AUSTRALIA & NEW ZEALAND WEEKLY.

Week beginning 4 September 2023

Editorial: RBA Board on hold next week – next move will be down.

RBA: policy decision, Governor Lowe speaking.

Australia: Q2 GDP & partials (profits, inventories, public demand), current account, net exports, trade balance.

NZ: Q2 building work, Q2 terms of trade, GlobalDairyTrade auction.

China: Caixin PMI, trade balance, foreign reserves, CPI, PPI.

US: ISM non-manufacturing, trade balance, factory orders, Federal Reserve's Beige Book.

Key economic & financial forecasts.

INFORMATION CONTAINED IN THIS REPORT
CURRENT AS AT 1 SEPTEMBER 2023.

WESTPAC INSTITUTIONAL BANK

RBA Board on hold next week – next move will be down

The Reserve Bank Board meets next week on September 5.

We are confident that the Board will decide to keep rates on hold at the meeting.

Following the Board's decision to hold rates steady at the August meeting we concluded that rates would remain on hold until the September quarter next year when the first rate cut of 0.25% can be expected.

Since we released that forecast the data flow and the Minutes from the August meeting have provided further support to the view that rates have peaked at 4.1%.

The **Minutes** once again highlighted that the Board had considered the two options of holding rates steady or raising the cash rate by 0.25%. While in previous Minutes the cases for both options were represented in an even-handed way, the preferred case in August seemed to be more clearly favoured than we have seen in past meetings (no reference to "finely balanced").

The Minutes note "the Board had already tightened monetary policy significantly, there were signs that this was working as intended and the Board had time to wait and see how the economy evolves… full effects of the earlier tightening were yet to be recorded… consumption had already slowed significantly, there were early signs that the labour market might be at a turning point and inflation was heading in the right direction."

The Wage Price Index for the June quarter lifted by 0.8% – the same increase we saw in the December and March quarters despite the ongoing record low unemployment rate. There was no significant evidence of an ongoing lift in pressures in either the individual or enterprise bargaining components. Annual growth will increase from the current 3.6% to 3.9% in the September quarter when the 5.9% lift in the minimum wage flows through to the Index but we now expect that 3.9% will be the peak, down from our previous forecast of 4.1%.

The **Monthly CPI Indicator** showed annual inflation easing to 4.9%yr in July from 5.4%yr in June and 6.7%yr in April. There is volatility in these monthly prints, and we do expect a lift next month due to a greater focus on quarterly services price surveys.

We are forecasting a 0.5% print for the update in August, but this will be offset by a –0.1% decline in September as the new Federal Government child-care rebate kicks in.

Overall, the trend in inflation is clearly "in the right direction." Our current annual growth rate forecast for the CPI in the September quarter is 5.1% down from 6% in June and likely to finish the year at 3.9%.

While there was a sharp jump in the unemployment rate in July from 3.5% to 3.7% the ABS points out the effects of school holidays which are becoming a key issue in determining when people take their leave and start or leave a job. We are expecting a significant lift in jobs growth in August just as we saw in May following the similar lift in the unemployment rate in April (the April survey was conducted during school holidays). Although adding to our case, we don't think the July jobs report will be a swing factor in the Board's decision at the September meeting.

We have argued for some time that the August meeting was likely to be the last opportunity the Board would have to take further insurance against the risk of inflation not reaching the target band by the end of 2025.

Going forward from here the evidence around an ongoing weak economy and slowing inflation will encourage the Board to extend its pause through to the end of the year and into 2024.

So, we expect the debate is now going to evolve towards the timing of the first rate cut.

That does not mean that the Board will abandon the policy of considering "on hold" or "25bp hike" as the two options but, as we saw in August, the "on hold" case will progressively become dominant.

The Board will also be mindful of the weak AUD – largely a function of the unusual negative yield differential with the US and some market concerns that the policy target of 2.8% inflation by 2025 is too "soft". The recommendations of the RBA Review advocated targeting the middle of the band. That approach may well be adopted by the new Board although, given the better than expected progress on inflation, a revision in the target is unlikely to be a game changer for policy.

One approach to contain some of this AUD negativity is to persist with "members agreed it was possible some further tightening of monetary policy might be required", although markets are likely to become increasingly more dismissive of this practice as we move ahead.

The timing of the first rate cut.

In the note following the August Board meeting we have targeted the September quarter, 2024, for the first cut in this cycle.

Our estimate is that by the time of the August meeting next year the Board will be confronted with unemployment rate of 4.5%; inflation having fallen to 3.4%yr; and GDP growth of 0.8% for the year to the June quarter 2024. By the time of the August 5–6 meeting, the board will have a good idea of growth to the June quarter. However, it would need to wait until the 2023–24 September board meeting before the official growth rate for the June quarter will have printed.

While inflation will not have fully returned to the target band of 2–3%, policy will be assessed as being clearly contractionary; the unemployment rate will have risen 1ppt over the previous year with the prospect of further deterioration in the second half of 2024; the economy will be growing at the parlous pace of 0.8% and confidence that inflation will reach the target earlier than the current forecast will be building.

While the RBA will have been hold since June of 2023 the lagged impact of borrowers transitioning from low fixed rate mortgages to much higher floating mortgages, which will intensify in the second half of 2023, leading to a cumulative automatic increase in average mortgage rates right out to the first quarter of 2024 of up to 1ppt.

After having already slowed to 3.6%yr in June 2023, wages growth is set to peak at 3.9%yr in the September quarter before easing through 2024.

Pressure will have eased on the AUD as we expect the Federal Reserve to have begun its easing cycle by March or June at the absolute latest. Falling US rates will also boost global confidence providing some support for the "risk" currencies, including the AUD.

It is unlikely that the rate cuts can come earlier.

In the first half of 2024 the Board will be facing a tight labour market; potential delays in the beginning of the Fed's easing cycle; and ongoing momentum in house prices. While still falling, inflation will be stickier in the first half of 2024 as the contraction in goods inflation eases and services inflation remains elevated.

That combination is likely to preclude the prospect of rate cuts in the first half of 2024 despite the ongoing evidence that spending remains lack lustre.

Conclusion

2023 has been a difficult year for gauging monthly movements in the cash rate. The Board has varied the weights it gives to the two key themes: risk of not achieving the inflation target on time; and needing to pause to assess the cumulative impact of this very rapid tightening cycle. There has been no clear lead indicator as to how these weights have evolved.

With inflation slowing more rapidly than the Board, and other central banks had expected; evidence of an easing in wage pressures; household spending struggling; and further effective mortgage increases embedded in the system, the policy of moving to the sidelines is now clearly the favoured approach.

We think this should remain the case until the September quarter next year when inflation; growth; and unemployment have established a very clear message that will allow the Board to begin the process of unwinding the rate hikes.

Bill Evans, Chief Economist Westpac Group

THE WEEK THAT WAS

Beginning in Australia, the July Monthly CPI Indicator provided further confirmation of the deceleration in inflation's momentum, easing from 5.4%yr to 4.9%yr. However, the composition still speaks to lingering cost-of-living pressures, as evinced not only by the actual lift in electricity prices (6.0%mth) but also what the lift could have been were it not for the introduction of state energy rebates (19.2%mth). Additionally, the detail around housing still reflects an uncomfortable mix, with rental inflation continuing to accelerate (7.3%yr to 7.6%yr) as the moderation in new dwellings persists (6.6%yr to 5.9%yr). So, while it is constructive to see the current progress in inflation and the improving balance of risks for monetary policy, the detail is a reminder that consumption nonetheless remains under pressure in an environment where both prices and interest rates have risen rapidly.

Therefore, it was somewhat encouraging to see nominal retail sales rise 0.5% (2.1%yr) in July, largely due to a solid contribution from cafés and restaurants associated with school holidays and the 2023 FIFA Women's World Cup. The influence of population growth and inflation remains substantial however, with retail sales continuing to track a very weak profile on a real per capita basis, in the realm of –3.0%yr to –3.5%yr, a reminder that temporary forces which stimulate aggregate discretionary spending have not significantly altered the underlying trend.

In the lead up to next week's Q2 GDP report, the ABS also released two partial indicators for investment.

There were some unexpected results around the quarterly profile for construction work done, a modest 0.4% lift in Q2 coupled with a significant upward revision to Q1 (from 1.8% to 3.8%), resulting in construction work being up 9.3%yr. This solid uptrend reflects ongoing momentum in infrastructure investment, public infrastructure up a sizeable 16%yr and private infrastructure +15%yr. Housing experienced mixed fortunes however, with renovation activity down –7.2%yr but new dwelling construction up 5.1%yr.

The Q2 CAPEX survey subsequently delivered an upside surprise, the 2.8% lift in current activity surpassing even Westpac's top-of-the-range forecast of 2.0%. The 1.9% gain in equipment spending was also constructive and remains consistent with our immediate view for investment. On spending intentions, the third estimate for 2023/24 CAPEX plans remained optimistic, up 7.0% compared to the third estimate a year ago. In our view, this implies a 6.3% rise in CAPEX spending over the financial year. While positive for now, we anticipate a diverging outlook for investment, with equipment spending softening as the impetus from tax incentives fade while capacity expansion via construction work holds firm.

Despite the downside surprise on construction work, our forecast for Q2 GDP remains unchanged at 0.4% (1.8%yr). A detailed breakdown of our forecast can be found on WestpacIQ.

Offshore, the US had the most data to ascertain signal from, with spending, income, and a revised GDP figure released as well as the latest JOLTS survey. Personal spending rose 0.6% in real terms in July after a 0.4% gain in June. Spending well and truly outpaced growth in personal income in the month, 0.2%, and the savings rate fell back near its historic low as a result, highlighting that savings can only be drawn down upon for so long. Given this robust July reading for spending and as Q2 GDP has been revised down from 2.3% to 2.1% annualised, Q3 GDP growth looks set to print materially above trend. That said, with available excess savings dwindling and real incomes recovering slowly, growth looks certain to drop below trend in Q4 and beyond. The latest labour market detail is also supportive of such a view, July's JOLTS job openings falling by an outsized 338k while the number of unemployed people per job opening increased to 0.7. Hiring and separation rates being little changed and the still historically-high level of job openings are not indicative of recession by any means, but they do point to less opportunity for advancement and nominal wage growth, restricting discretionary demand. In such a climate, a continuation of the current benign inflation trends seems probable. Both headline and core PCE deflators rose by 'only' 0.2% in July.

Across the Atlantic, Europe's flash August CPI showed disinflation only at the second decimal place -- August's print coming in at 5.26%yr versus 5.31%yr in July. 'Underlying' inflation cooled to 5.3%yr from 5.5%yr however, giving the ECB the option of extending their pause in September if they perceive the risks faced by the economy as skewed to the downside.

China's NBS manufacturing PMI meanwhile ticked up to 49.7 in August from 49.3 but remains below the 5-year pre-COVID average. Of note, there was a large upswing in main raw material purchase prices and producer prices, although producer price data suggests the starting point was entrenched deflation. The non-manufacturing PMI instead declined from 51.5 to 51.0, continuing the downtrend of recent months. While there was a slight improvement in the employment component for services overall, construction employment's contraction accelerated.

Overall, the data should be taken as a sign of stabilisation not recovery. The latter is likely some months away, assuming the recent run of policy measures gains traction. Of note this week, the Chinese government announced changes to mortgage lending requirements, with the national minimum deposit requirement to now be 20% for first-time buyers and 30% for second-home buyers (first-time investors). However, required deposits will still vary city by city. How far tier 1 and 2 city deposit requirements for first-time investors are cut towards 30% will dictate how effective the policy is. The additional move to cut mortgage rates for all borrowers will, in time, aid consumption as well as new housing investment. Hopefully, the windfall will be greater than its immediate financial impact. Putting a floor under sentiment such that households feel free to spend down accumulated excess savings could quickly turn Chinese domestic demand. As the changes are due to take effect late-September, it will be a few months before we find out.

Week ahead & data wrap

Can Goldilocks hold the bears at bay?

The New Zealand economy is flirting with recession. Notably, in its most recent policy update, the RBNZ signalled that a recession is necessary to bring inflation to heel. However, there are questions about whether the economy could both avoid recession and tame inflation. So, is that Goldilocks scenario possible?

This week's key data certainly raised the possibility of a soft landing. Business sentiment as measured by the ANZ Business Outlook improved over August. Importantly, an increasing number of businesses now expect that their own trading activity will improve over the coming months. While still low, the +11.2 reading for this measure implies annual GDP growth of circa 1.0% – comfortably above recessionary levels.

Notably, while expectations for activity have firmed, the other key takeout from the survey was the ongoing fall in inflation pressure. Businesses slightly reduced their expectations for annual inflation to 5.06% over the coming year, and now see inflation as being much lower than the 6.4% peak expected in November 2022. Similarly, the net percentage of businesses planning to increase their prices fell over 4 points to 44.0 in August – down from a peak of over 80 in March last year.

A Goldilocks scenario could play out if inward migration continues to add to the supply of labour and help moderate wage pressures – as long as aggregate demand is not excessively supported.

We continue to see ongoing strength in hiring. The monthly employment indicator – a tax-based measure of filled jobs – increased 0.3% in July. However, the unemployment rate is still likely to rise as the number of people in work is rising more slowly than growth in the labour force. A rising unemployment rate should be consistent with less pressure on wages and inflation. Optimists conclude that the current combination of labour market conditions could make the Goldilocks scenario possible.

While the pace of growth has moderated from that seen during the first half of the year, employment is still growing, suggesting ongoing growth. The issue will be whether this is sufficient to achieve the required fall in inflation at a fast enough pace.

That said, the bears also have some argument that a recession might be on the way. Looking at business sentiment, the agriculture sector clearly bucked the overall positive trend. Indeed, agriculture sector confidence in the August survey plummeted to –62.1 compared to the improved overall reading of –4.

The fall in agriculture sector confidence is no surprise. The outlook for most of the sector has deteriorated significantly over past months as the Chinese economy and, importantly for New Zealand, the Chinese household sector remains weak. The dairy sector has been particularly hard hit. Whole milk powder prices plunged by over 18% over August alone, adding to the already weak trend in prices. These falls culminated in cuts to 2023/24 milk price forecasts, with both our forecast and the midpoint of Fonterra's range lowered to $6.75/kg. The pressures on farm businesses are not confined to the dairy sector. Sheep and beef farms are also facing low farmgate prices, particularly for sheep meat. For the horticulture sector, the dynamic is slightly different in that weather, including Cyclone Gabriel, have hit yields hard. But the impact on profits is ultimately the same as other sectors. Lastly, the forestry sector is also battling low prices on the back of very weak demand from the Chinese construction sector.

Significantly, this milk price translates to most dairy farmers making a loss this season. Indeed, DairyNZ puts the breakeven milk price at $7.50/kg, even allowing for cost-cutting by farmers. The flow on from these cuts – and farmers' lower incomes' – will be keenly felt in agricultural supply businesses as well as retail businesses in the regions. Indeed, we anticipate many of these regional economies are likely to dip into recession over coming quarters.

The other sector clearly losing steam is construction, although this has been largely anticipated. This month building consents fell by 5%, with consents now down by 15% from the peak last year. While we think that the downtrend in building consents is close to an end, building activity is still set to decline over the coming year as existing backlogs are worked through.

Finally, it's likely that some of the impact of interest rate hikes still lies ahead of us as around 50% of fixed-rate mortgages will come up for repricing over the coming year and could add to the slowdown in spending that we've been seeing in recent months.

All up, the Goldilocks scenario is possible. However, conditions are set to be very mixed across the economy, and there remains risks of a recession over the coming year as well as ongoing resilience in the labour market, demand, and persistent inflation pressure. But if the impact of the agricultural downturn is yet to come, then the bears may yet have their day.

Nathan Penny, Senior Agri Economist

Round-up of local data released over the last week

Date	Release	Previous	Actual	Westpac f/c
Mon 28	Jul Monthly Employment Indicator	0.2%	0.3%	0.0%
Wed 30	Jul building permits	3.4%	–5.2%	–2.0%
Thu 31	Aug ANZ business confidence	–13.1	–3.7	–
Fri 1	Aug ANZ consumer confidence	83.7	85.0	–

Aus Q2 company profits

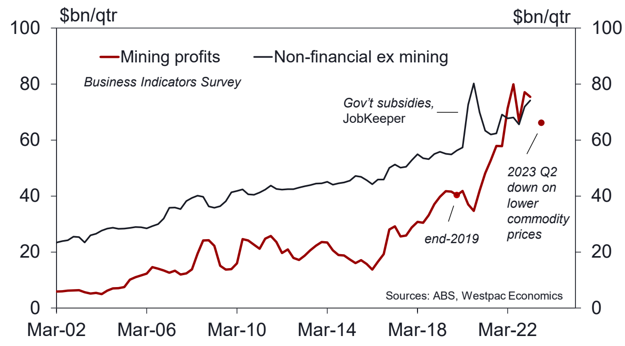
Sep 4, Last: 0.5%, WBC f/c: –5.4%
Mkt f/c: flat, Range: –5.4% to 3.0%

The Business Indicators (BI) accounting measure of company profits printed 0.5%qtr, 7.1%yr for the March quarter, while the National Accounts reported a rise of 4.0%qtr.

The BI March quarter detail included mining profits –2.2% (associated with lower commodity prices) and non-financial profits ex mining +3.1%, while the Inventory Valuation Adjustment was a negative. Profits across the broader economy are mixed, squeezed in areas like construction, manufacturing and retail, but recovering in hospitality and professional services, while up in transport, postal & warehousing and in wholesale.

For the June quarter, company profits likely declined, down a forecast –5.4%. Mining profits are dented by a sharp pull-back in commodity prices, –11.4%, and a likely fall in the value of inventories. Non-mining profits are expected to post a rise, but with a very mixed industry picture.

Company profits



Aus Q2 non-farm inventories

Sep 4, Last: 1.2%, WBC f/c: 0.3%, (–0.3ppts cont'n)
Mkt f/c: 0.4%, Range: –1.0% to 1.3%

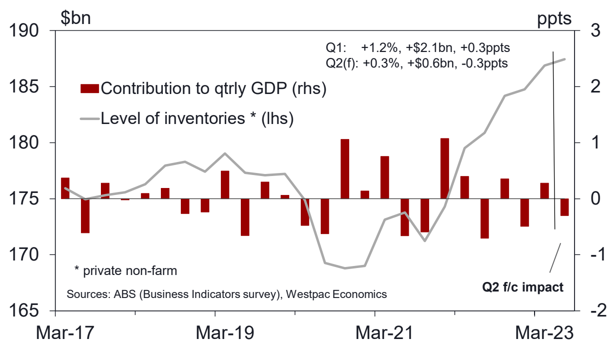
Non-farm business inventories posted a sizeable 1.2% increase for the March quarter, adding 0.3ppts to growth.

The March outcome represented surprising (and likely temporary) strength. Inventories rose by $2.1bn, entirely due to a build-up at the wholesale level, +$2.0bn. The ABS noted that this was around cars (a spike in auto imports, on an easing of supply chain delays, but domestic sales failed to fully respond in the period).

For the June quarter, we anticipate inventories will post only a tepid rise, of 0.3%, thereby subtracting 0.3ppts from activity.

That March quarter spike in wholesale inventories will likely deflate. Across the broader economy while domestic demand is expanding, the pace is modest and uneven.

Inventories: Q2 tepid. Q1 boosted by one-offs



Aus Q2 current account, $bn

Sep 5, Last: 12.3, WBC f/c: 4.0
Mkt f/c: 8.0, Range: –3.3 to 12.5

The current account surplus was broadly unchanged in the March quarter, printing $12.3bn after an outcome of $11.7bn.

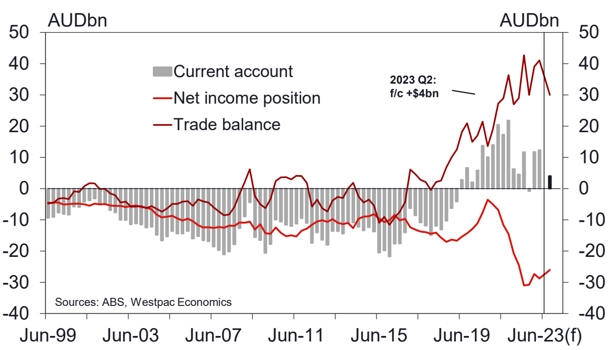
The trade surplus improved by $2bn to $41bn in the March quarter, while the Net Income Deficit (NID) widened by $1.4bn to $28.8bn.

For the June quarter, we anticipate a narrowing of the current account surplus to a forecast $4bn. This will be the 16th surplus in the past 17 quarters – over which time the current account balance has averaged +$9.7bn per quarter.

While still sizeable, the trade surplus moderated to $30bn we estimate – an $11bn deterioration. This is entirely due to a sharp pull-back in the terms of trade, around an estimated –7.3% – as global commodity prices eased from earlier elevated levels.

For the NID, we've factored in a $2.8bn improvement to $26bn, assisted by a lift in earnings on Australia's overseas investments.

Australia's current account: Q2 f/c +$4bn



DATA PREVIEWS

Aus Q2 net exports, ppts cont'n

Sep 5, Last: –0.2, WBC f/c: +0.3
Mkt f/c: +0.3, Range: –0.7 to +0.8

Real net exports improved, adding 1.3ppts to growth over the past year, a turnaround from a drag of –0.9ppts in 2021.

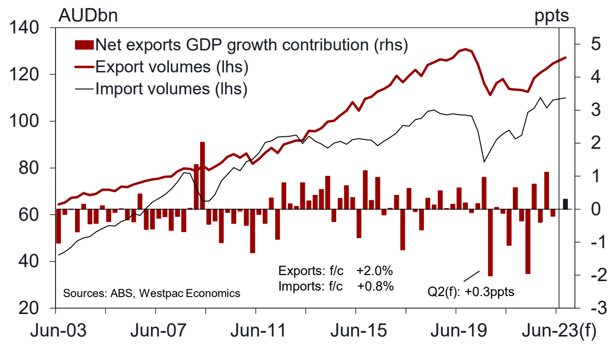
Goods import volume growth has slowed, as domestic demand has cooled, only partially offset by a lift in services as more of us holiday abroad.

Export volumes growth has improved on fewer domestic disruptions, favourable seasonal conditions for agriculture, and a return of international students and holiday makers.

For the June quarter, net exports added 0.3ppts to growth, we estimate *(but we caution, uncertainty around this figure given that official partials fail to fully map to the Balance of Payments)*.

Export volumes grew by an estimated 2%, on a jump in services (+8.5%) and goods +0.5%. Import volumes rose 0.8%, we estimate, with a –0.6% dip in goods offset by a sizeable 6.8% lift in services.

Net exports: Q2 f/c +0.3ppts



Aus RBA policy announcement

Sep 5, Last: 4.10%, WBC f/c: 4.10%
Mkt f/c: 4.10%, Range: 4.10% to 4.35%

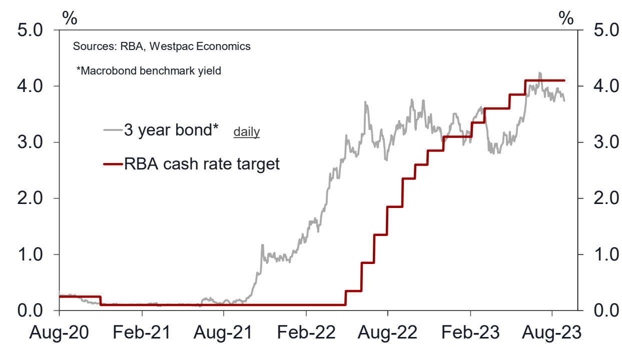
At the September Board meeting, Westpac anticipates that the RBA will leave the cash rate unchanged at 4.10%.

The data flow has been constructive since the August Board meeting, with ongoing signs of moderating inflationary pressures and static wages growth. Some risks still linger, namely around the labour market, but this is not likely to prompt any further action. Rather, the RBA will continue to wait and assess the cumulative impact of the tightening cycle and the evolution of risks hereafter.

Looking ahead, the RBA's next policy move will likely be in the second half of 2024. At that stage, we expect inflation will be approaching the top of the target range and there will be clear evidence of a weakening economy – in our view, warranting a shift towards rate cuts beginning in the September quarter.

For more detail, see Page 2.

RBA cash rate and 3 year bonds



Aus Q2 GDP

Sep 6, Last: 0.2%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: 0.0% to 0.8%

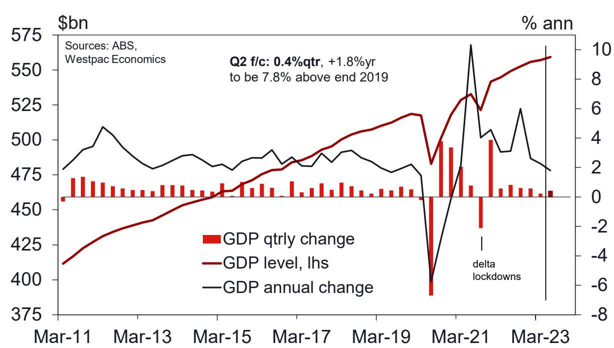
We assess that the Australia's economy grew by 0.4% in the June quarter, an improvement on the 0.2% gain reported for March, but still a subdued result. Annual growth slows to 1.8%.

The arithmetic is: domestic demand +0.3%, net exports +0.3ppts, and inventories –0.3ppts, with the statistical discrepancy +0.1ppt.

Household demand is expected to be flat, constrained by high inflation, rising interest rates and additional tax obligations but supported by labour market strength. Consumer spending is a forecast flat outcome, slowing from +0.2%, with services the key unknown. Home building activity fell, an estimated –0.8%, while turnover in the housing market lifted (OTCs a forecast +3.5%).

Business investment grew a forecast 1.4%, with equipment spending up and construction in an upward trend. Public demand, which is forecast to expand by a modest 0.3%, is cresting as the spike in COVID-related spending unwinds.

Australian economy: grew a f/c 0.4% in Q2



Aus Jul trade balance, $bn

Sep 7, Last: 11.3, WBC f/c: 9.1
Mkt f/c: 10.0, Range: 8.9 to 11.6

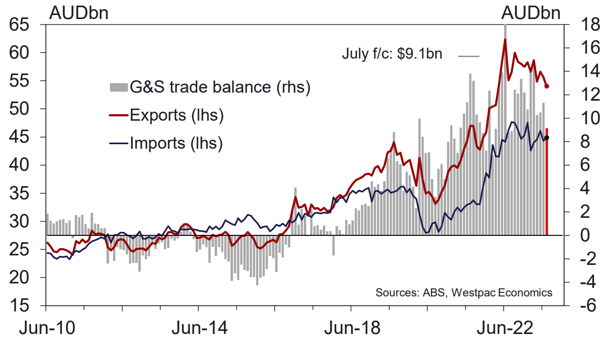
Australia's trade surplus hit $14.6bn in March, the second highest on record. Then, the surplus moderated to be at a still elevated $11.3bn in June, as commodity prices pulled-back by a sizeable 16.2% and goods exports contracted by 7.7%.

For July, we expect this dynamic to continue, forecasting a trade surplus of $9.1bn – representing a $2.2bn deterioration on June and the smallest result last August.

Export earnings are down by an expected –3% (–$1.6bn), including goods –4% and services +2%. The deflating of commodity prices continued, down –2.9%, to be at the lowest level since end 2021. We've factored in softer resource shipments, around LNG and gold.

On the import side, our guesstimate is that the bill will be up by around 1.3%, +$0.6bn, centred on higher volumes – coming off a softer June outcome (when the import bill fell by –3.9%, –$1.8bn).

Australia's trade balance



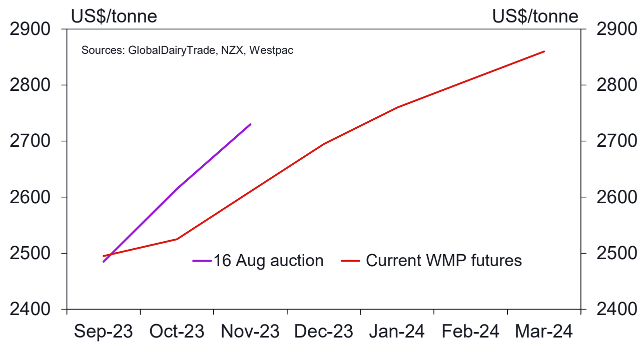
NZ GlobalDairyTrade auction, whole milk powder prices

Sep 6, Last: –10.9%, Westpac f/c: –1.0%

We expect whole milk powder prices (WMP) to fall 1% at the upcoming auction. Note WMP prices slumped by 18% over August and are down by a quarter over the past year. Our pick is roughly in line with the circa 1% fall at last week's mini (GDT pulse) auction and a similar fall that the futures market is pointing to.

In the short term, we expect that underwhelming Chinese dairy demand and recent production strength in New Zealand and China will continue to put downward pressure on prices. At this juncture, we expect that improving Chinese dairy demand will lift dairy prices in late 2023 or early 2024. However, the current risks are that any price recovery comes later rather than sooner.

Whole milk powder prices



NZ Q2 building work put in place

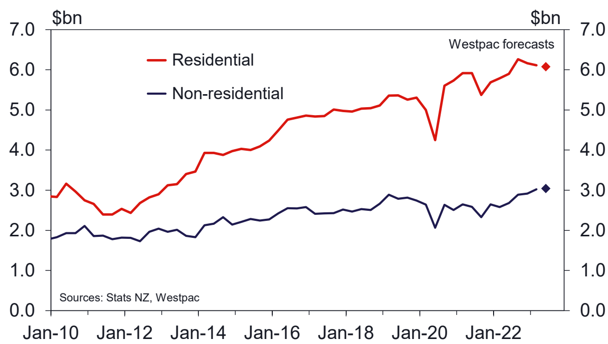
Sep 6, Last: +0.6%, Westpac f/c: –0.1%

The March quarter saw a modest gain in building activity as a rise in non-residential construction offset a drop in residential work.

We're forecasting a small 0.1% fall in construction activity in the June quarter as residential building activity continues to ease. We expect non-residential activity will rise, but only modestly.

While still elevated, we have now past the peak in the construction cycle. Tougher financial conditions are weighing on residential activity, and we expect a gradual easing from the current elevated levels as the existing backlog of projects is completed. Commercial construction is firmer but will be challenged by the broader downturn in economic conditions.

NZ real building work put in place



For the week ahead

		Last	Market median	Westpac forecast	Risk/Comment
Mon 04					
Aus	Q2 company profits	0.5%	0.0%	-5.4%	Mining profits dented by sharp commodity price pull-back.
	Q2 inventories	1.2%	0.4%	0.3%	Modest rise, in wake of one-offs boosting Q1 outcome.
	Aug ANZ job ads	0.4%	–	–	Moderating gradually from an elevated level.
	Aug MI inflation gauge, %yr	5.4%	–	–	Provides a general view of risks.
NZ	Q2 terms of trade	-1.5%	–	-2.0%	Import prices down, export prices down by more.
Eur	Sep Sentix investor confidence	-18.9	–	–	Declining demand is making investors feel pessimistic.
Tue 05					
Aus	Q2 current account, $bn	12.3	8.0	4.0	Trade surplus narrowed as commodity prices pulled-back.
	Q2 net exports, ppts cont'n	-0.2	+0.3	+0.3	Export vol's f/c +2% (led by services), import vol's f/c +0.8%.
	Q2 public demand	0.8%	–	0.3%	Q1 result boosted by 4% jump in investment.
	RBA policy decision	4.10%	4.10%	4.10%	Data flow remains consistent with on-hold position.
NZ	Aug ANZ commodity prices	-2.6%	–	–	Dairy prices slumped over August.
Jpn	Jul household spending %yr	-4.2%	-2.4%	–	Household demand sluggish after post-COVID boom.
Chn	Aug Caixin services PMI	54.1	53.5	–	Outperformance of NBS measure a surprise.
Eur	Jul PPI	-0.4%	–	–	Base effect of high commodity prices still being felt.
US	Jul factory orders	2.3%	-2.5%	–	Slowdown emerging as external demand falters.
Global	Aug S&P Global services PMI	–	–	–	Final estimate for Japan, Eurozone and UK.
Wed 06					
Aus	Q2 GDP	0.2%	0.4%	0.4%	Up on business investment & public, while households flat.
NZ	GlobalDairyTrade auction (WMP)	-10.9%	–	-1.0%	Dairy prices likely to remain at low ebb.
	Q2 building work put in place	0.6%	–	-0.1%	Residential downturn continuing.
Eur	Jul retail sales	-0.3%	-0.3%	–	Consumers are pulling back as cost of living bites.
US	Jul trade balance, $bn	-65.5	-67.5	–	Deficit remains wide; consumer demand supportive.
	Aug ISM non-manufacturing	52.7	52.4	–	Cautious consumers could drive down demand for services.
	Federal Reserve Beige Book	–	–	–	An update on economic conditions across the nation.
	Fedspeak	–	–	–	Collins.
Can	Bank of Canada policy decision	5.00%	5.00%	–	Softening labour market and GDP growth to keep on hold.
Thu 07					
Aus	Jul trade balance, $bn	11.3	10.0	9.1	Exports f/c -3%, commodity price pull-back continued.
	RBA Governor Lowe	–	–	–	Final speech before term expires, 1:10pm AEST.
Chn	Aug foreign reserves, US$bn	3204	–	–	Little change in recent months.
	Aug trade balance, US$bn	80.6	68.5	–	Asian trade partners driving export growth, offsetting US.
Eur	Q2 GDP	0.3%	0.3%	–	Final estimate.
US	Q2 productivity	3.7%	3.7%	–	Final estimate.
	Initial jobless claims	228k	–	–	To remain near lows, for now.
	Fedspeak	–	–	–	Harker Williams, Bostic.
Fri 08					
Jpn	Q2 GDP	1.5%	1.4%	–	Final estimate.
	Jul current account balance ¥bn	1508.8	2261.6	–	Trade balance has improved materially in recent months.
US	Jul wholesale inventories	-0.1%	–	–	Final estimate.
	Fedspeak	–	–	–	Bostic.
Sat 09					
Chn	Aug CPI %yr	-0.3%	–	–	Excess capacity and weak demand to limit price gains.
	Aug PPI %yr	-4.4%	–	–	Capacity also impacting along production chain.
	Aug M2 money supply %yr	10.7%	–	–	Cuts to deposit requirements and interest rates…
	Aug new loans, CNYbn	345.9	–	–	… supportive of credit and money supply into year end.

Forecasts

Interest rate forecasts

Australia	Latest (1 Sep)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Cash	4.10	4.10	4.10	4.10	4.10	3.85	3.60
90 Day BBSW	4.13	4.30	4.30	4.30	4.22	3.97	3.72
3 Year Swap	3.98	4.00	3.95	3.90	3.80	3.70	3.60
3 Year Bond	3.72	3.75	3.70	3.65	3.60	3.50	3.40
10 Year Bond	4.00	3.75	3.55	3.45	3.30	3.25	3.20
10 Year Spread to US (bps)	-10	-5	-5	5	10	15	20
US							
Fed Funds	5.375	5.375	5.375	5.125	4.625	4.125	3.625
US 10 Year Bond	4.10	3.80	3.60	3.40	3.20	3.10	3.00
New Zealand							
Cash	5.50	5.50	5.75	5.75	5.75	5.50	5.25
90 day bill	5.65	5.70	5.85	5.85	5.85	5.60	5.35
2 year swap	5.43	5.64	5.49	5.29	5.06	4.81	4.58
10 Year Bond	4.83	4.50	4.45	4.30	4.15	4.05	3.95
10 Year spread to US	73	70	85	90	95	95	95

Exchange rate forecasts

Australia	Latest (1 Sep)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
AUD/USD	0.6473	0.67	0.68	0.69	0.71	0.73	0.74
NZD/USD	0.5964	0.62	0.63	0.63	0.64	0.65	0.66
USD/JPY	145.49	140	138	135	132	130	128
EUR/USD	1.0847	1.11	1.12	1.12	1.13	1.14	1.15
GBP/USD	1.2668	1.28	1.28	1.29	1.29	1.30	1.30
USD/CNY	7.2641	7.10	7.00	6.80	6.70	6.60	6.50
AUD/NZD	1.0852	1.07	1.08	1.09	1.10	1.12	1.12

Australian economic growth forecasts

	2022	2023				2024		Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	0.6	0.2	0.4	0.2	0.2	0.1	0.3	–	–	–	–
%yr end	2.6	2.3	1.8	1.4	1.0	0.9	0.8	4.6	2.6	1.0	1.4
Unemployment rate %	3.5	3.6	3.6	3.7	3.8	4.1	4.5	4.7	3.5	3.8	4.7
Wages (WPI)	0.8	0.8	0.8	1.3	0.8	0.8	0.8	–	–	–	–
annual chg	3.4	3.7	3.6	3.9	3.8	3.8	3.8	2.3	3.4	3.8	3.2
CPI Headline	1.9	1.4	0.8	0.9	0.7	0.9	0.9	–	–	–	–
annual chg	7.8	7.0	6.0	5.1	3.9	3.4	3.4	3.5	7.8	3.9	3.2
Trimmed mean	1.7	1.3	0.9	0.8	0.8	0.8	0.8	–	–	–	–
annual chg	6.9	6.6	5.9	4.7	3.8	3.3	3.3	2.6	6.9	3.8	3.1

New Zealand economic growth forecasts

	2022	2023				2024		Calendar years			
% change	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	2021	2022	2023f	2024f
GDP % qtr	-0.7	-0.1	0.8	0.1	0.0	0.0	0.0	–	–	–	–
Annual avg change	2.7	2.9	3.1	1.5	1.1	0.8	0.5	6.0	2.7	1.1	0.3
Unemployment rate %	3.4	3.4	3.6	3.8	4.3	4.7	5.0	3.2	3.4	4.3	5.2
CPI % qtr	1.4	1.2	1.1	2.0	0.5	0.7	0.4	–	–	–	–
Annual change	7.2	6.7	6.0	5.9	4.9	4.4	3.7	5.9	7.2	4.9	2.9

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

DISCLAIMER

Disclaimer

This information has been prepared by the Westpac Institutional Bank and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Additional country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714).

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz .

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

Disclaimer continued overleaf

DISCLAIMER

Disclaimer continued

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2)of the Order; (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 as applicable in the United Kingdom ("UK MAR"). In accordance with the relevant provisions of UK MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest concerning the financial instruments to which that information relates have been disclosed.