17 March 2014

Weekly Commentary

Cape Reinga lighthouse, North edge of New Zealand

In this issue

Fixed vs floating	2
The week ahead	3
Data calendar	5
New Zealand forecasts	6
International forecasts	7

You can go your own way

As was widely expected, the Reserve Bank lifted the Official Cash Rate to 2.75% last week, and signalled an extended series of hikes over the course of the next few years. The subsequent market reaction will give the RBNZ some comfort that it can proceed with this plan: while the New Zealand dollar ended the week a little higher, it was in proportion with the firmer than expected tone of the *Monetary Policy Statement*.

The language of the *MPS* was noticeably more assertive than even the previous statement in January. The RBNZ noted that the economy's expansion is "becoming more broad-based", that inflation pressures are not just "expected to increase" but are now "becoming apparent", and that "it is important that inflation expectations remain contained". While the RBNZ stressed the need for interest rates to rise, it couched this in terms of removing stimulus rather than a tightening of policy, aimed at keeping the economy's upswing at a sustainable pace.

The RBNZ has lifted its GDP growth forecast for this year to around 3.5%. Part of the increase comes from a stronger assessment of the economy's potential growth over the next few years – the result of higher migration, higher labour force participation, and recent revisions to GDP showing that investment in capital equipment over recent years has been greater than thought. Even so, the RBNZ judges that the level of GDP is already running almost 1% above its non-inflationary potential, and the gap is expected to widen further as the economy expands and the Christchurch rebuild shifts into top gear.

The other significant change was in the RBNZ's inflation forecasts, particularly for this year. Whereas the December *MPS* concluded that annual inflation wouldn't reach the 2% midpoint of the RBNZ's target range until the end of 2015, inflation is now expected to hit that mark by the middle of this year, and to remain just a touch below it over the following year. Given that the RBNZ's current Policy Targets Agreement puts an increased emphasis on that 2% midpoint, and that surveyed expectations of inflation

You can go your own way continued

have been tending to drift up and away from the 2% mark, that leaves little room for complacency.

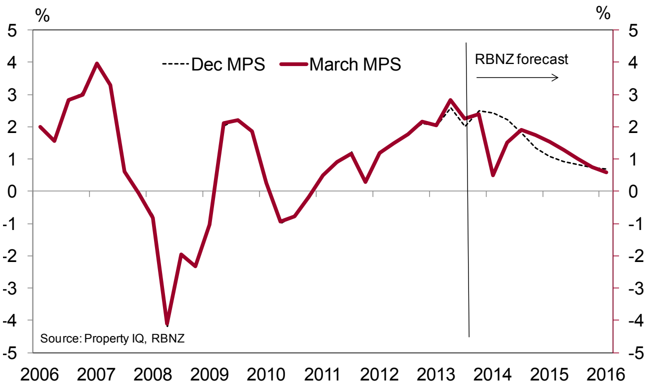
The RBNZ's projected path for 90-day interest rates was 20-30 basis points higher compared to the December *MPS*, which was much as we expected and fairly reflects the stronger tone of the economic data over the last three months. What may have come as a surprise to the market is that, even with an additional year of projections this time, the RBNZ still fell short of signalling where it sees the peak in the tightening cycle – the 90-day rate was projected to be at 5.3%, and still rising, by early 2017. While that's not markedly out of line with our own view, it serves as a wake-up call to the market that the OCR will need to move above its 'neutral' level for a period of time.

The *MPS* stopped short of explicitly signalling a follow-up move at the 24 April OCR review, though by the same token it gave no indication that the RBNZ is looking to pause and assess the impact of last week's move. The central projection implies another 100 basis points of hikes this year – that is, another four hikes over six remaining review dates – and looks to be heavily front-loaded. That supports our prior view that the OCR will be increased at the next three reviews in April, June and July, with further hikes from December onward.

Financial markets were thoroughly prepared for last week's OCR hike, though they weren't completely sold on the case for five hikes this year (and they still aren't, currently pricing in another 88bps by year-end). While the prospect of a tightening cycle was well signalled, there was a risk – however remote – that once the tightening became a reality, offshore investors might have rushed into the New Zealand dollar to take advantage of its widening interest rate differential with the rest of the world. That hasn't been the case: while the trade-weighted index briefly hit a record high after the *MPS*, it's only marginally higher against its closest peer the Australian dollar.

A sharp rise in the NZ dollar is one factor that could scuttle the RBNZ's plans to continue raising interest rates; the other would be a continued slowdown in the housing market. Figures last week from the REINZ showed a further drop in house sales in February, which are now down 13% since the RBNZ's limits on high loan-to-value ratio home loans were introduced last October. House price growth also appears to be softening, although this picture has been distorted by the fact that the mix of sales has swung sharply away from lower-end properties.

Quarterly house price inflation

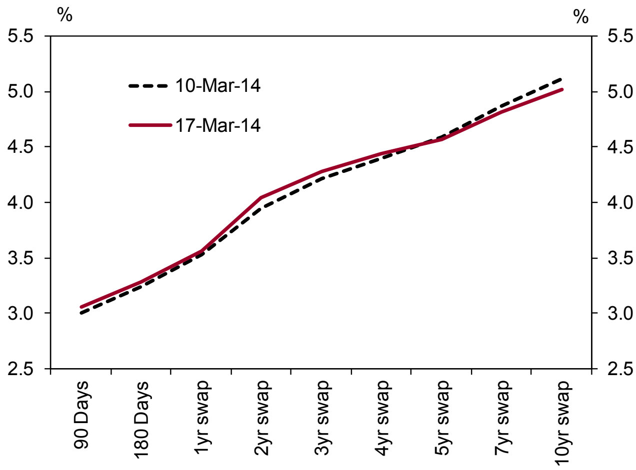


The RBNZ concluded that it's too soon to tell whether the impact of the LVR restrictions has been more severe than anticipated, though it may be that the effects have been more front-loaded than assumed. Hence, the RBNZ is now expecting house price growth to slow sharply over the early part of this year, but to accelerate again over the second half of the year as strong net inward migration drives housing demand. This is one area where we regard the RBNZ as being too bullish. We've long emphasised the importance of mortgage rates for house prices, and with interest rates projected to steadily rise over the next few years, we expect slower house price inflation in 2015 compared to the RBNZ forecast.

Fixed vs Floating for mortgages

We believe that fixing and floating will offer similar value over the course of the next three years. The Reserve Bank has kicked off what is widely expected to be an extended series of increases in the Official Cash Rate. This view is more or less embedded in current fixed-term mortgage rates, which implies that the costs of fixing or floating are expected to be similar over the longer term. However, with floating rates likely to rise further in coming months, borrowers who value certainty in their repayments over the near term should consider fixing now.

NZ interest rates

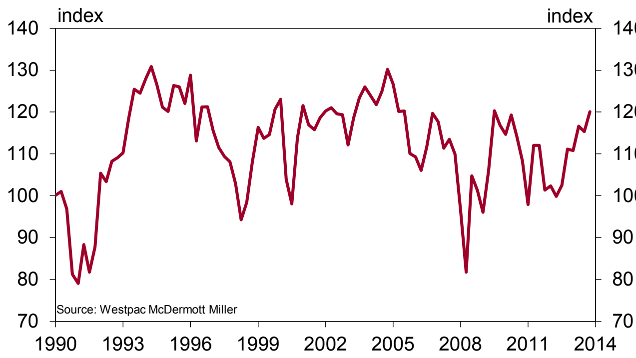


NZ Q1 Westpac-MM Consumer Confidence

Mar 17, Last: 120.1

- Consumer confidence surged in December, to its highest level since late 2009, when the economy was experiencing its first abortive burst of recovery.
- Compared to 2009, consumers are both much more upbeat on the near-term economic outlook and more positive about the state of their own finances.
- The ‘spending’ questions of the survey remain relatively subdued, however. In fact the number of households saying that it is a good time to buy a major household item, or that they would spend a cash windfall, fell in the second half of 2013 – possibly reflecting the recent introduction of mortgage lending restrictions, rising fixed-term mortgage rates, and related housing market concerns.
- The March survey was in the field over 1-10 March.

Westpac-McDermott Miller consumer confidence

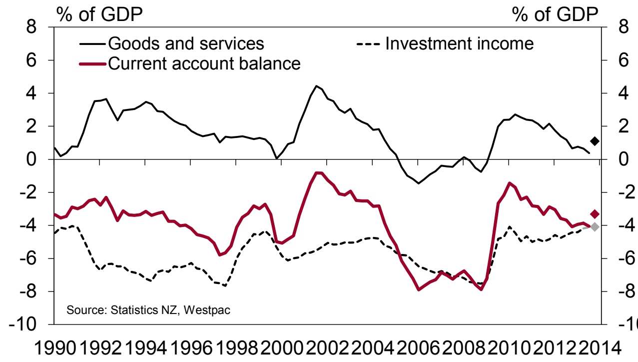


NZ Q4 current account % of GDP

Mar 19, Last: -4.1%, Westpac f/c: -3.3%, Mkt f/c: -3.3%

- We estimate that the current account deficit narrowed to 3.3% of GDP in the year to December, from 4.1% in the year to September. This would be the biggest one-quarter improvement in the deficit on record outside of a recession, and reflects a dramatic post-drought rebound in export volumes (in the order of 10% growth seasonally adjusted).
- The dramatic improvement in the goods balance could be offset to a small degree by a widening of the investment income deficit. Profits of overseas-owned firms in New Zealand have been gradually increasing as the economy gathers momentum, and as interest rates rise over the next few years, higher interest costs on overseas borrowing are likely to widen the deficit further.

Annual current account balance

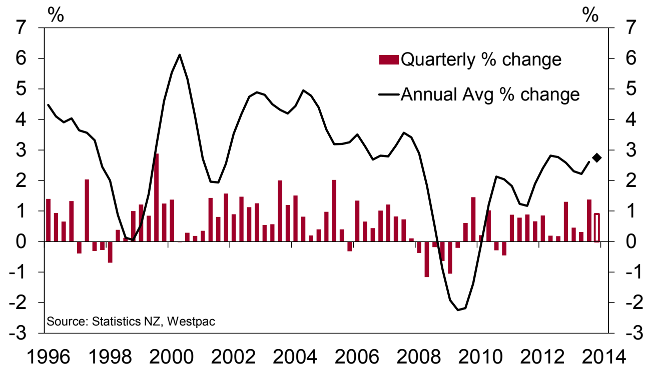


NZ Q4 GDP

Mar 20, Last: 1.4%, Westpac f/c: 0.9%, Mkt f/c: 0.9%

- The short but intense drought in early 2013 has led to some choppiness in the quarterly GDP figures over the last year - restraining growth over the first half of 2013, then driving a sharp bounce in the September quarter. With agriculture (including food processing) now more or less back to its pre-drought trend, the December quarter should mark the first time in a year where headline GDP accurately reflects the economy’s underlying momentum.
- We expect a 0.9% increase for the quarter, with robust gains across a range of industries including manufacturing, retail, business services, transport and finance. Construction was curiously soft for a second quarter, though we don’t think this threatens the outlook for this sector to be a significant driver of growth over 2014.
- Our forecast is in line with market expectations, and a touch higher than the RBNZ’s estimate of 0.8% growth.

Production based GDP

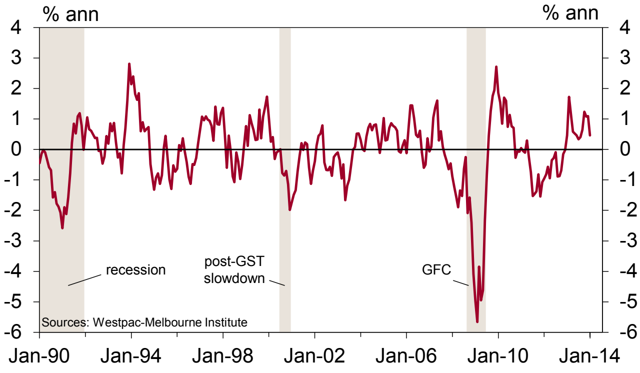


Aus Feb Westpac–MI Leading Index

Mar 19, Last: 0.46%

- The six month annualised deviation from trend growth rate of the Westpac Melbourne Institute Leading Index of Economic Activity fell from 1.09% in Dec to 0.46% in Jan. While momentum remains above trend, the Index growth rate has slowed significantly from its peak of 1.23% in Oct.
- Most components have continued to soften in recent months. Sentiment-based indicators have weakened: the CSI Expectations Index fell a further 0.8% in Mar after a 7.1% drop in Feb; and the Unemployment Expectations Index rose 5.5% to a new cycle high (recalling that higher readings indicate a poorer outlook for unemployment). Commodity prices have also moved lower, down 2.2% in Feb and total hours worked declined 0.9%. The yield gap has also narrowed a touch. The ASX has rallied though, lifting 4% in Feb, more than reversing Jan’s 2.8% decline.

Westpac-MI Leading Index



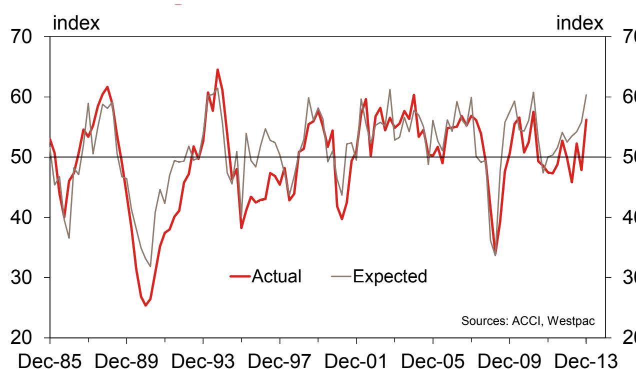
The week ahead

Aus Q1 Westpac-ACCI Survey of Industrial Trends

Mar 20, Last: 56.2

- The March quarter 2013 ACCI–Westpac Survey of Industrial Trends - the 210th report of this long running survey - will provide a timely update on the manufacturing sector and insights into economy wide trends. The March survey was in the field from February 7 to March 7.
- In the December quarter, the Westpac–ACCI Actual Composite rose to 56.2 from 47.8. New orders spiked, with a net 32% of respondents reporting that orders had increased. That is the highest reading since 1994. Strength in orders had flow-on effects to output, confidence and the labour market.
- Key for the March quarter release will be any evidence as to whether strength in Q4 was largely a post Federal election bounce or an indication of an underlying improvement in conditions.

Westpac-ACCI composite indexesActual & expected, sa

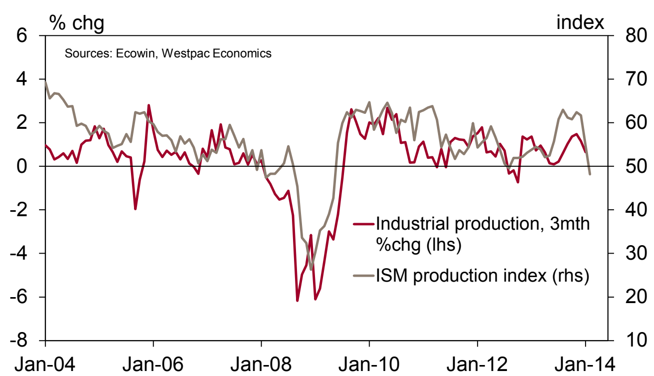


US Feb industrial production

Mar 17, Last:–0.3%, WBC f/c 0.3%

- Industrial production fell 0.3% in Jan, with a 0.8% contraction in manufacturing not fully offset by a 4.1% jump in utility output. That was due to the extremely harsh winter, which according to the ISM disrupted distribution and hampered factory activity. Autos saw a 5% drop in production, but construction supplies were down 1% on top of a 0.6% fall in Dec, business equipment posted a third straight decline and the defence sector has fallen for four months running: some of these pockets of weakness are suggestive of more than just weather disruption.
- The ISM factory production index slumped the most in years to the lowest since the recession in Feb. But factory hours worked were flat after falling in Dec and Jan, and factory output usually grows faster than hours. Utility output should rise further due to the extreme cold; mining should bounce. All up, we expect a 0.3% IP gain but factory output little better than flat (0.1%).

US industrial sector



US Feb housing starts and permits

Mar 18, Housing starts: Last: –16.0%, WBC f/c: –10.0%
Mar 18, Housing permits: Last: –4.6%, WBC f/c: –1.0%

- Unseasonally mild weather allowed construction to continue later than usual boosting Nov starts by 22.5% to 1101k annualised. This pull forward of activity was partly reversed by a cumulative 21% fall in Dec-Jan, coinciding with the onset of the coldest winter in two decades.
- The Jan starts pace of 880k was a touch lower than Oct's 899k, leaving upwards of 150k starts that the seasonal factors could wipe away as soon as Feb, when construction hours worked (steady in Jan) fell 0.8% and homebuilder confidence collapsed. March would then see a bounce but "clean" data are still two months off, when we should be able to identify what, if any, genuine upswing in housing starts there has been. Permits/singles/multiples detail is somewhat meaningless until these volatile swings subside.

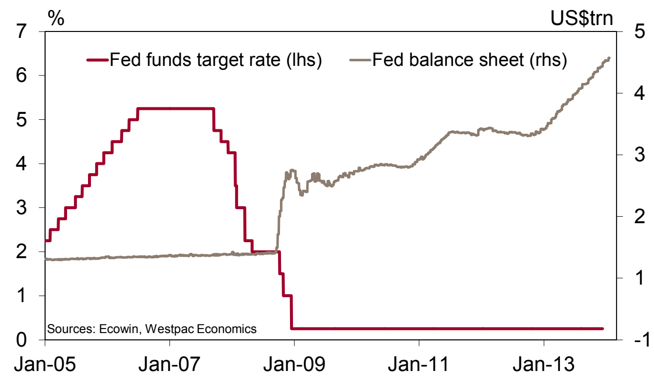
US housing starts & permits

US FOMC meeting - Yellen's first as Chair

Mar 19, Asset Purchases $bn Last: 65, WBC f/c 55

- Recent data weakness across a range of indicators for the labour market, housing, manufacturing and retail looks to us to be attributable to more than just the harsh winter, though that has certainly been a factor. One plausible explanation is that the apparent upswing in the economy in H2 2013, sufficient to start the Fed tapering its asset purchases, was a temporary phenomenon, captured in the data by the interaction of milder than usual weather, a brief dip into savings by households and seasonal adjustment inadequacy that biased the activity story higher. That last factor might now be in pay-back mode, adding to snow disruption-related weakness and indicative of an economic dynamic little changed from recent years.
- Economic data clean of weather-distortion won't be available until May. Yellen acknowledges the uncertainty but the "high hurdle" to a taper pause means the FOMC won't be turned at this meeting.

Fed funds target rate and balance sheet



Data calendar

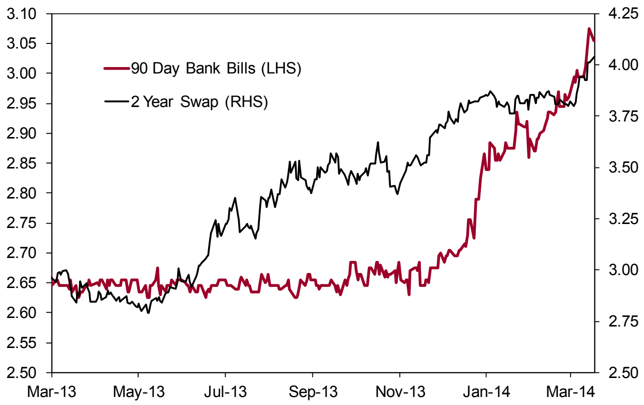
		Last	Market median	Westpac forecast	Risk/Comment
Mon 17					
NZ	Q1 Westpac-MM consumer confidence	120.1	–	–	Consumer confidence rose to a four-year high in December.
	Feb Performance of Services Index	58.1	–	–	Persistently strong over the last year.
Aus	Feb new motor vehicle sales	–3.5%	–	–2.0%	Soft start to 2014: demand can be very sensitive to shift in job loss fears.
Eur	Feb CPI %yr final	0.8% a	0.8%	–	Draghi has effectively suspended the inflation target as policy driver.
UK	Mar house prices %yr	6.9%	–	–	Rightmove index of asking prices.
US	Mar NAHB housing market index	46	50	54	Feb plunge due to snow disruption; now improving weather.
	Mar NY Fed factory survey	4.5	6.5	0.0	Regional factory surveys showed weather impact 1 month after ISM.
	Jan TIC data, $bn	–45.9	–	–	Net long term TIC flows.
	Feb industrial production	–0.3%	0.1%	0.3%	No recovery in factory hours in Feb which fell in Dec and Jan.
Can	Feb existing home sales	–3.3%	–	–1.0%	Down every month since Oct, weather only part of the story.
Tue 18					
Aus	RBA, Minutes of Mar Board meeting	–	–	–	Additional detail surrounding 'neutral bias'.
Chn	Feb property prices	–	–	–	January reading showed softening in secondary markets.
Eur	Jan trade balance €bn	13.7	–	–	Back in surplus during recession, still in surplus in recovery.
Ger	Mar ZEW analysts' expectations	55.7	53.0	53.0	Dec-Jan highest since 2006. Confidence slipping due China, Ukraine?
US	Feb CPI	0.1%	0.1%	0.1%	Seasonal gains in gasoline prices won't impact much; delivery issues
	Feb CPI core	0.1%	0.1%	0.1%	may see prices both rise and fall depending on location.
	Feb housing starts	–16.0%	4.0%	–10.0%	New homes sold well in Jan but the weather meant construction was
	Feb housing permits	–4.6%	2.1%	–1.0%	disrupted. Feb weather was even worse. See text box.
Can	Jan factory sales	–0.9%	1.0%	–	Dec sales led lower by aerospace, autos. Weather disruption a factor.
Wed 19					
NZ	GlobalDairyTrade auction	–4.0%	–	–	Increased supply contributing to softer prices.
	Q4 current account % of GDP	–4.1%	–3.3%	–3.3%	Export volumes rose swiftly back to pre-drought trends.
Aus	Feb Westpac-MI Leading Index	0.46%	–	–	Most components were weaker in Feb.
Eur	Jan construction output	0.9%	–	1.8%	Construction rose 4.4% in Germany in Dec
	Q4 labour costs	1.0%	–	–	Growing at cyclical (record?) low pace.
UK	Mar BoE minutes	–	–	–	Update on thinking, possible dissents building?
	Feb unemployment ch	–28k	–25k	–30k	Benefit claimant count.
	2014 Budget	–	–	–	Chancellor to present election year budget.
US	Q4 current account deficit $bn	94.8	88	–	Temporary trade driven narrowing in deficit.
	FOMC decision asset purchases $bn	65	55	55	Taper unlikely to be seriously reassessed before June FOMC.
Can	Jan wholesale sales	–1.4%	1.0%	–	Sales at record high in Oct-Nov, then weather-disrupted in Sep.
Thu 20					
NZ	Q4 GDP	1.4%	0.9%	0.9%	Free of drought effects, should indicate solid momentum.
Aus	Q1 Westpac-ACCI survey	56.2	–	–	Index up 8.3pts in Q4. The focus: will index hold in expansionary zone?
	Q1 RBA bulletin	–	–	–	Includes research articles.
Ger	Feb producer prices %yr	–1.1%	–0.9%	–	PPI has been deflating for most of the past year.
UK	Mar CBI industrial trends	3	5	–	Total orders index.
US	Initial jobless claims w/e 14/3	315k	–	330k	Recent declines partly due to snow disruption delaying claim filing.
	Feb existing home sales	–5.1%	flat	1.0%	Pending sales suggest modest rise possible.
	Feb leading indicators	0.3%	0.2%	0.1%	Subdued by weather or by underlying slowdown as well?
	Mar Philadelphia Fed factory survey	–6.3	4.0	–2	Philly factory bosses impacted by weather more than most it seems.
Fri 21					
NZ	Net immigration, February (s.a.)	3,090	–	2,900	Annual net immigration highest since 2004, expected to rise further.
Eur	Jan current account €bn	21.3	–	–12.0	In surplus since 2011.
	Mar consumer confidence advance	–12.7	–	–12.0	Not far from high point reached between last two recessions of –9.7.
UK	Feb PSNCR £bn	–25.4	–	–	Public sector net credit requirement.
US	Fedspeak	–	–	–	Bullard, Kocherlakota and Stein.
Can	Feb CPI %yr	1.5%	0.9%	–	BoC core rate was just 1.4%yr in Dec.
	Jan retail sales	–1.8%	0.8%	–	Dec sales undermined by weather disruption.

New Zealand forecasts

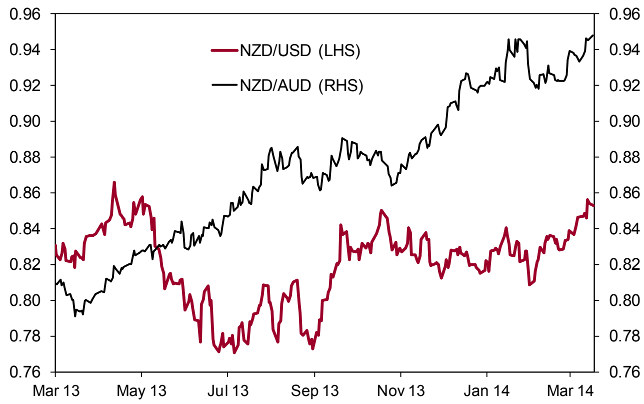
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014f	2015f	2016f	2012	2013e	2014f	2015f
GDP (Production) ann avg	2.3	3.1	4.0	3.0	2.6	2.7	4.1	3.2
Employment	0.4	3.3	2.8	1.5	0.4	2.9	3.0	1.7
Unemployment Rate % s.a.	6.2	5.8	5.1	4.8	6.8	6.0	5.1	4.7
CPI	0.9	1.6	1.8	2.3	0.9	1.6	1.8	2.2
Current Account Balance % of GDP	-3.9	-2.9	-4.5	-4.8	-4.1	-3.3	-3.7	-5.0

Financial Forecasts	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Cash	3.25	3.50	3.75	4.00	4.00	4.25
90 Day bill	3.50	3.75	4.00	4.20	4.30	4.50
2 Year Swap	4.10	4.30	4.50	4.65	4.80	5.00
5 Year Swap	4.70	4.80	4.90	5.05	5.20	5.35
10 Year Bond	4.80	5.00	5.10	5.20	5.30	5.40
NZD/USD	0.84	0.84	0.83	0.82	0.82	0.81
NZD/AUD	0.95	0.97	0.97	0.96	0.95	0.93
NZD/JPY	84.8	84.0	82.2	82.0	82.5	83.0
NZD/EUR	0.64	0.64	0.65	0.65	0.64	0.63
NZD/GBP	0.51	0.52	0.51	0.49	0.48	0.46
TWI	80.1	80.2	79.8	79.2	78.5	77.7

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 17 Mar 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.50%	2.50%
30 Days	2.94%	2.82%	2.75%
60 Days	3.01%	2.92%	2.87%
90 Days	3.06%	3.00%	2.97%
2 Year Swap	4.04%	3.82%	3.86%
5 Year Swap	4.57%	4.49%	4.58%

NZ foreign currency mid-rates as at Monday 17 Mar 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8530	0.8361	0.8378
NZD/EUR	0.6139	0.6073	0.6113
NZD/GBP	0.5128	0.4998	0.4997
NZD/JPY	86.39	84.76	85.22
NZD/AUD	0.9483	0.9401	0.9255
TWI	79.67	78.57	78.50

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013	2014f	2015f
Australia						
Real GDP % yr	2.2	2.6	3.6	2.4	2.7	3.0
CPI inflation % annual	2.8	3.0	2.2	2.7	2.4	2.5
Unemployment %	5.2	5.2	5.3	5.8	6.3	6.0
Current Account % GDP	-3.5	-2.8	-4.1	-2.9	-3.1	-2.0
United States						
Real GDP %yr	2.5	1.8	2.8	1.9	2.1	2.5
Consumer Prices %yr	1.6	3.1	2.1	1.5	1.5	1.5
Unemployment Rate %	9.6	8.9	8.1	7.4	6.8	6.2
Current Account %GDP	-3.0	-2.9	-2.7	-2.4	-2.3	-2.3
Japan						
Real GDP %yr	4.9	-0.3	1.5	1.6	1.5	1.3
Euroland						
Real GDP %yr	2.0	1.5	-0.6	-0.4	0.6	0.8
United Kingdom						
Real GDP %yr	1.7	1.1	0.2	1.8	2.6	1.9
China						
Real GDP %yr	10.4	9.3	7.7	7.7	7.4	7.5
East Asia ex China						
Real GDP %yr	7.8	4.3	3.9	3.9	3.8	4.7
World						
Real GDP %yr	5.2	3.9	3.2	2.9	3.2	3.7
Forecasts finalised 10 March 2014						

Interest Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Australia						
Cash	2.50	2.50	2.25	2.00	2.00	2.00
90 Day Bill	2.64	2.55	2.15	2.10	2.10	2.10
10 Year Bond	4.06	3.90	3.70	4.00	4.20	4.50
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.64	2.60	2.60	2.80	3.00	3.20
ECB Repo Rate	0.25	0.25	0.25	0.25	0.25	0.25

Exchange Rate Forecasts	Latest	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
AUD/USD	0.9020	0.88	0.87	0.86	0.85	0.85
USD/JPY	101.70	104	103	102	103	104
EUR/USD	1.3860	1.33	1.31	1.29	1.27	1.27
AUD/NZD	1.0565	1.05	1.04	1.04	1.04	1.04

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

For email address changes contact:
WNZResearch@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: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 (‘Westpac’). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and 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 and this website 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 and this website 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. The forecasts given in this material and this website 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.

Transactions involving carbon give rise to substantial risk (including regulatory 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. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. 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. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

China, Hong Kong, Singapore and India: 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 activity.

Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking Regulatory Commission (CBRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

Disclaimer continued overleaf.

Disclaimer continued

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. 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 material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). The investments to which this material and this website 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 material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Services Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

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. 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.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.