Weekly Commentary

4 June 2019

Stone Store, Kerikeri

Contents as labelled

Last week saw the delivery of the Government's first Wellbeing Budget. We were surprised by the extent of extra spending the Government announced, but not by the areas that they chose to prioritise. Child wellbeing and mental health initiatives gobbled up the bulk of new spending. We broadly support these spending choices as they address areas of actual need, rather than targeting extra votes or coalition support. However, there was nothing in the Budget that is likely to improve business confidence, which remained downbeat in May despite the cancellation of the capital gains tax.

The Government's first official Wellbeing Budget was delivered last week. The distinction from previous Budgets was noticeable, but not radical. A shiny new Wellbeing Budget document reported on various aspects of New Zealanders' current wellbeing, making use of the data provided in the Treasury's Living Standards Framework. There was also a Child Poverty Report, which is now a legal requirement. It showed that child poverty is trending down when measured in absolute terms, but is static to rising when poverty is defined as being relative to average incomes.

It was no surprise to see policies aiming to improve child wellbeing snaffling a big chunk of the new spending announced in this year's Budget. There was more funding for Oranga Tamariki (Ministry for Children), the indexation of benefits to wage rates, funding for youth justice, health care in schools, and more money for low and middle decile schools to replace 'voluntary' school fees.

The other priority that received a big boost in funding in this Budget was improving mental health. More funding for mental health services as well as initiatives aimed at addressing drug and alcohol addiction were announced.

We basically support the thrust of this spending, which was focussed on things the private sector can't provide. Pleasingly there was less of the vote-winning middle class welfare seen in previous Budgets such as the year of free tertiary education. And there were fewer sops to coalition partners such as the Provincial Growth Fund. Instead, spending largely targeted New Zealand's most deprived households and was aimed at areas of clear need.

The allowance for new spending in this year's Budget was increased to $3.8bn per year, compared to $2.4bn per year previously. Next year's Budget has been given a $3bn per year allowance for new initiatives, falling back to $2.4bn per year in subsequent Budgets. This was a bigger lift than we had been expecting. Consequently, there were smaller projected surpluses and more debt issuance over the coming years.

The Government was able to spend more on its wellbeing priorities while still keeping its books in good order because of the relatively rosy revenue forecasts it was presented with by the Treasury. Given that the economy is slowing, we had expected the Government would be cautious in its projections of Government revenue. However, the Treasury's GDP forecasts were little changed from the HYEFU, with the recent shortfall in growth expected to be quickly caught up next year. Similarly, the Treasury has increased its tax revenue forecast for the current fiscal year by over $700m, despite a shortfall of over $500m in the first nine months of the year. Looking further ahead, Treasury's nominal GDP growth forecasts are noticeably stronger than our own.

Contents as labelled

This raises the risk that the Government will be confronted with more modest increases in revenue than they are currently expecting. If we're right, Treasury's surplus projections could come under pressure. Already, the larger spending plans have eroded projected surpluses over the coming years by a cumulative $9.2bn. And smaller surpluses mean more debt. The ratio of net debt to GDP rises to a peak of 20.7% in June 2021 before falling to 19.9% of GDP in June 2022, just squeaking in below the debt ceiling in the Government's self-imposed Fiscal Responsibility Rules.

Turning to last week's data, business confidence showed a surprisingly modest reaction amongst firms to the Government's cancellation of its capital gains tax plans. Headline business confidence did improve, but remained at relatively low levels. Similarly, there was only a small improvement in firms' assessment of the outlook for their own activity, as they continue to report that they face rising cost pressures with limited ability to pass these onto consumers.

Interestingly, confidence amongst firms in the construction sector took another step down in May, particularly in residential building. It is difficult to reconcile this level of pessimism with the recent multi-decade highs in building approvals. True, data last week showed consent issuance fell by 8% in April, following a 7% fall in March, but these declines were largely led by falls in volatile multi-unit categories. Over the last year, residential consent issuance has grown 7%. Our view is that construction cycle will peak next year before gradually starting to decline as population growth slows.

Also out last week was the RBNZ's *Financial Stability Report*. This six-monthly publication concluded that the risks to New Zealand's financial system are broadly unchanged since November. The RBNZ's restrictions on loan-to-value ratios (LVRs) for mortgages were left unchanged. The RBNZ noted that they would continue to monitor the situation to assess whether the LVR settings remain appropriate.

Our view is that the housing market is set to strengthen this year on the back of recent sharp falls in mortgage rates and the ruling out of a capital gains tax, so we don't think any loosening will happen at the November *Financial Stability Report*. However, over time we think the RBNZ will look to reduce LVRs further as they favour other forms of bank regulation (such as increased capital requirements).

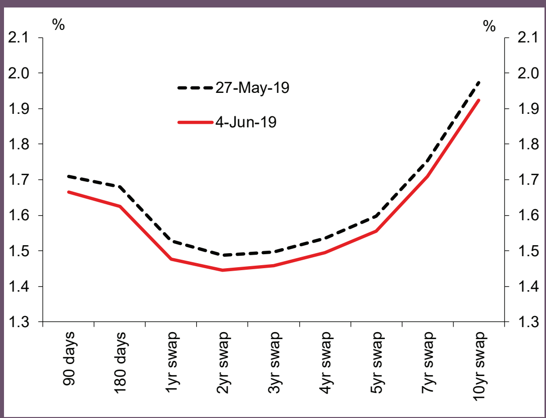
Fixed vs Floating for mortgages

We expect floating and one-year fixed mortgage rates to be fairly stable at current levels over the year ahead, then to gradually rise in subsequent years.

Based on that expectation, we regard today's three-year rates at the best value on offer. One- and two-year rates are also fairly good value, with neither particularly preferred to the other. Four- and five-year fixed rates are a little higher than where we expect shorter-term rates to go over the relevant timeframe, but they do offer the borrower certainty. Floating mortgage rates are expensive for borrowers, but they may be the preferred option for those who require flexibility in their repayments.

The big uncertainty is what the Reserve Bank does with the OCR. Our views are based on the Reserve Bank keeping the OCR at 1.5% for the foreseeable future. If they instead cut the OCR, floating and one-year fixed rates could fall.

NZ interest rates



The week ahead

NZ Q1 terms of trade

Jun 4, Last: -3.0%, WBC f/c: +0.4%, Mkt: +0.5%

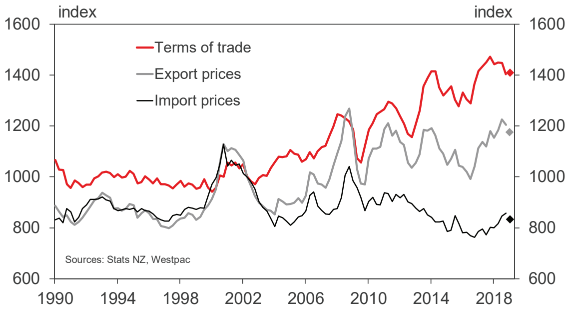
- New Zealand's terms of trade fell from its highs over 2018, as dairy export prices softened and oil import prices rose. We expect a gradual improvement over the course of this year, starting with a 0.4% rise in the March quarter.
- We expect a 2.4% fall in export prices. While dairy prices at auction have risen sharply since the start of this year, there is a substantial lag between price-setting and shipment. Consequently, we estimate that dairy export prices were 7% lower on average over the March quarter, with the rebound likely to show through in the next couple of quarters.
- Lower export prices should be more than offset by a 2.8% fall in import prices, led by an estimated 20% drop in oil prices. Imports of manufactured goods are expected to see modest declines.

NZ Q1 building work put in place

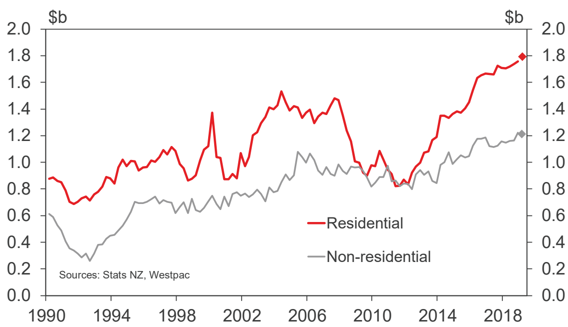
Jun 7, Last 2.7%, WBC f/c: 0.7%, Mkt: 1.1%

- Total construction activity rose by 2.7% in the December quarter. That was underpinned by a 5% rise in non-residential construction. We also saw a 1.2% increase in residential building. Gains in both sectors were centred on Auckland.
- We're forecasting a 0.7% increase in total building activity in the March quarter. Underlying that, we expect residential construction to be up 2% over the quarter, with gains centred on Auckland and other parts of the North Island. Those increases are balanced against an expected 1% fall in the lumpy non-residential components after last quarter's larger than expected rise.
- The underlying trend in construction is expected to remain firm through 2019, before a peak in the cycle in 2020.

NZ terms of trade



NZ real building work put in place



Aus Apr retail trade

Jun 4, Last: 0.3%, WBC f/c: 0.2%
Mkt f/c: 0.2%, Range: -0.3% to 0.3%

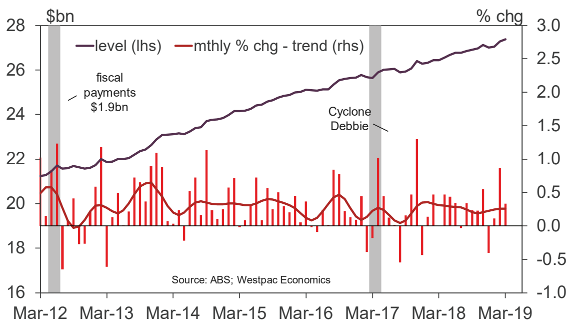
- Retail sales posted a 0.3% gain in March following on from a surprisingly strong 0.9% gain in Feb. Some of the firmer tone in recent months likely reflects difficulty adjusting for shifts in seasonal spending patterns. Underlying momentum still looks weak though with all of the gains in Q1 due to price increases with retail sales volumes dipping in the quarter, down 0.1%.
- Consumer sentiment has been patchy in early 2019, with a notable weakening in responses around family finances. Retail responses to private sector business surveys firmed marginally in Mar-Apr but were coming from a very weak starting point. On balance we expect Apr to show a subdued 0.2% gain, annual sales growth slowing to 3.2%yr.

Aus Q1 net exports, ppt's cont'n

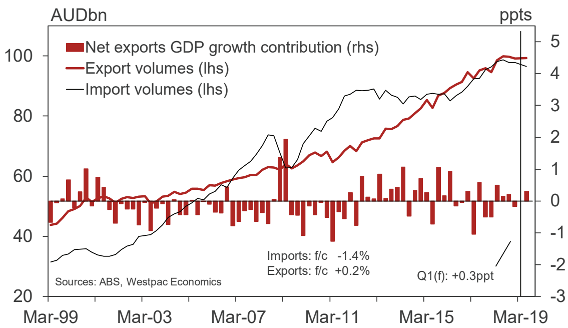
Jun 4, Last: –0.2, WBC f/c: +0.3
Mkt f/c: 0.2, Range: 0.0 to 0.4

- For Q1, net exports are expected to swing back to being a positive, adding 0.3ppts to growth. However, this is driven by a dip in imports rather than a solid gain in exports.
- Import volumes fell by an estimated 1.4% in the March quarter, with weakness in the volatile items of fuel and civil aircraft, as well as softness in services (dented by the weaker dollar, with the TWI down 2.3% in the quarter).
- Export volumes advanced by a modest 0.2% we estimate, as: rural goods rebounded; gold bounced from a low base; and services advanced further. Elsewhere, the export performance was mixed, with supply factors impacting coal and iron ore.

Aus monthly retail sales



Aus exports and imports



The week ahead

Aus Q1 current account, AUDbn

Jun 4, Last: –7.2, WBC f/c: –3.5
Mkt f/c: –2.9, Range: –6.0 to –1.7

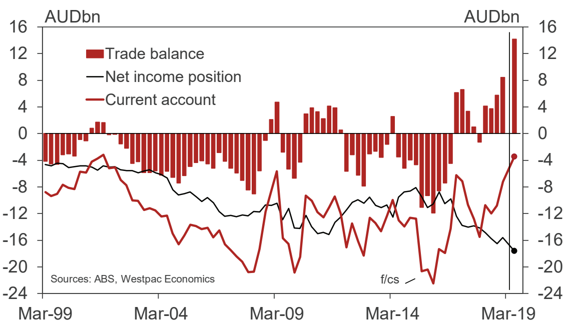
- Australia's current account deficit is rapidly shrinking as higher commodity prices inflate export earnings and with imports sluggish at a time of patchy domestic demand.
- The current account deficit narrowed to $7.2bn in Q4 (1.5% of GDP). For the March quarter, we anticipate a deficit of $3.5bn, representing only 0.7% of GDP - the smallest deficit since the end of 1979. The last surplus was in mid-1975.
- Key to this improvement is a sharp increase in the trade surplus, which jumped by $5.6bn to $14.15bn (2.9% of GDP) - the largest surplus since 1973Q1. In Q1, export earnings grew by almost 4% while the import bill fell by almost 1.5%. The terms of trade rose by around 3.5%, we estimate.

Aus Q1 public demand

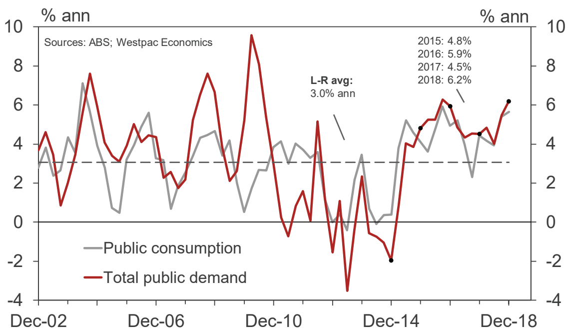
Jun 4, Last: 1.4%, WBC f/c: 1.0%

- Public sector spending, in the form of public demand – directly accounting for a quarter of the economy – has been expanding at a blistering pace. It is a key growth driver and a key generator of jobs.
- Public demand grew by: 4.8% in 2015; 5.9% in 2016; 4.5% in 2017 and accelerated to 6.2% in 2018. The focus is on health care (including the introduction of the NDIS) and on transport infrastructure.
- For the March quarter, we anticipate a robust 1% increase in public demand, which would have annual growth at 5.6%.
- A downside for Q1 is public construction activity. While this is still at an elevated level, worked eased in the quarter. Beyond a near-term consolidation, public construction work is likely to trend higher as governments add new projects to the investment pipeline.

Aus current account



Aus public demand



Aus RBA policy announcement

Jun 4, Last: 1.50%, WBC f/c: 1.25%
Mkt f/c: 1.25%, Range: 1.25% to 1.50%

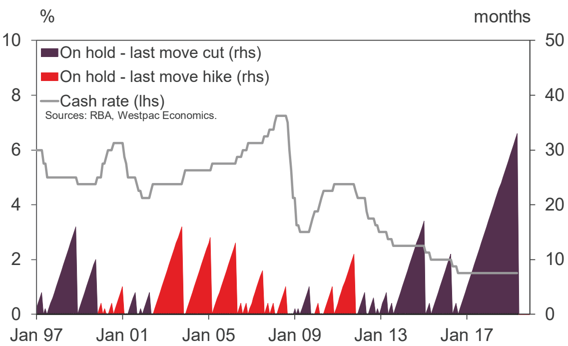
- A cut at the June meeting is close to a certainty - market pricing near 100%. On 21 May, Governor Lowe noted that "A lower cash rate would support employment growth and bring forward the time when inflation is consistent with the target. Given this assessment, at our meeting in two weeks' time, we will consider the case for lower interest rates". We expect that he will confirm this view in his Statement and will leave the door wide open for lower rates.
- On 24 May, Westpac added another cut to its RBA forecast. We now see 25bps moves in June, August and November.

Aus Q1 GDP

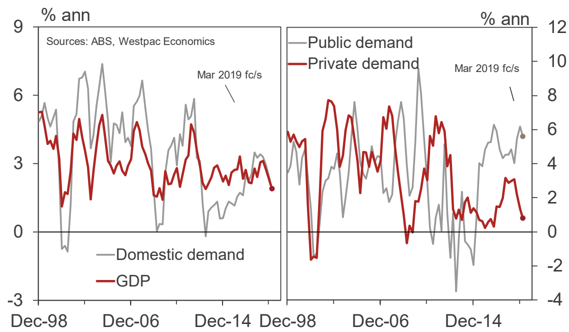
Jun 5, Last: 0.2%qtr, 2.3%yr, WBC f/c: 0.6%qtr, 1.9%yr
Mkt f/c: 0.4%, Range: 0.2% to 0.6%

- The Australian economy lost considerable momentum in 2018, with growth slowing from a 4% pace in the first half of the year to a well below 1% pace over the second.
- For Q1, we expect real GDP growth of 0.6%qtr, 1.9%yr. The arithmetic is: domestic demand, 0.4%, inventories -0.1ppt and net exports, +0.3ppt.
- Partials suggest / reveal that: retail sales fell, -0.1%; home building contracted, -2.5%; and business investment was patchy (infrastructure and equipment down, building up). We anticipate a robust lift in public demand.

RBA on hold – number of months



Australian economic conditions



The week ahead

Aus Apr trade balance, AUDbn

Jun 6, Last: 4.9, WBC f/c: 5.4
Mkt f/c: 5.0, Range: 4.1 to 5.8

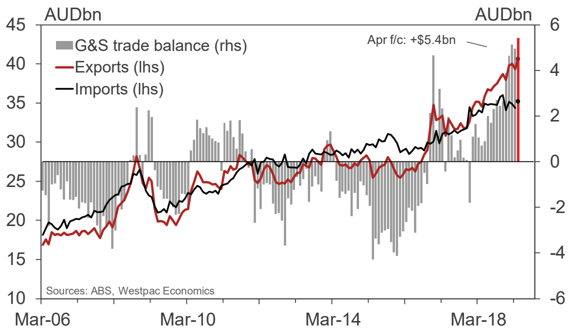
- Australia's trade surplus widened early in 2019, climbing to record highs, with export earnings boosted by higher commodity prices. This dynamic looks set to continue in coming months.
- The surplus hit $5.1bn in February; was little changed in March, at $4.9bn; and we anticipate a fresh record high of $5.4bn in April.
- Export earnings are forecast to rise by 3.2% in April (with upside risks), +$1.3bn. Gains in April are centred on iron ore (higher prices and volumes rebounding from disruption) and LNG (higher volumes).
- For imports, we anticipate a rebound from a soft starting position, up $0.8bn, 2.3% following a $0.5bn decline in March.

Aus Apr housing finance (no.)

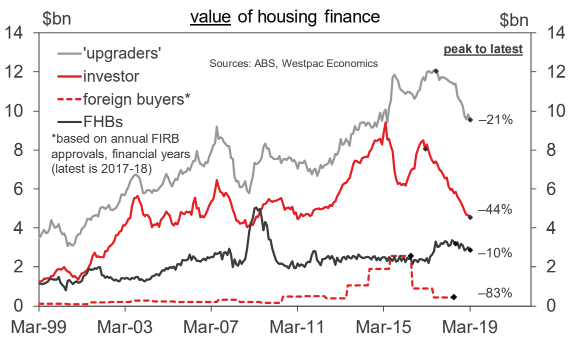
Jun 7, Last: –2.8%, WBC f/c: flat
Mkt f/c: -0.3%, Range: -3.0% to 2.0%

- Housing finance approvals weakened in March more than reversing a modest gain in Feb, the update and report detail both weaker than expected. The total number of owner occupier loan approvals ex refi declined 2.8% while the value of investor loans ex refi fell 2.7%. Both fell materially through the second half of 2018.
- Industry data covering the major banks points to a steadier result in April – we expect no change in the number of owner occupier loans. Market conditions have firmed although this is more likely to show through in May finance approvals than April. The timing of the Easter and ANZAC day public holidays may also weigh on activity in April due to reduced effective working days.

Aus trade position



Aus housing finance approvals



Eur Jun ECB policy meeting

Jun 6, Deposit rate, Last: -0.4%, WBC f/c: -0.4%

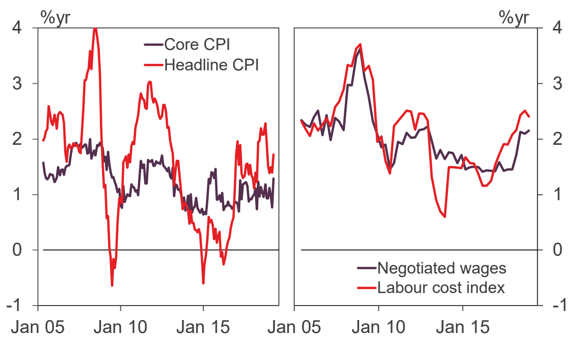
- The June ECB meeting will update the macroeconomic projections and potentially unveil new TLTRO-III details.
- The ECB would have been pleasantly surprised by Q1 GDP growth of 0.4% but are likely to make only small upward revisions to the projections for growth and inflation. Downside risks will again be emphasised with key issues still unresolved: Brexit, trade, geopolitical tension, and manufacturing. Against this, positives remain: low unemployment, solid credit growth and domestic demand.
- On TLTRO-III, the major unreleased detail is pricing. Previously, TLTRO-II had a conditional rate of -0.4% if banks met lending benchmarks. Some form of conditionality should be in place for the new round of loans.

US May employment report

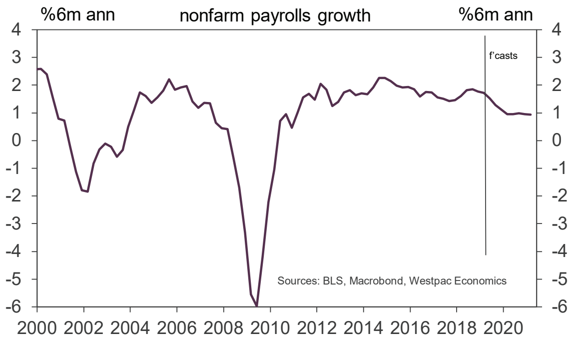
Jun 7, nonfarm payrolls, Last: 263k, WBC f/c: 170k
Jun 7, unemployment rate, Last: 3.6%, WBC f/c: 3.6%

- Nonfarm payrolls surprised to the upside in Apr as 263k jobs were created. The Apr gain left the 3-month average at 169k. Come May, we look for a gain in line with this average at 170k. Said outcome would be consistent with employment growth ahead of population growth.
- Having declined from 3.8% to 3.6% in Apr, we expect the unemployment rate to stabilise in May. The risk is that an uptick in participation results in the unemployment rate edging back up to 3.7%. Having trended higher over a number of years, prime-aged participation has turned down of late. This uptrend is however likely to return in time, given employment's continuing strength.
- Available slack continues to limit wage gains. A 0.3% gain is expected in May.

Eur inflation gauges



US non-farm payrolls

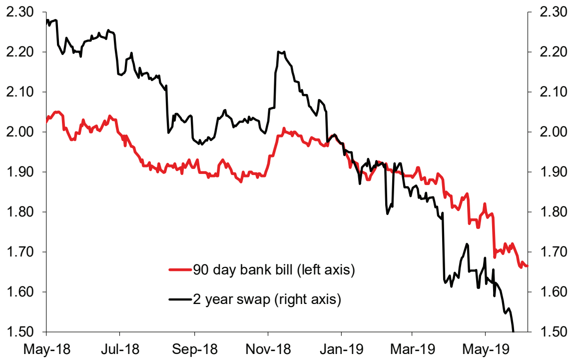


New Zealand forecasts

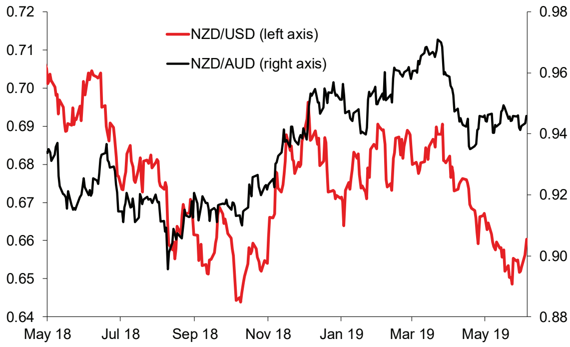
Economic Forecasts	Quarterly				Annual			
	2018	2019						
% change	Dec (a)	Mar	Jun	Sep	2018	2019f	2020f	2021f
GDP (Production)	0.6	0.5	0.6	0.7	2.8	2.3	3.1	2.4
Employment	0.0	-0.2	0.8	0.3	2.3	1.3	2.0	1.8
Unemployment Rate % s.a.	4.3	4.2	4.3	4.3	4.3	4.2	3.9	3.7
CPI	0.1	0.1	0.6	0.6	1.9	1.7	1.9	2.1
Current Account Balance % of GDP	-3.7	-3.4	-3.3	-3.4	-3.7	-3.4	-3.6	-3.8

Financial Forecasts	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Cash	1.50	1.50	1.50	1.50	1.50	1.50
90 Day bill	1.70	1.65	1.65	1.65	1.65	1.65
2 Year Swap	1.55	1.60	1.65	1.70	1.75	1.75
5 Year Swap	1.70	1.75	1.80	1.85	1.90	1.95
10 Year Bond	1.80	1.85	1.90	1.90	1.95	2.00
NZD/USD	0.65	0.64	0.65	0.65	0.66	0.66
NZD/AUD	0.94	0.94	0.98	0.98	0.99	0.99
NZD/JPY	72.8	72.3	73.5	72.8	73.3	72.6
NZD/EUR	0.59	0.58	0.59	0.59	0.59	0.58
NZD/GBP	0.50	0.48	0.49	0.49	0.50	0.49
TWI	71.6	71.0	72.3	71.8	72.3	71.8

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 4 June 2019

Interest Rates	Current	Two weeks ago	One month ago
Cash	1.50%	1.50%	1.75%
30 Days	1.66%	1.69%	1.81%
60 Days	1.66%	1.70%	1.79%
90 Days	1.67%	1.72%	1.79%
2 Year Swap	1.45%	1.55%	1.63%
5 Year Swap	1.56%	1.67%	1.78%

NZ foreign currency mid-rates as at 4 June 2019

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6603	0.6534	0.6610
NZD/EUR	0.5865	0.5855	0.5919
NZD/GBP	0.5210	0.5128	0.5034
NZD/JPY	71.25	72.02	73.14
NZD/AUD	0.9459	0.9438	0.9487
TWI	72.62	72.33	72.49

Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Tue 04					
NZ	Q1 terms of trade	–3.0%	0.5%	0.4%	Lower dairy export prices offset by lower oil import prices.
Aus	Apr retail sales	0.3%	0.2%	0.2%	Underlying momentum in volumes is weak.
	Q1 net exports, ppts cont'n	–0.2	0.2	0.3	To add to activity in Q1 as imports dip.
	Q1 current account deficit, AUDbn	–7.2	–2.9	–3.5	Deficit shrinks to historic lows as trade surplus climbs.
	Q1 public demand	1.4%	–	1.0%	A robust rise, albeit with investment likely to be down.
	RBA policy decision	1.50%	1.25%	1.25%	Universally expected to cut. First move in 34 months.
	RBA Governor Lowe speaks	–	–	–	RBA Board Dinner, Sydney 7:30 pm.
Eur	Apr unemployment rate	7.7%	7.7%	–	Has trended down but may halt on slow growth.
	May core CPI %yr preliminary	1.3%	1.1%	–	Easter jump to be partly unwound.
US	Apr factory orders	1.9%	–0.9%	–	Underlying pulse for investment soft and at risk.
	Fed Chair Powell speaks	–	–	–	On policy strategy at the Chicago Fed conference.
	Fedspeak	–	–	–	Williams on bank culture; Brainard at Chic. Fed conference.
Wed 05					
Aus	Q1 GDP	0.2%	0.4%	0.6%	Strength in public demand, net exports. Private demand soft.
	Q1 GDP, %yr	2.3%	1.8%	1.9%	Risks to downside. Annual growth to ease & slow further in Q2.
	May AiG PSI	46.5	–	–	Services sector, 4th consecutive sub 50 reading.
	RBA Asst. Gov. Heath speaks	–	–	–	"Australia's Resource Industry…", Perth (11:30 am AEST).
Chn	May Caixin China PMI services	54.5	54.2	–	NBS measure was unchanged in month.
UK	May Markit services PMI	50.4	51.0	–	Demand has cooled with Brexit uncertainty a drag.
US	May ADP employment change	275k	178k	–	Risk of a sharp pullback after Apr spike.
	May ISM non-manufacturing	55.5	55.6	–	Domestic demand supporting services sector.
	Federal Reserve's Beige book	–	–	–	Conditions across the 12 districts.
	Fedspeak	–	–	–	Clarida welcome remark; Bowman at Senate; Bostic housing.
Thu 06					
NZ	May ANZ commodity prices	2.5%	–	–	To remain at high levels.
Aus	Apr trade balance, AUDbn	4.9	5.0	5.4	A fresh record high, as exports rise (iron ore & LNG).
Eur	Q1 GDP 3rd estimate	0.4%	0.4%	–	Expected to be confirmed at 0.4%. Expenditure breakdown.
	ECB policy decision	–0.4%	–0.4%	–0.4%	Update to forecasts, communication on TLTRO pricing.
US	Q1 productivity	3.6%	–	–	A strong acceleration seen in 2018; likely unsustainable.
	Initial jobless claims	215k	–	–	Very low.
	Fedspeak	–	–	–	Kaplan in Boston; Williams on international economics.
Fri 07					
NZ	Q1 building work put in place	2.7%	1.1%	0.7%	Gains in residential building. Moderation in non-residential.
Aus	Apr housing finance, number	–2.8%	–0.3	flat	Industry data points to a steady result in the month.
	May AiG PCI	42.6	–	–	Construction sector hit by housing downturn.
Chn	May foreign reserves $bn	3095	–	–	Remain stable.
UK	May Halifax house prices	1.1%	–	–	Price growth has firmed, but the housing market remains soft.
US	May non-farm payrolls	263k	190k	170k	Apr was abnormally strong. A pullback likely.
	May unemployment rate	3.6%	3.6%	3.6%	Household employment due for a strong month.
	May average hourly earnings %mth	0.2%	0.3%	0.3%	Has wage momentum been lost or just eased?
	Fedspeak	–	–	–	Daly to university students in Singapore.

International forecasts

Economic Forecasts (Calendar Years)	2015	2016	2017	2018	2019f	2020f
Australia						
Real GDP % yr	2.5	2.8	2.4	2.8	1.8	2.2
CPI inflation % annual	1.7	1.5	1.9	1.8	1.8	1.6
Unemployment %	5.8	5.7	5.5	5.0	5.4	5.6
Current Account % GDP	-4.7	-3.1	-2.6	-2.1	-0.7	-2.0
United States						
Real GDP %yr	2.9	1.6	2.2	2.9	2.4	2.1
Consumer Prices %yr	0.1	1.4	2.1	2.4	1.8	1.9
Unemployment Rate %	5.3	4.9	4.4	3.9	3.5	3.5
Current Account %GDP	-2.3	-2.3	-2.3	-2.6	-2.5	-2.4
Japan						
Real GDP %yr	1.2	0.6	1.9	0.8	0.7	0.6
Euro zone						
Real GDP %yr	2.1	2.0	2.4	1.8	1.2	1.4
United Kingdom						
Real GDP %yr	2.3	1.8	1.8	1.4	1.4	1.4
China						
Real GDP %yr	6.9	6.7	6.8	6.6	6.1	6.0
East Asia ex China						
Real GDP %yr	3.8	4.0	4.6	4.3	4.1	4.1
World						
Real GDP %yr	3.4	3.4	3.8	3.6	3.3	3.5
Forecasts finalised 10 May 2019						

Interest Rate Forecasts	Latest	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Australia								
Cash	1.50	1.25	1.00	0.75	0.75	0.75	0.75	0.75
90 Day BBSW	1.42	1.40	1.25	1.00	1.00	1.00	1.00	1.00
10 Year Bond	1.47	1.60	1.65	1.70	1.75	1.80	1.85	1.90
International								
Fed Funds	2.375	2.375	2.375	2.375	2.375	2.375	2.375	2.375
US 10 Year Bond	2.17	2.40	2.50	2.60	2.60	2.60	2.55	2.50
ECB Deposit Rate	−0.40	−0.40	−0.40	−0.40	−0.40	−0.30	−0.20	−0.10

Exchange Rate Forecasts	Latest	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
AUD/USD	0.6915	0.69	0.68	0.66	0.66	0.67	0.67	0.68
USD/JPY	108.93	110	111	112	112	112	111	110
EUR/USD	1.1131	1.11	1.10	1.10	1.11	1.12	1.13	1.14
GBP/USD	1.2613	1.27	1.28	1.28	1.28	1.29	1.29	1.30
AUD/NZD	1.0619	1.06	1.06	1.02	1.02	1.02	1.02	1.01

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 license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking 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 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.