14 September 2015

Weekly Commentary

Kea. Arthurs Pass National Park.

In this issue

More cuts – but when?

The Reserve Bank's September *Monetary Policy Statement* offered few surprises. We continue to expect the OCR to fall all the way to 2%, though the timing of the Reserve Bank's next move is uncertain.

As expected, the Reserve Bank lowered the OCR by another 25 basis points to 2.75%, and signalled that one more rate cut is likely, depending on the economic data. Interest rates accordingly fell only slightly. The New Zealand dollar fell surprisingly sharply, but this came after equally unexplained gains over the previous few days.

What will the Reserve Bank do next? After perusing the Reserve Bank's forecasts, we continue to expect that the OCR will end up lower than the Reserve Bank is currently signalling. Our disagreement isn't on the outlook for economic growth - the Reserve Bank now broadly shares our view that a significant economic slowdown is coming – but on what this will mean for inflation. The Reserve Bank is pinning a lot of hope on the idea that the lower NZ dollar will cause a sustained lift in imported inflation, and that this will be enough to get overall inflation comfortably back to 2% even as the economy slows.

We aren't so sure. There's no question that the lower exchange rate will cause a temporary burst in inflation as prices of tradable goods and services rise. But we see no real reason why a lower exchange rate should cause a long-lasting lift in the rate of change of consumer prices, as the Reserve Bank is assuming. Moreover, the amount of tradable inflation that the Reserve Bank expects – more than 3% by the end of next year – seems very high. Outside of GST increases and spikes in global oil prices, tradable inflation has rarely exceeded 3% a year. The only time it has been at these levels for a significant length of time was in 2000-01, after the exchange rate had fallen to a record low and oil prices had tripled over the previous three years, from $10 to $30 a barrel.

So while we agree with the Reserve Bank that the fall in the NZ dollar will push consumer price inflation close to 2% early next year, we expect the impact will soon

More cuts – but when? continued

fade in the absence of stronger economic growth – and that will require lower interest rates. We remain comfortable forecasting a 2% low-point in the OCR.

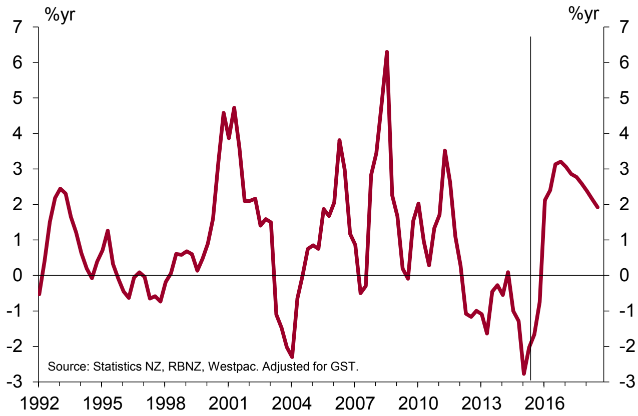
It's worth noting that the Reserve Bank did include an alternative scenario in which it might reduce the OCR all the way to 2%, based on a sharper slowdown in the global economy. And in the press conference the Governor mentioned that there was scope to reduce the OCR "substantially" if global growth slowed or the current El Nino weather pattern resulted in drought in New Zealand.

With this scenario and these comments, the Reserve Bank has opened the door – just a crack – to the idea of a sub-2.5% OCR. We think this is an important development for markets. In recent weeks markets have been behaving as though 2.5% is a "line in the sand" below which the OCR cannot go. That will change over the coming weeks. If New Zealand starts to experience a run of weaker data, markets will now feel increasingly licenced to price in some risk of the OCR dropping below 2.5%.

However, the Reserve Bank is clearly not there yet. Looking ahead to its next OCR review on 29 October, we are now firmly in data watching mode – and all in all, recent data haven't been supportive of an October cut. Last week, electronic card spending figures showed retail spending holding firm through August, and the latest data from the Real Estate Institute showed the housing market going from strength to strength. House sales rose a seasonally-adjusted 6.2% in August, while the REINZ stratified house price index rose another 1.9% in the month, and is now 17.3% higher than a year ago. Other recent housing market data have tentatively suggested that Auckland house price inflation might be cooling, but this week's superior price measure belies that notion. Prices rose 2.6% in Auckland, and continued to climb sharply in the wider North Island (excluding Wellington).

Of course, that may change in coming months. Business and consumer confidence have plunged, and we can think of a

The RBNZ's tradable inflation forecast



number of temporary factors that may be holding housing and retail demand up – Auckland property investors may be wanting to get in before tax and lending policy changes come into effect in October and November, and consumers may be wanting to snap up bargains before the lower exchange rate starts to push prices up. But for now, this doesn't look like the kind of environment where the Reserve Bank would want to push interest rates lower.

This week could hold the key to the Reserve Bank's next move. In particular, the Federal Reserve's interest rate decision on Thursday will be critical. The Reserve Bank has made no secret of the fact that it would see a lift in US interest rates as helpful, boosting the US dollar and helping to push the NZ dollar lower. We expect the US Federal Reserve to kick off that process at this week's meeting, but it's a highly uncertain event – markets are giving it only about a 30% probability. If the Fed does raise rates and the exchange rate responds accordingly, the hurdle for an October OCR cut would be fairly high. If the Fed holds fire, the RBNZ would feel more inclined to cut.

Fixed vs Floating for mortgages

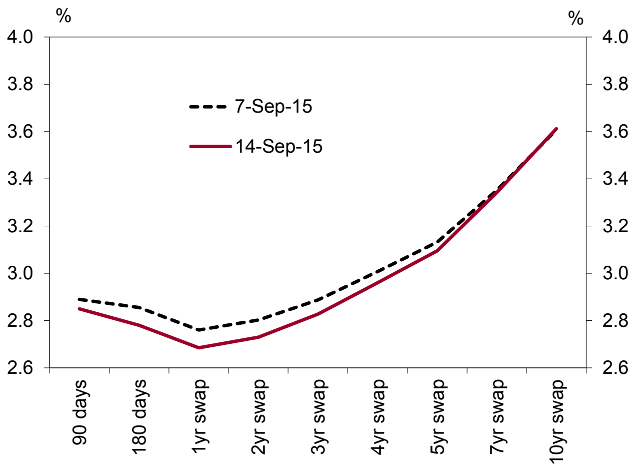
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

Longer-term fixed rates do offer the benefit of stability, but even those looking to fix may want to wait a while longer.

For borrowers with a deposit of deposit of 20% or more, the best value probably continues to lie in the two-year ahead and three-year ahead terms. Four- and five-year rates still seem high relative to where we think shorter-term rates are going to go over the next four or five years.

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

NZ interest rates

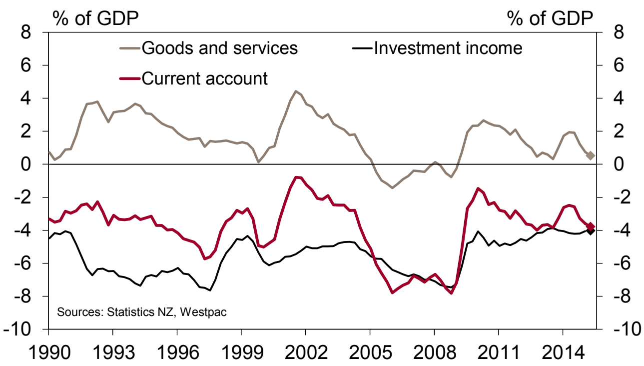


NZ Q2 current account % of GDP

Sep 16, Last: -3.6%, WBC f/c: -3.8%, Mkt f/c: -3.7%

- We expect the annual current account deficit to widen from 3.6% to 3.8% of GDP as weakness in dairy prices continues to weigh on export earnings.
- We expect the goods trade balance to have moved further into deficit. While the terms of trade improved over the quarter, we believe that trade volumes more than offset this, with a fall in export volumes and a small rise in imports. In contrast, we expect a further increase in the trade surplus for services, as tourist spending continues to surge.
- We expect the investment income deficit to widen compared to the March quarter, on stronger earnings for foreign-owned companies in New Zealand. However, with an even larger deficit from the June 2014 quarter dropping out of the calculation, we expect the annual deficit to narrow slightly.

Annual current account balance

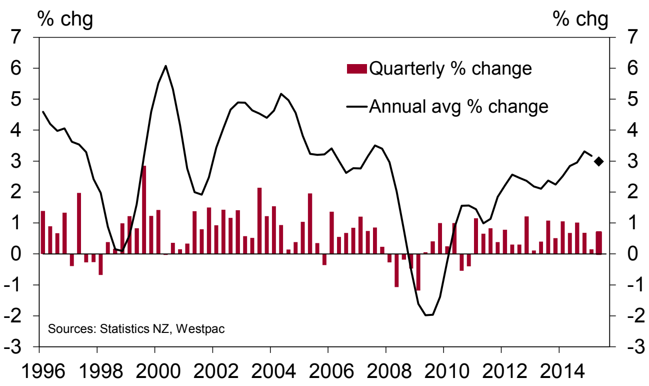


NZ Q2 GDP

Sep 17, Last: 0.2%, WBC f/c: 0.7%, Mkt f/c: 0.6%

- Following a drought-affected March quarter, we estimate that GDP growth rebounded to 0.7% in the June quarter. On an annual total basis, this will result in GDP growth easing back to 3%.
- Through the June quarter, we saw a recovery in agricultural production, mining activity and hydro-power generation following earlier declines.
- Removing these volatile items suggests an underlying growth pace of about 0.4% for each of the last two quarters – not recessionary, but a meaningful slowdown compared to last year, when annual growth topped 3% for the first time since the global financial crisis.
- As we saw in the building work survey earlier this month, the construction sector remains an important contributor to growth at the national level. However, homebuilding in Canterbury is now clearly past its peak – growth is now being driven by commercial buildings and Auckland housing.

Production-based GDP

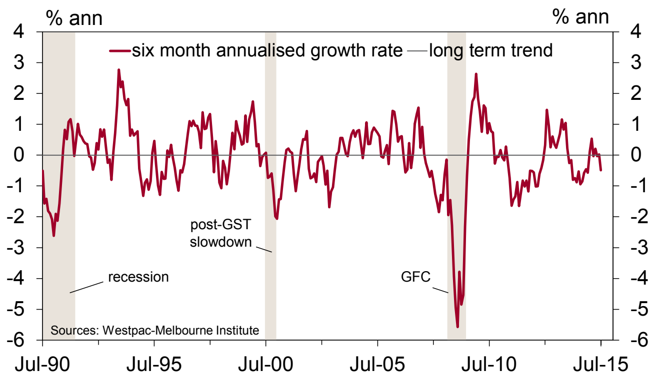


Aus Aug Westpac–MI Leading Index

Sep 16, Last: –0.49%

- The 6mth annualised growth rate of the Leading Index switched from 0.02% above trend in June to –0.49% below trend in July. The Index continues to show a loss of momentum through the middle of the year.
- The August update could see another lurch lower. It will include weaker updates for most components, with a particularly sharp fall in the ASX 200 (–8.1%mth after choppy moves in July and June). Amongst the other components: the Westpac-MI Consumer Expectations Index slipped back 2% after a 7.3% bounce last month; the Westpac Unemployment Expectations Index deteriorated 5.6% after a 2% improvement last month; commodity prices slipped 1% in AUD terms; and the yield spread narrowed nearly 18bps (a weaker growth signal). Total hours worked were flat, while dwelling approvals rebounded 4.2% after a 5.2% fall in Jun.

Westpac-MI Leading Index

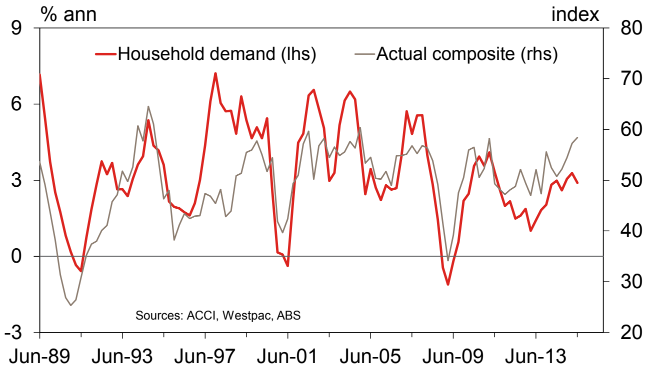


Aus Q3 Australian Chamber-Westpac survey

Sep 17, Last: 58.4

- The Australian Chamber-Westpac survey of the manufacturing sector provides a timely update on conditions, with insights into economy-wide trends. The Westpac-ACCI Actual Composite tracks household demand, highlighting the key linkages between the consumer, home building and manufacturing.
- In Q2, the Actual Composite strengthened to 58.4, up 1.1pts from Q1. (Note, Q1 was revised post seasonal re-analysis). The strength was centred on a lift in new orders and in output as well as in overtime but not employment.
- Manufacturing is benefitting from: the strong upswing in new home building activity, in response to lower interest rates; a sharply lower currency; and the Federal Budget small business package. However, the cycle remains constrained. Consumer spending growth is below average, mining investment is contracting and global fragilities persist.

Manufacturing & the business cycle

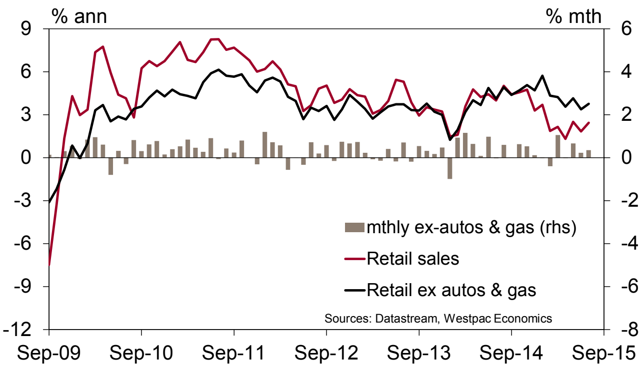


US August retail sales

Sep 15, Last: 0.6%, WBC f/c: 0.4%

- US retail sales gained a little momentum in July, with total sales rising 0.6% in the month; annual growth accelerated modestly to a still sub-par 2.4%yr.
- Excluding autos and gas, core retail sales growth also strengthened in July to 0.4%. Annual growth for core retailing is stronger than for the headline series (owing to the impact of the sharp decline in the price of oil through 2014/15), currently 3.8%yr.
- In August, auto sales will be supportive, but will likely be partly offset by weaker gas sales. Core retail sales should maintain much of the momentum apparent in July. As such, we forecast a 0.4% gain for the headline and core retail sales series.

US retail sales, momentum still limited

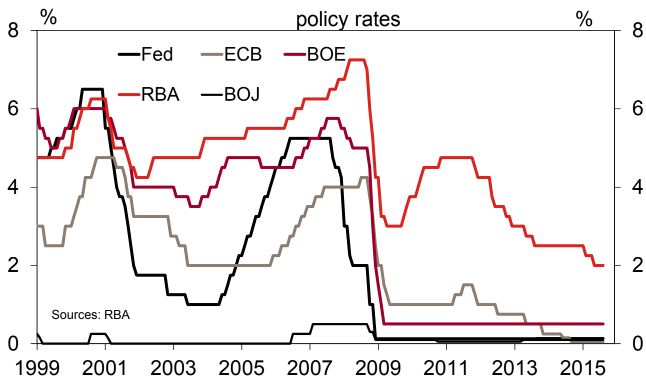


US September FOMC meeting

Sep 16–17, Last: 0.00%–0.25%, WBC f/c: 0.25%–0.50%

- Despite recent market volatility, we maintain our view that the FOMC should raise rates at the September meeting.
- Since July, GDP growth in Q2 has been revised up from 2.3% to 3.7% annualised; and nonfarm payrolls have maintained a year-to-date average of 212k, equivalent to annualised employment growth of 1.8%. In addition to employment growth continuing to outpace population growth, the unemployment rate is now at a level consistent with full employment.
- On inflation, the FOMC's preferred PCE inflation measure is currently running at 2.2% for headline inflation (1.7% for core) on a six-month annualised basis, in line with their 2.0% medium-term target. Annual inflation will trend towards this six-month pace in coming months as oil and the USD's impact subsides.

Developed world policy interest rates

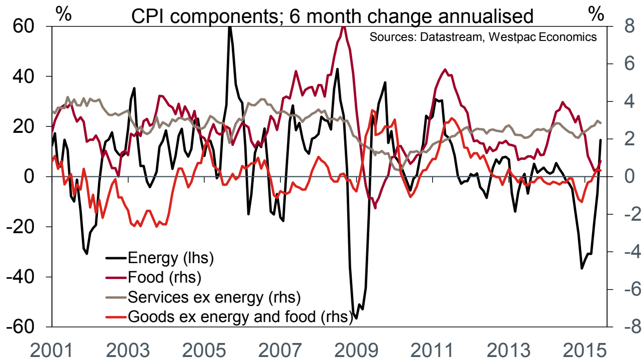


US August CPI

Sep 16, Last: 0.1%, WBC f/c: flat

- Consumer prices rose by 0.1% in July, leaving annual headline inflation at just 0.2%yr.
- Omitting the impact of the sharp decline in the price of oil through 2014/15, core inflation (ex food and energy) still only rose by 0.1% in July, but is up a much stronger 1.7%yr. In six-month annualised terms, core inflation is stronger still at 2.2%yr – a touch above the the FOMC's medium-term target.
- Annual inflation is likely to trend higher in coming months as the impact of the oil price and the USD's strength fades.
- That being said, on a month-by-month basis, the impact of both factors remains present. August is likely to see both weigh, with a flat headline result and a modest 0.1% gain for core inflation the most probable result.

Energy prices stabilise; USD impact to lessen



Data calendar

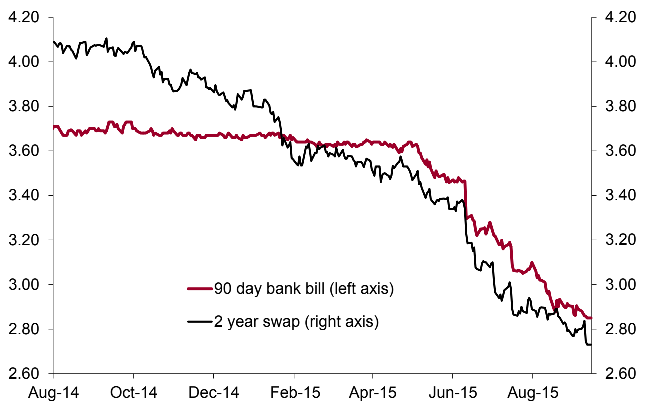
		Last	Market median	Westpac forecast	Risk/Comment
Mon 14					
NZ	Aug Business NZ PSI	56.5	–	–	Conditions in the service sector have remained firm.
Eur	Jul industrial production	–0.4%	0.2%	–	Falls in May and June have seen annual growth slow to 1.2%yr.
Can	Aug new housing price index	1.2%	–	–	House price inflation has remained stable for some time.
Tue 15					
Aus	Aug new vehicle sales	–1.3%	–	–2.0%	Industry figures show 'other' vehicle demand falling.
	RBA meeting minutes	–	–	–	Unlikely to see any substantial change in tone.
Eur	Jul trade balance, €bn	21.9	–	–	Weak global economy limiting windfall from export sector.
	Jul ZEW survey expectations	47.6	–	–	Analysts expectations remain upbeat.
UK	Aug CPI	–0.2%	0.2%	–	Headline inflation remains low, though core has picked up.
	Jul ONS house prices	5.7%	–	–	ONS measure; dated relative to market measures.
US	Aug retail sales (advanced)	0.6%	0.3%	0.4%	Moderate momentum in core sales; autos also supportive.
	Sep Empire manufacturing survey	–14.9	0.5	–	Manufacturing sector conditions have weakened.
	Aug industrial production	0.6%	–0.2%	–	Auto production was key positive in Jul; set to fall back in Aug.
	Jul business inventories	0.8%	0.2%	0.1%	Starting to see H1 inventory build give way; risk to H2 GDP growth.
Wed 16					
NZ	Q2 current account balance (% of GDP)	–3.6%	–3.7%	–3.8%	Low dairy prices are weighing on export earning.
Aus	Aug Westpac–MI Leading Index	–0.49%	–	–	Loss of momentum since start of '15; Aug shaping as weak.
	RBA Assist Gov Debelle	–	–	–	Topic is 'Bond Market Liquidity, Long Term Rates and China'.
Eur	Aug CPI	–0.6%	0.0%	–	Final read for Aug; annual inflation meek at 0.2%yr.
UK	Jul ILO unemployment rate	5.6%	5.6%	–	Unemployment has trended down over the past year.
US	Aug CPI	0.1%	–0.1%	0.0%	Momentum has picked up, but food & energy a -'ve factor in Aug.
	Sep NAHB housing market index	61	61	–	Confidence in housing industry robust despite looming rate hike.
Thu 17					
NZ	Q2 GDP	0.2%	0.6%	0.7%	Rebound following drought affected March quarter.
Aus	Q3 Australian-Chamber Westpac survey	58.4	–	–	Actual Composite up 1.1pts to 58.4 in Q2, on new orders & output.
	RBA September Bulletin	–	–	–	Research on the domestic and global economy.
UK	Aug retail sales (ex fuel and auto)	0.4%	–0.2%	–	Low inflation and faster wage growth have been supporting spending.
US	FOMC rate decision, midpoint	0.125%	0.375%	0.375%	On employment and inflation, a first hike is justified; press conference.
	Q2 current account balance, $bn	–113.3	–113.5	–	Net x'pts turned around in Q2, as export volumes rebounded.
	Aug housing starts	0.2%	–3.8%	–2.5%	Aug to see continued partial unwind of prior sharp acceleration.
	Aug building permits	-15.5%	1.8%	2.0%	Lots of volatility of late, but uptrend intact.
	Initial jobless claims	275k	–	–	Jobless claims remain at low levels.
	Sep Philly Fed business survey	8.3	6.0	–	Continues to point to moderate activity.
Fri 18					
Aus	RBA Governor Stevens	–	–	–	Before House of Representatives Economics Committee.
US	Aug leading index	–0.2%	0.2%	–	Building permits drove July fall, the first in around two years.

New Zealand forecasts

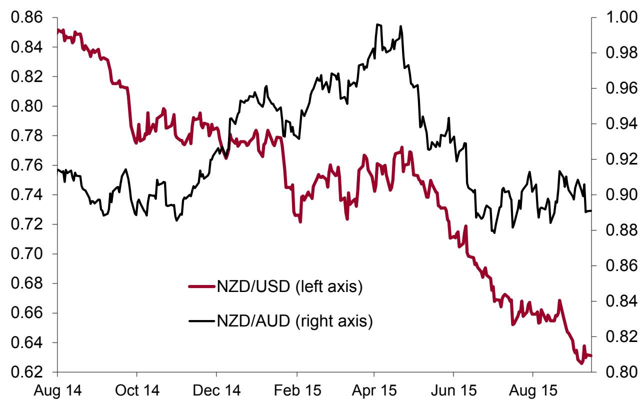
Economic Growth Forecasts	March years				Calendar years			
% change	2014	2015	2016f	2017f	2013	2014	2015f	2016f
GDP (Production) ann avg	2.5	3.2	2.1	2.0	2.2	3.3	2.2	1.8
Employment	3.8	3.2	0.5	2.1	2.9	3.6	0.9	1.8
Unemployment Rate % s.a.	6.0	5.8	6.5	6.3	6.1	5.7	6.4	6.3
CPI	1.5	0.3	1.7	1.5	1.6	0.8	0.8	1.9
Current Account Balance % of GDP	-2.6	-3.6	-5.7	-4.7	-3.3	-3.3	-5.0	-5.2

Financial Forecasts	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Cash	2.75	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.70	2.20	2.10	2.10	2.10	2.10
2 Year Swap	2.60	2.30	2.20	2.10	2.10	2.10
5 Year Swap	3.10	3.10	3.10	3.10	3.20	3.20
10 Year Bond	3.20	3.40	3.40	3.60	3.70	3.70
NZD/USD	0.61	0.60	0.59	0.60	0.62	0.63
NZD/AUD	0.91	0.90	0.90	0.91	0.92	0.92
NZD/JPY	73.8	73.3	72.9	74.5	77.1	79.9
NZD/EUR	0.56	0.56	0.56	0.56	0.57	0.58
NZD/GBP	0.41	0.41	0.41	0.41	0.42	0.42
TWI	66.9	66.2	65.9	66.8	68.2	69.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 14 September 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	3.00%	3.00%
30 Days	2.85%	3.04%	3.09%
60 Days	2.83%	2.93%	3.03%
90 Days	2.85%	2.92%	2.94%
2 Year Swap	2.73%	2.79%	2.88%
5 Year Swap	3.10%	3.13%	3.18%

NZ foreign currency mid-rates as at Monday 14 September 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6312	0.6458	0.6539
NZD/EUR	0.5568	0.5781	0.5883
NZD/GBP	0.4089	0.4192	0.4178
NZD/JPY	76.03	78.56	81.26
NZD/AUD	0.8910	0.9028	0.8868
TWI	68.49	69.95	70.24

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2011	2012	2013	2014	2015f	2016f
Australia						
Real GDP % yr	2.7	3.6	2.1	2.7	2.2	2.7
CPI inflation % annual	3.0	2.2	2.7	1.7	2.2	2.2
Unemployment %	5.2	5.3	5.8	6.2	6.5	6.3
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.3	-4.6
United States						
Real GDP %yr	1.6	2.3	1.5	2.4	2.4	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.2	2.0
Unemployment Rate %	8.9	8.1	7.4	6.2	5.4	5.1
Current Account %GDP	-2.9	-2.9	-2.2	-2.2	-2.3	-2.3
Japan						
Real GDP %yr	-0.5	1.8	1.6	-0.1	0.6	1.3
Euroland						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.3	1.1
United Kingdom						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
China						
Real GDP %yr	9.3	7.8	7.8	7.3	7.0	6.8
East Asia ex China						
Real GDP %yr	4.4	4.5	4.3	4.1	3.5	4.0
World						
Real GDP %yr	4.2	3.4	3.4	3.4	3.1	3.6
Forecasts finalised 4 Sep 2015						

Interest Rate Forecasts	Latest	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.18	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.73	2.85	3.10	3.25	3.40	3.60
International						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.21	2.40	2.80	3.00	3.20	3.40
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
AUD/USD	0.7063	0.67	0.66	0.66	0.66	0.67
USD/JPY	120.72	121	123	123	124	125
EUR/USD	1.1294	1.09	1.07	1.07	1.07	1.07
AUD/NZD	1.1196	1.10	1.11	1.11	1.10	1.09

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Satish Ranchhod, Senior Economist
+64 9 336 5669

David Norman, 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: Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

If you are located in Australia, this material and access to this website is provided to you solely for your own use and in your own capacity as a wholesale client of Westpac Institutional Bank being a division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ('Westpac'). If you are located outside of Australia, this material and access to this website is provided to you as outlined below.

This material and this website contain general commentary only and 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 and this website 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 and this website 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. The forecasts given in this material and this website 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.

Transactions involving carbon give rise to substantial risk (including regulatory 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. Statements setting out a concise description of the characteristics of carbon units, Australian carbon credit units and eligible international emissions units (respectively) are available at www.cleanenergyregulator.gov.au as mentioned in section 202 of the Clean Energy Act 2011, section 162 of the Carbon Credits (Carbon Farming Initiative) Act 2011 and section 61 of the Australian National Registry of Emissions Units Act 2011. You should consider each such statement in deciding whether to acquire, or to continue to hold, any carbon unit, Australian carbon credit unit or eligible international emissions unit.

Additional information if you are located outside of Australia

New Zealand: The current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. 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: 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 activity.

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.

Disclaimer continued overleaf.

Disclaimer continued

U.K.: Westpac Banking Corporation is registered in England as a branch (branch number BR000106), and is authorised and regulated by the Australian Prudential Regulatory Authority in Australia. WBC is authorised in the United Kingdom by the Prudential Regulation Authority. WBC is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom. 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 material and this website and any information contained therein is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as “relevant persons”). The investments to which this material and this website 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 material and this website or any of its contents. In the same way, the information contained in this material and this website is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Services Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this material and this website to any third party. In particular this material and this website, website content and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction.

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. 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.

For the purposes of Regulation AC only: Each analyst whose name appears in this report certifies that (1) the views expressed in this report accurately reflect the personal views of the analyst about any and all of the subject companies and their securities and (2) no part of the compensation of the analyst was, is, or will be, directly or indirectly related to the specific views or recommendations in this report.