WEEKLY ECONOMIC COMMENTARY

24 Oct 2023 | **Westpac Economics Team** | **westpac.co.nz/economics** | nzeconomics@westpac.co.nz

Watching, worrying, and still waiting

We no longer expect the RBNZ to increase the OCR at its November policy meeting. The RBNZ has indicated a high bar to tighten before the end of this year, and September's lower than expected CPI will leave them comfortable with staying pat. However, domestic inflation pressures are continuing to sizzle. As a result, we still see the risk that the RBNZ will need to raise the cash rate again, and we've pushed out the rate hike we previously expected in November to the time of the RBNZ's February meeting. Crucially, with sticky domestic inflation pressures, rate cuts will remain off the table for an extended period.

Since its May Monetary Policy Statement, the RBNZ has signalled that it expected to leave the OCR at 5.50% for a protracted period. Their most recent update in October 2023 continued with that "watch, worry and wait" theme and suggested that recent data had not substantively moved their judgement on the appropriateness of a 5.50% OCR for the foreseeable future.

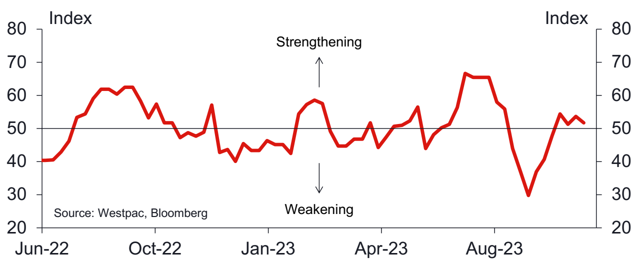
A key piece of data that could have challenged the RBNZ's view was September's Consumers Price Index. Given the RBNZ's high hurdle to shift the OCR before next year, it was going to take an upside surprise to the CPI to shift the dial towards an increase in November as we have forecast since early August.

However, as it turned out, September quarter inflation actually came in on the low side of expectations. Consumer prices rose by 1.8% in the September quarter, leaving prices up 5.6% over the past year. That was a little lower than our forecast for a 1.9% increase. Importantly, it was well below the RBNZ's forecast for a 2.1% rise.

Key views

	Last 3 months	Next 3 months	Next year
Global economy	↘	↘	↗
NZ economy	↓	→	↗
Inflation	↘	↘	↓
Short-term interest rates	↗	↑	→
Long-term interest rates	↑	→	↘
NZD/USD	↘	↗	↗
NZD/AUD	→	↘	↘

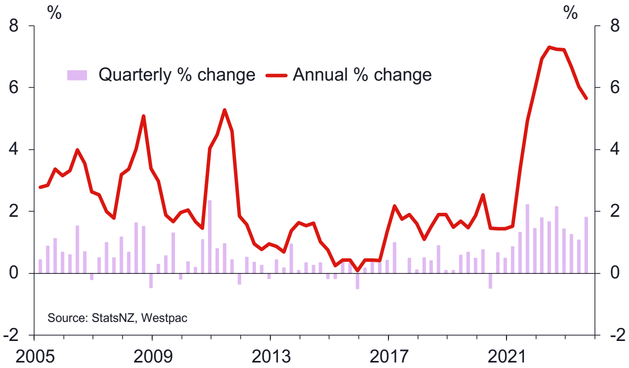
Westpac New Zealand Data Pulse Index



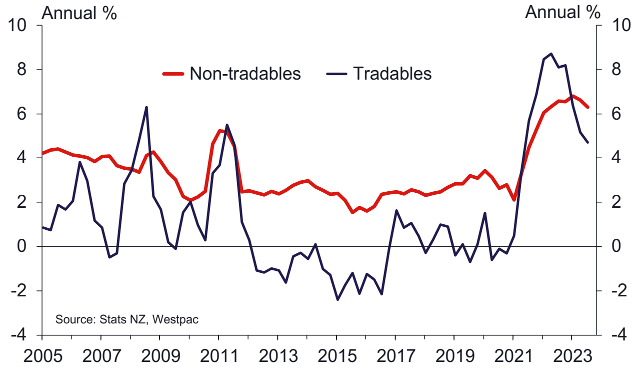
Key data and event outlook

Date	Event
1 Nov 23	Labour market statistics, September quarter
1 Nov 23	RBNZ Financial Stability Report
1 Nov 23	FOMC Meeting (Announced 2 Nov NZT)
3 Nov 23	Official results of General Election declared
7 Nov 23	RBA Board Meeting
9 Nov 23	Govt finances for the 3 months to September
14 Nov 23	NZ monthly selected price indexes, October
29 Nov 23	RBNZ Monetary Policy Statement and OCR
5 Dec 23	RBA Board Meeting
13 Dec 23	FOMC Meeting (Announced 14 Dec NZT)
14 Dec 23	GDP September quarter
18 Dec 23	Half Year Economic and Fiscal Outlook (TBC)

Consumer price inflation



Tradables and non-tradables inflation



Looking at the details of the September quarter inflation report, the easing in consumer prices we've seen has mainly been related to a softening in tradables prices. Even though petrol prices rose sharply in recent months, the continued easing of supply chain issues that boosted inflation over the past few years, together with reduced discretionary spending on durable goods has been weighing on prices. Domestically, we have also seen a sharp slowdown in construction costs, which was the major driver of the rise in the overall CPI during this inflation cycle.

With a faster-than-expected easing in inflation, we think the RBNZ will be happy to sit on their hands in November and see how the economy and inflation evolves through the summer period. They will need to factor in a new government's fiscal stance into their projections – although they may not have much to go on at the time of the November Statement. Having said that, they will at least take comfort that a centre-right coalition will likely run a slightly tighter fiscal ship than the alternative may have delivered, which is helpful for medium term inflation pressures at the margin. The RBNZ will also be conscious of the sharp rises in longer term interest rates in recent months, with mortgage rates on offer having increased 10-20bps since the RBNZ's August meeting. And there remain ongoing concerns about the strength of the global economic landscape, including the outlook for Chinese economic growth.

But while the RBNZ may be feeling more comfortable that inflation is trending down, they are clearly not out of the woods yet. While inflation may be off its highs, it's not 'low' by any stretch of the imagination. In fact, while many measures of core inflation have been softening, they're still running at rates of around 5% to 5.5% - well outside the RBNZ's target range.

Crucially, although imported inflation is dropping back, domestic inflation remains red hot. In fact, non-tradables inflation excluding construction costs (which accounts for around 50% of the CPI) rose to 6.6% in the year to September.

That lingering strength in non-tradable prices should give the RBNZ pause for thought. Domestic price pressures have historically been more enduring than imported inflation. And the continued strength we're seeing on this front means that inflation isn't likely to be back below 3% until the latter part of next year at the earliest.

Furthermore, with continued strength in domestic inflation pressures, the RBNZ doesn't have the headroom to absorb upside surprises. That's important as some other key parts of the economic landscape are already looking hotter than the RBNZ had assumed. Notably, net migration has risen to a record high, with the number of people coming into the country exceeding departures by 110,000 over the past year. In addition, the housing market has been firmer than the RBNZ expected, with sales and prices both tilting higher in recent months. Those trends will add to medium term inflation pressures and we think that will likely eventually force the RBNZ's hand in 2024.

Given those ongoing pressures, we have pencilled in a 25bp OCR increase at the February 2024 Statement. Ahead of that time we'll be keeping a close eye on how economic data is tracking. In particular, the strength of the labour market and wage growth will be key to determining whether non-tradables inflation will start to cool over the coming year (the September quarter labour market update is due on 1 November, and there will be another update ahead of the February policy meeting).

Importantly, the lingering strength in domestic inflation means rates cuts will be off the table for an extended period. We don't think the RBNZ will realistically look at cutting the OCR until 2025, and even then cuts are likely to be gradual.

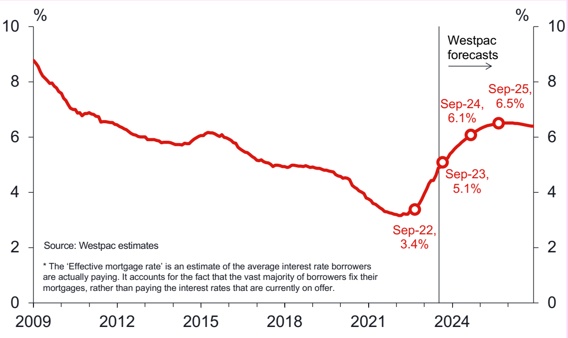
Satish Ranchhod, Senior Economist

Chart of the week.

With 90% of New Zealand mortgages fixed for a period, many borrowers have been insulated from the rise in mortgage interest rates over the past year. That's meant that although carded mortgage rates have risen sharply following the RBNZ's 525bp rise in the Official Cash Rate since late 2021, the average rate that borrowers are actually paying has 'only' risen by 170bps.

However, increasing numbers of mortgages are coming up for repricing, with around half of all fixed rate mortgages due to roll over in the next 12 months. And combined with the rise offshore funding costs that is has pushed local borrowing costs higher in recent months, there is still a significant tightening of financial conditions ahead for many New Zealand households. Even if carded borrowing rates remain unchanged, we expect that the average mortgage rate that borrowers are actually paying will rise by another 100bps over the coming year.

'Effective' average mortgage rate*

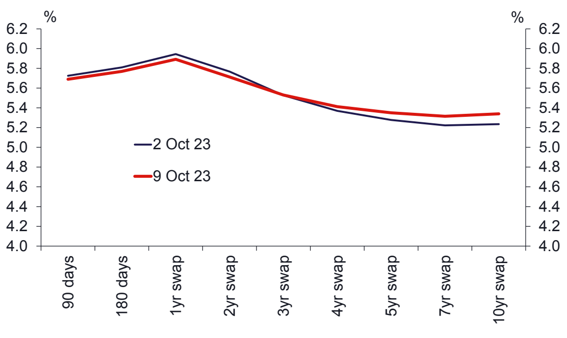


Fixed versus floating for mortgages.

The RBNZ has signalled that it expects to hold the cash rate at its current level of 5.50% for an extended period. We see a risk that the OCR could go higher in the coming months, and that interest rate cuts could be some time away.

We see value in fixing for terms as long as three years. Shorter terms could be more expensive, but would provide borrowers with greater flexibility.

NZ interest rates



Global wrap

North America

Last week's speech by Fed Chair Powell's largely followed script, again indicating that there are risks in both tightening too much and too little. However, markets seized on his suggestion that the recent rise in bond yields probably reflects a rise in the term premium rather than a rise in inflation expectations, implying that higher bond yields might substitute for a lift in the fed funds rate. This left markets content to price little probability of policy tightening at next month's FOMC meeting. On the data front, US retail sales beat expectations, adding to range of indicators pointing to a strong uplift in activity in Q3. On that score, this coming Thursday's advance GDP report will likely indicate that the economy grew around 4.0%AR in the quarter – the most since Q4 '21. The release of the core PCE deflator for September will follow on Friday. Elsewhere in North America, the Bank of Canada's monetary policy decision will be of interest on Wednesday, although the policy rate seems likely to remain at 5% following recent constructive inflation data.

Asia-Pacific.

China's GDP grew 4.9% in the year to September, beating market expectations. Even so, Westpac has lowered its forecast for GDP growth in 2024 to 5.3%, reflecting ongoing concerns about the health of the consumer sector. In Japan, the BoJ's preferred measure of core inflation eased modestly to 4.2% in August, while Rengo (the largest trade union) announced that it would seek a 5% lift in base wages at next spring's shunto wage negotiation – a claim that would help sustain the inflation pulse. In Australia, labour force data continued to point to a jobs market that is no longer tightening, but also yet to materially soften. The minutes from the October RBA Board meeting indicated little tolerance for inflation to remain high for any longer than current forecasts imply. This week, today's October PMI readings will be the focus in Japan, while the Tokyo CPI will close out the week on Friday. In Australia, RBA Governor Bullock will speak at a conference this evening and again on Thursday before the Senate. In between, the focus will be on Wednesday's Q3 CPI report. Westpac expects a 1.1% lift in both the headline CPI and trimmed mean and anticipate that a material upside surprise would be required to prompt a rate hike at next month's Board meeting.

Europe.

The initial focus in Europe this week will be today's flash PMI reports for October to see whether a pause in central bank hiking cycles will lift these from recessionary levels. On Thursday we expect the ECB to leave its policy rate steady at 4.5% but emphasise that inflation remains too high and that policy is data dependent.

Trading partner real GDP (calendar years)

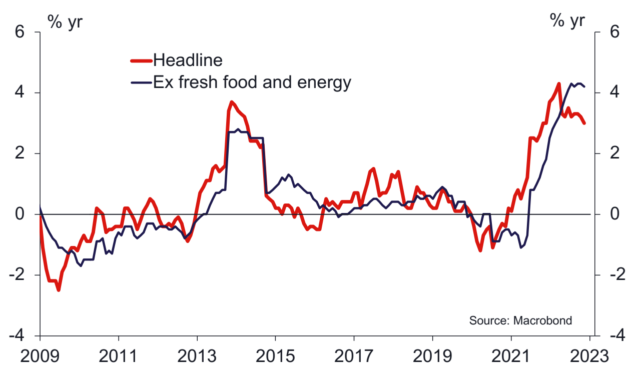
	Annual average % change			
	2021	**2022**	**2023**	**2024**
Australia	5.2	3.7	1.9	1.2
China	8.4	3.0	5.3	5.3
United States	5.9	2.1	2.2	1.4
Japan	2.1	1.1	1.6	1.0
East Asia ex China	4.3	4.5	3.5	4.3
India	9.1	6.8	6.4	6.4
Euro Zone	5.4	3.5	0.6	1.1
United Kingdom	7.6	4.0	0.3	0.5
NZ trading partners	6.2	3.2	3.3	3.4
World	6.3	3.4	3.0	3.1

Australian & US interest rate outlook

	Latest	Dec-23	Jun-24	Dec-24
Australia				
Cash	4.10	4.10	4.10	3.60
90 Day BBSW	4.21	4.30	4.22	3.72
3 Year Swap	4.37	4.10	3.90	3.70
3 Year Bond	4.22	3.85	3.70	3.50
10 Year Bond	4.68	4.45	4.40	4.20
10 Year Spread to US (bps)	-17	-15	-20	-20
US				
Fed Funds	5.375	5.375	4.875	4.375
US 10 Year Bond	4.85	4.60	4.60	4.40

China GDP growth

Japan inflation



Financial markets wrap

Interest rates.

NZ swap rates have stalled near multi-year highs. Shorter maturities, such as the 2yr at around 5.65%, have been capped by the slightly softer NZ CPI data last week, which effectively ruled out a November hike from the RBNZ (although February remains possible). The 5yr at 5.33% is near a high since 2010, responding mostly to the multi-month surge in offshore bond yields, with sticky inflation and government finances notable factors at play.

This week the NZ event calendar is very light, but rate decisions from the ECB and Bank of Canada could influence NZ rates markets. While both are expected to hold rates steady, the accompanying guidance will be important for markets. Also worth watching overseas will be a speech from the RBA Governor, Australian CPI data, and US inflation expectations data.

NZ yield curves have steepened (or disinverted) significantly during the past few months – a theme which is likely to continue into next year. That said, there will be occasional periods of flattening along the way, and one of those may be about to unfold.

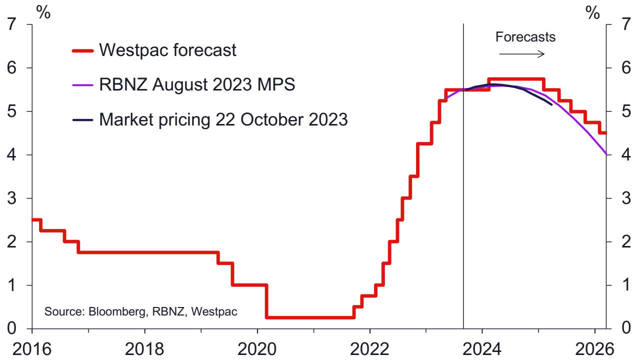
Foreign exchange.

NZD/USD was last week buffeted by global risk aversion relating to developments in the Middle East, as well as slightly softer-than-expected NZ CPI data. The pair has fallen to 0.5808 – the lowest since November 2022.

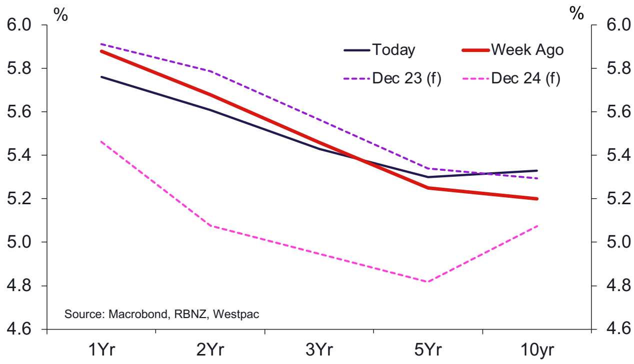
We will be watching the 0.5800 support area very closely, since a break below that would have bearish multi-week implications. Key drivers this week are expected to be Middle East developments, as well as US interest rates which reversed sharply lower overnight. The latter had reached highs since 2007 and there's potential for a significant pullback, which would depress the USD (and support NZD/USD).

The 7c fall in NZD/USD this year does present attractive hedging opportunities for exporters. Partial hedging in the low 0.58s could be worthy of consideration, reserving some for a possible break lower. NZD/AUD has been rangebound this year, with current boundaries at 0.9050 and 0.9400 likely to be of interest to exporters and importers, respectively.

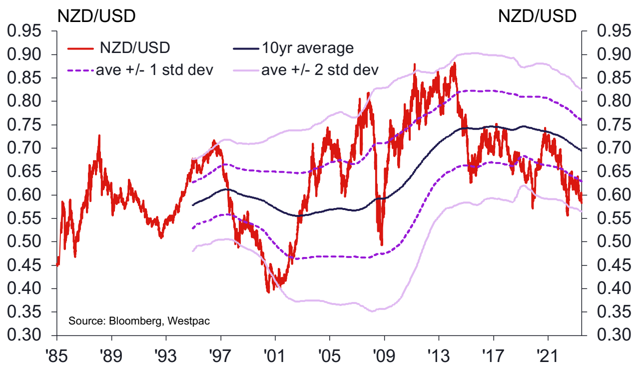
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

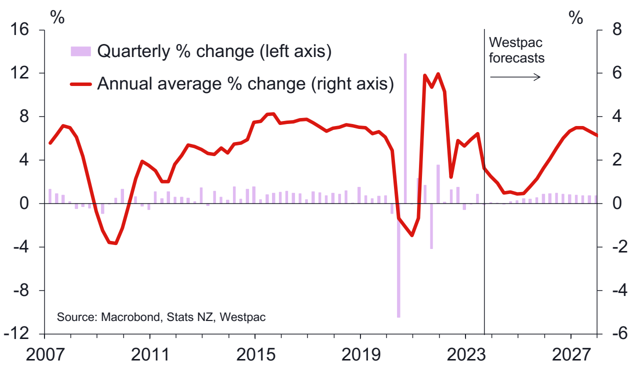
	Historical data				F'cast
	Spot	3mnth range	5yr range	5yr avg	Dec-24
USD	0.585	0.584-0.629	0.555-0.743	0.656	0.62
AUD	0.923	0.916-0.939	0.873-0.992	0.934	0.89
EUR	0.549	0.543-0.570	0.517-0.637	0.587	0.55
GBP	0.478	0.464-0.492	0.464-0.551	0.511	0.48
JPY	87.5	86.0-89.8	61.3-89.8	77.1	84.9

Economic and financial forecasts

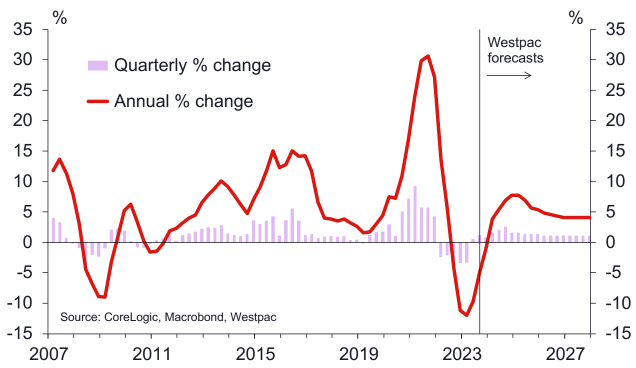
Economic indicators	Quarterly % change				Annual % change			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
GDP (production)	0.9	-0.1	0.1	0.0	6.0	2.7	1.3	0.4
Consumer price index	1.1	1.8	0.5	0.7	5.9	7.2	4.7	2.8
Employment change	1.0	0.4	0.0	0.0	3.3	1.7	2.5	-0.1
Unemployment rate	3.6	3.8	4.3	4.7	3.2	3.4	4.3	5.2
Labour cost index (all sectors)	1.1	1.1	1.0	0.8	2.6	4.1	4.2	3.3
Current account balance (% of GDP)	-7.5	-7.5	-7.0	-6.3	-5.8	-8.8	-7.0	-4.8
Terms of trade	0.4	-3.2	0.8	2.5	2.8	-4.2	-3.5	7.8
House price index	0.5	1.1	0.7	1.5	27.1	-11.2	-1.0	7.7

Financial forecasts	End of quarter				End of year			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
OCR	5.50	5.50	5.50	5.75	0.75	4.25	5.50	5.75
90 day bank bill	5.62	5.66	5.85	5.85	0.82	4.26	5.85	5.75
2 year swap	5.18	5.53	5.79	5.67	2.08	5.10	5.79	5.08
5 year swap	4.44	4.90	5.34	5.22	2.46	4.67	5.34	4.82
10 year bond	4.27	4.87	5.45	5.45	2.39	4.31	5.45	5.15
TWI	70.9	70.6	70.3	69.9	74.3	70.8	70.3	68.6
NZD/USD	0.62	0.61	0.61	0.61	0.70	0.60	0.61	0.62
NZD/AUD	0.93	0.92	0.92	0.92	0.95	0.92	0.92	0.89
NZD/EUR	0.57	0.56	0.55	0.55	0.61	0.59	0.55	0.55
NZD/GBP	0.49	0.48	0.48	0.48	0.52	0.51	0.48	0.48

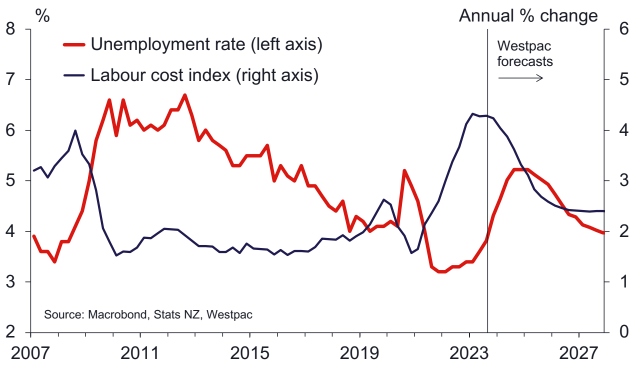
GDP growth



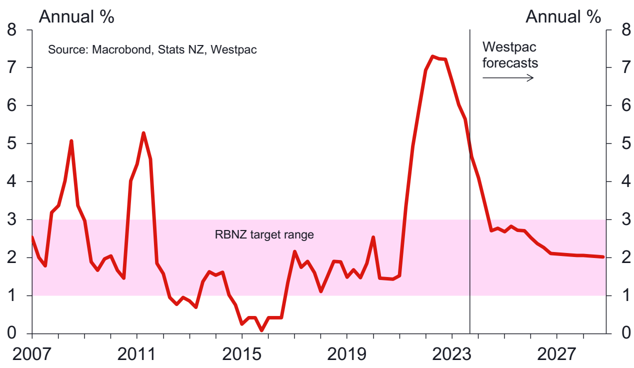
House prices



Employment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 23					
Eur	Oct consumer confidence	–17.8	–	–	Easing inflation and imminent policy pause will aid in time.
US	Sep Chicago Fed activity index	–0.16	–	–	Suggests growth is tracking at a modestly below-trend pace.
Tue 24					
Aus	RBA Governor Bullock	–	–	–	Speaking at Global Markets Conference.
Jpn	Oct Jibun Bank manufacturing PMI	48.5	–	–	Better positioned compared to international counterparts…
	Oct Jibun Bank services PMI	53.8	–	–	… services sector certainly acting as a key support.
Eur	Oct HCOB manufacturing PMI	43.4	–	–	Outlook remains downbeat in Europe…
	Oct HCOB services PMI	48.7	–	–	… as growth in new orders continues to fall.
UK	Oct S&P Global manufacturing PMI	44.3	–	–	Similarly in the UK, industry is struggling as demand…
	Oct S&P Global services PMI	49.3	–	–	… both internal and external, continues to weaken…
	Aug ILO unemployment rate	4.3%	4.3%	–	… offering little incentive for workforce expansion.
US	Oct S&P Global manufacturing PMI	49.8	49.5	–	Manufacturing conditions beginning to stabilise…
	Oct S&P Global services PMI	50.1	49.4	–	… as the downtrend in services activity holds firm.
	Oct Richmond Fed index	5	–	–	Regional surveys reflect subdued but stabilising conditions.
Wed 25					
Aus	Q3 CPI %qtr	0.8%	1.1%	1.1%	With the advent of the Monthly CPI Indicator we all have…
	Q3 CPI %yr	6.0%	5.3%	5.3%	… similar partial indicator suggesting we should see…
	Q3 Trimmed Mean %qtr	0.9%	1.1%	1.1%	… a narrower range of estimates for the quarterly CPI.
	Q3 Trimmed Mean %yr	5.9%	5.0%	5.0%	However, there is still a reasonable share of unknowns,…
	Sep Monthly CPI Indicator %yr	5.2%	5.4%	5.2%	… including child care rebates, so a surprise is still possible.
US	Sep new home sales	–8.7%	1.3%	–	Conditions are unlikely to improve in the near-term.
Thu 26					
Aus	RBA Governor Bullock	–	–	–	Appearing before Senate; with Assist' Gov. (Fin Mkts) Kent.
	Q3 import price index	–0.8%	–	–0.5%	Likely down for a 3rd consecutive qtr, on lower global prices.
	Q3 export price index	–8.5%	–	–1.2%	Expect 4th fall in past 5 qtrs, on lower commodity prices.
Eur	ECB policy decision, deposit rate	4.00%	–	4.00%	Moderating services inflation supports on-hold decision.
US	Q3 GDP, annualised	2.1%	4.3%	4.0%	Strength to abate as policy takes full effect and job gains slow.
	Sep durable goods orders	0.1%	1.1%	–	Excluding transport, gains are tracking a subdued pace.
	Oct Kansas City Fed index	–8	–	–	Regional surveys reflect subdued but stabilising conditions.
	Initial jobless claims	198k	–	–	Will remain at low levels, for now.
	Sep wholesale inventories	–0.1%	–	–	Non-durable goods remain a key risk going forward.
	Sep pending home sales	–7.1%	1.0%	–	Prospective buyers are adjusting their expectations.
Fri 27					
NZ	Oct ANZ consumer confidence	86.4	–	–	Lingering at low levels in the face of financial pressures.
Aus	Q3 PPI	0.5%	–	–	Will the moderation in upstream price pressures continue?
	2022–23 National Accounts	3.3%	–	–	New 'benchmark' estimates that can see significant revisions.
Jpn	Oct Tokyo CPI %yr	2.8%	2.7%	–	Weaker ¥ and energy inflation risks slower return to target.
Chn	Sep industrial profits ytd %yr	–11.7%	–	–	Profit growth to gradually recover.
US	Sep personal income	0.4%	0.4%	–	Income gains more subdued over past three months…
	Sep personal spending	0.4%	0.4%	–	… but pace of spending has continued to outperform.
	Sep PCE deflator	0.4%	0.3%	–	Goods inflation has fully cycled out of the annual measure.
	Oct Uni. of Michigan sentiment	63.0	63.2	–	Final estimate.

CONTACT

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

Nathan Penny, Senior Agri Economist | +64 9 348 9114 | +64 21 743 579 | nathan.penny@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.