WESTPAC MARKET OUTLOOK NOVEMBER 2022.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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Internet: www.westpac.com.au
Email: economics@westpac.com.au

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Corporate directory

Westpac Economics

Sydney
Level 3, 275 Kent Street
Sydney NSW 2000
Australia
Telephone (61–2) 8254 8372
Facsimile (61–2) 8254 6907

Bill Evans
Chief Economist
Global Head of
Economics & Research

Elliot Clarke, CFA
Senior Economist

Andrew Hanlan
Senior Economist

Matthew Hassan
Senior Economist

Justin Smirk
Senior Economist

Ryan Wells
Economist

New Zealand Economics

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand
Telephone (64–9) 336 5671
Facsimile (64–9) 336 5672

Michael Gordon
Acting Chief Economist

Satish Ranchhod
Senior Economist

Paul Clark
Industry Economist

Nathan Penny
Senior Agri Economist

London
Camomile Court,
23 Camomile St,
London EC3A 7LL
United Kingdom

Singapore
12 Marina View
#27-00,
Asia Square Tower 2
Singapore, 018961

New York
39th Floor
575 Fifth Avenue
New York, 10017 USA

EXECUTIVE SUMMARY

At the November RBA meeting, the Board decided to lift rates for a seventh consecutive month, by 25bp to 2.85%. The decision not to move rates by 50bps in November, as we anticipated, was despite news that trimmed mean inflation rose by 1.8% in the September quarter, the largest quarterly increase since 1990 and evidence that inflation pressures were becoming more widespread. The RBA is now forecasting that inflation will not return to the target range until 2025 - following three years outside the band. We now expect the RBA cash rate to peak at 3.85% in May 2023, up from our October view of 3.6% in March 2023, given the intensifying inflation pressures.

Markets remain volatile as investors weigh up the outlook for interest rates, particularly for the US federal funds rate. In November, the US FOMC lifted rates by the expected 75bps to 3.875%, followed by a hawkish press conference by Chair Powell, highlighting that inflation risks are biased to the upside. The message was clear. There are more rate hikes to come (we expect a peak of 4.625%) and they are set to stay high for longer. In our view the easing cycle will be delayed until 2024.

Currently, with the contrast in approach and rhetoric between the RBA and both the US FOMC and RBNZ, the Australian dollar is trading on the back foot against both the US dollar and the NZ dollar. Reflecting that widening short end differential a negative spread has consolidated between the 10 year bond for Australia and the US. We continue to expect the AUD to be under siege in the current environment. With the anticipated Fed pivot from 75bps to 50bps in December, we expect the AUD to end the year at around USD0.65 as the USD comes under pressure. This process is likely to be sustained through 2023, with the AUD ending the year at around USD0.72.

Australia: Our view remains that the Australian economy will slow sharply in 2023, with growth forecast to be only 1%, a well below trend pace and well down from an expected 3.4% for 2022. The slowdown is in the face of high inflation and higher interest rates, as well as a fading of recent tailwinds, namely the reopening effect from delta lockdowns and the boost from a declining household saving ratio, correcting from elevated levels. Currently, the Australian economy is in transition. Overall output growth is set to slow from an anticipated robust 1.1% for the September quarter, cooling to 0.6% in the December quarter, then decelerating further early in 2023. Recent partial indicators confirm our view that consumers and housing will lead the downturn. There are some emerging signs of a consumer spending slowdown, with real retail sales losing considerable momentum as high inflation erodes households spending power.

Commodities: Volatility continues to be the main theme in commodity markets, but through October there was a broad trend for softer prices on the back of growing recession fears. However, it was not the same for all commodities, with a wide range of outcomes from a strong rally in met coal to a solid correction in iron ore. We think near term global recession fears will continue to dominate until we move through 2023, when the focus will shift to a recovery in demand and the tight supply conditions for many commodities.

Global FX markets: We expect that the US dollar peak is behind us. Recent US activity data certainly argues in favour of this being the case, as does a recent recovery in Euro and Sterling confidence. Risks remain, but we believe these will subside through 2023, given greater certainty and longevity to the US dollar downtrend. Asia remains the region where we see the greatest opportunity for growth and currency appreciation, against the USD in particular.

New Zealand: We now expect the Official Cash Rate to reach a peak of 5.00% this cycle, by April 2023 (up from our previous forecast of 4.50%). This includes an expected jumbo-size 75bp hike to 4.25% at the November meeting. Inflation is continuing to run red-hot despite the sharp rise in interest rates over the past year. We are also seeing ongoing firmness in domestic economic conditions, including a drum tight labour market, resilience in household demand, and a sizeable boost from the return of international tourists.

United States: The focus following the FOMC's November decision was the message conveyed by Chair Powell. Ahead, there will be greater recognition of the cumulative effect of policy and the lag with which it operates. However, also apparent is a belief that inflation risks remain skewed, and hence policy makers have more work to do. Real yields will prove a critical gauge over the coming year.

China: As expected, the 2022 National Party Congress delivered for President Xi. While the market has shown concern over the implications for the economy, the reality is that President Xi's time in power and his legacy will be dictated by the pace and sustainability of economic development. Precise and active management will prove key, and the prospects for persistent strength are good. Note though, success will beget another issue: China's growing power in Asia and the world will lead to enduring tension with the West.

Europe: In response an intensifying and broadening inflationary pulse, the ECB delivered a second consecutive 75bp rate hike at their October meeting. Despite numerous headwinds, Europe continues to exhibit a high degree of adaptability and resilience, as evinced by a focussed approach to gas storage and robust growth outcomes. A further 75bp of tightening is still necessary in order to quell inflation.

Summary of world GDP growth (year average*)

Real GDP %ann*	2017	2018	2019	2020	2021	2022f	2023f
United States	2.3	2.9	2.3	-3.4	5.7	1.9	0.4
China	6.9	6.8	6.0	2.2	8.1	3.5	6.0
Japan	1.7	0.6	-0.4	-4.6	1.7	1.7	1.5
India	6.8	6.5	3.7	-6.6	8.7	7.0	6.7
Other East Asia	4.7	4.5	3.8	-2.3	4.2	4.5	4.4
Europe	2.6	1.8	1.6	-6.1	5.2	3.2	0.4
Australia	2.4	2.8	2.0	-2.1	4.9	4.2	1.9
New Zealand	3.1	3.2	2.4	-2.1	5.6	2.2	2.2
World	**3.8**	**3.6**	**2.8**	**-3.0**	**6.0**	**3.2**	**3.0**

Sources: IMF, Westpac Economics. Aggregates weighted using purchasing power parity exchange rates.
***Year average growth estimates,** the profile of which can differ from that of the 'growth pulse'.

RBA lifts rates by 25bps in November …

The RBA opted to lift rates by 25bp in November, to 2.85%.

The Reserve Bank Board raised the cash rate by 25 basis points to 2.85% at its November meeting.

This result was widely predicted by the market and analysts.

That was despite the shock inflation report …

Our view has been that the shock September quarter inflation report, which showed a lift in core inflation of 1.8% (annual rate of 6.1%) compared to the market forecast of 1.5% and evidence of a widening of inflation pressures, justified a 50 basis point move. That move would be to emphasise the Board's commitment to returning inflation to the target range of 2–3%.

The Board recognised this unwelcome boost to inflation pressures by lifting the forecast for inflation in 2022 from 7.8% to 8.0% and the forecast for 2023 from 4.3% to 4.75%. It is not even expecting to return inflation to within the target zone by 2024 with inflation forecast to be above 3% in 2024.

… core inflation up by 1.8% in the September quarter, the largest rise since 1990.

The 2023 forecast increase is particularly troubling – a central bank which has a 2–3% inflation target and accepts that 4.75% inflation in the following policy year runs the risk of embedding an inflationary psychology for both businesses and employees making it more difficult to avoid an even more extended period of high inflation.

Forecast growth rates have been lowered to 1.5% (from 1.8%) in 2023 and 1.5% (from 1.7%) in 2024.

The RBA lifted the inflation forecasts …

The forecast for the unemployment rate by year's end is 3.5% (up from 3.4% in September) constrained by labour supply rather than demand, highlighting a risk to wages growth.

While the Decision Statement did not provide a new forecast for wages growth, recall that the August forecast is for only 3.6% in 2023 compared to the Westpac forecast of 4.5%.

When we raised our forecast for the November Board meeting to a 50 basis point move we increased our forecast terminal rate from 3.6% to 3.85%.

… to an elevated 4.75% for 2023, and a little above 3% for 2024.

In response to the September Inflation Report we have raised our quarterly profiles for underlying inflation from 1.5% to 1.8% (September quarter); 1.2% to 1.8% (December quarter) and 0.8% to 1.2% (March quarter). This is not only because the September quarter proved to be higher than expected but also because the evidence from September was that inflation pressures were becoming more widespread, implying a deepening of inflation psychology.

Despite the Board not moving by 50 basis points in November we think this higher inflation profile justifies maintaining the 3.85% terminal rate forecast.

This higher inflation path adds to the risk of a shift in the inflation psychology.

Given that the Board chose not to respond to the inflation shock with more than 25 basis points, we can only conclude that as rates continue to rise, the increments will be 25 basis points.

We had expected that the 0.8% underlying inflation print we were anticipating for the March quarter would allow the Board to go on hold from March.

Now we expect that the March quarter Inflation Report, which will print in late April, will require a further rate increase.

We now expect the RBA cash rate to peak at 3.85% …

Going forward we now expect 25 basis point increments in December; February; March and May.

We have not changed our growth forecasts for 2023 (1.0%) and 2024 (2.0%).

The growth momentum in the first half of 2023, while still slowing, is likely to be faster than the second half of 2023 where growth could stall completely.

… with a likely timing of May 2023.

The Board does recognise the risks of embedding inflation psychology in the system "The Board will continue to pay close attention to the evolution of labour costs and the price setting behaviour of firms."

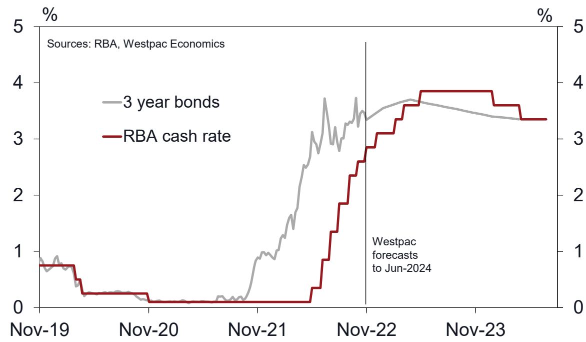
The final paragraph continues to emphasise that "The size and timing of interest rate increases will continue to be determined by the incoming data and the outlook for inflation and the labour market."

Based on the decision to hold the increase to 0.25% at the November meeting this "incoming data" condition looks to be a very high hurdle.

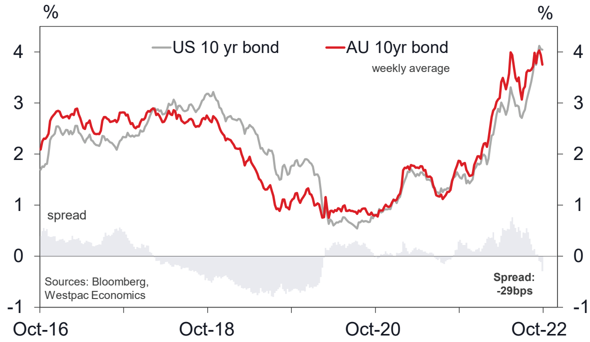
Bill Evans, Chief Economist

... rates to peak at 3.85% as inflation pressures intensify

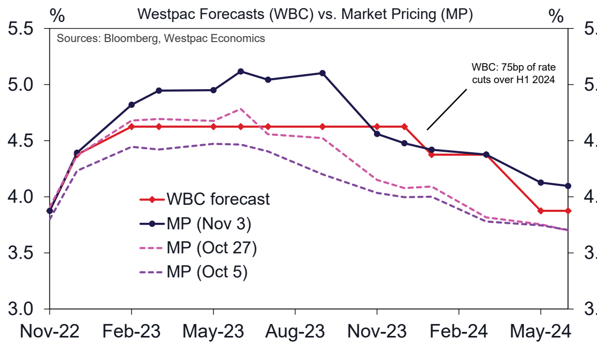
RBA cash rate and 3 year bonds



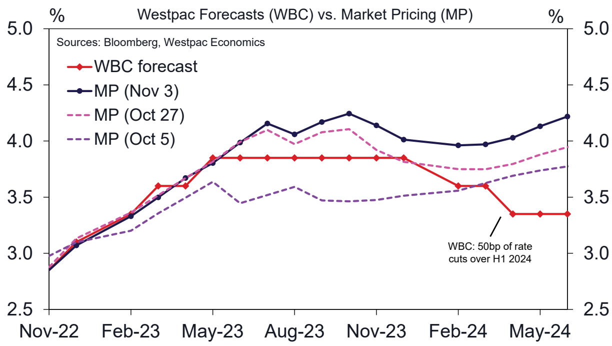
10 year bonds yields: negative spread



Fed funds forward pricing

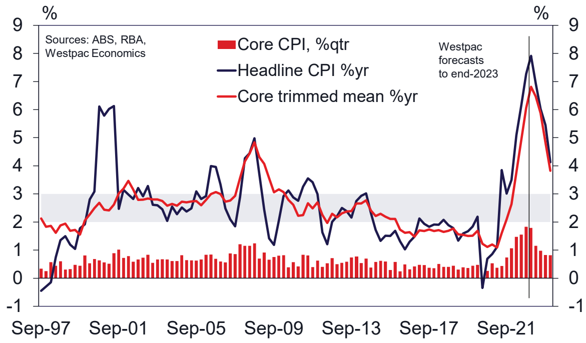


RBA forward pricing



Global PMI & global trade orders

CPI inflation



In transition, as consumer spending slows ...

The economy is expanding at a 3% plus pace currently.

Currently, the Australian economy is expanding at a pace in excess of 3%. The unemployment rate has declined to 3.5%, down from 5% in mid-2021, to be at the lowest level since 1974. With the economy bumping against capacity constraints, inflation pressures have intensified and are surprising to the high side. The RBA is responding to this inflation challenge, rapidly raising interest rates from a low of only 0.1% at the start of May to 2.85% in November, with an expected peak of 3.85% in May 2023.

The labour market is the tightest in 50 years.

Against the backdrop of high inflation and rising interest rates, the economy is set to slow sharply in 2023. Moreover, the tailwinds that have supported activity of late are set to weaken. The reopening effect from the delta lockdowns of 2021 and the boost from the household saving ratio declining from elevated levels, dynamics that provided a significant boost to activity over the first half of this year, are fading.

We continue to expect output growth to be only 1% in 2023, a well below trend pace and a sharp slowdown from an expected 3.4% for 2022. Private demand slows to an anaemic 0.2%, a rapid deceleration from a 5.4% expansion this year. With the economy at “stall speed” in 2023, a negative quarter of activity is a risk, but we do not expect a classic recession.

Inflation pressures are intensifying ...

Consumers and housing will lead the economic downturn, bearing the brunt of high inflation and higher interest rates. Consumer spending growth is expected to slow from 6.3% in 2022 to 1.2% in 2023; dwelling construction will swing from +2.0% to -4.0%, while business investment growth will slow from 5.8% to -1.0%. That slowdown in consumer spending growth will include a very modest further fall in the savings rate from an expected 3.6% by the end of 2022 to 2.3% through 2023 - below the “equilibrium” rate of 6%. This will see the stock of “excess savings” accumulated during the pandemic, currently at $275 billion, wound back to around $200 billion by end 2023.

... with quarterly core inflation the highest since 1990.

Across the first half of 2022, consumer spending grew by 4.4% and accounted for 2.4ppts of the 3.0% increase in domestic demand. This lift in spending was centred on discretionary items, benefiting from fewer restrictions. It was accompanied by a substantial fall in the household saving rate, down from an elevated 11.1% to 8.7%, freeing up $7.6bn to finance the additional $10.8bn in spending during the June quarter. Discretionary services boomed in the June quarter – transport services up 37%; hotels, cafés and restaurants +8.8%; and recreation and culture +3.6%.

Retail sales confirm a consumer spending slowdown is underway.

The reopening effect was apparent from the state detail. Across the “delta states” of NSW, Victoria and the ACT, consumer spending grew by a brisk 5.7% over the first half of 2022, underpinning a 3.9% increase in state final demand. Across the rest of the nation, consumer spending expanded by a more modest 2.4% over the six months and state final demand posted a 1.9% increase. Consumer spending in the delta states is converging towards that across the rest of the nation.

We continue to expect a sharp economic slowdown in 2023 ...

Over the second half of 2022, the Australian economy is in transition. Output growth is expected to be a robust 1.1% in the September quarter, cooling to 0.6% in the December quarter, then decelerate further in early 2023. Conditions in the September quarter will be mixed, with potential support from public demand and construction activity (rebounding from a weather related drop in June) but with a loss of momentum in consumer spending. Recent partial indicators confirm our view that a consumer spending slowdown is emerging. Real retail sales have lost considerable momentum, with household spending power eroded by high inflation - while the value of retail turnover rose by 2.3% in the September quarter, that predominantly reflected higher prices. Trimmed mean inflation increased by 1.8% in the September quarter, up from 1.6% in June and 0.7% a year ago – representing the largest quarterly rise on this measure since 1990. We expect overall consumer spending to expand by 1.3% in the September quarter, with downside risks, slowing from 2.2% in both March and June. The September result will be flattered by a rise in car sales, purchases of which were delayed due to earlier supply shortages.

... with output growth forecast to be a weak 1%.

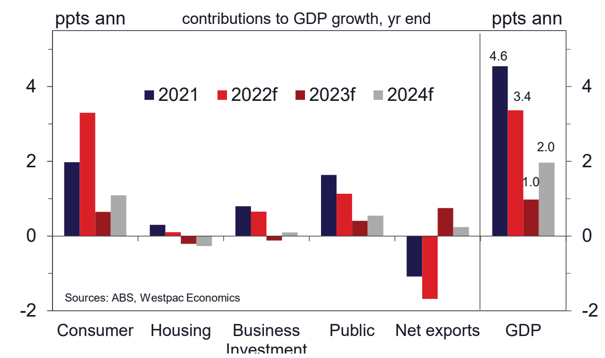
The residential property market is cooling in the face of higher interest rates, which are greatly reducing borrowing capacity. New lending for housing is sharply lower, led by investors, contracting by 24% over the eight months to September. Dwelling prices are down by around 6% over the seven months to October, with a peak to trough decline expected to be in the order of 16%. As to home building activity, that is likely to remain elevated near-term, with some potential upside. Work in the sector has failed to keep pace with demand, held back by shortages and inclement weather. In the September quarter national accounts, we will be looking for any signs that the sector made some headway in reducing the sizeable pipeline of work outstanding.

Across the broader economy, partial indicators are mixed currently. Labour market updates have been soft, while private business surveys remain positive, with business conditions elevated and up on the June quarter. Employment and hours worked surprised to the low side, eking out gains of only 0.3% and 0.2% respectively for the September quarter. A word of caution, the national accounts estimate of hours worked differs from that in the Labour Force survey (LFS). Recall that in the June quarter, the LFS overstated hours worked (+4.2% vs +2.9% in the National Accounts) - with the potential that the reverse will be the case this quarter.

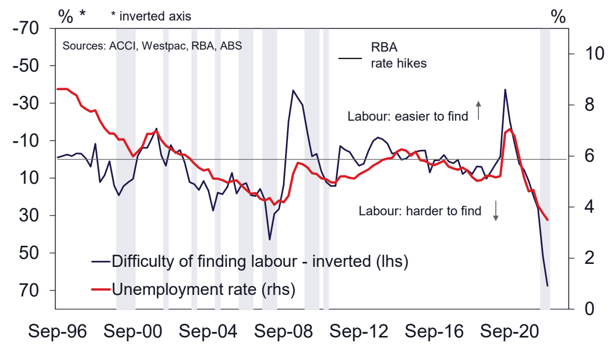
Andrew Hanlan, Senior Economist

... output growth to be a weak 1% in 2023

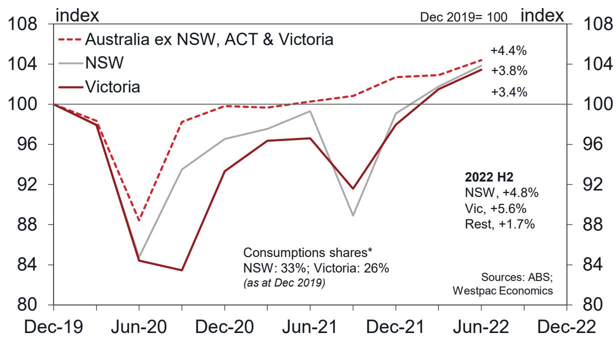
Australia: the growth mix



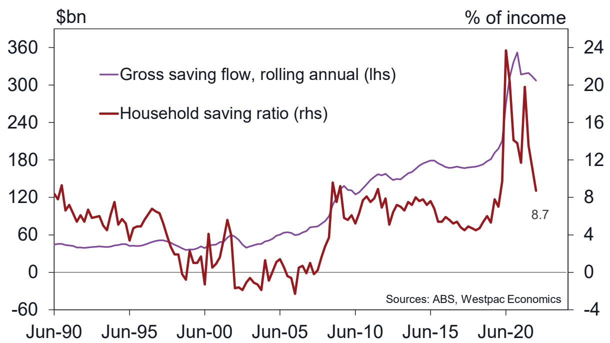
Labour market, tightest in 50 years



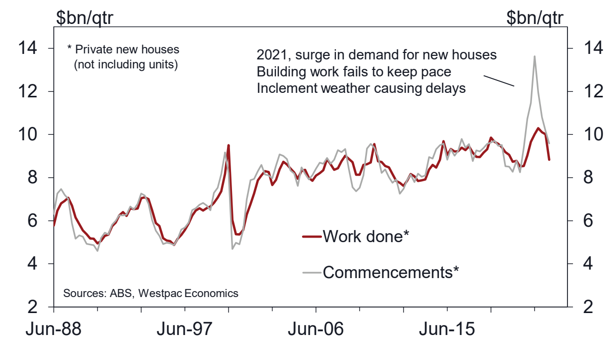
Consumer spending per capita



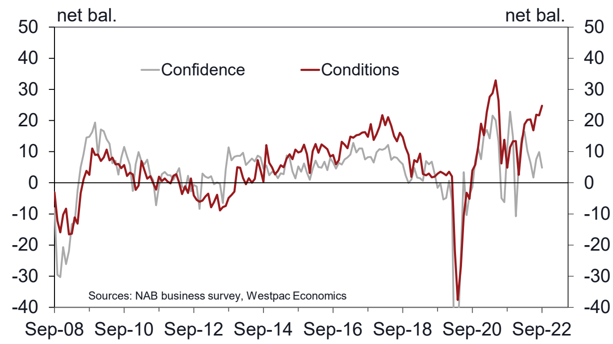
Household saving ratio and gross saving flow



Home building* hit by bottlenecks, wet weather



Business conditions and confidence



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.

Growth risk hitting commodities ...

Prices, volatile around a broad softening trend.

Volatility continues to be the main theme in commodity markets but through October there was a broad trend for softer prices. Our broad Westpac Export Price Index is down 4% since our last publication. However, as has been the case for some time there is a lot variation in outcomes for individual commodities with met coal topping the list at +14.6% in the month while at the bottom are iron ore, with a -15.0% fall in the month, and thermal coal, down by -7.0%. There was something of a correction in LNG prices, 6.0% lower in the month, while crude oil prices did bounce and are still up 2.5% in the month following the announcement from OPEC+ to reduce the quotas for crude production. Base metals were broadly flat in the month (-0.9%) but this masks quite a degree of dispersion of outcomes for individual base metals. Copper was flat (+0.2%) while aluminium is down -2.9%, nickel lifted by 2.2%, while zinc has fallen -8.1% and lead fell -2.4%.

Iron ore fundamentals softening, demand outlook deteriorating.

The pressure on iron ore prices intensified over the last week with 62% fe fines down ~US$15/t to $79/t, the lowest level since early 2019. This pressure emerged due to concerns about Chinese demand in the face of increasing COVID disruptions, weaker export orders and further weakness in the property sector. Recent developments that fed these fears included: China's manufacturing PMI unexpectedly falling in October to 49.2 (with reports linking the decline to softening global demand and the increasingly strict COVID restrictions); China's steel PMI turning weaker after two consecutive months of improvement; and, further signs of deeper issues in the Chinese property market. There does appear to be some evidence that Chinese iron ore fundamentals are starting to weaken: pig iron production was softening as we moved through October; iron ore port inventories are lifting again; and, rebar prices continue to soften. It is also likely that Chinese crude steel production could fall by around 5% compared to September if authorities enforce the target for lower production in 2022. From the supply side, iron ore shipments are flat in the year to date with Australia +1%, Brazil -2% and South Africa +2%. For these reasons we remain cautious for iron ore even though we see the economic fundamentals improving for China. Our forecast has iron ore holding around US$80 into early 2023 before weakening to US$70/t by end 2023 due to a gradual lift in iron ore supply from Australia and Brazil and China now well past peak steel.

Falling gas prices eased the pressure on coal but supply remains disrupted.

So far this year total coal shipments are up around 1% year to date with Australian supplies down -6%, Colombia down -8% and South Africa down -8% all offset by a solid increase from Indonesia of 11% while exports from North America are up 4%. However, over recent weeks it does appear that shipments have flattened out. On top of this, despite the recent fall in gas prices, coal is still around 47% cheaper to use in the EU for power generation when compared to gas. It is widely expected that the high-CV thermal coal market will remain tight at least into the first half of 2023 supported by robust demand (as the EU switches from Russian supplies) and gas prices remain elevated. We do expect that coal supply will normalise from Australia (with the ending of the third La Nina) and South Africa potentially adding an addition 20-30Mt per year to the seaborne trade. As a result we expect the Newcastle thermal coal benchmark to fall from ~US$380/t currently to ~$150/t by end 2023 and then down to $105/t by 2024. It is worth noting that currently thermal coal continues to trade at a material premium to met coal due to limited liquidity with producers entering the market to meet contractual obligations for thermal coal.

Supply disruptions supporting copper prices.

In the face of weakening demand, copper prices held their ground, in part, due to tight supply conditions. In August Chilean copper production was the weakest seen since 2006, and for Codelco its weakest monthly production since September 2006. Chilean production, year to date to August, is tracking at around 63% of the 2022 Chile mine supply estimate of 5.51mt compared to the 65% average for this period over the last 10 years. In 2021 Chile contributed around 26% of global copper mine supply and weaker copper mine supply is likely to provide some respite against a weakening global demand environment and declining macro economic backdrop for copper. So while we remain cautious on the outlook for copper through the first half of 2023 we expect it will outperform most other base metals.

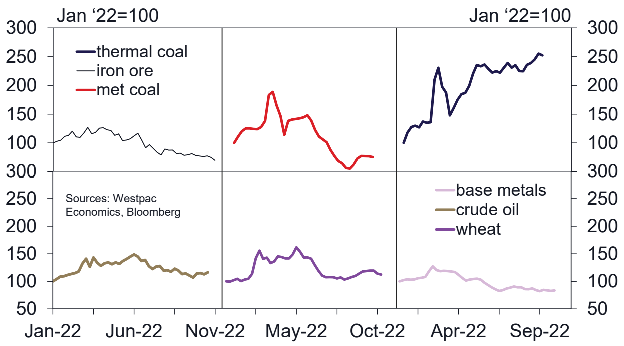
Crude prices have weakened as demand conditions deteriorate.

On October 5th, OPEC+ announced that it would reduce its combined output target by 2 million barrels per day from November. This saw some heavy buying in the market with crude prices hitting a high of US$96/bbl, up from US$83/bbl in late September, but this rally was short lived as investors abruptly reversed course last week as the optimism caused by OPEC+ production cuts were replaced by pessimism stemming from the worsening economic outlook. This saw crude return to a low of US$84/bbl in late October. Consumption of middle distillates, such as diesel, gas oil, kerosene and jet fuel, tend to be the most sensitive to the business cycle and thus should be the hardest hit in the event of a downturn. This dynamic in part explains why inflation moderates during an economic slowdown. However, this year mid-distillate inventories are so low around the world that prices are expected to remain relatively strong in any downturn until inventories have normalised. This is the result of a lack of suitable refining facilities rather than robust demand. Mid-distillates are critical for the transport sector and this support of fuel prices could help to hold global inflation at a higher pace than you would otherwise expect given economic conditions.

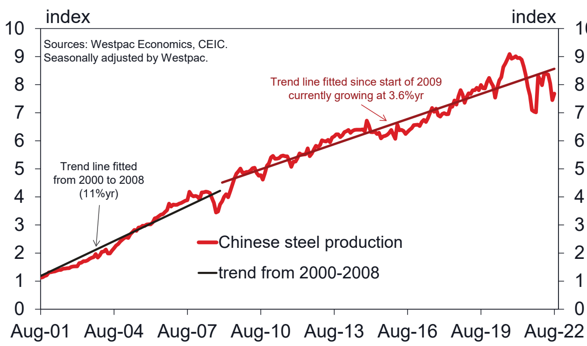
Justin Smirk, Senior Economist

… but some are supported by tight supply

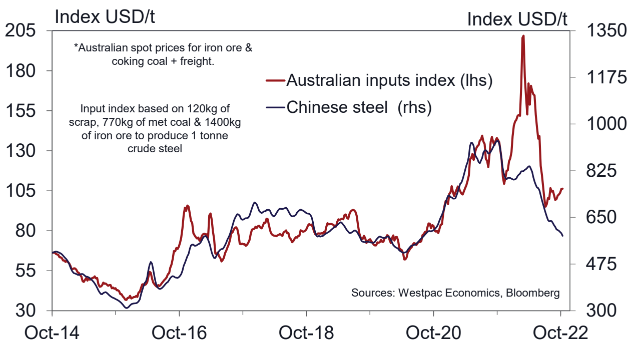
Commodities; coal is dominating movements



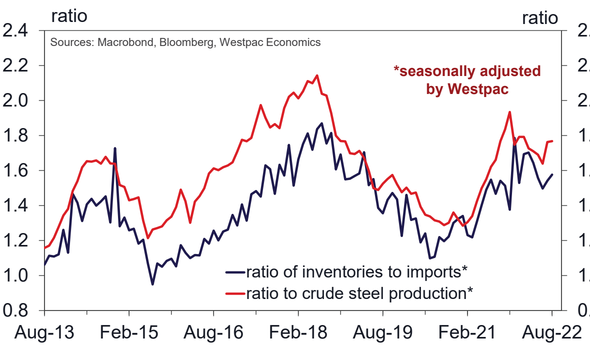
Chinese steel production below trend



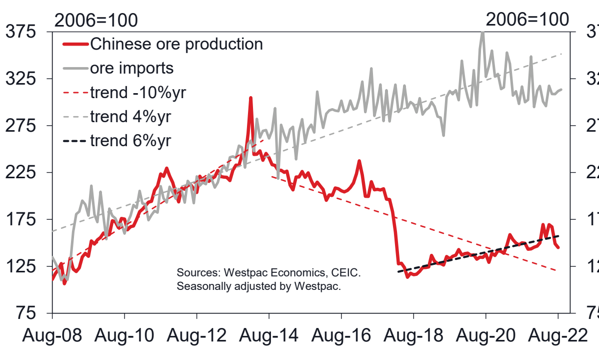
Steel inputs vs. Chinese steel prices



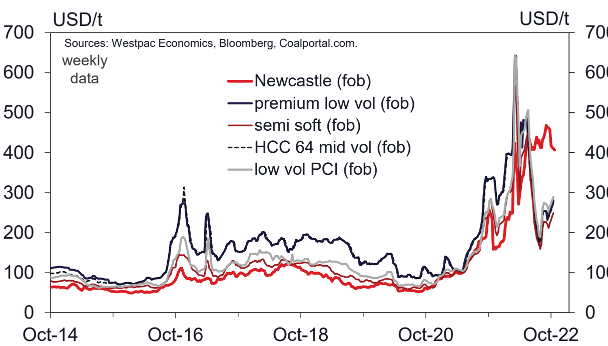
Chinese ore inventories at ports



Chinese ore imports peaked in mid 2020



Thermal coal premium is dragging PCI higher



The weight of reality is …

Could be the US dollar high be behind us?

Having reached a new cycle (and multi-decade) high of 114.1 in late September, the US dollar DXY index has since been locked in a relatively tight trading range between 110 and 113, currently 112.93. Expectations and risks related to inflation continue to dictate moves within the range; although, over the past month, participants have been showing greater concern over the consequences of tight policy for the economy, and consequently a growing belief that the peak in rates is nigh.

Recent US activity data and greater caution from (some) FOMC members suggests …

Available activity data certainly argues for this being the case. US Q3 GDP showed that growth in private final demand (household consumption and investment) has slowed to a crawl, the annualised rate of change printing at 0.6% compared to 0.9% and 2.2% in Q2 and Q1 2022 respectively. Looking through the month-to-month volatility, the US labour market is also clearly softening; most notable this month was evidence of businesses reining in wage and benefit growth – Employment Cost Index total compensation growth decelerating from a circa 6% annualised pace in Q2 to near 4.5% in Q3.

… this is possible, if not probable.

Although the direction of travel for the US economy, and by association consumer inflation, is clear, markets are still apprehensive to step out and take risk, particularly while the FOMC holds onto its hawkish stance, evinced again by Chair Powell this week. Into year end, we expect this to remain the case. 2023 is likely to be very different, however. From 113, we look for DXY to fall to 103 by end-2023 and 96 end-2024 – declines of 9% and 15% from spot – with Euro and Sterling key to the result.

Particularly as this is occurring coincident to a nascent swoon in trust …

While it increasingly looks as though Euro Area activity growth will outpace that seen in the US through 2022 and 2023, this is not the primary factor behind our forecast. Instead it is the removal of downside risks related to European energy supply, with the Continent's gas stores essentially filled ahead of winter and infrastructure necessary to allow the replenishing of reserves through 2023 now in place. Our central expectation is for Euro to rise from below USD0.98 currently to USD1.07 and USD1.14 at end-2023 and 2024 respectively. If the winter weather proves benign as the market is increasingly suspecting, upside risks for Euro may build in the new year.

… for Euro and Sterling despite the UK's enduring challenges.

Sterling meanwhile looks to have come out of September and October's political malaise in good form, having held near USD1.15 the past week before dipping to USD1.12 on a dovish 75bp hike by the BoE. Still, the road ahead is fraught with risk as Prime Minister Rishi Sunak's Government hold off on further stimulus and likely tighten their stance while the economy is very weak. Inevitably, market confidence and reduced energy and inflation risks are expected to win out, sending the currency higher – to USD1.20 and USD1.27 come end-2023 and end-2024.

CAD also looks set for a run.

The Canadian dollar has recently found itself in an interesting position, USD/CAD remaining near its cycle highs despite the Bank of Canada delivering outsized rate hikes and signalling there is more to come; meanwhile, in our view, their economy has shown greater resilience than the US, Europe or the UK. This status quo is unsustainable, so we continue to project USD/CAD to lose altitude, targeting CAD1.28 and CAD1.26 as end-of-year levels for 2023 and 2024.

Even the Yen has capacity to reverse recent losses, at least partially.

Then to Japan's Yen. Although we also expect the Yen to benefit from the coming US dollar downtrend, it is likely to lag, with risks to remain skewed against the currency. Note, despite an almost 30% depreciation since February and rapid global price growth, Japanese consumer inflation ex fresh food and energy is still below 2.0%yr. Unsurprisingly, the Bank of Japan continues to dismiss any and every call for even a hawkish bias let alone a policy tightening.

Interest rate differentials with the rest of the world are then set to remain wide for the foreseeable future. What the Yen has on its side is the chance to benefit from the economic development of Asia. If Japanese industry leverages this momentum, activity gains could support a material reversal in Yen, along with risk sentiment. For the time being however, we remain cautious, forecasting only a staggered and partial unwind of 2022's USD/JPY gains, from JPY148 to JPY136 and JPY126 end-2023 and end-2024. It is worth repeating that risks to this view are skewed up (i.e. towards a weaker Yen).

Asia, in particular China, is set to outperform, once immediate uncertainty clears.

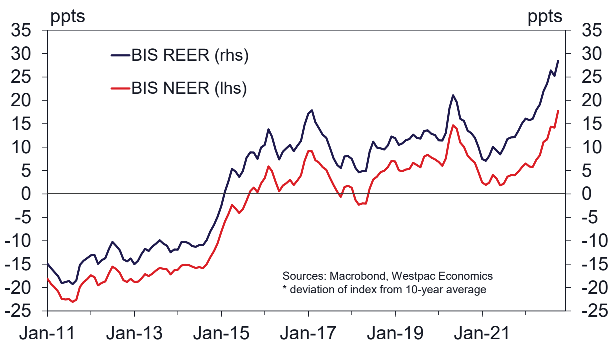
Finally, to China. As discussed on page 16, the 2022 National Party Congress saw a strengthening of the status quo, with President Xi's third term confirmed and his influence over the Standing Committee increased further. While the initial market reaction was negative, the need for President Xi to pursue growth and development to preserve his social contract with the people has the capacity to create significant opportunity for China's economy and the Renminbi.

Investment in pursuit of export market share and a reduced need for imports will, over time, give the Renminbi greater strength and acceptance globally. With those developments should also come less volatility. Our end-2024 target for USD/CNY is CNY6.10 from just above CNY7.00 through late-2022/early-2023.

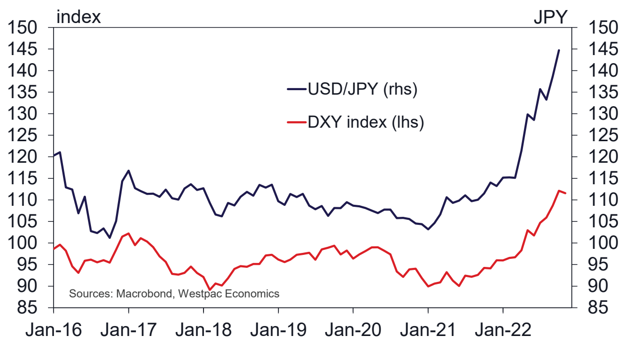
Elliot Clarke, CFA, Senior Economist

... hitting the USD

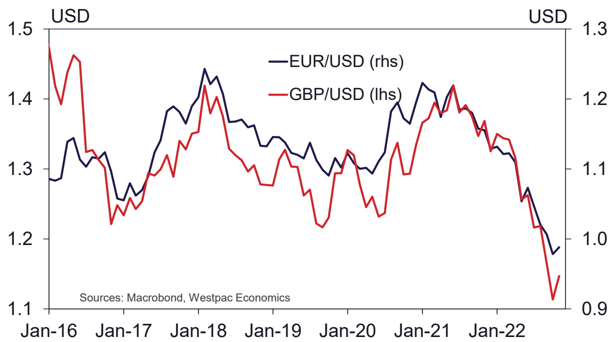
USD very elevated versus history



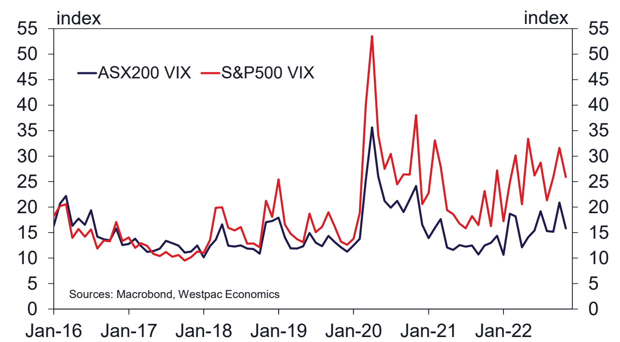
JPY continues to give DXY material support



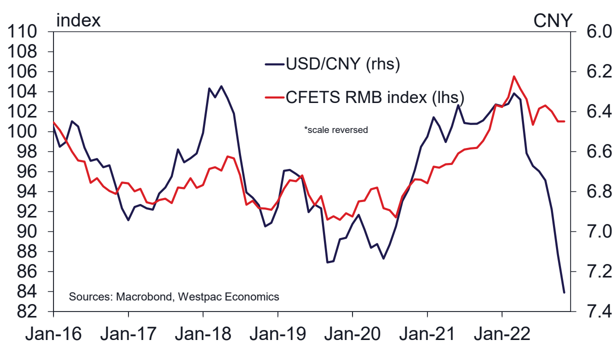
EUR & GBP negatives to fade in '23



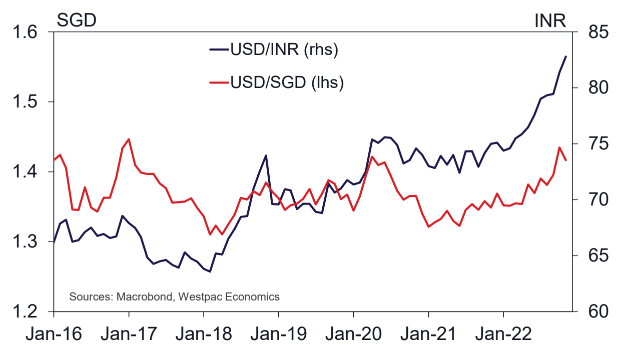
Distance from source of uncertainty a +'ve



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Interest rates to rise further ...

We now expect the Official Cash Rate to reach a peak of 5.00% this cycle ...

The September quarter inflation figures were ugly. In every corner of the economy, prices are charging higher. And even though forecasters were braced for a strong number, the result beat all expectations. Coming on top of signs that domestic demand is holding up in the face of interest rate hikes to date, it looks like the Reserve Bank still has a lot more work to do.

... with a jumbo-size 75bp hike in November ...

We now expect the Official Cash Rate to reach a peak of 5% for this cycle (previously 4.5%). With the cash rate currently at 3.5%, that implies the RBNZ is still some way from where it needs to be, with no room for delay. Consequently, we now expect a jumbo-size 75 basis point hike to 4.25% at the November Monetary Policy Statement, a step up from the 50 basis point increases at recent reviews.

... and further rate increases in 2023.

Beyond that, we've pencilled in a 50 basis point rise at the following review in February, and another 25 basis points in April to reach a 5% peak. That last move is not a firm forecast, but a reflection of our view that the risks beyond February are for anything between 0 and 50 points.

The RBNZ started its tightening cycle early.

To its credit, the Reserve Bank has had the right idea with monetary policy this year: strong action early on can reduce the total amount of tightening that's needed to get on top of inflation. But even after all the RBNZ has done so far – a total of 325 basis points of OCR hikes over the past year – it seems that they're still not ahead of the game in the way they would have hoped at this stage.

Even so, inflation is continuing to run hotter than expected ...

Underlying the change in our OCR forecast has been the ongoing strength in inflation. Consumer prices rose by 2.2% over the past three months and are up 7.2% over the past year. The result was stronger than our forecast for a 1.8% rise over the quarter, and it was also well above the RBNZ's last published forecast for a 1.4% increase.

... with pressures widespread across the economy ...

Importantly, the strength in prices hasn't been limited to a few categories. Inflation pressures are broad based and running red-hot right across the economy, including ongoing strength in the domestically oriented non-tradable components. That strong underlying inflation pulse has been reflected in measures of core inflation, which smooth through quarter-to-quarter volatility and track the underlying trend in prices. Most core inflation measures are now running above 6%. And the RBNZ's own 'Sectoral factor model' of core inflation has lifted to 5.4% – well outside the 1-3% target band for inflation.

... and price rises in 'core' categories not slowing down.

Notably, core inflation has actually pushed higher even as headline inflation has nudged down. That highlights that inflation pressures are not easing despite the sharp rise in interest rates over the past year. It also means that the RBNZ still has a lot more to do to slay the inflation dragon.

The labour market remains highly stretched ...

On top of the ongoing strength in inflation, we're continuing to see resilience in domestic economic activity. That's been seen on several key fronts. First, the labour market remains white hot, with the unemployment rate sitting at just 3.3%. Jobs growth has remained strong in recent months, with employment rising by a solid 1.6% in the September quarter. We've also seen ongoing strength in job advertisements and high levels of staff turnover. Consistent with those conditions, wage rates have been rising rapidly as businesses have struggled to both attract and retain staff. In fact, average hourly earnings in the private sector are up 8.5% over the past year, the largest increase on record. Such developments do not point to an economy that is coming off the boil.

... household balance sheets are in good shape ...

Secondly, household balance sheets remain in relatively good shape. Mortgage rates have been rising for some time, and increasing numbers of borrowers are now rolling off the very low fixed rates that were on offer through the pandemic. However, the drag from those rate increases has been relatively limited to date with households still spending a very low share of their income on interest payments. In addition, households' finances have come through the pandemic in good shape, with disposable incomes and savings rates pushing higher in recent years. That's providing them with a buffer from headwinds like higher inflation and interest rates. Consistent with that, nominal household spending levels have remained firm.

... and demand is being boosted by the return of international tourists.

Lastly, demand in the economy is getting a sizeable boost from the reopening of the borders and the return of international tourists. While visitor numbers are still running below pre-pandemic levels, they have been climbing rapidly, and they are set to continue rising over the months ahead. That's helping to offset any cooling in domestic demand, and is also adding to the demand for workers in labour-intensive industries like hospitality.

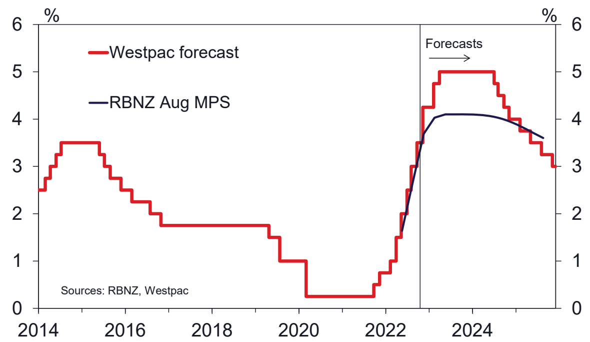
Combined, those conditions mean the cash rate will need to push further into tight territory.

With resilient economic activity, the current strong inflation pressures are likely to be with us for some time yet. We're also likely to see further increases in wage rates, which would reinforce the pressure on domestic prices. Against this backdrop, the RBNZ will need to take the cash rate much further into tight territory than they had previously anticipated. Indeed, the battle against inflation is far from over.

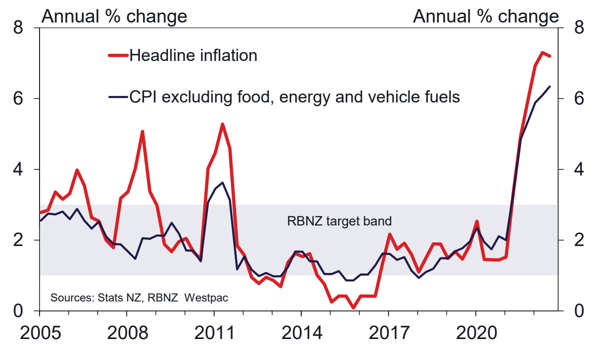
Michael Gordon, Acting Chief Economist and **Satish Ranchhod,** Senior Economist

… in response to persistent inflation pressures

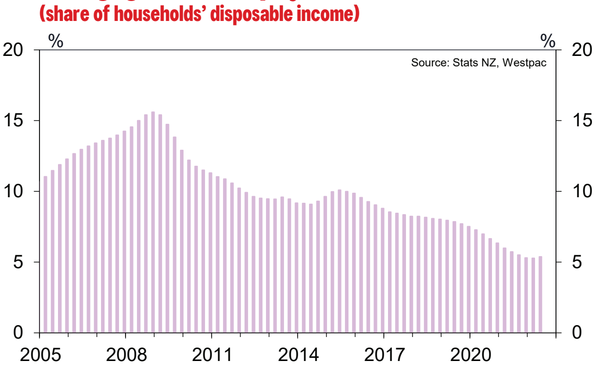
RBNZ Official Cash Rate



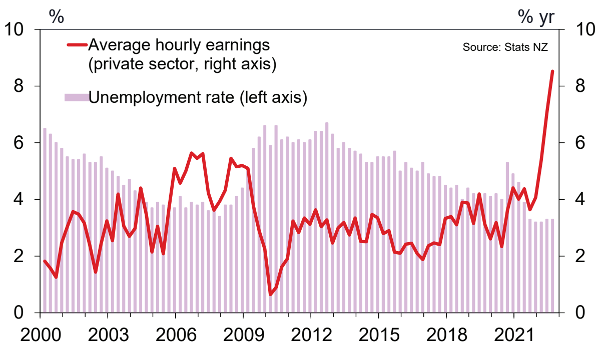
Consumer price inflation



Mortgage interest payments
(share of households' disposable income)



Unemployment and earnings growth



	2021			2022								
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
REINZ house sales %mth	21.6	–1.3	–5.8	–7.1	0.4	–2.4	–1.2	–2.6	–10.5	–0.8	2.7	–4.1
Residential building consents %mth	–2.1	0.5	0.6	–9.5	11.7	7.0	–9.4	–0.4	–2.2	5.0	–1.6	3.8
Electronic card transactions %mth	10.1	9.2	2.0	1.9	–7.6	1.9	7.2	1.6	–0.1	–0.2	0.8	2.5
Private sector credit %yr	7.6	7.7	7.5	7.3	7.3	6.9	6.8	6.4	6.0	5.6	5.6	5.6
Commodity prices %mth	2.1	2.8	–0.3	1.0	3.9	3.9	–1.9	–4.3	–0.4	–2.2	–3.4	–0.5
Trade balance $m	–985	–704	–1174	–1031	–1208	–1228	–518	–759	–1383	–1597	–918	8

Quarterly data	**Q4:20**	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**
Westpac McDermott Miller Consumer Confidence	106.0	105.2	107.1	102.7	99.1	92.1	78.7	87.6
Quarterly Survey of Business Opinion	2	4	24	10	–2	–7	0	3
Unemployment rate %	4.9	4.6	3.9	3.3	3.2	3.2	3.3	3.3
CPI %yr	1.4	1.5	3.3	4.9	5.9	6.9	7.3	7.3
Real GDP %yr	–2.1	–1.4	5.1	4.8	5.5	4.9	1.0	–
Current account balance % of GDP	–0.8	–2.6	–3.4	–4.8	–6.0	–6.8	–7.7	–

Sources: ANZ, Statistics NZ, REINZ, RBNZ, NZIER, Westpac Economics.

FOMC signal there is more ...

Fully priced for the November rate outcome, participants instead ...

Ahead of the November FOMC decision, the pace and outlook for US inflation remained challenging as private demand slowed to a crawl and employers showed signs of pulling back on wage gains amid growing uncertainty over the outlook for activity.

The market therefore looked straight past the 75bp hike delivered by the FOMC to the detail and tone of the accompanying guidance. In the statement, two points were added, one to highlight the need for contractionary policy for an extended period to remove inflation risks, and another to recognise that policy has already been tightened materially, with the full effect of these decisions still to come.

... focused on the accompanying message from Chair Powell and the FOMC.

The phrase "in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time" speaks to the FOMC's belief that demand is still in excess of supply in the US economy, leading to persistent inflation risks. This is true both of consumer prices, which are growing at a multiple of the FOMC's 2.0%yr target, and also the labour market where the unemployment rate is near record lows and nominal wage growth is elevated.

In the past few months however, the data has provided clear evidence that the rapid tightening of policy undertaken by the FOMC is having an effect and also that the supply concerns of the US and global economy are receding. With respect to consumer price inflation, not only has the wave of goods inflation experienced through 2021 and early 2022 now abated, but we are also beginning to see price pressures associated with the service sector re-opening of 2022 ebb.

If there are no further upside surprises for inflation and employment...

Ahead, it looks as though US consumer inflation will be dictated by prices largely out of the control of the FOMC such as food prices and those that are, in some respects, positively related to interest rates like rents, with institutional investors active in the rental market looking to keep the return to investors ahead of rising treasury yields while higher actual and expected funding costs delay the pipeline of new construction.

... a reduction in the pace of rate hikes is near, with the cumulative effect of rates...

When assessing the outlook for the US economy and monetary policy, it is also important to recognise that private sector wage and benefit growth looks to be entering a downtrend, private sector total compensation having slowed from a near 6% annualised pace in the June quarter to circa 4.5% in the three months to September. Household consumption and business investment also slowed to a crawl in the September quarter, and forward indicators point to building downside risks.

One outcome certainly does not make a trend, but with the stance of policy already contractionary and the lags associated with policy often long, immediate momentum in key indicators like private wage growth and employment must be carefully assessed and factored in.

... to be taken into account. However, the FOMC still feel rate hikes will need to...

We see this now occurring at the Federal Reserve, with the FOMC Committee to "take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments".

So what does the road ahead for US monetary policy look like? We remain confident that the December meeting will see a reduction in the pace of tightening by the FOMC, with a 50bp forecast. The next meeting at the end of January will likely see another reduction in the scale of rate hikes to 25bps assuming the current trends in inflation, wages and employment persist.

... continue, potentially to mid-2023 if an inflation downtrend is not definitive...

Westpac believes that the resulting fed funds rate of 4.625% is tight enough to get inflation back to target in time. However, it was clear from the press conference that Chair Powell still sees inflation risks as biased to the upside, potentially creating need for the Committee to continue raising at a slow pace towards the middle of 2023.

For these decisions, of as much significance as the activity and price data will be real yields across the curve. It these benchmarks remain materially above zero, the FOMC will likely be comfortable to remain on hold from the March meeting.

... or participants ease financial conditions, best gauged by real yields.

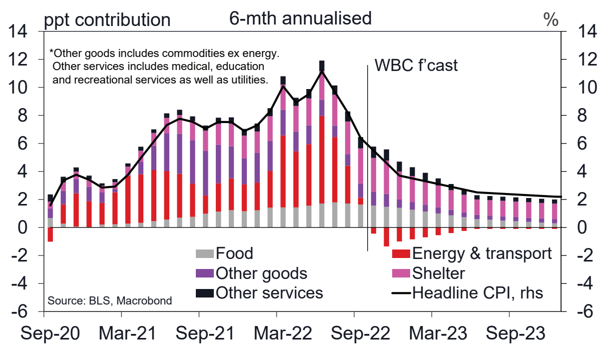
But, if the market immediately turn from pricing rate hikes to rate cuts, the FOMC will likely see a need to sustain the hiking cycle to hold up term interest rates and restrict inflation, with the economy at risk of recession as a result.

Interest rate cuts are unlikely to come onto the FOMC's agenda until 2024. And even then, we suspect that policy will be normalised towards a neutral level slowly over the 18 months to June 2025.

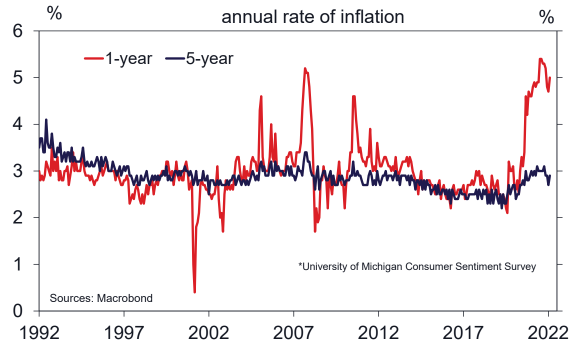
Elliot Clarke, CFA, Senior Economist

... work to be done

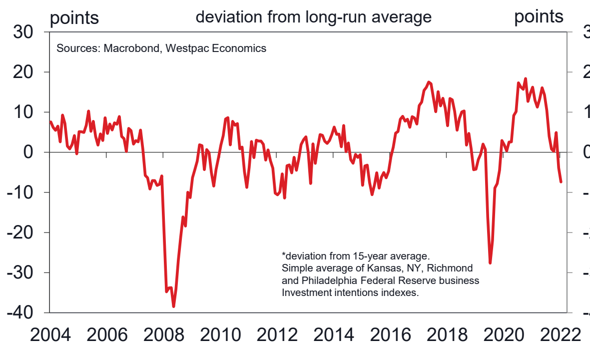
US inflation downtrend being established



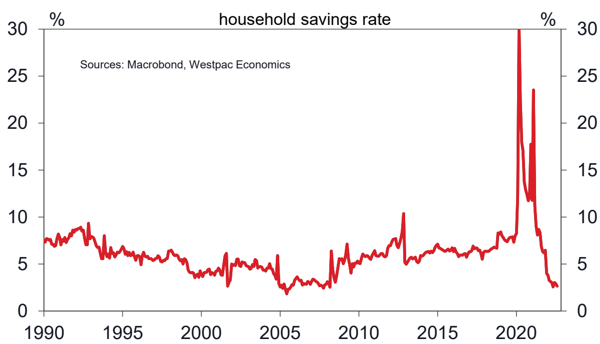
Households see inflation easing, eventually



Investment intentions highlight g'th risks



Household savings also heavily constrained



	2021		2022									
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
PCE deflator %yr	5.9	6.0	6.1	6.4	6.8	6.4	6.5	7.0	6.4	6.2	6.2	–
Unemployment rate %	4.2	3.9	4.0	3.8	3.6	3.6	3.6	3.6	3.5	3.7	3.5	–
Non-farm payrolls chg '000	647	588	504	714	398	368	386	293	537	315	263	–
House prices* %yr	18.3	18.5	19.0	20.3	21.2	21.3	20.5	18.6	16.0	13.1	–	–
Durables orders core 3mth %saar	9.6	11.4	9.3	5.2	9.6	5.1	8.2	7.5	9.0	10.8	4.7	–
ISM manufacturing composite	60.6	58.8	57.6	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2
ISM non-manufacturing composite	68.4	62.3	59.9	56.5	58.3	57.1	55.9	55.3	56.7	56.9	56.7	54.4
Personal spending 3mth %saar	10.6	6.4	6.3	7.1	13.5	9.7	9.5	9.3	6.8	6.3	4.0	–
UoM Consumer Sentiment	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9
Trade balance USDbn	-78.0	-78.9	-88.0	-87.8	-106.9	-86.7	-85.9	-80.9	-70.5	-65.7	-73.3	–

Quarterly data	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22f
Real GDP % saar	2.7	7.0	-1.6	-0.6	2.6	1.0
Current account USDbn	-226.4	-224.8	-282.5	-251.1	–	–

Sources: Government agencies, Bloomberg, *S&P Case-Shiller 20-city measure.

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.

China's geopolitical strength to ...

The National Party Congress delivered for President Xi ...

It has been an eventful fortnight for China, with the National Party Congress delivering President Xi a third consecutive 5-year term (at a minimum); a Standing Committee fully committed to achieving his vision for China; and, albeit with a delay, a strong bounce in GDP in Q3. Notably, GDP's 3.9% Q3 gain was a percentage point above the market's expectation and more than fully reversed Q2's loss – the result of the Shanghai lockdown and associated shocks. Year-to-date, GDP is now up 3.0%, a striking contrast to Q2's 0.4%. From the contributions detail, it is evident that: consumption remains under pressure (+1.2ppts in 2022 compared to a 10-year average of almost 4ppts); investment (+0.8ppts) is being burdened by residential construction but is still robust overall; while external demand continues to provide strong support (+1.0ppts).

... but not markets. The economy however is looking in robust health ...

Looking at the monthly run of data through Q3, there are mixed messages for the outlook. Retail sales disappointed in September after beating expectations in August (0.7% and 0.5% respectively year-to-date). And, while the online sales data suggests pent-up demand is robust, the catering/ food services detail makes clear that COVID-zero restrictions are a material constraint on activity. Until consumers have more confidence and freedom to spend across the economy, expect the household demand growth to remain modest and volatile.

... with the obvious headwinds unable to stop a strong rebound in Q3 ...

The investment detail is also interesting, with growth in total fixed asset investment largely meeting expectations in September despite yet another downside surprise for residential construction (respectively 5.9% and -8.0% year-to-date). Utilities and other infrastructure spending by local government authorities remains the driving force for investment; however, this is not a risk to the outlook, with plenty more to do across the provinces to build out the capital China's society needs for the next stage of its development, including the green transition. Further, as this investment is undertaken, and the gains from domestic consumption and trade accumulate, the incentive for private investment will grow.

... which we expect to persist into 2023.

On international trade, it was notable that, as developed-world demand weakened through Q3, China's trade surplus remained strong, printing at close to twice the quarter average of the past five years. Underneath this headline result are two key themes: (1) Asia's burgeoning significance as an export market; and (2) import growth remaining weak at just 0.3%yr versus 5.7%yr for exports (in US dollars). Into the medium-term, China's economic development will diversify its export opportunities in Asia, while dual circulation limits import growth.

President Xi's position and legacy will depend on China's growth and development.

While the market and indeed respondents to the NBS PMIs have taken President Xi's tight control of the Standing Committee negatively, his message at the end of the National Congress was unquestionably pro-growth over the medium to long-run. China's economic capacity; the ability of authorities to co-ordinate; and the growth opportunities throughout Asia speak to a high probability and scale of return. Success however will set China on a collision course with the US as China's share of the global economy and wealth continues to grow, and the leadership seek recognition. This reality speaks to the high likelihood of persistent geopolitical uncertainty and combative trade relations, to the detriment of global productivity and efficiency.

The Party know this, but so does the US, creating enduring risk of instability.

The US' protectionist semiconductor policy and Inflation Reduction Act are certain to be the next significant areas of conflict between the two nations, the two policies potentially having material consequences for China's planned technological development and their ability to benefit from the global green transition. A highly-connected and prosperous China is the only way President Xi can achieve his aims for the nation and his time in leadership. Development must continue.

Elliot Clarke, CFA, Senior Economist

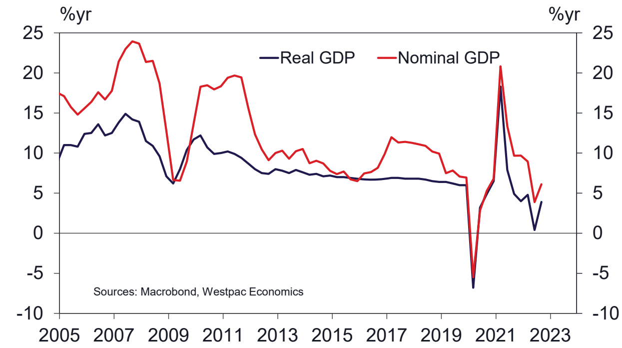
	2021		2022									
Monthly data %yr	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Consumer prices – headline	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	–
Money supply M2	8.5	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	–
Manufacturing PMI (official)	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2
Fixed asset investment %ytd	5.2	4.9	4.9	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	–
Industrial production (IVA)	3.8	4.3	4.3	7.5	5.0	–2.9	0.7	3.9	3.8	4.2	6.3	–
Exports	21.7	20.8	23.9	6.0	14.4	3.5	16.3	17.4	17.8	7.1	5.7	–
Imports	31.4	19.7	20.9	11.7	0.7	0.2	3.9	0.7	2.1	0.3	0.3	–
Trade balance USDbn	71.7	93.7	82.5	27.8	44.7	49.6	77.6	97.4	101.4	79.4	84.7	–

Quarterly data	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**
Real GDP %yr	7.9	4.9	4.0	4.8	0.4	3.9
Nominal GDP %yr	13.6	9.8	9.4	8.9	3.9	6.1

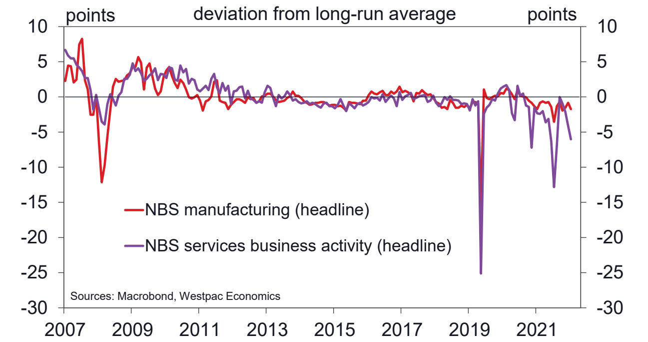
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... remain a concern for the West

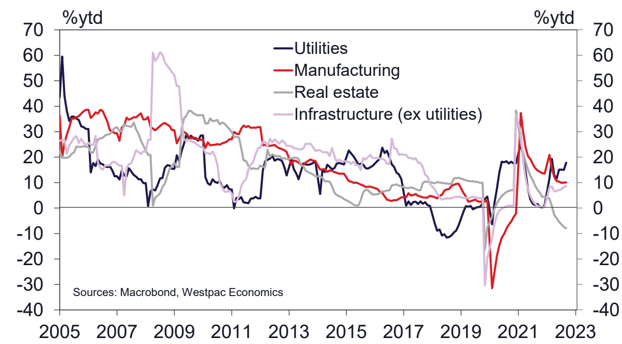
Q3 saw a strong bounce in activity



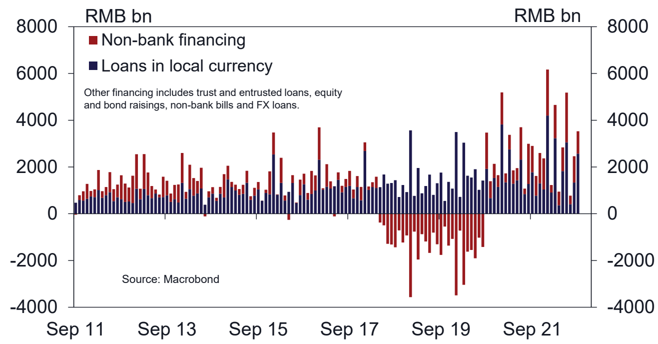
Near-term risks remain; for sentiment too



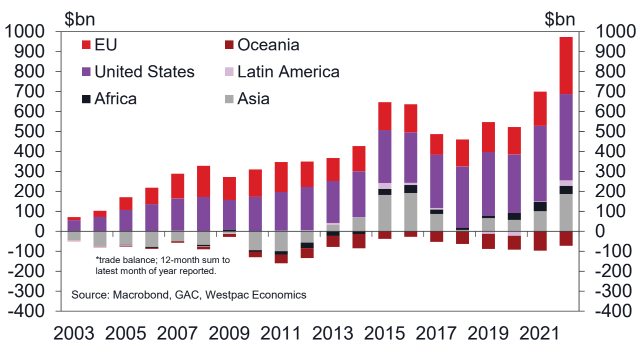
Fixed asset investment outlook promising



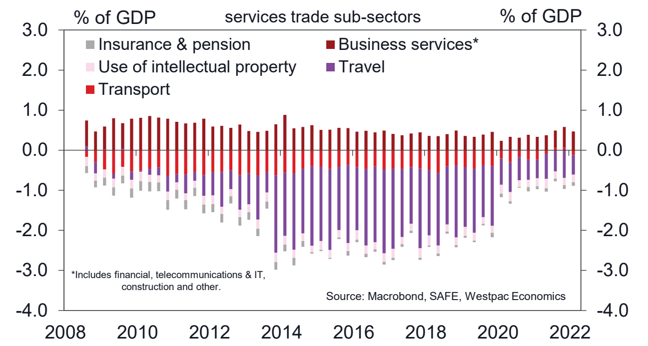
Authorities to make sure credit is available



China is diversifying its export markets



Services support for net exports to persist



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.

ECB delivers another 75bp hike …

After delivering another 75bp rate hike, the ECB …

The ECB delivered a second consecutive 75bp hike at their October meeting, raising the refi rate to a two-decade high of 2.0%. Additionally, the interest rate associated with their longer-term TLTRO III financing operations has been lifted for new rounds of lending from November 23, and from December 21, the remuneration of minimum reserves that are required to be held by credit institutions will be lowered to better reflect market conditions. However, the decision on balance sheet reduction was delayed to December, whereupon updated forecasts are received.

… took time to reflect on the risks to the outlook.

Whilst this set of policy changes reinforced the Governing Council's resolve in the fight against inflation, the associated rhetoric in President Lagarde's subsequent press conference underscored their cognisance of the immediate and medium-term risks to economic activity in the Euro Area.

Inflation continues to intensify and broaden …

Of course, inflation remains a critical threat to the region's economic health. The October CPI flash estimate printed a fresh record high of 10.7%yr. Available component detail from the month indicates that energy inflation remains at an elevated level (41.9%yr), while food/non-alcoholic beverages continue to post strong monthly gains (15.4%yr). Alongside the intensity of these components, the breadth of the inflationary pulse is becoming increasingly concerning. Core inflation is now running at a 5.0% annual pace, and around 85% of the consumption basket is running at an annual pace that exceeds the ECB's 2.0%yr inflation target.

… and credit standards are tightening appreciably.

That said, the ECB's Q3 Bank Lending Survey suggests that rising interest rates, in response to these historic inflation pressures, are beginning to materially impact on the economy. Consumers' demand for credit, particularly for mortgage lending, is deteriorating sharply. Meanwhile, businesses are still desperately reaching for near-term loan support as they grapple with elevated input costs and growing inventories. Banks meanwhile are continuing to implement a broad-based tightening of credit standards, citing heightened risk perceptions as a key deterrent.

When assessing the outlook for the Euro Area economy and monetary policy though, it is also important to recognise that, despite the raft of economic and geopolitical headwinds, the region continues to exhibit a high degree of adaptability and resilience.

More positively, gas storage volumes have exceeded targets …

An example of this is energy security. While the Russia-Ukraine conflict and its impact on gas flows have represented an existential threat, authorities have managed to offset much of the loss of Russian gas imports by increasing LNG imports, namely from the US. Benefiting from warmer weather over Autumn, European gas storage volumes have lifted to 95% capacity, comfortably surpassing the European Commission's 80% target. Consequently, anxiety over Europe's energy situation has eased, resulting in the region's gas prices retreating from the extreme high of US$70/mmbtu in August to around US$40/mmbtu in October. Into the longer-term, the RePowerEU initiative will also provide a robust foundation for a cost-effective and sustainable transition towards renewable energy.

… and economic growth remains robust, despite the challenging backdrop.

Testament to the Euro Area's resilience is Q3 GDP which printed at 0.2% following robust growth of 0.8% in Q2 and 0.6% in Q1 - all of which were stronger than initially anticipated. Regarding the big four, Germany and Italy posted major upside surprises, at 0.3% (market: -0.2%) and 0.5% (market: 0.0%), while France and Spain grew by 0.2% in the quarter. The slowdown in Q3 likely captures a broad slowdown in household spending and business investment as still elevated energy prices weigh on activity. Offsetting this, tourism has been a key source of support to the economy in 2022.

We expect a further 75bps of tightening in the cycle.

Since the beginning of the tightening cycle, we have argued that, given the extent of inflationary pressures and immense downside risks facing the European growth outlook, the ECB would likely have to look past near-term weakness in activity as they delivered substantial rate hikes. Fortunately, the European economy has outperformed and continues to expand despite the intensely challenging economic and geopolitical backdrop.

To our view, policy rates have not yet reached a level to fully combat the intense inflationary pressures facing the region. Hence, we expect a total of 75bps of rate hikes remain in this cycle, leaving the refi rate at a peak of 2.75% from early 2023 through to early 2024.

The BoE raised the bank rate 75bps to 3.0% in November.

Finally to the UK. After a tumultuous few weeks in politics and markets, the Bank of England also delivered a 75bp rate hike, lifting the bank rate to 3.0%. In similar fashion, the Committee were conscious of the bleak economic outlook, as they continue to expect a sustained recession through 2023 and H1 2024, while inflation is to remain elevated in 2023 before sinking below target in 2024.

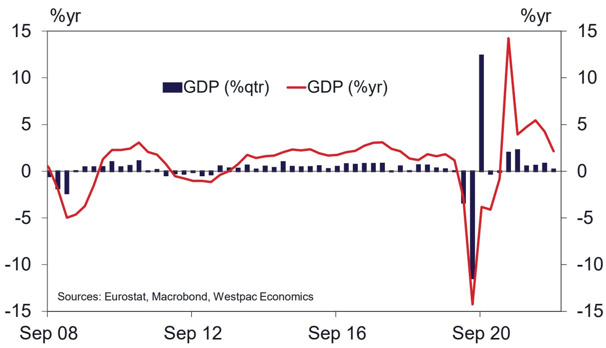
The bleak outlook will see the pace of tightening slow - with rates to peak at 4.0%.

Given the Bank's central projections are based on market pricing (measured at a 5.25% peak), subsequent scenario analysis indicates that, albeit still materially weak, more desirable outcomes can be achieved with a bank rate on hold at 3.0%. Governor Bailey thus made clear that market pricing has gone too far. While more rate hikes will follow, November's 75bp is likely a one-off. We expect that a slower pace of tightening will lead the bank rate to a peak of 4.0% by March 2023.

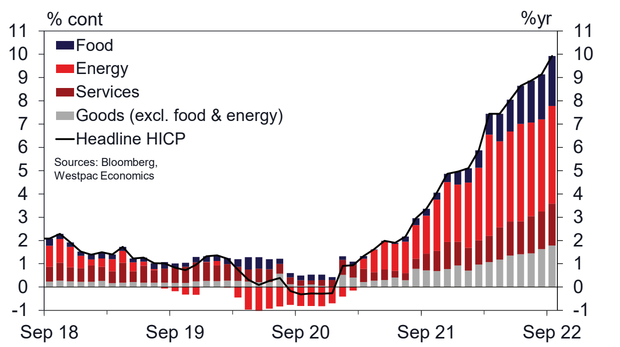
Ryan Wells, Economist

… as economic resilience ensues

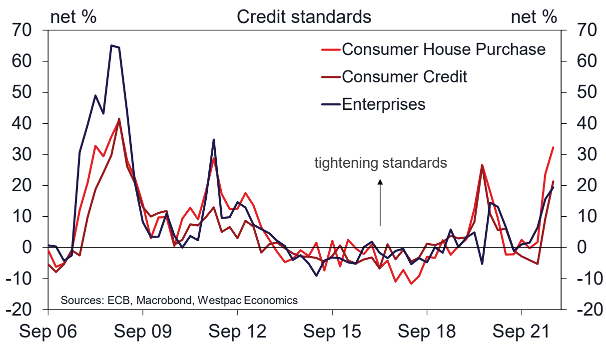
Growth resilient despite headwinds



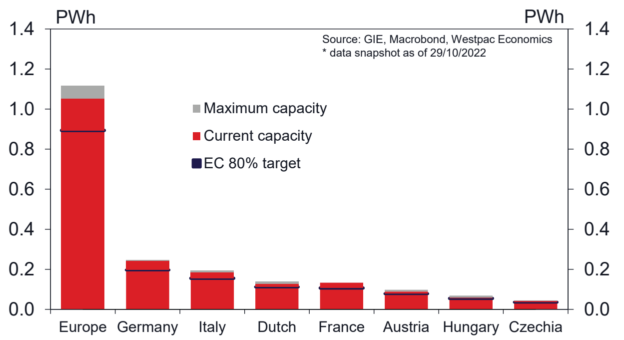
Energy has fed straight into CPI



Bank standards tightening amid risks



Gas storage volumes well above target



	2021		2022									
Europe	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Eur consumer prices %yr	4.9	5.0	5.1	5.9	7.5	7.5	8.1	8.6	8.9	9.1	10.0	10.7
Eur unemployment rate %	7.1	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.7	6.7	6.6	–
Eur industrial production %yr	–1.3	1.9	–1.3	1.6	–1.0	–2.5	1.6	2.1	–2.5	2.5	–	–
Eur retail sales volumes %yr	8.5	2.3	8.5	5.1	1.8	4.4	0.7	–3.0	–1.2	–2.0	–	–
Eur consumer confidence	–8.1	–9.3	–9.7	–9.6	–21.7	–22.1	–21.2	–23.8	–27.0	–25.0	–28.8	–27.6
Eur current account balance €bn	13.8	10.3	11.3	4.1	–3.2	–13.5	–16.1	–10.0	–20.0	–26.3	–	–
United Kingdom												
UK Consumer price index %yr	5.1	5.4	5.5	6.2	7.0	9.0	9.1	9.4	10.1	9.9	10.1	–
UK unemployment rate % (ILO)	4.1	4.0	4.0	3.8	3.7	3.8	3.8	3.8	3.6	3.5	–	–
UK industrial production %yr	–1.5	–2.2	–1.0	–1.6	–2.5	–2.2	–3.5	–1.8	–3.2	–5.2	–	–
UK retail sales volumes %yr	3.3	1.2	9.5	7.6	2.2	–6.1	–4.9	–6.0	–3.3	–5.6	–6.9	–
UK consumer confidence	–14	–15	–19	–26	–31	–38	–40	–41	–41	–44	–49	–47

Quarterly data	**Q1:21**	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**
Eur GDP %qtr/%yr	–0.1/–0.8	2.0/14.2	2.3/3.9	0.5/4.8	0.6/5.5	0.8/4.3	0.2/2.1
UK GDP %qtr/%yr	–1.2/–7.8	6.5/24.3	1.8/8.5	1.6/8.9	0.7/10.9	0.2/4.4	–/–
UK current account balance £bn	–12.3	–6.9	–23.1	–3.2	–43.9	–33.8	–/–

Source: Official agencies.

FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	2.85	3.10	3.60	3.85	3.85	3.85	3.60	3.35
90 Day BBSW	3.06	3.55	3.97	4.05	4.05	3.97	3.72	3.47
3 Year Swap	4.09	3.90	4.00	3.85	3.70	3.60	3.55	3.50
3 Year Bond	3.42	3.55	3.70	3.60	3.50	3.40	3.35	3.30
10 Year Bond	3.90	3.80	3.80	3.60	3.40	3.20	3.00	2.90
10 Year Spread to US (bps)	-25	-20	-20	-20	-20	-20	-10	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
AUD vs								
USD	0.6289	0.65	0.66	0.67	0.69	0.72	0.73	0.74
JPY	93.19	95.6	95.7	95.8	96.6	97.9	97.1	96.2
EUR	0.6450	0.65	0.65	0.66	0.66	0.67	0.67	0.67
NZD	1.0899	1.12	1.12	1.12	1.11	1.11	1.11	1.12
CAD	0.8644	0.88	0.88	0.88	0.90	0.92	0.93	0.94
GBP	0.5634	0.58	0.58	0.58	0.58	0.60	0.60	0.60
CHF	0.6373	0.64	0.65	0.65	0.66	0.68	0.68	0.68
DKK	4.7997	4.84	4.86	4.89	4.94	5.01	4.98	5.01
SEK	7.0401	7.09	7.13	7.17	7.24	7.34	7.31	7.34
NOK	6.6508	6.70	6.73	6.77	6.84	6.94	6.90	6.93
ZAR	11.57	11.8	11.9	11.9	12.1	12.4	12.5	12.6
SGD	0.8941	0.92	0.92	0.92	0.93	0.96	0.96	0.98
HKD	4.9368	5.10	5.15	5.23	5.35	5.58	5.66	5.74
PHP	37.20	37.7	37.6	37.5	37.3	37.4	37.9	38.5
THB	23.89	24.1	24.0	23.7	23.6	23.8	24.0	24.4
MYR	2.9839	3.06	3.04	3.02	3.04	3.10	3.13	3.18
CNY	4.6021	4.68	4.62	4.56	4.55	4.68	4.67	4.66
IDR	9871	10140	10164	10117	10212	10440	10542	10721
TWD	20.48	20.3	20.3	20.4	20.6	21.3	21.5	21.9
KRW	896	910	911	905	911	929	931	947
INR	52.14	52.7	52.8	52.3	52.1	53.6	53.7	54.0

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2021	2022				2023			Calendar years		
%qtr / yr avg	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	6.5	2.2	2.2	1.3	0.5	0.3	0.2	–5.8	4.9	7.4	2.3
Dwelling investment	–2.0	–0.5	–2.9	2.7	2.7	0.9	–0.5	–5.5	9.8	–1.6	1.4
Business investment*	0.8	1.0	0.6	2.1	2.0	1.2	0.4	–4.2	6.2	3.8	3.2
Private demand *	4.7	1.7	1.4	1.4	0.8	0.4	0.1	–5.3	6.1	5.8	2.0
Public demand *	0.3	2.5	0.0	0.8	0.8	0.4	0.3	6.0	6.1	5.5	1.9
Domestic demand	3.5	1.9	1.0	1.2	0.8	0.4	0.2	–2.4	6.1	5.7	2.3
Stock contribution	1.0	1.0	–1.2	0.3	–0.2	–0.1	–0.3	0.0	0.6	0.3	–0.6
GNE	4.4	2.9	–0.2	1.5	0.5	0.3	–0.1	–2.5	6.8	6.0	1.4
Exports	–1.1	–0.8	5.5	1.6	2.5	2.1	2.1	–9.8	–1.8	3.5	9.5
Imports	0.6	11.3	0.7	3.6	2.3	1.7	1.0	–13.0	6.3	14.0	7.0
Net exports contribution	–0.4	–2.3	1.0	–0.4	0.0	0.1	0.2	0.4	–1.6	–2.0	0.5
Real GDP %qtr / yr avg	**3.9**	**0.7**	**0.9**	**1.1**	**0.6**	**0.3**	**0.2**	–2.1	4.9	4.2	1.9
%yr end	**4.5**	**3.3**	**3.6**	**6.7**	**3.4**	**3.0**	**2.2**	**–0.7**	**4.5**	**3.4**	**1.0**
Nominal GDP %qtr	3.6	4.1	4.3	1.4	2.3	0.4	0.1				
%yr end	10.4	10.5	12.1	14.0	12.6	8.6	4.2	0.9	10.4	12.6	0.5

Other macroeconomic variables

	2021	2022				2023			Calendar years		
% change	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Employment (2)	0.8	2.1	0.9	0.3	0.6	0.5	0.0	–	–	–	–
%yr	2.4	3.4	3.3	4.2	4.0	2.4	1.5	–1.0	2.4	4.0	0.2
Unemployment rate % (2)	4.7	4.0	3.8	3.5	3.3	3.4	3.8	6.8	4.7	3.3	4.5
Wages (WPI) (2)	0.7	0.7	0.7	1.1	1.2	1.1	1.0	–	–	–	–
%yr	2.3	2.4	2.6	3.1	3.7	4.2	4.4	1.4	2.3	3.7	4.5
CPI Headline (2)	1.3	2.1	1.8	1.8	1.9	1.2	0.9	–	–	–	–
%yr	3.5	5.1	6.1	7.3	7.9	6.9	6.0	0.9	3.5	7.9	4.1
Core inflation trimmed mean	1.1	1.5	1.6	1.8	1.8	1.2	1.0	–	–	–	–
%yr (2)	2.6	3.8	4.9	6.1	6.8	6.5	5.9	1.2	2.6	6.8	3.8
Current account AUDbn	9.7	2.8	18.3	4.0	7.0	1.0	–3.0	47.0	68.4	32.0	–22.0
% of GDP	1.7	0.5	3.0	0.6	1.1	0.2	–0.5	2.4	3.2	1.3	–0.9
Terms of trade annual chg (1)	10.0	9.8	7.5	0.4	6.8	–4.9	–12.6	–0.2	17.6	6.0	–11.0

Calendar year changes are (1) period average for GDP, terms of trade, unless otherwise stated (2) through the year for inflation, wages and employment. Unemployment is year end.
* GDP & component forecasts are reviewed following the release of quarterly national accounts.
** Business investment and government spending adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

	2021	2022									
Monthly data	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Employment '000 chg	70	19	106	36	10	39	68	–37	36	1	–
Unemployment rate %	4.2	4.2	4.0	3.9	3.9	3.9	3.5	3.4	3.5	3.5	–
Westpac–MI Consumer Sentiment	104.3	102.2	100.8	96.6	95.8	90.4	86.4	83.8	81.2	84.4	83.7
Retail trade %mth	–4.1	1.6	1.8	1.6	0.9	0.7	0.2	1.3	0.6	0.6	–
Dwelling approvals %mth	8.9	–24.3	38.5	–15.3	–0.9	8.7	0.4	–15.2	23.1	–5.8	–
Credit, private sector %yr	7.2	7.6	8.0	8.0	8.6	9.1	9.1	9.1	9.3	9.4	–
Trade balance AUDbn	7.6	12.1	7.0	9.1	12.1	14.0	17.6	9.1	8.7	12.4	–

New Zealand

Interest rate forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Cash	3.50	4.25	4.75	5.00	5.00	5.00	5.00	5.00
90 Day Bill	4.17	4.55	5.00	5.10	5.10	5.10	5.10	4.80
2 Year Swap	5.22	5.00	4.90	4.80	4.60	4.40	4.15	3.90
10 Year Bond	4.59	4.50	4.50	4.30	4.20	4.00	3.80	3.70
10 Year Spread to US	44	50	50	50	60	60	70	80
10 Year Spread to Aust	69	70	70	70	80	80	80	80

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
NZD vs								
USD	0.5770	0.58	0.59	0.60	0.62	0.65	0.66	0.66
JPY	85.50	85.3	85.6	85.8	86.8	88.4	87.1	85.8
EUR	0.5918	0.58	0.58	0.59	0.60	0.61	0.60	0.60
AUD	0.9175	0.89	0.89	0.90	0.90	0.90	0.90	0.89
CAD	0.7931	0.79	0.79	0.79	0.81	0.83	0.83	0.84
GBP	0.5169	0.51	0.52	0.52	0.53	0.54	0.54	0.53
CNY	4.213	4.18	4.13	4.08	4.09	4.23	4.19	4.16

^ Approximate market forward price for NZD/USD, not a forecast. Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2021	2022				2023		Calendar years			
% qtr / yr change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	5.3	5.0	-3.1	0.1	-0.1	0.0	0.1	-1.2	6.2	2.3	-0.3
Government consumption	3.8	2.0	0.6	-0.7	-0.7	-0.7	-0.7	6.9	9.9	6.4	-2.7
Residential investment	7.4	-0.1	1.0	0.8	0.6	0.2	0.2	-3.2	7.8	1.3	0.9
Business investment	13.8	-0.2	-4.0	0.8	1.7	1.3	0.6	-8.8	9.7	4.1	2.7
Stocks (ppt contribution)	-2.9	0.4	-0.2	-0.1	0.1	0.0	0.0	-0.8	1.5	-0.8	0.1
GNE	4.5	2.0	-1.0	0.0	0.3	0.1	0.1	-1.9	9.2	2.6	-0.1
Exports	-1.0	-14.6	20.5	2.8	4.0	3.1	2.6	-12.7	-3.6	0.6	16.2
Imports	3.2	-2.6	-1.4	2.6	2.0	1.0	1.0	-16.0	14.9	2.7	5.0
GDP (production)	**3.0**	**-0.2**	**1.7**	**0.4**	**0.6**	**0.6**	**0.5**	**-2.1**	**5.5**	**2.2**	**2.2**
Employment annual %	3.3	2.6	1.4	1.2	1.2	1.3	1.4	0.6	3.3	1.2	0.6
Unemployment rate % s.a.	3.2	3.2	3.3	3.3	3.4	3.5	3.6	4.9	3.2	3.4	3.8
Labour cost index, all sect incl o/t, ann %	2.6	3.0	3.4	3.7	4.1	4.3	4.4	1.6	2.6	4.1	4.3
CPI annual %	**5.9**	**6.9**	**7.3**	**7.2**	**6.2**	**5.7**	**4.9**	**1.4**	**5.9**	**6.2**	**4.1**
Current account balance % of GDP	-6.0	-6.8	-7.7	-7.7	-7.1	-6.0	-5.3	-0.8	-6.0	-7.1	-4.4
Terms of trade annual %	2.8	3.3	-2.4	0.5	1.4	1.6	4.7	-1.6	2.8	1.4	2.3

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (4 Nov)***	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Australian commodities index#	330	318	306	294	278	263	**259**	**257**	**255**	**259**	**275**
Bulk commodities index#	**500**	**455**	**431**	**413**	**378**	**334**	**318**	**300**	**279**	**277**	**319**
iron ore finesTSI @ 62% US$/t	80	80	79	76	73	70	67	64	61	60	85
Qld coking coal index (US$/t)	293	275	235	230	225	216	206	196	186	186	187
Newcastle spot thermal coal (US$/t)	383	375	350	300	225	150	140	130	115	105	105
crude oil (US$/bbl) Brent ICE	93	90	85	87	90	92	97	105	110	115	110
LNG in Japan US$mmbtu	17.83	17.7	16.4	15.3	15.4	15.8	15.9	16.5	17.6	18.2	18.7
gold (US$/oz)	1,663	1,675	1,650	1,675	1,700	1,725	1,735	1,735	1,735	1,745	1,755
Base metals index#	**196**	**193**	**188**	**192**	**199**	**211**	**214**	**218**	**226**	**237**	**229**
copper (US$/t)	7,636	7,550	7,450	7,750	8,000	8,500	8,600	8,700	9,176	9,656	9,362
aluminium (US$/t)	2,232	2,200	2,150	2,175	2,200	2,500	2,600	2,700	2,777	2,853	2,729
nickel (US$/t)	22,900	22,200	21,750	21,550	21,650	21,750	22,250	22,500	23,700	24,907	24,582
zinc (US$/t)	2,766	2,800	2,650	2,700	3,000	3,150	3,125	3,110	3,105	3,246	3,112
lead (US$/t)	1,983	1,890	1,775	1,750	1,875	1,800	1,825	1,850	1,875	1,964	1,862
Rural commodities index#	**160**	**166**	**172**	**177**	**177**	**175**	**174**	**190**	**200**	**209**	**201**
NZ commodities index ##	**364**	**344**	**335**	**341**	**347**	**351**	**354**	**356**	**358**	**360**	**362**
dairy price index ^^	331	316	310	323	333	336	340	342	344	346	349
whole milk powder US$/t	3,279	3,253	3,343	3,500	3,550	3,600	3,625	3,650	3,675	3,700	3,728
skim milk powder US$/t	2,972	3,016	3,202	3,400	3,450	3,500	3,550	3,600	3,625	3,650	3,677
lamb leg UKp/lb	567	549	537	536	539	542	545	548	551	554	557
bull beef US¢/lb	253	238	228	227	229	230	232	233	235	236	238
log price index ##	171	169	166	165	165	165	165	165	165	165	165
strong wool US¢/kg	175	175	175	175	175	175	175	175	175	175	175

	levels				% change			
Annual averages	**2021**	**2022(e)**	**2023(f)**	**2024(f)**	**2021**	**2022(e)**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**371**	**290**	**258**	**43.1**	**21.1**	**-21.9**	**-11.1**
Bulk commodities index#	**510**	**576**	**448**	**333**	**47.0**	**13.0**	**-22.2**	**-25.8**
iron ore fines @ 62% USD/t	159	116	75	64	46.6	-26.7	-35.2	-15.5
LNG in Japan $mmbtu	10.3	17.1	16	17	31.1	66.0	-6.8	5.9
ave coking coal price (US$/t)	143	258	232	195	33.2	79.8	-9.8	-16.2
ave thermal price (US$/t)	99	314	271	127	74.4	217.3	-13.6	-53.2
iron ore fines contracts (US¢ dltu)	239	175	132	120	72.8	-26.7	-24.4	-9.5
coal coking contracts (US$/t)	205	364	238	196	62.5	77.7	-34.7	-17.6
crude oil (US$/bbl) Brent ICE	70	98	88	105	60.2	39.6	-9.8	18.7
gold (US$/oz)	1,801	1,792	1,683	1,736	1.2	-0.5	-6.1	3.1
Base metals index#	**213**	**226**	**195**	**219**	**41.1**	**6.0**	**-13.7**	**12.1**
copper (US$/t)	9,297	8,715	7,846	8,937	50.2	-6.3	-10.0	13.9
aluminium (US$/t)	2,477	2,683	2,231	2,703	44.0	8.3	-16.8	21.1
nickel (US$/t)	18,452	25,325	21,713	23,076	33.4	37.2	-14.3	6.3
zinc (US$/t)	3,006	3,438	2,846	3,139	32.1	14.4	-17.2	10.3
lead (US$/t)	2,190	2,117	1,808	1,865	19.6	-3.4	-14.6	3.2
Rural commodities index#	**150**	**171**	**164**	**178**	**28.0**	**13.7**	**-3.9**	**8.4**
NZ commodities index ##	**359**	**377**	**343**	**357**	**21.2**	**4.8**	**-8.8**	**4.0**
dairy price index ##	322	353	325	343	25.2	9.7	-7.9	5.4
whole milk powder US$/t	3,843	3,878	3,462	3,652	29.2	0.9	-10.7	5.5
skim milk powder US$/t	3,332	3,814	3,337	3,590	22.6	14.5	-12.5	7.6
lamb leg UKp/lb	599	571	539	549	18.4	-4.7	-5.6	1.8
bull beef US¢/lb	279	250	229	233	19.0	-10.4	-8.4	2.0
log price index ##	179	173	166	165	14.8	-3.2	-4.4	-0.2
strong wool US¢/kg	173	174	175	175	20.4	0.2	0.5	0.0

Chain weighted index: weights are Australian export shares. * Australian export prices fob – ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for the Bulks Index. ^ AWEX market prices. Sources for all tables: Westpac Economics, Bloomberg ##ANZ NZ commodity price index ^^ GlobalDairyTrade

United States

Interest rate forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Fed Funds*	3.875	4.375	4.625	4.625	4.625	4.625	4.375	3.875
10 Year Bond	4.15	4.00	4.00	3.80	3.60	3.40	3.10	2.90

Sources: Bloomberg, Westpac Economics. * +12.5bps from the Fed Funds lower bound (overnight reverse repo rate).

Currency forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
USD vs								
DXY index	112.93	110.7	109.4	108.1	105.9	102.9	100.8	99.5
JPY	148.17	147	145	143	140	136	133	130
EUR	0.9750	1.00	1.01	1.02	1.04	1.07	1.09	1.10
AUD	0.6289	0.65	0.66	0.67	0.69	0.72	0.73	0.74
NZD	0.5770	0.58	0.59	0.60	0.62	0.65	0.66	0.66
CAD	1.3744	1.36	1.34	1.32	1.30	1.28	1.27	1.27
GBP	1.1162	1.13	1.14	1.16	1.18	1.20	1.22	1.24
CHF	1.0134	0.99	0.98	0.97	0.96	0.94	0.93	0.93
ZAR	18.40	18.1	18.0	17.8	17.6	17.2	17.1	17.0
SGD	1.4217	1.41	1.40	1.37	1.35	1.33	1.32	1.32
HKD	7.8499	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	58.83	58.0	57.0	56.0	54.0	52.0	51.9	52.0
THB	37.98	37.0	36.3	35.3	34.2	33.0	32.9	33.0
MYR	4.7438	4.70	4.60	4.50	4.40	4.30	4.29	4.30
CNY	7.3019	7.20	7.00	6.80	6.60	6.50	6.40	6.30
IDR	15696	15600	15400	15100	14800	14500	14441	14487
TWD	32.26	31.2	30.8	30.4	29.9	29.6	29.5	29.5
KRW	1424	1400	1380	1350	1320	1290	1275	1280
INR	82.89	81.0	80.0	78.0	75.5	74.5	73.5	73.0

Activity forecasts*

	2022				2023			Calendar years			
% annualised, s/adj	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**2020**	**2021**	**2022f**	**2023f**
Private consumption	1.3	2.0	1.4	0.7	-0.8	-0.6	-0.1	-3.0	8.3	2.6	0.1
Dwelling investment	-3.1	-17.8	-26.4	-11.5	-3.9	-3.9	-3.9	7.2	10.7	-9.6	-9.3
Business investment	7.9	0.1	3.7	5.9	4.0	3.7	3.9	-4.9	6.9	4.2	4.2
Public demand	-2.3	-1.6	2.4	1.2	0.4	0.0	0.0	2.6	0.6	-0.9	0.5
Domestic final demand	1.5	0.5	0.9	1.1	-0.1	0.0	0.3	-2.0	6.8	1.8	0.4
Inventories contribution ppt	0.3	-2.1	-1.0	0.4	-0.2	-0.2	0.0	-0.7	0.2	0.7	-0.3
Net exports contribution ppt	-3.8	1.2	3.1	-0.5	0.0	-0.2	-0.1	-0.2	-1.7	-0.7	0.3
GDP	-1.6	-0.6	2.6	1.0	-0.3	-0.3	0.3	-2.8	5.9	1.9	0.4
%yr annual chg	3.7	1.8	1.8	0.3	0.7	0.7	0.2	–	–	–	–

Other macroeconomic variables

Non-farm payrolls mth avg	573	409	386	200	125	75	50	-759	514	392	75
Unemployment rate %	3.8	3.6	3.6	3.8	4.2	4.6	5.0	8.1	5.4	3.7	4.8
CPI headline %yr	8.6	7.9	7.5	5.7	3.5	2.4	2.2	1.2	5.1	7.1	2.5
PCE deflator, core %yr	5.4	4.8	4.6	3.8	3.1	2.6	2.4	1.5	3.5	4.4	2.6
Current account %GDP	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

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.

Europe & the United Kingdom

Interest rate forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Euro area								
ECB Refi rate	2.00	2.50	2.75	2.75	2.75	2.75	2.75	2.50
10 Year Bund	2.25	2.25	2.35	2.25	2.15	2.15	2.05	1.90
10 Year Spread to US	-190	-175	-165	-155	-145	-125	-105	-100
United Kingdom								
BoE Bank Rate	3.00	3.50	4.00	4.00	4.00	4.00	3.75	3.50
10 Year Gilt	3.52	3.50	3.55	3.35	3.25	3.15	2.85	2.65
10 Year Spread to US	-63	-50	-45	-45	-35	-25	-25	-25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
euro vs								
USD	0.9750	1.00	1.01	1.02	1.04	1.07	1.09	1.10
JPY	144.47	147	146	146	146	146	145	143
GBP	0.8735	0.88	0.89	0.88	0.88	0.89	0.89	0.89
CHF	0.9880	0.99	0.99	0.99	1.00	1.01	1.01	1.02
DKK	7.4415	7.44	7.44	7.44	7.44	7.44	7.44	7.44
SEK	10.9159	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	10.3113	10.3	10.3	10.3	10.3	10.3	10.3	10.3
sterling vs								
USD	1.1162	1.13	1.14	1.16	1.18	1.20	1.22	1.24
JPY	165.40	166	165	166	165	163	162	161
CHF	1.1311	1.12	1.12	1.13	1.13	1.13	1.13	1.15
AUD	0.5634	0.58	0.58	0.58	0.58	0.60	0.60	0.60

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2018	2019	2020	2021	2022f	2023f
Eurozone GDP	1.8	1.6	–6.1	5.2	3.2	0.4
private consumption	1.5	1.3	–8.0	3.5	3.2	0.8
fixed investment	3.2	5.7	–8.4	3.6	2.9	1.8
government consumption	1.2	1.8	1.4	3.8	1.0	1.1
net exports contribution ppt	0.4	–0.5	–0.7	1.0	0.3	0.2
Germany GDP	1.0	1.1	–3.7	2.6	1.8	0.4
France GDP	1.9	1.8	–7.8	6.8	2.3	0.6
Italy GDP	0.9	0.5	–9.0	6.6	3.1	0.5
Spain GDP	2.3	2.1	–10.8	5.1	4.5	1.9
Netherlands GDP	2.4	2.0	–3.9	4.9	3.8	0.9
memo: United Kingdom GDP	1.7	1.7	–9.3	7.4	3.4	–0.5

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Asia

China

Calendar years	2017	2018	2019	2020	2021	2022f	2023f
Real GDP	6.9	6.7	6.0	2.2	8.1	3.5	6.0
Consumer prices	1.8	1.9	4.5	0.2	1.5	2.2	2.4
Producer prices	4.9	0.9	–0.5	–0.4	10.3	5.0	1.5
Industrial production (IVA)	6.6	6.2	5.7	2.8	9.6	4.5	5.5
Retail sales	10.2	9.0	8.0	–3.9	12.5	3.0	8.0
Money supply M2	8.2	8.1	8.7	10.1	9.0	11.5	9.5
Fixed asset investment	7.2	5.9	5.4	2.9	4.9	6.5	5.5
Exports	12.7	–4.4	6.3	13.5	28.7	9.5	4.0
Imports	8.7	–7.6	11.8	2.4	30.7	4.5	4.5
Trade balance USDbn	420	351	421	535	670	868	888

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Required reserve ratio %*	11.25	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Loan Prime Rate, 1-year	3.65	3.65	3.65	3.65	3.65	3.65	3.65	3.65

* For major banks.

Currency forecasts

	Latest (4 Nov)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
JPY	148.17	147	145	143	140	136	133	130
SGD	1.4217	1.41	1.40	1.37	1.35	1.33	1.32	1.32
HKD	7.8499	7.85	7.80	7.80	7.75	7.75	7.75	7.75
PHP	58.83	58.0	57.0	56.0	54.0	52.0	51.9	52.0
THB	37.98	37.0	36.3	35.3	34.2	33.0	32.9	33.0
MYR	4.7438	4.70	4.60	4.50	4.40	4.30	4.29	4.30
CNY	7.3019	7.20	7.00	6.80	6.60	6.50	6.40	6.30
IDR	15696	15600	15400	15100	14800	14500	14441	14487
TWD	32.26	31.2	30.8	30.4	29.9	29.6	29.5	29.5
KRW	1424	1400	1380	1350	1320	1290	1275	1280
INR	82.89	81.0	80.0	78.0	75.5	74.5	73.5	73.0

Source: Bloomberg, Westpac Economics.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2017	2018	2019	2020	2021	2022f	2023f
World	**3.8**	**3.6**	**2.8**	**-3.0**	**6.0**	**3.2**	**3.0**
United States	2.3	2.9	2.3	-3.4	5.7	1.9	0.4
Japan	1.7	0.6	-0.4	-4.6	1.7	1.7	1.5
Euro zone	2.6	1.8	1.6	-6.1	5.2	3.2	0.4
Group of 3	**2.3**	**2.2**	**1.7**	**-4.6**	**5.0**	**2.4**	**0.5**
United Kingdom	2.1	1.7	1.7	-9.3	7.4	3.6	-0.2
Canada	3.0	2.8	1.9	-5.2	4.5	3.0	1.0
Australia	2.4	2.8	2.0	-2.1	4.9	4.2	1.9
New Zealand	3.1	3.2	2.4	-2.1	5.6	2.2	2.2
OECD total	**2.4**	**2.3**	**-0.8**	**-0.7**	**4.8**	**2.1**	**0.6**
China	6.9	6.8	6.0	2.2	8.1	3.5	6.0
Korea	3.2	2.9	2.2	-0.7	4.1	2.6	2.2
Taiwan	3.3	2.8	3.1	3.4	6.6	3.1	3.0
Hong Kong	3.8	2.8	-1.7	-6.5	6.3	0.0	3.0
Singapore	4.7	3.7	1.1	-4.1	7.6	3.5	3.3
Indonesia	5.1	5.2	5.0	-2.1	3.7	5.3	5.4
Thailand	4.2	4.2	2.2	-6.2	1.5	3.5	4.1
Malaysia	5.8	4.8	4.4	-5.5	3.1	6.4	5.0
Philippines	6.9	6.3	6.1	-9.5	5.7	7.0	6.2
Vietnam	6.9	7.2	7.2	2.9	2.6	7.2	7.0
East Asia	**6.1**	**5.9**	**5.2**	**0.7**	**6.8**	**3.8**	**5.5**
East Asia ex China	4.7	4.5	3.8	-2.3	4.2	4.5	4.4
NIEs*	**3.5**	**3.0**	**1.9**	**-0.5**	**5.5**	**2.6**	**2.6**
India	6.8	6.5	3.7	-6.6	8.7	7.0	6.7
Russia	1.8	2.8	2.2	-2.7	4.7	-8.0	-2.0
Brazil	1.3	1.8	1.2	-3.9	4.6	2.0	1.5
South Africa	1.2	1.5	0.3	-6.3	4.9	2.1	1.1
Mexico	2.1	2.2	-0.2	-8.1	4.8	2.1	1.2
Argentina	2.8	-2.6	-2.0	-9.9	10.4	4.0	2.0
Chile	1.3	3.9	0.9	-6.1	11.7	2.0	-1.0
CIS^	2.4	1.5	-2.1	1.9	15.3	10.1	3.3
Middle East	1.8	1.4	1.3	3.2	2.8	2.8	2.8
C & E Europe	0.2	0.3	-2.2	-5.0	9.5	5.2	2.8
Africa	3.0	3.3	3.2	-1.6	4.7	3.6	3.7
Emerging ex-East Asia	**3.0**	**2.9**	**1.6**	**-2.7**	**6.4**	**3.4**	**3.2**
Other countries	6.4	5.7	7.2	-3.9	4.4	4.3	5.1
World	**3.8**	**3.6**	**2.8**	**-3.0**	**6.0**	**3.2**	**3.0**

#Regional and global groupings are weighted using PPP exchange rates updated to reflect ICP 2011 benchmark revisions.* "NIEs" signifies "Newly Industrialised Economies" as defined by the IMF, viz; Republic of Korea, Hong Kong SAR, Taiwan Province of China, and Singapore. ^ CIS is the Commonwealth of Independent States, including Mongolia. Sources: IMF, Westpac Economics.

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