WEEKLY ECONOMIC COMMENTARY

21 Oct 2024 | **Westpac Economics Team** | **westpac.co.nz/economics** | economics@westpac.co.nz

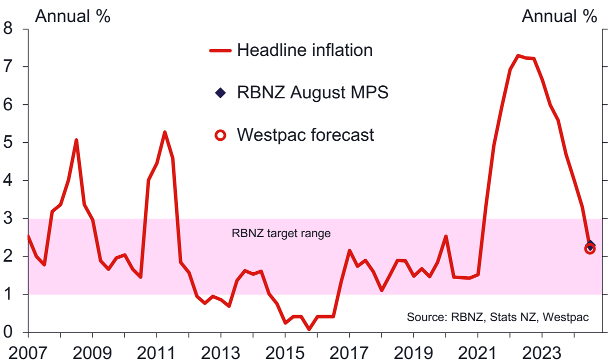
The inflation dragon is back in its cave

New Zealand inflation has dropped back inside the RBNZ's target band for the first time since 2021.

Consumer prices rose 0.6% in the September quarter. That saw the annual inflation rate fall to 2.2%, down from 3.3% in the year to June and well down from the multi-decade highs of over 7% that we saw in the wake of the pandemic.

The September quarter inflation result was a little below our forecast (+0.7%qtr/+2.2%yr). It was also below the RBNZ's last published forecast for a +0.8% quarterly rise (+2.3%yr).

Annual headline inflation



Import price pressures weak, domestic inflation slowly coming off the boil.

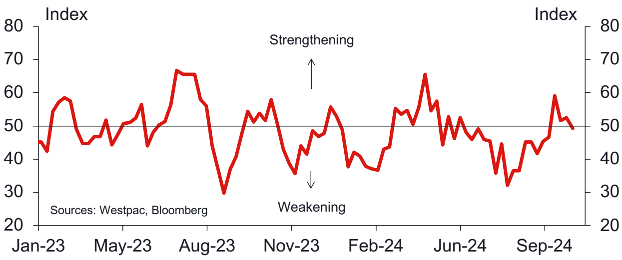
While overall inflation is dropping back, under the surface there are some big differences in pricing pressures across the economy.

Around three-quarters of the fall in inflation over the past couple of years has been due to lower prices for imported consumer goods (aka. tradables inflation) which fell 1.6%

Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	↗
NZ economy	↘	→	↑
Inflation	↘	→	→
2 year swap	↓	→	↗
10 year swap	↓	↗	↗
NZD/USD	→	→	↗
NZD/AUD	→	↘	↘

Westpac New Zealand Data Pulse Index



Key data and event outlook

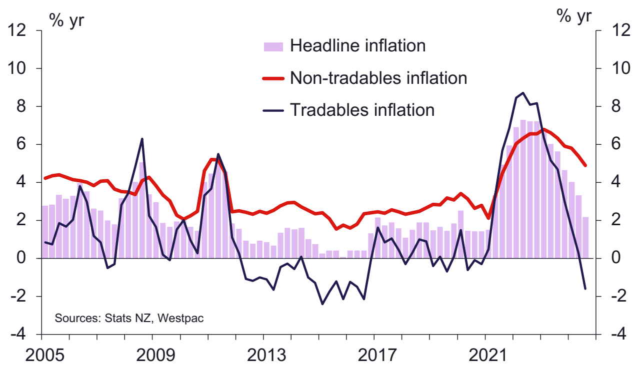
Date	Event
5 Nov 24	RBA Monetary Policy Decision
5 Nov 24	US elections (Results from 6 Nov NZT)
5 Nov 24	RBNZ Financial Stability Report
6 Nov 24	Labour market statistics, September quarter
7 Nov 24	FOMC Meeting (Announced 8 Nov NZT)
7 Nov 24	Govt financial statement, 3 months to September
11 Nov 24	RBNZ Survey of Expectations, September quarter
14 Nov 24	NZ Selected price indexes, October
27 Nov 24	RBNZ OCR Review & Monetary Policy Statement
5 Dec 24 (tbc)	Govt financial statement, 4 months to October
10 Dec 24	RBA Monetary Policy Decision
16 Dec 24	NZ Selected price indexes, November
17 Dec 24	Half-Year Economic and Fiscal Update
18 Dec 24	FOMC Meeting (Announced 19 Dec NZT)

over the past year. That's a stark turnaround – this time last year annual tradables inflation was running at 4.7%.

That fall in tradables inflation has in part been due to falls in global prices as international supply conditions have improved over the past couple of years and as inflation in other economies has also cooled. Onshore, the downward pressure on retail prices has been reinforced by the pressures on household budgets and the related weakness in discretionary spending. The Q3 CPI reflected some continuation of those trends as especially fuel prices drove inflation down unexpectedly quickly in recent months.

Domestic (non-tradables) inflation has also been easing, but more gradually. Non-tradables inflation slowed to 4.9% in the year to September. While that's down from 5.4% last quarter, it's still well above long-run averages. We saw continued large increases in local council rates balanced by a weaker contribution from insurance charges than we have seen for a while. Overall, we didn't see much to make us change our view that the normalisation of non-tradable inflation will be a slow burn, and that in turn is limiting the downside for overall inflation.

Inflation components



Core inflation trending back to target.

The overall trend in inflation is modestly down reflecting the 'stickiness' in domestic prices. That was reflected in the various measures of core inflation (which smooth through volatile quarter-to-quarter price movements, and instead track the underlying trend in prices). Most measures of core inflation have been dropping back and are now close to or a little below 3%.

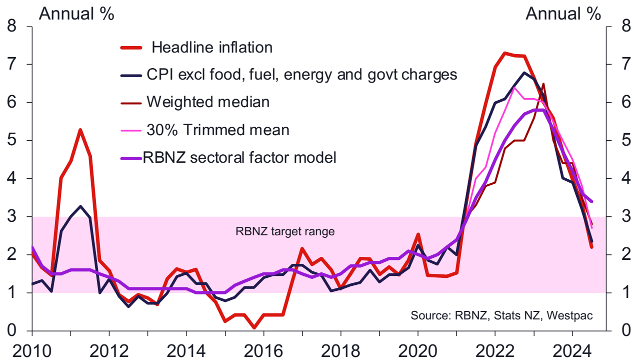
Looking ahead, inflation is on course to track close to the 2% mid-point of the RBNZ's target over the year ahead. That will be a welcome relief for households, businesses and the RBNZ.

But even though the RBNZ will now be feeling more comfortable about how inflation is tracking, the underlying details of the September inflation report highlighted some key areas to watch that could be important for the stance of monetary policy.

First, domestic inflation is still elevated, and that 'stickiness' will be important for how far and fast inflation eases over the year ahead.

At the same time, we are seeing weakness in the prices of imported consumer goods and household spending is still weak. With tradables prices heavily influenced by offshore conditions, the RBNZ often tends to de-emphasise surprises on this front in their policy deliberations. However, continued softness on this front would raise the risk of inflation falling below 2% next year, which might also feed into lower inflation expectations.

Core inflation



Further OCR cuts coming, but how fast?

With inflation looking well contained, we expect that the RBNZ will deliver another jumbo-sized 50bp cut in November, with further but more gradual cuts next year. That would take the OCR to 3.75% by May. Last week's data will have made the RBNZ more comfortable with the step up in easing they delivered this month as they should have greater confidence that inflation can be maintained close to 2%. We are not so sure they would have learned much on whether pricing behaviour has shifted given non-tradables inflation landed close to forecast.

In contrast, market pricing continues to fully price in 50bp cuts at both the November and February meetings, reflecting market concerns that inflation could slip significantly below 2% next year.

We think that the shift in pricing for next year is looking a bit overdone. It's certainly possible that inflation will slip below 2% for a period. However, any undershoot is likely to be modest and temporary. That's in contrast to the 2010s when inflation persistently fell well short of 2% as a result of weak global demand following the Global Financial Crisis and the related weakness in the price of imported goods. At the current time, imported prices pressures are soft, and we're keeping a watchful eye on conditions in China. But at this stage we don't expect the same degree of weakness, especially with policy easing in many economies right now (including China).

Locally, we're starting to see signs that the downturn in the economic cycle is reaching a base. While retail spending remains weak, the falls we saw through the first half of the year have been arrested, with spending posting modest increases in the past two months. We've also seen consumer and business confidence tilting higher.

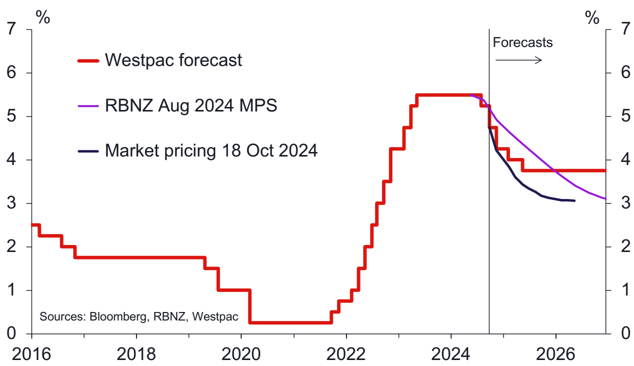
Importantly, there are long lags with the transmission of policy changes in New Zealand with the vast majority of mortgages fixed for a period. By the end of this year, we expect the RBNZ will have delivered 125bp of easing in a relatively short period. Rather than pumping the gas, they will likely want time to observe how those reductions are propagating through the economy, especially as domestic inflation remains elevated.

None of this detracts from the argument that monetary policy needs to be eased over the coming months – while inflation is looking benign, economic growth remains soft and the policy rate is still at a restrictive level. However, it's likely the RBNZ will want to move more cautiously next year as interest rates head back to more normal levels.

The RBNZ will also be mindful of the experience from the past few years when rapid rate cuts super-charged the housing market. We're already seeing tentative signs that the housing market is thawing, with agents reporting increased interest from potential buyers and a modest 0.2% rise in prices in September – the first increase in five months.

The key area to watch will be the labour market. Unemployment has already picked up to 4.6% in the June quarter, and both we and the RBNZ expect it will have increased to 5.0% when the September quarter figures are released on 6 November. A sharper than expected deterioration in the labour market would be a concern for the central bank, especially if more timely indicators point to further weakening ahead.

Official Cash Rate forecasts

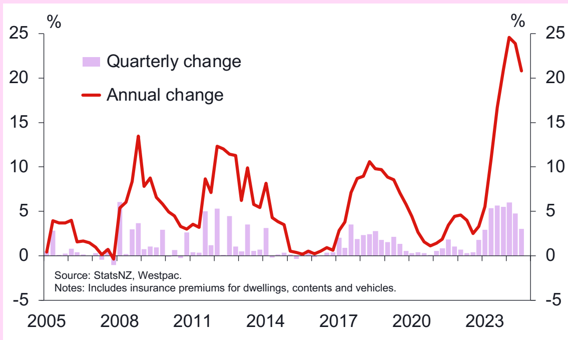


Satish Ranchhod, Senior Economist

Chart of the week.

A major contributor to the high rates of domestic inflation over the past year have been large increases in insurance premiums. In the year to September dwelling insurance premiums were up 22%, while premiums for both contents and car insurance were up 19%. In comparison, overall consumer prices were up only 2.2% over the same period. Those large increases in insurance premiums have been partly driven by severe weather events in recent years and the related increases in global re-insurance costs, together with earlier steep increases in construction costs (that latter has raised the replacement cost of housing). But after the significant re-pricing of insurance over the past year, inflation in the sector is now normalising - premiums are still pushing higher, but at a more moderate pace. We expect that will continue over the year ahead, and that's also one reason why we expect an easing in overall domestic inflation over the year ahead.

The cost of insurance premiums

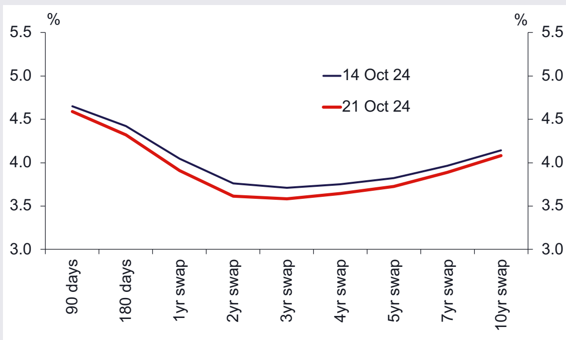


Fixed versus floating for mortgages.

The RBNZ followed up August's 25bp cut in the OCR with a supersized 50bp cut at its October policy review. We expect another 50bp cut at the November review, with further, but more gradual, cuts in 2025.

A significant amount of OCR easing is already factored into longer-term mortgage rates. This suggests that it's now more attractive to fix for longer periods than it has been for a while – perhaps even for terms as long as two to three years. Mortgage rates for shorter terms of up to a year are substantially higher now but are likely to fall in the coming months towards current longer term fixed rates.

NZ interest rates



Global wrap

North America.

US retail spending rose 0.4% in September, beating expectations. While annual growth slowed to just 1.7%, ex-auto spending remained healthy at 3.7%. In other news, manufacturing output fell 0.4% in September, while factory survey data was mixed. Initial jobless claims fell back to 240k last week – still slightly elevated due to the recent hurricanes. This week's economic diary is sparsely populated, with most interest likely to centre on home sales and capex reports for September, together with flash PMI readings for October. The Fed will release its latest Beige Book on Wednesday and there are several Fed speeches scheduled too. Perhaps of greatest note, around a third of S&P500 companies will report their earnings this week. And with the 5 November elections nearing, the latest political polls will be closely watched. In Canada, CPI inflation fell to just 1.6%y/y in September. Combined with recent business survey data, this will likely cause the BoC to announce a fourth consecutive rate cut at this Wednesday's policy meeting, with the main uncertainty being the size of that cut.

Europe.

As widely expected, the ECB reduced its key deposit rate by 25bps to 3.25% last week. And with President Lagarde stating that the disinflationary process is "well on track", we expect a further rate cut at the Bank's December meeting. Meanwhile, weaker than expected inflation data in the UK has consolidated market opinion that the BoE will ease its policy rate at next month's meeting. This week most interest in Europe will centre on Thursday's flash PMI readings for October, especially given the softening trend seen in recent months. Several other national consumer and business sentiment surveys are also due for release across Europe.

Asia-Pacific.

China's GDP growth slowed to 4.6%y/y in the September quarter – below the 5% pace targeted by policymakers. Activity indicators hinted at some improvement in the month of September, although the decline in house prices intensified to 5.7%y/y. In Japan, exports recorded an annual decline for the first time in 10 months, weighed down by weaker demand from China and the US. Meanwhile, CPI inflation fell to a 5-month low of 2.5%y/y. In Australia labour market data for September was stronger than expected, with above-trend job and labour force growth causing the unemployment rate to remain at 4.1%. Looking ahead, the economic diary is quiet this week. Japanese electors will go to the polls on Sunday following new PM Ishiba's calling of an early General Election.

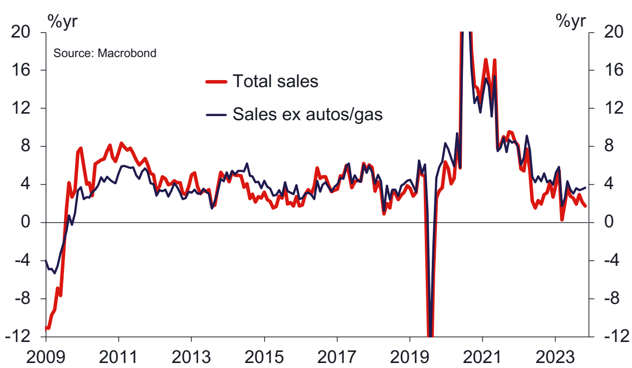
Trading partner real GDP (calendar years)

	Annual average % change			
	2023	2024	2025	2026
Australia	2.0	1.3	2.2	2.4
China	5.2	5.0	4.8	4.5
United States	2.9	2.7	1.8	1.7
Japan	1.9	0.1	1.1	0.9
East Asia ex China	3.3	4.2	4.1	4.1
India	7.8	7.0	6.8	6.5
Euro Zone	0.4	0.6	1.5	1.5
United Kingdom	0.1	1.0	1.3	1.4
NZ trading partners	3.3	3.2	3.3	3.2
World	3.2	3.3	3.3	3.2

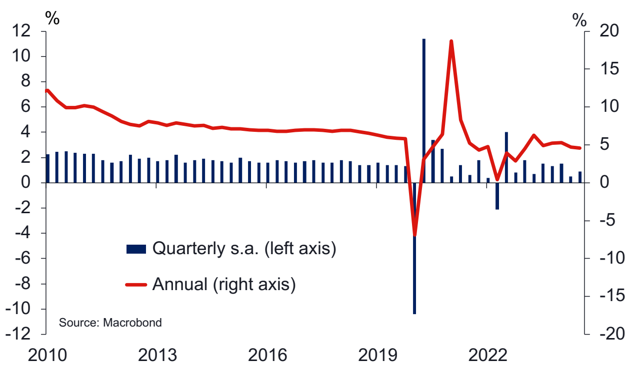
Australian & US interest rate outlook

	18 Oct	Dec-24	Mar-25	Dec-25
Australia				
Cash	4.35	4.35	4.10	3.35
90 Day BBSW	4.39	4.42	4.19	3.50
3 Year Swap	3.87	3.60	3.60	3.50
3 Year Bond	3.86	3.55	3.50	3.35
10 Year Bond	4.31	3.90	3.90	4.05
10 Year Spread to US (bps)	22	15	15	5
US				
Fed Funds	4.875	4.375	3.875	3.375
US 10 Year Bond	4.09	3.75	3.75	4.00

US retail sales



China GDP growth



Financial markets wrap

Interest rates.

NZ swap rates remained in consolidation mode, having formed a base three weeks ago. The 2yr swap formed a bottom at 3.50% in early October – the lowest level since 2022. A reasonable range to expect during the week ahead is 3.50%-3.80%.

There isn't any major NZ economic data this week, and not until the labour data on 6 November. Similarly, the next major US data is on 30 October – Q3 GDP.

There is plenty priced in for this RBNZ easing cycle, with a 50bp cut at the next meeting in November fully priced, and even a 75bp cut 30% priced. There's a high bar for markets to price much more easing, requiring significant economic data surprises.

US rates markets, which are influential on NZ markets, are actually undoing some of the aggressive easing pricing of a few months ago, because data outturns there have beaten the depressed expectations.

Westpac's economists expect the RBNZ meeting in November to deliver a 50bp cut. If that proves correct, and as long as RBNZ guidance is not too dovish, then markets could push rates higher on the day.

Foreign exchange.

The NZD/USD decline this month has slowed, but near-term risks remain negative. It retraced 62% of the Jul-Sep rally, and if 0.6060 support gives way, we'd be targeting 0.5980. That level, if seen, should provide an opportunity for NZ exporters to consider hedging receipts.

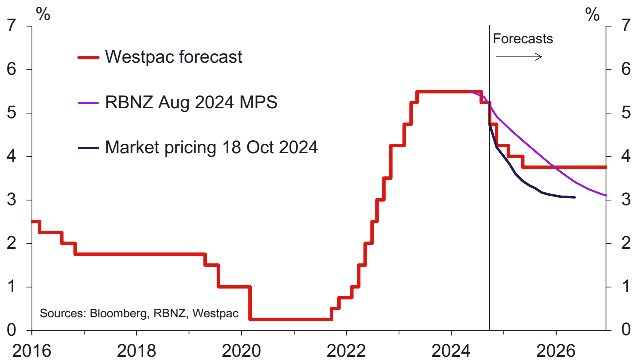
Two important influences to watch this week will be the hitherto strong US dollar and NZ-US interest rate differentials.

The USD has enjoyed a strong run this month but is starting to look stretched. Previously aggressive Fed easing expectations were pared, following some strong US economic data, and are looking fair.

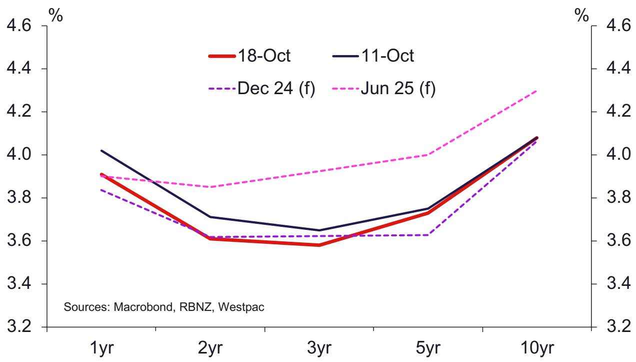
NZ-US yield spreads are now negative for short maturities. For example, the 2yr OIS spread at -27bp is around the lowest since 2020. Negative yield spreads have been uncommon since the NZD floated in 1985 and are a disincentive to hold NZD vs USD.

NZ-AU yield spreads have also become negative for the first time since 2012, and have helped depress NZD/AUD. The cross has fallen 2c over the past month, to the low 0.90s, but the yield spread decline justifies a larger fall to 0.89 during the next few weeks. Australian economic data has been stronger than expected, and markets are eagerly awaiting the next key event - CPI on 30 October.

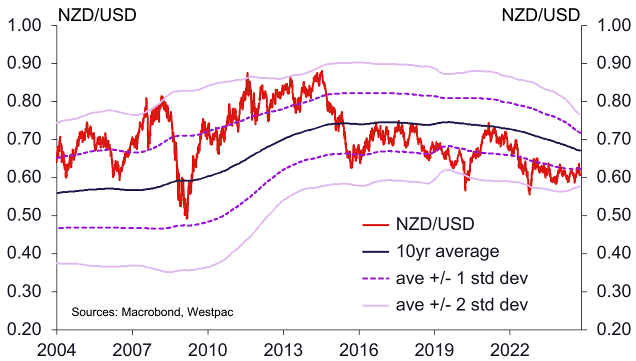
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

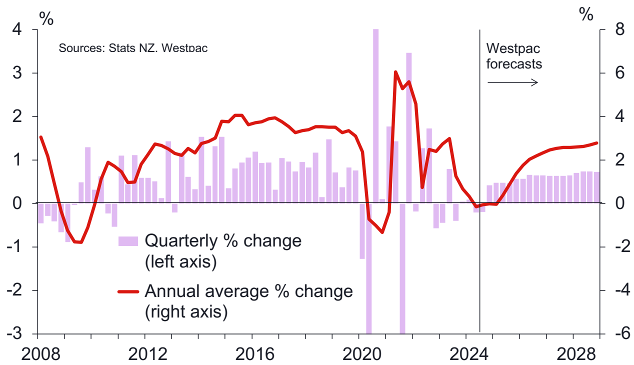
	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.608	0.586-0.636	0.555-0.743	0.645	0.62
AUD	0.906	0.897-0.925	0.873-0.992	0.929	0.90
EUR	0.559	0.542-0.569	0.517-0.637	0.581	0.56
GBP	0.466	0.456-0.476	0.456-0.535	0.502	0.47
JPY	90.9	86.1-94.9	61.3-98.6	80.9	88.0

Economic and financial forecasts

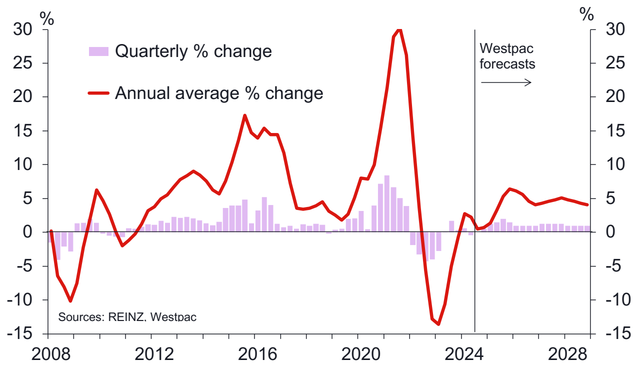
Economic indicators	Quarterly % change				Annual % change			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
GDP (production)	0.1	-0.2	-0.2	0.4	0.7	0.0	1.4	2.3
Consumer price index	0.6	0.4	0.6	0.3	4.7	2.0	2.3	2.1
Employment change	-0.3	0.4	-0.4	-0.2	2.9	-0.4	-0.1	1.5
Unemployment rate	4.4	4.6	5.0	5.3	4.0	5.3	5.6	4.9
Labour cost index (all sectors)	0.9	1.2	0.7	0.7	4.3	3.5	2.3	1.9
Current account balance (% of GDP)	-6.7	-6.7	-6.3	-6.0	-7.1	-6.0	-5.2	-5.5
Terms of trade	5.1	2.0	1.7	0.5	-10.7	9.6	0.4	2.4
House price index	0.4	-0.4	0.0	0.5	0.6	0.5	6.3	4.0

Financial forecasts	End of quarter				End of year			
	Mar-24	Jun-24	Sep-24	Dec-24	2023	2024	2025	2026
OCR	5.50	5.50	5.25	4.25	5.50	4.25	3.75	3.75
90 day bank bill	5.66	5.63	5.31	4.25	5.65	4.25	3.85	3.85
2 year swap	4.91	5.01	4.06	3.60	5.28	3.60	4.00	4.00
5 year swap	4.40	4.53	3.81	3.65	4.85	3.65	4.25	4.25
10 year bond	4.69	4.74	4.31	4.15	5.09	4.15	4.40	4.35
TWI	71.6	71.4	70.9	70.3	70.8	70.3	69.8	69.1
NZD/USD	0.61	0.61	0.61	0.62	0.60	0.62	0.64	0.64
NZD/AUD	0.93	0.92	0.91	0.90	0.93	0.90	0.87	0.86
NZD/EUR	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56
NZD/GBP	0.48	0.48	0.47	0.47	0.49	0.47	0.47	0.47

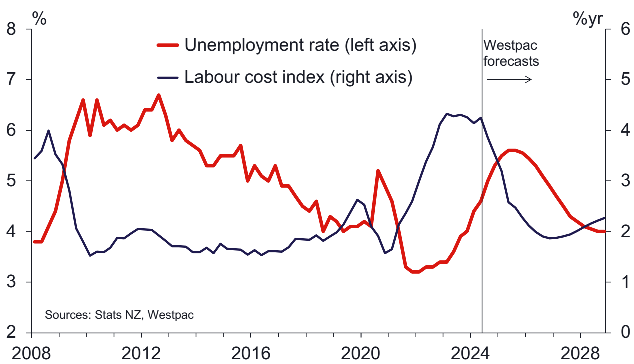
GDP growth



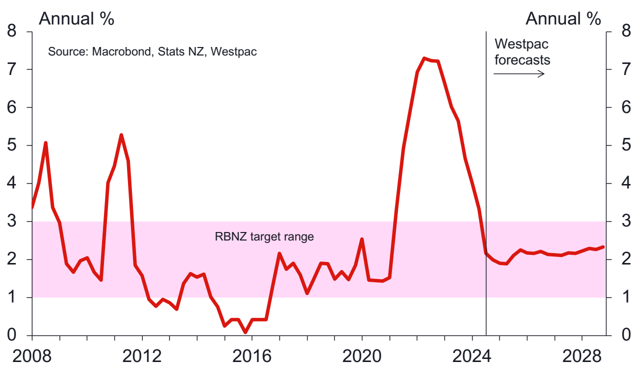
House prices



Unemployment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 21					
Aus	RBA Deputy Governor Hauser	–	–	–	Fireside chat at Global Markets Conference.
US	Sep Leading Index, pts	–0.2	–0.3	–	Headwinds to growth are emerging.
Tue 22					
NZ	Sep Trade Balance , $mn	–2203	–	–2030	Another large deficit likely as exports remain in seasonal lull.
US	Oct Richmond Fed Survey, index	–21	–	–	Manufacturing sentiment remains weak.
Wed 23					
Eur	Oct EC Consumer Confidence, index	–12.9	–12.0	–	Rate cuts lifting sentiment slowly but surely.
US	Sep Existing Home Sales, %mth	–2.5	1	–	Weakness in inventories to dampen sales.
Can	Bank of Canada Policy Decision	4.25	4	–	Further easing as disinflation picks up speed.
UK	BoE Speak	–	–	–	Bailey, Greene and Breeden.
Thu 24					
NZ	RBNZ Governor Orr Speaking	–	–	–	"Monetary policy during periods of economic volatility".
Aus	RBA Annual Report	–	–	–	Report on the Bank's performance and management.
Jpn	Oct Jibun Bank Manufacturing PMI, index	49.7	–	–	Industry struggling to build momentum in demand...
	Oct Jibun Bank Services PMI, index	53.1	–	–	... tourism-related services exports remain a key support.
Eur	Oct HCOB Manufacturing PMI, index	45	–	–	Weak demand has European manufacturing in dire straits...
	Oct HCOB Services PMI, index	51.4	–	–	... creating downside risks to the recovery in 2024/25.
	ECB Speak	–	–	–	Lagarde and others speak in Washington.
UK	Oct S&P Global Manufacturing PMI, index	51.5	–	–	Conditions in the UK are on firmer footing...
	Oct S&P Global Services PMI, index	52.4	–	–	... especially in services, where price pressures are key
	BoE Speak	–	–	–	Bailey and Breeden.
US	Sep Chicago Fed Activity Index, %mth	0.12	–	–	Volatile around a level consistent with trend growth.
	Initial Jobless Claims	241	–	–	To remain low, for now.
	Fedspeak	–	–	–	Hammack.
	Oct S&P Global Manufacturing PMI, index	47.3	–	–	Offers a similar sectoral picture to the ISMs...
	Oct S&P Global Services PMI, index	55.2	–	–	... but has pointed to slightly firmer conditions.
	Sep New Home Sales, %mth	–4.7	–0.4	–	Affordability and inventory constraints still at play
	Oct Kansas City Fed, index	–8	–	–	Weakness remains across the regions.
Fri 25					
NZ	Oct ANZ Consumer Confidence, index	95.1	–	–	Modest lift in recent months as interest rates have fallen.
Ger	Oct IFO Business Climate Survey, index	85.4	86	–	Soft global demand remains a headwind.
UK	Oct Gfk Consumer Sentiment, index	–20	–	–	Easing inflation, lower rates should lift sentiment in time.
US	Sep Durable Goods Orders, %mth	0	–1.0	–	Hurricanes to weigh on demand.
	Oct Uni. Of Michigan Sentiment, index	–	–	–	Inflation expectations of interest.

CONTACT

Westpac Economics Team | **westpac.co.nz/economics** | economics@westpac.co.nz

Kelly Eckhold, Chief Economist | +64 9 348 9382 | +64 21 786 758 | kelly.eckhold@westpac.co.nz

Satish Ranchhod, Senior Economist | +64 9 336 5668 | +64 21 710 852 | satish.ranchhod@westpac.co.nz

Darren Gibbs, Senior Economist | +64 9 367 3368 | +64 21 794 292 | darren.gibbs@westpac.co.nz

Michael Gordon, Senior Economist | +64 9 336 5670 | +64 21 749 506 | michael.gordon@westpac.co.nz

Paul Clark, Industry Economist | +64 9 336 5656 | +64 21 713 704 | paul.clark@westpac.co.nz

Imre Speizer, Market Strategist | +64 9 336 9929 | +64 21 769 968 | imre.speizer@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

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).

Investment recommendations disclosure.

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment recommendations.

(i) Chinese Wall/Cell arrangements;

(ii) physical separation of various Business/Support Units;

(iii) and well defined wall/cell crossing procedures;

(iv) a "need to know" policy;

(v) documented and well defined procedures for dealing with conflicts of interest;

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

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

Westpac Banking Corporation.