AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 27 June 2022

Editorial: RBA to hike rates by 50 basis points in both July and August - terminal rate to reach 2.6%

Australia: retail sales, private credit, house prices.

NZ: employment indicator, business and consumer confidence, building consents.

China: industrial profits, various PMIs.

Europe: CPI, unemployment rate.

US: housing updates, personal spending, PCE deflator, ISM manufacturing, Chicago PMI.

Global: ECB annual forum on central banking - speakers include Fed Chair Powell.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 24 JUNE 2022.

WESTPAC INSTITUTIONAL BANK

RBA to hike rates by 50 basis points in both July and August – terminal rate to reach 2.6%

Last week we lifted our forecast for the terminal US federal funds rate in December from 2.675% to 3.375%.

We now expect this more aggressive approach to see the US economy stalling, with the risk of a mild recession in the second half of 2023. We expect a need for a series of rate cuts from December 2023 eventually taking the federal funds rate back to 2.125% through 2024.

That cycle for the remainder of 2022 will entail increases of 75bps in July; 50bps in September; 25bps in November and 25bps in December.

This shift toward higher global rates has also led us to lift our terminal rate for the RBA's tightening cycle, from 2.35% to 2.6%. Note that this is still significantly short of the market's forecast terminal rate of around 4.5% and only a 25bp upward revision compared to the 75bp lift in the federal funds profile.

The 2.6% is broadly in line with the '2.5% guideline' the RBA Governor has given in speeches and other commentary (from his ABC interview on June 14: "I think it's reasonable that the cash rate gets to 2½ per cent at some point").

The sensitivity of the Australian economy to the RBA cash rate is markedly higher than the sensitivity of the US economy to the federal funds rate. Around 60% of Australian mortgages are on floating rate terms with a further 75% of the remaining fixed rate loans set to mature by the end of 2023.

Effectively 90% of mortgage borrowers are directly exposed to moves in the RBA cash rate over the next year and a half. The rate affects borrowers and homeowners through multiple channels, including: the cash flow of existing borrowers; the capacity of prospective borrowers to obtain and service new loans; the wealth effect from associated adjustments in house prices; and via confidence effects.

In the US, the current surge in the mortgage rate only affects new borrowers directly as existing borrowers typically have fixed rate mortgages up to 30 years.

The more direct impact of the federal funds rate on financial assets in the US is through the equity market and confidence.

This 25bp upward revision in the forecast terminal rate is likely to manifest as a 50bp increase in the cash rate at the August Board meeting – revised up from our previous forecast of 25bps.

That would push the cash rate from our forecast 1.35% (following the expected 50bp lift at the upcoming July meeting) to 1.85% after the August meeting – firmly in our estimated 'neutral zone' for policy in Australia of 1.5-2.0%.

The August Board meeting will respond to what is expected to be a very unsettling June quarter inflation report set to be released on July 27.

We expect headline inflation to lift 1.5% in the quarter taking annual inflation from 5.1%yr to 5.8%yr. Underlying inflation, as represented by the trimmed mean, is expected to print 1.2% in the quarter for a lift in annual inflation from 3.7%yr to 4.5%yr.

We see the risks to these numbers to the upside.

After responding firmly to the further significant uplift in inflation – moving the cash rate into the 'neutral zone' and signalling a clear commitment to containing inflation and inflationary expectations – we expect the RBA to pause.

Consistent with our previous view, we expect the pause for two months to assess the impact of the rapid cumulative 175bp increase over four months.

As the Governor noted in this week's speech to the American Chamber of Commerce, the key high frequency data he will be watching will be around consumer spending, particularly consumer durables and the housing market – not just house prices (as a pointer to wealth effects) but also with respect to dwelling construction and other housing-related expenditure.

It is noteworthy that a swift move to 1.85% will still only restore the cash rate to slightly above the 1.5% that held for nearly three years between August 2016 and May 2019, when inflation persistently undershot the Bank's 2-3% target zone.

Moving swiftly to reverse what is clearly an over-stimulatory policy setting and then pausing before moving into the 'contractionary zone' is the best approach, and one that is most likely to avoid the damaging overshoot we are forecasting for the FOMC.

Such a strategy would also assist in the central objective of the tightening cycle: to signal clearly to economic agents – households and trade unions in particular – that the Bank is committed to returning inflation to target over the medium term, thereby containing any lift in inflation expectations.

In his speech, the Governor made a major point around the key objective of containing inflationary expectations.

Our central case remains that, following the release of the September quarter inflation report on October 26, a further tightening will be seen as necessary at the November Board meeting.

In that report we expect annual headline inflation to be steady at 5.7%yr (due in part to state government subsidies temporarily forestalling the effect of a big rise in electricity costs), but underlying inflation to have lifted from 4.5%yr to 4.8%yr.

The next move would put policy into the contractionary zone. As such, it would be prudent to revert to proceeding in 25bp increments given the added uncertainty around the impact of each move.

We continue to expect a further move in December and a final 25bp lift at the February Board meeting in response to the December quarter inflation report.

The December quarter is expected to see the peak in both headline and underlying inflation (6.6% and 4.8% respectively). Having responded to that move it would be prudent to go on hold to assess the economy's response to a cumulative increase in the cash rate over nine meetings of 250bp.

Such a move would be the second fastest tightening cycle since 1990, exceeded only by the 275bp increase over five meetings in the second half of 1994.

Our forecast is that, along with the clear slowing in the economy over the December and March quarters in particular, the March quarter inflation report will provide evidence that the slowing in demand and the freeing up of supply has brought demand and supply into closer alignment easing inflation pressures.

In the March inflation report we expect annual headline inflation to have fallen from 6.6%yr to 5.6%yr and underlying inflation to have fallen from 4.8%yr to 4.2%yr.

That evidence would be available by the May 2023 Board meeting, allowing the Board to move to a 'wait and see' approach, potentially signalling the end of the tightening cycle with the cash rate having reached 2.6%.

We also expect that the evidence around the sharp slowdown in the US economy will be a signal to the Board that steady policy is appropriate.

Markets have no sympathy with our view that the RBA can chart this course. They would point to the unsustainability of Australia's cash rate settling 87.5bp below the federal funds rate.

Australia's soft landing will allow the RBA to hold rates steady in 2023 and 2024 as inflation gradually eases back into the 2-3% target zone.

On our forecasts, after the FOMC is forced to reset policy in the aftermath of its economy stalling and potentially falling into recession, the RBA cash rate would settle around 50bps above the federal funds rate by the second half of 2024.

We accept that our forecasts for the cash rate assume a successful navigation of a very narrow path towards a soft landing.

In particular, the risks that we have seen recently with large increases in wage settlements are unsettling. That is why it is so important for the RBA to be decisive in the early stages of the tightening cycle with the clear message that it is committed to containing inflation risks.

A swift move into the neutral zone is a critical step and we strongly support adopting those three consecutive 50bp moves before a pause in September.

Bill Evans, Chief Economist

Monetary policy was again the focus in Australia and the US this week. RBA Governor Lowe spoke early in the week, providing an overview of inflation dynamics and the response of monetary policy. During the speech, Governor Lowe highlighted that the “rise in inflation is a global story” but also that domestic conditions are contributing and need to be monitored closely.

For the outlook, the most significant domestic factor is arguably the historic strength of Australia’s labour market which, if inflation expectations become unanchored, could lead to outsized wage claims and persistent support for consumer inflation. At this time, longer-run inflation expectations remain consistent with inflation returning to the RBA’s target range; however, short-term expectations as measured by the Melbourne Institute have recently jumped.

Limited available capacity, the risks to inflation expectations and the “highly stimulatory” starting point for policy were given as justification for the RBA Board’s June decision to lift the cash rate by 50bps in the meeting minutes. While the outlook for policy remains data dependent, it is clear the Board believe they have a lot more work to do. In short: at 0.85%, the cash rate currently remains materially below our estimate of neutral (1.5%-2.0%) and the medium-term neutral expectation of the RBA (2.5%); also, annual CPI inflation is not expected to peak until end-2022, while an easing of capacity constraints in the labour market could take years to fully eventuate given the uncertainties related to migration.

After this week’s developments, we have added an additional 25bps of rate hikes to our forward profile. As detailed by Chief Economist Bill Evans, two more 50bp rate hikes are now forecast for July (unchanged) and August (previously +25bps) to take the cash rate back to the middle of our neutral range (1.85%); after a two-month pause, 25bp hikes at the November 2022, December 2022 and February 2023 meetings are expected to leave the cash rate broadly in line with the RBA’s medium-term neutral level. This peak is well below the market’s expectation, but a stance we believe (in time) will allow inflation to moderate back to target without undue cost to the real economy.

On the data front, the Australian Chamber Westpac Business survey for the June quarter showed Australia’s manufacturing sector in strong form. The rebound in activity from the reopening saw output and new orders expand at a faster pace in Q2, and expectations for further growth in the September quarter remain positive. Manufacturers responded to this by growing their workforce and increasing overtime. That said, the upside for growth is being capped by significant and persistent headwinds. Labour and material shortages were noted as the factors most limiting production and are at their most extreme levels since the oil shock of the mid-1970s. Costs are rising rapidly, squeezing profit margins and putting upward pressure on finished goods prices and hence consumer inflation.

Offshore, the data flow was also light this week, resulting in an acute focus on the Congressional testimony of FOMC Chair Powell. His remarks confirmed significant additional tightening in coming months, in line with our forecasts. However, Chair Powell’s considered commentary also emphasised the FOMC still believe it is possible to remove current inflation risks without causing a recession (and desire to do so), that they are vigilant over the risks to activity, and will adjust the stance of policy to balance out these risks as necessary.

We have greater concern over the underlying strength of US economic activity and so forecast a lower and earlier peak fed funds rate than the market and FOMC (3.375% at December 2022 compared to around 3.8% in 2023). We also forecast a more aggressive and earlier rate cut cycle of 125bps from late-2023.

As a final point, whereas the market is increasingly becoming fixated on the probability and timing of a US recession, to us the bigger concern is the cumulative loss of growth relative to potential into the medium term. Despite strong domestic demand in Q1, GDP contracted on strong imports and soft inventories over the three months to March. Now in Q2, domestic demand has slowed such that the Atlanta Fed nowcast for quarterly GDP growth is pointing to a flat outcome. Furthermore, leading indicators are signalling below trend growth in the second half of 2022; and, with real incomes declining, financial conditions having tightened and a potential negative wealth effect ahead, there is little reason to suspect US growth will pick up materially through 2023 until support from lower interest rates comes through. While the opening up of a material output gap is helpful for containing inflation, clearly it also puts long-term productivity and wealth at risk.

Week ahead & data wrap

Consumer confidence plummets to lowest level on record.

Consumer confidence has plummeted, as household budgets have been squeezed by higher mortgage rates and increases in living costs. That weakness in confidence is weighing on household spending appetites, reinforcing our expectations for a slowdown in economic growth. This also reinforces our expectation that the Official Cash Rate won't rise as far as market pricing implies.

There's been a palpable downturn in economic confidence. In previous weeks, we highlighted the fall in business sentiment as firms across the nation have grappled with rising cost pressures and ongoing disruptions to supply chains. That concern has now spread to the household sector. In fact, our latest Westpac McDermott Miller survey revealed that confidence among New Zealand households has plummeted, dropping to its lowest levels since we began the survey back in 1988.

Underlying this grim assessment of economic conditions, household budgets are being squeezed in a way that they haven't been for decades. Much of that is a result of the mounting pressure on living costs, with prices for all manner of consumer goods charging higher in recent months. There have been particularly large increases in the prices of household essentials, with food prices up nearly 7% over the past year and petrol prices now running at over $3/ltr across the country.

The pressure on household budgets has been compounded by the rise in interest rates. The Reserve Bank has been hiking the Official Cash Rate at a rapid pace, and they have signalled that it is likely to rise substantially more over the coming months. For many households, the related rise in mortgage rates has already taken a sizeable bite out of their disposable incomes. In addition, around half of mortgages will come up for repricing over the coming year, and another 20% will come due within two years. In some cases, borrowers will face re-fixing at interest rates that are 2% to 3% higher than the rates they are currently on.

Adding to the concerns about the economic landscape, many households have seen the value of their assets falling in recent months. Nationwide house prices have dropped by 6% since November. Similarly, the value of KiwiSaver balances and other financial assets have dropped sharply since the start of the year.

The pressure on household finances and sharp fall in confidence reinforces our expectations for a downturn in household spending – and economic growth more generally – over the coming months. However, there are big questions about just how stark that downturn will be.

While the economy is being buffeted by some powerful headwinds, we continue to expect that the coming months will see a slowdown in growth, rather than a crash. A key reason for that is the strength of the labour market. Unemployment is just 3.2%, demand for workers is running hot, and wage rates are pushing higher. The related lift in labour incomes is a partial buffer from the other factors that are crimping households' discretionary spending.

Similarly, while borrowing costs are on the rise, that is an increase from record lows back to 'average' levels. Looking at that change in a different way, if you took out a mortgage five years ago, chances are you saw more money in your wallet the past couple of years as interest rates fell. The increases in borrowing rates now in train are taking you back to where you previously were.

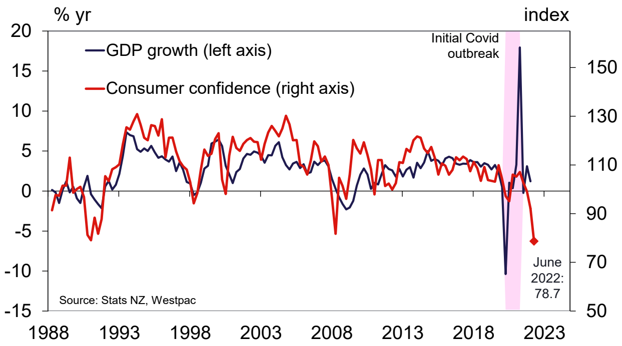
On balance, while the increase in financial pressures will squeeze households' disposable income and spending, overall demand in the economy is likely to remain resilient. However, that does mask some big differences among households. In particular, many families on lower incomes will be facing a significant crunch on their disposable incomes.

While we expect economic conditions to be resilient, the sharp fall in confidence does highlight the chances of a more abrupt downturn. And that would have an important bearing on just how far the Official Cash Rate needs to rise. The RBNZ's own projections show the cash rate rising to 3.9%, while financial markets have started to price in the chance that it could go as high as 4.5%.

We agree that there's a substantial amount of work still to be done to bring inflation pressures back into check. However, with signs that rate hikes to date are already starting to dampen demand, we expect that increases in the cash rate will be more measured. We continue to forecast a peak in the cash rate of 3.5% by the end of this year.

Satish Ranchhod, Senior Economist

Consumer confidence and economic growth



Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 20	May BusinessNZ PSI	52.2	55.2	–
Tue 21	Q2 Westpac–MM consumer confidence	92.1	78.7	–
Wed 22	GlobalDairyTrade auction prices (WMP)	-0.3%	-0.6%	1.0%
	May trade balance $m	440	263	500
Thu 23	Q2 Westpac–MM employment conf.	113.5	108.5	–

Aus May retail sales

May 29, Last: 0.9%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: -1.0% to 0.7%

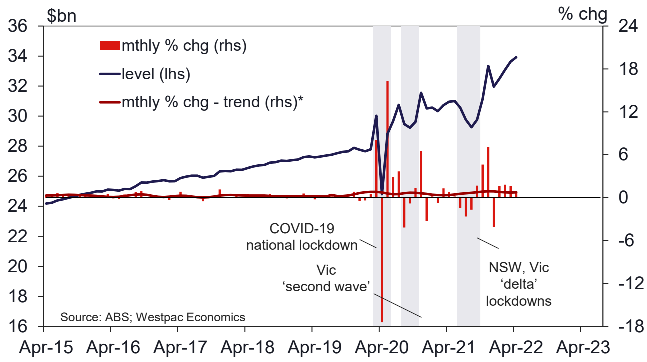
Retail sales increased 0.9% in April following strong gains in averaging 1.7% over the previous three months, annual growth hitting 9.6%yr. Momentum was relatively well sustained despite various headwinds from the omicron outbreak; weather events and a surge in fuel prices.

May is likely to be a softer result as spending rotates towards non-retail items and given additional headwinds around rising fuel prices and interest rates, and a sharp fall in consumer sentiment.

While reopening dynamics were still very positive for wider consumer spending during the June and September quarters, much of this will bypass retail.

On balance we expect a softer result with a 0.3% gain and some risks to the downside.

Monthly retail sales



Aus May private sector credit

Jun 30, Last: 0.8%, WBC f/c: 0.5%
Mkt f/c: 0.6%, Range: 0.5% to 0.7%

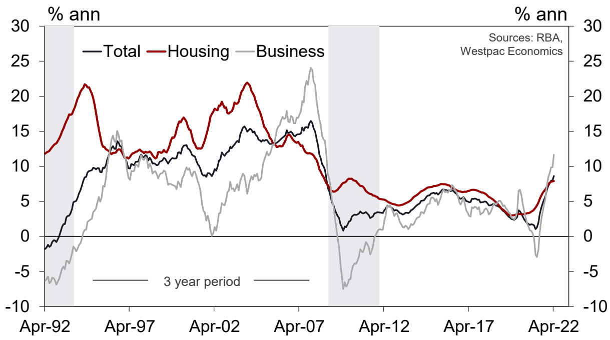
Credit to the private sector expanded by 8.6% over the past year, the fastest annual pace since October 2008, but still well below the December 2007 peak of 16.5%, pre-GFC.

Households and businesses alike have borrowed more, responding to considerable policy stimulus. Record low interest rates fired up the housing market, firms accessed lines of credit to improve cash flows to navigate lockdowns and firms also borrowed to invest.

Currently, credit momentum may be cooling. The RBA began tightening rates in May and the May Federal election was a source of uncertainty, potentially leading to a soft spot in business lending.

Credit grew by 0.6% in each of January, February and March, then lifted to a 0.8% rise in April on an oversized 1.4% increase in business lending. We anticipate a 0.5% gain for May, factoring in a smaller rise for business and with housing growth likely to tick lower after new lending slumped by 6.4% in April.

Credit: annual growth lifts to 8.6%, a 13 year high



Aus Jun CoreLogic home value index

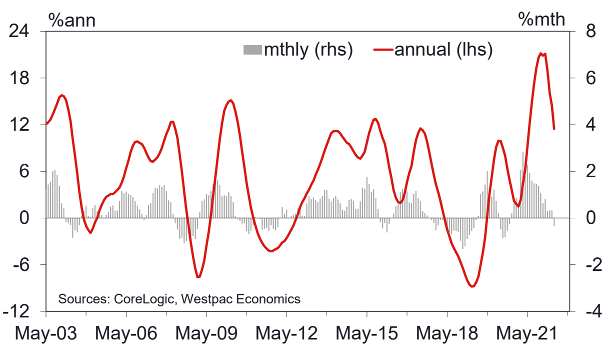
Jul 1, Last: -0.3%, WBC f/c: -0.7%

The wider housing market tipped over into correction in May, the CoreLogic home value index falling 0.3%, tipping into negative for the first time since the first wave of the COVID pandemic. The RBA's 25bp rate hike in May looks to have been a significant catalyst.

Price declines look to have accelerated in June, with the RBA's 50bp rate hike and more hawkish stance clearly impacting auction market activity and prices in Sydney and Melbourne in particular.

For June, the daily measure is pointing to a 0.7% decline across the major capital cities, with considerably larger falls in Sydney (-1.5%mth) and Melbourne (-1%mth).

Australian dwelling prices



Past performance is not a reliable indicator of future performance. The forecasts given above 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 results ultimately achieved may differ substantially from these forecasts.

NZ May Employment Indicator

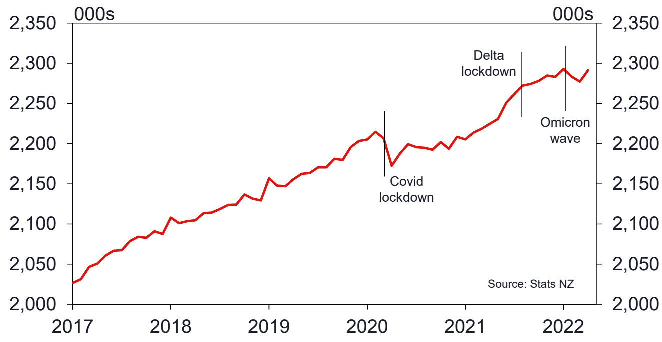
Jun 28, Last: 0.6%, Westpac f/c: 0.2%

The RBNZ has recently said that it will be keeping a close watch on high-frequency labour market data. That will likely include the Monthly Employment Indicator, a series that has received little attention from the market in the past. Being drawn from tax data, it provides quite comprehensive coverage of employment in New Zealand.

The MEI showed a 0.6% rise in the number of filled jobs in April, mostly reversing the decline in February and March that may have been due to Omicron disruptions. More broadly, the MEI has pointed to a slower pace of jobs growth since the Delta outbreak and the end of New Zealand's zero-Covid approach last year.

The weekly snapshots of the data, while probably too volatile to follow for monetary policy purposes, suggest another modest rise in filled jobs in May.

NZ monthly filled jobs



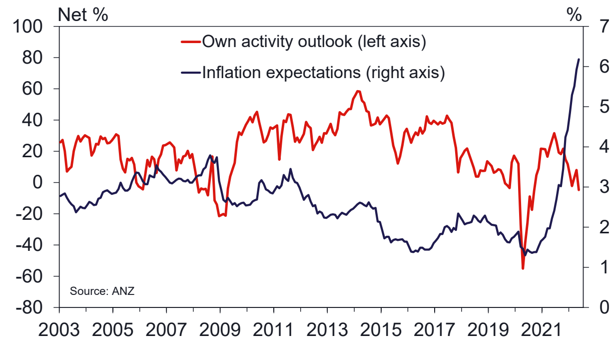
NZ Jun ANZBO business confidence

Jun 30, Last: -55.6

The May business confidence survey pointed to softening confidence as businesses grappled with the combination of staff and supply shortages, strong cost pressures and the rapid rise in interest rates. With no relief on any of those challenges, we expect that confidence will remain subdued in the June survey.

With the RBNZ acutely focused on price setting behaviour, the survey's cost and inflation gauges will be closely watched. Businesses have been highlighting significant pressure on operating costs and most expect inflation will remain elevated. However, we have seen some moderation in the number of firms who are planning on raising their prices (albeit from very high levels). That could be an early indication that businesses are finding it tougher to pass on cost increases.

NZ business confidence



NZ May residential building consents

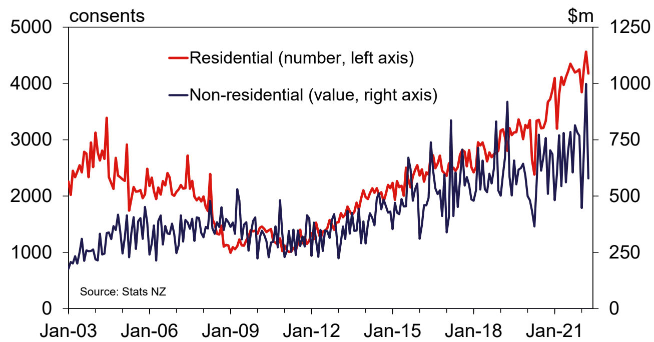
Jul 1, Last: -8.5%, Westpac f/c: Flat

The number of dwelling consents issued fell by 8.5% in April. That drop was mainly due to a pull-back in medium-density consent numbers (i.e. townhouses and apartments) after their earlier sharp rise.

Looking at the longer-term trend in consent issuance, the number of new homes being consented remains elevated, with just under 50,600 new consents issued over the past year. However, after strong increases in recent years, monthly consent issuance has flattened off.

We expect that consent issuance will remain at firm levels in May. However, the combination of rising operating costs, labour and material constraints, and increased nervousness about the economic outlook will all limit the upside for issuance. Those factors are expected to become an increasing drag on consent issuance over the coming months.

NZ building consents



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Chn	May industrial profits %yr	-8.5%	–	–	Profit margins will build as COVID-19 disruptions fade.
Eur	ECB annual forum on Central Banking	–	–	–	Challenges for monetary policy, Sintra, June 27 to 29.
US	May durable goods orders	0.5%	0.1%	–	Supply issues an ongoing headwind.
	May pending home sales	-3.9%	-3.5%	–	Demand is cooling amid higher rates.
	Jun Dallas Fed index	-7.3	–	–	Manufacturers concerned with elevated cost pressures.
Tue 28					
NZ	May monthly employment indicator	0.6%	–	0.2%	RBNZ is taking a close interest in labour market indicators.
US	May wholesale inventories	2.2%	–	–	Inventory levels vary considerably across the economy.
	Apr FHFA house prices	1.5%	–	–	Price momentum expected to show some slowing...
	Apr S&P/CS home price index	2.42%	1.80%	–	... as rate hikes begin to take effect.
	Jun consumer confidence index	106.4	100.0	–	Inflation worries offsetting labour market strength.
	Jun Richmond Fed index	-9	–	–	Labour and material shortages are a key concern.
	Fedspeak	–	–	–	Daly.
Wed 29					
Aus	May retail sales	0.9%	0.3%	0.3%	Loss of momentum, in part a rotation away from retail.
Eur	Jun economic confidence	105.0	–	–	Russia-Ukraine still clouding the outlook...
	Jun consumer confidence	-23.6	–	–	... elevated prices are the chief concern of households.
US	Q1 GDP, final	-1.5%	-1.4%	–	A small upward revision expected in final Q1 estimate.
	Fedspeak	–	–	–	Chair Powell at ECB Forum. Mester and Bullard too.
Thu 30					
Aus	May private sector credit	0.8%	0.6%	0.5%	Set to slow, as rates rise & following an oversized rise in April.
	Q2 Job vacancies (ABS series)	6.9%	–	–	Job vacancies a plenty - limited labour supply.
NZ	Jun ANZ business confidence	-55.6	–	–	Confidence has waned while cost pressures remain acute.
Jpn	May industrial production	-1.5%	-0.3%	–	Still working through supply issues.
Chn	Jun manufacturing PMI	49.6	–	–	Easing of virus disruptions should see further progress...
	Jun non-manufacturing PMI	47.8	–	–	... in the manufacturing and services rebound.
Eur	May unemployment rate	6.8%	6.7%	–	Tight labour market laying foundation for wages growth.
UK	Q1 GDP, final	0.8%	0.8%	–	Q1's gain to be followed by an abrupt slowing.
	Jun Nationwide house prices	0.9%	–	–	Demand to soften as rate hikes take effect.
US	May personal income	0.4%	0.5%	–	Purchasing power is an ongoing concern...
	May personal spending	0.9%	0.4%	–	... as households run down savings.
	May PCE deflator	0.2%	0.7%	–	PCE inflation looks to have crested...
	May core PCE deflator	0.3%	0.5%	–	... price pressures to slowly abate through 2022.
	Initial jobless claims	229k	–	–	To remain at a low level.
	Jun Chicago PMI	60.3	58.8	–	Concerns around supply issues remain.
Fri 01					
Aus	Jun CoreLogic home value index	-0.3%	–	-0.7%	Downturn is underway as RBA begins tightening cycle in May.
NZ	Jun ANZ consumer confidence	82.3	–	–	Confidence low, dampened by rises in living costs.
	May building permits	-8.5%	–	0.0%	Set to remain at firm levels.
Jpn	Q2 Tankan large manufacturers index	14	13	–	Business conditions are mixed given ongoing supply issues.
	Jun Nikkei manufacturing PMI	52.7	–	–	Final estimate for the month.
Chn	Jun Caixin China PMI	48.1	–	–	Easing of restrictions and policy support to aid mfg.
Eur	Jun S&P Global manufacturing PMI	52.0	–	–	Final estimate for the month.
	Jun CPI %yr	8.1%	8.3%	–	Price pressures are intensifying and broadening.
UK	Jun S&P Global manufacturing PMI	53.4	–	–	Final estimate for the month.
	May net mortgage lending £bn	4.1	–	–	Rising rates and slowing economy to weigh on lending.
US	Jun S&P Global manufacturing PMI	52.4	–	–	Final estimate for the month.
	May construction spending	0.2%	0.5%	–	Activity supported by home building strength.
	Jun ISM manufacturing	56.1	55.4	–	Robust momentum still evident in manufacturing.

Forecasts

Interest rate forecasts

Australia	Latest (24 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Cash	0.85	1.85	2.35	2.60	2.60	2.60	2.60	2.60
90 Day BBSW	1.74	2.30	2.72	2.80	2.80	2.80	2.80	2.80
3 Year Swap	3.68	3.80	3.60	3.40	3.10	2.90	2.75	2.75
3 Year Bond	3.21	3.30	3.20	3.10	2.90	2.70	2.55	2.55
10 Year Bond	3.72	4.10	3.80	3.40	3.00	2.70	2.50	2.35
10 Year Spread to US (bps)	62	60	50	40	30	20	20	15
US								
Fed Funds	1.625	2.875	3.375	3.375	3.375	3.375	3.125	2.875
US 10 Year Bond	3.10	3.50	3.30	3.00	2.70	2.50	2.30	2.20
New Zealand								
Cash	2.00	3.00	3.50	3.50	3.50	3.50	3.50	3.50
90 day bill	2.78	3.40	3.60	3.60	3.60	3.60	3.60	3.60
2 year swap	4.24	4.50	4.30	4.10	3.80	3.50	3.20	2.90
10 Year Bond	3.99	4.30	4.10	3.70	3.40	3.20	3.00	2.90
10 Year spread to US	89	80	80	70	70	70	70	70

Exchange rate forecasts

Australia	Latest (24 Jun)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
AUD/USD	0.6905	0.72	0.75	0.77	0.78	0.79	0.80	0.80
NZD/USD	0.6260	0.65	0.68	0.70	0.71	0.72	0.72	0.72
USD/JPY	134.86	133	131	129	127	125	123	121
EUR/USD	1.0529	1.08	1.10	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2272	1.25	1.27	1.28	1.30	1.32	1.34	1.35
USD/CNY	6.6961	6.50	6.35	6.25	6.20	6.15	6.15	6.10
AUD/NZD	1.0980	1.11	1.10	1.10	1.10	1.10	1.11	1.11

Australian economic growth forecasts

	2021	2022			2023			Calendar years		
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
GDP % qtr	3.6	0.8	1.3	1.1	0.8	0.4	0.5	–	–	–	–
%yr end	4.4	3.3	3.9	6.9	4.0	3.6	2.8	-0.7	4.4	4.0	2.0
Unemployment rate %	4.7	4.0	3.8	3.4	3.3	3.3	3.3	6.8	4.7	3.3	3.5
CPI % qtr	1.3	2.1	1.5	0.6	2.2	1.2	0.6	–	–	–	–
Annual change	3.5	5.1	5.8	5.7	6.6	5.6	4.7	0.9	3.5	6.6	3.0
CPI trimmed mean %qtr	1.0	1.4	1.3	1.0	1.0	0.8	0.8	–	–	–	–
%yr end	2.6	3.7	4.5	4.8	4.8	4.2	3.7	1.2	2.6	4.8	3.2

New Zealand economic growth forecasts

	2021	2022			2023			Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2020	2021	2022f	2023f
GDP % qtr	3.0	-0.2	1.0	0.7	1.2	0.9	0.7	–	–	–	–
Annual avg change	5.6	5.1	1.0	2.2	2.1	2.8	3.7	-2.1	5.6	2.1	3.4
Unemployment rate %	3.2	3.2	3.1	3.0	3.0	3.0	3.1	4.9	3.2	3.0	3.3
CPI % qtr	1.4	1.8	1.1	1.2	0.4	0.5	0.7	–	–	–	–
Annual change	5.9	6.9	6.7	5.6	4.5	3.2	2.9	1.4	5.9	4.5	2.7

DISCLAIMER

Things you should know.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ('Westpac').

Disclaimer

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. 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 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 client of Westpac.

For XYLO Foreign Exchange clients: This information is provided to you solely for your own use and is not to be distributed to any third parties. XYLO Foreign Exchange is a division of Westpac Banking Corporation ABN 33 007 457 141 and Australian credit licence 233714. Information is current as at date shown on the publication. This information has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs. XYLO Foreign Exchange's combined Financial Services Guide and Product Disclosure Statement can be obtained by calling XYLO Foreign Exchange on 1300 995 639, or by emailing customercare@XYLO.com.au.

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 and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in 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.

Disclaimer continued overleaf

Disclaimer continued

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. 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.

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.