

Weekly Commentary

10 September 2018



Kauri Snail (Pūpūrangī)

Quiet achievers

The drivers of New Zealand's economic growth are changing. As construction, population growth and the housing market retreat, other sectors are stepping up. One of these is the external sector. New Zealand's terms of trade is back within reach of its late-2017 record high on the back of strong prices for commodity exports. Recent data shows services exports have also been stronger than previously reported. The buoyant export sector is supporting growth prospects in many regions, as outlined in our recent Regional Roundup report.

New Zealand's external sector is stepping up to the plate as previous drivers of New Zealand's economic growth start to slow. As evidence of this, New Zealand's terms of trade – the ratio of New Zealand's export prices to import prices – rose by 0.6% in the June quarter. Export prices were up 2.4% in NZ dollar terms in the quarter, with higher prices almost across the board for New Zealand's main commodity exports. The 1.7% lift in import prices was propelled by a 10% jump in oil prices and a small drop in the exchange rate.

While the export story remains a strong one, this could be as good as it gets for the terms of trade for a while. Key commodity prices have moderated in recent months, most notably dairy prices. The recent run of soft GlobalDairyTrade auctions continued this week, with the headline GDT price index edging 0.7% lower. On this measure, dairy prices have fallen around 13% since the start of the local 2018/19 dairy season. The weaker New Zealand dollar has only partially offset the impact of these falls on farmgate prices.

For our part, an expectation of softer dairy prices over the second half of 2018 has underpinned our \$6.50 milk price forecast for some time. In contrast, Fonterra has taken longer to come around to this view, only downgrading its milk price forecast last week. We still think Fonterra's new \$6.75 (previously \$7) milk price forecast is too optimistic. Indeed, we are wary of the downside risks to our own \$6.50

forecast, which is contingent on whole milk powder prices remaining around current levels before improving gradually in the New Year. Further falls in whole milk powder prices from here would have us reassessing this outlook.

Yet New Zealand's export sector is no longer all about commodity exports. Tourism is booming, the international education market has grown strongly of late and business services (including the likes of ICT, intellectual property services and financial intermediation services) has expanded as technological developments have helped alleviate New Zealand's geographic disadvantage. These quiet achievers really should have been enjoying star billing in recent years.

Indeed, Stats NZ data released last week showed this was the case to an even greater extent than we previously thought. New Zealand's exports of services have been revised significantly higher. Most notably, the annual update of international student spending was stronger than anticipated. In addition, Stats NZ is now capturing spending by visitors on cruise ships in its data. This, combined with other changes, has led to exports of services being revised up as far back as 2013. Where it has its maximum impact, the changes add an additional \$1bn to exports of services in the March 2017 year.

Not only does that mean the external sector was doing even better than we gave it credit for in recent years, it

Quiet achievers... continued

also means our external accounts are in an even healthier position than we previously thought. The new data implies an improvement in New Zealand's current account in the order of 0.3% of GDP at the height of its impact, meaning NZ's current account deficit probably improved to 1.9% of GDP in 2016.

The flip side of the terms of trade is import prices, not least oil. Oil prices have exceeded expectations in recent months in part due to supply disruptions in Venezuela and Angola. Other OPEC producers have declined to step in and fill the void to date, meaning tighter supplies and higher prices. We still expect prices will moderate next year, as supply from other oil producers including the US increases, but we think this change will happen more slowly than previously envisioned. That has important implications for our CPI forecasts. After updating for this new oil price outlook, we now expect inflation at the end of next year will be 1.6% (previously we were forecasting 1.3%).

The strong performance of the external sector has also been reflected in differences in activity amongst regions,

as highlighted in our recent Regional Roundup report¹. In general, activity levels in the major metropolitan regions have been more subdued than those in rural regions, a trend that continued in the latest quarter. Most notably, regional economic confidence (how surveyed households view prospects for their own region over the year ahead) was the weakest in Auckland as the pace of growth in the region slowed. With the housing market in Auckland likely to be hardest hit by government policy changes aimed squarely at investors, the region is also likely to remain more subdued going forward than other parts of the country.

In contrast, traditional tourist hot spots, particularly those with significant exposure to the high flying horticulture sector, such as the Bay of Plenty, Otago and Gisborne/Hawke's Bay continue to be amongst the most buoyant parts of the country. Add to that prospects for a lift in regional investment on the back of the launch of the Government's Infrastructure Growth Fund and it's likely that the regions will continue to outperform metropolitan areas even as the overall pace of growth slows right across the country.

¹ Available here: <https://www.westpac.co.nz/assets/Business/Economic-Updates/2018/Bulletins-2018/Regional-Roundup-August-2018.pdf>

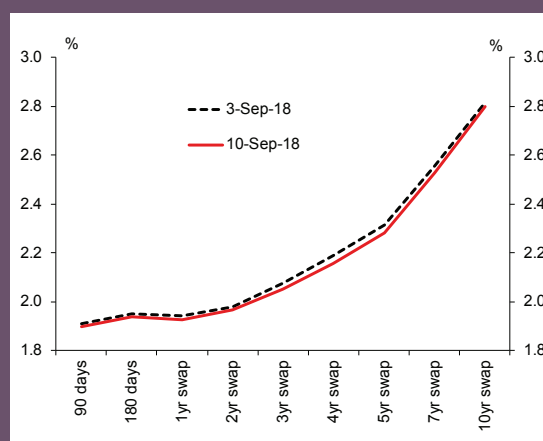
Fixed vs Floating for mortgages

We see scope for fixed-term mortgage rates to fall in the near term, as the market adjusts to the Reserve Bank's softer stance. Looking further ahead, we expect floating and short-term fixed rates to rise gradually over the next few years, so taking a fixed rate may prove worthwhile once they have settled down.

One-year fixed rates are currently the lowest on offer, and appear to offer good value for borrowers. Longer-term fixed rates are high relative to where we think one-year fixed rates are going to go. However, longer-term rates offer security against the possibility of mortgage rates rising more rapidly than expected in the future.

Floating mortgage rates usually work out to be more expensive for borrowers than fixed rates. However, floating may still be the preferred option for those who require flexibility in their repayments.

NZ interest rates



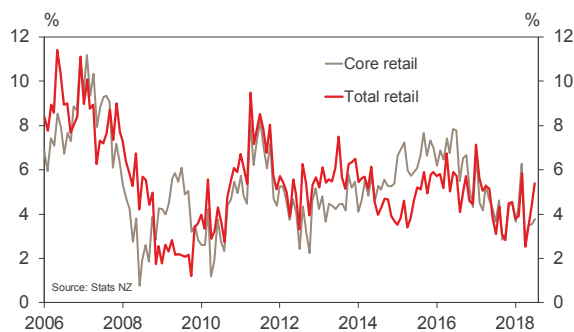
The week ahead

NZ Aug retail card spending

Sep 11, Last: +0.7%, Westpac f/c: +0.5%, Mkt f/c: +0.5%

- Retail spending levels rose by 0.7% in July, underpinned by increased spending on consumables (e.g. groceries), as well as an increase in fuel prices. Spending levels have been boosted by the Government's Families Package, which has added to the disposable incomes of many households.
- We expect a 0.5% increase in retail spending in August. However, with fuel prices pushing upwards, core spending growth is expected to be more modest at around 0.3%. Increases in disposable incomes are adding to spending in some areas like consumables. But at the same time, the continuing slowdown in the housing market is dampening spending on items like household furnishings.

Card transactions, annual % change



NZ Aug house sales and prices

Sep 14 (tbc), Sales last: -5.7%, Prices last: 4.9%yr

- The housing market has generally been soft in recent months. Nationwide house sales have slowed, and prices in Auckland have drifted lower. However, prices continue to rise in most of the rest of the country, and there were signs that they gathered pace in July.
- The outlook for house prices is caught between the Government and the RBNZ. Restrictions on overseas buyers were passed into law last month, and will take effect shortly. On the other hand, the RBNZ's statement that it is nearer the trigger point for reducing the OCR has led to a drop in mortgage rates, which may already be giving some life to the market.
- We expect nationwide average house prices to remain fairly subdued over the remainder of the year, with Auckland underperforming the rest of the country due to the greater impact of investor restrictions.

REINZ house prices and sales

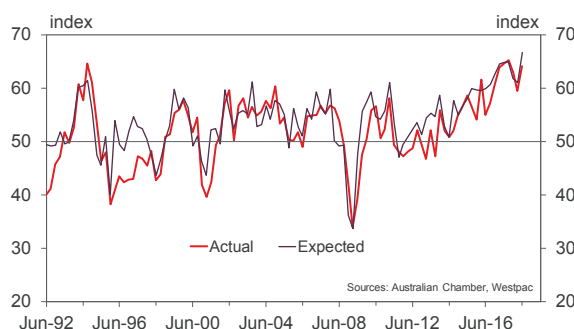


Aus Q3 AusChamber-Westpac business survey

Sep 11, Last: 63.8

- The Australian Chamber-Westpac survey of the manufacturing sector provides a timely update on conditions in the sector and insights into economy-wide trends. The Actual Composite tracks a range of demand related measures including investment and employment. The Q3 survey was conducted in August and into September.
- In Q2, the Actual Composite rose to 63.8 from 59.4 in March. Strength is centred on a lift in new orders and output as well as increased. However employment moderated in June.
- Manufacturing is benefitting from a rise in public infrastructure, non-mining business investment, and above par world growth with a relatively low AUD. However, there are likely to be spill-over effects from the drought in NSW and Queensland.

Westpac-AusChamber Composite indexes

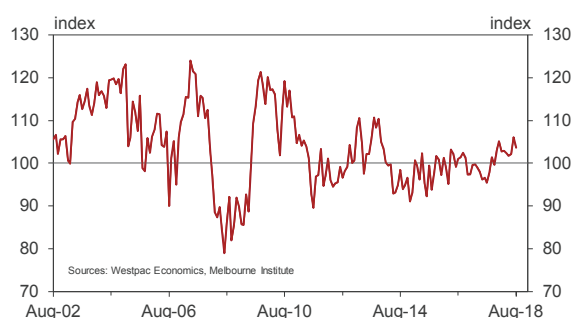


Aus Sep Westpac-MI Consumer Sentiment

Sep 12 Last: 103.6

- The Westpac Melbourne Institute Index of Consumer Sentiment declined 2.3% to 103.6 in August from 106.1 in July. The move gave back about half of the solid gains seen in June and July which look to have been partly a positive response to the tax cuts announced in the May Budget. The August reading was still positive overall, 5.5% above the average in 2014 to 2017 and the ninth successive month that above the 100 level, indicating optimists outnumber pessimists.
- The Sep update may end that run. The survey was in the field from Sep 3-8 and is likely to be influenced by: the leadership change that saw a new PM announced in late August; and mortgage rate increases, with three of the four major banks lifting standard variable mortgage rates by 14-16bps. Continued slippage in house prices may also weigh on sentiment.

Consumer Sentiment Index



The week ahead

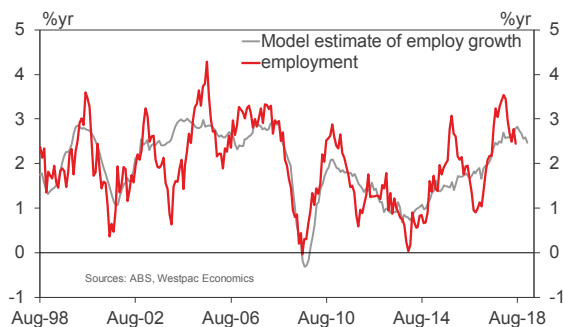
Aus Aug Labour Force Survey – Employment '000

Sep 13, Last: -3.9k, WBC f/c: 18k

Mkt f/c: 18k%, Range: -10k to 35k

- Employment fell -3.9k in July, coming in below market consensus expectation of +15k and met Westpac's forecasts for -5k. The full-time employment recovery continued with a +19.3k gain in July (following +43.2 in June) while part-time fell -23.2k (it printed +15.0k in June). Hours worked increased by 0.2% in the month, which following on from the 0.6% lift in June, took the annual pace to 2.3%/yr from 1.7%/yr in June.
- Our Jobs Index model suggests that labour demand may have eased but it still at a robust level. As such, we have forecast an around trend 18k for August.

Jobs Index model of employment

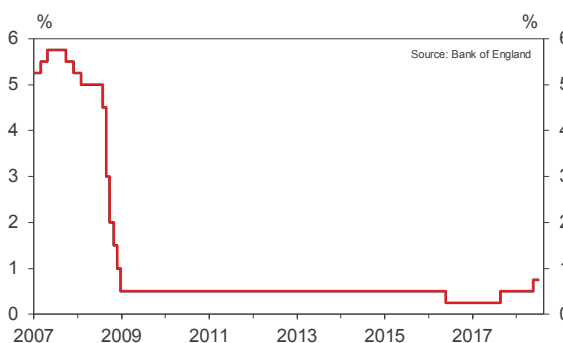


UK Bank of England Bank Rate

Sep 13, Last: 0.75%, WBC f/c: 0.75%, Mkt f/c: 0.75%

- August saw the Bank of England raise the Bank Rate by 25bps to 0.75%. The BoE also maintained its very modest tightening bias, reiterating that future increases are likely to be "at a gradual pace and to a limited extent". But despite the increase in the Bank Rate, the BoE's discussion and comments from Governor Carney actually struck a mildly dovish tone.
- With inflation contained, growth moderate, and Brexit casting a very long shadow over the economic outlook, the BoE is set to stand pat for an extended period. We expect no change at the September meeting. The accompanying statement is likely to retain the very gradual tightening bias from August, but more weight may be given to uncertainties around the economic outlook.

Bank of England Bank Rate



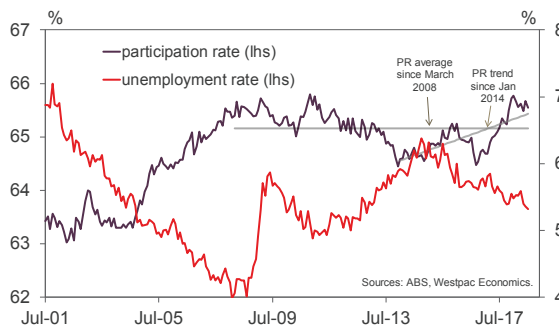
Aus Aug Labour Force Survey – Unemployment %

Sep 13, Last: 5.3%, WBC f/c: 5.3%

Mkt f/c: 5.3%, Range: 5.2% to 5.5%

- In the July Labour Force Survey, the fall in employment combined with fall in the participation rate (mostly due to the group rolling in being less attached to the labour force than the group rolling out) to 65.54% from 65.68% driving a 9.6k decline in the labour force.
- As the decline in the labour force was slightly larger than the drop in employment, the unemployment rate rounded down to 5.3% (5.32%) from 5.4% (5.35%). So while it was reported a fall in unemployment, a 0.02ppt change as best described as flat.
- Westpac's forecast for an around trend rise in employment of 18k, and with the participation rate rounding up to 65.6%, will see the unemployment rate hold flat at 5.3%.

Unemployment and participation rates

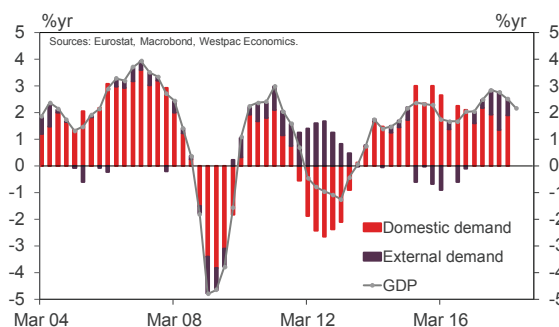


EA Sep ECB policy decision

Sep 13, last -0.40%, WBC -0.40%

- The ECB used the June policy meeting to affirm their forward guidance into 2019. It is very likely that the September meeting will continue the current stance with only minor changes to their activity forecasts.
- In June, we were told that asset purchases will be tapered again from October before ending completely in December, and that interest rates are on hold until the end of next summer. Still-low core inflation and a continued reduction of slack in the labour market backs up this stance.
- Since July's meeting, GDP growth printed at 0.4% in Q2, following Q1's 0.4% growth. Yet it is still a bit low relative to the ECB's 2.1% 2018 forecast, reflecting a faster than expected easing from 2017's brisk 2.5% year average pace as the boost from external demand fades.

Euro Area GDP growth slowing



The week ahead

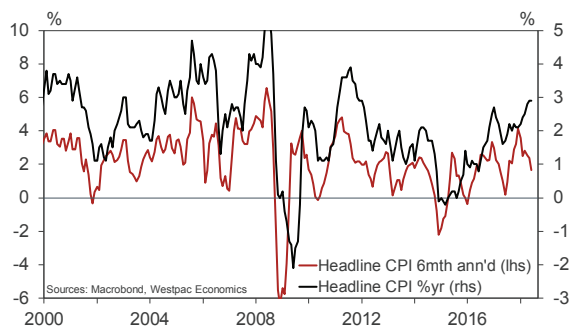
US Aug CPI and retail sales

Sep 13, CPI, last 0.2%, WBC 0.3%

Sep 14, retail sales last 0.5%, WBC 0.5%

- US inflation continues to print largely as expected, holding at its recent highs well above the FOMC's 2.0%yr inflation target. Of late, energy and rents have remained key supports, so too base effects from 2017's one-offs.
- In Sep, energy will again be a factor, resulting in a 0.3% gain for headline prices against core inflation's 0.2%. As 2018 winds down, CPI inflation will tend towards (but remain above) 2.0%yr, bringing these measures back into line with the less volatile PCE measures.
- On retail sales, Jul saw a bounce back in spending albeit only after Jun was revised down. Another 0.5% gain is anticipated in Aug. Spending should be broad based, though increasingly autos are a risk given the effect of higher interest rates.

CPI headline inflation: energy pulse to fade



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
NZ	Q2 survey of manufacturing	1.4%	-	-	Last major input for Q2 GDP.
Aus	RBA Asst Governor Bullock speaks	-	-	-	'The Evolution of Household Sector Risks', 1:05 pm.
Chn	Aug PPI %yr	4.6%	4.0%	-	Commodities continue to support upstream prices.
	Aug CPI %yr	2.1%	2.1%	-	But for consumers, inflation is benign.
	Aug M2 money supply %yr	8.5%	8.6%	-	Money supply growth to stabilise...
	Aug new loans, CNYbn	1450	1350	-	... as authorities support bank & market issued credit.
Eur	Sep Sentix investor confidence	14.7	15.0	-	Stabilised in recent months but Italian budget pending.
UK	Jul GDP	0.1%	0.2%	0.2%	Pace of growth remains moderate with softness in services...
	Jul industrial production	0.4%	0.2%	-	...offsetting firmer conditions in manufacturing...
	Jul trade balance, £bn	-1861	-2050	-	...and export sectors.
US	Fedspeak	-	-	-	Bostic discusses economic outlook
	Jul consumer credit \$bn	10.2	14.1	-	Auto loans coming under some pressure from rates.
Tue 11					
NZ	Aug retail card spending	0.7%	0.5%	0.5%	Housing slowdown offsetting boost to disposable incomes.
Aus	Q3 AusChamber-Westpac survey	63.8	-	-	Manufacturing expansion on construction, lower dollar.
	Aug NAB business survey	12	-	-	Conditions elevated but have moderated of late.
Eur	Sep ZEW survey of expectations	-11.1	-	-	Fell further than other sentiment gauges. Stabilised now.
UK	Jul ILO unemployment rate	4.0%	-	-	At a very low level, but wage inflation still absent.
US	Aug NFIB small business optimism	107.9	108.2	-	Optimism robust at elevated level.
Wed 12					
Aus	Sep WBC-MI Consumer Sentiment	103.6	-	-	Leadership change, mortgage rate rises to impact.
Eur	Jul industrial production	-0.7%	-	-	Annual pace trending lower.
US	Aug PPI	0.0%	0.2%	-	Upstream pressures remain benign.
	Fedspeak	-	-	-	Bullard speaks to CFA Society Chicago
	Fedspeak	-	-	-	Brainard in Detroit on the economy and policy.
	Federal Reserve's Beige book	-	-	-	Conditions across the 12 districts.
Thu 13					
NZ	Aug food prices	0.7%	-	0.6%	Seasonal gains in vege prices
Aus	Sep MI inflation expectations	4.0%	-	-	The trend has been at, or just under, 4%/yr since Dec 2016.
	Aug employment	-3.9k	18k	18k	There is little to point to sample volatility this month so...
	Aug unemployment rate	5.3%	5.3%	5.3%	...our trend 18k forecast will hold unemployment at 5.3%.
Eur	ECB policy decision	-0.4%	-0.4%	-	No change in stance expected. New forecasts.
UK	BoE policy decision	0.8%	-	-	On hold, we expect for a very long time.
	Aug RICS house price balance	4%	2%	-	Price growth muted, but appears to have found a base.
US	Initial jobless claims	203k	-	-	To remain at very low level.
	Aug CPI	0.2%	0.3%	0.3%	Core up 0.2%. Annual rates stable.
	Fedspeak	-	-	-	Quarles testifies to the Senate Banking Committee.
	Fedspeak	-	-	-	Bostic gives speech on economy and monetary policy.
Fri 14					
NZ	Aug BusinessNZ manufacturing PMI	51.2	-	-	Pointing towards slowing growth, orders and output down.
	Aug REINZ house sales	-5.7%	-	-	Due this week. Turnover slowed, but lower mortgage rates...
	Aug REINZ house prices, %yr	4.9%	-	-	...may help to revive sales and prices in the near term.
Chn	Aug retail sales ytd %yr	9.3%	9.3%	-	PMI's show resilience in employment growth.
	Aug industrial production ytd %yr	6.6%	6.6%	-	Likely to stabilise.
	Aug fixed asset investment ytd %yr	5.5%	5.7%	-	Worst of deceleration in investment has been seen.
Eur	Jul trade balance €bn	16.7	-	-	Politically sensitive release at the moment.
US	Aug retail sales	0.5%	0.6%	0.5%	Consumer aided by jobs but not real incomes.
	Aug import price index	0.0%	-0.3%	-	Stronger US dollar a factor.
	Aug industrial production	0.1%	0.4%	-	Nowhere near the strength of PMIs.
	Jul business inventories	0.1%	0.4%	-	To remain a swing factor for growth.
	Sep Uni. of Michigan sentiment	96.2	96.2	-	Strong and resilient.
	Fedspeak	-	-	-	Evans on the economy and policy.

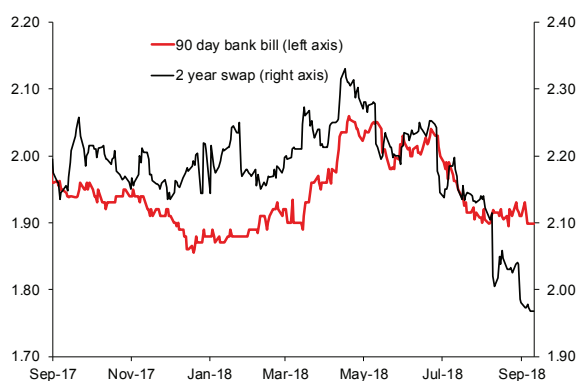
New Zealand forecasts

Economic Forecasts	Quarterly				Annual			
	2018				Calendar years			
% change	Mar (a)	Jun	Sep	Dec	2017	2018f	2019f	2020f
GDP (Production)	0.5	1.0	0.6	0.7	2.8	2.8	3.1	2.9
Employment	0.6	0.5	0.4	0.3	3.7	1.8	1.4	1.7
Unemployment Rate % s.a.	4.4	4.5	4.5	4.6	4.5	4.6	4.6	4.4
CPI	0.5	0.4	0.7	0.3	1.6	1.9	1.6	1.8
Current Account Balance % of GDP	-2.8	-2.9	-3.2	-3.3	-2.7	-3.3	-3.5	-2.9

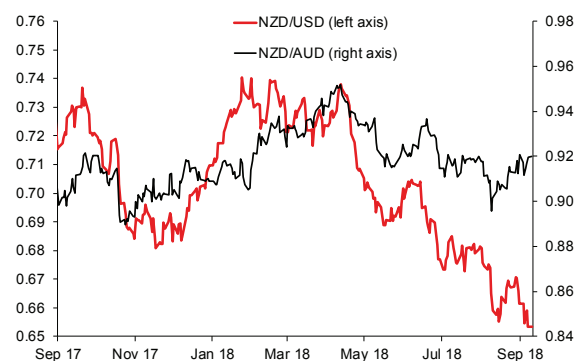
¹ Annual average % change

Financial Forecasts	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Cash	1.75	1.75	1.75	1.75	1.75	1.75
90 Day bill	1.90	1.90	1.90	1.95	2.00	2.10
2 Year Swap	2.10	2.20	2.30	2.45	2.60	2.75
5 Year Swap	2.65	2.80	2.90	3.05	3.15	3.25
10 Year Bond	2.90	3.10	3.15	3.25	3.35	3.40
NZD/USD	0.66	0.65	0.64	0.64	0.64	0.65
NZD/AUD	0.90	0.90	0.91	0.91	0.91	0.90
NZD/JPY	73.9	73.5	72.3	71.7	71.7	72.2
NZD/EUR	0.57	0.57	0.57	0.56	0.55	0.55
NZD/GBP	0.52	0.53	0.52	0.52	0.52	0.53
TWI	71.8	71.1	70.3	70.0	69.8	69.8

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 10 September 2018

Interest Rates	Current	Two weeks ago	One month ago
Cash	1.75%	1.75%	1.75%
30 Days	1.83%	1.81%	1.80%
60 Days	1.86%	1.86%	1.85%
90 Days	1.90%	1.91%	1.92%
2 Year Swap	1.97%	2.03%	2.01%
5 Year Swap	2.28%	2.36%	2.35%

NZ foreign currency mid-rates as at 10 September 2018

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6534	0.6686	0.6576
NZD/EUR	0.5656	0.5752	0.5778
NZD/GBP	0.5054	0.5208	0.5152
NZD/JPY	72.50	74.43	72.71
NZD/AUD	0.9200	0.9132	0.9034
TWI	71.52	72.45	71.69

International forecasts

Economic Forecasts (Calendar Years)	2014	2015	2016	2017	2018f	2019f
Australia						
Real GDP % yr	2.6	2.5	2.6	2.2	2.8	2.5
CPI inflation % annual	1.7	1.7	1.5	1.9	1.7	1.7
Unemployment %	6.2	5.8	5.7	5.4	5.5	5.6
Current Account % GDP	-3.0	-4.7	-3.1	-2.5	-2.4	-3.4
United States						
Real GDP %yr	2.6	2.9	1.5	2.3	2.9	2.5
Consumer Prices %yr	1.6	0.1	1.4	2.1	2.5	2.0
Unemployment Rate %	6.2	5.3	4.9	4.4	3.9	3.7
Current Account %GDP	-2.3	-2.3	-2.3	-2.6	-2.5	-2.4
Japan						
Real GDP %yr	0.4	1.4	0.9	1.7	1.1	1.0
Euro zone						
Real GDP %yr	1.3	2.1	1.8	2.3	2.0	1.6
United Kingdom						
Real GDP %yr	3.1	2.3	1.9	1.8	1.2	1.5
China						
Real GDP %yr	7.3	6.9	6.7	6.9	6.3	6.1
East Asia ex China						
Real GDP %yr	4.2	3.8	3.9	4.5	4.4	4.3
World						
Real GDP %yr	3.6	3.5	3.2	3.8	3.8	3.7

Forecasts finalised 13 August 2018

Interest Rate Forecasts	Latest	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Jun-20	Dec-20
Australia								
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day BBSW	1.93	2.00	1.97	1.97	1.92	1.92	1.83	1.80
10 Year Bond	2.55	3.00	3.10	3.00	3.00	2.80	2.60	2.60
International								
Fed Funds	1.875	2.375	2.625	2.875	2.875	2.875	2.875	2.875
US 10 Year Bond	2.87	3.35	3.50	3.50	3.40	3.20	3.00	2.80
ECB Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	0.00	0.20

Exchange Rate Forecasts	Latest	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Jun-20	Dec-20
AUD/USD	0.7162	0.73	0.72	0.70	0.70	0.70	0.74	0.75
USD/JPY	110.56	112	113	113	112	112	109	106
EUR/USD	1.1626	1.15	1.14	1.13	1.14	1.16	1.22	1.28
AUD/NZD	1.0891	1.11	1.11	1.09	1.09	1.09	1.12	1.10

Contact the Westpac economics team

Dominick Stephens, Chief Economist +64 9 336 5671

Michael Gordon, Senior Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

Paul Clark, Industry Economist +64 9 336 5656

Any questions email: economics@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. 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: 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 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.

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

Disclaimer continued

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.