WESTPAC MARKET OUTLOOK MAY 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

Australia

The world

Summary forecast tables

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EXECUTIVE SUMMARY

The global interest rate tightening cycle that began in 2022 is now at or very near its peak. The US FOMC has established a conditional pause following this month's 25bp hike. The RBA has adopted a softer tightening bias, and we expect the ECB, Bank of England and RBNZ to all follow suit after final 25bp hikes at their next meetings. In all cases, pausing is still highly conditional on the data–flow, the evolution of inflation in particular, but also how the growth and labour market conditions that feed into this unfold. As we have seen with the RBA's surprise move in May, settings also remain dependent on how central banks assess risks to the outlook, and their tolerance for any delays in returning inflation to target.

As the year progresses, we will see more evidence of growth slowing materially in response to the rapid monetary tightening, and overlaid with some additional tightening in credit conditions associated with strains in the banking system. In the case of the US, the slowing in both growth and inflation is expected to be relatively rapid, opening the door for rate cuts by December. That process is expected to be slower elsewhere, reflecting the absence of banking-related issues and a variety of other factors and considerations. Across most jurisdictions, prospects of more persistent high services inflation amid still tight labour markets and low productivity growth is the key consideration.

These themes are still largely absent across most of Asia where inflation has tended to be more benign and, in China, where post–COVID reopening dynamics are helping to generate strong growth momentum. While there will be some spillovers from slowdowns in the major developed economies, this divergence in performance is set to become stark.

Australia: A slowdown of the Australian economy is underway, as evident from key partial indicators for the December and March quarters. Household incomes are under intense pressure from high inflation and sharply higher interest rates. We continue to expect growth to slow to a well below trend pace in 2023, a forecast 1%. This includes consumer spending increasing by only 0.7%, as well as declines in home building activity and business investment. It is against this backdrop that the Federal Treasurer will release the annual Budget on Tuesday May 9. The Budget is likely to provide some relief for the most vulnerable households, as well as showing restraint by banking the majority of the revenue windfall from stronger than forecast national income associated with higher commodity prices.

Commodities: Commodities had a meaningful correction through April with the broad index down almost 8%, led by a 22% fall in met coal prices (US$204/t), 13% fall in iron ore (US$107/t) and a 5% fall in Brent (US$79/bbl). Our end–2023 forecast for iron ore remains US$100/t but there are clear downside risks emerging. We have marked down our met coal forecast to US$206/t but held thermal coal flat at US$185/t for while prices are likely to be volatile, overall they should track broadly sideways through the remainder of the year.

Global FX markets: Conflicting forces have seen the US dollar trade a tight range over the past month. Ahead, as inflation risks continue to subside and contractionary monetary policy impacts activity, another leg lower will be seen. Importantly, the deterioration in the USD's standing comes at a time of outperformance against expectations for Europe and the UK and with nascent strength evident in Asia. As the latter accelerates and broadens, and sentiment recovers, Asian currencies should outperform.

New Zealand: Inflation was weaker than we and other analysts expected in the early part of this year. Crucially, it has fallen well short of the Reserve Bank of New Zealand's forecasts for a second quarter. This still leaves us with a picture of strong price pressures, including strong domestic inflation. However, inflation has now peaked and signs that rate hikes are weighing on demand are mounting. Against this backdrop, we expect only one more 25bp rate hike from the RBNZ, but interest rates will need to remain high for some time yet.

United States: At their May meeting, the FOMC raised the fed funds rate by 25bps to 5.125% but also signalled a conditional pause. From their communications, it is clear they believe that risks are tilting down for inflation and activity. We expect the first 25bp cut in December followed by 50bps per quarter through 2024. Critical to the outlook for activity and policy are conditions in banking.

China: As occurred previously in the West, consumers in China have relished an opportunity to be free of restrictions and spend. Their financial position and sentiment supports continued gains in coming months, an indeed into the medium term. However, a transition needs to be seen in fixed asset investment, with private business investment and residential construction needing to take the lead. Bumps are likely near–term, but time should justify a significant expansion of capacity and productivity, and bring with it income.

Europe: The ECB opted to slow the pace of rate hikes from 50bps to 25bps in May, reflecting a data–driven approach but also a clear concern over inflation. In particular, the stickiness of core inflation presents an ongoing challenge, but the risks to growth from contractionary policy are material. We believe the end to tightening is near, with only one more 25bp rate hike anticipated in June.

Summary of world GDP growth (year average)

Real GDP %ann*	2018	2019	2020	2021	2022f	2023f	2024f
United States	2.9	2.3	–2.8	5.9	2.1	1.1	0.6
China	6.8	6.0	2.2	8.4	3.0	6.2	5.5
Japan	0.6	–0.4	–4.3	2.1	1.0	1.2	1.0
India	6.5	3.9	–5.8	9.1	7.0	5.8	6.5
Other East Asia	4.5	3.8	–2.3	4.3	4.5	4.1	4.4
Europe	1.8	1.6	–6.1	5.4	3.5	0.6	1.4
Australia	2.8	1.9	–1.8	5.2	3.7	1.6	1.0
New Zealand	3.5	3.1	–1.5	6.0	2.4	1.1	–0.5
World	**3.6**	**2.8**	**–2.8**	**6.3**	**3.3**	**3.0**	**3.1**

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 surprises with 25bp hike ...

RBA Board delivers a surprise 25bp hike in May ...

The Reserve Bank Board raised the cash rate by a further 25bps at its May meeting, pushing the cash rate to 3.85%. The decision came as a significant surprise to markets which had less than 5bps priced in. There have been a number of decisions in this tightening cycle that have been surprising to markets – the decision to hike by 50bps in June (instead of 25bps) and the decision to hike by 25bps in October (instead of 50bps). Markets and the majority of economists, including Westpac, have had difficulty in following the Bank's guidance.

Our bulletin on the Friday ahead of the meeting noted: "We have argued for the last six months that the peak in the current cycle will be the May Board meeting. Our preference was for that peak to be 3.85%, with a final 25bp hike in May based on the 'here and now' – record low unemployment and very high inflation – rather than relying on forecasts. We still believe this would be the better policy approach given the risks, but it appears to be out of line with the Board's intentions."

... despite Q1 inflation tracking in line with the Bank's forecasts ...

Our assessment of the Board's intentions relied heavily on the guidance from the Governor's recent speech pointing out the importance of the inflation track being consistent with the Bank's forecasts. The March quarter inflation report indicated that inflation was in line, if not a little better, with that track. He also emphasised the return to a policy approach that would "move interest rates multiple times then wait for a while to assess the pulse of the economy and move again if the situation warranted doing so... it is a return to that world."

... risks around services inflation ...

However, the Board clearly had some doubts about the risks around the inflation profile. While the revised staff forecasts have reduced the forecast inflation rate for 2023 from 4.8% to 4½%, the Governor issued a strong warning that "services inflation is still very high and broadly based and experience overseas points to upside risks." Despite the improved inflation outlook for 2023, the RBA left the inflation forecast for mid–2025 unchanged at 3.0%.

... and the timeline highlighted ...

The decision statement, in highlighting that inflation is still too high – a point that we have stressed – gave a new prominence to "the importance of returning inflation to target within a reasonable time–frame".

... suggesting there will be little patience if the economy shows any signs of deviating from targets.

This wording certainly indicates that there will be little patience with a trajectory that moves away from that target but may also implies less patience with the current target. That would be more consistent with the recommendations in the RBA Review where the target is defined as 2.5% and the path to achieving that target needs to be justified. It may be that it becomes more difficult to justify the patient approach embedded in the RBA's current policy.

This clear emphasis on inflation means that the next 'live' meeting is likely to be the August Board meeting when the Board will receive an update of the inflation path with the June quarter inflation report.

An FOMC on hold ...

The FOMC backdrop will be very different in August. Whereas in May, the RBA Board would have been aware that the FOMC was almost certain to raise the federal funds rate by 25bps two days after its meeting, we expect the FOMC to be firmly on hold by August.

... an acceptable Q2 inflation decline ...

Our forecast for annual inflation in the June quarter is 6.3% (headline) and 6.1% (trimmed mean). That should be an acceptable fall in inflation from 7.0% (headline) and 6.6% (trimmed mean) and indicate that inflation remains on the RBA's desired track.

... and a sustained, marked deterioration in consumer demand ...

By August we expect that the economy, particularly highlighted by the household sector, will be deteriorating further. We expect that growth in the second half of 2023 will stagnate. The cash rate is expected to remain on hold in August.

It is noteworthy that the Bank has lowered its forecast for growth in 2023 from 1.6% to 1¼%, most likely reflecting the downside adjustments to household spending that are already underway. The expectation of a continuance of this weak growth environment in the second half of 2023 will be important to avert any further rate increases.

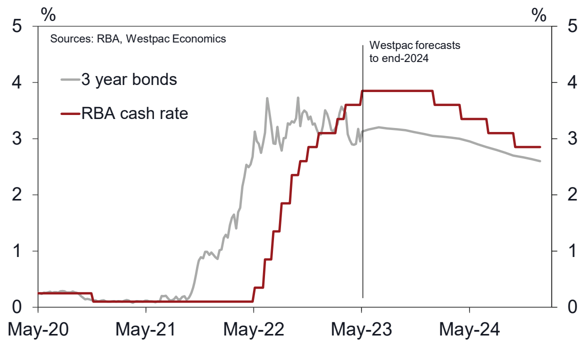
... should see pause extended but labour markets pose a clear risk.

The other risk is that, as we have seen in other countries, the labour market holds up better than expected with the unemployment rate holding near the current 3.5% low by mid–year despite the slowdown in demand. So despite the cash rate being further into the contractionary territory the Board could make the same decision as in May – inflation is too high and the labour market is too tight. That is why, along with the Board maintaining a tightening bias, the August Board meeting is very much 'live'.

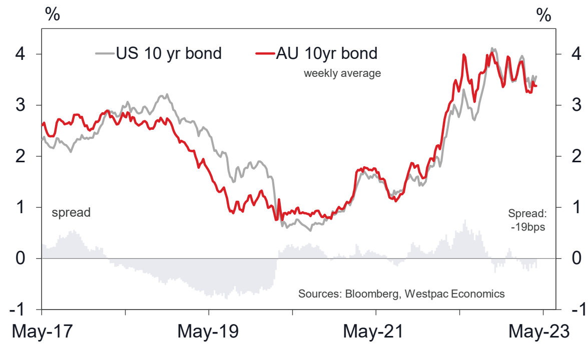
Bill Evans, Chief Economist

… clearly nervous about inflation risks

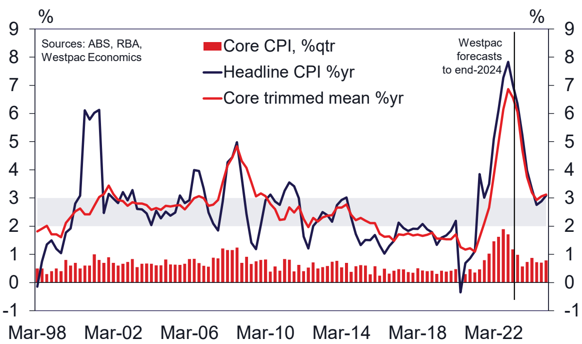
RBA cash rate and 3 year bonds



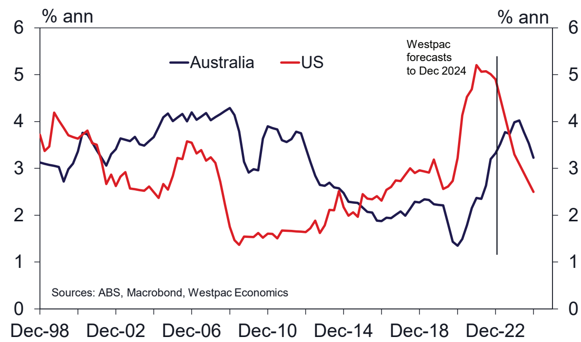
10 year bonds yields off their highs



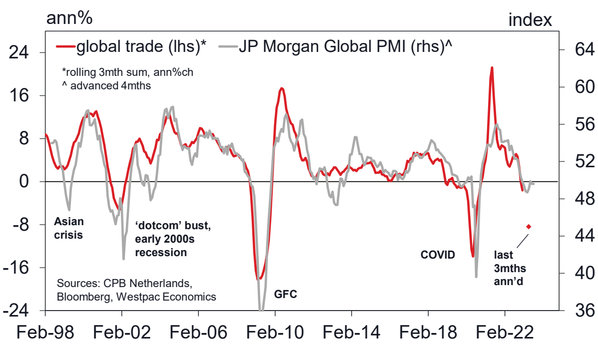
CPI inflation



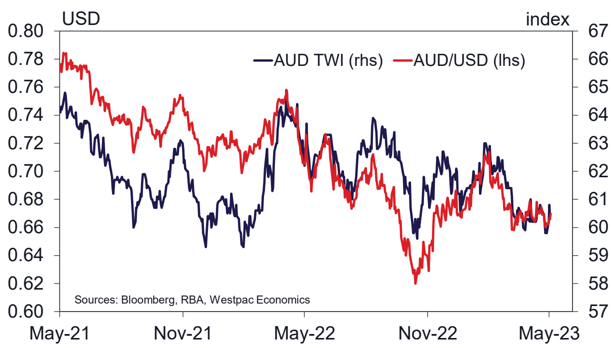
Wages growth: Australia vs US



Global trade contracting



AUD/USD & AUD TWI



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Slowdown underway ...

A slowdown in activity across the Australian economy is underway ...

A slowdown in activity across the Australian economy is underway, as evident from key updates for the December and March quarters. The intense headwinds from high inflation and higher interest rates are clearly impacting, particularly on households. We continue to expect output growth to slow to a well below trend 1.0% in 2023, moderating from a 2.7% outcome for 2022. We anticipate that growth will lift to 1.5% for 2024, on an expectation the RBA begins lowering interest rates early that year, contingent upon success in taming inflation.

... with household income under intense pressure ...

It is against this backdrop that the Federal Treasurer will deliver the annual budget on Tuesday May 9. The Treasurer will unveil an improved budget position for the 2022/23 financial year on stronger than anticipated national income associated with higher commodity prices. This provides the flexibility for the Budget to deliver some relief to the most vulnerable households, while at the same time showing restraint, by banking the bulk of the windfall revenue gain.

... from high inflation and sharply higher interest rates.

Recall that the December quarter national accounts highlighted the pressures on household incomes and broad based weakness in spending late in 2022. Economic activity grew by a modest 0.5% in the period and domestic demand was flat, the weakest outcome since June 2014 (outside of the lock-down quarters during 2020 and 2021). The stalling of domestic demand was associated with consumer spending growth slowing from 1.0% for the September quarter to only 0.3%. The flat result for domestic demand also came from: a decline in home building activity on an unfolding downturn in renovations work, –0.9%; a dip in business investment, –0.8%; and a cresting of public demand at a high level, edging 0.2% higher.

It is against this backdrop that the Federal Treasurer will deliver the Budget ...

The slowing of consumer spending growth reflected the extraordinary pressures faced by the household sector in the period and was despite a significant fall in the household savings rate from 7.1% to 4.5%, which effectively 'freed up' $9bn of spending capacity – compared to an increase in actual spending of around $6bn. Nominal disposable income contracted by 0.7% weighed down by a 7.4% lift in tax payments and a 22.4% increase in interest payments (the latter to an all-time high in dollar terms of $25.2bn). The increase in tax payments partly reflects rising employment and rising wages but there is a considerable base effect coming from an unusually small increase in the September quarter (partly affected by the Low and Middle Income Offset which lowered tax payments in the September quarter). The fall in real wages (inflation at 7.8% in 2022 compared to wages growth of 3.3%) contributed to a record fall in real disposable income of 2.2% (outside the volatile pandemic period).

... which is likely to include some relief for the most vulnerable households ...

As highlighted in our April Market Outlook, key partial indicators confirm that the softness in consumer spending has extended into 2023. Our central case forecast anticipates that economic activity will expand by a modest 0.4% in the March quarter, including a tepid 0.3% rise in consumer spending. Retail spending data point to downside risks to this view on total consumer spending. Retail sales have stalled, with nominal turnover in the March quarter unchanged from the quarter prior. After allowing for rising prices, real retail sales may be down in the order of 1% for the quarter. That represents a deterioration on the December quarter outcome which saw a small fall of –0.2%. Outside of the COVID lockdowns (Q2 2020 and Q3 2021) and the introduction of the GST in mid-2000, a 1% fall in quarterly real retail sales would be weakest outcome since the recession of 1990 (Q4 that year).

... as well as showing restraint, by banking most of the revenue windfall.

The interaction between negative real wages growth; rising tax and interest payments; labour income growth; and the draw-down in excess savings will dictate household incomes and spending over 2023 and 2024 – and in turn, the path of growth in the overall economy. We expect the contraction in real wages to end in 2023 but with very little in the way of gains – wages and inflation both tracking 4% in 2023, and 3.2% and 3% respectively in 2024. However, with slower employment gains in 2023 and 2024 total labour income growth will be much weaker. Meanwhile there will be more pressure from rising rates near term, with three 25bp hikes already passed this year. Rates are forecast to fall by 100bps in 2024.

We continue to expect output growth to slow to a well below trend pace ...

Consumer spending is likely to continue drawing support from a lower savings rate, which is expected to settle at around 2% by the end of 2024. This represents a partial draw-down on the reserve accumulated during the pandemic. We expect households to draw down around $50bn in 2023 and $70bn in 2024 out of the $300bn in excess savings that has been accumulated. That draw-down persists while the savings rate holds below the "equilibrium of 6%" but the dramatic boost to spending from the fall in the savings rate from over 20% to the current 4.5% is behind us.

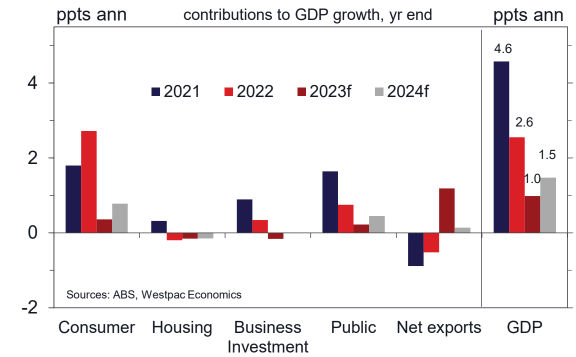
... a forecast 1% for 2023, including consumer spending growth of only 0.7%.

In summary, slowing employment growth; low confidence; drags from higher tax payments and interest costs will weigh heavily on the household sector over 2023 and 2024. Cyclical offsets to these negative will be: stability in real wages and the capacity to draw down on excess savings balances. Our GDP forecast of 1% growth for 2023 includes: consumer spending increasing by only 0.7%; a decline in both home building activity, –3.2%, and new business investment, –1.4%; while net exports make a sizeable positive contribution, of 1.2ppts.

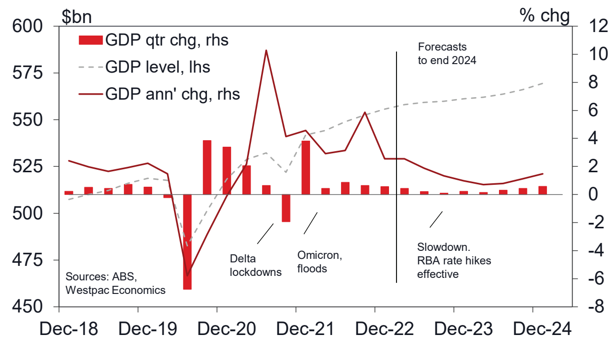
Bill Evans, Chief Economist

… with household income under intense pressure

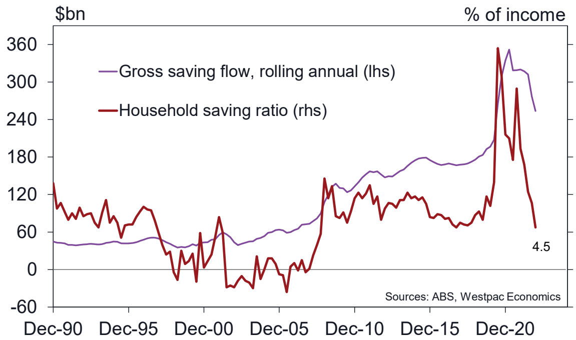
Australia: the growth mix



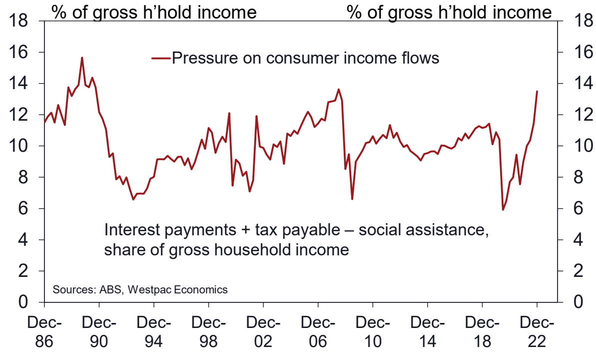
Australian economy: sharp slowdown in 2023



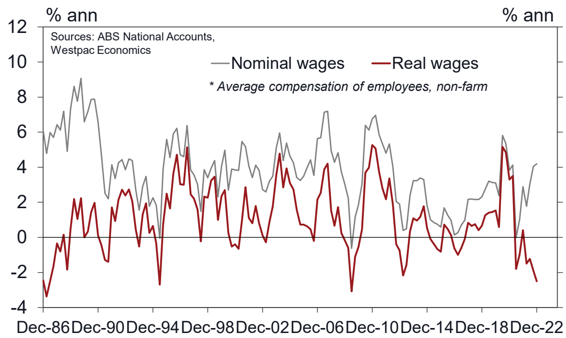
Household saving ratio and gross saving flow



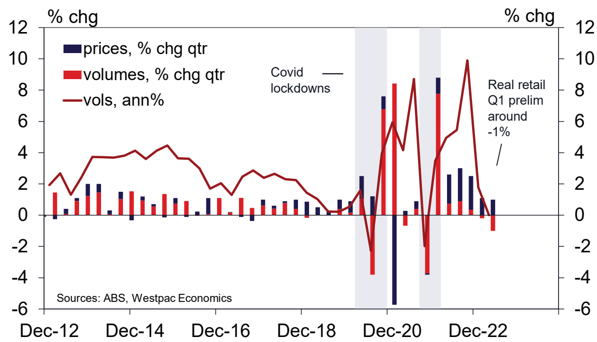
Pressure on consumer income flows



Wages – inflation squeeze



Real retail sales slump in 2023 Q1



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Chinese recovery remains supportive …

Commodity prices fell through April …

Since the April report commodities have had a meaningful correction. Our broad index (Westpac Exports Price Index) is down almost 8% led by a 22% fall in met coal prices (US$204/t), 13% fall in iron ore (US$107/t), 5% fall in Brent (US$79/bbl), and a 2% fall in LNG. Both base metals and gold were flat in the month, but base metals individually were more mixed with a 7% gain in nickel (US$24,200/t) and a 2% increase in lead being offset by a 3% fall in copper (US$8,600) and a 7% fall in zinc. Rural or soft commodities fell 4% in the month.

At this stage we have left our end 2023 forecast for iron ore at US$100/t but, as noted below, clear downside risks are emerging for this forecast. We have marked down our met coal forecast to US$206/t but held thermal coal flat at US$185/t for while prices are likely to be volatile, we expect them to track broadly sideways through the remainder of the year.

… led by falling met coal, iron ore and, by a lesser extent, crude oil and LNG.

Our forecasts reflect the broad themes that have evolved this year with a Chinese economic reopening contrasted against the risk of recession in developed economies and a mixed outlook for commodities supply. Currently, Chinese reopening momentum remains a tailwind with recent positive data releases not dimming the prospect of further stimulus support.

Chinese steel mills are more disciplined in the face of negative margins while …

However, as we have also highlighted, the commodity intensity of China's current economic recovery is likely to be lower compared to previous cycles, particularly for early cycle commodities such as iron ore and met coal. While the outlook for base metals may be more robust, care should be taken on what the magnitude of gains might be. China is the key end market for around 50% of base metals but a US/Europe recession would have a material impact, so we need to be careful in assessing the net outcome. We also must keep in mind that metals are also financial assets (old 'Dr Copper' is widely followed in financial markets) and slowing economic activity (and/or industrial production) would be a drag on near-term price momentum. We also note that, in broad terms, the supply outlook for commodities is quite mixed. Iron ore supply is in a clear recovery phase while copper and aluminium supply is looking more constrained. The outlook for coal supply is more mixed.

… iron ore supply improves following the operational challenges of 2022.

Despite the Chinese construction season having started, iron ore price fell to a low of US$104/t in late April, the lowest level since late November 2022 with reports suggesting the fall was due to moderating demand from Chinese steel mills, with 40% of the steel furnaces in Tangshan – China's largest steel producing city in the Hebei province – having gone into maintenance. It was also noted that there appears to be signs of improving production discipline among Chinese rebar producers as mills react to meaningfully negative margins. There were also reports of concerns the NDRC is set to intervene after it said it will monitor the iron ore market closely as well as signs of weakening investor confidence as net long positions decline on the Dalian market. For iron ore supply, following a disappointing year in 2022 when key producers trimmed their guidance due to operational, licensing or logistical challenges, supply has been lifting so far in 2023 with Rio Tinto in particular stepping up production. Under this environment the risk to our current year-end forecast for US$100/t are to the downside. The current cost/support level for iron ore is around US$70/t to US$80/t.

We doubt the European energy crisis has been fully resolved …

Given that EU natural gas prices are now back below LNG prices landed in Japan, has the European energy crisis passed, such that the next northern hemisphere winter no longer presents an upside risk? We do not think so. Overall weaker demand, driven in part by the just-passed mild winter in Europe, resulted in gas inventories tracking around 10-year highs causing a sharp correction in gas prices so far this year. This has flowed on to coal, which has seen a dramatic fall in prices. There are broad expectations for the global LNG market to remain in deficit through 2023 and for gas inventories to drift lower through the second half of the year on the assumption that there is a normal northern hemisphere summer rise in demand along with increased Chinese imports of LNG. Unless there is a matching lift in supply, this scenario should be supportive of gas and coal prices in the second half of 2023 and even into the first half of 2024. The price risks could shift to the downside in 2025 if, as expected, LNG supply ramps up.

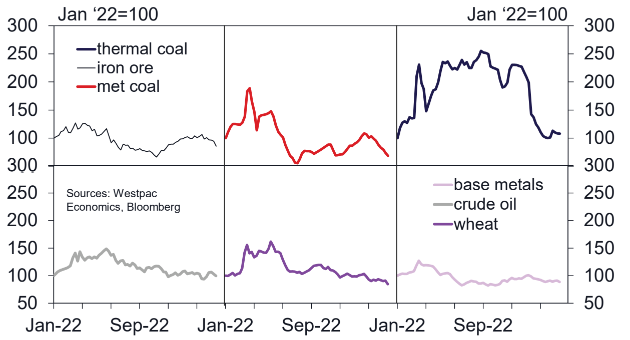
… and so remains an upside risk for energy prices in late 2023.

We hold to the view that the return of OPEC+ as a meaningful marginal producer will see Brent trade within a US$80/bbl to US$100/bbl this year. The observation that OPEC+ intervened when Brent was rising back towards US$80/bbl suggests this 'price floor' may be harder than previously thought. The key downside risk to our price forecasts remains a weaker global economy (currently Westpac is forecasting world growth of 3.0% in 2023, but with growth of just 0.9% across the developed economies) and thus weaker demand. This could take Brent back towards the March lows of around $70/bbl, but this is likely to be short-lived as OPEC+ members still have room for further cuts in production. Alternatively, a more positive economic outlook and a faster than expected Chinese reopening could see prices rise to more than US$100/bbl. However, it is likely it would take very strong demand to sustain prices above this level as OPEC+ has the potential to turn towards raising production faster than expected.

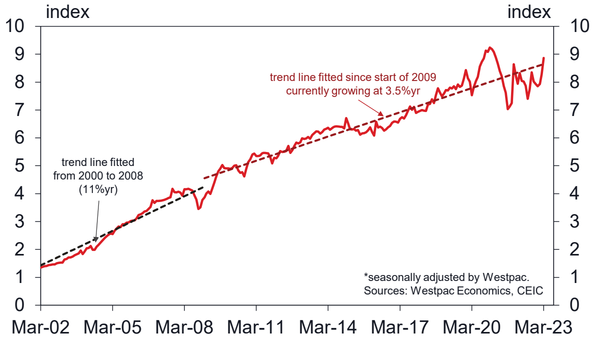
Justin Smirk, Senior Economist

... in the face of rising supply and recession risk

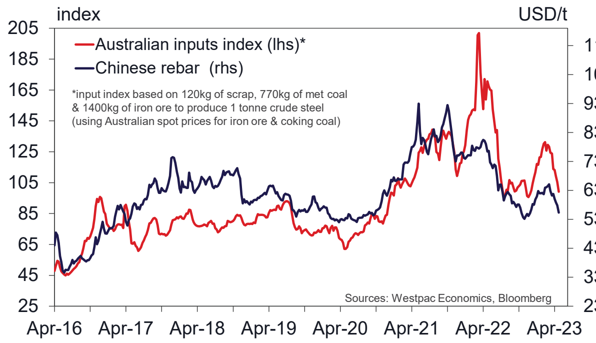
Commodities; Ukraine shock is long gone



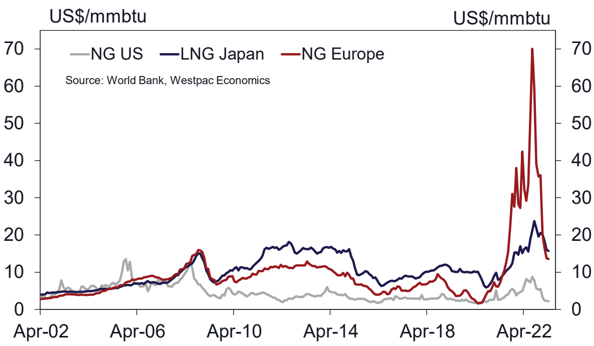
Chinese steel production back around trend



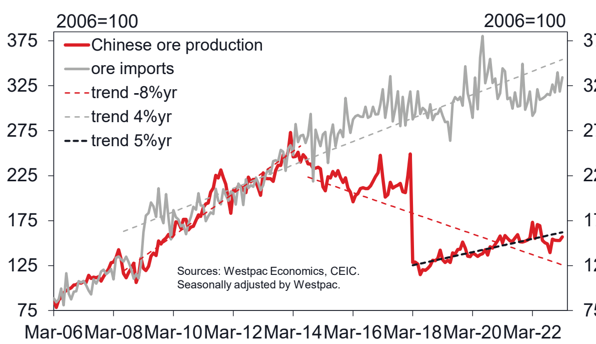
Chinese rebar & input costs



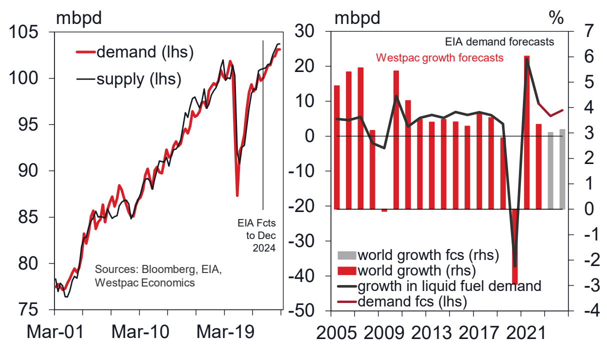
EU's prices are back below Asian prices



Chinese ore imports peaked in mid 2020



Crude demand has softened



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USD stability belies strength of …

Conflicting forces have held the USD to a tight range recently.

The US dollar has held to an extremely tight range over the past month, the DXY index trading between 101.0 and 102.6. Behind this stability however are numerous conflicting forces.

Focusing first on the US itself, downside risks for financial stability and economic activity have remained a concern for market participants amidst further banking sector stress. Authorities hope JP Morgan's purchase of First Republic will calm residual fears, but we expect the sector's loss of deposits at the height of the crisis and plans to tighten regulation for banks with assets above $100bn (currently $250bn) to have lasting consequences for growth and sentiment. That this will occur just as job creation stalls under the weight of contractionary monetary policy further highlights the risks to activity.

Soon enough though, another leg lower will be seen, as inflation risks recede …

At the same time however, inflation uncertainty also remains front of mind: core PCE inflation was still more than twice the FOMC's 2.0%yr target in March; wage growth annualised to almost 5.0% in Q1; and, most notably, members of the FOMC remain hawkish, most likely because of the pressure placed on them over the past 18 months by inflation and the expectations of markets.

While balancing these risks has held DXY flat recently, as we look ahead to the end of 2023 and 2024, the trajectory of US inflation and the contractionary state of monetary policy mean that we remain of the view that the US dollar will come under increasing pressure. From 101.3 currently, we anticipate the DXY index to fall to 99.3 end-2023 and 96.0 late-2024.

… and US growth underperforms vs key trading partners.

Critical to this view is not only the current state and outlook for the US, but also the health of its trading partners. Right now, the focus is firmly on Europe and the UK where: growth and the labour market have outperformed; inflation risks are greater; and policy makers continue to show resolve. At least for Europe, the outlook also offers significant promise, with the continent having a material and growing exposure to Asia which has both cyclical and structural growth momentum.

To end-2023 and 2024, we look for Euro to appreciate from USD1.10 currently to USD1.12 and USD1.16 respectively; and, despite a stronger starting point, Sterling to hold up in 2023 then appreciate further in 2024, from near USD1.26 currently to USD1.29 end-2024.

Risks for the US dollar are skewed to the downside both in the short and long-term.

The risks for the forecast period and the longer-term favour Europe and the UK over the US. One reason for this is the current political context, with the US Congress unable to even agree a resolution to their rolling debt-ceiling crisis while European officials work together to foster investment in their green transition and act to maintain the health of their banking system.

Also expected to prove a material headwind for DXY in 2023/24 is Japan's Yen. Recently, the market has myopically focused on the immediate outlook for the Bank of Japan, with the preference for a medium-term review over quick action against persistent above-target inflation seeing USD/JPY jump from JPY131.8 at the time of April's Market Outlook to JPY137.5 mid-month.

But the US/Japanese interest rate differential will soon narrow back to more normal levels as US term interest rates fall on expectations of fed funds rate cuts from late-2023. Greater stability over the price of oil and sustained strength in Asian growth will also benefit the Yen. From JPY137.5 mid-month, USD/JPY is forecast to fall to JPY128 end-2023, then JPY124 end-2024.

In stark contrast, Asia has momentum and a long pipeline of opportunities.

The appreciation anticipated for Japan's Yen unsurprisingly pales in comparison to that of other Asian economies with much stronger growth prospects. A distinct aversion to risk and the overweighting of interest rate differentials in the pricing models of market participants has kept many of these currencies at weak levels, even as the region's recovery from COVID-19 disruptions has begun to flourish. While there are numerous narratives across the region, gains are likely to be strong across the geography as a whole.

The Renminbi and Rupee have the most promise …

China's Renminbi and India's Rupee remain the stand-out prospects, with productivity and efficiency to beget sustained strength in growth and, consequently, the rebuilding of sentiment. From CNY6.91, USD/CNY is forecast to fall to CNY6.50 by end-2023 then to CNY6.10 by end-2024. For India's Rupee, a similar appreciation path is forecast, from INR81.8 to INR77 by end-2023 and INR72 by end-2024.

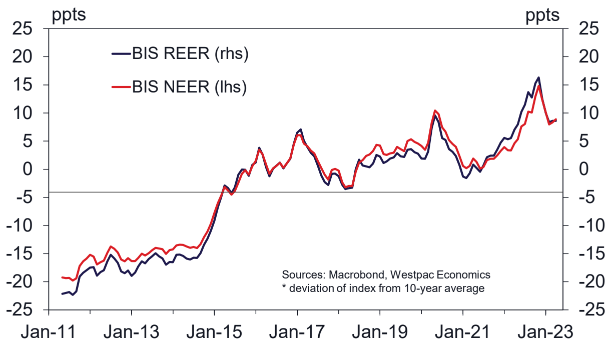
… though optimism is likely to extend to the wider region over time.

Countries with concentrated exposures to global tourism such as Thailand and Indonesia are also expected to see continued gains, from THB33.8 and IDR14,700 respectively to THB30.5 and IDR13,900 by end-2024. Both countries are also set to benefit from China's international investment drive to more formally integrate itself into the region's production base.

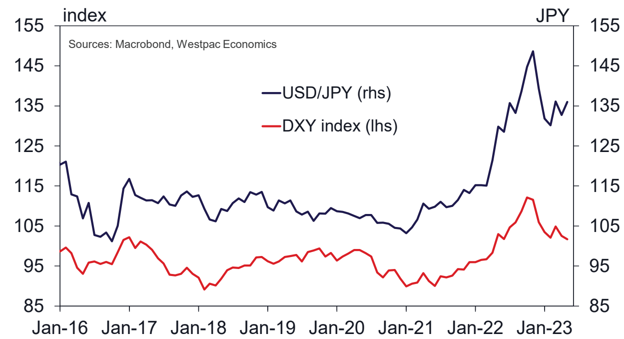
Elliot Clarke, CFA, Senior Economist

... cross–currents

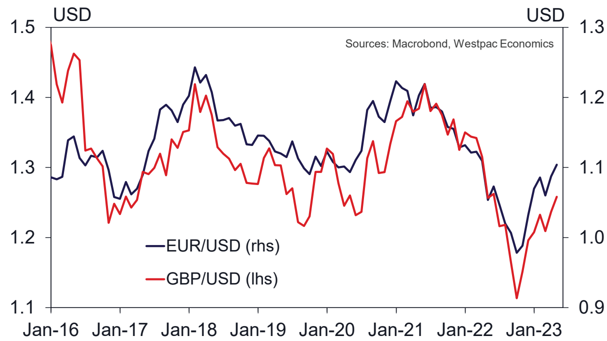
USD still historically elevated on broad basis



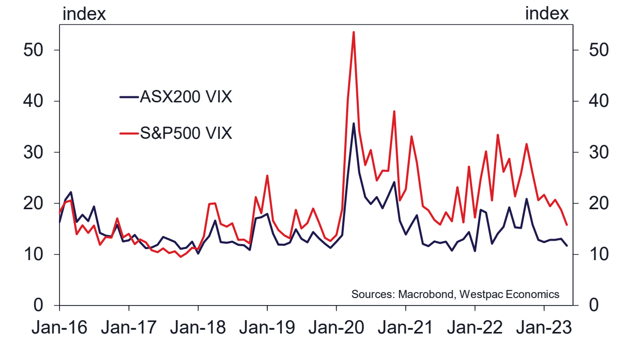
JPY continues to give DXY material support



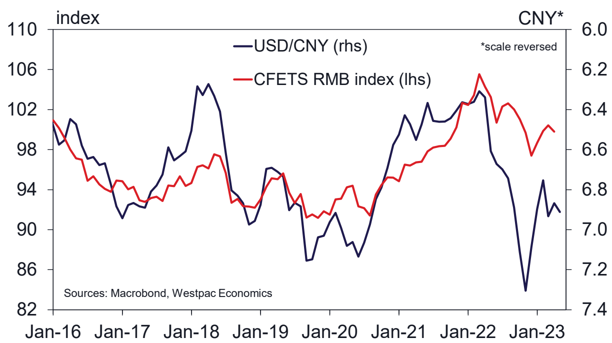
EUR & GBP negatives to fade through 2023



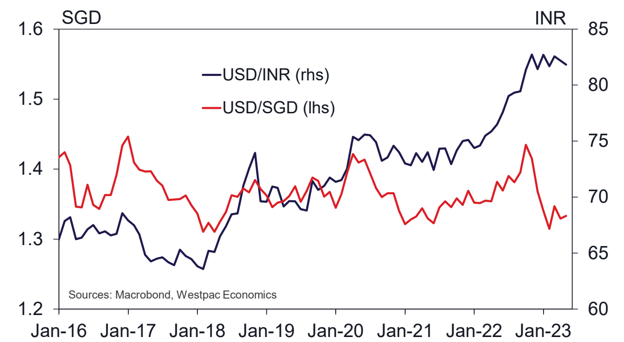
Distance from source of uncertainty a +'ve



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Inflation pressures stabilising ...

Inflation surprised to the downside in early 2023.

New Zealand consumer prices rose by 1.2% in the March quarter. That was lower than our forecast and saw the annual inflation rate dropping from 7.2% at the end of last year to 6.7% now. That's the lowest annual inflation has been since the end of 2021. Importantly, inflation has now fallen well short of the RBNZ's forecasts for the past two quarters. Indeed, the RBNZ forecast that annual inflation would rise to 7.3% in the March quarter.

While underlying inflation pressures remain strong ...

Inflation can be thrown around by big swings in a small number of items. And that certainly was the case in recent months (for instance, food prices were up a massive 11% over the past year). But what's more important is the underlying trend in prices. And here's where things get interesting. Underlying inflation pressures are still running hot. After strong growth in recent years, capacity in the economy – especially in the labour market – has become increasingly stretched. That's seen businesses' operating costs rising by around 12% over the past year, with wage costs up around 6% over the same period. The impact of those strong cost pressures has been seen most clearly in the domestically-oriented components of inflation (sometimes referred to as non-tradables) which are continuing to see prices rise at a rapid pace – up 1.7% in the March quarter and 6.8% over the past year.

... they are no longer accelerating ...

Crucially, however, while those prices remain strong, they are not accelerating. Measures of 'core' inflation, which smooth through the quarter-to-quarter swings in prices, continue to track around 6% and some measures are easing.

... with price declines in some interest-rate-sensitive areas.

The early part of 2023 also saw widespread falls in the prices of many imported durable items, like furnishings and appliances. That's consistent with the feedback we are getting from many retailers, who are telling us that demand for durable items has been waning. Similarly, increases in the cost of purchasing a newly built home (which drove much of the rise in overall inflation over the past year) have slowed sharply. That likely reflects weaker demand for new builds and falling house prices as interest rates have pushed higher.

Mortgage rate increases over the past year ...

This stabilisation in underlying inflation pressures is a key development for the RBNZ. Interest rates have been rising for over 18 months now. But as we have highlighted before, it takes time for those rate hikes to be reflected in household demand.

... are now flowing through to higher average borrowing costs for households ...

However, we are now firmly in the 'sweet spot' for the transmission of monetary policy, where interest rate rises should be having an impact on inflation. While widespread mortgage rate fixing in the New Zealand market delayed the impact of interest rate increases over the past year, a large number of mortgages have now rolled on to higher interest rates. In fact, accounting for the extent of mortgage rate fixing, the average 'effective' interest rate on residential mortgages has already increased by around 100bps since early 2022.

... which will be a significant drag on demand.

Looking ahead, the coming year will see around 50% of all mortgages repricing onto much higher interest rates. That will see the average mortgage rate rising by a further 160bps, which will further dampen demand, the labour market and wage growth, and ultimately domestic inflation. We are forecasting that the tightening in financial conditions already in train will result in an extended period of weak economic growth, with the economy tipping into recession through late 2023/early 2024.

The RBNZ is expected to hike the OCR again at its next policy meeting ...

So what does all this mean for the RBNZ? Inflation is still uncomfortably high, and we do not expect it to be back below 3% until the latter half of 2024. Against this backdrop, we continue to expect that the RBNZ will deliver another 25bp hike in the OCR at its May policy meeting. That would take the cash rate to 5.50%. Interest rates will need to remain high for some time yet, and the RBNZ is likely to maintain a hawkish stance in order to avoid an unwanted drop in borrowing rates.

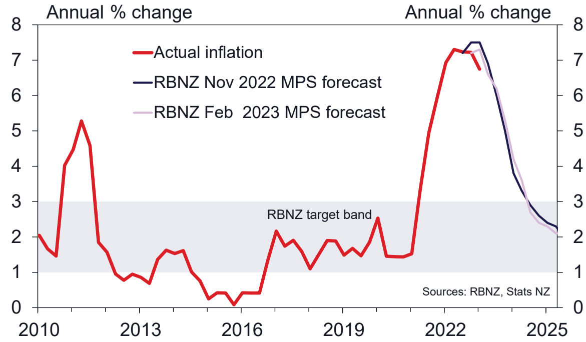
... however, the chances of the OCR rising above 5.50% have fallen.

However, with inflation falling well short of the RBNZ's forecasts, the chances of the central bank needing to take the OCR above 5.50% have fallen. The RBNZ will still be keeping a close eye on some key factors that could boost inflation over the coming year. These include the strength of the labour market, as well as potential increases in fiscal spending and spending on post-cyclone reconstruction (the next major updates on all of these issues will be released ahead of the RBNZ's May policy meeting). However, the large downside surprise in consumer price inflation will help to balance the RBNZ's concerns about the potential inflationary impacts of these other factors.

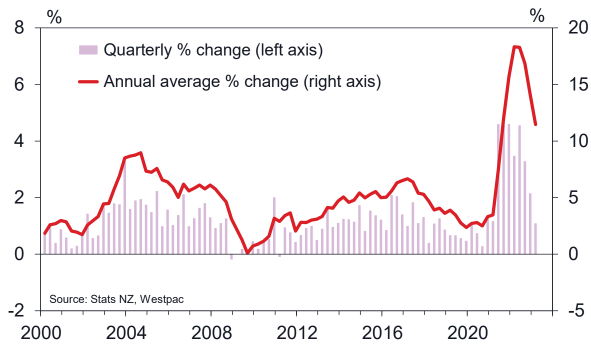
Satish Ranchhod, Senior Economist

… as average borrowing costs push higher

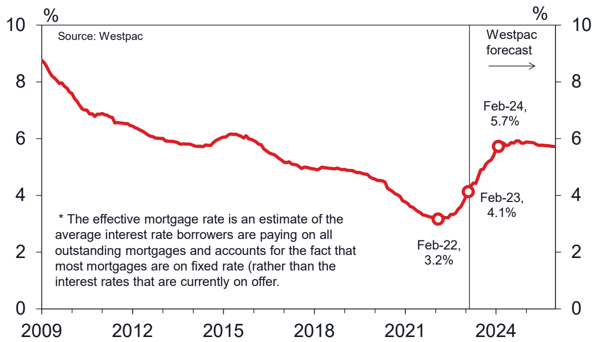
Inflation and RBNZ forecasts



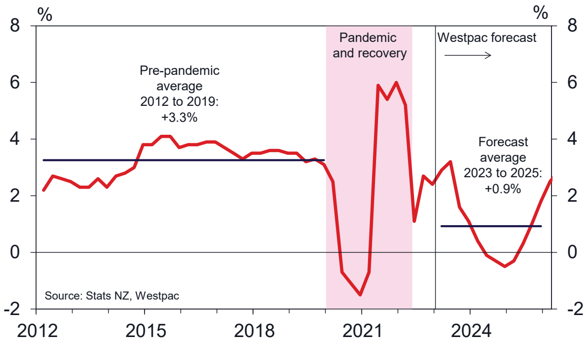
Cost of purchasing a newly built dwelling



Effective mortgage rate*



GDP growth (annual average)



	2022									2023		
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**
REINZ house sales %mth	2.0	–2.4	–10.1	–0.6	3.4	–2.5	–4.5	–6.6	–6.9	5.5	–2.8	9.0
Residential building consents %mth	–8.1	–1.0	–2.7	4.4	–2.3	3.2	–11.1	6.4	–7.5	–5.2	–9.0	–
Electronic card transactions %mth	7.4	1.5	–0.1	–0.1	0.8	2.0	0.9	–0.6	–1.4	3.6	–1.8	3.1
Private sector credit %yr	6.8	6.4	6.1	5.6	5.7	5.6	5.1	4.9	4.6	4.2	3.8	3.6
Commodity prices %mth	–1.9	–4.3	–0.4	–2.2	–3.4	–0.6	–3.4	–4.0	–0.2	–1.1	1.4	1.3
Trade balance $m	–819	–860	–1591	–1738	–1004	–695	–1656	–1662	–1059	–1588	–1390	–1753

Quarterly data	Q1:21	Q2:21	Q3:21	Q4:21	Q1:22	Q2:22	Q3:22	Q4:22	Q1:23
Westpac McDermott Miller Consumer Confidence	105.2	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7
Quarterly Survey of Business Opinion	5	22	10	–1	–6	–2	2	–14	–10
Unemployment rate %	4.6	4.0	3.3	3.2	3.2	3.3	3.3	3.4	3.4
CPI %yr	1.5	3.3	4.9	5.9	6.9	7.3	7.3	7.2	6.7
Real GDP %yr	–0.7	6.0	5.4	6.1	5.2	1.1	2.7	2.8	–
Current account balance % of GDP	–2.6	–3.4	–4.7	–6.0	–6.8	–7.7	–7.9	–7.6	–

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

The FOMC hits pause ...

Having taken the fed funds rate above 5%, the FOMC now seem comfortable ...

The outcome of the May FOMC meeting was broadly as anticipated, with the fed funds rate increased by 25bps to a mid-point of 5.125% and a conditional pause signalled.

Most notable was the change in the statement's language regarding the outlook for monetary policy, with March's "The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive" replaced by "In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will 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". The effect of quantitative tightening was also recognised, so too the uncertain scale of the contractionary effect of developments in the banking sector and associated regulatory reform.

... about the outlook for inflation.

These factors were also repeatedly highlighted by Chair Powell in the press conference, as was the fact that the fed funds rate is now at the level the March Committee consensus regarded as the peak for this cycle. While these are subjective and based off a central forecast of continued growth, Chair Powell's remarks suggest the Committee believes risk spectrum for the outlook is tilting to the downside.

Committee members are broadly sanguine over the outlook for growth ...

This is not to say the FOMC believe the economy is headed for recession, or that rate cuts will soon be required. Rather, they are sanguine on the outlook for both inflation and growth. Underlying their expectation is resilient employment demand, a tight labour market, and continued above-average gains for wages. Combined, these factors look to be viewed as an offset to the drag on households from above-target inflation and contractionary financial conditions.

At the same time, the FOMC is recognising that slack is beginning to build in the labour market and broader economy, with: wage growth coming down with inflation; activity data consistent with GDP growth well below trend; and businesses increasingly taking a defensive posture with respect to investment.

Regarding the baseline view for policy, the key question is how quickly US CPI inflation returns to target. From the March FOMC forecasts, it is clear that Committee members remain hesitant to declare victory on this front, with the low end of the central tendency range for 2023 3.0%yr (median 3.3%yr) and, in their view, inflation not back at target until end-2025.

... but are aware of the potential for banking sector uncertainty to shock activity.

These expected outcomes argue for a long period of on-hold policy to fend off inflation risks. That said, the Committee's view is predicated on continued growth in the economy in 2023 and a relatively quick return to trend growth through 2024 and 2025. Increasingly, the partial data for activity and the assumed consequences of developments in the banking sector stand against this view.

We see the risks to both growth and inflation ...

While our own forecasts for growth are broadly in line with the low-point of the Committee's central tendency range from March, we view the risks as skewed to the downside, with the real prospect of recession. Our own take on the composition of inflation is also more constructive, with annual headline inflation seen at 2.5%yr end-2023 following a circa 2.0% annualised gain through the second half of 2023.

... skewed to the downside, with a first cut to be required in December 2023 ...

Below-trend growth through 2024 (at least) suggests inflation pressures will remain modest over the remainder of the forecast period. It is our view therefore that the FOMC will be able to begin to cut rates in December 2023, and that the pace of easing will remain rapid through 2024, running at 50bps per quarter and leaving the fed funds rate at 2.875% by year-end. A low for the fed funds rate of 2.125% is seen by mid-2025.

Note the FOMC's March forecasts point to a 3.1% fed funds rate at end-2025 and 2.5% in the medium-term, so our expectation is for a materially different policy outcome than the Committee's. However, it is also worth emphasising that the market has already moved a long way towards our expectation, the US 10yr yield having fallen from a peak of 4.24% to 3.34% currently, we believe on its way to 2.50% in 2025.

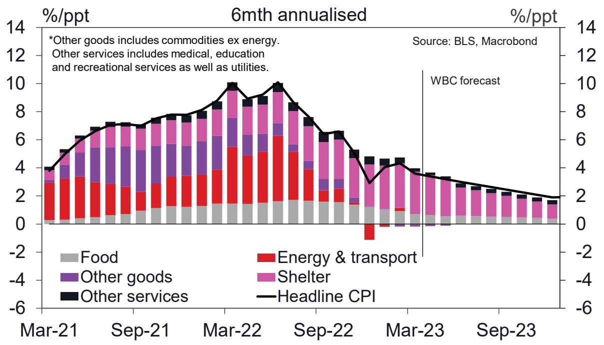
... and a series of rate cuts to follow through 2024 and into 2025.

In terms of the risks to the policy view, we must emphasise that, while recent data has been constructive for our forecast of policy easing from the turn of the year, incoming data must prove the case. Services inflation has to undergo a significant deceleration, requiring shelter inflation to dissipate quickly. Employment growth and wage gains also must slow further. While downside risks are more probable, as long as the labour market remains strong, their scale is likely to be limited. So the chance of an earlier or more aggressive rate cutting cycle than we have forecast seems slim at this stage.

Elliot Clarke, CFA, Senior Economist

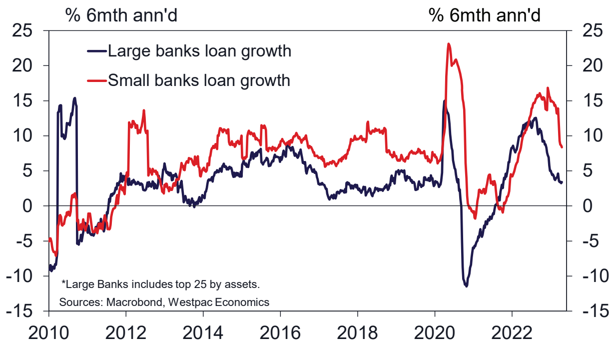
... as risks tilt down

US inflation downtrend established

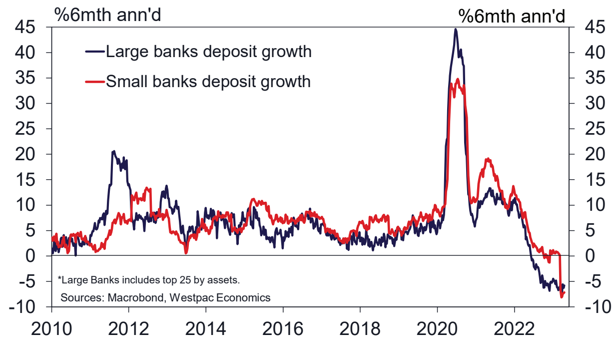


Labour market slack beginning to build

Small banks responsible for 40% of US credit



Failures and high rates causing deposit flight



	2022								2023			
Monthly data	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
PCE deflator %yr	6.5	7.0	6.4	6.3	6.3	6.1	5.7	5.3	5.4	5.1	4.2	–
Unemployment rate %	3.6	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	–
Non-farm payrolls chg '000	364	370	568	352	350	324	290	239	472	326	236	–
House prices* %yr	20.5	18.6	16.0	13.1	10.4	8.7	6.8	4.6	2.6	0.4	–	–
Durables orders core 3mth %saar	8.2	7.5	9.0	10.8	3.4	1.9	-2.4	-0.3	0.4	-1.9	-3.5	–
ISM manufacturing composite	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1
ISM non-manufacturing composite	56.4	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9
Personal spending 3mth %saar	9.5	9.3	7.3	7.6	5.1	8.5	4.3	1.8	7.1	8.4	8.6	–
UoM Consumer Sentiment	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5
Trade balance USDbn	-85.4	-80.8	-69.8	-64.6	-72.6	-77.2	-60.6	-67.2	-68.7	-70.5	–	–

Quarterly data	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23f**
Real GDP % saar	-1.6	-0.6	3.2	2.6	1.1	0.9
Current account USDbn	-280.8	-237.2	-219.0	-206.8	–	–

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

China's opportunities plentiful and ...

China has rebounded strongly out of COVID-zero ...

China's recent economic data has made clear the capacity of its economy to perform amid adversity. Yet the market continues to doubt, believing cracks will form in its growth story.

At 2.2%, Q1 GDP gain was strong ,albeit broadly in line with expectations. However, Q4 2022's outcome was revised up from 0.0% to 0.6%, leaving the annual rate to March 2023 at 4.5%yr against the market's expectation of 4.0%yr. Admittedly it is early in the year, but if this momentum persists, then our above-consensus call of 6.2% for 2023 will prove prescient.

... thanks in particular to an unconstrained consumer.

The primary support for these results is a surge in consumption following the removal of COVID-zero protocols late last year, year-to-date retail sales growth jumping from 3.5%yr in February to 5.8%yr at March. Notably, while the PMIs have reported mixed results for employment in early-2023, real income growth remains positive, while house prices and equities look to have found a base. Ahead, domestically-focused businesses are likely to build the required confidence to expand headcount and increase nominal wages as robust GDP growth persists and profitability rebounds. Support for consumption is therefore robust now and set to improve.

Residential investment is also likely to benefit in time ...

This backdrop is also likely to aid residential construction in time. While property fixed asset investment disappointed in March, with year-to-date annual growth failing to improve from February, growth in new property sales doubled from February to March to 7.1%yr. Data from the sector shows evidence of the pipeline of partially-completed homes being worked through, although some delay between sales and a pick-up in construction activity has to be expected.

... though risks remain for export-oriented sectors.

Where there is greater risk for the outlook is around externally-oriented investment. As at March, private fixed asset investment was up just 0.6%yr year-to-date compared to 10%yr growth across state-related entities. Moreover, the official NBS manufacturing PMI fell back into contraction in April as new export orders jolted lower.

To our mind though, while there is certainly near-term downside risk as the US weakens further and Europe only slowly gathers pace, Asian demand will increasingly act as a material offset for weakness in merchandise goods trade with developed nations.

Importantly, the regulatory agenda has once again become a positive force ...

While hard to quantify, the end of the most recent season of regulatory reform in China is also likely to promote investment, particularly in high-tech sectors. The agreed breaking-up of large tech conglomerates on commercial terms speaks to a desire amongst authorities to encourage competition, including through the propagation of start-ups, and scope for small and medium-sized businesses to remain independent as they grow. All else being equal, doing so will support the distribution of gains across the nation and maximise job creation.

... intent on setting industry up for sustained, robust growth in to the long-term ...

These are most certainly long-term ambitions, though early dividends are likely to be meaningful. As long as households spend a significant portion of their return from employment and investment domestically, and businesses continue to invest the majority of their capital at home, a virtuous cycle of growth and development will take hold and guard against the inefficiencies and oligopolist tendencies of the past.

... which will lay the foundation for the nation's prosperity.

As important as this year's rebound is, the determinant of China's success will instead be sustaining growth around 5% over the coming decade, with initial outcomes above that mark and later outcomes closer to 4.5%.

Elliot Clarke, CFA, Senior Economist

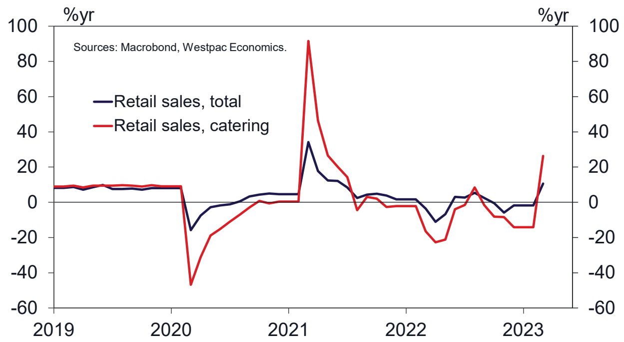
	2022								2023			
Monthly data %yr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Consumer prices – headline	2.10	2.50	2.70	2.50	2.80	2.10	1.60	1.80	2.10	1.00	0.70	–
Money supply M2	11.1	11.4	12	12.2	12.1	11.8	12.4	11.8	12.6	12.9	12.7	–
Manufacturing PMI (official)	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2
Fixed asset investment %ytd	6.2	6.1	5.7	5.8	5.9	5.8	5.3	5.1	5.1	5.5	5.1	–
Industrial production (IVA)	0.7	3.9	3.8	4.2	6.3	5.0	2.2	1.3	1.3	2.4	3.9	–
Exports	16.4	17.0	18.1	7.4	5.5	-0.4	-9.0	-10.0	-10.5	-1.3	14.8	–
Imports	3.5	-0.1	1.4	-0.3	0.1	-0.7	-10.6	-7.4	-21.3	4.2	-1.4	–
Trade balance USDbn	78.4	97.4	102.6	80.9	84.2	84.8	68.7	77.3	99.8	16.8	88.2	–

Quarterly data	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Real GDP %yr	4.3	4.8	0.4	3.9	2.9	4.5
Nominal GDP %yr	10.2	9.0	3.9	6.2	2.9	5.0

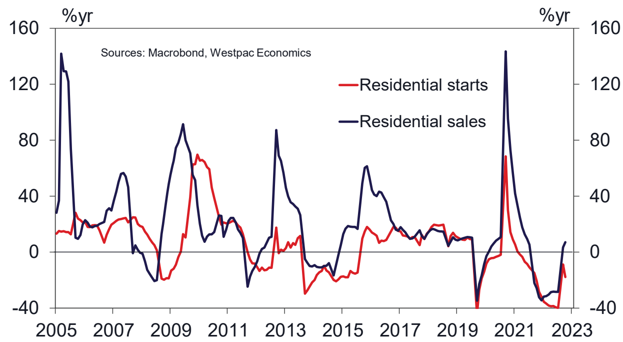
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

… built on strong foundations

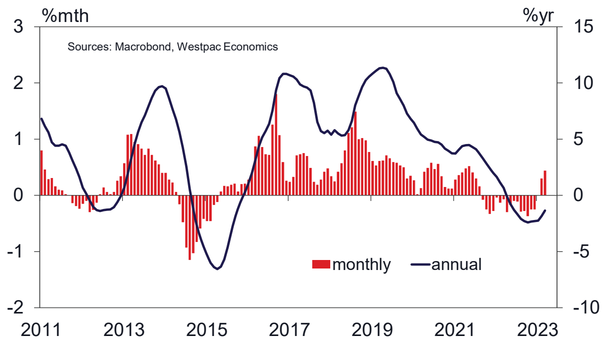
Pent-up consumer demand now free



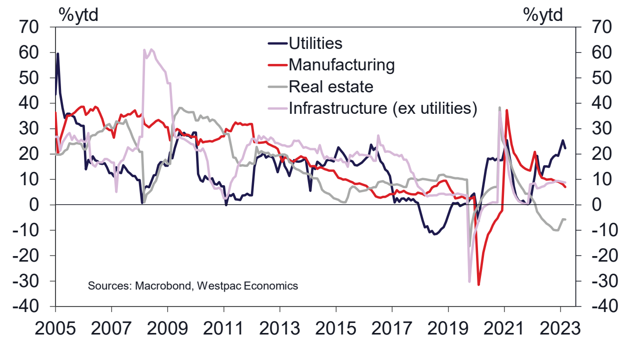
Sales activity suggests demand is returning



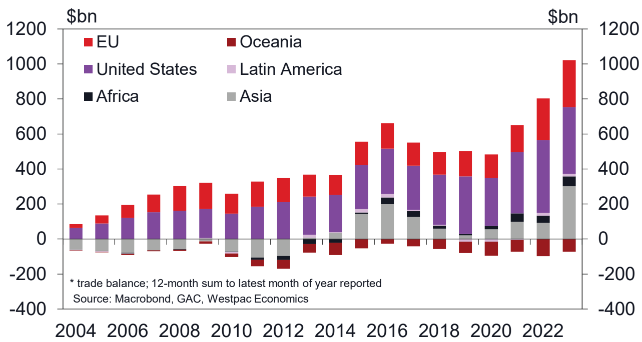
New home prices herald return of confidence



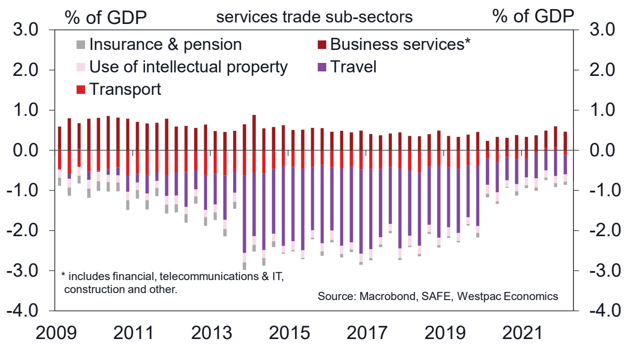
Investment promising for 2023 and beyond



China is diversifying its export markets



Tourism/ education spend to narrow surplus



Downshift to 25bp rate hike …

The ECB slowed the pace of rate hikes from 50bp to 25bp in May.

At its May meeting, the ECB decided to slow down the pace of rate hikes, opting for a 25bp increase across the three key policy rates. While this decision is in line with the Governing Council's data-dependent approach to monetary policy (as outlined below), President Lagarde made clear in the following press conference that they believe there is more ground to cover for monetary policy.

Growth is already in a fragile state …

One of the more significant data updates received prior to the policy meeting was the first estimate of Q1 Euro Area GDP. Having grown by only 0.1% over the period, the region's growth prospects over this year are clearly downbeat. Underlying the result is a relatively mixed performance across the Big Four: Germany posted the weakest result with a flat outcome; France narrowly avoided the same fate, with output rising 0.2%; meanwhile Italy and Spain grew robustly, both countries expanding by 0.5%.

… and the impact of policy tightening is uncertain.

At this stage, there is uncertainty around the measurable impact of higher interest rates on the real economy, but this is not to say that the monetary tightening to date has been ineffective. Indeed, the ECB's latest Bank Lending survey reported that credit standards – across business lending, mortgage lending and household credit – all continued to tighten substantially in Q1. As evinced by the further considerable deterioration in loan demand across businesses and households, financial conditions are clearly already at a restrictive level. As the increases in interest rates continues to flow through the economy over time, there will be a material impact on economic activity which we suspect will keep growth marginal through 2023.

Core inflation is moderating at a slow pace …

However, the ECB's decision and guidance clearly put more weight on the inflation challenge despite it, in a broad sense, evolving as anticipated. The April CPI flash estimate indicated that annual core inflation retreated slightly, from 5.7% to 5.6%, once again led by a moderation in core goods inflation, down from a six-month annualised peak of 7.6% in January to 5.6% in April.

… as stickiness in services inflation persists.

Regarding services inflation, there are a few important things to note. Firstly, the six-month annualised pace shot up from 3.9% in March to 6.1% in April. Such a jump is not uncommon for the six-month annualised series, but given there was also an unseasonally large monthly increase in services inflation in April 2022, the slight up-tick in the annual rate from 5.1% to 5.2% arguably understates this category's momentum. Additionally, the European labour market remains incredibly tight – the unemployment rate at a new historic low of 6.5% – highlighting the risk of persistent strength in services inflation.

We expect the end of policy tightening is near, with one final 25bp hike remaining.

Overall, the ECB seem cognisant of activity risks and the lingering uncertainty around monetary policy's potential impact; but even with the evolution of inflation broadly on-track, it looks as though the Governing Council remains focussed on inflation risks. Incorporating these developments, we still believe that the end to policy tightening is fast-approaching, with the ECB seemingly desiring a little more assurance in inflation's downtrend before pausing. We expect the ECB will most likely deliver one final 25bp rate hike at their June meeting, although the chance of another 25bp hike at the July meeting is significant. The longer the ECB continues with its tightening path, the greater the risk that policy's lagged effect and tightening lending standards will push growth materially below our current estimates (0.6% in 2023; 1.4% in 2024).

Ryan Wells, Economist

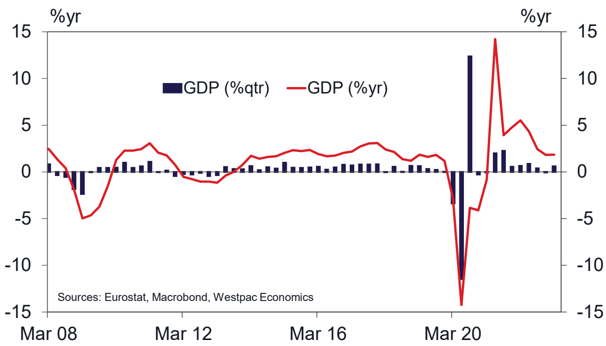
	2022								2023			
Europe	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Eur consumer prices %yr	8.1	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0
Eur unemployment rate %	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.6	6.5	–
Eur industrial production %yr	3.0	3.9	–0.8	4.8	6.2	4.3	3.6	–2.0	1.0	2.0	–	–
Eur retail sales volumes %yr	1.1	–2.7	–0.6	–1.2	0.1	–2.6	–2.4	–2.8	–1.8	–3.0	–	–
Eur consumer confidence	-21.5	-24.1	-27.2	-25.0	-28.7	-27.4	-23.7	-22.0	-20.6	-19.0	-19.1	-17.5
Eur current account balance €bn	-16.1	-7.0	-26.5	-36.2	-30.3	-14.2	-2.6	0.9	18.6	24.3	–	–
United Kingdom												
UK consumer prices %yr	9.1	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	–
UK unemployment rate % (ILO)	3.8	3.8	3.6	3.5	3.6	3.7	3.7	3.7	3.7	3.8	–	–
UK industrial production %yr	–3.3	–2.8	–3.3	–5.0	–4.0	–2.6	–2.9	–2.7	–3.2	–3.1	–	–
UK retail sales volumes %yr	–5.4	–6.6	–3.9	–5.7	–6.8	–5.4	–5.8	–6.4	–5.0	–3.3	–3.1	–
UK consumer confidence	–40	–41	–41	–44	–49	–47	–44	–42	–45	–38	–36	–30

Quarterly data	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Eur GDP %qtr/%yr	2.3/4.0	0.6/4.8	0.6/5.5	0.9/4.4	0.4/2.5	0.0/1.8	0.1/1.3
UK GDP %qtr/%yr	1.7/8.5	1.5/8.9	0.5/10.6	0.1/3.8	–0.1/2.0	0.1/0.6	–/–
UK current account balance £bn	–19.1	–2.4	–50.5	–28.2	–12.7	–2.5	–

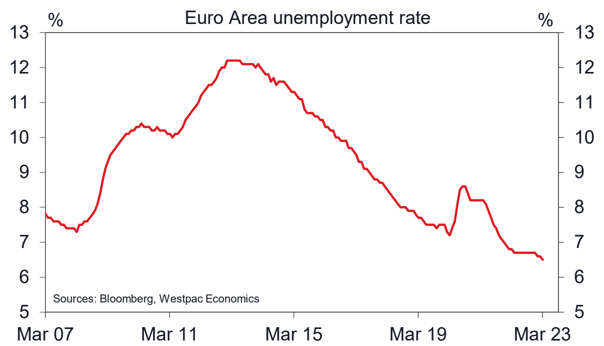
Source: Official agencies.

… signals a fast-approaching end to policy tightening

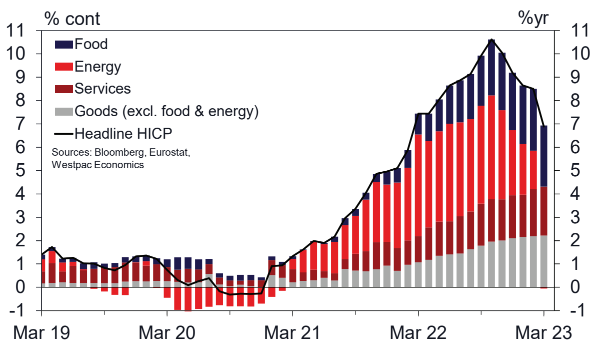
Growth at stall-speed



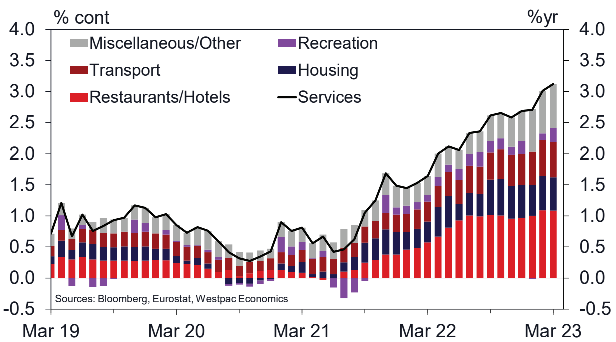
Labour market remains historically tight



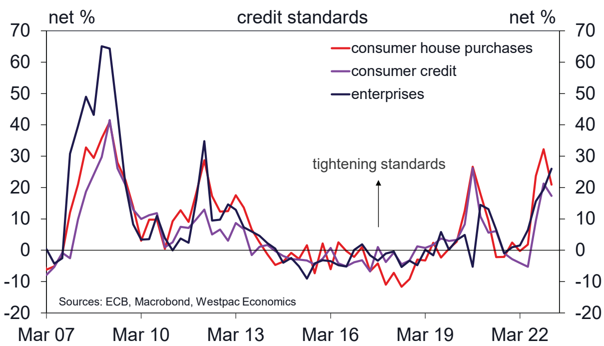
Energy driving deceleration in headline inflation



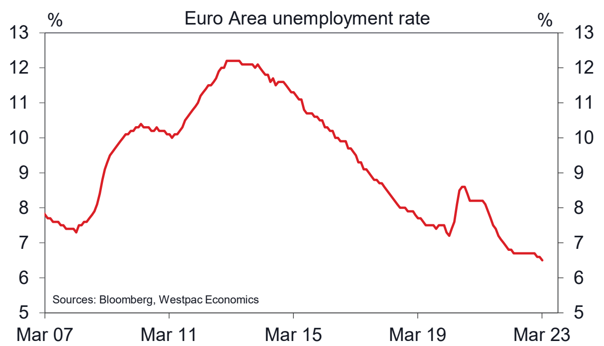
Services inflation continues to rise



Bank standards tightening substantially



Labour market remains historically tight



Australia

Interest rate forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	3.85	3.85	3.85	3.85	3.60	3.35	3.10	2.85
90 Day BBSW	3.87	3.95	3.95	3.97	3.72	3.47	3.22	2.97
3 Year Swap	3.35	3.60	3.50	3.40	3.30	3.10	2.90	2.80
3 Year Bond	2.92	3.20	3.15	3.05	3.00	2.85	2.70	2.60
10 Year Bond	3.28	3.40	3.30	3.20	3.00	2.80	2.70	2.50
10 Year Spread to US (bps)	-10	-10	-10	-10	-10	-10	-10	-10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs								
USD	0.6705	0.69	0.72	0.74	0.75	0.76	0.76	0.77
JPY	89.92	91.1	93.6	94.7	95.3	95.8	95.0	95.5
EUR	0.6080	0.62	0.65	0.66	0.67	0.67	0.66	0.66
NZD	1.0652	1.08	1.09	1.10	1.11	1.13	1.13	1.13
CAD	0.9066	0.92	0.94	0.95	0.96	0.97	0.96	0.97
GBP	0.5328	0.55	0.58	0.59	0.60	0.60	0.59	0.60
CHF	0.5935	0.61	0.63	0.65	0.65	0.66	0.66	0.66
DKK	4.5294	4.65	4.83	4.92	4.97	4.97	4.92	4.95
SEK	6.8545	7.04	7.31	7.45	7.51	7.52	7.45	7.48
NOK	7.1557	7.35	7.63	7.78	7.85	7.85	7.78	7.81
ZAR	12.27	12.4	12.7	12.9	13.0	13.1	13.1	13.2
SGD	0.8896	0.91	0.95	0.97	0.98	1.00	0.99	1.00
HKD	5.2624	5.40	5.62	5.76	5.83	5.90	5.89	5.97
PHP	36.94	37.3	38.5	39.2	39.0	38.8	38.4	38.5
THB	22.65	22.8	23.4	23.7	23.6	23.6	23.2	23.5
MYR	2.9756	2.93	3.02	3.07	3.08	3.08	3.08	3.08
CNY	4.6281	4.66	4.75	4.81	4.80	4.79	4.71	4.70
IDR	9846	10109	10476	10693	10763	10830	10678	10703
TWD	20.57	20.6	21.4	21.8	22.0	22.2	22.1	22.3
KRW	885	863	893	903	900	897	882	886
INR	54.60	55.5	56.9	57.0	56.3	55.5	55.1	55.4

Australia

Activity forecasts*

	2022			2023				Calendar years			
%qtr / yr avg	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	2.2	1.0	0.3	0.3	0.2	0.1	0.1	5.0	6.5	1.8	1.0
Dwelling investment	–3.1	0.7	–0.9	0.3	–0.3	–1.6	–1.6	9.9	–3.4	–2.2	–5.6
Business investment*	1.5	1.5	–0.8	1.0	0.5	–1.4	–1.5	8.2	3.3	0.8	–2.6
Private demand *	1.6	0.7	–0.1	0.3	0.1	–0.3	–0.3	6.5	4.8	0.9	–0.2
Public demand *	–0.5	0.2	0.2	0.2	0.2	0.2	0.2	5.8	5.0	0.6	1.2
Domestic demand	1.0	0.6	0.0	0.3	0.2	–0.2	–0.2	6.3	4.9	1.8	0.9
Stock contribution	–1.0	0.4	–0.5	0.0	–0.2	–0.1	0.0	0.4	0.4	–0.6	0.1
GNE	0.0	1.0	–0.5	0.3	–0.1	–0.3	–0.1	6.9	5.3	0.1	0.3
Exports	5.2	2.5	1.1	2.3	2.0	2.0	1.8	–2.0	3.3	8.8	5.7
Imports	1.4	4.0	–4.3	1.8	0.8	0.4	0.4	5.4	12.6	1.7	3.0
Net exports contribution	0.8	–0.2	1.1	0.2	0.3	0.4	0.3	–1.4	–1.5	1.6	0.7
Real GDP %qtr / yr avg	**0.9**	**0.7**	**0.5**	**0.4**	**0.2**	**0.1**	**0.2**	5.2	3.7	1.6	1.0
%yr end	**3.1**	**5.9**	**2.7**	**2.5**	**1.8**	**1.2**	**1.0**	**4.6**	**2.7**	**1.0**	**1.5**
Nominal GDP %qtr	4.0	1.2	2.1	1.8	0.1	0.4	0.5				
%yr end	11.7	13.3	12.0	9.4	5.2	4.4	2.8	10.3	12.0	2.8	2.8

Other macroeconomic variables

	2022			2023				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	1.1	0.8	0.8	0.4	0.7	–0.2	–0.5	–	–	–	–
%yr	3.6	5.1	5.0	3.2	2.7	1.7	0.4	2.4	5.0	0.4	0.7
Unemployment rate % (2)	3.8	3.5	3.5	3.6	3.5	3.9	4.5	4.7	3.5	4.5	5.0
Wages (WPI) (2)	0.8	1.1	0.8	0.8	1.0	1.0	1.0	–	–	–	–
%yr	2.6	3.2	3.3	3.5	3.8	3.7	4.0	2.4	3.3	4.0	3.2
CPI Headline (2)	1.8	1.8	1.9	1.4	1.1	0.7	0.7	–	–	–	–
%yr	6.1	7.3	7.8	7.0	6.3	5.2	4.0	3.5	7.8	4.0	3.1
Core inflation trimmed mean	1.6	1.9	1.7	1.2	1.0	0.6	0.7	–	–	–	–
%yr (2)	5.0	6.1	6.9	6.6	6.1	4.7	3.7	2.7	6.9	3.7	3.1
Current account AUDbn	11.2	0.8	14.1	13.0	6.0	6.0	5.0	66.7	29.4	30.0	9.0
% of GDP	1.8	0.1	2.2	2.0	0.9	0.9	0.8	3.1	1.2	1.2	0.3
Terms of trade annual chg (1)	7.7	0.0	7.2	0.6	–8.7	–4.7	–6.8	17.2	6.0	–5.0	–7.0

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

	2022							2023			
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
Employment '000 chg	92	–17	54	14	43	60	–13	–11	64	53	–
Unemployment rate %	3.6	3.5	3.5	3.6	3.4	3.5	3.5	3.7	3.5	3.5	–
Westpac–MI Consumer Sentiment	86.4	83.8	81.2	84.4	83.7	78.0	80.3	84.3	78.5	78.5	85.8
Retail trade %mth	0.7	0.8	0.8	0.7	0.4	1.6	–3.9	1.9	0.2	0.4	–
Dwelling approvals %mth	0.1	–16.0	28.0	–9.3	–5.5	–4.6	14.3	–27.1	4.0	–	–
Credit, private sector %yr	8.6	8.6	8.6	8.9	8.9	8.3	7.8	7.5	7.2	6.8	–
Trade balance AUDbn	17.1	8.4	8.7	12.5	12.2	13.4	12.6	10.8	14.2	15.3	–

New Zealand

Interest rate forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.25
90 Day Bill	5.62	5.60	5.60	5.60	5.50	5.05	4.55	4.25
2 Year Swap	5.02	5.10	4.80	4.50	4.20	3.90	3.70	3.50
10 Year Bond	4.09	4.20	4.10	4.00	3.85	3.70	3.60	3.50
10 Year Spread to US	71	70	70	70	75	80	80	90
10 Year Spread to Aust	81	80	80	80	85	90	90	100

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs								
USD	0.6295	0.64	0.66	0.67	0.68	0.68	0.68	0.68
JPY	84.41	84.5	85.8	85.8	85.7	85.1	84.4	84.3
EUR	0.5708	0.58	0.59	0.60	0.60	0.59	0.59	0.59
AUD	0.9389	0.93	0.92	0.91	0.90	0.89	0.89	0.88
CAD	0.8511	0.85	0.86	0.86	0.86	0.86	0.85	0.86
GBP	0.5001	0.51	0.53	0.53	0.54	0.53	0.53	0.53
CNY	4.3503	4.32	4.36	4.36	4.32	4.25	4.19	4.15

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

Activity forecasts*

	2022			2023				Calendar years			
% change	**Q2**	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	-3.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	7.5	2.9	-0.9	0.7
Government consumption	0.5	-0.7	-2.4	-0.5	-0.5	-1.0	-0.6	8.2	4.5	-3.4	-1.1
Residential investment	0.3	3.8	-2.2	0.0	0.0	-1.0	-2.0	8.0	0.4	-0.8	-8.4
Business investment	-3.8	2.7	-1.5	0.2	0.7	-0.1	-0.9	14.6	4.9	-0.2	-3.1
Stocks (ppt contribution)	0.4	0.2	0.1	-0.2	-0.5	-0.1	0.1	1.3	-0.1	-0.3	-0.1
GNE	-0.6	0.3	0.2	-0.3	-0.3	-0.4	-0.3	10.1	3.4	-1.3	-0.9
Exports	16.9	8.0	-2.2	1.0	4.0	3.6	1.1	-2.6	-1.0	12.7	5.2
Imports	0.9	2.5	0.6	1.9	1.1	0.6	0.5	15.1	4.4	5.1	2.4
GDP (production)	**1.6**	**1.7**	**-0.6**	**0.2**	**0.2**	**0.2**	**-0.2**	**6.0**	**2.4**	**1.1**	**-0.5**
Employment annual %	1.4	1.2	1.3	1.6	1.9	0.7	0.5	3.3	1.3	0.5	-0.3
Unemployment rate % s.a.	3.3	3.3	3.4	3.5	3.6	3.8	4.0	3.2	3.4	4.0	5.1
Labour cost index, all sect incl o/t, ann %	3.4	3.7	4.1	4.4	4.6	4.7	4.6	2.6	4.1	4.6	3.5
CPI annual %	**7.3**	**7.2**	**7.2**	**6.7**	**5.9**	**5.5**	**4.5**	**5.9**	**7.2**	**4.5**	**2.7**
Current account balance % of GDP	-8.0	-8.5	-8.9	-8.5	-8.1	-7.6	-6.7	-6.0	-8.9	-6.7	-4.5
Terms of trade annual %	-2.2	-6.4	-3.9	-4.9	-0.5	5.1	4.6	2.8	-3.9	4.6	1.2

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (5 May)***	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Australian commodities index#	312	327	316	305	302	**294**	**285**	**289**	**290**	**294**
Bulk commodities index#	**534**	**547**	**502**	**467**	**452**	**430**	**398**	**400**	**397**	**386**
iron ore finesTSI @ 62% US$/t	107	120	112	100	95	89	84	90	90	87
Qld coking coal index (US$/t)	204	205	205	206	204	203	201	199	180	168
Newcastle spot thermal coal (US$/t)	195	200	190	185	185	175	150	135	125	125
crude oil (US$/bbl) Brent ICE	79	82	82	85	87	88	92	95	105	110
LNG in Japan US$mmbtu	16.59	16.4	16.2	16.0	16.4	16.5	16.5	17.0	17.3	18.9
gold (US$/oz)	2,013	2,010	2,000	1,950	1,925	1,875	1,850	1,825	1,800	1,775
Base metals index#	**209**	**209**	**212**	**212**	**212**	**213**	**219**	**226**	**247**	**257**
copper (US$/t)	8,606	8,700	8,900	8,850	8,800	8,825	9,226	9,527	10,530	11,031
aluminium (US$/t)	2,361	2,350	2,360	2,375	2,375	2,375	2,445	2,497	2,668	2,750
nickel (US$/t)	24,203	23,950	23,850	23,950	24,000	24,000	24,927	25,618	27,910	29,040
zinc (US$/t)	2,646	2,700	2,800	2,900	2,950	3,000	3,000	3,073	3,316	3,434
lead (US$/t)	2,151	2,150	2,100	2,050	2,000	1,950	1,900	1,953	2,129	2,215
Rural commodities index#	**141**	**136**	**145**	**145**	**146**	**147**	**154**	**160**	**178**	**187**
NZ commodities index ##	**342**	**347**	**365**	**390**	**398**	**397**	**393**	**387**	**380**	**371**
dairy price index ^^	300	294	318	354	374	374	371	365	357	345
whole milk powder US$/t	3,230	3,300	3,633	4,000	4,000	4,000	3,950	3,900	3,811	3,725
skim milk powder US$/t	2,787	2,800	3,240	3,750	3,750	3,750	3,623	3,500	3,424	3,350
lamb leg UKp/lb	498	518	543	565	577	580	577	565	554	545
bull beef US¢/lb	284	290	294	295	295	291	284	275	260	247
log price index ##	169	170	173	175	175	174	172	169	166	163
strong wool US¢/kg	165	165	165	165	165	165	165	165	165	165

	levels				% change			
Annual averages	**2021**	**2022**	**2023(f)**	**2024(f)**	**2021**	**2022**	**2023(f)**	**2024(f)**
Australian commodities index#	**306**	**379**	**329**	**294**	**43.1**	**23.6**	**-13.0**	**-10.8**
Bulk commodities index#	**510**	**556**	**510**	**412**	**47.0**	**9.1**	**-8.4**	**-19.2**
iron ore fines @ 62% USD/t	159	120	115	90	46.6	-24.4	-4.1	-21.6
LNG in Japan $mmbtu	10.3	18.2	17	17	31.1	77.6	-8.3	-1.3
ave coking coal price (US$/t)	143	240	266	247	33.2	67.2	11.1	-7.2
ave thermal price (US$/t)	99	281	258	199	74.8	183.7	-8.3	-23.1
iron ore fines contracts (US¢ dltu)	239	174	169	144	72.8	-27.0	-3.0	-14.6
coal coking contracts (US$/t)	205	372	292	257	62.5	81.2	-21.5	-11.9
crude oil (US$/bbl) Brent ICE	70	97	83	90	60.2	38.4	-15.0	8.6
gold (US$/oz)	1,801	1,809	1,973	1,879	1.2	0.5	9.0	-4.8
Base metals index#	**213**	**230**	**216**	**217**	**41.1**	**8.0**	**-6.2**	**0.7**
copper (US$/t)	9,297	8,827	8,854	9,038	50.2	-5.1	0.3	2.1
aluminium (US$/t)	2,477	2,711	2,376	2,413	44.0	9.5	-12.4	1.5
nickel (US$/t)	18,452	26,228	24,486	24,497	33.4	42.1	-6.6	0.0
zinc (US$/t)	3,006	3,471	2,874	2,991	32.1	15.4	-17.2	4.1
lead (US$/t)	2,190	2,154	2,114	1,959	19.6	-1.6	-1.9	-7.3
Rural commodities index#	**150**	**171**	**144**	**153**	**28.0**	**14.0**	**-15.9**	**5.9**
NZ commodities index ##	**359**	**376**	**362**	**388**	**21.2**	**4.7**	**-3.7**	**7.2**
dairy price index ##	322	353	317	347	25.2	9.5	-10.0	9.3
whole milk powder US$/t	3,843	3,889	3,556	3,918	29.2	1.2	-8.6	10.2
skim milk powder US$/t	3,332	3,819	2,832	3,142	22.6	14.6	-25.9	11.0
lamb leg UKp/lb	599	624	511	573	18.4	4.3	-18.2	12.2
bull beef US¢/lb	279	280	280	288	19.0	0.5	-0.1	2.9
log price index ##	179	171	178	182	14.8	-4.3	4.1	2.1
strong wool US¢/kg	173	169	162	161	20.4	-2.7	-4.0	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 (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	5.125	5.125	5.125	4.875	4.375	3.875	3.375	2.875
10 Year Bond	3.38	3.50	3.40	3.30	3.10	2.90	2.80	2.60

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

Currency forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs								
DXY index	101.33	100.9	100.3	99.3	98.8	97.7	96.8	96.0
JPY	134.10	132	130	128	127	126	125	124
EUR	1.1028	1.11	1.11	1.12	1.13	1.14	1.15	1.16
AUD	0.6705	0.69	0.72	0.74	0.75	0.76	0.76	0.77
NZD	0.6295	0.64	0.66	0.67	0.68	0.68	0.68	0.68
CAD	1.3521	1.33	1.31	1.29	1.28	1.27	1.26	1.26
GBP	1.2587	1.25	1.25	1.26	1.26	1.27	1.28	1.29
CHF	0.8851	0.89	0.88	0.88	0.87	0.87	0.87	0.86
ZAR	18.30	18.0	17.7	17.4	17.3	17.2	17.2	17.1
SGD	1.3268	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8481	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.37	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	33.78	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.4366	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.9113	6.75	6.60	6.50	6.40	6.30	6.20	6.10
IDR	14685	14650	14550	14450	14350	14250	14050	13900
TWD	30.68	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1320	1250	1240	1220	1200	1180	1160	1150
INR	81.80	80.5	79.0	77.0	75.0	73.0	72.5	72.0

Activity forecasts*

	2022		2023				2024	Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	2.3	1.0	3.7	-0.1	-0.5	-0.3	0.8	8.3	2.7	1.4	0.5
Dwelling investment	-27.1	-25.1	-4.2	-5.1	-3.9	-3.9	0.0	10.7	-10.6	-12.8	-0.7
Business investment	6.2	4.0	0.7	1.0	2.0	2.0	3.7	6.9	4.3	2.0	3.2
Public demand	3.7	3.8	4.7	-0.4	-0.4	-0.4	-0.4	0.6	-0.6	2.1	-0.4
Domestic final demand	2.0	1.0	3.2	-0.1	-0.2	-0.1	1.0	6.8	1.9	1.2	0.7
Inventories contribution ppt	-1.4	2.0	-2.7	1.2	-0.4	-0.6	0.0	0.2	0.7	-0.5	0.0
Net exports contribution ppt	3.3	0.6	0.1	-0.2	-0.2	-0.2	-0.1	-1.7	-0.6	0.5	-0.1
GDP	3.2	2.6	1.1	0.9	-0.9	-0.9	0.9	5.9	2.1	1.1	0.6
%yr annual chg	1.9	0.9	1.6	1.9	0.9	0.0	0.0				

Other macroeconomic variables

Non-farm payrolls mth avg	429	316	340	120	55	50	50	514	427	141	75
Unemployment rate %	3.6	3.6	3.4	3.6	4.0	4.3	4.5	5.4	3.7	4.8	5.5
CPI headline %yr	8.2	6.4	5.2	3.0	2.9	2.5	2.5	7.2	6.4	2.5	2.0
PCE deflator, core %yr	5.2	4.6	4.5	3.6	2.9	2.5	2.5	6.0	3.6	2.3	2.1
Current account %GDP	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area								
ECB Deposit rate	3.25	3.50	3.50	3.50	3.25	3.00	2.50	2.00
10 Year Bund	2.19	2.30	2.20	2.15	2.00	1.85	1.80	1.60
10 Year Spread to US	–119	–120	–120	–115	–110	–105	–100	–100
United Kingdom								
BoE Bank Rate	4.25	4.50	4.50	4.50	4.50	4.00	3.50	3.00
10 Year Gilt	3.65	3.70	3.55	3.40	3.15	2.90	2.80	2.60
10 Year Spread to US	27	20	15	10	5	0	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (5 May)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs								
USD	1.1028	1.11	1.11	1.12	1.13	1.14	1.15	1.16
JPY	147.88	146	144	143	143	144	144	144
GBP	0.8762	0.88	0.89	0.89	0.89	0.90	0.90	0.90
CHF	0.9761	0.98	0.98	0.99	0.98	0.99	1.00	1.00
DKK	7.4493	7.45	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.2731	11.3	11.3	11.3	11.3	11.3	11.3	11.3
NOK	11.7681	11.8	11.8	11.8	11.8	11.8	11.8	11.8
sterling vs								
USD	1.2587	1.25	1.25	1.26	1.26	1.27	1.28	1.29
JPY	168.76	165	163	161	160	160	160	160
CHF	1.1139	1.11	1.10	1.11	1.10	1.10	1.11	1.11
AUD	0.5328	0.55	0.58	0.59	0.60	0.60	0.59	0.60

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2019	2020	2021	2022	2023f	2024f
Eurozone GDP	1.6	–6.1	5.2	3.5	0.6	1.4
private consumption	1.3	–8.0	3.5	3.2	1.0	1.4
fixed investment	5.7	–8.4	3.6	2.9	2.0	4.5
government consumption	1.8	1.4	3.8	1.0	1.1	2.0
net exports contribution ppt	–0.5	–0.7	1.0	0.3	0.2	-0.2
Germany GDP	1.1	–3.7	2.6	1.9	0.4	1.2
France GDP	1.8	–7.9	6.8	2.5	0.5	1.0
Italy GDP	0.5	–9.0	6.7	3.8	0.4	1.0
Spain GDP	2.1	-10.8	5.1	5.5	1.4	2.2
Netherlands GDP	2.0	–3.9	4.9	4.3	1.0	1.5
memo: United Kingdom GDP	1.7	–9.3	7.4	4.3	–0.2	1.2

FORECASTS

Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.7	6.0	2.2	8.1	3.5	6.2	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	2.3	2.3
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	0.2	1.2
Industrial production (IVA)	6.2	5.7	2.8	9.6	3.6	5.5	5.0
Retail sales	9.0	8.0	–3.9	12.5	–0.2	10.5	7.5
Money supply M2	8.1	8.7	10.1	9.0	11.8	10.5	9.0
Fixed asset investment	5.9	5.4	2.9	4.9	5.1	6.0	5.5
Exports %yr	–4.4	7.9	18.1	20.9	–9.9	–1.2	2.5
Imports %yr	–7.6	16.5	6.5	19.5	–7.5	0.3	3.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (5 May)	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
Required reserve ratio %*	10.75	10.75	10.75	10.75	10.75	10.75	10.75	10.75
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 (5 May)	Jun–23	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
JPY	134.10	132	130	128	127	126	125	124
SGD	1.3268	1.32	1.32	1.31	1.31	1.31	1.31	1.31
HKD	7.8481	7.82	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.37	54.0	53.5	53.0	52.0	51.0	50.5	50.0
THB	33.78	33.0	32.5	32.0	31.5	31.0	30.5	30.5
MYR	4.4366	4.25	4.20	4.15	4.10	4.05	4.05	4.00
CNY	6.9113	6.75	6.60	6.50	6.40	6.30	6.20	6.10
IDR	14685	14650	14550	14450	14350	14250	14050	13900
TWD	30.68	29.9	29.7	29.5	29.3	29.2	29.1	29.0
KRW	1320	1250	1240	1220	1200	1180	1160	1150
INR	81.80	80.5	79.0	77.0	75.0	73.0	72.5	72.0

Source: Bloomberg, Westpac Economics.

SUMMARY OF THE WORLD

Economic growth forecasts (year average)

Real GDP %ann	2018	2019	2020	2021	2022	2023f	2024f
World	**3.6**	**2.8**	**-2.8**	**6.3**	**3.3**	**3.0**	**3.1**
United States	2.9	2.3	-2.8	5.9	2.1	1.1	0.6
Japan	0.6	-0.4	-4.3	2.1	1.0	1.2	1.0
Euro zone	1.8	1.6	-6.1	5.4	3.5	0.6	1.4
Group of 3	**2.2**	**1.7**	**-4.2**	**5.3**	**2.5**	**0.9**	**0.9**
United Kingdom	1.7	1.6	-11.0	7.6	4.3	-0.2	1.2
Canada	2.8	1.9	-5.1	5.0	3.4	0.9	2.0
Australia	2.8	1.9	-1.8	5.2	3.7	1.6	1.0
New Zealand	3.5	3.1	-1.5	6.0	2.4	1.1	-0.5
OECD total	**2.3**	**-0.8**	**-0.4**	**5.0**	**2.1**	**0.9**	**1.0**
China	6.8	6.0	2.2	8.4	3.0	6.2	5.5
Korea	2.9	2.2	-0.7	4.1	2.6	1.8	2.2
Taiwan	2.8	3.1	3.4	6.5	2.5	2.2	2.5
Hong Kong	2.8	-1.7	-6.5	6.4	-3.5	3.0	3.0
Singapore	3.6	1.3	-3.9	8.9	3.8	2.2	2.8
Indonesia	5.2	5.0	-2.1	3.7	5.3	5.4	5.5
Thailand	4.2	2.1	-6.2	1.6	2.6	4.1	4.2
Malaysia	4.8	4.4	-5.5	3.1	8.7	5.0	5.0
Philippines	6.3	6.1	-9.5	5.7	7.6	6.0	6.0
Vietnam	7.5	7.4	2.9	2.6	7.4	6.2	6.8
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**5.5**	**5.1**
East Asia ex China	4.5	3.8	-2.3	4.3	4.5	4.1	4.4
NIEs*	**3.0**	**2.0**	**-0.5**	**5.6**	**2.2**	**2.1**	**2.4**
India	6.5	3.9	-5.8	9.1	7.0	5.8	6.5
Russia	2.8	2.2	-2.7	5.6	-2.1	-1.8	0.0
Brazil	1.8	1.2	-3.3	5.0	2.9	1.2	2.0
South Africa	1.5	0.3	-6.3	4.9	2.0	0.1	1.2
Mexico	2.2	-0.2	-8.0	4.7	3.1	1.8	1.8
Argentina	-2.6	-2.0	-9.9	10.4	5.2	0.2	0.2
Chile	4.0	0.7	-6.1	11.7	2.4	-1.0	-0.9
CIS^	1.5	-1.7	0.3	12.6	4.2	3.5	3.4
Middle East	1.4	1.3	3.2	2.8	2.8	2.8	2.7
C & E Europe	0.4	-2.5	-4.9	8.7	5.4	2.9	2.0
Africa	3.2	3.3	-1.7	4.8	3.9	3.6	3.6
Emerging ex-East Asia	**2.9**	**1.6**	**-2.5**	**6.4**	**3.8**	**2.9**	**3.4**
Other countries	5.5	6.8	-3.6	6.3	3.9	5.4	4.0
World	**3.6**	**2.8**	**-2.8**	**6.3**	**3.3**	**3.0**	**3.1**

#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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