All up, there's plenty going on in the economy and it's as dynamic as ever. With the above in mind, it pays to stay informed and indeed watch this space.

**Nathan Penny**, Senior Agri Economist

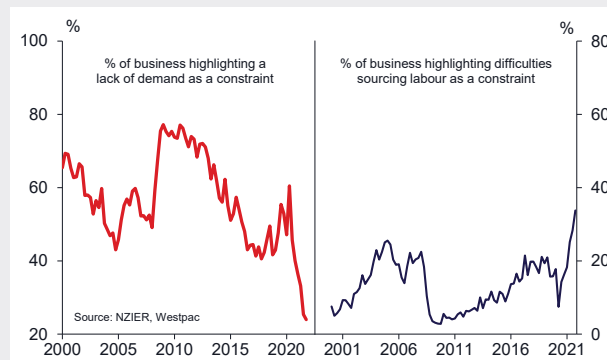
+64 9 348 9114

nathan.penny@westpac.co.nz

## Chart of the week

One key aspect of this inflation surge is that it is coming from all sides. Supply side constraints such as labour and material shortages are well-publicised. But what is not reported as often is surging demand. The chart above shows how this perfect inflation storm has been put together. Importantly, it has meant that as firms have faced cost increases they have been comfortable lifting their prices, knowing that demand is sufficiently strong to absorb any price lifts.

### Factors constraining business activity

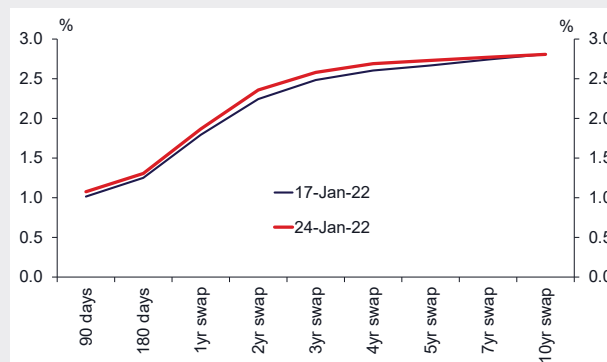


## Fixed vs floating for mortgages

We expect the Reserve Bank to increase the OCR further at its upcoming reviews, reaching a peak of 3% by mid-2023.

Based on these OCR forecasts, we think there is value in extending fixed-rate terms as far out as three years. Longer terms (out to five years) don't offer additional value, though they may be suitable for borrowers who value more certainty in their repayments.

### NZ interest rates



# The week ahead

## NZ Q4 consumer price index

**Jan 27, Last: 2.2%, WBC f/c: 1.2%,  
Mkt f/c: 1.3%, Range: 0.9% to 1.7%**

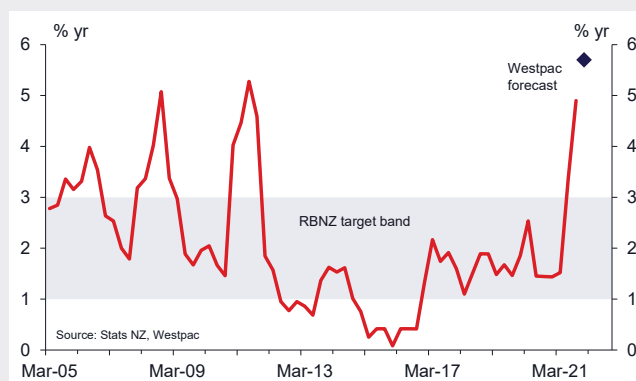
We expect a 1.2% rise in the CPI in the December quarter. That would see annual inflation rising to 5.7%, up from an annual rate of 4.9% last quarter and the highest annual inflation rate in 31 years.

There's been particularly large increases in construction prices and transport costs. However, inflation pressures are widespread, boosted by supply-side pressures and strong domestic demand.

Our forecast is in line with the RBNZ's last set of published forecasts.

With significant Covid disruptions occurring, we could see some large swings in prices this quarter, both up and down. However, smoothing through that quarter-to-quarter volatility, the underlying trend in inflation is set to remain very strong over 2022.

## NZ Consumer Price Inflation



## Aus Q4 Consumer Price Index

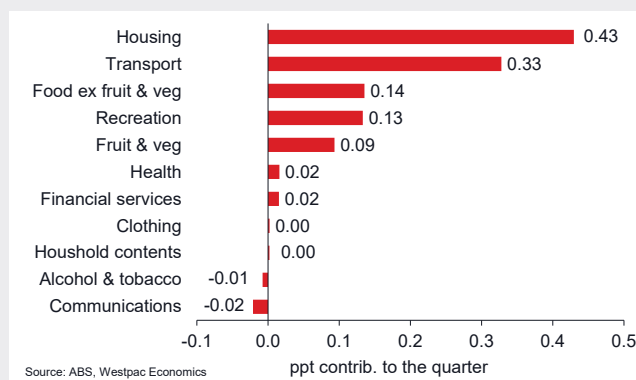
**Jan 25 Last: 0.8%, WBC f/c: 1.1%  
Mkt f/c: 1.0%, Range: 0.8% to 1.2%**

The Q3 CPI came as expected lifting 0.8% vs. Westpac and market forecast of 0.8%. The big surprise was the 0.7% rise in the trimmed mean taking the annual pace to 2.1%/yr. The most significant price rises were for new dwelling purchase by owner-occupiers 3.3% and auto fuel 7.1%. For dwelling prices the ABS reported a surprising 3.0% rise in the underlying price before the grants.

Westpac is forecasting a 1.1% rise in the December quarter CPI. The annual pace lifts from 3.0%/yr to 3.2%/yr. Core inflation, as measured by the trimmed mean, is set to rise 0.7% lifting the annual pace from 2.1%/yr to 2.4%/yr. The six month annualised pace of core inflation is forecast to accelerate from 2.4%/yr to 2.9%/yr.

Housing makes the largest contribution (0.43ppt), transport makes the next largest with 0.26ppt and food is not far behind with a 0.23ppt contributing.

## Contributions 2021 Q4 CPI 1.1%qtr forecast



## Aus Dec Leading Index

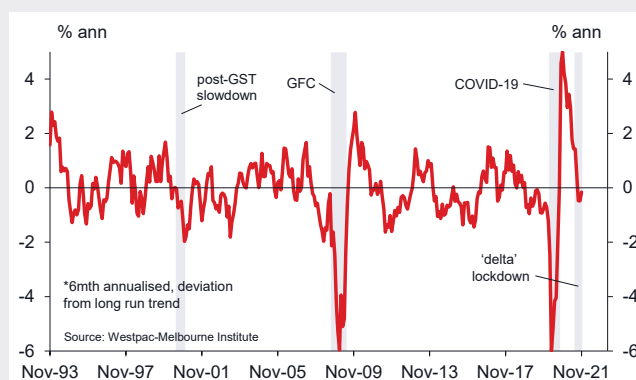
**Jan 27, Last: -0.2%**

The six-month annualised growth rate rose to -0.2% in November from -0.5% in October, remaining in negative, below trend, territory for a third consecutive month.

Weakness mainly reflects the lockdowns in NSW and Victoria. With these coming to an end in October-November, the growth pulse should lift in December although this will likely be partially offset by omicron impacts on consumer sentiment.

The new monthly read will include positive updates on the ASX200 (up 2.6%); commodity prices (up 3.3% in AUD terms); dwelling approvals (up 3.6%); and total hours worked (up 1% after a very strong 4.5% rebound in Nov). Against this, the Westpac-MI Consumer Expectations Index deteriorated 6.1% and the Westpac-MI Unemployment Expectations Index deteriorated 8.2%. More omicron-related slowing effects are likely to emerge in early 2022.

## Westpac-MI Leading Index

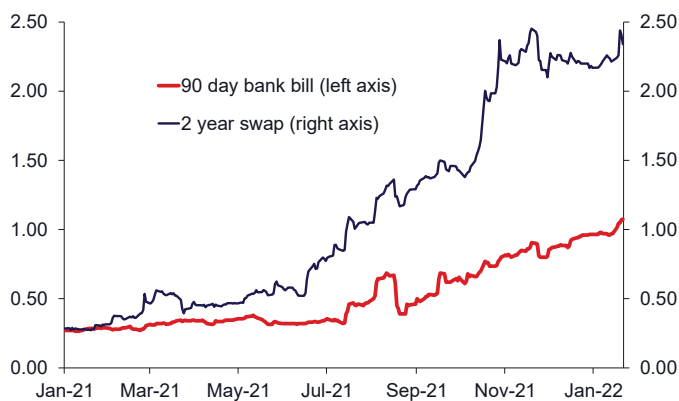


# New Zealand forecasts

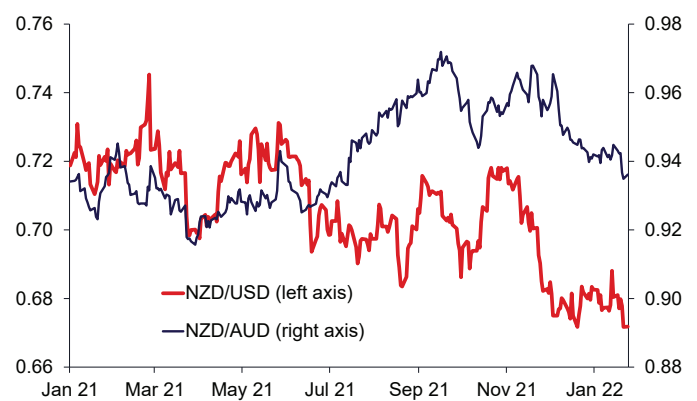
Economic forecasts		Quarterly				Annual			
		2021		2022					
% change		Jun (a)	Sep	Dec	Mar	2020	2021f	2022f	2023f
GDP (Production)		2.4	-3.7	1.1	1.6	-1.9	5.1	4.4	4.7
Employment		1.0	2.0	0.2	0.3	0.6	3.8	0.6	1.2
Unemployment Rate % s.a.		4.0	3.4	3.6	3.5	4.8	3.6	3.3	3.4
CPI		1.3	2.2	1.2	1.0	1.4	5.7	3.1	2.7
Current Account Balance % of GDP		-3.3	-4.5	-5.3	-5.4	-0.8	-5.3	-5.7	-3.9

Financial forecasts	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Cash	1.00	1.50	2.00	2.25	2.50	2.75	3.00	3.00
90 Day bill	1.40	1.90	2.20	2.45	2.70	2.95	3.10	3.10
2 Year Swap	2.55	2.75	2.90	2.95	3.00	3.00	2.95	2.90
5 Year Swap	2.80	2.95	3.05	3.10	3.15	3.15	3.15	3.10
10 Year Bond	2.80	2.85	2.90	3.00	3.00	3.00	3.00	2.95
NZD/USD	0.67	0.66	0.67	0.69	0.70	0.71	0.72	0.72
NZD/AUD	0.94	0.94	0.94	0.95	0.93	0.93	0.94	0.92
NZD/JPY	77.7	76.6	78.4	80.7	82.6	83.8	85.7	85.7
NZD/EUR	0.61	0.61	0.61	0.63	0.63	0.63	0.64	0.63
NZD/GBP	0.49	0.48	0.49	0.50	0.51	0.52	0.53	0.53
TWI	72.1	71.2	71.7	73.1	73.5	74.1	75.0	74.6

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 24 January 2022

Interest rates	Current	Two weeks ago	One month ago
Cash	0.75%	0.75%	0.75%
30 Days	0.84%	0.80%	0.80%
60 Days	0.96%	0.89%	0.88%
90 Days	1.08%	0.97%	0.96%
2 Year Swap	2.36%	2.26%	2.20%
5 Year Swap	2.73%	2.70%	2.57%

NZ foreign currency mid-rates as at 24 January 2022

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6718	0.6774	0.6800
NZD/EUR	0.5921	0.5979	0.6006
NZD/GBP	0.4958	0.4985	0.5072
NZD/JPY	76.38	78.29	77.98
NZD/AUD	0.9361	0.9412	0.9426
TWI	71.93	72.74	72.98

# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 24</b>					
Eur	Jan Markit manufacturing PMI	58.0	58.2	-	Manufacturing growth has remained strong...
	Jan Markit services PMI	53.1	52.5	-	... but services likely to take a hit from omicron.
UK	Jan Markit manufacturing PMI	57.9	-	-	Strength in manufacturing apparent...
	Jan Markit services PMI	53.6	-	-	... omicron set to impact services growth.
US	Dec Chicago Fed activity index	0.37	-	-	To provide a timely update on activity in the region.
	Jan Markit manufacturing PMI	57.7	57.0	-	Manufacturing has remained resilient...
	Jan Markit services PMI	57.6	-	-	... but services to be impacted by omicron wave.
<b>Tue 25</b>					
NZ	Dec BusinessNZ PSI	46.5	-	-	Might see a small bounce as restrictions in Auckland eased.
Aus	Q4 CPI	0.8%	1.0%	1.1%	Significant one off positives in dwellings, auto fuel & food...
	Q4 CPI %yr	3.0%	3.1%	3.2%	...but the offsetting soft components are seasonal...
	Q4 core CPI (trimmed mean)	0.7%	0.7%	0.7%	...hence the solid 0.7% gain in the trimmed mean.
	Q4 core CPI, %yr (trimmed mean)	2.1%	2.4%	2.4%	Upside risk to dwellings with uncertainty for durable goods.
	Dec NAB business survey	12	-	-	Omicron outbreak dent confidence, disrupt activity.
US	Nov FHFA house prices	1.1%	1.1%	-	Robust underlying demand for housing...
	Nov S&P/CS home price index	0.92%	0.99%	-	... set to continue buoying house prices.
	Jan consumer confidence index	115.8	111.9	-	Omicron likely to weaken confidence.
<b>Wed 26</b>					
NZ	Dec trade balance \$m	-864	-	-850	Import values still running hot on strong demand.
Aus	Australia Day	-	-	-	Public holiday.
US	Dec wholesale inventories	1.4%	1.4%	-	Stocks are being replenished as the supply chain allows.
	Dec new home sales	744k	770k	-	Expected to remain strong as supply constraints alleviate.
	FOMC policy decision, midpoint	0.125%	0.125%	0.125%	Guidance on first rate hike expected; dot plot to be a focus.
<b>Thu 27</b>					
NZ	Q4 CPI	2.2%	1.3%	1.2%	Demand and supply factors pushing inflation to 30yr highs.
Aus	Dec Westpac-MI Leading Index	-0.2%	-	-	Reopening from delta lockdowns, then the arrival of omicron.
	Q4 import price index	5.4%	1.4%	1.4%	AUD little higher in Q4, tempering lift in import prices.
	Q4 export price index	6.2%	-3.0%	-2.2%	Lower on higher AUD & on commodity price pull-back.
US	Initial jobless claims	286k	-	-	Recent up-tick due to omicron likely temporary.
	Q4 GDP, annualised	2.3%	5.7%	-	Omicron hit concentrated in Q1 2022.
	Dec durable goods orders	2.6%	-0.4%	-	Volatility in transportation segment; strong otherwise.
	Dec pending home sales	-2.2%	-0.3%	-	Demand for housing remains robust despite rising rates.
	Jan Kansas City Fed index	24	-	-	Manufacturing outlook still very positive for the region.
<b>Fri 28</b>					
NZ	Jan ANZ consumer confidence	98.3	-	-	Covid and inflation concerns continue to dampen sentiment.
Aus	Q4 PPI	1.1%	-	-	Pressure on input prices, including energy costs.
Eur	Jan economic confidence	115.3	-	-	Confidence likely to be hit by omicron.
UK	Jan Nationwide house prices	1.0%	-	-	Demand for housing set to cool over the course of 2022.
US	Q4 employment cost index	1.3%	1.1%	-	Tight labour market to lend support to wages growth.
	Dec personal income	0.4%	0.5%	-	Expected to lift but weakening purchasing power still a threat.
	Dec personal spending	0.6%	-0.5%	-	Inflation and omicron likely to weigh on spending.
	Dec PCE deflator	0.6%	0.5%	-	PCE inflation set to lift to near-40 year highs.
	Jan Uni. of Michigan sentiment	68.8	68.8	-	Final estimate; inflation and omicron has hurt confidence.

# International forecasts

Economic Forecasts (Calendar Years)	2018	2019	2020	2021f	2022f	2023f
<b>Australia</b>						
Real GDP %yr	2.8	2.0	-2.2	4.3	5.5	3.5
CPI inflation %yr	1.8	1.8	0.9	3.0	2.5	2.6
Unemployment rate %	5.0	5.2	6.8	5.3	3.8	3.8
Current account % of GDP	-2.1	0.7	2.6	3.9	0.9	-2.2
<b>United States</b>						
Real GDP %yr	3.0	2.2	-3.5	5.7	4.3	2.7
CPI inflation %yr	2.4	1.9	1.2	5.0	3.1	2.3
Unemployment rate %	3.9	3.7	8.1	5.4	4.2	3.8
Current account % of GDP	-2.3	-2.6	-2.5	-2.4	-2.4	-2.4
<b>Japan</b>						
Real GDP %yr	0.6	0.3	-4.8	2.3	2.7	1.5
<b>Euro zone</b>						
Real GDP %yr	1.9	1.3	-6.6	4.9	4.4	2.5
<b>United Kingdom</b>						
Real GDP %yr	1.3	1.4	-9.9	6.7	5.2	3.0
<b>China</b>						
Real GDP %yr	6.7	5.8	2.3	8.5	5.7	5.6
<b>East Asia ex China</b>						
Real GDP %yr	4.4	3.7	-2.4	3.8	4.8	5.0
<b>World</b>						
Real GDP %yr	3.6	2.8	-3.3	5.4	4.6	3.6

Forecasts finalised 8 December 2021

Interest rate forecasts	Latest	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
<b>Australia</b>									
Cash	0.10	0.10	0.10	0.25	0.50	0.75	1.00	1.25	1.50
90 Day BBSW	0.07	0.10	0.10	0.35	0.60	0.95	1.20	1.45	1.65
10 Year Bond	1.91	2.15	2.40	2.40	2.50	2.50	2.40	2.30	2.20
<b>International</b>									
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375	1.625	1.875	1.875
US 10 Year Bond	1.76	2.00	2.30	2.40	2.50	2.50	2.40	2.30	2.20

Exchange rate forecasts	Latest	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
AUD/USD	0.7198	0.71	0.70	0.71	0.73	0.75	0.76	0.77	0.78
USD/JPY	113.71	116	116	117	117	118	118	119	119
EUR/USD	1.1328	1.10	1.08	1.09	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.3597	1.36	1.37	1.38	1.38	1.37	1.37	1.36	1.35
USD/CNY	6.3428	6.35	6.35	6.30	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.0685	1.06	1.06	1.06	1.06	1.07	1.07	1.07	1.08



# Contact the Westpac economics team

**Michael Gordon, Acting Chief Economist**

+64 9 336 5670

**Satish Ranchhod, Senior Economist**

+64 9 336 5668

**Nathan Penny, Senior Agri Economist**

+64 9 348 9114

**Paul Clark, Industry Economist**

+64 9 336 5656

**Gregorius Steven, Economist**

+64 9 367 3978

**Any questions email:**

[economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## 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](http://www.westpac.co.nz). For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

**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 licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a licence 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 be 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.

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.