Weekly Commentary

5 September 2016

Concrete horizon

The construction sector has been a key driver of New Zealand's GDP and employment growth in recent years, and it's set to remain so for some time. However, the centre of gravity for the construction sector is shifting – Canterbury's rebuild has begun its gradual wind down, while Auckland is picking up. Building activity is also increasing in other regions.

Past the peak, but still strong

It's now been six years since the first of the devastating earthquakes that struck Canterbury. In addition to the immense human cost of the earthquakes, the period of reconstruction that has followed has played a significant role in shaping the nationwide economic landscape. And that will remain the case for some time.

The rebuild has been our nation's largest building project, with around $32b of planned work (excluding the impact of cost increases). While there is still a large amount of work to go, reconstruction is well advanced, with around 55% of planned work completed.

The advanced state of the rebuild has some important implications. First of all, the composition of work is changing. In the early stages of the rebuild, work was focused on the replacement of essential infrastructure and repairs to damaged homes. While work in these areas is continuing, most of the planned spending is now complete and activity in these areas has been winding back. In the case of residential construction, consent issuance is now down more than 10% from its peak. At the same time, however, work on non-residential projects has been picking up. This will change the mix of skills that are required for the rebuild.

Second, and importantly for nationwide GDP growth and employment, we are now past the peak in the rebuild. Reconstruction activity will remain strong for some time yet. However, we will no longer see the month-to-month increases in spending that we did in previous years that boosted national GDP growth. And over time, the gradual wind down in reconstruction activity will be a drag on growth.

As rebuild activity winds down, it's inevitable that other parts of Canterbury's economy will also be affected. This will be especially evident in areas such as retail spending, which have received a boost from rebuild related spending and employment. However, any slowdown in overall regional GDP growth is likely to be more modest than the profile of rebuild activity alone would imply. In fact, although rebuild spending has started a gradual wind down, the latest building activity survey showed that overall construction activity in Canterbury has held up, with BAU activity slowly increasing (through this will remain below pre-quake levels for some time). In addition, strengthening activity in other parts of Canterbury's economy, such as the services and tourism sectors, is also helping to boost demand in the region.

Everyone's moving to Auckland

The wind down in rebuild spending will weigh on overall construction spending in the economy over the coming years. Nevertheless, a period of strong construction activity remains on the cards, with activity picking-up in other regions.

Concrete horizon continued

Over time the centre of gravity for the construction sector has been shifting to Auckland. Strong population growth and low levels of building since the GFC have left the city with an underbuild of around 30,000 homes. And with Auckland's population set to continue growing at a solid pace, home building levels in the region will need to rise to around 11,000 per annum for most of the next decade to gradually alleviate the tightness in the housing market. That would be an extremely strong period of building activity (as a comparison, around 24,000 homes in Canterbury required major repairs or rebuilding).

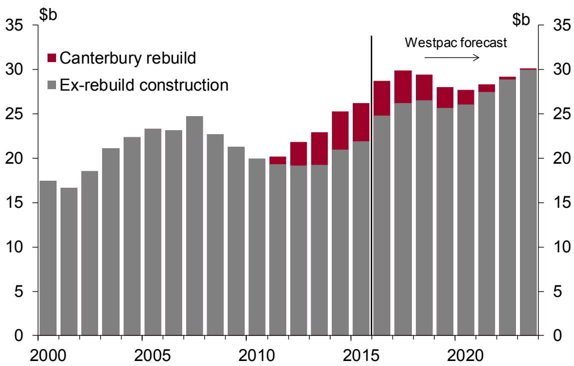
Low interest rates and strong house price gains have been encouraging an increase in building activity in Auckland, with residential consent numbers up 12% over the past year. However, with 9,600 new homes consented over the past year, building levels in Auckland are still well short of the required levels. We expect that building levels will rise over time, particularly as uncertainty around the Unitary Plan subsides. Nevertheless, Auckland will still face a challenging task to achieve the required level of building on a sustained basis. It will also face a particularly challenging trade-off between regulation, the pace of building, and build quality. Auckland did achieve very high levels of building in the late-1990s and early-2000s. However, in some cases this was associated with lower quality construction that resulted in the need for significant remediation in the following years.

Activity to continue building for the next few years

Strength in construction isn't just a story about Auckland and Canterbury. In fact, while Auckland accounts for around 50% of the nation's population growth, it only accounts for around one third of the increase in building consents that we've seen. Building consent issuance has been rising across a number of other regions, with notable gains in Tauranga, Hamilton and Queenstown. On top of this, there is a large pipeline of infrastructure work planned over the coming years.

Putting it all together, leaves us with a strong outlook for construction spending over the coming years. While the wind down of the rebuild will dampen growth in the sector, the level of construction activity is likely to remain elevated for some time. We expect year-on-year growth in the sector until at least mid-2018.

Construction outlook



Source: Statistics NZ, Westpac

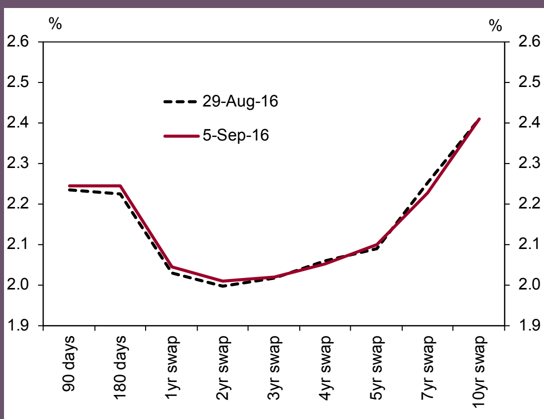
Fixed vs Floating for mortgages

Fixed rates have fallen a long way recently, and are becoming a more attractive option for borrowers.

For borrowers with a deposit of 20% or more, the best value probably lies in the two-year rate or shorter terms. Four- and five-year rates seem high relative to where we think shorter-term rates are going to go over the next four or five years. That said, fixing for a longer term does offer the borrower greater stability.

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



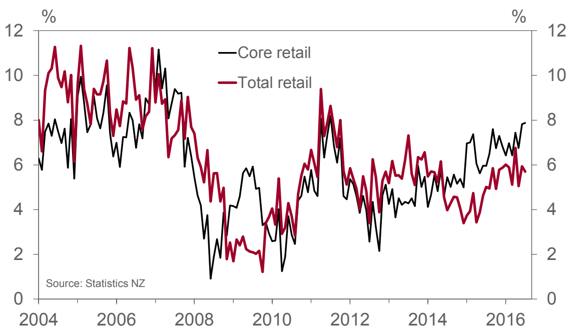
The week ahead

NZ Aug retail card spending

Sep 9, last: +0.3%, WBC: f/c +0.3%, Mkt f/c: 0.3%

- Spending on retail cards continued to chug along in July, with a 0.3% gain over the month. That followed a very strong gain in June and left total spending on cards up 4.5% over the past year. Underpinning July's increase in total spending was a second strong increase in hospitality spending (likely assisted by strong tourist levels), as well as a solid increase in spending on services.
- We expect core spending growth to soften though August, as spending in the hospitality sector normalises. Nevertheless, with very low interest rates, population growth, and increases in employment all still supporting activity, retail spending is still expected to record a firm 0.3% gain over August.

Card transactions, annual % change

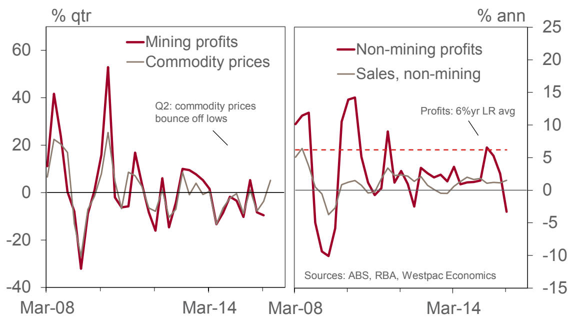


Aus Q2 company profits

Sep 5, Last: –4.7%, WBC f/c: 4.0%
Mkt f/c: 2.0%, Range: –0.3% to 4.0%

- The Business Indicators (BI) survey reported company profits slumped 4.7% in Q1, with mining –9.6% and non-mining –3%.
- The national accounts reported profits (ex-finance) fell in Q1 by a less severe 2.9%. The BI measure is impacted by the accounting treatment of changes in the value of inventories.
- For Q2, we anticipate a turnaround, expecting the BI measure to rise by 4.0% and the national accounts measure to lift 1.2%.
- Mining profits (which account for 25% of total profits in this survey), look set to advance, up a f/c 4% on a bounce in commodity prices. For non-mining, we anticipate a stabilisation, with the 8% fall over the past half year looking excessive relative to current conditions - albeit growth is uneven across the economy.

Company profits: a turnaround in Q2

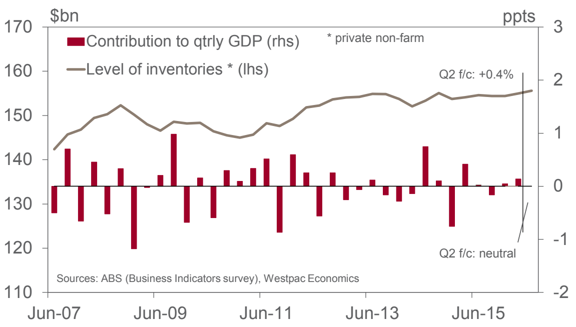


Aus Q2 inventories

Sep 5, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.3%, Range: –0.1% to 0.8%

- Private business inventories have expanded modestly since the end of 2014, rising by 0.8%, including +0.4% in Q1 2016.
- Narrowing the focus to inventories ex mining and ex manufacturing, a clear strong uptrend is evident, +3.3% since the end of 2014, again including a 0.4% gain in Q1 2016. Inventory levels are increasing to meet growing demand from the household sector.
- For Q2, we anticipate a further 0.4% gain in inventory levels to meet expanding demand. That implies inventory levels are neutral for Q2 GDP, following a 0.1ppt contribution in Q1
- Volatility in mining and manufacturing inventories, around a weak trend, creates a degree of uncertainty around our forecast.

Inventories: Q2 f/c neutral impact

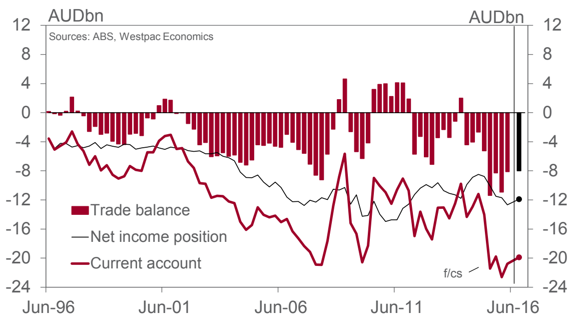


Aus Q2 current account, AUDbn

Sep 6, Last: –20.8, WBC f/c: –19.9
Mkt f/c: –20.0, Range: –22.5 to –18.0

- Australia is running sizeable current account deficits as export earnings are hit by tumbling commodity prices. For Q2, the current account deficit is forecast to narrow a little but remain sizeable at $19.9bn, representing 4.8% of GDP. The trade position improved to a deficit of $8.0bn, moderating from $8.7bn (revised from an originally reported $8.1bn). The positive was that commodity prices bounced off their lows, driving an estimated 2% lift in the terms of trade. That is the 1st increase since 2013 Q4 and only the 3rd in 19 quarters. Against that, real net exports weakened.
- The net income deficit deteriorated in Q1 by $1bn to $12.7bn on sharply weaker direct investment income. For Q2, we expect an $11.9bn deficit, anticipating that much of Q1's sharp move will be reversed.

Current account: f/c –$19.9bn in Q2



The week ahead

Aus Q2 net exports, ppt cont'n

Sep 6, Last: 1.1, WBC f/c: –0.1, Mkt f/c: flat, Range: –0.4 to 0.4

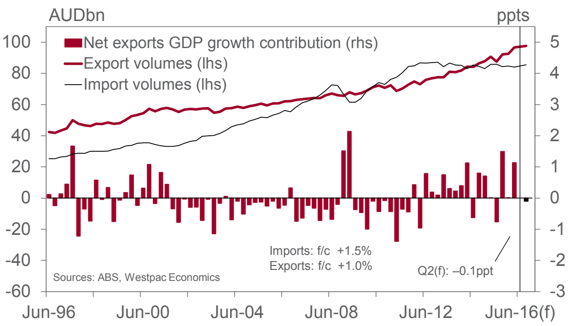
- Net exports are expected to swing from being a major positive in Q1, adding 1.1ppts to quarterly GDP, to being a slight drag in Q2, subtracting a forecast 0.1ppt.
- Export volumes continued their choppy profile, in part due to variable weather conditions impacting iron ore and coal shipments. Volumes grew by only a forecast 1% in Q2, to be 11.4% above a year ago, with gains in Q2 for resources (iron ore, coal and gold) and services, boosted by the lower AUD. That comes after a 4.4% jump in export volumes in Q1.
- Import volumes grew by a forecast 1.5% in Q2, with increases in consumer and intermediate goods, as well as gold. While that more than reverses a 0.8% decline in Q1, imports are still a little below the levels of a year ago, -0.4%, led lower by capital goods.

Aus Q2 public demand

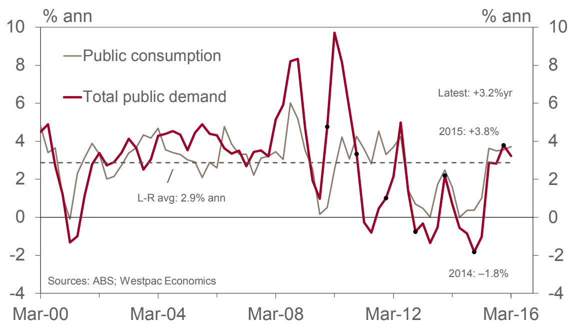
Sep 6, Last: 0.4%, WBC f/c: 1.0%

- Public demand, representing around 20% of the economy, grew by an above trend 3.8% in 2015, notwithstanding the challenging backdrop. The 2015 result most likely included an element of catch-up, following a 1.8% contraction in 2014.
- The 2016 year began on a more modest note, with public demand managing an increase of only 0.4% in Q1, constrained by a dip in public investment.
- For Q2, we anticipate a more constructive result, forecasting a rise of 1.0%. This assumes a resumption in the emerging uptrend in public investment as the state governments commit to new initiatives, including public transport projects. Public investment (accounting for 17% of public demand) is forecast to advance by 3%, more than reversing a 1.8% fall in Q1.

Net exports: f/c –0.1ppt in Q2



Public demand: rebounded in 2015



Aus RBA policy decision

Sep 6, Last: 1.50%, WBC f/c: 1.50%
Mkt f/c: 1.50%, Range: 1.50% to 1.50%

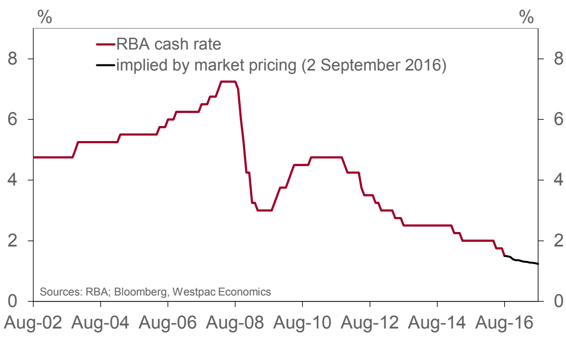
- Having reduced rates by 25bps at its most recent meeting in August the RBA is almost certain to leave rates on hold in September.
- The RBA has cut rates by 50bps this year with a significant weakening in inflation to rates materially below the Bank's 2-3% target the main trigger. The Bank still carries a clear 'implicit' easing bias evident in its inflation forecasts ("likely to remain below 2 per cent over most of the forecast period") and rhetoric ("while prospects for growth were positive, there was room for stronger growth, which could be assisted by lower interest rates"). However more comfort around inflation and a variety of factors point to rates staying on hold for the remainder of 2017. See p2 for more.

Aus Q2 GDP

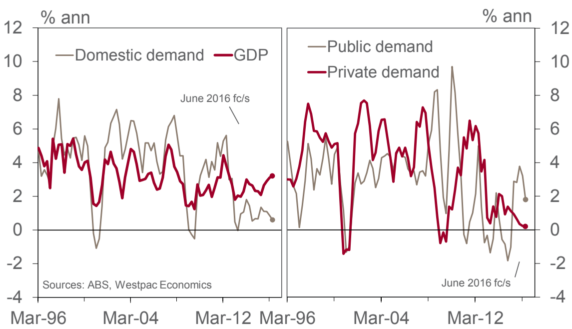
Sep 7, Last: 1.1%qtr, 3.1%yr, WBC f/c: 0.4%qtr, 3.2%yr
Mkt f/c: 0.4%qtr, Range: 0.2%qtr to 0.7%qtr

- Real GDP grew by 3.1% over the past year, a little above trend. Supporting activity are lower interest rates (housing) and a lower dollar (service exports). Mining's impact is relatively neutral, with falling investment offset by the export expansion.
- For 2016 Q2, real GDP growth is a forecast 0.4%qtr, 3.2%yr, after a Q1 outcome of 1.1%qtr, 3.1%yr. Net exports is the swing factor. Q1 was +1.1ppts, as exports surged 4.4% as fewer weather disruptions boosted resources. For Q2, –0.1ppts, as exports rise only 1% and imports rebound.
- Domestic demand to eke out a 0.3%qtr, 0.6%yr gain after 0.1%qtr in Q1. Public demand to benefit from a rebound in investment. Consumer spending expected to be up a modest 0.6%qtr, constrained by a soft spot in jobs.

RBA cash rate & market pricing



Australian economic conditions



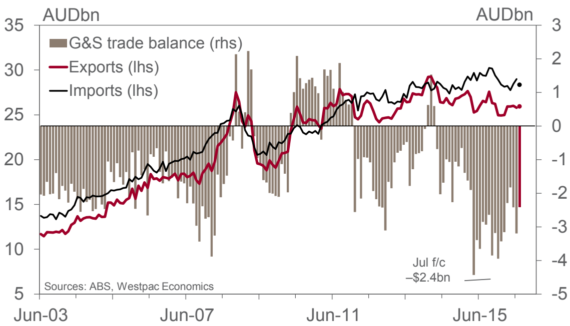
The week ahead

Aus Jul trade balance, AUDbn

Sep 8, Last: –3.2, WBC f/c: –2.4, Mkt f/c: –2.7, Range: –3.4 to –2.1

- Australia's trade deficit blew-out in the month of June, jumping from $2.4bn to $3.2bn. We anticipate a full reversal in July.
- Imports were the big mover in June, up 2.0%, an increase of $560mn, driven by a 7.4% spike in consumer goods. That looks unsustainable. Moreover, import prices softened in July, weakening on a higher dollar and lower global oil prices. We expect imports to fall by 2.2%, down $640mn.
- Export earnings are forecast to edge 0.5% higher, after a 0.8% decline in June. Prices of iron ore, coal, gold and base metals advanced in July, but oil and LNG prices fell.
- *NOTE: Since January, there is additional uncertainty around the import and trade forecast. The ABS no longer publishes the customs goods imports ahead of the trade release.*

Australia's trade position

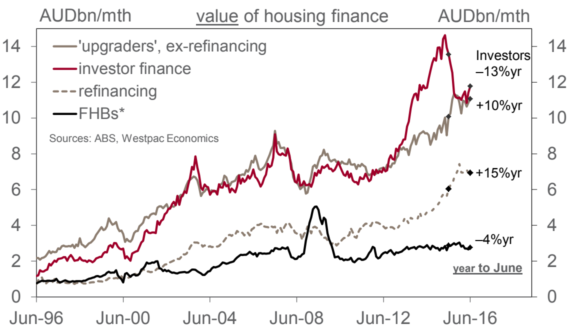


Aus Jul housing finance (no.)

Sep 9, Last: 1.2%, WBC f/c: –1.5%
Mkt f/c: –1.5%, Range: –3.0% to 2.0%

- The number of owner occupier finance approvals rose 1.2% in June, up 2.1% ex refi. Annual growth is holding at 6.7% (3.8% ex refi). The value of housing finance approvals to investors rose 3.2%mth, a positive result.
- The July figures are expected to retrace these gains with industry data pointing to a 1.5% decline in owner occupier approvals. The May rate cut has generated some firming in buyer sentiment with auction clearance rates and monthly price measures suggesting some lift in conditions although this is still at low levels of turnover. For finance approvals, readings from August on will give a clearer measure of the response to recent interest rate cuts.

Value of finance approvals by segment

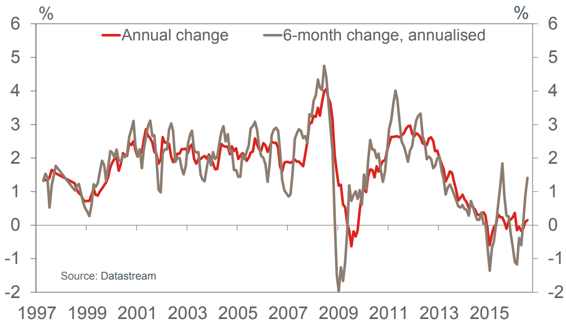


ECB policy decision

Sep 8, deposit rate Last: –0.40%, WBC –0.40%

- After a (very) quiet summer, debate over policy in Europe will start to build momentum again this week as the ECB meets.
- Overall, available data calls for a steady hand. Confidence has moderated somewhat; but modest gains continue to be made in the labour market, while the PMI's are pointing to further moderate growth into Q3 – albeit only at Q2's 0.3% pace. Of course, inflation is the ECB's focus. There, while the annual headline rate remains near zero, the acceleration seen in the 6-month pace (mostly on base effects) justifies holding off on any further action for now.
- Instead, the ECB is most likely to hold fire on an extension of the duration of the asset purchase program for another few months and (again) focus the market's attention on the need for fiscal authorities to do more. A further increase in the purchase pace is off the table until 2017.

Euro inflation starts to benefit from base effect



Data calendar

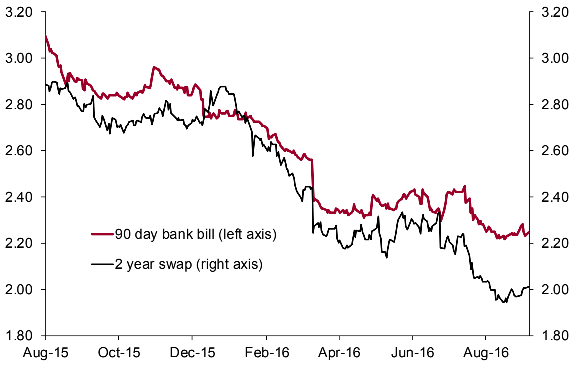
		Last	Market median	Westpac forecast	Risk/Comment
Mon 5					
NZ	Aug ANZ commodity price index	2.0%	–	–	To benefit from recent surge in dairy prices.
Aus	Q2 company profits	–4.7%	2.0%	4.0%	Mining up on commodity prices. Non–mining to stabilise.
	Q2 business inventories	0.4%	0.3%	0.4%	A modest gain to meet rising h'hold demand. Neutral impact in Q2.
	Aug AiG PSI	53.9	–	–	Services +2.6pts to 53.9, 3rd mth of expansion, led by retail & finance.
	Aug MI inflation gauge	1.0%	–	–	Up 1% in last three months or 4.1% annualised.
	Aug ANZ job ads	–0.8%	–	–	Up 6.9%yr but momentum has slowed so far in 2016 (10.8%yr in Jan).
Chn	Aug Caixin China PMI services	51.7	–	–	Weaker than official measure; external demand an issue.
Eur	Aug Markit services PMI (final)	53.1	53.1	–	Moderate momentum continuing in services sector.
	Sep Sentix investor confidence	4.2	5.0	–	Buoyed by ECB liquidity (and summer).
Ger	Aug Markit services PMI (final)	53.3	53.3	–	Labour market should be driving stronger momentum.
UK	Aug Markit services PMI	47.4	49.0	–	May see some recovery after last month's fall, but likely to remain soft.
US	Labour day public holiday	–	–	–	Markets closed.
Tue 6					
Aus	Q2 current account balance	–20.8	–20.0	–19.9	A $1bn spike in net income deficit to be largely reversed.
	Q2 net exports	+1.1	flat	–0.1	Export vols +1% only after Q1 surge & imports rebounded.
	Q2 public demand	0.4%	–	1.0%	Key is an expected rebound in public investment, +3.0% after –1.8% in Q1.
	RBA policy decision	1.50%	1.50%	1.50%	On hold after a 25bp cut in Aug.
Eur	Q2 GDP (final)	0.3%	0.3%	0.3%	Third estimate. Annual growth stands at 1.6%.
US	Aug Markit services PMI (final)	50.9	51.1	–	Flash showed down from 51.4 in July.
	Aug labor market conditions index	1.0	–	–	The Fed's composite measure of labour market conditions.
	Aug ISM non–manufacturing	55.5	55.4	–	Markit measure suggests services still robust.
Wed 7					
NZ	GlobalDairyTrade auction	12.7%	–	–	Futures anticipating a third consecutive strong result.
	Q2 survey of manufacturing	–1.2%	–	–	Meat and dairy processing to rebound from weak March qtr.
Aus	Q2 GDP	1.1%	0.4%	0.4%	Net exports swing factor, f/c –0.1ppt after +1.1ppt. Domestic demand
	Q2 GDP, %yr	3.1%	3.2%	3.2%	f/c +0.3%: bus. inv. fall offset by consumer (+0.6%), housing & public.
Chn	Aug foreign reserves $bn	3201	3192	–	Remain steady; speculative pressure negligible.
UK	Aug Halifax house prices	–1.0	flat	–	Housing market has softened, though limited supply supporting prices.
	Aug industrial production	0.1%	flat	–	Business confidence has fallen, but lower pound is providing an offset.
	BoE Gov Carney speaking	–	–	–	Speaking in front of Parliament, w/ Cunliffe, Forbes and McCafferty.
US	Jul JOLTS job openings	5624	–	–	Hires; fires; quits; and job openings. A month behind payrolls.
	Fedspeak	–	–	–	Williams speaking on economic outlook in Reno, Nevada.
	Federal Reserve's Beige book	–	–	–	Conditions across the Fed regions.
Can	BoC rate decision	0.5%	0.5%	0.5%	Mixed economic activity, core inflation contained.
Thu 8					
Aus	RBA Governor–designate speaking	–	–	–	Philip Lowe, introductory remarks at a Sydney Conference, 8:55am.
	Jul trade balance $bn	–3.2	–2.7	–2.4	Deficit blow–out to be reversed. Imports to fall after 2% jump in June.
Chn	Aug trade balance USDbn	52.3	57.9	–	July import deterioration to reverse; exports only marginally stronger.
	Aug foreign direct investment %yr	–1.6%	–	–	Investment interest from offshore weak at present.
Eur	ECB policy decision, deposit rate	–0.40%	–0.40%	–	On hold for now. Duration of program to be extended in a few months.
UK	Aug RICS house price balance	5%	2%	–	Low supply limiting downside from softer housing market conditions.
US	Initial jobless claims	263k	–	–	Claims remains in a tight range.
Can	Jul new house price index	2.5%	–	–	Gains in Vancouver and Toronto, but softness elsewhere.
Fri 9					
NZ	Aug retail card spending	0.3%	0.3%	0.3%	Core spending to moderate after earlier strong gains.
Aus	Jul housing finance	1.2%	–1.5%	–1.5%	Industry figs softer but conditions have firmed a little in recent months.
Chn	Aug CPI %yr	1.8%	1.7%	–	Inflation pressures benign, and unlikely to strengthen materially...
	Aug PPI %yr	–1.7%	–1.0%	–	... commodity price impact on upstream prices abating.
UK	Jul trade balance, £b	–5.1	–4.5	–	The decline in the GBP will help to support nominal export earnings.
	Jul construction output	–0.9%	–	–	Uncertainty around the outlook is weighing on construction spending.
US	Jul wholesale inventories	flat	0.1%	–	Inventories very weak in Q2; Q3 to improve, but by how much?
	Fedspeak	–	–	–	Rosengren delivers economic forecast in Boston.
Sat 10					
Chn	Aug aggregate financing, CNYbn	488	950	–	Tentative date. Recent months have been soft; due for a bounce.
	Aug new loans, CNYbn	464	750	–	Tentative date. Bank lending should also improve.
	Aug M2 money supply %yr	10.2%	10.5%	–	Tentative date. Nominal momentum below par.

New Zealand forecasts

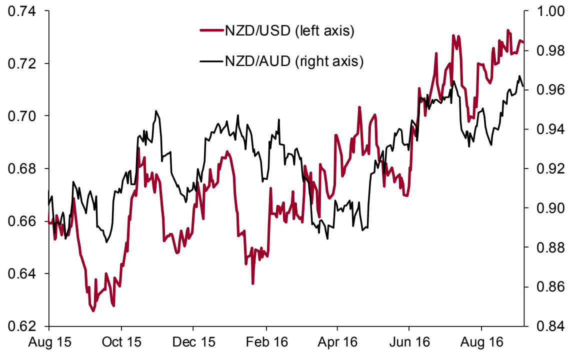
Economic Growth Forecasts	March years				Calendar years			
% change	2015	2016	2017f	2018f	2014	2015	2016f	2017f
GDP (Production) ann avg	3.6	2.4	3.3	2.7	3.7	2.5	3.2	2.9
Employment	3.2	2.0	2.6	1.7	3.6	1.4	3.1	2.2
Unemployment Rate % s.a.	5.4	5.2	4.9	4.6	5.5	5.0	5.1	4.6
CPI	0.3	0.4	1.3	1.8	0.8	0.1	1.0	1.7
Current Account Balance % of GDP	-3.4	-3.0	-3.3	-3.6	-3.1	-3.2	-3.0	-3.7

Financial Forecasts	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Cash	2.00	1.75	1.75	1.75	1.75	1.75
90 Day bill	2.00	1.90	1.90	1.90	1.90	1.90
2 Year Swap	2.00	1.90	2.00	2.00	2.00	2.00
5 Year Swap	2.10	2.10	2.20	2.30	2.40	2.50
10 Year Bond	2.10	2.20	2.30	2.50	2.60	2.70
NZD/USD	0.72	0.69	0.67	0.65	0.63	0.63
NZD/AUD	0.94	0.93	0.92	0.92	0.91	0.91
NZD/JPY	73.4	71.1	68.3	65.7	64.3	65.0
NZD/EUR	0.65	0.64	0.63	0.62	0.59	0.58
NZD/GBP	0.55	0.54	0.53	0.51	0.49	0.48
TWI	76.9	74.8	73.3	71.7	69.9	68.9

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 5 September 2016

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.00%	2.00%	2.25%
30 Days	2.09%	2.09%	2.15%
60 Days	2.17%	2.16%	2.20%
90 Days	2.25%	2.23%	2.25%
2 Year Swap	2.01%	1.97%	2.00%
5 Year Swap	2.10%	2.09%	2.09%

NZ foreign currency mid-rates as at Monday 5 September 2016

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7280	0.7248	0.7138
NZD/EUR	0.6526	0.6409	0.6369
NZD/GBP	0.5474	0.5555	0.5457
NZD/JPY	75.79	73.09	72.82
NZD/AUD	0.9619	0.9531	0.9369
TWI	77.73	77.03	76.03

International forecasts

Economic Forecasts (Calendar Years)	2012	2013	2014	2015	2016f	2017f
Australia						
Real GDP % yr	3.5	2.0	2.7	2.5	3.0	3.0
CPI inflation % annual	2.2	2.7	1.7	1.7	1.2	2.0
Unemployment %	5.3	5.8	6.2	5.8	5.7	5.6
Current Account % GDP	-4.4	-3.4	-3.0	-4.8	-4.6	-4.6
United States						
Real GDP %yr	2.2	1.5	2.4	2.4	1.6	2.1
Consumer Prices %yr	2.1	1.5	1.6	0.1	1.2	1.7
Unemployment Rate %	8.1	7.4	6.2	5.3	4.8	4.6
Current Account %GDP	-2.9	-2.3	-2.3	-2.4	-2.3	-2.3
Japan						
Real GDP %yr	1.7	1.4	0.0	0.5	0.6	0.5
Euroland						
Real GDP %yr	-0.9	-0.3	0.9	1.6	1.5	1.2
United Kingdom						
Real GDP %yr	1.2	2.2	2.9	2.2	1.6	0.6
China						
Real GDP %yr	7.7	7.7	7.3	6.9	6.4	6.2
East Asia ex China						
Real GDP %yr	4.6	4.2	4.1	3.7	3.7	3.9
World						
Real GDP %yr	3.5	3.3	3.4	3.1	3.2	3.4
Forecasts finalised 12 August 2016						

Interest Rate Forecasts	Latest	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Australia						
Cash	1.50	1.50	1.50	1.50	1.50	1.50
90 Day Bill	1.73	1.80	1.80	1.80	1.80	1.80
10 Year Bond	1.85	1.95	2.15	2.20	2.30	2.45
International						
Fed Funds	0.375	0.375	0.625	0.625	0.875	0.875
US 10 Year Bond	1.56	1.50	1.70	1.80	2.00	2.10
ECB Deposit Rate	−0.40	−0.40	−0.40	−0.40	−0.40	−0.40

Exchange Rate Forecasts	Latest	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
AUD/USD	0.7540	0.77	0.74	0.73	0.71	0.69
USD/JPY	103.65	103	102	101	101	102
EUR/USD	1.1190	1.10	1.08	1.07	1.05	1.06
AUD/NZD	1.0356	1.07	1.07	1.09	1.09	1.10

Contact the Westpac economics team

Michael Gordon, Acting Chief 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

Sarah Drought, Economist +64 9 336 5696

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'). This information is correct at 1 July 2016.

Disclaimer

This material contains general commentary, research, and market colour. The material does not constitute investment advice. 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. 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.

Disclaimer continued

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 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).

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.

Investment Recommendations Disclosure

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) Strict 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) reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.