27 October 2015

Weekly Commentary

Church of the Good Shepherd, Lake Tekapo.

In this issue

Getting crowded

This week we cover population growth and the Canterbury rebuild – both are strong for now but are expected to wane in the next few years – before turning our attention to markets and this week's OCR Review.

New Zealand's population boom continues unabated – the population growth rate for 2015 will be higher than any year since 1974, at above 2%. Data last week showed that net migration remained extremely strong in September, and has now reached an all-time high in annual terms of over 61,000 people.

The biggest cause of high net migration has been the very low number of New Zealand citizens departing the country (more New Zealanders departing actually detracts from *net* migration). But that hasn't changed much over the past year. What has changed is the number of overseas citizens entering New Zealand on temporary student and temporary worker visas – overseas arrivals are up 10% in the past three months.

High population growth has been an important force in the New Zealand economy in recent years. From a business point of view, more feet on the ground has been a boon. Population growth has supported GDP growth and has clearly played a role in the housing market. But from an individual point of view, having so many bodies in the labour force has tended to suppress wages and has kept unemployment higher than it would otherwise be.

With offshore labour markets remaining weak, net migration is likely to remain very strong over the coming year. However, from late 2016 we expect net migration will slow. First of all, many of those now arriving on temporary visas will have to leave. Second, New Zealand's economy is on the cusp of a slowdown while, in time, we expect Australia's economy will improve. Economic incentives will tend to guide people back towards Australia rather than New Zealand. It is important that businesses avoid extrapolating from today's strong rate of population growth.

Ever since learning that the Canterbury rebuild had peaked earlier than expected, we have kept an ear pinned firmly to ground in the region. The Canterbury rebuild was a leading cause of New Zealand's economic upturn between 2012 and 2014. When the rebuild

Getting crowded continued

starts to wind down, we expect it will cause the overall economy to slow. In effect, Canterbury is a leading indicator for the wider New Zealand economy and is therefore crucial to understand.

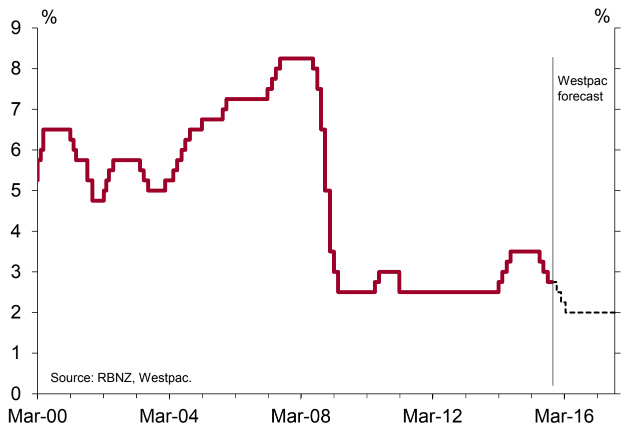
In a bulletin last week we relayed the findings of a fact-finding mission to the region. We found that business sentiment on the ground right now is unambiguously positive – no real surprises there, given that rebuild activity is still running at close to the peak rate and unemployment remains extremely low. But discussions also helped firm up our view that the pace of rebuild activity will start to slow from late 2016. When that happens, we expect Canterbury to experience downturns in employment and house prices, in addition to deteriorating business conditions.

Another key piece of research we released last week was an in-depth report on the Transport, Logistics and Distribution sector in New Zealand. This was the second edition of what will become a comprehensive library of reports on the industries that make up the New Zealand economy.

Turning to markets, the key upcoming event is the Reserve Bank's OCR Review on Thursday. The outcome shouldn't surprise anybody – RBNZ Governor Graeme Wheeler's speech two weeks ago included a dress rehearsal for the OCR Review. We firmly expect that the RBNZ will leave the OCR on hold. As per the speech, the accompanying commentary will reinstate house prices as an item of direct concern for monetary policy, and will note the run of more positive recent data including rising dairy prices. The policy guidance paragraph will certainly include a repeat of the phrase *"Some further easing seems likely…".* However, the RBNZ's easing bias will be qualified and tempered by other sentences suggesting that the RBNZ wants to reduce the OCR cautiously and not too far.

We are less certain about how the RBNZ will treat the exchange rate. The speech barely mentioned the exchange rate, but that doesn't seem like a credible option for an OCR Review, especially in light of the exchange rate's inexorable rise over recent weeks. We suspect that, like the All Blacks, the RBNZ kept a little something in reserve during the preliminaries. The RBNZ is likely to augment the speech by expressing discomfort at the rising exchange rate, perhaps labelling it "unwelcome". Doing so would prevent the exchange rate from rising on the day.

Westpac OCR forecast



At this stage the RBNZ is probably planning to cut the OCR in December, and we think it is most likely to go through with that. But December is no done deal – one can imagine scenarios in which the RBNZ ends up deciding to delay the cut even further. So at this week's OCR Review, the RBNZ's language will probably be fairly non-committal.

As we discussed last week, we expect that the RBNZ will have to cut the OCR further next year, to 2.0%. The RBNZ does not currently share our view – in fact, the RBNZ has made it quite clear that it sees 2.5% as the most likely low-point for the OCR. It is more likely that this difference of opinion will be resolved next year than this year.

Fixed vs Floating for mortgages

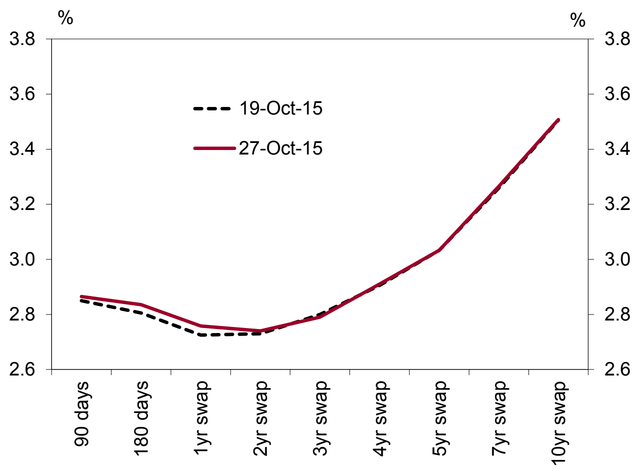
With short-term interest rates likely to fall further, borrowers should feel in no hurry to fix.

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



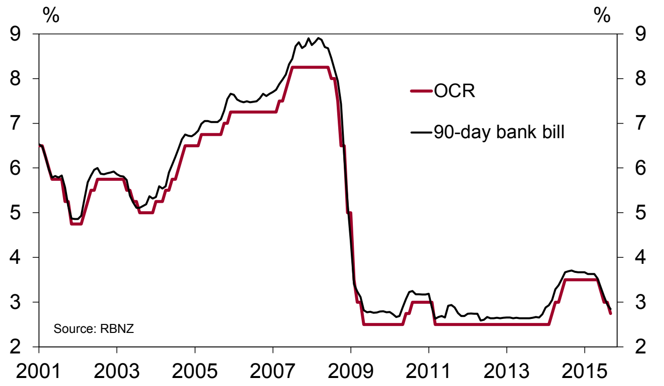
The week ahead

RBNZ Oct OCR review

Oct 29, Last: 2.75%, Westpac f/c: 2.75%, Mkt f/c: 2.75%

- We expect the OCR to remain on hold at 2.75% in the October OCR review. The strong housing market and a less dire outlook for dairy prices favour a pause; however, the bounce in the NZ dollar will be a concern for the RBNZ's inflation forecasts.
- In a recent speech the RBNZ Governor noted that: "Recent economic indicators have been more encouraging. Some further easing in the OCR seems likely but this will continue to depend on the emerging flow of economic data." We suspect the speech was a dry run for the OCR review, and that this language will be repeated in the statement.
- The RBNZ's current plan appears to be for only one more cut in this cycle. In contrast, we are forecasting three further cuts, in December, March and June.

NZ OCR and 90-day rate

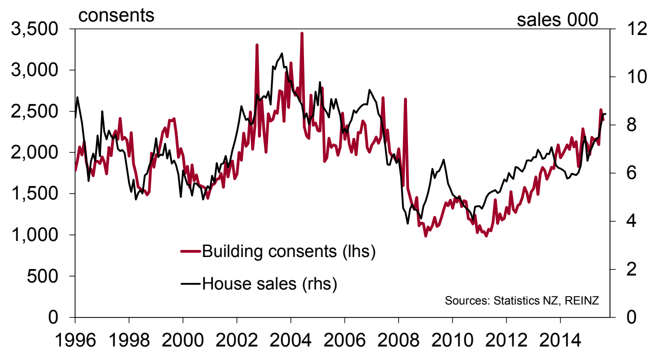


NZ Sep building consents

Oct 30, Last: -4.9%, Westpac f/c: 0.2%

- In August residential building consents pulled back following an earlier spike in apartment consents. Looking through the lumpiness associated with apartments, we're continuing to see an upwards trend in residential building.
- In September we're expecting total consent levels to remain broadly flat. Underlying this is a moderation in activity in Canterbury, balanced against continued gains in other regions. Much of the growth in absolute terms will be in Auckland although we may see some gains in activity in Hamilton and Tauranga where housing markets are heating up.

NZ housing activity

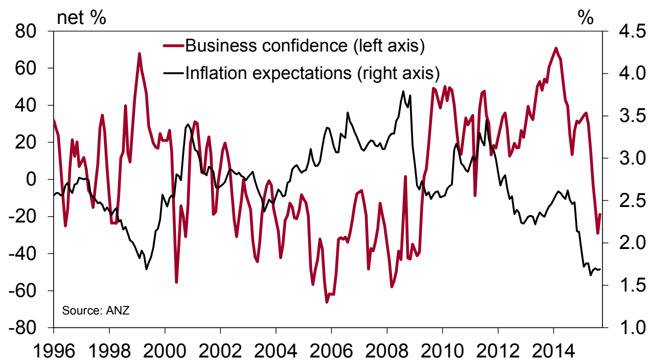


NZ Oct business outlook survey

Oct 30, Last: Business confidence -18.9%, activity outlook 16.7

- After sharp falls earlier in the year, business confidence stabilised in September, albeit at low levels. Businesses have continued to highlight concerns about the strength of the economic outlook, with confidence particularly low in the agricultural sector.
- Since the previous survey, economic conditions have firmed and commodity prices have risen. Consequently, it wouldn't be surprising to see some pick-up in confidence. However, business confidence is still expected to remain at low levels.
- We'll be closely watching the survey's inflation gauges to see how businesses' pricing intentions are evolving in the wake of recent moves in the NZD.

NZ business confidence and inflation expectations

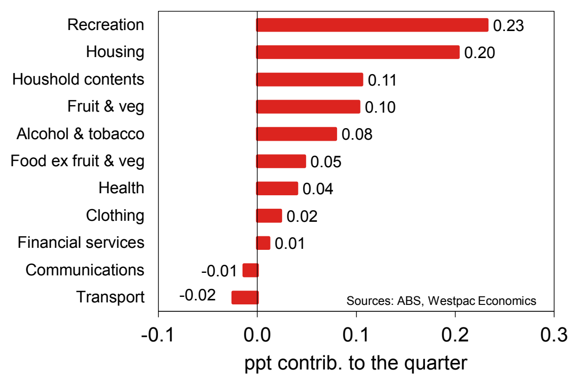


Aus Q3 CPI

Oct 28, Last: 0.7%, WBC f/c: 0.8% Mkt f/c: 0.7%, Range: 0.4% to 0.8%

- The headline CPI lifted 0.7% in Q2 compared to Westpac's 1.0% forecast and the market's expectation for 0.8%. The annual rate lifted to 1.5%yr from1.3%yr in Q1, 1.7% in Q4 and 2.3%yr in Q3.
- Westpac is forecasting a robust 0.8%qtr rise (1.9%yr) in the headline CPI for the September quarter. Stronger food prices, particularly fresh fruit & vegetables, are adding to the pulse from the re-indexing of the tobacco excise and ongoing gains in dwelling purchase costs. The decline in electricity prices is providing a modest offset as is the fall in the pump price of auto fuel. However, both together are more than offset by a forecast 4.5% rise in holiday travel costs.
- Core inflation is forecast to hold around the mid-point of the RBA's inflation target band, while the six month annualised pace is expected to fall to the bottom of the band.

Contributions to 0.8%qtr 2015Q3 forecast



The week ahead

Aus Q3 import price index

Oct 29, Last: 1.4%, WBC f/c: 1.2% Mkt f/c: 1.5%, Range: 0.6% to 4.0%

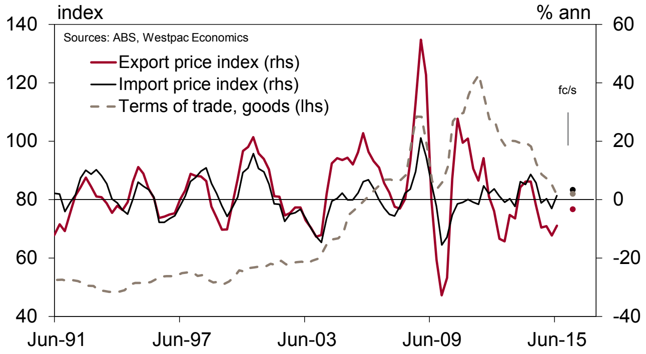
- Imported goods became more expensive in the September quarter as the Australian dollar slumped.
- The import price index is forecast to rise by 1.2% in the quarter. That would see the index 3.3% higher than a year ago.
- The Trade Weighed Index averaged 61.4 in Q3, 4.5% below the average for Q2, to be 14% below the levels of a year ago.
- Energy prices provided a partial offset in the September quarter, falling by more than 10%.

Aus Q3 export price index

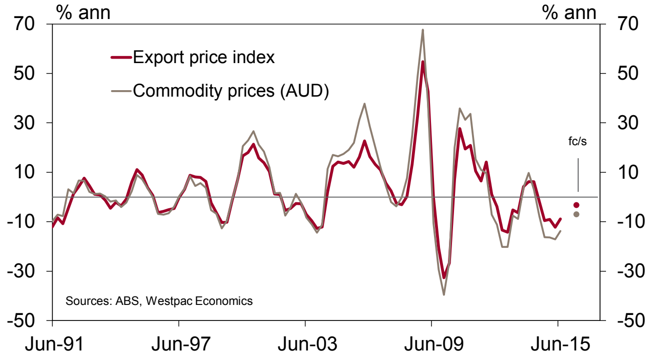
Oct 29, Last: –4.4%, WBC f/c: 2.0% Mkt f/c: 0.6%, Range: flat to 2.0%

- The slump in global commodity prices, which is denting export prices, continued in the September quarter. However, the Australian dollar fell at an even faster pace in the period, thereby cushioning commodity prices in AUD terms.
- The export price index is forecast to rise by 2.0% in the September quarter. That would still see prices 3% lower than a year ago and 12.5% lower than two years ago.
- In Q3, global commodity prices fell by around 5% in US dollar terms. The Australian dollar averaged 72.6US¢ in the quarter, down by around 7% from 77.9US¢ in Q2.
- The terms of trade for goods, on these estimates, would edge 0.8% higher but still be 7.5% lower over the year and 17.5% down on two years ago.

Import & export prices (excluding services)



Commodity prices & export price index



Aus Sep private sector credit

Oct 30, Last: 0.6%, WBC f/c: 0.5% Mkt f/c: 0.5%, Range: 0.5% to 0.7%

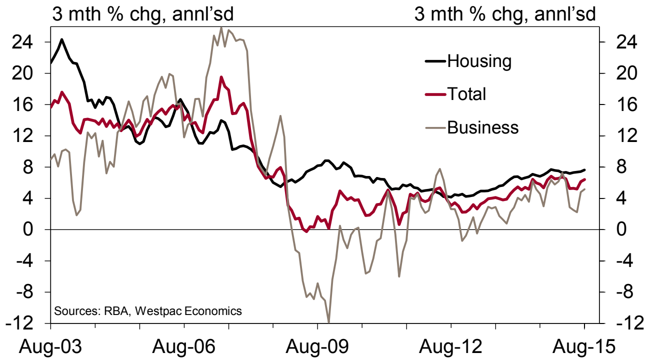
- Credit posted back-to-back gains of 0.6% during July and August, a tick up on the 0.5% average monthly rise over the first half of 2015, with recent strength in the business segment.
- For September, we anticipate a return to a rise of 0.5%.
- Business credit, which is typically choppy given the lumpy nature of transactions, grew by 0.4% a month, on average, over the past year. For September, we expect an increase of 0.4%, following outcomes of 0.6% and 0.5%.
- Housing credit grew by 0.6%, 7.5%yr in August. Low and falling interest rates and strong investor interest have been driving the sector forward. However, in the wake of discussions between the regulator and the banks, lending to investors is likely to be constrained somewhat.

Chn Oct Westpac MNI China Consumer Sentiment

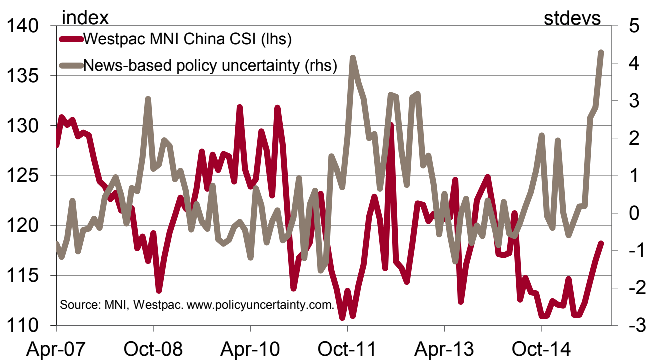
Oct 28, Last: 118.2

- The Westpac MNI China Consumer Sentiment Indicator increased 1.7pts from 116.5 in August to 118.2 in September. The Indicator was thus 4.4% higher than a year ago and just 1.7% below its long run average.
- The consistent strength of the survey – four straight months of gains, with some sub-indicators registering above long run average – has been somewhat surprising, given the chequered backdrop. Even so, the retail sales figures have justified this optimism in recent times, swimming against the tide of deterioration in the traditional monthly data set.
- Financial markets have been relatively stable in the month of October. However, the pace of recovery in housing sales has shown signs of levelling off, while the general tone in the export-manufacturing-construction segments has deteriorated further, as has news-based 'economic policy uncertainty'.

Credit momentum



Consumer confidence & "policy uncertainty"

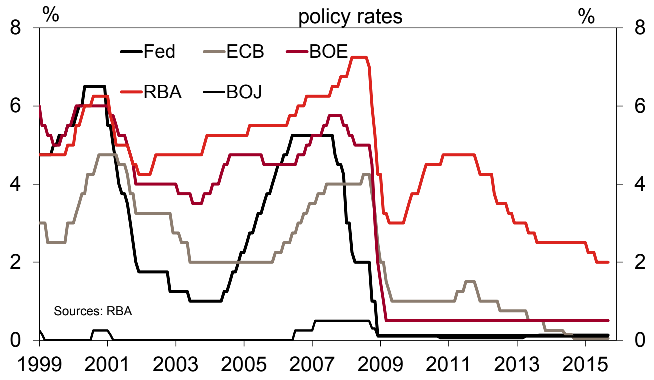


US Oct FOMC meeting

Oct 27–28, Last: 0.125%, WBC f/c: 0.125%

- At its September meeting, the FOMC surprised those anticipating a rate hike. Taking a more dovish tone with respect to inflation (which it saw as being impacted unfavourably by recent offshore developments), the Fed Funds Rate was left on hold. However, there was still a clear bias towards taking that first step before the year is out.
- Since that time, incoming data has been somewhat disappointing; but, US financial markets have recouped much of the damage done by fears over Asian growth and US rates. There is an almost nil probability of a rate hike occurring at the October meeting, with the December meeting instead the focus. Expect the October statement to carry a very similar tone to that of September, with the FOMC eagerly awaiting the release of Q3 GDP (the day after the meeting) as well as further updates on jobs and inflation.

Developed world policy interest rates

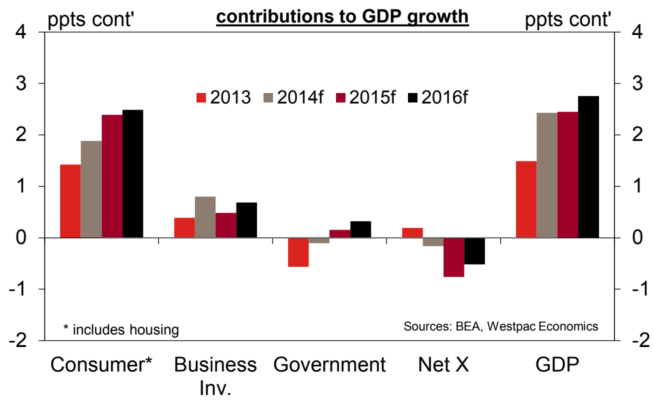


US Q3 GDP

Oct 29, Last: 3.9%, WBC f/c: 1.7%

- US GDP data has been decidedly unsettled of late, with great variation between quarters – and indeed even between the three estimates of growth released for any particular quarter.
- As it stands, growth accelerated sharply in Q2, the 3.9% annualised gain a multiple of Q1's 0.6%. Consumption was key to the result. Growth in investment and public demand were comparatively modest, but still supportive.
- Q3 is likely to see a much weaker headline result, circa 1.7%. Consumption growth is set to soften, with stronger business investment only providing a partial offset. Crucial to the Q3 result will be net export's switch from a positive to a negative contribution as well as a reduced inventory build. Risks are arguably skewed to the downside in Q3, with the Atlanta Fed's 'nowcast' at just 0.9%.

US growth to depend on consumer



Data calendar

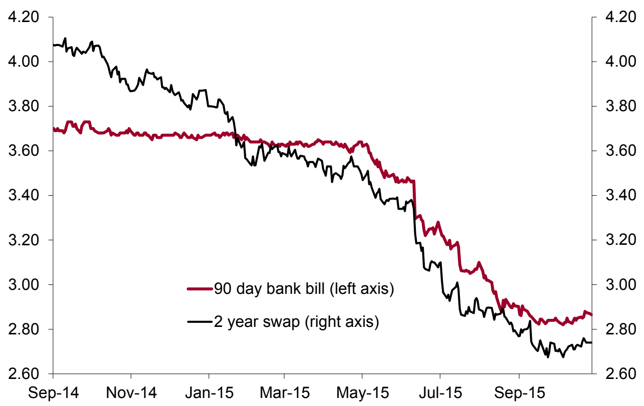
		Last	Market median	Westpac forecast	Risk/Comment
Tue 27					
NZ	Sep merchandise trade $m	–1034	–825	–740	Seasonal lows for dairy and meat exports.
Eur	M3 money supply, %yr	4.8%	5.0%	–	Credit data also due.
UK	Q3 GDP	0.7%	0.6%	–	Strengthening domestic demand has been supporting growth.
US	Sep durable orders	–2.3%	–1.2%	–1.5%	Continues to suggest business investment trend will remain weak.
	Sep S&P/C-S 20 city house prices	–0.2%	0.1%	–	Annual growth in house prices still robust around 5%.
	Oct Markit services PMI (provisional)	55.1	55.2	–	Services momentum continues to buoy composite.
	Oct consumer confidence	103.0	102.4	–	Conference Board measure; maintaining above-average level.
	Oct Richmond Fed manuf. Index	–5	–3	–	Manufacturing gauges have pulled back in recent months.
Wed 28					
Aus	Q3 CPI	0.7%	0.7%	0.8%	Headline to lift to 1.9%yr on food, housing & AUD boost to holidays ...
	Q3 average core CPI	0.5%	0.5%	0.5%	... some offset from lower electricity & fuel prices. Core to hold at 2.4%yr.
Chn	Oct Westpac MNI Consumer Sentiment	118.2	–	–	Sitting on four consecutive gains, consumer a lonely bright spot.
US	FOMC policy decision, midpoint	0.125%	0.125%	0.125%	13 of 17 FOMC members see rate hike in 2015; but not in Oct.
	Sep advance goods trade balance, $bn	–66.6	–64.8	–	Preliminary reading ahead of full trade release.
Thu 29					
NZ	RBNZ policy decision	2.75%	2.75%	2.75%	Housing market pressures and low inflation are both of concern.
Aus	Q3 import price index	1.4%	1.5%	1.2%	Imports more expensive as TWI -4.5%, partial offset from lower oil prices.
	Q3 export price index	–0.8%	0.6%	2.0%	Export prices up as drop in AUD exceeds slump in commodity prices.
Eur	Oct economic confidence	105.6	105.1	–	Policy makers working hard to cement gains made.
	Oct consumer confidence	–7.7	–	–	Consumers buoyed by positive signs from labour market and ECB.
	Oct business climate indicator	0.34	–	–	Monetary policy supportive of outlook.
Ger	Oct CPI (provisional)	–0.2%	–0.1%	–	Even in core, inflation remains absent.
UK	Oct Nationwide house prices	0.5%	0.5%	–	Low interest rates have been supporting house prices.
	Sep net mortgage lending, £bn	3.4	3.4	–	Consumer credit also rose £0.9bn in Aug.
US	Initial jobless claims	259k	–	–	Claims have remained around multi-year lows for several months.
	Q3 GDP	3.9%	1.7%	1.7%	Net exports a major drag; consumption growth to soften.
	Sep pending home sales	–1.4%	1.0%	–	Pointing to moderate growth in established home sales.
	Fedspeak	–	–	–	Lockhart makes opening remarks on workforce development.
Fri 30					
NZ	Sep building consents	–4.9%	–	0.2%	Despite volatility in apartment numbers, an uptrend remains in place.
	Oct business activity outlook survey	16.7	–	–	Business confidence is low, but activity has firmed.
	Sep private sector credit %yr	6.7%	–	–	Housing lending strong ahead of new regulations in Oct/Nov.
Aus	Sep private sector credit	0.6%	0.5%	0.5%	A return to avg growth pace of 0.5%, after above par result for business.
Eur	Sep unemployment rate	11%	11%	–	Some promising signs; but slow progress.
	CPI	–0.1%	0.1%	–	Disinflation/ deflation remains key concern for ECB.
UK	Oct GFK consumer confidence	3	4	–	Consumer confidence has risen to elevated levels.
US	Q3 employment cost index	0.2%	0.6%	0.6%	Soft Q2 outcome likely to be followed by healthy gain in Q3.
	Sep personal income	0.3%	0.2%	0.3%	Wages growth solid; investment income helpful (for some).
	Sep personal spending	0.4%	0.2%	0.2%	Retail has been disappointing of late; services growth healthy, not rapid.
	Sep PCE deflator	flat	–0.1%	–0.1%	Energy prices a notable drag. Core prices likely up 0.1%.
	Oct Chicago PMI	48.7	49.5	–	Global headwinds are weighing on manufacturing.
	Oct Uni of Michigan consumer conf	92.1	92.5	–	Weaker than Conference Board; but still at long-run average.
	Fedspeak	–	–	–	Williams in Washington; George on Federal Reserve structure.

New Zealand forecasts

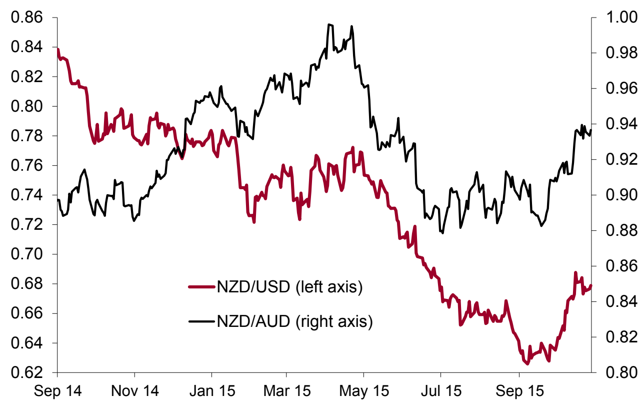
Economic Growth Forecasts	March years				Calendar years			
% change	2014	2015	2016f	2017f	2013	2014	2015f	2016f
GDP (Production) ann avg	2.5	3.2	2.0	2.2	2.3	3.3	2.2	2.0
Employment	3.8	3.2	0.8	2.3	2.9	3.6	1.1	2.0
Unemployment Rate % s.a.	6.0	5.8	6.5	6.3	6.1	5.7	6.4	6.4
CPI	1.5	0.3	1.3	1.6	1.6	0.8	0.5	1.9
Current Account Balance % of GDP	-2.6	-3.4	-5.5	-4.6	-3.2	-3.1	-4.7	-5.0

Financial Forecasts	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Cash	2.50	2.25	2.00	2.00	2.00	2.00
90 Day bill	2.60	2.30	2.10	2.10	2.10	2.10
2 Year Swap	2.50	2.30	2.20	2.20	2.20	2.20
5 Year Swap	3.10	3.10	3.10	3.20	3.20	3.20
10 Year Bond	3.40	3.50	3.60	3.70	3.70	3.70
NZD/USD	0.64	0.63	0.61	0.62	0.63	0.63
NZD/AUD	0.94	0.95	0.92	0.92	0.92	0.91
NZD/JPY	77.4	76.2	74.4	75.9	78.6	76.7
NZD/EUR	0.59	0.59	0.57	0.57	0.58	0.57
NZD/GBP	0.43	0.43	0.41	0.41	0.41	0.41
TWI	69.9	69.7	67.6	67.9	68.9	68.3

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Tuesday 27 October 2015

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.75%	2.75%	2.75%
30 Days	2.87%	2.86%	2.85%
60 Days	2.86%	2.85%	2.85%
90 Days	2.87%	2.84%	2.85%
2 Year Swap	2.74%	2.72%	2.74%
5 Year Swap	3.03%	3.06%	3.09%

NZ foreign currency mid-rates as at Tuesday 27 October 2015

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6789	0.6689	0.6365
NZD/EUR	0.6145	0.5887	0.5694
NZD/GBP	0.4423	0.4366	0.4190
NZD/JPY	82.16	80.37	76.72
NZD/AUD	0.9366	0.9135	0.9058
TWI	73.05	71.58	69.52

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	2.0
Unemployment %	5.2	5.3	5.8	6.2	6.5	6.1
Current Account % GDP	-2.8	-4.4	-3.4	-3.0	-4.2	-4.7
United States						
Real GDP %yr	1.6	2.2	1.5	2.4	2.4	2.8
Consumer Prices %yr	3.1	2.1	1.5	1.6	0.1	1.7
Unemployment Rate %	8.9	8.1	7.4	6.2	5.3	4.9
Current Account %GDP	-2.9	-2.9	-2.3	-2.2	-2.3	-2.3
Japan						
Real GDP %yr	-0.5	1.7	1.6	-0.1	0.6	1.3
Euroland						
Real GDP %yr	1.6	-0.8	-0.3	0.9	1.5	1.1
United Kingdom						
Real GDP %yr	1.6	0.7	1.7	3.0	2.5	2.5
China						
Real GDP %yr	9.5	7.7	7.7	7.3	7.0	6.8
East Asia ex China						
Real GDP %yr	4.5	4.6	4.2	4.1	3.5	4.0
World						
Real GDP %yr	4.2	3.4	3.3	3.4	3.0	3.6
Forecasts finalised 9 Oct 2015						

Interest Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Australia						
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day Bill	2.16	2.20	2.20	2.20	2.20	2.20
10 Year Bond	2.61	2.85	2.90	3.00	3.10	3.35
International						
Fed Funds	0.125	0.375	0.625	0.875	1.125	1.375
US 10 Year Bond	2.03	2.35	2.50	2.70	2.90	3.00
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
AUD/USD	0.7249	0.68	0.66	0.66	0.67	0.69
USD/JPY	120.64	121	121	122	123	124
EUR/USD	1.1110	1.09	1.07	1.07	1.08	1.10
AUD/NZD	1.0601	1.06	1.05	1.08	1.09	1.09

Westpac economics team contact details

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

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.