AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 10 April 2023

Editorial: RBA Governor highlights new inflation concerns.

RBA: Deputy Governor Bullock speaking.

Aus: Westpac–MI Consumer Sentiment, labour force survey, business survey, arrivals data.

NZ: retail card spending, manufacturing PMI, net migration.

China: CPI, PPI, trade balance.

Eurozone: retail sales, industrial production.

US: CPI, retail sales, industrial production, UoM consumer sentiment, FOMC minutes.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 6 APRIL 2023.

WESTPAC INSTITUTIONAL BANK

RBA Governor highlights new inflation concerns

The Reserve Bank Board decided to leave the cash rate unchanged at 3.60% at its April meeting. This decision was in line with Westpac's forecast although we continue to expect to see one final increase of 0.25ppts at the May Board meeting.

The decision is consistent with the classic approach that policy needs to move swiftly to push rates into the contractionary zone but, once there, a central bank that meets as frequently as the RBA can pause to assess the cumulative impact of the shift in policy stance.

There was a subtle change in the Governor's guidance. In March he noted that: "further tightening of monetary policy will be needed". In April, this was changed to: "further tightening of monetary policy may well be needed". This is a softer guideline than we saw in March but still qualifies as a clear tightening bias.

In the Q&A following his presentation to the National Press Club on April 5 he expressed this view in terms of, "expects rates will increase again but not 100% certain."

The decision to pause is justified by the need for "more time to assess the state of the economy and the outlook, in an environment of considerable uncertainty." The 'check list' going forward remains: "the global economy, trends in household spending, and the outlook for inflation and the labour market."

Of most importance will be the March quarter inflation report, due April 26, which Westpac expects to show a trimmed mean inflation print of 6.6% for the year.

At the May meeting the Board will also receive a refreshed set of economic forecasts from the staff. We do not believe that the revised forecasts will bring forward the timing at which the staff expects inflation to return to the 2–3% target zone – which is mid 2025! The Governor seemed quite comfortable with that timing but warned against any need to extend the timetable.

Along with the economy still operating with a near 50–year low in the unemployment rate; pressures on the supply side from a population explosion; surging rents and rising house prices; and the slow expected progress in achieving the inflation target; we continue to expect that the Board will see the need for one final 0.25ppt increase in the cash rate.

Apart from the key guidance language there were some less significant examples of a more cautious Board although the key themes around high inflation and tight labour markets continued to shine through. "There is further evidence that the combination of higher interest rates, cost of living pressures and a decline in housing prices is leading to a substantial slowing in household spending."

This indicates that the slowdown that was apparent in the December quarter from the national accounts has extended into the March quarter. Note that consistent with the slightly more dovish approach is no recognition in the decision statement of the recent stabilisation of house prices. Although the Governor referred to housing on a number of occasions in his presentation.

Recent disruptions to the US banking system are highlighted as "an additional headwind for the global economy" whereas this is contrasted with the strong Australian banking system.

On the other hand, there was an additional qualification to the assertion in March that "wages growth is still consistent with the inflation target" with the April statement noting "wages growth is still consistent with the inflation target, provided productivity holds up". As highlighted by the Governor in his speech, weakness in productivity is a key source of concern for the RBA.

The final paragraph of the decision statement is also pitched at the likely need for higher rates. The Board retained the assertion "In assessing when and how much further interest rates need to increase …". It could have qualified that sentence with "if interest rates need to increase" rather than maintaining "how much further."

On the day after the RBA Board meeting, Governor Lowe delivered a wide ranging speech to the National Press Club.

The Governor emphasised uncertainty. Sources of uncertainty relate to the surge in population growth through the unexpectedly large jump in immigration; with its associated impact on rents (6% of the CPI); and house prices. Both factors will make the inflation task more difficult. The Governor is also concerned about the recent deterioration in productivity, a development which means that lower wages growth would be required to achieve a certain inflation target.

On the other hand, he is clearly concerned around the likely slowdown in household spending, forecasting growth of only 0.2% in the March quarter.

The Governor justified Australia's interest rates being lower than other countries due to more benign wages growth; the importance of variable rate mortgages; and the Board's greater patience in returning inflation to the target band over a longer time period (not until mid–2025) than other central banks.

As with the Decision Statement, the Governor's speech highlighted the impact of dismal productivity growth on unit labour costs (up 7% in 2022) and the disconnect between wages growth of 4% and inflation of 2.5% if productivity growth is not at the long–term average of around 1.5% but if instead the recent dismal record of falling productivity continues.

Further light will be cast on that objective when the Board meets in May with the benefit of revised staff forecasts and the March quarter Inflation Report. We also expect that the Board will have to accommodate these new considerations around surging population growth and housing developments in their deliberations.

In conclusion, while the Board's tightening bias has been softened in parts, there is not sufficient evidence for Westpac to change its forecast that the Board will make one last 0.25ppt increase in the cash rate at the May Board meeting.

Bill Evans, Chief Economist, Westpac Group

In Australia, the RBA was the key focus of market participants. Offshore, the RBNZ asserted their hawkish resolve while US data weakened noticeably.

The RBA decided to leave the cash rate unchanged at 3.60% in April, a decision that was in line with Westpac's forecast. In accordance with the decision, the Governor's statement incorporated a subtle change in guidance, suggesting that further tightening "may well be needed" versus "will be needed" in March. While this certainly still qualifies as a tightening bias, clearly the Board is increasingly wary of the need to assess the full spectrum of risks having delivered 350bps of interest rate increases over the last ten months.

In our view, the evolution of underlying inflation pressures is of critical importance for the near–term path for policy. Westpac anticipates that annual trimmed mean inflation will print 6.6% in Q1, a result which the RBA should deem as uncomfortably high in the context of a historically tight labour market, thereby warranting a policy response. Hence, we continue to forecast one final 25bp rate hike in May, raising the cash rate to a peak of 3.85% where we expect it to remain over the rest of 2023. As economic momentum continues to slow and inflation risks abate, a series of interest rate cuts will be able to be implemented through 2024 and 2025 to bring policy back towards neutral, facilitating a recovery in activity growth.

In terms of domestic data, this week's housing updates were generally mixed. Most notably, the CoreLogic home value index seems to be indicating some form of stabilisation in house prices, rising by 0.8% in March after a mild dip of just 0.1% in February. The pace of monthly declines in housing finance approvals meanwhile continued to moderate in February; but, broadly speaking, this gauge continues to point towards a further significant slowing in housing credit growth as interest rate headwinds build. Meanwhile, monthly updates on dwelling approvals remain hostage to its own seasonalities: coming off extreme volatility in high–rise approvals and now with emerging issues around processing delays, February's modest 4.0% rise looks to be concealing an underlying softening in the trend, as evinced by the 30% decline in approvals over the last year. On balance, we remain confident in the assessment that broadening headwinds, particularly with regards to interest rates and the wider economic outlook, will remain a material drag on the housing sector over this year, but we are alert to the possibility of a sustained stabilisation emerging.

Turning then to New Zealand and the RBNZ, their decision to hike by 50bps this week caught the market by surprise, the consensus expectation being a 25bp move. The tone of the statement was also hawkish, the RBNZ clearly wary of the potential inflation consequences of the post–cyclone rebuild given the economy is already stretched. As explained by our New Zealand team led by Chief Economist Kelly Eckhold, the RBNZ's focus looks to be on quickly achieving the outright level of policy they believe is required to bring inflation back to target. The RBNZ also noted that the recent decline in wholesale funding costs could lower borrowing costs across the economy; the 50bp move was then seen as a way to help "maintain the current lending rates faced by businesses and households". This situation highlights the tension which is building between monetary policy in New Zealand and the rest of the developed world where policy is seen at or very near peak levels.

Our New Zealand economics team now expect a 25bp hike in May to 5.50% and for the RBNZ to retain a tightening bias thereafter, pending further information.

Turning to the US, three data releases stood out this week: the ISMs and JOLTs job openings.

Both the ISM manufacturing and ISM service PMIs surprised materially to the downside in March, with the manufacturing contraction accelerating (the headline index coming in at 46.3) and the services measure almost stalling at 51.2. Also of significance is that new orders amongst manufacturers were particularly weak (the index declining to 44.3), while those for service firms fell sharply (the orders index down 10pts to 52.2).

Not only do these outcomes point to persistent weakness in activity ahead, but also clear risks around employment for which the starting point is a contractionary read for manufacturing and only a marginally positive level for services. A sharp drop in JOLTS job openings in February provided further evidence of building downside risks for employment, available positions declining to 9,931k in February from a downwardly revised 10,563k in January and the 2022 peak of 12,027k. While highly volatile and often off the mark as a lead for nonfarm payrolls (due Friday night), ADP private payrolls was also soft in March.

We have long highlighted the risks for the US economy from tighter policy and the shock to household finances from high inflation. These concerns led us to remain of the view that the US is likely to experience a lengthy period of stagnation, with an output gap in the order of 3.0% by end–2024. As discussed last week, given recent developments in the US banking sector, the risks to this view are skewing to the downside. Most significant is the potential for US GDP growth to get stuck at a rate below potential beyond 2024. This is why we see need for the FOMC to act aggressively on policy in 2024, once inflation risks have abated; but also why it is necessary banking sector regulatory reform occur with haste to restore confidence amongst both borrowers and lenders. If the latter is delayed, the benefit of 2024's monetary easing could be offset.

Our April Market Outlook will be released later today on Westpac IQ. A key theme of our economic forecasts is the opportunity present in Asia. We also see the region's cyclical rebound and ongoing structural development as a source for sustained gains in risk appetite, benefitting the currencies of the region over the forecast period, including the Australian dollar.

Week ahead & data wrap

The RBNZ overdelivers and promises even more to come.

The Reserve Bank of New Zealand delivered a larger than expected 50bp rise in the Official Cash Rate at its April meeting and continued to talk tough on inflation. We've revised up our forecast for the cash rate, and now expect a peak of 5.50% with the next hike expected in May. Beyond that time, continued strength in inflation means that the RBNZ is likely to maintain a tightening bias for some time yet.

The Reserve Bank of New Zealand surprised markets at its April meeting by raising the Official Cash Rate by 50 bps to a level of 5.25%. In contrast, Westpac and virtually every other analyst had expected that the RBNZ would only deliver a 25bp rise.

Importantly, the tone of the policy statement that accompanied April's rate rise was very hawkish, highlighting the ongoing strength in inflation and the lingering upside risks. While the RBNZ did not release any updated forecasts, April's policy statement noted that *"the OCR needs to increase, as previously indicated, to return inflation to the 1–3 percent target range over the medium term."* The RBNZ's last set of published forecasts (released in February) showed the cash rate peaking at 5.50%.

With the RBNZ appearing much more focused on taking the OCR higher than we had previously anticipated, we have revised up our forecast for the OCR. We now expect a further 25bp increase at the May policy statement, which would take the cash rate to a peak of 5.50%.

Even after the larger than expected April rate hike, a hawkish bias was clearly evident in the RBNZ's thinking. While the RBNZ did acknowledge that economic growth has been softer than they had expected, they remain concerned about the extent of inflation pressures. The Monetary Policy Committee noted that inflation was still too high and persistent, employment was beyond its maximum sustainable level, and interest rate hikes remained necessary to get inflation back within the target band.

The RBNZ also highlighted additional upside risks for growth and inflation that have had an important impact on their thinking. That includes an expectation that reconstruction following the recent severe storms will now add more to medium-term inflation than initially expected. The RBNZ also noted the inflation risks associated with fiscal spending were to the upside, especially given the ongoing demand for government spending at a time of rapid cost increases. Putting that all together has meant that, despite the recent softer than expected GDP result, the RBNZ's economic projections have remained largely unchanged from February when they highlighted the likelihood of the cash rate continuing to push higher from here.

The RBNZ noted a further increase in the OCR was needed to sustainably bring both inflation and inflation expectations down over time. However, the Monetary Policy Committee was also conscious of the sharp fall in wholesale interest rates that's occurred since February. Those falls could place downwards pressure on lending rates, risking a more drawn out and costly inflation cycle. Given that risk, the Committee wanted to steer markets away from what it regards as prematurely pricing in OCR cuts. April's large 50bp rise was in part aimed at ensuring that the current level of lending rates faced by borrowers are maintained.

We see the balance of risks around the expected 5.50% peak in the OCR as being to the upside. That reflects the high starting point for inflation and the RBNZ's clearly stated concerns about inflation expectations. Consequently, it's likely that the RBNZ will retain a tightening bias after May 2023, with the discussions at each subsequent meeting likely to be between no change and a 25 basis point increase, depending on the incoming data. With this in mind, it will be increasingly important to think about the key risks that might push the RBNZ towards a higher (or lower) peak than we're forecasting. The key factors are likely to be:

- The RBNZ's assessment of the extent to which fiscal policy will add to inflation. That includes the extent of spending related to the cyclone rebuild, allowances for underlying cost pressures, as well as any potential election-year policy initiatives. The extent to which additional spending is financed through borrowing (as opposed to re-prioritisation or spending deferrals) will be key here. The next key update on such matters will be the 2023 Budget, due for release on 18 May, ahead of the RBNZ's May interest rate decision.

- The strength of net migration, with net inflows rising strongly in recent months. The RBNZ now views migration as a factor that is adding to net demand and hence inflation pressures. This is actually how the RBNZ has traditionally viewed migration, but it's worth highlighting because the business community seems to be taking the opposite view at the moment – hoping that the return of migrant workers will ease labour shortages and bring wage inflation down.

- The evolution of global demand and offshore financial stability concerns and the extent of flow-through to domestic financial conditions and inflation.

- Finally, the RBNZ may change its assessment of the impact of previous OCR increases on medium-term inflation pressures as new data are released. The RBNZ has previously noted that much of the impact of rate hikes to date still lies ahead of us, and that there are uncertainties around how those hikes will affect economic conditions.

Satish Ranchhod, Senior Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Tue 28	Q1 Quarterly Survey of Business Opinion	-13.7	-10.1	–
Wed 29	GlobalDairyTrade auction (WMP)	-1.5%	-5.2%	-3.0%
	RBNZ policy decision	4.75%	5.25%	5.00%
Thu 30	Mar ANZ commodity prices	1.4%	1.3%	–

DATA PREVIEWS

Aus Apr Westpac-MI Consumer Sentiment

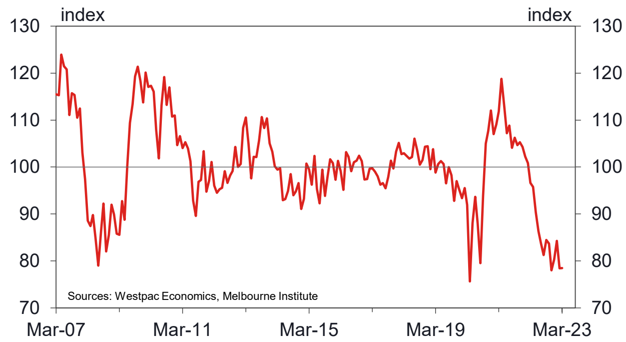
Apr 11, Last: 78.5

Consumer sentiment was unchanged in March, holding at an extremely weak level of 78.5. Similar runs of sub-80 reads have only been seen during recessions and in the mid-1980s when the Australian dollar was in free-fall after the Federal government lost its triple-A rating.

April should finally see some reprieve from the dire run of sentiment updates. The RBA's decision to leave the cash rate unchanged at its April meeting, following ten consecutive rate hikes, will undoubtedly come as a relief. And while the Bank warns that further rate rises may well be needed, the pause and less hawkish tone should allay fears of more aggressive rate rises to come. Financial markets have been mixed, turmoil associated with US bank failures just post the March survey having largely died down.

Housing-related sentiment will be an area to watch given recent updates showing a stabilisation in prices nationally and some firming in Sydney.

Consumer Sentiment Index



Aus Mar Labour Force – employment chg, '000

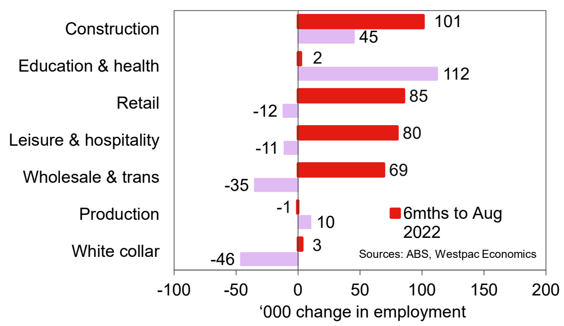
Apr 13, Last: 64.6k, WBC f/c: 25k
Mkt f/c: 20k, Range: 10k to 45k

After two consecutive monthly declines in December (-16.6k) and January (-10.9k), employment bounced in February (+64.6k), more than offsetting the prior falls. These results were largely attributed to seasonalities – a surge in illness and a lift in unemployed persons with a job lined up in the future – the onset and fading of which resulted in the falls and gains in employment over the last three months.

Looking through recent volatility however, an underlying softening trend is beginning to emerge. Over the last six months, employment growth has exhibited a clear slowdown – three-month average monthly gains of +37k in November now down to +17k at February – and it looks to be broadly-based by industry.

For March, we have pencilled in +25k rise in employment, though recent payrolls data is pointing to some upside risk. More broadly, given the fading of earlier seasonalities, this update will provide a clearer indication of underlying employment dynamics and the expected path for employment outcomes over the near-term.

Employment by sector: 6mth to Aug '22 vs. Feb '23



Aus Mar Labour Force – unemployment rate %

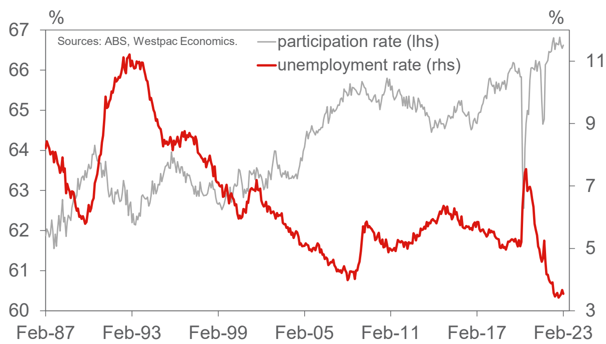
Apr 13, Last: 3.5%, WBC f/c: 3.5%
Mkt f/c: 3.6%, Range: 3.4% to 3.7%

In February, the lift in participation saw the labour force grow by 48.1k, lower than the gain in employment, resulting in the unemployment rate falling from 3.7% to 3.5%. At two decimal places, the decline was a more modest 0.13pts (3.67% to 3.54%).

Between October and February, the unemployment rate rose from a cycle low of 3.4% to 3.5%. Interestingly, over that same period, male unemployment moved 0.4ppt higher while female unemployment actually fell 0.2ppt, reflecting a relative strength in male labour force growth compared to females, outstripping that of employment.

At least for now, the labour market is in a very strong position by historical standards, and it will take some time before a material weakening takes hold. Holding participation flat at 66.6%, we expect the unemployment rate to remain at 3.5% in March.

Unemploy. lowest since '74, record participation



DATA PREVIEWS

Aus Mar overseas arrivals and departures, preliminary

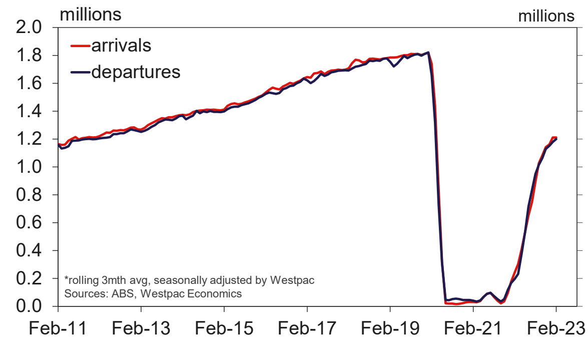
Apr 13, Arrivals, Last: 1376.3k
Apr 13, Departures, Last: 1075.9k

Over the course of last year, the recovery in overseas travel forged ahead at a very strong pace. According to recent official population estimates, net migration printed +106.2k in Q3 2022 – a historical record for that quarter that is consistent with our official forecast for a record level of net migration over 2022, estimated at +400k.

The February estimate for overseas arrivals and departures provided further indications that this momentum is carrying through to 2023. Most notably, net student arrivals was estimated to +120k in February, roughly on par with the pre-pandemic average of +114k. There are also early indications of a pick-up in arrivals from China – an up-trend which we expect to persist over this year as the normalisation of travel patterns continues to materialise.

More information around February's component breakdown will be of keen interest, providing further clarity around the full extent of the travel rebound over the summer period.

Total overseas arrivals and departures



NZ Mar retail card spending

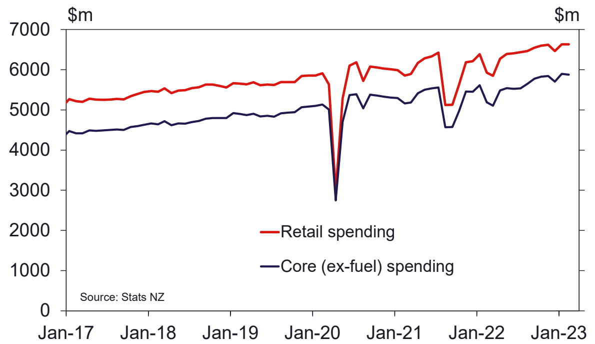
Mar 9, Last: Flat, Westpac f/c: +1.5%

Retail spending was essentially flat through February as a whole. However, that likely hid some big swings over the month related to the severe weather events that affected large swathes of the country through the first half of February.

We're forecasting a 1.5% rise in spending in March. In part, that reflects a normalisation in spending after the recent storms (particularly in areas like hospitality), as well as some spending associated with replacing damaged items. We also expect that spending levels will be boosted by the continued increases in consumer prices.

Longer term, we continue to expect the combination of strong inflation and increases in borrowing rates will be a significant drag on spending. Recent discussions with retailers indicate that such a slowdown is already starting to occur.

NZ monthly retail card spending



US Mar CPI

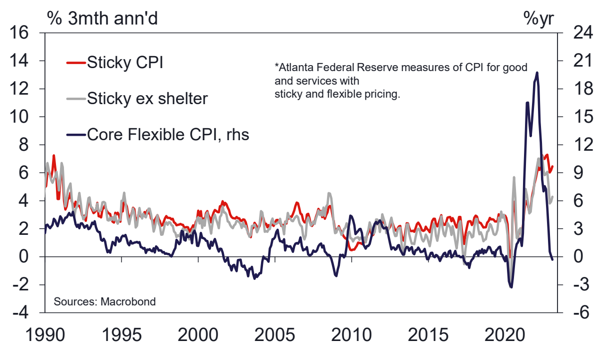
Apr 12, Headline %m/m, Last: 0.4%, Mkt f/c: 0.3%, WBC: 0.3%

Recent developments in the US banking sector has taken the spotlight off inflation. But, ahead of the May meeting, the market's focus is likely to return to price momentum. In March, a marginal deceleration is likely in both headline and core inflation, with risk of a downside surprise.

Partial data continues to point towards a imminent turn in shelter inflation as the gap between market measures and the CPI index continues to widen. Evidence of a trend deceleration in demand also points to a softer inflation pulse for discretionary items, particularly for services whose prices soared as the economy re-opened.

We remain of the view that annualised US inflation can get back to 2% in H2 2023. Risks are increasingly balanced for this view.

US disinflation trend to broaden slowly



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.

For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
Aus/NZ	Easter Monday	–	–	–	Public holiday; markets closed.
Chn	Mar M2 money supply %yr	12.9%	12.7%	–	Credit will remain freely available...
	Mar new loans, CNYbn	1812	3300	–	... as authorities support growth.
US	Feb wholesale inventories	0.2%	0.2%	–	Final estimate.
	Fedspeak	–	–	–	Williams.
Tue 11					
Aus	Apr WBC–MI Consumer Sentiment	78.5	–	–	RBA pause to see extreme pessimism ease?
	Mar NAB business survey	17	–	–	Conditions off Q3 2022 high, business mood pessimistic at –4.
Chn	Mar CPI %yr	1.0%	1.1%	–	Inflation to remain a benign force for consumers...
	Mar PPI %yr	-1.4%	-2.5%	–	... and most businesses.
Eur	Apr Sentix investor confidence	-11.1	–	–	Sentiment has improved greatly over recent months...
	Feb retail sales	0.3%	–	–	... but the consumer remains under intense pressure.
US	Mar NFIB small business optimism	90.9	–	–	Inflation and rates pressures remain the key concerns.
	Fedspeak	–	–	–	Goolsbee, Harker.
Wed 12					
Aus	RBA Deputy Governor Bullock	–	–	–	Participant on WEAI Monetary Panel, Melbourne, 2:45pm AEST.
NZ	Mar retail card spending	0.0%	–	1.5%	Boost from high inflation and post–cyclone recovery.
Jpn	Feb machinery orders	9.5%	–	–	Highly volatile but January's result undoubtedly strong.
US	Mar CPI	0.4%	0.3%	0.3%	Shelter and discretionary services remain critical.
	FOMC March meeting minutes	–	–	–	Focus is on the near–term path for policy.
	Fedspeak	–	–	–	Kashkari, Barkin.
Can	Bank of Canada policy decision	4.50%	4.50%	–	To remain on hold as risks are assessed.
Thu 13					
Aus	Apr MI inflation expectations	5.0%	–	–	Expectations are easing from an elevated level.
	Mar employment	64.6k	20k	25k	Fading seasonalities to provide a clearer picture on employ'...
	Mar unemployment rate	3.5%	3.6%	3.5%	... outcomes should remain robust, at least for now.
	Mar overseas arrivals, prelim '000s	1376.3k	–	–	Arrivals from China to begin rebuilding over this year.
Chn	Mar trade balance USDbn	16.8	41.0	–	To widen after Lunar New Year; longer–term outlook strong.
Eur	Feb industrial production	0.7%	–	–	Lasting issues with energy–intensive sectors; otherwise +ve.
UK	Feb trade balance £bn	-5.9	–	–	Weak consumer should narrow deficit over this year.
US	Mar PPI	-0.1%	0.0%	–	Decelerating quickly from a historic peak.
	Initial jobless claims	–	–	–	To remain at a relatively low level, at least for now.
Fri 14					
NZ	Mar manufacturing PMI	52.0	–	–	Off its lows, but still soft. Headwinds mounting.
	Feb net migration	5170	–	–	Returned to strong net inflows with the border now open.
US	Mar import price index	-0.1%	–	–	Falling energy costs driving a sharp deceleration.
	Mar retail sales	-0.4%	-0.4%	–	Core sales strong over Jan/Feb, pull–back likely in March.
	Mar industrial production	0.0%	0.3%	–	Performance in line with evidence from regional surveys.
	Feb business inventories	-0.1%	0.3%	–	Inventory accrual at stall speed as economy slows.
	Apr Uni. of Michigan sentiment	62.0	64.0	–	Forward looking gauges providing downbeat view on outlook.

Forecasts

Interest rate forecasts

Australia	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.60	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.64	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.25	3.65	3.60	3.50	3.40	3.20	3.00	2.90
3 Year Bond	2.85	3.30	3.25	3.15	3.10	2.95	2.80	2.70
10 Year Bond	3.22	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-8	-10	-10	-10	-10	-10	-10	-10
US								
Fed Funds	4.875	4.875	4.875	4.875	4.375	3.875	3.375	2.875
US 10 Year Bond	3.30	3.50	3.40	3.30	3.10	2.90	2.80	2.60
New Zealand								
Cash	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25
90 day bill	5.49	5.60	5.60	5.60	5.50	5.05	4.55	4.25
2 year swap	5.03	5.10	4.80	4.50	4.20	3.90	3.70	3.50
10 Year Bond	4.01	4.20	4.10	4.00	3.85	3.70	3.60	3.50
10 Year spread to US	0	70	70	70	75	80	80	90

Exchange rate forecasts

Australia	Latest (6 Apr)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6714	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD/USD	0.6310	0.64	0.66	0.67	0.68	0.68	0.68	0.68
USD/JPY	131.03	J130	129	128	127	126	125	124
EUR/USD	1.0899	1.10	1.11	1.12	1.13	1.14	1.15	1.16
GBP/USD	1.2456	1.23	1.24	1.25	1.26	1.27	1.28	1.29
USD/CNY	6.8795	6.70	6.60	6.50	6.40	6.30	6.20	6.10
AUD/NZD	1.0640	1.08	1.09	1.10	1.11	1.13	1.13	1.13

Australian economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2021	2022	2023f	2024f
GDP % qtr	0.9	0.7	0.5	0.4	0.2	0.1	0.2	–	–	–	–
%yr end	3.1	5.9	2.7	2.5	1.8	1.2	1.0	4.6	2.7	1.0	1.5
Unemployment rate %	3.8	3.5	3.5	3.6	3.5	3.9	4.5	4.7	3.5	4.5	5.0
Wages (WPI)	0.8	1.1	0.8	0.8	1.0	1.0	1.0	–	–	–	–
annual chg	2.6	3.2	3.3	3.5	3.8	3.7	4.0	2.4	3.3	4.0	3.2
CPI Headline	1.8	1.8	1.9	1.3	1.1	0.8	0.7	–	–	–	–
annual chg	6.1	7.3	7.8	6.9	6.2	5.1	3.9	3.5	7.8	3.9	3.0
Trimmed mean	1.6	1.9	1.7	1.4	0.9	0.6	0.7	–	–	–	–
annual chg	5.0	6.1	6.9	6.6	5.9	4.6	3.6	2.6	6.9	3.6	3.1

New Zealand economic growth forecasts

	2022			2023				Calendar years			
% change	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2021	2022f	2023f	2024f
GDP % qtr	1.6	1.7	–0.6	0.2	0.2	0.2	–0.2	–	–	–	–
Annual avg change	1.1	2.7	2.4	2.9	3.2	1.6	1.1	6.0	2.4	1.1	–0.5
Unemployment rate %	3.3	3.3	3.4	3.5	3.6	3.8	4.0	3.2	3.4	4.0	5.1
CPI % qtr	1.7	2.2	1.4	1.3	1.3	1.9	0.4	–	–	–	–
Annual change	7.3	7.2	7.2	6.7	6.4	6.2	5.1	5.9	7.2	5.1	2.9

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.

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

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.