

Weekly Commentary

13 August 2018



Kauri Snail (Pūpūrangī)

Snap back to reality

As expected, the Reserve Bank repeated its line that the OCR will stay low for an extended period and that the next move could be up or down. However, the RBNZ's interest rate projections and some subsequent comments have made clear the extent to which the 'down' scenario is a real prospect. We're taking seriously the possibility of a rate cut within the next year, and we think that financial markets should too. However, we expect that some better-than-expected economic data will stay the RBNZ's hand in the near term.

The August *Monetary Policy Statement* shifted broadly in the direction that we expected. We were saying at the start of this year that the RBNZ's growth forecasts were too optimistic, and that as they came to realise this they would shift to a more dovish stance. This has now come to pass. At the time, financial markets and many forecasters were still predicting OCR hikes this year; the centre of gravity has now shifted towards a much later move.

However, the RBNZ has shifted its assessment even further than we expected. Their updated projection for the OCR is flat until September 2020, a year later than in the May *MPS*. From there, the next projected move is up, but at a very gradual pace.

At face value, the RBNZ's assessment of the economy certainly wasn't ringing alarm bells. The RBNZ is forecasting growth to accelerate again after a recent slowdown, supported by low interest rates, increased government spending and a rebound in export volumes. The Kiwibuild programme will help to boost construction activity, although the RBNZ has adopted the Treasury's view that Kiwibuild will ramp up more slowly than previously expected. Above-potential growth would lead to greater capacity pressures and a lift in wage and price inflation.

The most substantial change compared to the May *MPS* was a cut to the GDP growth forecasts for the rest of this year,

reflecting the softness in business confidence and other recent indicators. However, this slowdown was regarded as temporary.

The risk scenarios in the *MPS* were more revealing. On the one hand, the possibility of a faster than expected pickup in inflation would ultimately require higher interest rates than otherwise. But even then it wouldn't require a sharp response, as it would actually serve to get the RBNZ closer to its inflation target.

On the other hand, the downside scenario considered a slower pickup in GDP growth (though still accelerating from its recent pace). A slower than expected pickup in activity could see the RBNZ fall short on both its inflation and employment goals, and would warrant a substantially lower OCR.

The potential for a cut was reinforced in a later interview with the RBNZ's Assistant Governor McDermott, who commented that "we've been pushed nearer to that trigger point". McDermott went on to highlight that the RBNZ will need to see a lift in GDP growth in the September quarter (when increased fiscal stimulus should start to come through) to be convinced that it is on the right track.

These comments suggest that the risk of an OCR cut is real, but not imminent. September quarter GDP isn't published

Snap back to reality... continued

until late December, though there will be some indicators out in time for the November *MPS*.

Moreover, our view is that the RBNZ won't have to wait that long for some reassurance. The RBNZ expects June quarter GDP to rise by 0.5%; the information that we have to date suggests an outturn closer to 1%. Of course, quarterly GDP outturns can be volatile – we think that the 0.5% rise in the March quarter probably understated the underlying pace of growth, and that the June quarter will almost certainly overstate the case. But there are some genuine positives in there as well. For instance, the June quarter labour market surveys showed a surprisingly strong lift in employment and hours worked in the June quarter.

Perhaps less significantly, we're also expecting the next inflation print to top the RBNZ's forecast. The RBNZ is expecting a 0.4% rise in September quarter prices, with a particularly soft result for tradable goods prices. We're expecting a 0.7% rise for the quarter, with fuel prices set to make another sizeable contribution. However, this is the kind of inflation surprise that the RBNZ has scope to look through.

We should emphasise that not all of the upcoming economic news is going to be more favourable. The housing market is likely to remain subdued this year, as various Government policies aimed at dampening housing market speculation come into effect. That's also likely to weigh on growth in household spending.

In addition, we expect the recent slowdown in growth to filter through to the labour market with a lag. That implies the uptick in the unemployment rate in the June quarter could run further in the near term, before the effects of fiscal stimulus push it lower again next year. It's not clear to what extent the RBNZ would be willing to tolerate a move in unemployment in the wrong direction, so we will be watching vigilantly for any labour market developments that could trigger a rate cut next year.

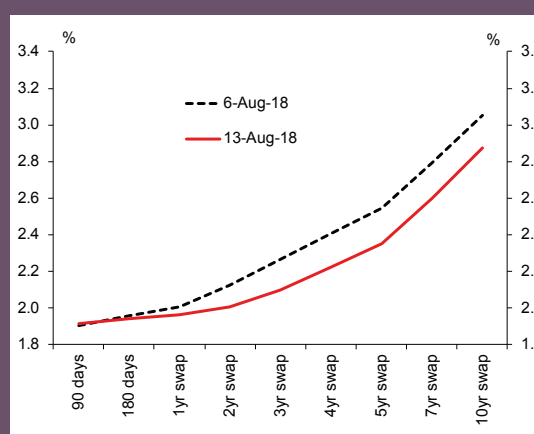
Financial markets have now removed any pricing for OCR hikes, and are now giving a 20% chance of a cut in the next year. We think that that shift has been appropriate, and is likely to go even further in the coming weeks. That in turn implies lower borrowing rates and a lower exchange rate, which would serve the RBNZ's purposes.

Fixed vs Floating for mortgages

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.

We expect floating and short-term fixed mortgage rates to rise gradually over the coming few years, meaning that taking a fixed rate may prove worthwhile. One-year fixed rates are usually 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.

NZ interest rates



The week ahead

NZ Jul REINZ house sales and prices

Due this week, Sales last: -5.1%. Prices last: 3.8%/yr

- The housing market has weakened over the past few months. Prices are falling in Auckland and Canterbury, and price growth has weakened elsewhere. June data was particularly weak, with a 5.1% drop in nationwide sales.
- The slowdown in the housing market comes against a backdrop of significant policy changes targeting housing affordability and supply. We expect that these measures will result in further weakness in July.
- Looking further ahead, restrictions on foreign buyers are likely to reinforce the other factors weighing on house price growth, although falling fixed interest rates might be a partial countervailing force.

REINZ house prices and sales

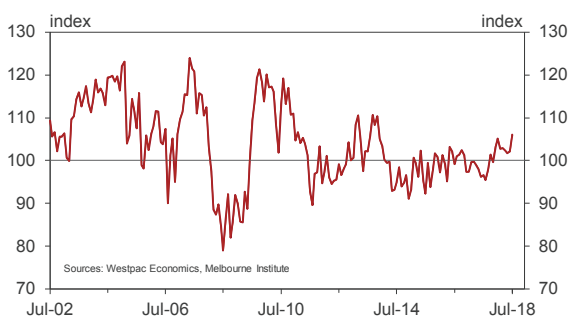


Aus Aug Westpac-MI Consumer Sentiment

Aug 15, Last: 106.1

- The consumer mood showed a clear improvement in July, the index rising 3.9% to 106.1, the most positive since November 2013. That said, the overall level of sentiment is still not strong – the index averaged 108.3 over the ten years prior to the GFC with peaks well above the 110 mark. Much of the improvement over the last year reflects a more balanced growth profile across states.
- The August survey is in the field from August 6-11. Factors that may influence this month include: the RBA's decision to leave official rates on hold, recent comments emphasising that any move is still a long way off; continued slippage in dwelling prices. Financial markets have been relatively steady, the ASX up marginally since the last survey and the AUD down slightly. Offshore, global trade tensions have again been to the fore.

Consumer Sentiment Index



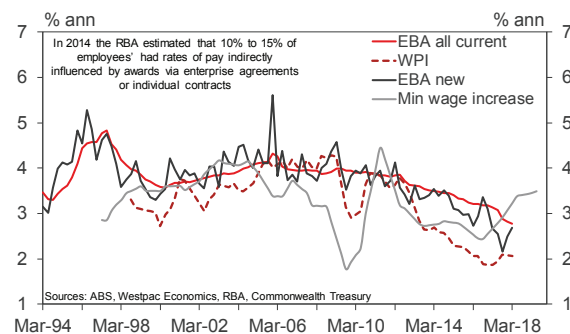
Aus Q2 Wage Price Index - %qtr

Aug 15, Last: 0.5%, WBC f/c: 0.6%

Mkt f/c: 0.6%, Range: 0.5% to 0.8%

- There has been some removal of excess slack in the labour market as well as the annual boost from the lifting of the minimum wage. And yet, we are still to observe a meaningful pickup in wage inflation. Total hourly wages ex bonuses gained 0.5% in Q1, again slightly less than market expectations of 0.6% holding the annual rate at 2.1%/yr.
- In Q1, private sector wages grew 0.5% holding the annual rate at 1.9%/yr. Public sector wages grew 0.5% with the gains coming from education (0.8%) and public administration (0.5%). Public sector wage inflation has eased back to 2.3%/yr from 2.4%/yr which is on par with the 2016 record low of 2.3%/yr.

As WPI stabilises, EBA wages moderate



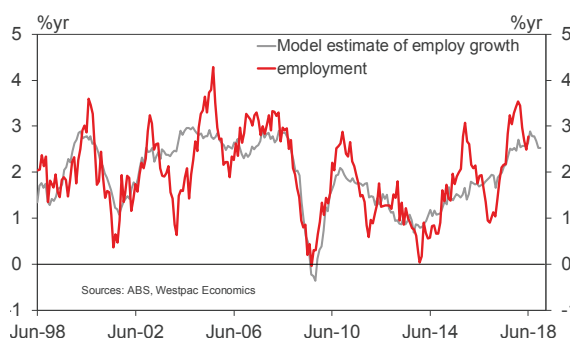
Aus Jul Labour Force Survey - Employment '000

Aug 16, Last: 51.9k., WBC f/c: -5.0k

Mkt f/c: 15k, Range: -22k to 30k

- Australian employment increased by 51k in June beating the market consensus expectation of +16.5k and Westpac's +17k. With full-time contributing most of the gain, +41k, part-time rose +10k while hours worked increased by 0.6%.
- Employment in the business surveys softened in the last few months, something we are watching closely. Of note the June survey was associated with a strong rise in employment & participation. The ABS notes that in July, the outgoing rotation group has higher employment and participation ratios than the average for the whole sample. If the incoming sample is more like the average, then it will drive both a softer employment and participation print hence we see the risk for a negative print. Our -5k forecast will see the three month average fall to 19.8k.

Jobs Index model of employment



The week ahead

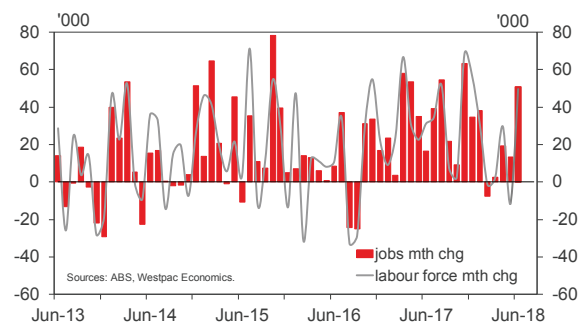
Aus Jul Labour Force Survey - Unemployment %

Aug 16, Last: 5.4%, WBC f/c: 5.4%

Mkt f/c: 5.4%, Range: 5.3% to 5.5%

- The Australian unemployment rate held at 5.4% as the participation rate reversed last month's decline to lift to 65.7% from 65.5%. In part, this highlights the responsiveness of labour supply to stronger employment that we have been seeing over the past few years. As such, the unemployment rate has been sticky around 5 ½ per cent.
- But we also note above that some of the monthly volatility can be driven by sample volatility. We suspect some of the rise in both employment and the labour force in the June survey was due to the sample rolling in having a much higher attachment to the labour force. If the sample rolling in July is more like the sample average then we will see not only a softer employment print but also softer participation.

Volatility in both employment & labour force



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Jul REINZ house sales	-5.1%	-	-	Due this week. Trends to continue. Sales growth lacklustre ...
	Jul REINZ house prices, %oyr	3.8%	-	-	... and weakness in prices centred on Akd and Canterbury.
	Jul Business NZ PSI	52.8	-	-	Activity indicators have fallen, confidence subdued.
	Jul food price index	0.5%	-	0.4%	Seasonal gains, some pressure from minimum wage hike.
Tue 14					
Aus	Jul NAB business survey	15	-	-	Conditions elevated, confidence at average levels.
	ABS paper on annual CPI re-weight	-	-	-	Moving to annual should minimus any impact on CPI.
Chn	Jul retail sales YTD %oyr	9.4%	9.4%	-	Consumer was strong in H1; can momentum be sustained?
	Jul industrial production YTD %oyr	6.7%	6.6%	-	PMI's have held up well. Tariffs may bring forward activity.
	Jul fixed asset investment ytd %oyr	6.0%	6.0%	-	Market will be hoping for an upside surprise.
Eur	Jun industrial production	1.3%	-	-	PMI's look to have been stabilising.
	Q2 GDP 2nd estimate	0.3%	-	-	Detail is very slow in coming these days.
	Aug ZEW survey of expectations	-18.7	-	-	Investors aided by easy policy; but put off by tariffs.
UK	Jun ILO unemployment rate	4.2%	-	-	Firming growth in Q2, unemployment should remain low.
US	Jul NFIB small business optimism	107.2	106.8	-	Very optimistic.
	Jul import price index	-0.4%	0.1%	-	Stronger dollar will weigh in coming months.
Wed 15					
Aus	Aug WBC-MI Consumer Sentiment	106.1	-	-	Firmed a little in 18. Tax cuts a positive, housing a concern.
	Q2 wage cost index	0.5%	0.6%	0.6%	Minimum wage boost in Q3 so should be contained.
UK	Jul CPI	0.0%	-	-	Annual rate boosted by fuel costs. Core inflation easing.
	Jun house price index, %oyr	3.0%	-	-	Nationwide house price growth modest, London weaker.
US	Q2 productivity	0.4%	2.5%	-	An acceleration needed.
	Aug Fed Empire state index	22.6	20.0	-	At an elevated level.
	Jul retail sales	0.5%	0.1%	-	After a strong Q2 comes?
	Jul industrial production	0.6%	0.4%	-	Has not lived up to business survey hype.
	Jun business inventories	0.4%	0.1%	-	Will trade uncertainty impact stock levels?
	Aug NAHB housing market index	68	67	-	Very positive. But volumes weak.
	Jun total net TIC flows \$bn	69.9	-	-	Market to keep a close eye on China's holdings.
	Q2 Fed h/hold debt & credit report	-	-	-	Detailed view on US households' financial welfare.
Thu 16					
Aus	Aug MI inflation expectations	3.9%	-	-	Will they ease back with power prices?
	Jul employment, '000 chg	50.9	15	-5	Monthly volatility to drive a small negative but falling...
	Jul unemployment rate	5.4%	5.4%	5.4%	...participation should result in a flat unemployment rate.
Eur	Jun trade balance €bn	16.9	-	-	Weaker Euro a big positive.
UK	Jul retail sales	-0.6%	-	-	Sales growth moderated again following its mid-year lift.
US	Aug Philly Fed index	25.7	-	-	At elevated level.
	Initial jobless claims	213k	-	-	At very low level.
	Jul housing starts	-12.3%	7.9%	-	Highly volatile, but trend has flattened.
	Jul building permits	-0.7%	1.2%	-	New supply and higher rates to weigh on activity.
Fri 17					
Aus	RBA Governor Lowe speaks	-	-	-	Semiannual Testimony before the House of Representatives
	RBA Assistant Governor Ellis speaks	-	-	-	At the Australian National University, Canberra 5:30pm
Eur	Jul core CPI final %oyr	1.1%	-	-	Remains benign.
US	Jul leading index	0.5%	0.4%	-	Pointing to above-trend growth.
	Aug Uni. of Michigan sentiment prel.	97.9	97.9	-	Robust.

New Zealand forecasts

Economic Forecasts	Quarterly				Annual			
	2018				Calendar years			
% change	Mar (a)	Jun	Sep	Dec	2016	2017	2018f	2019f
GDP (Production)	0.5	0.7	0.8	0.7	4.0	2.8	2.6	3.2
Employment	0.6	0.5	0.1	0.4	5.8	3.7	1.6	1.6
Unemployment Rate % s.a.	4.4	4.5	4.5	4.6	5.3	4.5	4.6	4.6
CPI	0.5	0.4	0.7	0.3	1.3	1.6	1.9	1.4
Current Account Balance % of GDP	-2.8	-3.0	-3.2	-3.2	-2.2	-2.7	-3.2	-3.0

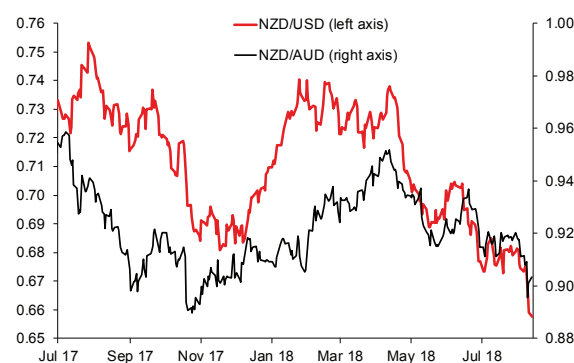
¹ Annual average % change

Financial Forecasts	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Cash	1.75	1.75	1.75	1.75	1.75	2.00
90 Day bill	2.00	2.00	2.00	2.00	2.10	2.20
2 Year Swap	2.20	2.30	2.40	2.55	2.70	2.80
5 Year Swap	2.70	2.85	3.00	3.15	3.25	3.30
10 Year Bond	2.90	3.15	3.30	3.35	3.40	3.45
NZD/USD	0.68	0.67	0.65	0.65	0.64	0.65
NZD/AUD	0.92	0.91	0.90	0.90	0.91	0.93
NZD/JPY	76.16	75.0	74.1	73.5	71.7	71.5
NZD/EUR	0.58	0.58	0.57	0.56	0.54	0.54
NZD/GBP	0.52	0.53	0.53	0.53	0.52	0.53
TWI	73.39	72.7	71.2	70.9	70.1	70.8

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 13 August 2018

Interest Rates	Current	Two weeks ago	One month ago
Cash	1.75%	1.75%	1.75%
30 Days	1.80%	1.81%	1.86%
60 Days	1.85%	1.86%	1.90%
90 Days	1.92%	1.92%	1.95%
2 Year Swap	2.01%	2.13%	2.16%
5 Year Swap	2.35%	2.54%	2.55%

NZ foreign currency mid-rates as at 13 August 2018

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6576	0.6794	0.6763
NZD/EUR	0.5778	0.5829	0.5785
NZD/GBP	0.5152	0.5188	0.5114
NZD/JPY	72.71	75.38	75.88
NZD/AUD	0.9034	0.9184	0.9113
TWI	71.69	73.34	72.76

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	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Australia								
Cash	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
90 Day BBSW	1.96	2.02	2.00	1.97	1.97	1.92	1.92	1.87
10 Year Bond	2.59	2.75	3.05	3.20	3.10	3.10	3.00	3.00
International								
Fed Funds	1.875	2.125	2.375	2.625	2.875	2.875	2.875	2.875
US 10 Year Bond	2.89	3.00	3.35	3.50	3.50	3.40	3.20	3.10
ECB Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10

Exchange Rate Forecasts	Latest	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
AUD/USD	0.7297	0.74	0.74	0.72	0.72	0.70	0.70	0.72
USD/JPY	110.95	111	112	114	113	112	110	109
EUR/USD	1.1449	1.17	1.16	1.15	1.16	1.18	1.20	1.21
AUD/NZD	1.1086	1.09	1.10	1.11	1.11	1.09	1.08	1.09

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.