WESTPAC MARKET OUTLOOK JUNE 2023.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

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

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Corporate directory

Westpac Economics

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

Bill Evans
Chief Economist
Global Head of
Economics & Research

Andrew Hanlan
Senior Economist

Elliot Clarke, CFA
Senior Economist

Matthew Hassan
Senior Economist

Justin Smirk
Senior Economist

Ryan Wells
Economist

Illiana Jain
Economist

New Zealand Economics

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

Kelly Eckhold
Chief Economist

Michael Gordon
Senior Economist

Satish Ranchhod
Senior Economist

Paul Clark
Industry Economist

Nathan Penny
Senior Agri Economist

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

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

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

EXECUTIVE SUMMARY

The much-anticipated peak in the interest rate tightening cycle remains frustratingly elusive. While headline inflation measures are now well off their 2022 highs, the pace of cooling has tended to disappoint. Underlying measures show a more modest slowing, to paces that are still well above central bank targets. With inflationary pressures particularly persistent in the services sector, and labour markets generally still very tight, the concern is that the monetary tightening to date may still not be enough to ensure a timely return to stable low inflation. Adding to this, the contractionary effects of tight policy have been somewhat milder than expected. The mix saw the FOMC's June meeting deliver a 'skip' rather than what had been widely expected to be a longer lasting 'pause' – with a clear signal that a further tightening would be delivered in July. Other central banks are also set to deliver additional hikes, including the RBA, which we now expect to make two more 25bp rate rises in July and August. With each increase, we move closer to tipping real economies into a more pronounced period of weakness. Where policy is now clearly very tight, as it is in the US, we are also starting to get concerned about how a bigger hit may affect capacity and inflation over the medium to longer term.

The situation remains very different in China, with inflation benign and the challenges more around guiding growth through a minor soft patch – something deft policy support aimed at shoring-up confidence should be well-equipped to manage.

For markets, the general view is still that the global interest rate cycle will peak by year-end, and start to move lower in 2024. However, the duration and extent of further tightening has again been pushed out, the scale of any cuts next year also being questioned. For currencies, relative growth prospects are expected to drive shifts amongst the big 'safe haven' currencies but will do little to help the AUD which also looks to be suffering from its 'low-yielder' status.

Australia: We have lowered our growth forecasts for 2023 and 2024 to reflect a higher terminal RBA cash rate of 4.6% and a delay to the first rate cut in 2024, from February to May. The key driver of this insipid growth outlook continues to be households, consumption now expected to grow by just 0.3% in 2023 and 0.6% in 2024. Despite some offsetting positives and pockets of strength limiting the downside to business investment, the weaker outlook for growth overall sees a higher forecast peak in the unemployment rate, of 5.3% by late 2024, with a clear risk of a 'technical recession' along the way.

Commodities: Australia's commodity export prices are down almost 18% in the year to June with thermal coal halving, gold the only commodity to gain in price. Iron ore has held around US$100/t due to recent strength in demand but this appears to be peaking and supply is starting to lift. Coal fell on a correction in EU demand, rising inventories and falling gas prices. It remains vulnerable with lack-lustre demand outside of India. However, crude prices look to have found a base with OPEC+ announcing production cuts and US crude producers seeing little incentive to hedge.

Global FX markets: The US dollar kept to its tested range this month as risks swirled and data failed to provide a definitive signal on the outlook for growth and inflation. However, in our view, it is slowly becoming clear that Europe has stronger prospects than the US. Asia's foundations for growth are strong and its runway long but markets will be slow to recognise this.

New Zealand: While the Reserve Bank of New Zealand delivered the expected increase in the Official Cash Rate at its May meeting, the central bank's assessment of economic conditions was more dovish than we expected and consistent with interest rates remaining on hold from here. We continue to expect that higher interest rates will be required, but have revised down our forecast for the peak in the cash rate to 5.75% (from 6.00% previously) while pushing out the time when rate cuts might occur.

United States: The FOMC has a significant dilemma to deal with. While contractionary policy is necessary in the short-term to eradicate inflation risks, if held on to for too long, restrictive policy will suppress investment and could produce a structural imbalance between demand and supply. Doing so would materially increase the probability of a sustained period of stagnation.

China: Market participants have become despondent over China's prospects following two soft rounds of activity data over April and May. In our view, these results question confidence amongst households and business, but not the underlying growth capacity of the economy. With authorities now positioning to provide active support, the perceived outlook is set to brighten.

Europe: The ECB opted to raise rates by 25bps as underlying inflation proves stickier than previously thought. Further rate hikes are to be expected in July and September following President Lagarde's hawkish comments. The Bank of England is expected raise the bank rate by 25bps as strong inflation pressures persist and strong wages growth prompt action.

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	1.4	0.3
China	6.8	6.0	2.2	8.4	3.0	6.0	5.5
Japan	0.6	-0.4	-4.3	2.1	1.1	1.2	1.0
India	6.5	3.9	-5.8	9.1	6.8	6.1	6.3
Other East Asia	4.5	3.8	-2.3	4.3	4.5	3.9	4.4
Europe	1.8	1.6	-6.1	5.4	3.5	0.6	1.2
Australia	2.8	1.9	-1.8	5.2	3.7	1.4	0.5
New Zealand	3.5	3.1	-1.5	6.0	2.7	1.2	0.5
World	**3.6**	**2.8**	**-2.8**	**6.3**	**3.4**	**3.1**	**3.0**

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

RBA hikes cash rate to 4.1% ...

RBA moves again ...

The Reserve Bank Board raised the cash rate by 0.25% to 4.1% at its June Board meeting.

... unsettled by persistent high inflation ...

The Governor's statement has rearranged the order of previous statements to put maximum emphasis on the damage associated with high inflation and inflationary expectations becoming entrenched in the economy. He points out that services price inflation is still very high and that unit labour costs are rising briskly with productivity growth remaining subdued. He also points out that public sector wages are expected to pick up further and that the annual increase in award wages was higher than last year.

... and seeking to head off a rise in inflation expectations.

He sees his dominant objective as being to contain inflation expectations and achieve the inflation objective which appears to be riskier than before.

Wage concerns are front and centre ...

The statement acknowledges "a substantial slowing in household spending" and "uncertainties regarding the global economy" but the emphasis has clearly pivoted away from concerns around domestic growth and maintaining the progress that has been achieved around the labour market since the pandemic, towards ensuring that inflation returns to target, reflecting the rising risks around wages growth and inflationary expectations. He further emphasises that: "The Board remains alert to the risk that expectations of ongoing high inflation contribute to larger increases in both prices and wages".

... the '3% by mid-2025' inflation target leaving little scope for error.

While there is no specific recognition that the long-held inflation target of 3.0% by June 2025 has been modified, commentary after the May Board meeting indicated that aiming for the top of the target band left little scope for error. Recent discussions I have had with overseas investors indicate low confidence in a policy of aiming for the top of the band when inflation is well above the target – one suspects that the Board is becoming less comfortable with that approach and that a mid-point is a preferable target.

Concerns justify further hikes ...

Our reading of the statement is that the Board believes that further work will need to be done in the near-term to allay their concerns around inflationary expectations and wages growth.

Despite having increased the cash rate in both May and June we expect that further rate hikes will be required by the Board in July and August, to really emphasise the commitment to the inflation objective.

... ongoing strong momentum in labour markets adding to the case.

For the August meeting, when the June quarter inflation report will be available we expect that underlying inflation will have dropped from 6.6% to 6.1% but labour markets will remain tight and the ongoing concerns around wage pressures will persist. That risk around tight labour markets was further emphasised with the May employment report which showed a surge in jobs of 76,000 and a fall in the unemployment rate to 3.55% from 3.7% – back at full employment despite 400 basis points of rate hikes.

The additional risk for the August meeting is that, due to these concerns around expectations, the staff may raise their inflation forecasts which would cement another rate increase.

Easing cycle also expected to come through later.

Westpac has been expecting the first rate cut in the next easing cycle to come in February 2024 with at least 100bps of cuts over the course of next year. But that call was based on the view that the peak in the cycle would be in May. With our expectation that the peak is now in August, we have delayed the first rate cut to May.

We still expect a series of rate cuts into 2025 with the target to push rates down to below 3% – our assessment of 'neutral' – by the end of 2025.

End-2023 AUD target lowered to USD0.69 ...

We have also lowered our profile for the AUD over the course of the next few years. While we do have a higher rate trajectory than we had in March, when we were targeting USD0.74 for the AUD by end 2023, AUD will still remain a 'low-yielder' especially after the FOMC delivers another rate increase at its July meeting. Compared to the FOMC's latest forecasts, we are less sanguine about the US economy over the course of the remainder of 2023. Pressure on the US economy will see investors seeking 'safe-haven' currencies in the second half of 2023 – a group that has not generally included the AUD, and is particularly unlikely to this time given its low yield status. Accordingly we have lowered our forecast for AUD by end 2023 to USD 0.69.

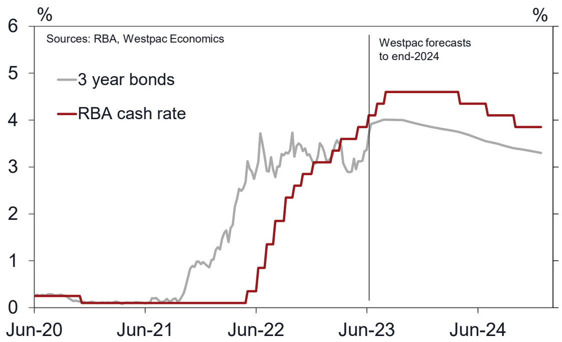
... but a lift to USD0.74 still seen in 2024.

In 2024, when we see the FOMC aggressively cutting rates, confidence in the global outlook will increase and yield differentials with the USD will begin to move in favour of the AUD. We expect an increase in AUD to around USD 0.74 can materialise in 2024.

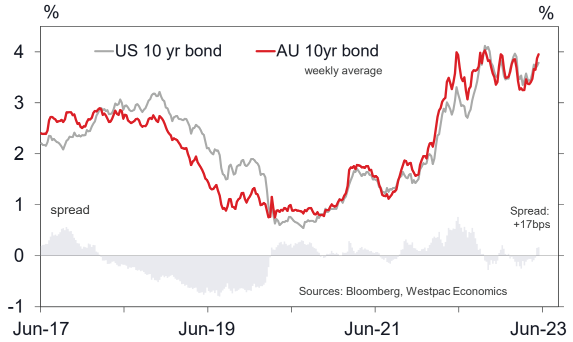
Bill Evans, Chief Economist

… inflation concerns, jobs momentum mean more to come

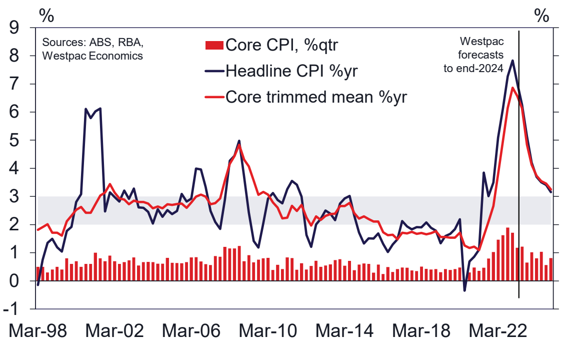
RBA cash rate and 3 year bonds



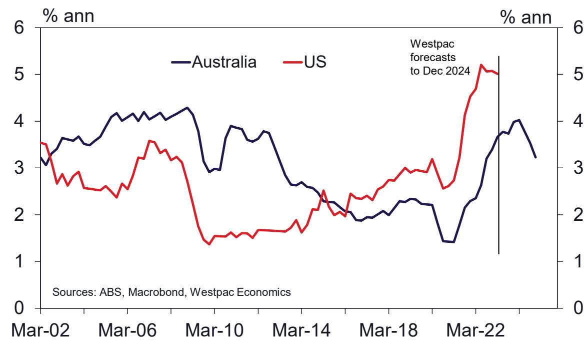
10 year bonds yields



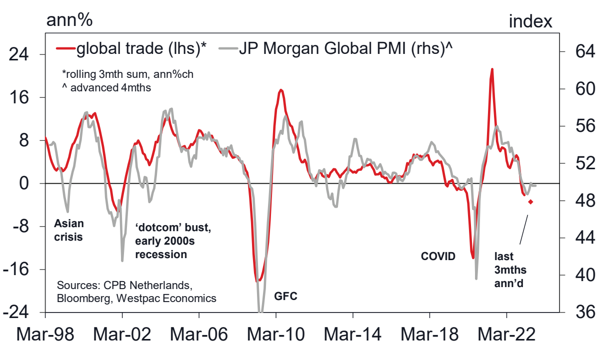
CPI inflation



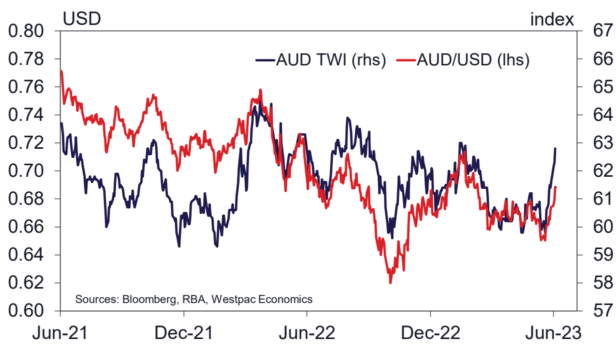
Wages growth: Australia vs US



Global trade contracting



AUD/USD & AUD TWI



Growth forecasts lowered …

Outlook has deteriorated …

In March, when we last revised our economic forecasts, we expected growth of 1% in 2023 to be followed by a tepid 1.5% in 2024. That was based on an RBA cash rate peak of 4.1% in May with an easing in the cash rate beginning in February 2024. Those growth forecasts were well below consensus at the time (the RBA had 1.6% growth for 2023) while the cash rate outlook was also above consensus.

… as consumers come under more intense pressure …

Westpac has now lowered its growth forecasts to 0.6% in 2023 and 1.0% in 2024. The key driver of this insipid growth outlook is household consumption which we now expect to grow by just 0.3% in 2023 and 0.6% in 2024 (the latter consisting of a -0.3% contraction in H1 and +0.9% lift in H2). This consumption profile is consistent with the very weak measures of Consumer Sentiment we have seen since the onset of high inflation and rising interest rates in 2022.

… a weaker spending profile than the 1990-91 recession …

The forecasts mean per capita spending recessions in both 2023 and 2024 of -1.5% in 2023 followed by -1.0% in 2024. It also implies GDP per capita recessions of -1.2% in 2023 and -0.6% in 2024. This consumption profile is decidedly weaker than consumption growth during the deep recession years of the early 1990s when annual growth remained positive (+1.2% in 1990 and +1.9% in 1991).

… but business investment holding up much better.

The main difference between the outlook for 2023-24 and the deep recession of 1990-91 is around business investment which contracted by 13.3% in 1990 and 16.7% in 1991 compared to our forecasts of +4.7% and -3.9% for 2023 and 2024 respectively. The difference in the business investment profile is attributed mainly to forecasts of solid investment growth in infrastructure; renewables; and mining investment. However, we do expect businesses to respond to the weakening sales outlook with a 15% reduction in equipment investment in the year to June 2024.

A more aggressive RBA tightening …

Following the RBA's decision to raise the cash rate to 4.1% in June, we lifted our forecast for the cash rate peak to 4.35% on the expectation of a further immediate 0.25% increase in July while noting that there was "considerable risk" of a follow-on move in August. The May Labour Force Survey tips the balance on our August call. It showed an increase in employment of 76,000, outstripping even our top-of-the range forecast for a 40,000 bounce from a small decrease in April that looked to be mainly due to an Easter-related seasonal anomaly. This extension of the tightening cycle to August, with the ongoing evidence of a tight labour market, now indicates that the beginning of the easing cycle which we anticipated for February will be delayed to May.

… and slower pivot to rate cuts …

Next year, with labour markets remaining tight for longer than we expected back in March, the RBA Board will require further convincing that the inflation path will land within the 2-3% target zone by June 2025. They will have little choice but to hold-off on the much-needed rate relief by three months. Accordingly, we now expect 25 basis point rate cuts in May; August and November 2024 prior to further cuts in 2025 eventually bringing the cash rate below 3%, our estimate of 'neutral', by year-end.

… but some notable offsetting factors.

Given the higher interest rate path than we expected in March, it is reasonable to have considered an even larger downside revision to our growth forecasts. But a number of offsetting factors are at play including: higher population growth than expected back in March; a much lower AUD (now forecast to be at USD0.69 by year's end compared to March forecast of USD0.74); stability in the housing market rather than a further year of house price falls; and upsides to household income growth as labour markets remain tighter for longer, wage setting arrangements are adjusted in favour of higher wage outcomes, and fiscal measures provide some additional support.

'Fixed rate roll-off' adds to significantly to the effective tightening.

Consistent with our views in March, our forecasts are based on an additional gradual increase in average mortgage rates over the next year coming from 'fixed rate roll-offs' as up to 30% of fixed-rate loans transition to much higher floating rates (increases generally from 2% to 5.5-6.0%). With the RBA's rate increases from May, June, and (expected) July and August also being passed on, the average mortgage rate over the next year or so will rise by at least 150 basis points – nearly 40% of the current tightening cycle of 400 basis points.

A slightly higher unemployment rate peak …

This weaker growth profile has also seen us raise our target unemployment rate for end 2024 from 5% to 5.3%.

… one negative quarter for GDP …

Do these growth adjustments constitute a recession? The standard definition of a 'technical recession' is two consecutive negative quarters of GDP growth. Our forecasts now contain one negative quarter – the March quarter of 2024 (–0.2%) while our forecasts for the adjacent quarters – December quarter 2023 (+0.1%) and June quarter 2024 (+0.2%) – are still positive although well within the range of forecast error. Consequently, on this definition, we are not forecasting a technical recession but recognise the high degree of uncertainty.

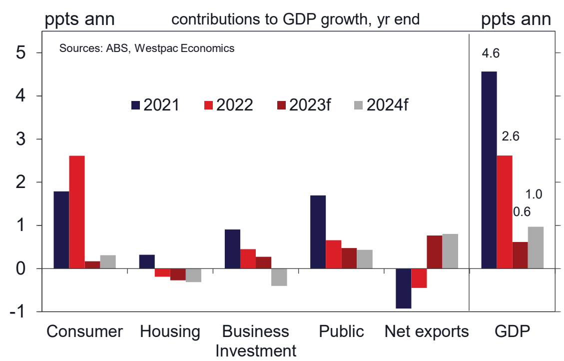
… and a clear risk of 'technical recession'.

There are a range of other ways to define a recession. An increase in the unemployment rate from 3.5% at the beginning of 2023 to 5.3% at the end of 2024 might fit an alternative definition of a recession although we are unaware of any formal definition. As noted, our forecasts also imply per capita spending and GDP recessions in 2023 and 2024, which is sometimes used as an alternative measure of recession.

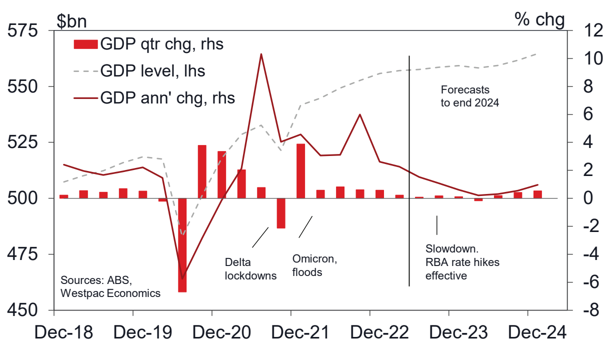
Bill Evans, Chief Economist

… with a very difficult period looming in the first half of 2024

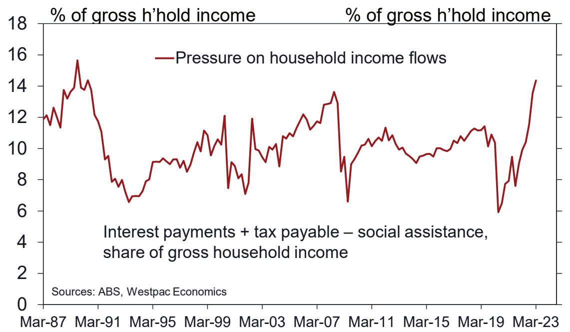
Australia: the growth mix



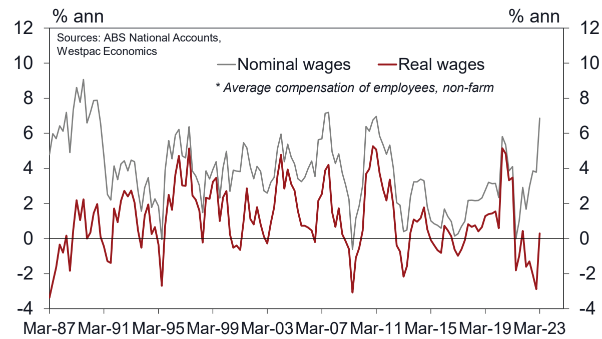
Australian economy: sharp slowdown underway



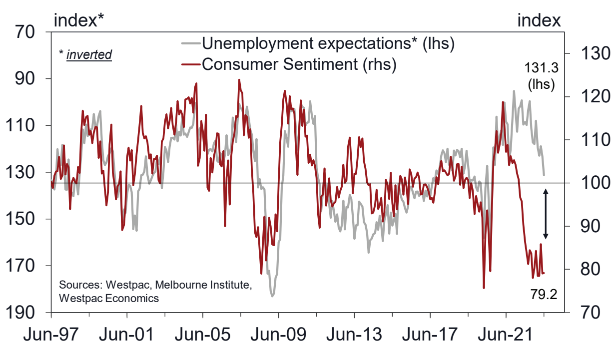
Pressure on household income flows



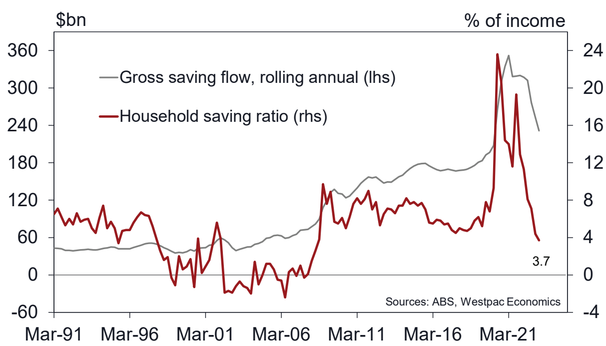
Wages – inflation squeeze



Consumers: Sentiment & unemploy' expectations



Household saving ratio and gross saving flow



Prices corrected through 2022 and into 2023...

Australia's commodity export prices are down almost 18% over the year to June ...

In the year to June we have experienced a meaningful correction in commodity prices. Westpac's Commodity Export Price Index is down almost 18%, led by a halving in thermal coal prices (-54%) a 33% fall in crude oil, a 27% fall in met coal prices and a 14% fall in iron ore prices. LNG has been more resilient, only falling around 10%, while base metals are broadly flat with copper lifting around 2%. The only commodity to make significant gains in the year was gold, which rose 12%.

... thermal coal halving, gold the only commodity to rise.

The correction continued though May and into June with thermal coal shedding 24% since our May report. LNG lost 5%, copper shed 2% while nickel experienced a 14% correction. Iron ore found some strength, gaining 6% in the month, while crude oil stabilised, lifting 2%. All up, our commodity export prices fell 3% in the month.

Iron ore has held around US$100/t due to recent strength in demand ...

We have been somewhat surprised by the recent strength in iron ore demand, which has been supported by stronger than expected Chinese steel production so far this year. Crude steel production is up 6% year to date while Chinese iron ore port inventories have been falling. We are, however, cautious about taking this too far as there are signs that demand is starting to peak. The higher frequency data from CISA has started to highlight a slight moderation in crude steel and pig iron production while depressed spreads for rebar suggests that Chinese steel demand remains weak as well. Chinese steel exports have also lifted to a six-year high – a dynamic that tends to be associated with excess Chinese production.

There is little support from broader global demand for iron ore with steel production in the rest of the world down 6% in the year to April.

... but demand appears to be peaking and supply is lifting.

Turning to supply: iron ore shipments from Australia, Brazil and South Africa have gained 3% in the year to date while Chinese imports from outside the big three did lift materially in March. It can also be instructive to consider speculative positioning on the Dalian market, which shifted from a material net long position in March to a net short position in May. We suspect that this may have been an important factor in the recent correction in iron ore prices, from around US$120/t to around US$105/t.

Coal fell on a correction in EU demand, rising inventories and falling gas prices ...

European coal prices have fallen to the lowest level since July 2021 due to soft demand and rising inventories. As the same time we have seen high CV coal prices also come under pressure with API2 falling around $20/t and Newcastle coal prices down almost $40/t since early May. This has seen estimates of the cost of thermal coal now being, on average, slightly cheaper than the cost of gas to produce power in EU. This increases the risk of further coal price weakness in the Atlantic market over the next few months. For Australian exports there is some potential upside due to potentially strong growth in China, India and South East Asia offsetting the weak demand from the Atlantic. Chinese coal imports are up more than 50Mt in the year to April even with domestic production up 5%. The Chinese coal market has benefited from weak hydro generation but we should note that coal inventories are high and local prices are falling. In addition, the recent heatwave in India and South East Asia has resulted in robust power demand in these regions.

... and remains vulnerable with lack-lustre demand outside of India ...

However, there is some emerging vulnerability with demand lacklustre in other regions. Australian coal supplies are set to increase with drier weather aiding a recovery in production and shipments. We may possibly see an increase in distressed cargos being rerouted from the Atlantic to the Pacific market as well. A positive offset may come via LNG as it is quite likely as that this market will move into a deficit through the second half of this year as Chinese demand for gas picks up. Westpac is forecasting Newcastle thermal coal to be trading at US$125/t by end 2023.

Crude found a base with OPEC+ production cuts ...

As noted earlier, crude prices firmed through May, with Brent trading around US$74bbl as we go to press. Prices remain in a volatile sideways trend, moving lower on speculation that Iran oil sanctions would be lifted only to rally again when they were not. Prior to this, there had also been a brief rally in early June associated with the announcement for further production cuts by OPEC+. Chinese crude imports rebounded to 12.15 mb/d in May, which left crude imports at an average of 11.6 mb/d over March to May, a gain of nearly 1.2 mb/d from January-February levels.

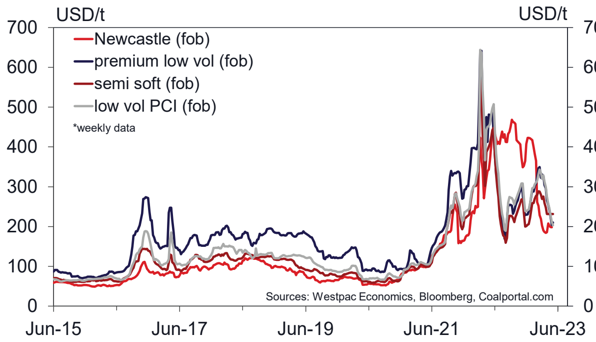
... and US crude producers see little incentive to hedge.

It is also worth noting that it has been reported that US producers have only 19% of their crude production hedged for 2023, and just 2% for 2024 — well below the five-year average for this point in the year. Low crude prices so far in 2023, with expectations for higher prices later in the year, meant there were few opportunities for producers to hedge. Westpac is forecasting Brent to be trading at US$77/bbl at the end of 2023.

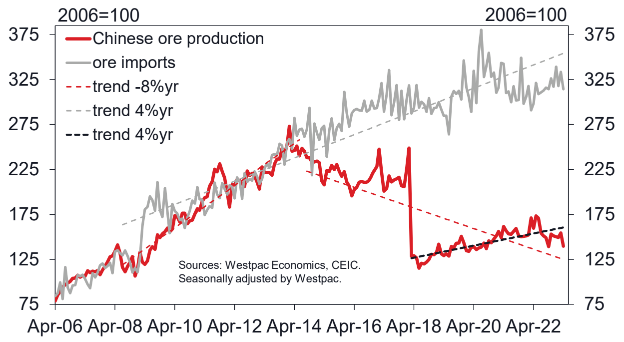
Justin Smirk, Senior Economist

… as demand fears mount

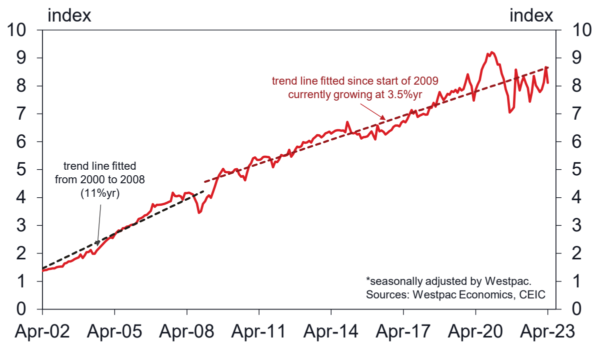
Coal searching for a new equilibrium



Chinese ore imports peaked in mid 2020

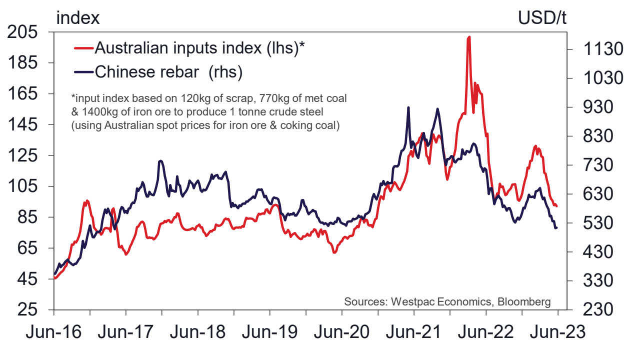


Chinese steel production below trend

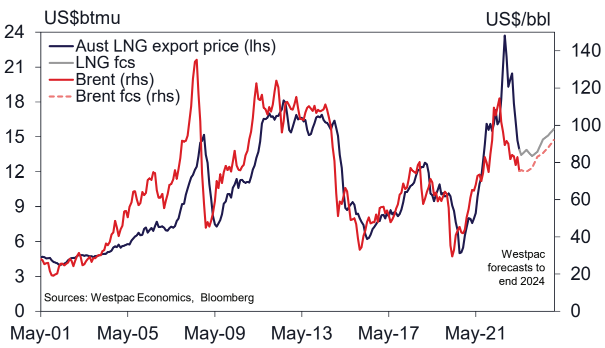


Chinese scrap steel prices vs 65% fe

Chinese rebar & input costs



Japanese LNG & Brent crude oil



US dollar bides time as rate and ...

USD has held to its recent range this month ...

The past month has seen the US dollar hold to the tested range of 101 to 104 on a DXY index basis. Fluctuations within the range came as market participants debated the probability and scale of future rate hikes (and 2024 rate cuts) by key central banks.

Post FOMC and ECB, views look to be coalescing around an expectation that, while the FOMC has nearly completed its cycle of rate hikes, the European Central Bank (ECB) and Bank of England (BoE) have more to do. Westpac's expectation is that the ECB will hike to September, taking the deposit rate to 4.00% (+50bps from today); and that the BoE will follow suit, raising by 75bps to 5.25%, including a 25bp hike at their June meeting later this month. These expectations contrast with just one more hike by the FOMC at their July meeting.

... as risks swirled and data proved inconclusive.

Note, FX market valuations are as much about risks as central expectations. As we write, rate risks are acute for the BoE, with the market pricing an additional 50bps of hikes to early-2024 to 5.75%, but benign for both the ECB and FOMC, with their terminal rates slightly below our own.

Also critical to our currency views are the respective growth prospects of these jurisdictions. Whereas the expectation for higher interest rates for the US and UK is solely built on the need to contain inflation, with a mild recession likely in both countries. In Europe, rate hikes are justified by an expectation of above-trend growth through 2024 and 2025 as well as high inflation. Indeed, the ECB now project the unemployment rate to decline modestly through 2024 and 2025 to a record low – a stark contrast to the material rise in unemployment expected for the US and the UK.

Slowly though, it is becoming clear that Europe's prospects are stronger than the US.

A larger appreciation for Euro therefore has to be anticipated over the forecast period. We forecast a rise from USD1.09 currently to USD1.12 at end-2023 and USD1.15 by end-2024 (+5%). This compares to a sub-1% gain for Sterling over the course of 2024 from USD1.28 to USD1.29 – the reality of recession offsetting the benefit of rate differentials.

While currently weighed down by recent weakness in oil, the Canadian dollar should also find greater support as the resilience of its economy is priced in. We look for their currency to also appreciate by around 5% to end-2024, USD/CAD slipping from CAD1.32 to CAD1.26.

Japan's outlook is also constructive, but the rate differential far too wide.

Japan's Yen is a striking contrast. Despite the energy importer receiving a significant windfall for its trade position in 2023, courtesy of a fall in the price of oil, the Yen has weakened this month as participants remained focused on the gaping interest rate differential with the US – and every other developed market. While inflation prospects for Japan have firmed and the outlook for growth is robust, the reality is that interest rates in Japan will remain an outlier over the forecast period. Consequently, while we see Yen appreciating 9% to end-2024, this will only leave USD/JPY at JPY128, some 17% above its average over the three years immediately prior to the pandemic.

Combining these individual outlooks leaves us with the expectation that the US dollar DXY index will trend lower from its current level near 102 to circa 101 at end-2023 and 97 end-2024.

Turning to Asia, while the market remains downbeat on the outlook for China and uncertain for the region overall, we believe both the broad US dollar down-trend and the region's structural growth opportunities remain highly supportive. We have tempered our near-term figures given the mood of the market, but our end of period outcomes remain broadly unchanged.

Participants are likely to take their time in realising, but the strength of Asia ...

For China's Renminbi, a modest appreciation is expected to end-2023 (+3%), followed by a much more assertive move in 2024 (+6%). If realised, together these outcomes would take USD/CNY from CNY7.13 currently to CNY6.50 end-2024. Note as well that beyond this initial forecast window, a further 6% gain is anticipated for Renminbi through 2025 as China benefits from a developed-world recovery; the economic development of Asia; and its position at the forefront of industry related to the global green transition. Such a move would take USD/CNY to CNY6.10. The caveat though is that, for these gains to be seen, geopolitics and market sentiment have to improve. With 2024 a US Presidential election year, this is anything but certain.

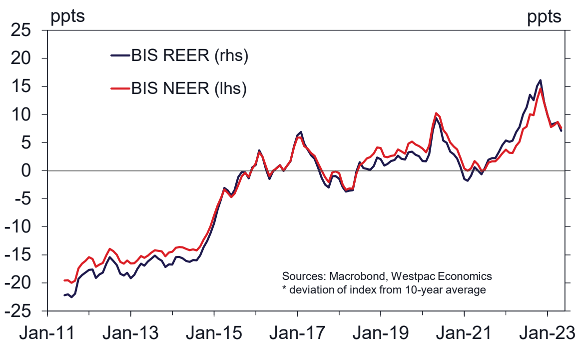
... has strong foundations and a long runway.

Across the rest of the region, gains should be broad based, albeit dependent both on the starting point of the currency and the exposure each nation has to key growth themes. India's Rupee is expected to see even greater gains than China's Renminbi, USD/INR falling rom INR82 to INR72 (-12%) given India's domestic growth opportunities and its burgeoning relationship with the US and Japan. Indonesia's Rupiah also holds great promise, although this is likely to only be partly realised in our forecast window as time is required to continue attracting capital from China, South Korea, the US and others to develop new export industries that will fuel export growth and national income over the next decade.

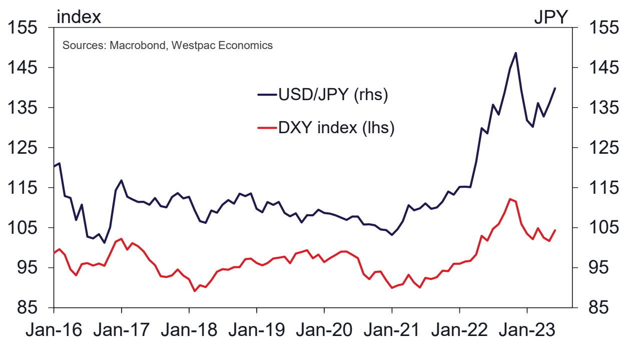
Elliot Clarke, CFA, CAIA, Senior Economist

… growth views firm

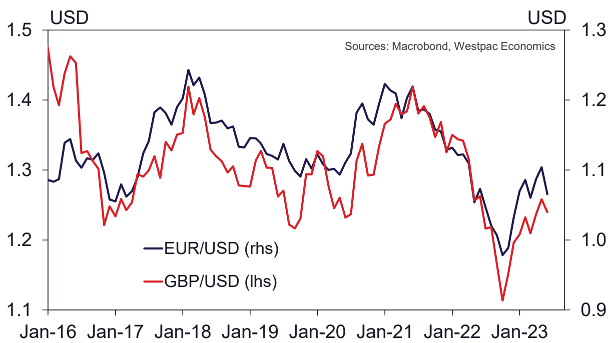
USD still historically elevated on broad basis



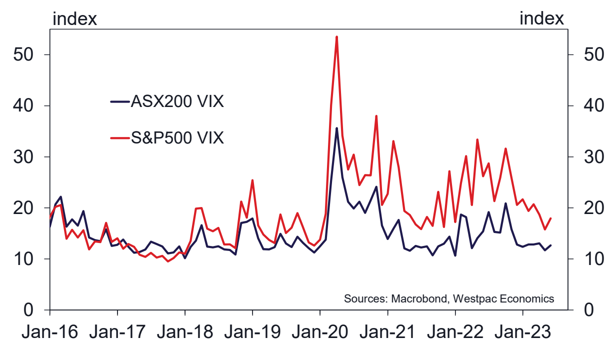
JPY continues to give DXY material support



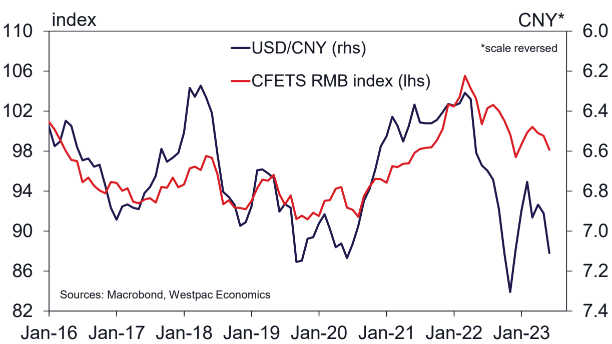
EUR & GBP negatives to fade through 2023



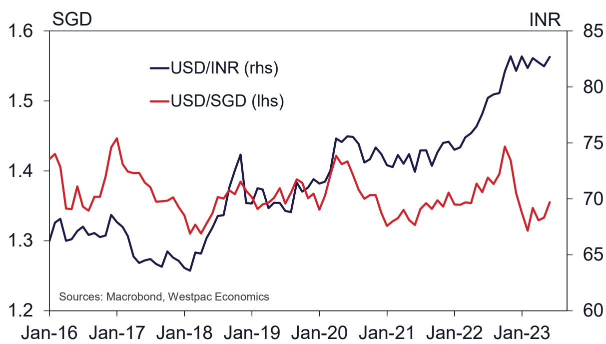
Growth a concern, not just event risks



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



The RBNZ has turned dovish …

The RBNZ has signalled an end to its tightening cycle …

As expected, the Reserve Bank of New Zealand hiked the Official Cash Rate by 25bps at their May policy meeting, taking the cash rate to 5.50%. However, in contrast to our own and market expectations for a hawkish tilt from the central bank, the tone of the RBNZ's policy assessment was surprisingly dovish. Most notably, the RBNZ continues to assume that a peak cash rate of 5.50%, if held for long enough, would be sufficient to bring inflation back to target.

… but we still think there is more work to be done.

In contrast, we think that the cash rate will need to rise further from here, especially given the boost to demand from the current surge in migration. However, given the RBNZ's dovish stance, we have revised down our forecast for the OCR. We now expect that the OCR will rise to a peak of 5.75% (down from 6.00% previously) with that final 25bp rise coming in August.

While financial pressures are rising …

Digging into the details of the RBNZ's policy assessment, the central bank is conscious of the same factors that we have been highlighting, most notably the squeeze on households' purchasing power from higher living costs and increases in interest rates. However, while we agree that those tighter financial conditions will be a significant drag on demand, we think the RBNZ may be overestimating just how much demand will soften. In fact, if we look at the RBNZ's assumption for per-capita spending growth, the central bank expects that rate hikes to date will see spending drop more sharply than it did during the 2008/09 Global Financial Crisis.

… the level of economic activity remains elevated.

Even though there will be a good deal of belt-tightening from households over the coming months, we are not as pessimistic as the RBNZ is on this front. A key reason is the state of the labour market – employment levels remain high, and rising wages are helping to support household spending. And although we do expect the labour market will cool over time, we expect that the downturn will be more modest than the RBNZ has assumed (especially if the RBNZ stays on hold, as their forecasts imply).

Net migration has surged …

On top of this, the current surge in migration inflows signals a material upside risk to the RBNZ's forecasts. While the RBNZ's migration forecasts are similar to our own, the big question is what this means for the balance of demand and supply conditions in the economy. And to be fair, the RBNZ acknowledged there is some uncertainty around how those pressures will evolve. However, we think that the surge in net migration will ultimately result in stronger inflation pressures than the central bank is counting on, which will delay the return of inflation to the target range without some further tightening.

… which will help alleviate worker shortages.

Notably, the RBNZ seems to be putting a lot of weight on the idea that migration will ease the labour shortages that have plagued the country for the last few years. They note that job ads have fallen substantially from their mid-2022 highs, as New Zealand's border was reopened and the surge in migrants began.

However, the lift in population growth will also add to demand …

However, job ads are not weak by any means. While lower, they are still substantially above pre-COVID levels. The demand for workers remains strong and, as the March quarter labour force survey showed, employment is still outstripping population growth.

… especially in the housing market.

The RBNZ has also downplayed the impact of migration on the housing market. Housing is the part of the economy where migration is most obviously a net inflationary force as the supply of new homes is relatively unresponsive to population changes (at least in the near term). This pressure on house prices occurs regardless of whether migrants are buying or renting, since somebody has to own the houses that they rent.

Inflation pressures are likely to linger …

Putting this altogether, it's likely that domestic demand and inflation pressures will prove stronger than the RBNZ expects. However, it will take some time – likely not until late this year – before the strength of those pressures becomes obvious. The key area to watch will be the housing market. The RBNZ is forecasting a further 3.5% fall in house prices over the next year before they bottom out. However, the most recent REINZ sales figures hint that the turn in the market may have already arrived. The firming in house prices in Australia – which saw a similar resurgence in net migration earlier on in the piece – should serve as a warning for what might come next here.

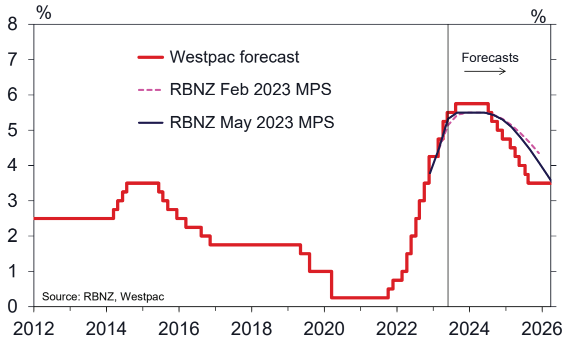
… meaning interest rates will also need to remain higher for longer.

A complicating factor is that, even with the RBNZ's lower OCR forecast, inflation is still set to fall sharply over the next few months. That is because some of the very large cost increases we saw in the wake of the pandemic (many of which were due to temporary supply-side disruptions) are now dropping out of annual inflation figures. This will pull headline inflation down from close to 7% currently to around 4.5% by the end of this year. But underlying that is a picture of more persistent domestic inflation pressures. And if the RBNZ does not take the OCR higher from here, domestic inflation pressures will likely linger, meaning interest rates will also likely need to remain higher for longer.

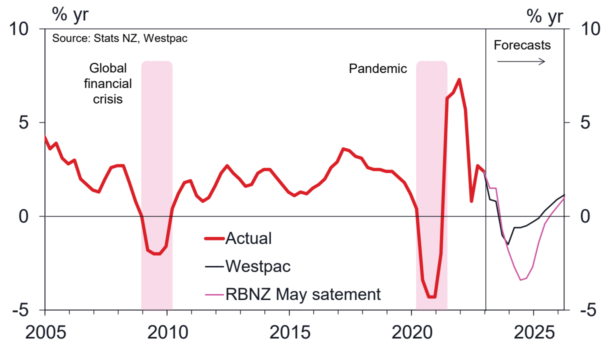
Satish Ranchhod, Senior Economist

… but demand pressures remain strong

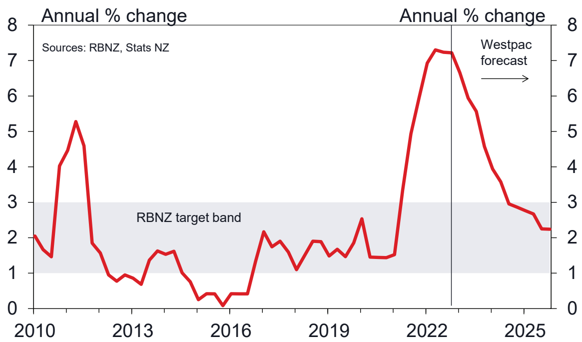
Official Cash Rate forecasts



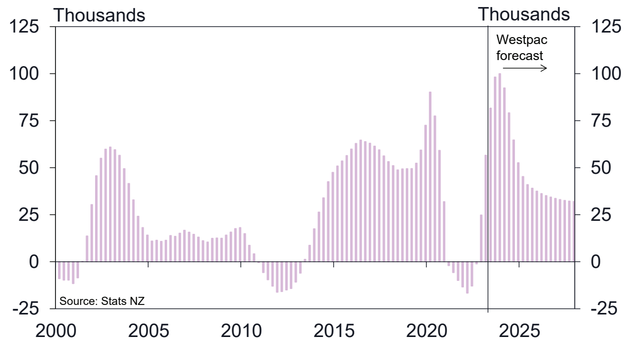
Per capita consumption spending



Inflation



Net migration



	2022							2023				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
REINZ house sales %mth	–10.0	–0.3	3.1	–3.4	–3.5	–6.8	–6.8	6.0	–1.6	12.6	7.5	2.5
Residential building consents %mth	–2.1	3.8	–2.0	3.1	–10.8	6.4	–7.6	–6.1	–7.2	0.0	–7.2	–
Electronic card transactions %mth	–0.7	0.0	1.0	2.0	0.9	–0.6	–1.5	3.8	–1.5	2.4	0.5	–1.9
Private sector credit %yr	6.1	5.6	5.7	5.6	5.1	4.9	4.6	4.2	3.8	3.6	3.3	–
Commodity prices %mth	–0.4	–2.2	–3.4	–0.6	–3.4	–4.0	–0.2	–1.1	1.4	1.3	–1.7	0.3
Trade balance $m	-1602	-1752	-1009	-698	-1658	-1657	-1046	-1570	-1444	-1958	-1413	–

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	5.9	5.4	6.0	5.2	1.2	2.9	2.7	2.9
Current account balance % of GDP	–2.7	–3.4	–4.7	–6.0	–6.8	–8.0	–8.5	–9.0	–8.5

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

The FOMC's inflation dilemma …

The FOMC faces considerable uncertainty over inflation …

The May CPI report and June policy meeting this week highlighted the inflation dilemma faced by the FOMC.

Inflation is slowing but the current rate is still a multiple of the Committee's target, particularly on a core basis. Yet, in assessing the composition of inflation, it is not clear if tighter policy will be effective without truly shocking the economy. And, even if they do deliver a bigger shock to the economy, the resulting loss of capacity may well bring inflation back in the not-too-distant future.

… with the immediate pulse of core inflation sticky …

Highlighting these risks, headline CPI inflation's weak 0.1% May print only occurred because energy prices declined 3.6% in the month. Excluding energy and food, the pace of core inflation remained stuck at a robust 0.4%, close to 5% annualised.

Within the core basket, there was some evidence of discretionary demand supporting inflation in transport services and used car prices; but the demand/ supply imbalance in rental housing remained the primary contributor to inflation.

… and highly concentrated in components with little responsiveness to rates.

In assessing the outlook, it is important to recognise that because of its share of spending, persistent shelter inflation is likely to constrict discretionary spending amongst households. Initially this will aid the fight against inflation, but with the level of rents unlikely to decline and real income growth expected to be negligible (at best), the hit to activity growth could endure long after inflation returns near target.

Activity growth below trend and inflation at target could therefore become an enduring feature of the US economy. With housing capacity tight and the employment gains of recent years expected to largely be held on to, it is also conceivable that shelter could hold US inflation above target in the medium term, even with activity growth averaging a pace below perceived potential.

Note though, this uncertainty could linger for years …

The threat that tight capacity poses for inflation is therefore not only applicable now but for years hence. While housing is the most obvious and important example today, the rest of the economy is also at risk. Simply put, if investment is not undertaken to preserve and expand the nation's productive capacity, inefficiencies and consequently cost pressures are likely to build. If demand is too weak to allow firms to reprice their output to offset, inevitably firms will be incentivised to resolve the imbalance by offshoring production, entrenching a weak trend for equipment investment and construction.

… as a structural increase in capacity is required …

For the US, the current situation is made more difficult by the uncertainty surrounding small and medium-sized banks. Credit growth is coming from a high level and recession looms as a near-term threat, creating a need to tighten standards and widen spreads. Come mid to late-2024, greater regulation of these banks is also expected to limit the recovery in credit growth and investment.

… to balance demand and supply.

The way out of this uncertain and weak state is through confidence, in the ability of the economy to balance demand and capacity and consequently in recovery. For the FOMC, in our view this requires financial conditions to remain contractionary over the next few months as remaining inflation risks are neutralised. But thereafter, the FOMC must instil confidence across the economy that, once returned to target, inflation will remain there as policy returns to a neutral or expansionary setting.

If productivity trends up as investment recovers, activity growth can sustainably return to at or above trend without stoking concerns over inflation. But in the absence of a lift in productivity and capacity, the inflation will remain a recurring threat.

The FOMC is likely to take out a little more insurance in July.

Coming back to the immediate decisions required of policy makers, the post-meeting communications of the FOMC make clear they have confidence in the health of the economy and continue to perceive greater risks for inflation. Note that their GDP growth view was revised up from 0.4%yr to 1.0%yr for 2023 and left largely unchanged for 2024 and 2025, respectively 1.1%yr and 1.8%yr. The 2023 view for core PCE inflation was also marked higher, up 0.3ppts to 3.9%yr, with 2024 and 2025 also broadly unchanged at 2.6%yr and 2.2%yr.

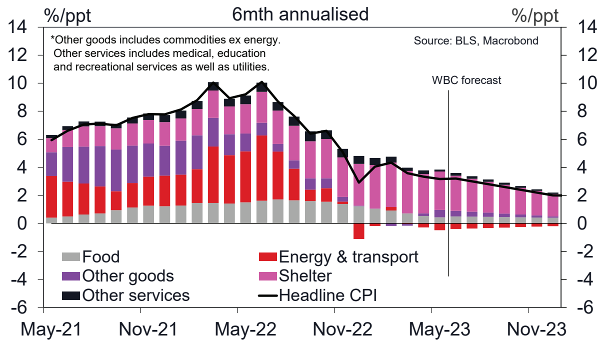
The scale of accommodation to be provided in 2024 will be dictated by investment.

On our reading of the economy and FOMC, we now expect the most likely course is another 25bps of insurance being taken in July followed by a pause. We anticipate this hike to slow the down-trend in term interest rates. But, from late-2023, these will move sharply lower as the economy contracts and the FOMC readies for rate cuts in early-2024. These are likely to, at least initially, be aggressive for fear of a deep recession and as annualised inflation ex-shelter falls below target. How long rate cuts are sustained for will depend on the degree to which capacity is impaired by tight policy and recession. Assessing the strength of investment, or potentially the lack thereof, will therefore be critical for policy through 2024 and 2025.

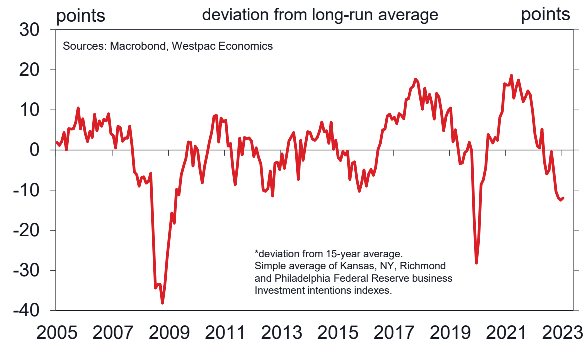
Elliot Clarke, CFA, CAIA, Senior Economist

… to be an enduring concern

US inflation downtrend shelter dependent

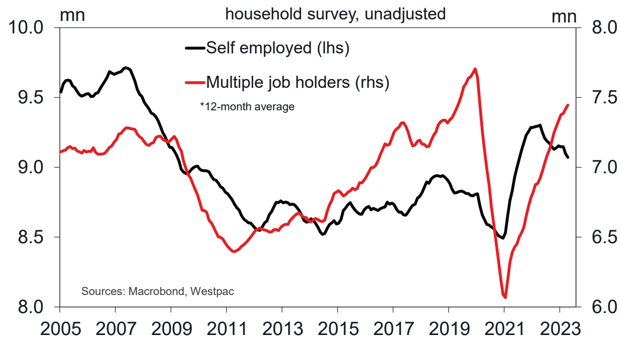


Investment at risk of sustained weakness



Workers' bargaining power waning

Multiple jobs are a necessity for many



	2022							2023				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
PCE deflator %yr	7.0	6.4	6.3	6.3	6.1	5.7	5.3	5.4	5.1	4.2	4.4	–
Unemployment rate %	3.6	3.5	3.7	3.5	3.7	3.6	3.5	3.4	3.6	3.5	3.4	3.7
Non-farm payrolls chg '000	370	568	352	350	324	290	239	472	248	217	294	339
House prices* %yr	18.6	16.0	13.1	10.4	8.7	6.8	4.6	2.6	0.4	-1.2	–	–
Durables orders core 3mth %saar	5.5	4.6	7.0	0.1	2.0	-6.1	1.3	1.4	5.3	0.3	2.0	–
ISM manufacturing composite	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9
ISM non-manufacturing composite	56.0	56.4	56.1	55.9	54.5	55.5	49.2	55.2	55.1	51.2	51.9	50.3
Personal spending 3mth %saar	9.3	7.3	7.6	5.1	8.5	4.3	1.8	6.9	8.5	8.8	4.2	–
UoM Consumer Sentiment	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2
Trade balance USDbn	-80.9	-71.7	-67.3	-71.7	-78.3	-63.8	-71.4	-70.2	-70.2	-60.6	-74.6	–

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	1.3	1.5
Current account USDbn	-280.8	-237.2	-219.0	-206.8	–	–

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

China requires a confidence boost …

The market has taken a very pessimistic view on China …

In the collective mind of the market, dark clouds are again gathering over the outlook for China. Highlighting this was the response to April's data round which endured through May's releases.

Over the two months, key industrial indicators have disappointed expectations, with year-to-date growth in industrial production languishing below 4% and the gain for fixed asset investment slowing from 5.5% year-to-date in January/February to 4.0% at May. Questions have also been raised over the consumer, year-to-date retail sales momentum trailing the market's ambition.

… following soft data over April and May and as rate differentials rule FX markets.

We continue to believe that the market is underestimating the growth capacity of China's economy, both in the short and medium-term.

In our view, the principal driver of 2023's growth will be the domestic consumer. Albeit short of the market's expectation, year-to-date growth of 9.3% at May speaks at least to discretionary consumption's capacity to stimulate growth. The 23% gain for the sub-component covering eating-out meanwhile signals a desire amongst consumers to return to normal life. And the 11.9% year-to-date gain in residential property sales points to a belief that property and wealth will turn higher.

China's growth potential remains strong however …

Assessing business and consumer services together, the current level of the official NBS PMI is consistent with that experienced on average in the five years before the pandemic. Over that period, GDP growth averaged 6.7% – a stark contrast to the current Bloomberg consensus estimate of 5.5% and even materially above our own forecast of 6.0%.

To see GDP growth in excess of the market estimate however, we also see need for robust strength in investment – an area of the economy where the immediate outlook is far less certain.

… albeit held back by confidence.

In stark contrast to the developed world, consumer inflation of just 0.1%yr in May and producer prices down 4.6%yr signal little need for immediate expansion of existing industry. Rather, it is the creation of new industry in import-competing sectors and those tied to the structural growth stories of Asia, China's competitiveness and the green transition that are most likely to contribute.

Policy support should give sentiment a lift …

Arguably though, amid uncertain times for the developed world and with the regulatory uncertainties of recent years still fresh in entrepreneurs' minds, this necessary development could easily be delayed. It may also be overwhelmed by the ongoing deterioration in developed-world demand should fears of a deep recession in the US or Europe begin to crystalise.

… but inevitably it will be the private sector that dictates China's ability to capitalise on …

What we see therefore, is a need for greater support to confidence amongst both consumers and businesses. Cue: policy support. To date, initiatives have been limited to very small interest rate cuts, but undoubtedly additional direct stimulus is being readied. Here we are not talking about aggressive support for old industry or the accumulation of debt by already indebted households for investment purposes, but rather accelerating organic growth in the economy to instil confidence in it's structural health and innate capacity to grow.

… the opportunities before it.

Mooted in the press, support for home upgraders and first-time buyers fits this bill. So would additional aid for developers while the pipeline of projects is rebuilt from historically-low levels. Aid for local governments would also be constructive given they have already undertaken a rapid acceleration in utilities investment and with a pick-up in revenue from property sales some way off. Sooner or later though, the ambition of authorities must turn to incentivising investment by the private sector to target the above structural growth themes. This is where China has had considerable success, and where the opportunities lie in the decades ahead.

Elliot Clarke, CFA, CAIA, Senior Economist

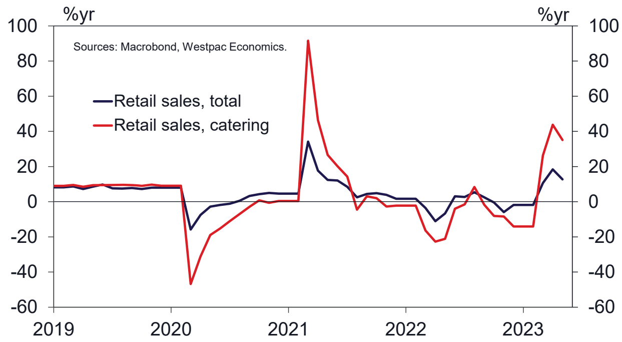
	2022							2023				
Monthly data %yr	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Consumer prices – headline	2.50	2.70	2.50	2.80	2.10	1.60	1.80	2.10	1.00	0.70	0.10	0.20
Money supply M2	11.4	12	12.2	12.1	11.8	12.4	11.8	12.6	12.9	12.7	12.4	11.6
Manufacturing PMI (official)	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8
Fixed asset investment %ytd	6.1	5.7	5.8	5.9	5.8	5.3	5.1	5.1	5.5	5.1	4.7	4.0
Industrial production (IVA)	3.9	3.8	4.2	6.3	5.0	2.2	1.3	1.3	2.4	3.9	5.6	3.5
Exports	17.0	18.1	7.4	5.5	–0.4	–9.1	–10.0	–10.4	–1.3	14.8	8.5	-7.5
Imports	–0.1	1.4	–0.4	0.0	–0.8	–10.5	–7.2	–21.1	4.3	–1.4	–7.9	–4.5
Trade balance USDbn	97.4	102.7	81.0	84.2	84.9	68.5	76.9	99.3	16.4	88.2	90.2	65.8

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

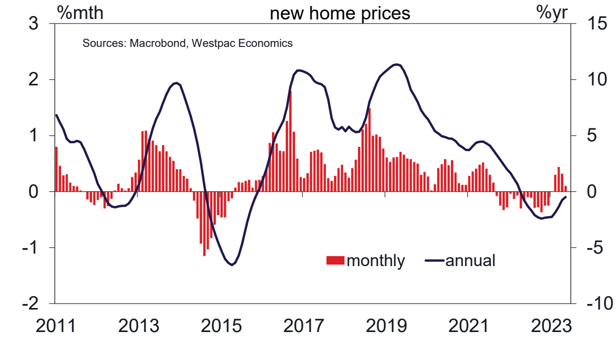
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... to achieve its promise

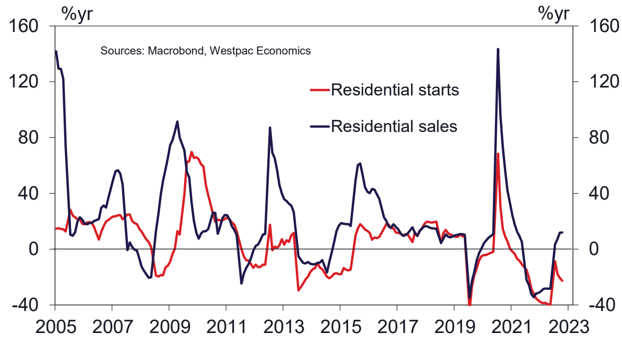
Consumer free to spend; confidence a risk



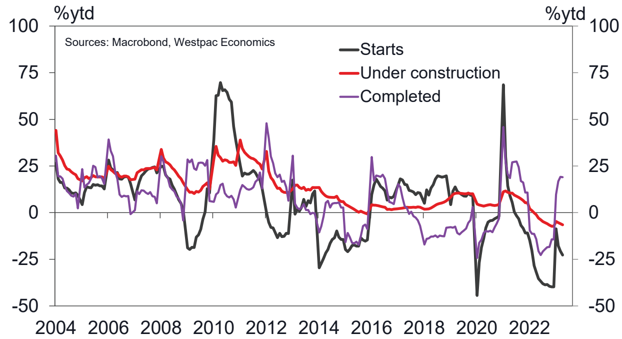
Existing homes holding new home prices back



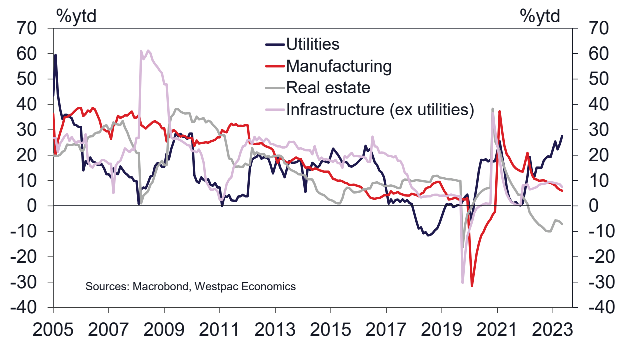
Sales activity suggests demand is returning



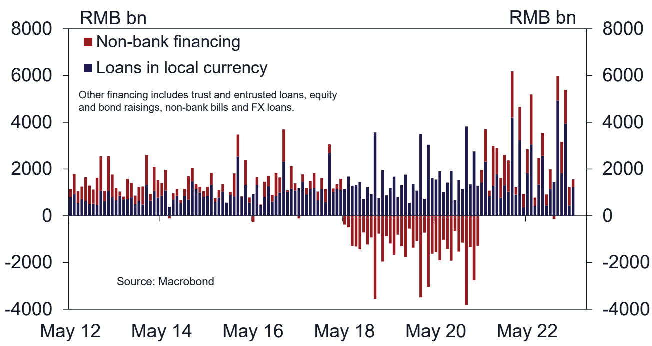
In time, starts and re-starts to aid housing



Investment the key to long-run outlook



Authorities to make sure credit is available



Terminal looking further away ...

ECB made its intent to drive inflation to target clear in June.

The ECB decided to raise its three key policy rates by 25bps in June as the outlook for inflation remained "too high for too long". The decision came after underlying inflation came in at 5.3%yr in May. The Governing Council also upgraded its underlying inflation forecast, pointing to stickier inflation in the medium term.

The Council's views on growth and the labour market were also sanguine, so too its views on financial stability, strong capital and liquidity positions providing reassurance that risks are unlikely to materialise. Unsurprisingly then, President Lagarde asserted that a July rate hike was "very likely" during the press conference, and was even-handed for the period thereafter – we suspect another 25bp hike will follow in September.

Faced by mounting risks, the BoE must do the same, with haste.

The Bank of England (BoE) meanwhile faces an even tougher inflation outlook, with key drivers yet to show signs of moderation. As such, the BoE will likely raise the bank rate by 25bps to 4.75% in June and make two more hikes to 5.25% in the months after.

Taking a closer look at the inflation detail highlights why the BoE needs to follow on despite recession risks. While CPI inflation fell from 10.1%yr to 8.7%yr in April, rapid price increases remained broad-based, 90% of the CPI basket running at an annual rate above the BoE's 2% target.

Breadth of inflation is of real concern, so too the pressure from services ...

Also of note, services inflation accelerated to 6.9%yr from 6.6%yr, with around 60% of this driven by recreational and personal services where prices are up 9.1%yr. Whether these 'indications of persistent inflation pressures' remain intact through to September will dictate whether the even more hawkish expectations of the market come to pass.

... and lifting momentum in wages.

The wage and labour market data also argues that risks to inflation will remain pressing over the coming year. Average wages excluding bonuses grew 7.2%yr in April, the 0.4ppt increase led by wage gains in services and manufacturing, and the largest change since August 2022. Employment's 250k gain between February and April was also the strongest since May 2022, coming despite the BoE's actions and the unemployment rate already being near historic lows.

Thankfully, there are tentative signs of a turn in inflation risks.

Thankfully, the closely-followed Monthly Decision Maker survey, which interviews CFOs on their projections of elements such as wage growth and labour demand, provided some respite. Expected wage growth for the next year ticked down to 5.2% after peaking at 6.3% back in December 2022. Employment growth also ticked down, as did the proportion of CFOs reporting it was 'much harder' to recruit.

If upside surprises are seen, the risks will be shown to be skewed against the UK.

Considering the risks to both outlooks, they are far greater for the UK than the Euro Area. Simply put, inflation in the UK is running 2.6ppts higher than in the Euro Area. And, while inflation on the Continent is also very broad – 87% of the Euro Area's CPI basket is up more than 2%yr, this share is progressively declining. Also, if surprised to the high side, the ECB can have confidence that the much healthier state of Europe's economy can weather further tightening, or higher rates for longer. Such a view cannot be taken for the UK, particularly as the implications of Brexit also continue to be felt.

Illiana Jain, Economist

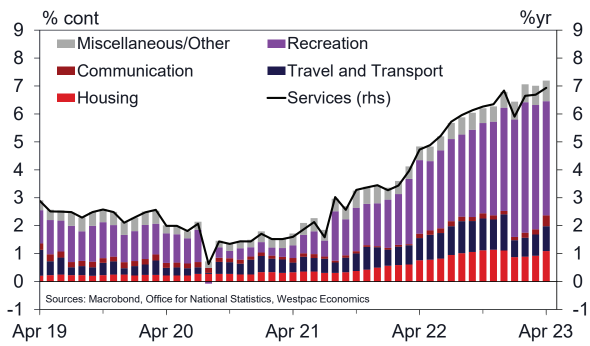
	2022							2023				
Europe	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Eur consumer prices %yr	8.6	8.9	9.1	9.9	10.6	10.1	9.2	8.6	8.5	6.9	7.0	6.1
Eur unemployment rate %	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.6	6.6	6.5	–
Eur industrial production %yr	4.1	–0.8	4.9	6.3	4.4	3.9	–2.0	1.0	2.0	–1.4	0.2	–
Eur retail sales volumes %yr	–2.7	–0.6	–1.2	0.3	–2.5	–2.4	–2.8	–1.8	–2.4	–3.3	–2.6	–
Eur consumer confidence	–24.1	–27.2	–25.0	–28.7	–27.4	–23.7	–22.0	–20.6	–19.0	–19.1	–17.5	–17.4
Eur current account balance €bn	–7.0	–26.5	–36.2	–30.3	–14.2	–2.6	0.9	18.2	24.5	31.2	–	–
United Kingdom												
UK consumer prices %yr	9.4	10.1	9.9	10.1	11.1	10.7	10.5	10.1	10.4	10.1	8.7	–
UK unemployment rate % (ILO)	3.8	3.6	3.5	3.6	3.7	3.7	3.7	3.7	3.8	3.9	3.8	–
UK industrial production %yr	–2.8	–3.3	–5.0	–4.0	–2.6	–2.9	–2.7	–3.0	–2.7	–2.0	–1.9	–
UK retail sales volumes %yr	–6.7	–3.9	–5.8	–6.8	–5.5	–6.0	–6.6	–5.2	–3.5	–3.9	–3.0	–
UK consumer confidence	–41	–41	–44	–49	–47	–44	–42	–45	–38	–36	–30	–27

Quarterly data	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**
Eur GDP %qtr/%yr	2.2/4.0	0.5/4.7	0.7/5.5	0.8/4.3	0.4/2.5	–0.1/1.8	–0.1/1.0
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	0.1/0.2
UK current account balance £bn	–19.1	–2.4	–50.5	–28.2	–12.7	–2.5	–

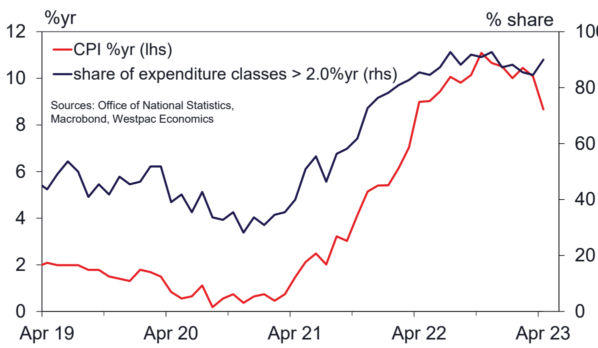
Source: Official agencies.

... especially for the Bank of England

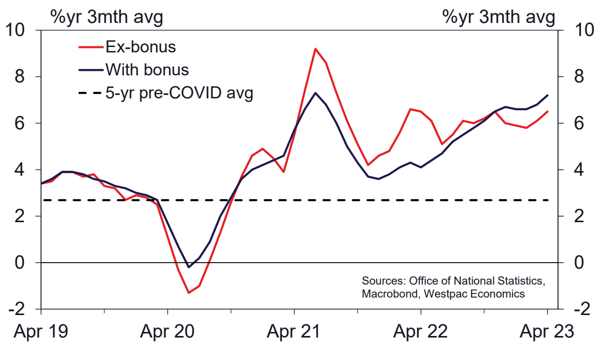
UK services inflation is running hot



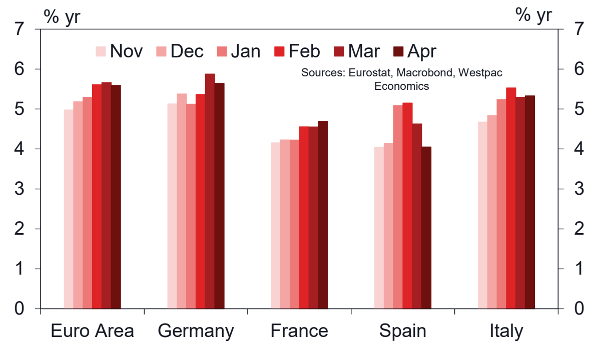
UK inflation remains broad-based



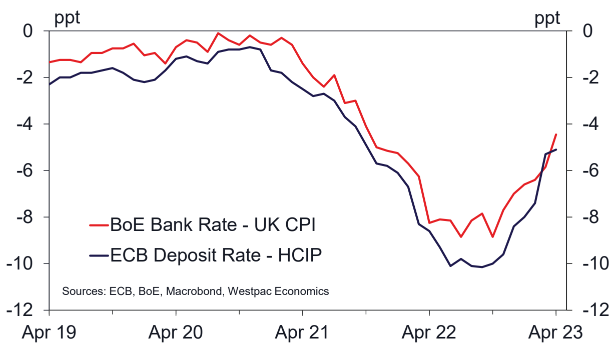
Wages of concern to the BoE



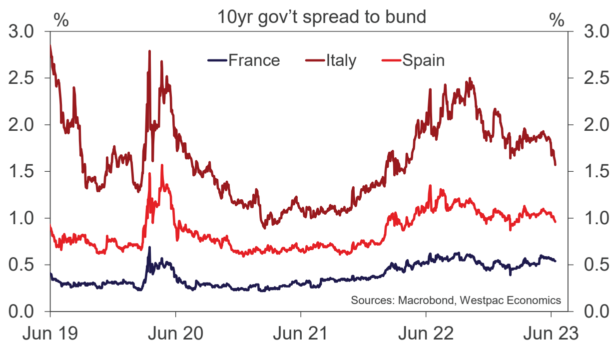
Underlying inflation bolstered by Germany



Real rates on their way up



Bond spreads dip



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.

FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.60	4.60	4.60	4.35	4.10	3.85
90 Day BBSW	4.30	4.80	4.80	4.63	4.38	4.13	3.88
3 Year Swap	4.32	4.30	4.15	4.00	3.80	3.60	3.50
3 Year Bond	4.03	4.00	3.85	3.75	3.55	3.40	3.30
10 Year Bond	4.03	3.80	3.70	3.50	3.30	3.20	3.10
10 Year Spread to US (bps)	28	20	20	20	20	20	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD vs							
USD	0.6885	0.69	0.69	0.71	0.72	0.73	0.74
JPY	96.83	95.2	93.8	95.1	95.0	94.9	94.7
EUR	0.6292	0.62	0.62	0.63	0.64	0.64	0.64
NZD	1.1039	1.11	1.11	1.13	1.13	1.12	1.12
CAD	0.9109	0.91	0.90	0.92	0.92	0.93	0.93
GBP	0.5385	0.54	0.54	0.55	0.56	0.57	0.57
CHF	0.6140	0.61	0.61	0.62	0.63	0.64	0.64
DKK	4.6881	4.63	4.63	4.72	4.75	4.77	4.79
SEK	7.3076	7.22	7.22	7.36	7.40	7.44	7.47
NOK	7.2426	7.15	7.15	7.29	7.33	7.37	7.40
ZAR	12.56	12.6	12.6	12.8	12.8	12.9	13.0
SGD	0.9207	0.92	0.91	0.93	0.94	0.95	0.97
HKD	5.3841	5.38	5.37	5.52	5.59	5.66	5.74
PHP	38.44	38.0	37.3	37.6	37.4	37.2	37.4
THB	23.85	23.5	23.1	23.4	23.0	23.0	22.9
MYR	3.1808	3.17	3.11	3.12	3.10	3.07	3.03
CNY	4.9101	4.83	4.76	4.83	4.82	4.82	4.81
IDR	10290	10281	10212	10366	10368	10439	10434
TWD	21.14	21.0	20.8	21.3	21.5	21.6	21.8
KRW	878	876	869	880	878	876	873
INR	56.39	55.2	53.8	54.0	53.3	53.3	53.3

ECONOMIC FORECASTS

Australia

Activity forecasts*

	2022	2023				2024		Calendar years			
%qtr / yr avg	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	0.3	0.2	0.0	0.1	0.0	–0.4	0.1	5.0	6.5	1.4	0.0
Dwelling investment	–0.8	–1.2	–0.2	–1.9	–2.5	–4.0	–3.1	9.9	–3.4	–4.0	–9.0
Business investment*	0.2	2.9	1.2	–0.6	–1.1	–1.9	–1.4	8.2	3.5	4.7	–4.0
Private demand *	0.1	0.5	0.2	–0.3	–0.4	–1.0	–0.4	6.5	4.8	1.1	–1.5
Public demand *	0.1	0.8	0.3	0.3	0.3	0.3	0.4	5.8	4.9	1.3	1.3
Domestic demand	0.1	0.6	0.2	–0.1	–0.2	–0.6	–0.2	6.3	4.9	1.4	0.0
Stock contribution	–0.5	0.0	–0.3	–0.1	–0.1	–0.3	0.2	0.4	0.5	–0.6	–0.2
GNE	–0.4	0.6	–0.1	–0.3	–0.3	–0.9	0.0	6.9	5.4	0.6	–0.9
Exports	1.4	1.8	2.0	1.9	1.5	1.2	0.9	–2.0	3.4	8.2	5.2
Imports	–4.0	3.2	1.5	0.0	–0.2	–2.0	0.0	5.4	12.7	3.7	–0.8
Net exports contribution	1.1	–0.2	0.2	0.4	0.4	0.7	0.2	–1.4	–1.5	1.1	1.4
Real GDP %qtr / yr avg	**0.6**	**0.2**	**0.1**	**0.2**	**0.1**	**–0.2**	**0.2**	5.2	3.7	1.4	0.5
%yr end	**2.6**	**2.3**	**1.5**	**1.1**	**0.6**	**0.2**	**0.3**	**4.6**	**2.6**	**0.6**	**1.0**
Nominal GDP %qtr	2.2	2.1	0.1	0.3	0.4	0.3	0.8				
%yr end	12.0	9.2	5.2	4.8	3.0	1.2	1.9	10.0	12.0	3.0	3.0

Other macroeconomic variables

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Employment (2)	0.7	0.7	0.9	0.5	–0.3	–0.5	0.0	–	–	–	–
%yr	5.1	3.4	3.2	2.8	1.8	0.6	–0.2	2.4	5.1	1.8	0.0
Unemployment rate % (2)	3.5	3.6	3.6	3.7	4.2	4.8	5.0	4.7	3.5	4.2	5.3
Wages (WPI) (2)	0.8	0.8	1.0	1.1	1.2	0.8	0.7	–	–	–	–
%yr	3.4	3.7	3.8	3.8	4.1	4.1	3.8	2.3	3.4	4.1	3.3
CPI Headline (2)	1.9	1.4	1.1	0.7	1.0	0.9	0.9	–	–	–	–
%yr	7.8	7.0	6.3	5.1	4.2	3.7	3.5	3.5	7.8	4.2	3.2
Core inflation trimmed mean	1.7	1.2	1.2	0.7	1.0	0.8	1.0	–	–	–	–
%yr (2)	6.9	6.6	6.1	4.8	4.1	3.7	3.5	2.7	6.9	4.1	3.2
Current account AUDbn	14.1	12.3	4.0	3.0	0.5	3.0	4.0	66.7	29.4	20.0	10.0
% of GDP	2.2	1.9	0.6	0.5	0.1	0.5	0.6	3.1	1.2	0.8	0.4
Terms of trade annual chg (1)	7.1	1.4	–8.3	–6.8	–9.7	–12.3	–7.7	17.3	5.9	–6.0	–7.2

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	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Employment '000 chg	56	23	32	51	–4	15	62	71	–4	76	–
Unemployment rate %	3.5	3.6	3.4	3.5	3.5	3.7	3.5	3.5	3.7	3.6	–
Westpac–MI Consumer Sentiment	81.2	84.4	83.7	78.0	80.3	84.3	78.5	78.5	85.8	79.0	79.2
Retail trade %mth	0.8	0.7	0.4	1.6	–3.9	1.9	0.2	0.4	0.0	–	–
Dwelling approvals %mth	27.5	–8.3	–6.1	–3.8	13.0	–26.5	3.7	–1.0	–8.1	–	–
Credit, private sector %yr	8.7	8.9	8.9	8.4	7.8	7.6	7.3	6.8	6.6	–	–
Trade balance AUDbn	8.7	12.4	12.2	13.4	12.3	11.1	14.1	14.8	11.2	–	–

FORECASTS

New Zealand

Interest rate forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	5.50	5.75	5.75	5.75	5.75	5.25	4.75
90 Day Bill	5.68	5.85	5.85	5.85	5.55	5.05	4.75
2 Year Swap	5.35	5.00	4.80	4.50	4.30	4.10	4.00
10 Year Bond	4.48	4.30	4.20	4.00	3.80	3.75	3.70
10 Year Spread to US	75	70	70	70	70	75	80
10 Year Spread to Aust	48	50	50	50	50	55	60

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
NZD vs							
USD	0.6238	0.62	0.62	0.63	0.64	0.65	0.66
JPY	87.72	85.6	84.3	84.4	84.5	84.5	84.5
EUR	0.5700	0.56	0.56	0.56	0.57	0.57	0.57
AUD	0.9059	0.90	0.90	0.89	0.89	0.89	0.89
CAD	0.8252	0.82	0.81	0.81	0.82	0.83	0.83
GBP	0.4879	0.49	0.49	0.49	0.50	0.50	0.51
CNY	4.448	4.34	4.28	4.28	4.29	4.29	4.29

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

Activity forecasts*

	2022	2023				2024		Calendar years			
% change	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2021**	**2022**	**2023f**	**2024f**
Private consumption	0.0	2.4	-0.9	0.0	0.2	0.2	0.3	7.5	3.0	1.2	0.6
Government consumption	-2.4	0.1	-0.2	-1.0	-0.6	-0.2	0.2	8.2	4.5	-2.6	-0.7
Residential investment	-2.3	-0.4	0.6	-0.9	-2.5	-3.0	-3.0	8.0	1.1	-0.4	-8.8
Business investment	-0.1	2.8	-0.2	-0.3	-1.1	-1.1	-1.0	14.6	5.2	2.7	-3.1
Stocks (ppt contribution)	-0.1	-1.5	0.1	0.6	0.4	0.0	0.0	1.3	0.0	-1.0	0.7
GNE	-0.2	0.5	-0.4	0.2	0.1	-0.3	-0.1	10.2	3.5	-0.2	-0.3
Exports	-1.7	-2.5	6.8	2.7	1.5	1.7	1.1	-2.7	0.0	11.1	7.0
Imports	2.5	-1.6	0.7	1.0	0.9	0.4	0.6	15.1	5.3	2.6	2.9
GDP (production)	**-0.7**	**-0.1**	**0.5**	**0.5**	**0.1**	**0.0**	**0.0**	**6.0**	**2.7**	**1.2**	**0.5**
Employment annual %	1.6	2.4	2.9	1.7	1.2	0.2	-0.4	3.3	1.6	1.2	-0.4
Unemployment rate % s.a.	3.4	3.4	3.5	3.7	3.9	4.2	4.5	3.2	3.4	3.9	4.9
Labour cost index, all sect incl o/t, ann %	4.1	4.3	4.6	4.7	4.7	4.6	4.3	2.6	4.1	4.7	3.7
CPI annual %	**7.2**	**6.7**	**5.9**	**5.6**	**4.7**	**4.0**	**3.7**	**5.9**	**7.2**	**4.7**	**2.9**
Current account balance % of GDP	-9.0	-8.5	-8.2	-7.9	-6.8	-5.7	-4.9	-6.0	-9.0	-6.8	-4.0
Terms of trade annual %	-4.2	-8.4	-1.0	5.1	5.7	11.7	6.6	2.8	-4.2	5.7	2.7

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (14 Jun)***	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Australian commodities index#	295	281	277	278	280	**278**	**281**	**286**	**290**	**297**
Bulk commodities index#	**496**	**444**	**410**	**405**	**406**	**397**	**398**	**404**	**402**	**396**
iron ore finesTSI @ 62% US$/t	112	104	100	95	89	84	83	90	87	87
Qld coking coal index (US$/t)	201	190	190	201	211	217	222	223	213	208
Newcastle spot thermal coal (US$/t)	143	125	125	130	140	140	135	125	125	125
crude oil (US$/bbl) Brent ICE	76	75	77	83	85	88	92	95	105	110
LNG in Japan US$mmbtu	13.90	13.9	13.4	13.7	14.8	15.1	15.7	16.4	16.9	18.6
gold (US$/oz)	1,976	2,000	2,010	2,000	1,925	1,875	1,850	1,825	1,800	1,775
Base metals index#	**196**	**189**	**192**	**196**	**202**	**207**	**216**	**222**	**242**	**252**
copper (US$/t)	8,351	8,200	8,150	8,300	8,500	8,800	9,200	9,500	10,500	11,000
aluminium (US$/t)	2,225	2,100	2,240	2,275	2,300	2,353	2,422	2,474	2,643	2,725
nickel (US$/t)	21,074	20,700	20,800	21,000	21,500	22,145	23,001	23,638	25,753	26,795
zinc (US$/t)	2,393	2,230	2,250	2,500	2,750	2,823	2,919	2,990	3,227	3,342
lead (US$/t)	2,044	2,025	2,050	2,000	1,950	1,900	1,974	2,029	2,211	2,302
Rural commodities index#	**140**	**132**	**136**	**139**	**141**	**147**	**154**	**160**	**178**	**187**
NZ commodities index ##	**337**	**335**	**350**	**358**	**367**	**374**	**377**	**375**	**368**	**364**
dairy price index ^^	296	305	325	342	355	363	365	360	349	344
whole milk powder US$/t	3,173	3,379	3,600	3,699	3,800	3,850	3,900	3,811	3,725	3,753
skim milk powder US$/t	2,755	2,969	3,200	3,394	3,600	3,550	3,500	3,424	3,350	3,375
lamb leg UKp/lb	500	485	500	516	528	543	550	550	550	547
bull beef US¢/lb	285	265	272	278	281	279	272	261	249	242
log price index ##	157	152	153	156	159	162	165	167	168	169
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**	**309**	**279**	**43.1**	**23.6**	**-18.5**	**-9.7**
Bulk commodities index#	**510**	**557**	**461**	**391**	**47.0**	**9.2**	**-17.1**	**-15.2**
iron ore fines @ 62% USD/t	159	120	111	89	46.6	-24.4	-7.8	-19.6
LNG in Japan $mmbtu	10.3	18.2	15	15	31.1	77.3	-18.4	-1.6
ave coking coal price (US$/t)	143	240	222	204	33.2	67.2	-7.3	-8.2
ave thermal price (US$/t)	99	281	236	200	74.8	183.7	-16.3	-14.9
iron ore fines contracts (US¢ dltu)	239	174	150	131	72.8	-27.0	-14.0	-12.7
coal coking contracts (US$/t)	205	372	267	205	62.5	81.2	-28.0	-23.4
crude oil (US$/bbl) Brent ICE	70	97	78	86	60.2	38.4	-19.8	10.1
gold (US$/oz)	1,801	1,809	1,978	1,926	1.2	0.5	9.3	-2.6
Base metals index#	**213**	**230**	**204**	**204**	**41.1**	**8.0**	**-11.4**	**0.2**
copper (US$/t)	9,297	8,827	8,464	8,613	50.2	-5.1	-4.1	1.8
aluminium (US$/t)	2,477	2,711	2,264	2,322	44.0	9.5	-16.5	2.6
nickel (US$/t)	18,452	26,228	22,544	21,728	33.4	42.1	-14.0	-3.6
zinc (US$/t)	3,006	3,471	2,551	2,692	32.1	15.4	-26.5	5.5
lead (US$/t)	2,190	2,154	2,073	1,962	19.6	-1.6	-3.8	-5.4
Rural commodities index#	**150**	**171**	**139**	**147**	**28.0**	**14.0**	**-18.7**	**5.2**
NZ commodities index ##	**359**	**376**	**339**	**369**	**21.2**	**4.7**	**-9.8**	**8.7**
dairy price index ##	322	353	306	356	25.2	9.5	-13.3	16.4
whole milk powder US$/t	3,843	3,889	3,303	3,781	30.7	1.2	-15.1	14.5
skim milk powder US$/t	3,332	3,819	2,874	3,479	40.6	14.6	-24.8	21.1
lamb leg UKp/lb	599	624	481	530	18.4	4.3	-23.0	10.2
bull beef US¢/lb	279	280	266	278	19.0	0.5	-5.0	4.3
log price index ##	179	171	157	160	14.8	-4.3	-8.4	2.0
strong wool US¢/kg	173	169	165	165	20.4	-2.7	-2.2	0.3

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 (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Fed Funds*	5.125	5.375	5.375	4.875	4.375	3.875	3.375
10 Year Bond	3.73	3.60	3.50	3.30	3.10	3.00	2.90

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

Currency forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD vs							
DXY index	102.21	101.1	100.8	99.7	98.9	98.0	97.1
JPY	140.63	138	136	134	132	130	128
EUR	1.0943	1.11	1.11	1.12	1.13	1.14	1.15
AUD	0.6885	0.69	0.69	0.71	0.72	0.73	0.74
NZD	0.6238	0.62	0.62	0.63	0.64	0.65	0.66
CAD	1.3229	1.32	1.31	1.29	1.28	1.27	1.26
GBP	1.2786	1.27	1.27	1.28	1.28	1.29	1.29
CHF	0.8917	0.89	0.88	0.87	0.87	0.87	0.86
ZAR	18.25	18.2	18.2	18.0	17.8	17.7	17.6
SGD	1.3371	1.33	1.32	1.31	1.31	1.31	1.31
HKD	7.8198	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.85	55.0	54.0	53.0	52.0	51.0	50.5
THB	34.64	34.0	33.5	33.0	32.0	31.5	31.0
MYR	4.6211	4.60	4.50	4.40	4.30	4.20	4.10
CNY	7.1311	7.00	6.90	6.80	6.70	6.60	6.50
IDR	14945	14900	14800	14600	14400	14300	14100
TWD	30.71	30.4	30.2	30.0	29.8	29.6	29.4
KRW	1275	1270	1260	1240	1220	1200	1180
INR	81.92	80.0	78.0	76.0	74.0	73.0	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	3.8	0.7	0.5	-0.5	-0.6	8.3	2.7	1.7	0.2
Dwelling investment	-27.1	-25.1	-5.4	-5.1	-2.0	-3.9	-3.9	10.7	-10.6	-12.9	-1.5
Business investment	6.2	4.0	1.4	1.3	2.3	0.9	0.5	6.9	4.3	2.2	2.1
Public demand	3.7	3.8	5.2	4.1	2.0	-0.4	-0.8	0.6	-0.6	3.3	0.1
Domestic final demand	2.0	1.0	3.4	1.2	0.9	-0.4	-0.6	6.8	1.9	1.6	0.4
Inventories contribution ppt	-1.4	2.0	-2.6	0.5	-0.2	-0.6	-0.2	0.2	0.7	-0.6	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	1.3	1.5	0.5	-1.2	-0.9	5.9	2.1	1.4	0.3
%yr annual chg	1.9	0.9	1.6	2.2	1.5	0.5	0.0				

Other macroeconomic variables

Non-farm payrolls mth avg	429	316	322	280	120	55	50	549	427	194	63
Unemployment rate %	3.6	3.6	3.5	3.5	3.6	4.0	4.3	5.4	3.6	3.6	4.5
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	-2.7	-2.7	-2.7	-2.6	-2.6	-2.5	-2.5	-2.4	-2.4	-2.4	-2.4

Sources: Official agencies, Factset, Westpac Economics

FORECASTS

Europe & the United Kingdom

Interest rate forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro area							
ECB Deposit rate	3.50	4.00	4.00	4.00	3.75	3.50	3.00
10 Year Bund	2.50	2.35	2.30	2.15	2.00	1.95	1.90
10 Year Spread to US	–123	–125	–120	–115	–110	–105	–100
United Kingdom							
BoE Bank Rate	4.50	5.00	5.25	5.25	4.75	4.25	3.75
10 Year Gilt	4.38	4.15	4.00	3.70	3.40	3.25	3.10
10 Year Spread to US	65	55	50	40	30	25	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (16 Jun)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
euro vs							
USD	1.0943	1.11	1.11	1.12	1.13	1.14	1.15
JPY	153.89	153	151	150	149	148	147
GBP	0.8559	0.87	0.87	0.88	0.88	0.88	0.89
CHF	0.9758	0.99	0.98	0.97	0.98	0.99	0.99
DKK	7.4508	7.45	7.45	7.45	7.45	7.45	7.45
SEK	11.6137	11.6	11.6	11.6	11.6	11.6	11.6
NOK	11.5104	11.5	11.5	11.5	11.5	11.5	11.5
sterling vs							
USD	1.2786	1.27	1.27	1.28	1.28	1.29	1.29
JPY	179.80	175	173	172	169	168	165
CHF	1.1402	1.13	1.12	1.11	1.11	1.12	1.11
AUD	0.5385	0.54	0.54	0.55	0.56	0.57	0.57

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	1.2
private consumption	1.3	–8.0	3.5	3.2	0.8	1.2
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	0.1	0.2
Germany GDP	1.1	–3.7	2.6	1.9	0.0	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	0.8	0.7
Spain GDP	2.1	-10.8	5.1	5.5	1.8	1.6
Netherlands GDP	2.0	–3.9	4.9	4.3	0.8	1.2
memo: United Kingdom GDP	1.7	–9.3	7.4	4.3	0.3	1.2

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.

Asia

China

Calendar years	2018	2019	2020	2021	2022	2023f	2024f
Real GDP	6.7	6.0	2.2	8.1	3.5	6.0	5.5
Consumer prices	1.9	4.5	0.2	1.5	1.8	1.7	2.3
Producer prices	0.9	–0.5	–0.4	10.3	–0.7	-0.8	1.0
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	10.0	7.5
Money supply M2	8.1	8.7	10.1	9.0	11.8	11.2	9.2
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	–0.6	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 (16 Jun)	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
Required reserve ratio %*	10.75	10.50	10.25	10.25	10.25	10.25	10.25
Loan Prime Rate, 1–year	3.65	3.65	3.65	3.65	3.65	3.65	3.65

* For major banks.

Currency forecasts

	Latest (16 Jun)	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
JPY	140.63	138	136	134	132	130	128
SGD	1.3371	1.33	1.32	1.31	1.31	1.31	1.31
HKD	7.8198	7.80	7.78	7.77	7.76	7.75	7.75
PHP	55.85	55.0	54.0	53.0	52.0	51.0	50.5
THB	34.64	34.0	33.5	33.0	32.0	31.5	31.0
MYR	4.6211	4.60	4.50	4.40	4.30	4.20	4.10
CNY	7.1311	7.00	6.90	6.80	6.70	6.60	6.50
IDR	14945	14900	14800	14600	14400	14300	14100
TWD	30.71	30.4	30.2	30.0	29.8	29.6	29.4
KRW	1275	1270	1260	1240	1220	1200	1180
INR	81.92	80.0	78.0	76.0	74.0	73.0	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**	**3.4**	**3.1**	**3.0**
United States	2.9	2.3	–2.8	5.9	2.1	1.4	0.3
Japan	0.6	–0.4	–4.3	2.1	1.1	1.2	1.0
Euro zone	1.8	1.6	–6.1	5.4	3.5	0.6	1.2
Group of 3	**2.2**	**1.7**	**–4.2**	**5.3**	**2.5**	**1.1**	**0.7**
United Kingdom	1.7	1.6	–11.0	7.6	4.0	0.3	1.2
Canada	2.8	1.9	–5.1	5.0	3.4	0.9	1.5
Australia	2.8	1.9	–1.8	5.2	3.7	1.4	0.5
New Zealand	3.5	3.1	–1.5	6.0	2.7	1.2	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	6.0	5.5
Korea	2.9	2.2	–0.7	4.1	2.6	1.5	2.2
Taiwan	2.8	3.1	3.4	6.5	2.5	1.9	3.0
Hong Kong	2.8	–1.7	–6.5	6.4	–3.5	4.0	3.0
Singapore	3.6	1.3	–3.9	8.9	3.6	1.8	3.0
Indonesia	5.2	5.0	–2.1	3.7	5.3	5.2	5.5
Thailand	4.2	2.1	–6.2	1.6	2.6	3.8	4.0
Malaysia	4.8	4.4	–5.5	3.1	8.7	4.5	4.7
Philippines	6.3	6.1	–9.5	5.7	7.6	5.7	6.0
Vietnam	7.5	7.4	2.9	2.6	8.0	5.7	6.8
East Asia	**6.0**	**5.2**	**0.7**	**7.1**	**3.5**	**5.3**	**5.1**
East Asia ex China	4.5	3.8	–2.3	4.3	4.5	3.9	4.4
NIEs*	**3.0**	**2.0**	**–0.5**	**5.6**	**2.1**	**1.9**	**2.6**
India	6.5	3.9	–5.8	9.1	6.8	6.1	6.3
Russia	2.8	2.2	–2.7	5.6	–2.1	–1.0	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**	**3.7**	**3.0**	**3.3**
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**	**3.4**	**3.1**	**3.0**

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

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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;
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