



WEEKLY ECONOMIC COMMENTARY



12 Aug 2024 | Westpac Economics Team | westpac.co.nz/economics | economics@westpac.co.nz

Nearing the finish line – but not quite there yet

Our latest **Economic Overview** - shows that New Zealand’s marathon journey back towards low and stable inflation is finally nearing its end. Inflation is now just a touch above the top of the Reserve Bank’s target range, giving them room to consider tempering the restrictiveness of monetary policy. However, inflation still has a way to fall back to 2%, so we don’t see the RBNZ cutting either fast or deeply, and conditions are likely to remain tough for businesses and households for the rest of the year.

We expect the RBNZ to leave the OCR at 5.5% at this week’s *Monetary Policy Statement*, and instead look to position itself to cut rates at the October and November meetings. Importantly, the RBNZ is likely to leave open the option to scale up rate reductions beyond 25bp from October onwards should conditions warrant, while at the same time looking to discourage markets from getting too far ahead of themselves. They are also likely to make significant downward revisions to the OCR track for 2025 and 2026.

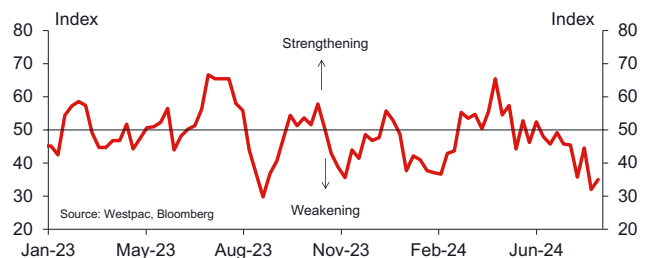
This revised OCR track is based on a weaker outlook for both economic growth and inflation. The downside surprise in headline inflation posted for the June quarter will provide the starting point for the RBNZ’s short term CPI forecasts. Further out, inflation is expected to fall more slowly – although it should still reach 2% earlier than forecast back in May.

That said, the RBNZ is likely to remain cautious when forecasting inflation given that non-tradable inflation remains stubbornly high and is yet to show signs of quickly normalising. The RBNZ will also be looking at upcoming data for signs of a lift in demand/sentiment either from tax cuts or the significant fall in interest rates (including fixed mortgage rates).

Key views

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

Westpac New Zealand Data Pulse Index



Key data and event outlook

Date	Event
14 Aug 24	RBNZ OCR Review & Monetary Policy Statement
15 Aug 24	NZ Selected price indexes, July
12 Sep 24	NZ Selected price indexes, August
18 Sep 24	FOMC Meeting (Announced 19 Sep NZT)
19 Sep 24	NZ GDP, June quarter
24 Sep 24	RBA Monetary Policy Decision
1 Oct 24	NZIER QSBO survey, September quarter
9 Oct 24	RBNZ OCR Review
11 Oct 24	NZ Selected price indexes, September
16 Oct 24	NZ CPI, September quarter
5 Nov 24	RBA Monetary Policy Decision

That is likely to mean that the revised forward OCR track will be significantly above what is currently being priced by the market. Even in a dovish scenario, we think that the RBNZ will still be looking for an OCR above 4% in 2025. The degree of adjustment we see will give us a good sense of what it meant by its July reference to “tempering” restriction.

Key developments since the May Monetary Policy Statement.

When reviewing its OCR outlook, the RBNZ is likely to consider several developments since the MPS in May:

- **A drop in inflation.** The CPI rose a less than expected 0.4%q/q in Q2, lowering annual inflation to 3.3% and making it likely that inflation will move back inside the target band in Q3. The RBNZ is likely to welcome the lower outcome, as the more favourable narrative will feed back into inflation expectations. However, it will still be concerned that all the downside surprise was due to lower-than-expected tradable inflation (mostly goods), whereas non-tradables (mostly services) inflation continues at a pace inconsistent with inflation returning to the midpoint of the target band.
- **Falling inflation expectations/pricing indicators.** Survey measures of firms’ intentions to raise prices have moved markedly lower in recent months and are now just a little above their historical ranges. Direct measures of business and consumer inflation expectations have also continued to move lower. Indeed, the RBNZ’s own survey of expectations has moved back to 2% on both a 2-year ahead and 10-year ahead horizon – an outcome that in the past was only typically seen when actual inflation was below 2%.
- **Weaker activity levels.** While Q1 GDP grew 0.2% in line with the RBNZ’s expectations, more recent high-frequency indicators suggest that the economy contracted significantly in Q2. Indeed, Westpac estimates a 0.6% decline in GDP, in sharp contrast to the RBNZ’s earlier forecast of modest growth. Furthermore, there is little to suggest that the economy is going to rebound in Q3. This means that the “output gap” – a key variable in the RBNZ’s inflation forecast framework – is likely to be tracking more negatively than forecast, implying weaker medium-term inflation pressures.
- **Softer labour market:** The Household Labour Force Survey for Q2, published last week, provided few surprises for the RBNZ. As expected, the unemployment rate increased to 4.6% and private sector labour costs rose 0.9%q/q. The survey did, however, show a surprising lift in employment, although this was most likely payback from the surprisingly weak result in Q1. Employment has risen by just 0.6% over the past year – growth more than explained by hiring in the government sector – which

is far less than what is needed to absorb the 2.6% growth in the working-age population. A 1.2% q/q fall in hours worked may also have surprised and could add to the RBNZ’s sense that GDP likely contracted in Q2.

- **Softer housing market/population growth:** The housing market reflects the broader malaise in the economy and has remained weak in recent months with a surplus of listings causing house prices to nudge lower. Meanwhile, the migration cycle appears to be turning down more quickly than the RBNZ had forecast in May, and that is providing less support to the housing market than previously anticipated.
- **On-par global growth:** We doubt the RBNZ’s assumptions for the global growth outlook have changed much in recent months. They may discuss some downside risks to growth in China, especially as far as consumer activity has concerned, and given recent equity market volatility. There has been some softening of activity indicators in Europe of late. The US economy has continued to grow at a steady pace, albeit not sufficient to prevent a gradual uptrend in the unemployment rate. Lower official interest rates offshore could be seen as a supportive factor.
- **Mixed commodity prices:** Dairy prices are little changed since May, while meat prices have ticked slightly higher on the back of stronger demand in traditional markets. Log prices have mostly moved sideways after falling sharply in April.
- **Easing financial conditions/exchange rate:** Financial conditions have eased markedly in recent months, as wholesale interest rates have moved to anticipate significant policy easing in both New Zealand and the US. In addition, the trade-weighted exchange rate currently sits at 70.2, versus the RBNZ’s medium-term assumption of 71.0. However, the average level of the TWI over the past month or so sits close to the Bank’s previous assumption.

The scenarios.

Our baseline expectation is that the RBNZ will maintain the OCR at 5.5% at this week’s *Monetary Policy Statement* and will look to position itself to cut rates at its October and November meetings. That said, given the significant uncertainties that exist, there is a range of options that that RBNZ may be considering:

They include:

- **Baseline case (50% probability):** the RBNZ leaves the OCR unchanged but indicates at least one 25bp cut and a 50% chance of a further 25bp cut by year end (this would be represented by a Q4 OCR forecast in the 5.1-5.2% range). The forward profile will likely be revised down such that the OCR will be implied to be between 4.25% and 4.5% by end 2025.

- **Hawkish case (30% probability):** the RBNZ leaves the OCR unchanged, and the projection implies just one 25bp cut in November 2024 (i.e., a Q4 OCR forecast in the 5.35-5.45% range). The forward profile would be consistent with 2-3 cuts in 2025 leaving the OCR in the 4.5-4.75% range by the end of 2025.
- **Dovish case (15% probability):** the RBNZ cuts the OCR by 25bp and indicates two further 25bp cuts in 2024, taking the OCR to 4.75% by year end (i.e., a Q4 OCR forecast in the 4.9-5.0% range). The forward profile would be revised down to reach a short-run neutral rate of around 3.75-4% by end 2025.
- **A super dovish case (5% probability):** the RBNZ cuts the OCR by 25bp and indicates a total of 100bp by end 2024 including one 50-point cut – likely in November. This would see the Q4 OCR forecast in the 4.8-4.9% range. The RBNZ would indicate the possibility of cutting the OCR to their long-run neutral level of 2.75-3% by the end of 2025.

It is also worth noting that we can't rule out the possibility that the RBNZ's Monetary Policy Committee is unable to reach a consensus, and that a rate hold or rate cut is accompanied by one or more dissents from committee members. A rate hold contested by one or two members might dampen the sell-off that would otherwise have occurred, while a rate cut that is contested by one or two MPC members would likely dampen the market's enthusiasm to price additional easing into the curve.

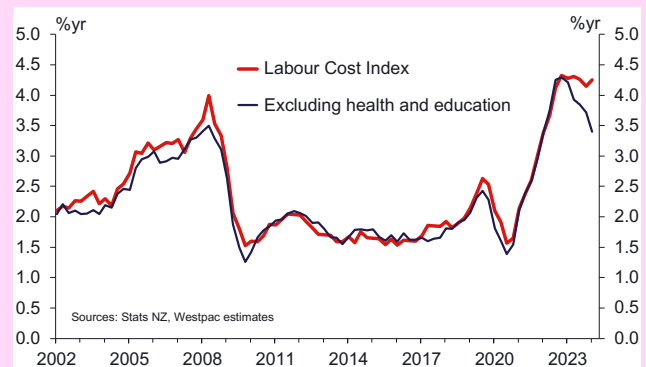
Paul Clark, Industry Economist

Chart of the week.

Wage inflation has been slow to recede, even at this late stage of the economy's prolonged slowdown. The Labour Cost Index rose 1.1% in the June quarter, with the annual growth rate actually ticking up slightly to 4.2%. Much of that apparent strength has come from the health and education sectors, reflecting collective pay agreements that have been implemented in stages. The June quarter included a 4% rise for teachers (with a further 3.9% to come in December), and a 3% rise for nurses and midwives.

Excluding these sectors, we estimate that labour costs were up 3.4% in the year to June. That pace has slowed from its highs, but is still some way above what would be consistent with the RBNZ's 2% inflation target. Wage growth will be of interest to the RBNZ, given that much of the remaining 'stickiness' in domestic inflation is in service sectors, where labour is the major input cost.

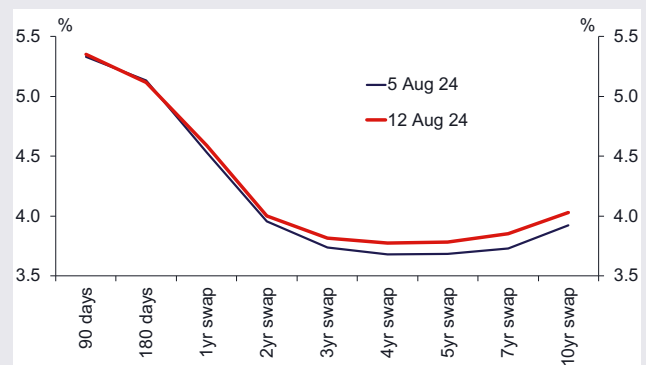
Wage growth is easing outside of collective agreements



Fixed versus floating for mortgages.

With inflation cooling and softness in economic conditions, expectations for OCR reductions from the RBNZ have been pulled forward. We're forecasting the first OCR reduction in October, with the OCR to fall to 4.50% by mid-2025. For borrowers with more flexibility, fixing for a shorter term could be advantageous with the potential for downward pressure on mortgage rates over the coming months. However, for borrowers who favour greater certainty, at current rates fixing for 2-3 years is becoming increasingly attractive.

NZ interest rates



Global wrap

North America.

Conditions in markets stabilised over the course of the week, with US Treasury yields clawing back their earlier losses. That was supported by better-than-expected jobless claims which fell 17k to 233k, helping to quell concerns about a sharp deterioration in the US labour market. Looking through the recent volatility in data, the US economy and labour market are decelerating, while inflation is easing back. Against that backdrop, we've pulled forward our expectations for rate cuts from the Fed. While we still expect a first cut in September, we now expect this to be followed by cuts at the November, December, January and March meetings (two more cuts than we previously forecast). It's a busy week ahead, including CPI data on Wednesday, and industrial production and retail sales on Thursday. While there is also some Fedspeak, markets are now eagerly awaiting Fed Chair Powell's keynote speech at next week's Jackson Hole symposium.

Australia.

As expected, the RBA left its cash rate at 4.35% last week. However, the accompanying statement was more hawkish than expected, highlighting the ongoing strength in inflation and noting that returning inflation to target was expected to take longer than previously assumed, due to the resilience of domestic demand. Governor Bullock also commented that "a near-term reduction in the cash rate doesn't align with the Board's current thinking." Given the RBA's hawkish stance, we've pushed back our expectations for the start of rate cuts from November to February. Further ahead, we expect the RBA will cut the cash rate by 25bps each quarter, with a terminal rate of 3.35%. This week's calendar includes a number of RBA speakers on Monday and Friday, as well as the July labour market update on Thursday.

Asia.

July saw a sharper than expected slowdown in Chinese export growth, adding to concerns about the outlook for overall economic growth. Export growth slowed to 7.0%yr in July (vs 8.6%yr in June), with softening global demand and falls in prices weighing on export receipts. On the domestic front, Chinese consumer prices rose more than expected in July, climbing by 0.5%. However, that was affected by poor weather that boosted food prices. Excluding food and energy, prices were only up 0.4%, highlighting the ongoing weakness in domestic demand. In Japan, comments from BOJ deputy governor Uchida have tempered expectations regarding further rate increases. Mr Uchida noted that the BOJ will not hike rates while markets remain unstable, and noted the need for caution with regards to interest rate rises.

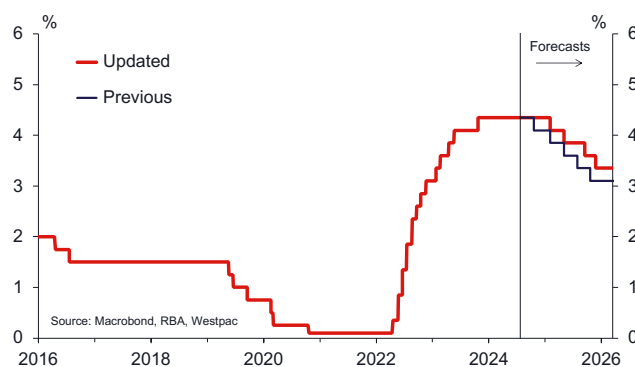
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	3.1
China	5.2	5.0	4.9	4.7
United States	2.5	2.5	1.7	1.7
Japan	1.9	0.3	1.1	0.9
East Asia ex China	3.3	4.2	4.2	4.1
India	7.8	7.0	6.8	6.5
Euro Zone	0.4	0.6	1.5	1.3
United Kingdom	0.1	0.6	1.3	1.4
NZ trading partners	3.4	3.3	3.4	3.4
World	3.2	3.3	3.3	3.2

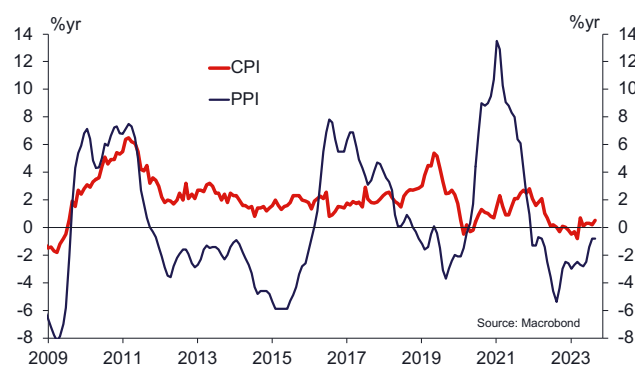
Australian & US interest rate outlook

	09-Aug-24	Sep-24	Dec-24	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.10
90 Day BBSW	4.39	4.42	4.19	3.30
3 Year Swap	3.73	4.10	4.00	3.50
3 Year Bond	3.67	3.90	3.80	3.30
10 Year Bond	4.08	4.30	4.25	4.00
10 Year Spread to US (bps)	10	-10	-5	0
US				
Fed Funds	5.375	5.125	4.875	3.875
US 10 Year Bond	3.98	4.40	4.30	4.00

RBA Cash Rate



Chinese inflation



Financial markets wrap

Interest rates.

NZ swap rates were volatile last week, falling sharply in response to weaker US labour data and the RBNZ inflation expectations survey, but bouncing in response to NZ labour data. Overall, the 2yr swap made a fresh cycle low at 3.96% – the lowest since August 2022.

This week will be a tense one for NZ rates markets, which expect the RBNZ to cut the OCR at Wednesday’s MPS meeting (pricing a 75% chance). Economists are divided, though, with Westpac forecasting October as the more likely start date for easing. A market reaction is likely, the direction depending on whether the RBNZ disappoints or endorses market pricing for August and ensuing meetings.

Setting aside potential surprises, swap rates are now at levels which have priced in most of the looming easing cycle. Forward starting swaps imply a terminal OCR rate in the low 3s.

Foreign exchange.

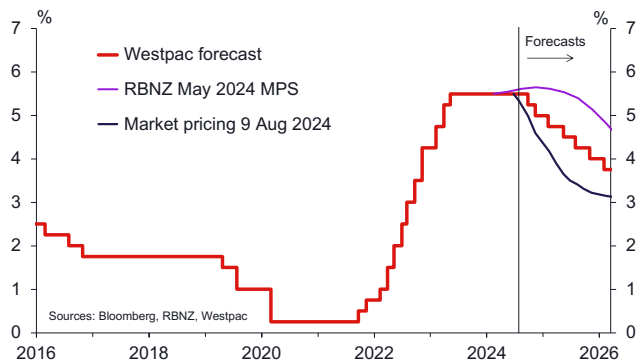
NZD/USD direction this week will be subject to the outcome of the RBNZ MPS on Wednesday, as well as US CPI data on Thursday.

If the RBNZ does not cut the OCR, NZD/USD could jump to 0.6100, whereas a dovish outcome could see 0.5900 tested.

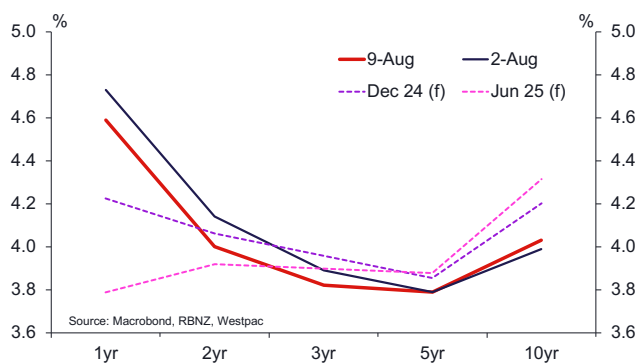
The US dollar has weakened over the past month as markets have become more confident the Federal Reserve will start cutting its policy rate in September. The combination of surprises from the RBNZ MPS and US CPI data this week will set the tone for NZ-US yields spreads near term.

NZD/AUD is consolidating inside a 0.9100-0.9200 range. Any breakout this week will depend on the RBNZ MPS and Australian labour data. If the RBNZ holds, the cross could see 0.9300. But longer term, we remain bearish, given Australia’s superior fiscal and current accounts.

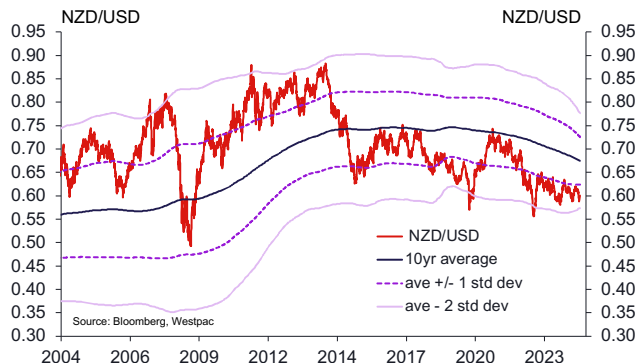
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F ^c ast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.600	0.586-0.620	0.555-0.743	0.646	0.61
AUD	0.913	0.897-0.929	0.873-0.992	0.930	0.91
EUR	0.550	0.542-0.573	0.517-0.637	0.581	0.55
GBP	0.470	0.456-0.484	0.456-0.537	0.504	0.47
JPY	87.9	86.1-98.6	61.3-98.6	80.0	91.5

The week ahead

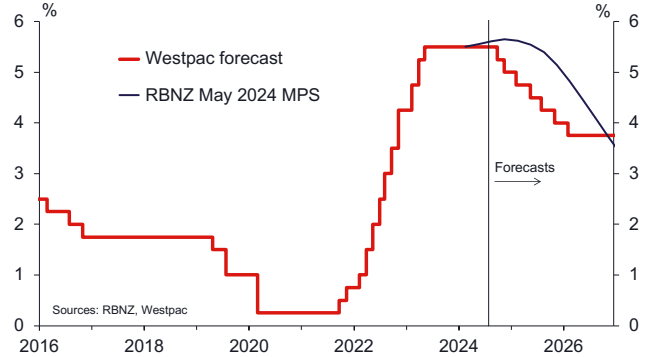
RBNZ Monetary Policy Statement

Aug 14, Last: 5.50%, Westpac: 5.50%, Range of mkt f/c: 5.25% to 5.50%

We expect the RBNZ will leave the OCR at 5.5% at the August Monetary Policy Statement. We expect a significant revision in the forward view for the OCR, consistent with potential easing in October and November, leaving the year end OCR at 5%. We also expect significant downward revisions to the 2025 and 2026 OCR profiles.

The RBNZ is likely to make a significant downward revision to its growth projections for 2024. Their short-term CPI forecasts will also likely be reduced, consistent with the downside surprise seen in the June quarter CPI.

Official Cash Rate forecasts



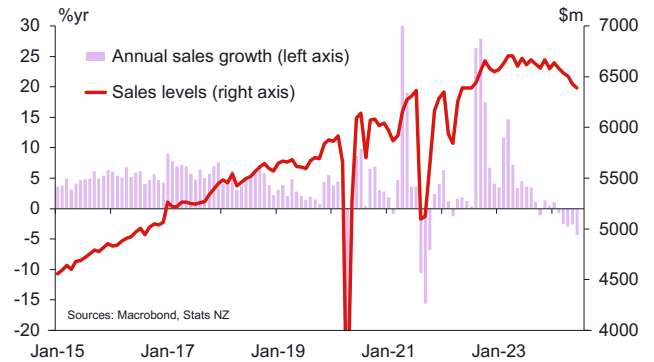
Jul retail card spending

Aug 15, Last: -0.6%, Westpac f/c: -0.3%

Total retail spending fell 0.6% in June, its fifth consecutive month of decline. Falls in spending have been widespread across categories other than groceries. That weakness has been a result of continued pressure on households' finances from cost-of-living increases and high interest rates.

We're forecasting another 0.3% fall in July. While spending on fuel is expected to be up (reflecting price rises over the month), spending in discretionary categories is expected to continue dropping back.

Monthly retail spending



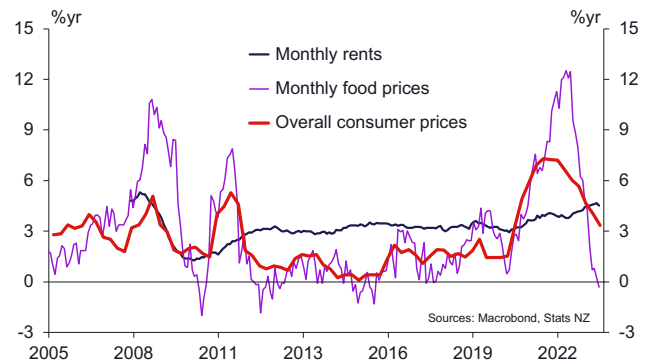
Jul selected price indices

Aug 15

Stats NZ's suite of monthly price data covers around 45% of the CPI. In terms of the big items, we're expecting a 2.4% rise in fuel prices and a 0.5% rise in food prices (related to the seasonal lift in fresh produce prices). On the domestic front, we expect a 0.3% rise in rents.

A key focus will be whether the cooling in inflation in discretionary spending areas (like holiday/travel costs) has continued. While those prices are not typically a focus for monetary policy, easing price pressures across a range of goods/services would reinforce expectations that overall inflation is trending back towards 2%.

Selected consumer prices

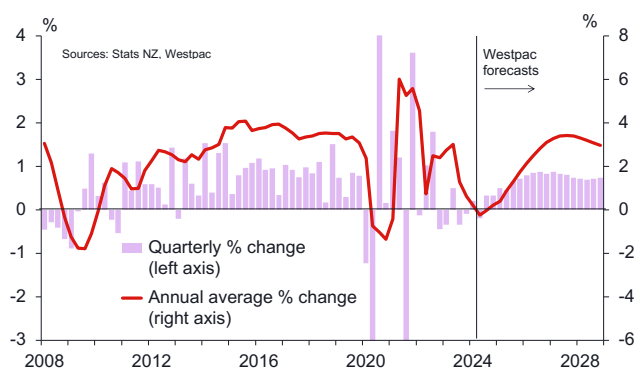


Economic and financial forecasts

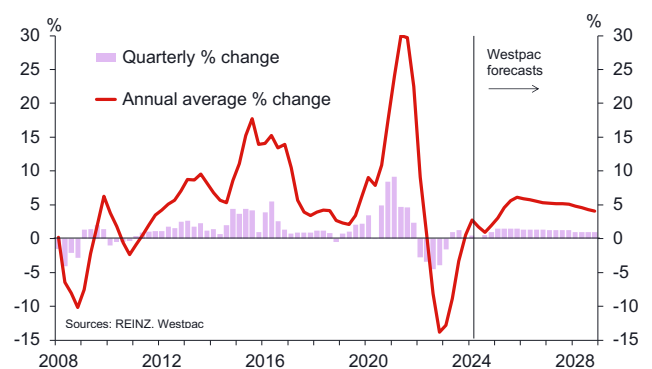
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.2	-0.6	-0.2	0.4	0.6	-0.3	1.3	2.3
Consumer price index	0.6	0.4	1.1	0.4	4.7	2.5	2.2	2.1
Employment change	-0.3	0.4	-0.4	-0.2	2.9	-0.4	-0.1	1.5
Unemployment rate	4.4	4.6	5.0	5.3	4.0	5.3	5.6	4.9
Labour cost index (all sectors)	0.9	1.2	0.7	0.7	4.3	3.5	2.3	1.9
Current account balance (% of GDP)	-6.8	-6.5	-6.0	-5.3	-6.9	-5.3	-4.0	-4.2
Terms of trade	5.1	3.2	1.7	-0.5	-10.7	9.8	2.4	1.8
House price index	0.4	-0.4	0.0	0.5	0.6	0.5	6.4	4.1

Financial forecasts	End of quarter				End of year			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
OCR	5.50	5.50	5.50	5.00	5.50	5.00	4.00	3.75
90 day bank bill	5.66	5.63	5.30	5.00	5.65	5.00	4.00	3.85
2 year swap	4.91	5.01	4.25	4.15	5.28	4.15	3.90	4.00
5 year swap	4.40	4.53	3.90	3.90	4.85	3.90	4.00	4.25
10 year bond	4.69	4.74	4.40	4.35	5.09	4.35	4.30	4.35
TWI	71.6	71.4	70.4	70.8	70.8	70.8	70.6	69.9
NZD/USD	0.61	0.61	0.60	0.61	0.60	0.61	0.63	0.64
NZD/AUD	0.93	0.92	0.91	0.91	0.93	0.91	0.89	0.88
NZD/EUR	0.56	0.56	0.55	0.55	0.56	0.55	0.56	0.56
NZD/GBP	0.48	0.48	0.47	0.47	0.49	0.47	0.48	0.48

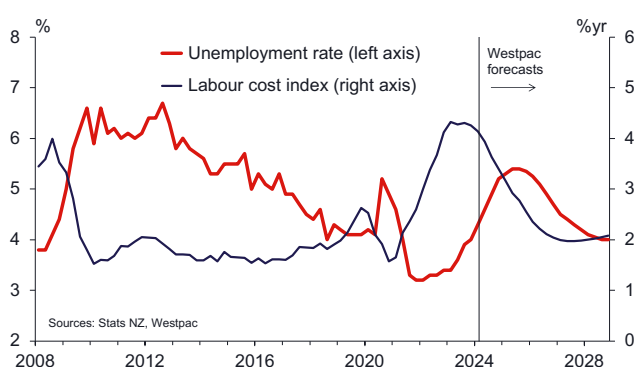
GDP growth



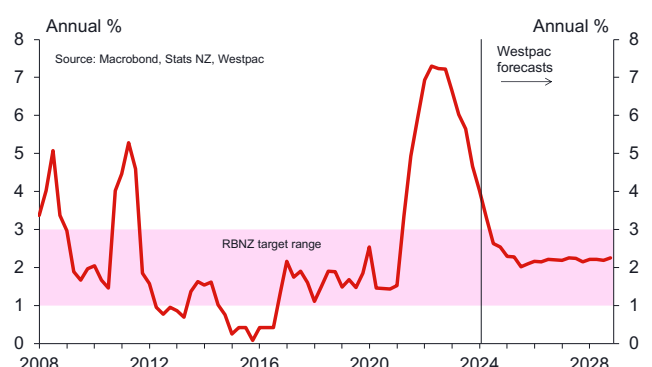
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 12					
Aus	RBA Deputy Governor Hauser	-	-	-	Speaking at the ESA Business Lunch.
Tue 13					
NZ	Jun Net Migration, Number	1410	-	-	Net migration falling, arrivals slowing, departures rising.
Aus	Aug Westpac-MI Consumer Sentiment, pts	82.7	-	-	Inflation and rate rise concerns likely to linger.
	Q2 Wage Price Index, %qtr	0.8	0.9	0.8	Moderating individual bargaining points to downside risk.
	Jul NAB Business Conditions, pts	4	-	-	Employment and investment sub-indexes in focus.
UK	Aug Average Weekly Earnings, %yr	5.7	-	-	Easing points to positive signs for services inflation.
US	Jul NFIB Small Business Optimism, pts	91.5	91.7	-	Hiring intentions help inform on economy-wide demand.
	Jul PPI, %mth	0.2	0.2	-	Shipping costs could add pressure to goods inflation.
	Fedspeak	-	-	-	Bostic.
Int'l	Jul S&P Global Services PMI, pts	-	-	-	Final estimate for Japan, Eurozone, UK and US.
Wed 14					
NZ	Aug RBNZ Policy Decision, %	5.5	5.5	5.5	RBNZ projections to signal earlier rate cuts.
Eur	Q2 GDP, %qtr	0.3	0.3	-	Second estimate.
	Jun Industrial Production, %mth	-0.6	0.7	-	Auto struggles weighing on IP.
UK	Jul CPI, %yr	2	2.3	-	Services still too hot for comfort on outlook.
US	Jul CPI, %mth	-0.1	0.2	-	Easing rent inflation becoming a persistent weight on CPI.
Thu 15					
NZ	Jul REINZ House Prices, %yr	1.3	-	-	Prices have been nudging down, with listings rising...
	Jul REINZ House Sales, %yr	-25.6	-	-	... and sales still low.
	Jul Selected Price Indices – Food, %mth	0.9	-	0.5	Seasonal rise in food prices, fuel prices also up.
	Jul Selected Price Indices – Rents, %mth	0.3	-	0.3	Rent growth still firm.
	Jul Retail Card Spending, %mth	-0.5	-	-0.3	Discretionary spending remains weak.
Aus	Jul Employment Change, 000's	50.2	20	20	Employment growth slowly moving below population...
	Jul Unemployment Rate, %	4.1	4.1	4.1	... as balance returns to the labour market.
Jpn	Q2 GDP, %qtr	-0.5	0.6	-	Weakness evident in household and export demand.
Chn	Jul Retail Sales, %yr ytd	3.7	3.5	-	Consumers are feeling uncertain given property woes...
	Jul Industrial Production, %yr ytd	6	5.9	-	... as manufacturers benefit from high-tech demand...
	Jul Fixed Asset Investment, %yr ytd	3.9	3.9	-	... keeping the outlook for investment upbeat.
UK	Q2 GDP, %qtr	0.7	-	-	Services-driven growth is more resilient than anticipated.
US	Jul Retail Sales, %mth	0	0.3	-	Consumer demand is slowing
	Jul Industrial Production, %mth	0.6	flat	-	Production continues to hold broadly flat year-on-year.
	Jul Import Price Index, %mth	0	-0.1	-	Renewed focus on rising shipping costs.
	Jun Business Inventories, %mth	0.5	0.3	-	Steady inv-to-sales points to order book management.
	Aug NAHB Housing Market Index, pts	42	42	-	Homebuilders have little cause for optimism.
	Initial Jobless Claims	233k	-	-	To remain low, for now.
Fri 16					
NZ	Jul Manufacturing PMI, pts	41.1	-	-	Likely to remain at contractionary levels.
Aus	RBA Policy Top Five Front Up	-	-	-	RBA's top brass appears before the House of Reps.
Eur	Jun Trade Balance, €bn	12.3	-	-	Dull developed markets demand adding pressure.
UK	Jul Retail Sales, %mth	-1.2	-	-	Rate cut relief will flow through in time.
US	Jul Housing Starts, %mth	3	-0.9	-	Borrowing costs remain a headwind for builders...
	Jul Building Permits, %mth	3.9	-0.7	-	... as front-end risks around the pipeline linger.
	Aug Uni. of Michigan sentiment, pts	66.4	67.2	-	Inflation expectations of interest.
	Fedspeak	-	-	-	Goolsbee.

CONTACT

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

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

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

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

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

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

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

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

DISCLAIMER

Things you should know.

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

Disclaimer.

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

Country disclosures.

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

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

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence 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 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.

