WESTPAC MARKET OUTLOOK DECEMBER 2023 & JANUARY 2024.

AUSTRALIA AND
THE GLOBAL ECONOMY

WESTPAC INSTITUTIONAL BANK

CONTENTS

Australia

The world

Summary forecast tables

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EXECUTIVE SUMMARY

After a few false summits, global interest rates look to have more clearly reached their peaks in the major developed economies. Headline inflation rates have dropped to around 3% in most jurisdictions. With growth slowdowns also looking clearer, markets have swung back to anticipating a pivot to easing monetary policy in 2024, albeit with the timing and scale of interest rate declines varying – an earlier and more rapid descent expected in the US compared to Europe and the UK. Locally, the narrative is taking longer to turn, the RBNZ expected to deliver one last hike early next year and a chance the RBA does the same at its February meeting if the December quarter CPI produces another upside surprise. Growth-wise, economic activity is subdued globally and likely to remain that way in 2024, albeit consistent with 'soft landings' rather than recessions and with, in our view, an overly pessimistic take on China's prospects.

In what now constitutes a long-standing tradition, our final report for 2023 includes a **Year in Review** article that looks over the key themes and developments. Hopefully, in time, 2023 will be viewed as the year in which we finally saw-off the tail-end of macroeconomic effects from COVID – namely the high inflation that was set off by the collision of lingering supply chain disruptions and a post-pandemic rebound in demand. For now, it's still a little too early to draw a hard line under the inflation problem, especially in Australia and New Zealand. And it would be naive to expect that achieving a sustained return to low inflation will usher in a period of calm, stable growth. However, if nothing else, it will make life much easier for policy makers navigating the always tricky trade-offs between price stability and growth.

Australia: Inflation is declining while the domestic economy is stuck in the slow lane. Households are bearing the brunt of policy tightening but some relief is in prospect by the end of 2024. Australia's population surge is peaking and subsiding, which should help ease housing pressures. Both demand for and supply of labour will ease in 2024. For now, the RBA is still assessing incoming data and will respond to any upside risks but it is becoming less likely that they will need to do so. Our rate outlook embeds a 'soft landing' scenario that should allow for RBA rate cuts in the second half but market eagerness to price in the turn may see abrupt shifts along the way. Rate differentials are set to tilt in the AUD's favour.

Commodities: Despite an end of year rally commodity prices are down ~6% in 2023 led by a 60% fall in thermal coal with a 37% fall in LNG, a 14% fall in base metals and an 11% fall in crude oil. Offsetting these declines are a 37% rally in iron ore, a 22% surge in met coal and a 15% gain in gold. As such, we have lifted our end 2024 forecasts for iron ore and met coal.

Global FX markets: As 2023 draws to a close, factors that acted as tailwinds for the US dollar through H2 2021 and 2022 are turning into sizeable headwinds. We see dwindling outperformance for the US economy and the FOMC leading the global rate cutting cycle as likely to result in a further material depreciation in the DXY index through 2024 and 2025 back to a level broadly consistent with its long-run average. This view assumes the US experiences a soft landing, as does the rest of the developed world.

New Zealand: The RBNZ poured ice water over expectations for OCR cuts in 2024 and instead lifted their interest rate forecasts due to increased concern about the demand impact of strong net migration, sticky core inflation and the future fiscal stance. The OCR could be increased at any of the RBNZ meetings next year. Data on core inflation, growth, migration, house prices and the future fiscal stance will be key.

United States: We expect that managing the restrictiveness of policy will prove to be the FOMC's greatest challenge in 2024. Policy will need to remain somewhat contractionary to suppress lingering inflation risks to end-2025. Without a series of fed fund rate cuts and follow through to term yields though the real stance of policy will instead continue to tighten. If allowed to occur, the probability of cyclical recession or structural stagnation will rise materially.

China: The market remains pessimistic on China's outlook. Yet authorities' actions have laid a strong foundation for sustainable robust growth in production targeting Asian economic development and the global green transition. Further, productivity and efficiency gains warrant an expectation of stable or rising profit margins. China's key risk is not trade or investment but rather consumption.

Asia: The region is yet to fully recover back to its pre-pandemic growth trend but should be better placed to do so in 2024 and 2025. While developed-world demand is likely to remain weak for some time, investment across the region is continuing at pace with a view to developing the capacity required for the green transition. The region's services sector is also poised to benefit from the restarting of Chinese international tourism. Australia is well positioned to benefit from the region's growth in 2024 and the decades that follow.

Summary of world GDP growth (year average)

Real GDP %ann*	2019	2020	2021	2022	2023f	2024f	2025f
United States	2.3	–2.8	5.9	2.1	2.4	1.4	1.3
China	6.0	2.2	8.4	3.0	5.3	5.3	5.0
Japan	–0.4	–4.3	2.1	1.1	1.7	0.9	0.9
India	3.9	–5.8	9.1	6.8	6.6	6.3	6.4
Other East Asia	3.8	–2.3	4.3	4.5	3.4	4.2	4.3
Europe	1.6	–6.1	5.4	3.5	0.6	0.8	1.4
Australia	1.8	–2.1f	5.6	3.8	2.0	1.3	2.2
New Zealand	3.1	–1.5	6.0	2.7	1.2	0.9	1.3
World	**2.8**	**–2.8**	**6.3**	**3.4**	**3.2**	**3.0**	**2.9**

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'.

Markets approaching a turning point …

RBA Board gives itself time to assess incoming data …

As we expected, the RBA Board kept rates on hold following its December meeting. Information received since the previous meeting in early November was described as 'limited' and considered to be 'broadly in line' with their expectations. Given that, the Board did not see a need to follow up the November increase. The RBA's November forecasts were predicated on 'one to two' increases in the cash rate, with one having already been delivered. By pausing in December, the RBA Board gave itself 'time to assess' the impact of recent rate increases.

… and will respond to upside risks …

In the lead-up to the next meeting in February, the RBA Board will be assessing whether inflation is declining fast enough to reach the 2–3% target in 2025. Given the revised Statement on the Conduct of Monetary Policy, the Board will soon also need to articulate when it expects inflation to reach 2½%. The RBA has made it clear that it is ready to raise rates again if inflation does not decline as fast as the Board intends. It has no tolerance for further delays in the return of inflation to target beyond this date. The February meeting should therefore be considered live if there is an upside surprise in the December quarter CPI data.

… but it is becoming less likely that they will need to do so.

That said, the odds of further rate rises from here are diminishing. Soft activity data and welcoming signs on goods price inflation are supportive of an inflation outlook, in line with or even better than the RBA's expectations. That is lifting the bar to further rate rises. Westpac Economics' central forecast is for no further increases in the cash rate from here. Assuming inflation declines as we and the RBA expect, then as the year progresses, the RBA Board should start to see scope to make monetary policy less contractionary than it is at present. Our current forecasts see the cash rate starting to decline from September 2024. The pace of that decline is fairly moderate, at only 25bps per quarter. By end-2024, we expect the cash rate to be 3.85%.

As noted above, the risks around this forecast are to the upside. There is some chance that the cash rate peaks higher than our central view. If that occurs, the date of the first cut would also be pushed out. But this is not the most likely scenario given current information.

Turning points in monetary policy on the horizon could result in abrupt shifts in market pricing.

Both in Australia and overseas, markets are looking ahead to the point that policy rates start declining. Central banks are not thinking in those terms at this point, and instead are focused on the task of getting inflation back to target. Whenever there is a turning point in rates markets on the horizon, pricing can shift abruptly. For this reason, the path to our end-2024 and end-2025 forecasts might not be smooth.

We continue to expect the first cut by the FOMC to occur in March. Relative to Australia, core inflation is closer to target already in the US and there are not the same lingering concerns about productivity or domestic energy pricing. Recent Fed rhetoric has still allowed for the possibility of further increases in the Federal funds rate. Like the RBA, the FOMC is committed to keeping policy restrictive until it is clear that the inflation target will be reached. The difference is that the necessary clarity is likely to be achieved sooner in the US than in Australia.

The rates outlook embeds a 'soft landing' scenario.

The outlook for rates is predicated on global growth remaining slow next year, but there being no recession in a major economy. Once the cutting phase of the interest rate cycle begins, we therefore expect it to proceed at a moderate pace. Our forecast for the Federal funds rate sees roughly one cut per quarter, which is slower than a policy response to an economic downturn.

Interest rate differentials forecast to tilt in Australia's favour and the US yield curve to cease its inversion.

As the timing and pace of rate reductions becomes clearer, shifts in the expected path of policy rates will also shift bond yields down, but by less than policy rates. We expect US 10-year Treasury yields to be 15bps lower than current yields by the end of 2024, with a further 10bp decline over 2025. With the RBA remaining hawkish on the risks, and likely to be later to cut rates than major-economy central banks, interest differentials are expected to tilt in Australia's favour in 2024, even as yields in both economies decline. We expect the Australian 10-year bond yield to end 2024 at 4.10% – a little below our prior view – and to reach 4.0% by end-2025. The US yield curve will no longer be inverted according to this view. This is consistent with our view that the global economy will experience a soft landing in 2024.

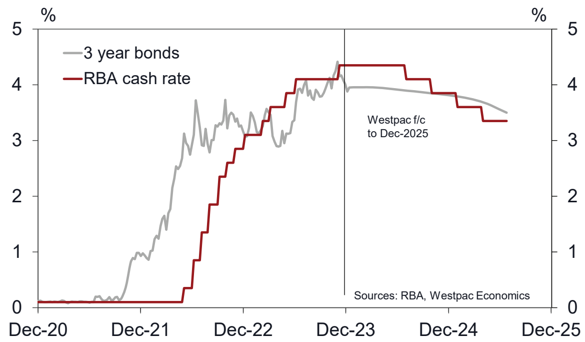
AUD is expected to appreciate, mostly against the USD.

This logic also underpins our expectation that the Australian dollar's exchange rates against most major currencies will see some upward pressure. Commodity prices are also supportive of this outlook. That upward pressure will be particularly evident against the USD. We are expecting the bilateral exchange rate to reach USD0.73 by end-2025, an appreciation of more than 11%. Most of this is a USD story, though; on a trade-weighted basis, the AUD's appreciation is expected to be only 1.3%. As well as the shift in interest rate differentials, this reflects an expected unwind of USD strength as recession concerns fade and risk appetite returns. The AUD is expected to depreciate against currencies that are unlikely to see policy rate cuts any time soon, including the JPY and CNY.

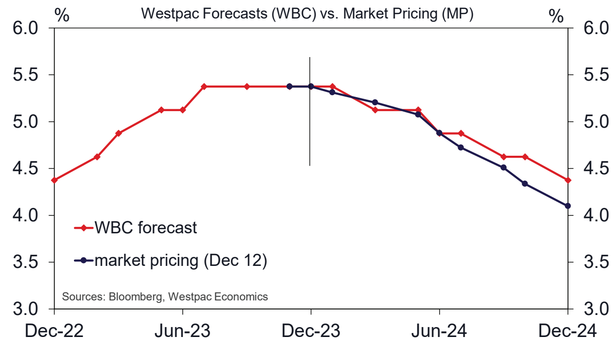
Luci Ellis, Chief Economist

... with a soft landing in prospect

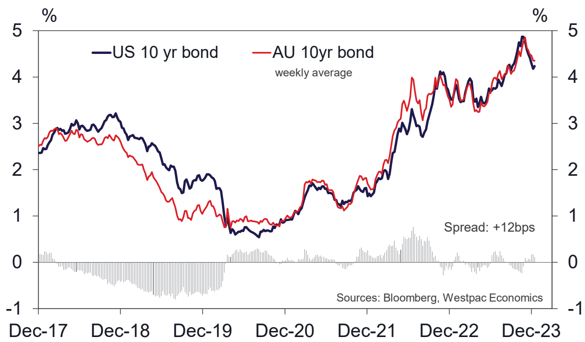
RBA cash rate and 3 year bonds



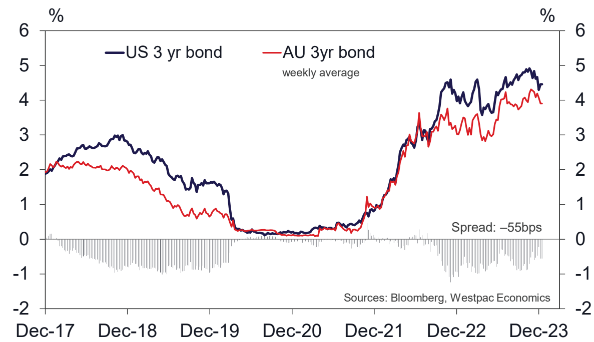
Fed funds forward pricing



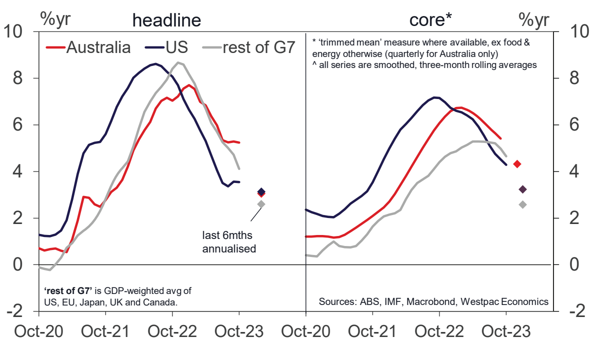
10 year bonds yields ease, Fed on hold



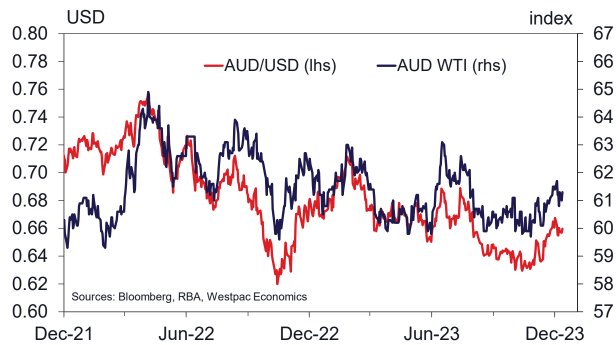
3 year bonds yields



Pace of global disinflation: emerging risks



AUD/USD & AUD TWI



Inflation to fall …

Inflation is declining …

The Australian economy in 2023 confirmed that the effects of global supply shocks on inflation are receding. After peaking at the end of 2022, CPI inflation moderated significantly over 2023, from 7.8% over 2022 to 5.4% over the year to the September quarter and, we expect, to 4.3% over calendar 2023. Because the inflation remaining in the system is largely domestically-sourced and demand-driven, the next leg of the disinflation process is likely to be slower. Even so, further moderation is in prospect for 2024. Westpac Economics forecasts CPI inflation to reach 3.2% by end-2024.

The domestic economy is stuck in the slow lane, and is likely to remain so in the first half of 2024. We expect GDP growth to ease to 1% over the year to the June quarter 2024, and still be only 1.6% over calendar 2024. Domestic demand is forecast to be particularly weak in the first half of 2024, before picking up gradually from the September quarter.

… and a slow domestic economy should see this continue.

Much of the weakness has been driven by consumption, and this too is likely to remain the case for a while yet. Real consumption was flat in the September quarter, with one-off effects from electricity subsidies and motor vehicle deliveries offsetting. We are forecasting slow growth from here, reaching 1.6% over calendar 2024. While the public sector is currently a source of growth in demand, we expect some of the momentum to ease over 2024. Likewise, we expect business investment to be weaker over the period ahead than it was in the first half of 2023. Machinery and equipment investment was not resilient to the expiry of tax incentives, and we expect this will largely offset the pulse from infrastructure activity and investment in energy transition.

Households bearing the brunt of policy tightening but some relief is in prospect by the end of 2024.

Unfortunately for households, the combined effects of higher taxation and interest rates has compounded the drag coming directly from high inflation. The expiry of the low and middle-income tax offset is part of this. Even more importantly, inflation (and a tight labour market) has pushed people into higher tax brackets. Real household disposable income has declined significantly over the course of 2023 in Australia. We expect that this drag will continue into 2024. Over time, as inflation declines, so will the drag on household spending power from this source. The Stage 3 tax cuts will also help. And if we are right that the RBA is on hold from here, and starting to cut rates from later in 2024, then household budgets will start to see some relief. But for most of the year, households will continue to feel squeezed.

Population surge has already peaked and is subsiding …

The international border reopening in both Australia and China led to a surge in migration at the beginning of 2023. Students who had previously been studying online returned to in-country, in-person studies in something of a rush, while the number of new student visa applications also rose strongly. Compounding this, there has not been the usual flow of departing graduates to offset the inflow. The resulting surge in net migration has now peaked. Population growth is therefore set to recede even without this week's policy changes. One aspect of that turnaround is that the surge in hours worked and slump in measured productivity should reverse. We saw some of that reversal in the September quarter national accounts and expect this to continue.

… which will help ease rental housing pressures but do little to boost housing construction

The subsiding migration surge should also see some easing in the pressures it has induced in the housing market. Rents are likely to increase strongly for a while yet, though, and vacancy rates are likely to remain below average given the capacity issues in the housing construction industry. In the established market, housing price growth is already starting to roll over in Sydney and Melbourne. We are forecasting housing prices to continue increasing over 2024, but at a slower pace than seen earlier this year. Even so, the economics of housing construction remain difficult and, as noted, the industry is supply constrained. We are therefore forecasting dwelling investment to decline over the next year or so, before starting to turn around over 2025. This implies that the existing backlog of homes already approved will be worked down only slowly.

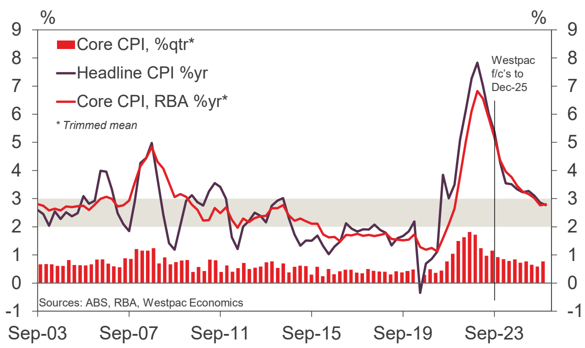
Both demand for and supply of labour will ease in 2024

The tight labour market is easing, with a soft landing the most likely outcome. Unemployment has risen a little, broadly in line with the RBA's and our forecasts at the beginning of the year. Perhaps more noteworthy has been the strength in labour supply. The participation rate and hours worked reached record highs in 2023. Part of the story has been that people have been encouraged into (or to stay in) the labour force by the tight labour market and resulting job opportunities. Another part has been that people have sought more income as cost-of-living pressures mounted; the share of workers holding multiple jobs has increased significantly. With slow growth and declining inflation expected for 2024, both demand for and supply of labour will slow. The unemployment rate will increase – Westpac Economics is forecasting it to reach 4½% by end-2024. However, lower average hours worked and a softer trajectory for participation will also be part of the adjustment.

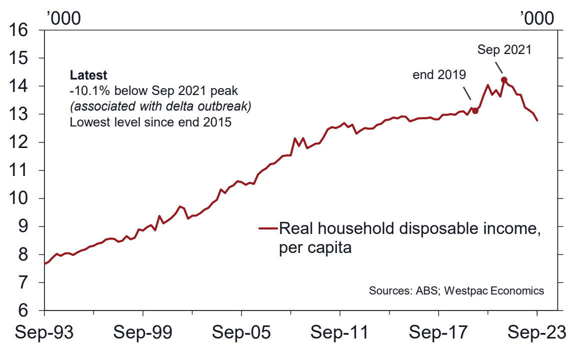
Luci Ellis, Chief Economist

… but squeeze on households to continue into 2024

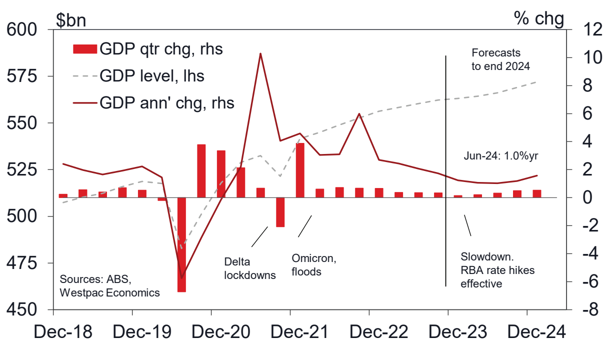
CPI inflation



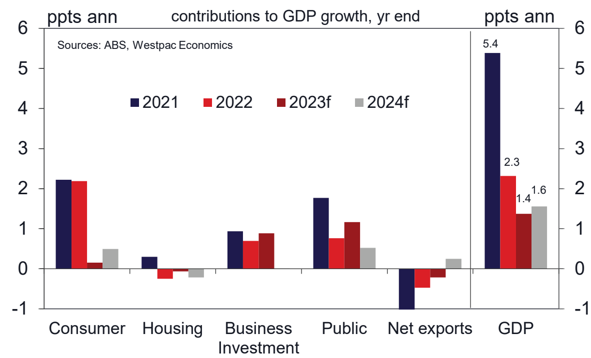
Real household disposable income, per capita



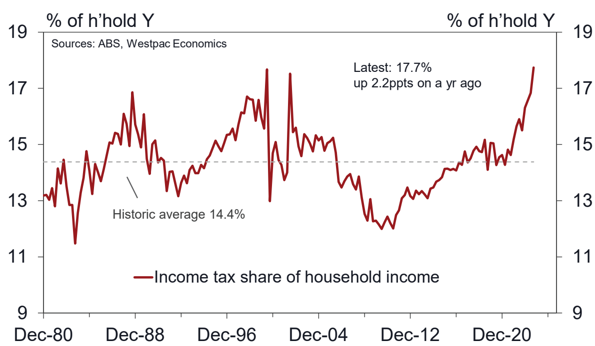
Australian economy: growth at stalling speed



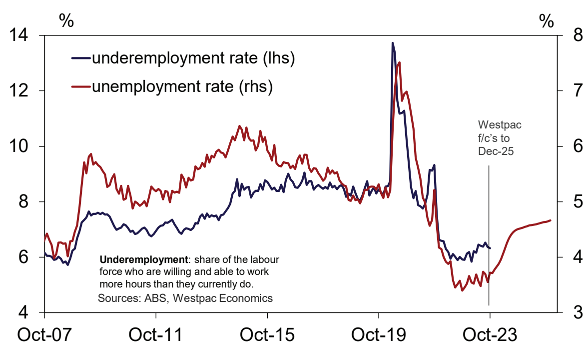
Australia: the growth mix



Household income tax climbs to historic high



Unemployment turning



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.

Inflation battles continue …

A 'coming of age' for our year in review article

Our 21st 'year in review' looks back on a year that has again been dominated by the legacies of COVID. For developed economies, dealing with the nasty flare-up in inflation has continued to be front and centre for policymakers and markets.

The epic disruptions of the COVID period …

As per tradition, we start by recapping the lead-in to 2023. The year was coming off a tumultuous start to the decade that now makes the previous decade look much more benign. Growth in the 2010s was fitful at times, with legacy issues from the GFC featuring in the first half and political uncertainty in the second but resulting in a relativley mild economic cycle overall. That gave way to an almost unprecedented period of upheaval as the COVID-19 pandemic struck. Economies convulsed as countries entered hard lockdowns in order to contain a rapidly-spreading virus that was quickly overwhelming health systems. Remarkably, over half of the world's population were in some form of lockdown by April 2020, mere months after the virus was first detected. The disruptions exacted a heavy toll through much of 2020, monetary and fiscal authorities moving to provide extraordinary support. The situation started to improve in 2021 as the emergence of effective vaccines and their mass roll-out reduced the incidence of severe illness and the pressures bearing down on health systems. But it was far from plain sailing with several large waves of virus outbreaks still seeing intermittent restrictions and disruptions to workforce availability.

… cast a long shadow …

A key development emerged in late-2021 that has gone on to dominate the economic situation in 2022 and 2023: a major surge in inflation. The initial flare-up came from the collision of post-pandemic disruptions and resurgent demand. Russia's invasion of Ukraine provided added an accelerant in the form of sharply higher energy prices, especially across Europe. After lifting to 5%yr in 2021, CPI inflation across the G7 hit 8%yr in mid-2022, reaching double-digit rates in several countries. Central banks scrambled to tighten policy in response, the FOMC leading the way with 425bps in hikes in just seven meetings, four of which involved super-sized 75bp moves. Most other central banks followed suit, albeit to varying degrees and with the Bank of Japan a notable exception. Needless to say, the moves made for a wild ride in financial markets, with both the speed and extent of required monetary tightening proving hard to judge.

… 2023 again focused on dealing with the inflation consequences.

The inflation theme remained front and centre in 2023. Thankfully though, the focus has been a little different. Rather than sizing the scale of the surge and the policy tightening it would require, the key questions have been more about the speed at which inflation would subside and how much impact inflation and policy tightening would have on wider economies. As we head into year-end, inflation has dropped to around 3% in the US and most other G7 economies. Growth-wise, slowdowns are evident but relatively soft landings still look achievable.

A tricky policy cycle for markets.

The uncertain inflation and policy path has made financial markets jumpy at times. Ostensibly good news has been difficult to parse, with signs of economic resilience in particular often seen as a 'double-edged sword' that would also see high inflation persist for longer. This was most evident in September-October when markets briefly toyed with the idea of a 'no landing' in the US. This, coupled with an upsized issuance profile for US Federal debt sent 10yr bond yields surging to 5%, a move that has still only been partially unwound. Earlier on in the year we saw the other extreme, a 'mini-bank-run' set off by the Silicon Valley Bank failure in the US, leading markets to price in a rapid series of rate cuts. In the end, the year has walked a 'middle line' with central banks delivering a little more tightening than the market had anticipated at the start of 2023, but an expected pivot to a 2024 easing in the US still intact. In currencies, that pivot already looks to be playing out as a clear multi-year peak in the USD cycle.

Inflation was by no means the only theme …

It should be noted that these themes did not apply everywhere in the same way. In China for example, deflation rather than inflation has been the story of 2023, with a later and slower exit from COVID and challenges in its property sector a much bigger issue. In the backdrop, trade and technology tensions continue to hang over US-China relations. Despite some tentative signs of a diplomatic thaw – China's Xi visiting the US for the first time in six years – these issues look set to come back to the fore next year with a US Presidential election due in November 2024.

Our 'calendar of events' table highlights many other notable developments this year. Geopolitically, the war that erupted between Israel and Hamas in October is most notable, with a wider regional conflict still posing a threat. On the environment, it has been another confronting year with global temperatures taking out new records, much of North America, East Asia and Europe also hit by extreme wildfires. More positively on this front, global investment in renewable energy hit a new record in the first half of the year, hitting an annualised pace of over US$700bn, the mammoth *Inflation Reduction Act* starting to spur activity in the US but China still clearly leading the way.

… with developments around generative AI especially eye-catching.

Thematically, the other major development this year looks to has been around AI. Indeed, 2023 may go down as a watershed year for generative AI. After launching in November 2022, OpenAI's ChatGPT now reportedly has over 180 million users that are collectively making over 1.7 billion visits a month to the site. How this plays out may ultimately be much more important than the ebb and flow of inflation and interest rates.

Matthew Hassan, Senior Economist, with contributions from the global team

… but war looks likely to be won without too many casualties

January	February	March
Croatia changes from kuna to euro, becoming the 20th member of the eurozone NZ PM Jacinda Ardern steps down, Chris Hipkins takes office Canada bans foreign buying of housing US Congress elects McCarthy as speaker after 15 votes; US hits debt ceiling Bolsonaro supporters storm National Congress in Brazil China reopens borders to travel Sweden's LKAB discovers largest known deposit of rare-earth elements China records first population fall since 1960 Japanese inflation hits 4%, a 42yr high	RBA, US FOMC raise rates by 25bps; ECB, BoE and RBNZ raise rates by 50bps US downs alleged Chinese spy balloons EU bans new ICE vehicle sales from 2035 Russia suspends participation in New START nuclear arms reduction treaty with US UK and EU agree to modified Northern Ireland Protocol ANSTO finds caesium-137 capsule lost in WA Cyclone Gabrielle hits NZ's North Island AUD/USD hits 0.715, ASX200 hits 7558, both highs for the year. Gold falls to US$1819/oz, the low for 2023	RBA, US FOMC and BE raise rates by 25bps, ECB raises rates by 50bps Silicon Valley and Signature Bank collapses UBS buyout of struggling Credit Suisse France lifts pension age from 62 to 64 amid protests and strikes 'einstein' tile discovered - a single shape that can tile the plane aperiodically OpenAI launches GPT-4 IPCC completes Sixth Assessment Report Brazil and China agree to trade in their own currencies instead of USD RBA Review released
April	**May**	**June**
RBNZ raises rates by 50bps Finland becomes 31st member of NATO Germany shuts its last nuclear power plant Fox News pays US$787mn settlement in Dominion Voting Systems defamation case Tucker Carlson leaves Fox News US Congress raises debt ceiling by $1.5trn SpaceX launches Starship, the largest and most powerful launch vehicle to ever fly Twitter rebranded as X US 10yr bond yield down to 3.31%, Aus 10yr bond yield down to 3.19%, both 2023 lows	US FOMC, ECB, BoE, RBA and RBNZ raises rates by 25bps First Republic fails, becoming second largest bank failure in US history WHO ends its declaration of COVID-19 being a global health emergency Germany records technical recession Coronation of King Charles III US FDA approves Neuralink's first-in-human clinical study of brain implants AI creates antibiotic capable of treating WHO-identified 'critical threat' superbug China's first domestically-built passenger jet completes first commercial flight iron ore hits low of US$97.30/t	RBA, ECB, BoC raise rates by 25bps, BoE raises rates by 50bps Canadian wildfires intensify, becoming the biggest recorded in North America Scientists report creation of first synthetic human embryo from stem cells *Titan* submersible implodes near *Titanic* UN adopts High Seas Treaty aimed at protecting 30% of world's oceans by 2030 Prigozhin-led Wagner group attacks Russia US debt ceiling raised NASA's JWST detects methyl cation carbon compound Orion nebula India passes China as most populous nation NZ records shallow technical recession
July	**August**	**September**
US FOMC raises rates by 25bps NZ signs FTA with EU 'Barbenheimer' clash of blockbuster movies (Barbie 'wins', grossing >$1.4bn globally) New global temperature records set for oceans and monthly avg surface air Wildfires rage across Greece, Italy & Hawaii Wagner Group leader Prigozhin killed Australia retains Ashes series with 2-2 draw US declares the complete destruction of its chemical weapons stockpile Victoria withdraws as host of 2026 Commonwealth Games due to rising costs US DXY briefly dips below 100	ECB, BoE raise rates by 25bps Spain wins FIFA Women's World Cup Fitch downgrades US credit rating to AA+ India's Chandrayaan-3 becomes 1st spacecraft to land near lunar south pole Virgin Galactic's 1st space tourism flight China's Evergrande files for bankruptcy in US Japan begins discharging treated waste water from Fukushima Nuclear Power Plant Crude oil peaks at US$94.44/bbl	ECB raises rates by 25bps Bullock takes over as RBA Governor Annual maximum extent of Antarctic sea ice hits record low since 1979 China bans use of iPhones by govt officials Tupac murder suspect arrested Crude oil hits peak of US$94.40/bbl, broad CRB index of commodities also peaks
October	**November**	**December**
Hamas launches surprise attacks on Israel from Gaza Strip; conflict escalates to war Australians vote against indigenous Voice referendum proposal National wins NZ election, forming coalition govt, Chris Luxon becomes PM Aus Q3 CPI delivers 'material upside surprise' Kenya's Kiptum sets new marathon record of 2:00:35 South Africa wins Rugby World Cup US inflation US 10yr bond yield hits 5% on govt debt issuance, stronger than expected US GDP	RBA raises rates by 25bps China's Xi Yinping visits US for first time since 2017; PM Albanese visits China, first Australian PM to visit since 2016 Australia wins 2023 Cricket World Cup Brazil announces it will join OPEC+ Crypto exchange Binance fined $4bn for money laundering and sanctions violations; FTX's Bankman-Fried convicted of fraud Optus outage hits 10m users Cyber attack suspends operator of 40% of freight through Syd, Melb and Bris ports Altman dismissed then reappointed again as CEO of OpenAI	Gold hits US$2135/oz, new all-time high. US inflation drops to 3.1%yr Year to date: S&P500 +19.9%; ASX +2.2%; gold +9.4%; crude oil –11.3%; nickel –44%; Bitcoin +164%; US 10yr +35bps to 4.23%; Aus 10yr +25bps to 4.30%; AUD/USD –2.3%; USD TWI +0.5%; Australian dwelling prices +10%

Tight supplies supporting iron ore & met coal …

Despite an end of year rally …

As we head towards year end our broadest measure of commodity prices (Westpac Export Price Index - WEPI) has rallied 6% since our November publication. Grabbing the headlines has been the decline in crude oil prices (Brent down 7% in the month) and recent weakness in base metal prices (down 3% despite an almost 3% rise in copper). But driving the overall gain has been an 8% rise in iron ore, a 10% increase in met coal and an almost 20% surge in thermal coal prices. However, it is helpful to put the recent rally into a wider context by comparing prices to where they were a year ago. On that basis, the WEPI is down 6%yr, driven by a 60% fall in thermal coal, an 11% fall in Brent, a 37% fall in LNG and a 14% fall in base metals. These declines have been mostly offset by a 36% increase in iron ore, a 22% rise in met coal and a 15% gain in gold. Outside of the strength in steel inputs, which is more about tight supply conditions than strength in Chinese demand (Chinese steel production peaked in 2020 and has tracked sideways since), commodity prices have softened as global industrial production and trade have moderated through 2023.

… commodity prices are down ~6% in 2023 led by a 60% fall in thermal coal …

Given the ongoing strength in Chinese steel input prices, we have upgraded our iron ore and met coal forecasts. Our March 2024 forecast for iron ore has been lifted from US$105/t to US$119/t while the end 2024 forecast is now US$88/t, up from a previous forecast of $83/t. The March 2024 forecast for met coal is now US$320/t, up from US$280 while the end 2024 forecast has been lifted to US$287/t from US$249/t. We have a partial offset in the lowering of our crude oil forecasts from US$83/bbl to US$77/bbl for March 2024 and to US$85/bbl from US$92/bbl for end 2024. All up, the stronger iron ore and coal prices have seen the WEPI revised up 9% to 315 by March 2024 and up 6% to 288 by December 2024.

… with a 37% fall in LNG, a 14% fall in base metals and an 11% fall in crude oil.

We have lowered our crude oil forecasts as the progression of 2023 saw the transition of the crude oil market, from one driven by a post-COVID recovery in demand to one dominated by supply. OPEC+ has acknowledged the shift with production quotas introduced in 2023, reducing OPEC+ crude production by around 1mbpd in the year to November. However, offsetting this has been an increase in non-OPEC production and the 1mbpd increase in US crude production, which hit a record high of 13.2mbpd in October and continues to hold around this level. It is interesting to note just how significant the improvement in productivity has been for the US tight crude industry. Back in February/March 2020, when US crude production hit 13.0mbpd, there were 674 active drilling rigs. Current production of 13.2mbpd is being achieved with just 500 rigs, a 26% fall in the number of rigs for an almost 2% increase in output. This helps demonstrate not just why US tight oil producers are able to lift output despite lower crude prices but also explains why Texas, New Mexico and North Dakota have not seen the same boost to state economic activity as they did the last time crude production surged.

Offsetting these declines was a 37% rally in iron ore, a 22% surge in met coal …

From a peak of US$95/bbl in late September, Brent hit a low around US$74/bbl in early December, from which there was a small bounce to US$76/bbl that did not reverse the correction for the week (about a 4% fall) which was the seventh consecutive weekly loss. With the Saudis having a balanced budget threshold of around US$70-$80/bbl, we expect prices to hold around current levels in a volatile or directionless manner until we either get some guidance from OPEC+ in 2024 or if there is a clear, sustained lift in demand – something we are looking to commence once the FOMC starts cutting rates in the first half of 2024. It is interesting to note that as prices have fallen below US$80/bbl, the US Department of Energy has announced it will purchase 3mmb of crude for March delivery and will hold tenders through at least May to refill the Strategic Petroleum Reserve.

… and a 15% gain in gold.

For LNG, prices landed in Japan have been broadly tracking sideways since August while natural gas prices in the EU have lifted 52% since July and are now trading above Japanese prices. This is something that, in the last decade or more, has only occurred during the EU energy crisis of 2021 and 2022, when Russian gas supplies to Europe were cut.

As such, we have lifted our end 2024 forecasts for iron ore and met coal.

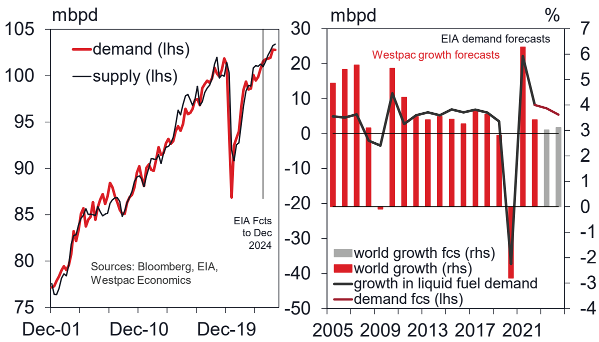
Iron ore is holding above US$130/t with reports that Chinese authorities would not apply annual steel production caps this year while the weaker yuan stimulates the export of excess Chinese steel production. These reports have been supportive of iron ore and met coal prices even though rising input prices, in the face of flat steel prices, have been squeezing margins for Chinese steel producers in the second half of 2023. Chinese steel exports are up 33% over the October year-to-date which has been a key support for Chinese steel production and therefore iron ore and met coal demand. While we have noted the support of a depreciating yuan, there is robust underlying demand for Chinese steel in key markets for Chinese exports, particularly Southeast Asia, India, North America and the Middle East. We continue to look for an increase in iron ore and met coal supply though 2024 but it is clear these fundamentals highlight a tighter supply/demand balance that we had thought, and thus higher prices than we had previously forecast.

We expect met coal to hold above US$300/t to mid-2024 before easing to around US$250/t by end 2025 as supply lifts into the second half of 2024. Australia's Bureau of Meteorology continues to expect hotter and drier conditions on Australia's east coast until April 2024 which should help see an improvement in shipments.

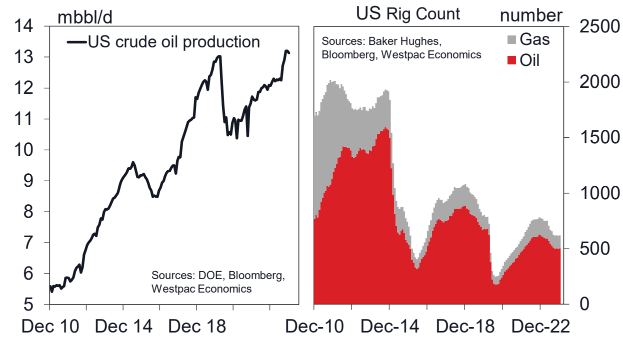
Justin Smirk, Senior Economist

… while record US crude production weakens oil prices

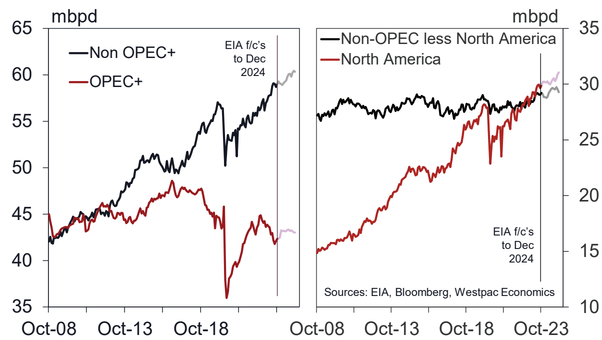
Crude demand growth has softened



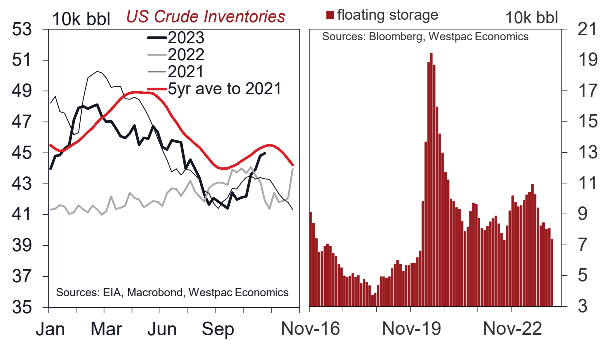
US crude oil production & rig count



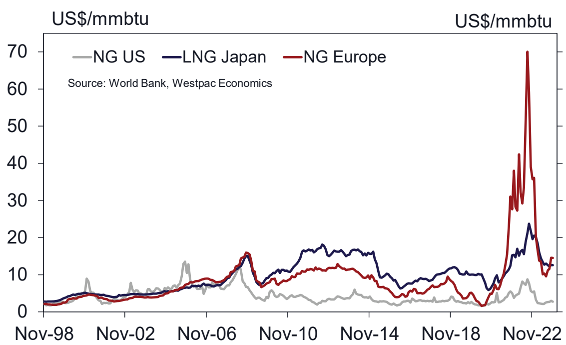
OPEC+ has tightened supply, non-OPEC lifts



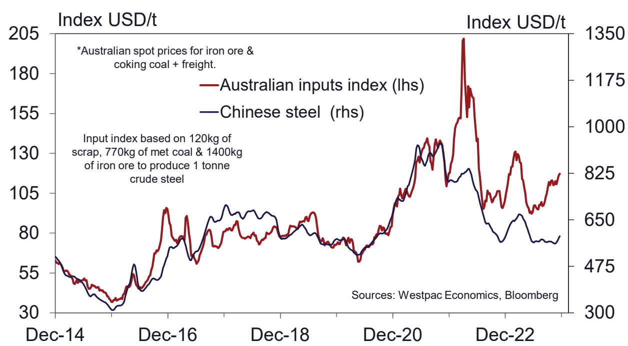
US inventories rising back to average



EU's prices rallying as the year ends



Steel inputs vs. Chinese steel prices



Headwinds are building for USD ...

Factors that acted as tailwinds are increasingly headwinds for USD ...

The tailwinds that supported the US dollar's rapid rise through H2 2021 and 2022 are becoming fierce headwinds as 2023 draws to a close. Inflation continues to lose momentum, price risks are receding and US growth and labour market outperformance is beginning to fade. We expect these trends to persist through 2024 and 2025 and result in a circa 8% US dollar depreciation from spot to near the DXY index's long-run average.

... benefiting Euro and Sterling.

Because of its high index weight, the Euro is expected to be the most significant driver of the DXY downtrend. EUR/USD is seen rising steadily from USD1.08 currently to USD1.17 by end-2025. While sterling has outperformed the Euro of late, from the current level of USD1.26, further significant gains are likely to prove difficult. Only a 4% gain from spot is forecast by end-2025, to USD1.31.

Our reasoning here is simple. Both Europe and the UK are experiencing a material deceleration in inflation which is expected by market economists to extend to the 2.0%yr target in 2025. Their respective growth trajectories are also similar, with 2024 well below trend before a recovery in 2025, according to the latest Bloomberg poll.

Risks to the outlook are more of a concern for the UK than Europe.

In our view, it is the risks that distinguish: growth is more likely to disappoint in the UK and inflation surprise to the upside. This is not a situation which instils confidence, nor one that affords a central bank the opportunity to offer swift support for growth and hope in the outlook. The market currently has only 75bps of rate cuts priced for the Bank of England through 2024 compared to 135bps for the ECB and 128bps for the US FOMC. This is despite the Bank of England's policy rate starting the period 125bps above the ECB's key deposit rate.

The Canadian dollar is being held back by oil's weakness.

The Canadian dollar has meanwhile lagged the change in the DXY index through Q4 2023. GDP growth has disappointed relative to the US and inflation has come down; but neither trend has been materially weaker than in Europe and the UK. Expected rate cuts over the coming year for Canada are also in between the market's view for Europe and the UK. Instead, it is uncertainty about global growth, and particularly oil demand, which looks to be holding the Canadian dollar back.

This uncertainty should dissipate through 2024 for Canada ...

Whereas the uncertainty clouding the UK's outlook is open-ended, for Canada it should be brief. As global markets recognise the economies worst hit by inflation and high interest rates are achieving soft landings while emerging markets continue to grow at a robust pace, expectations for oil demand will firm. The difficulty OPEC+ countries are presently having controlling supply will consequently become a non-issue, buoying the oil price. As this occurs through 2024 and 2025, the Canadian dollar should trend higher, with USD/CAD falling 8% to end-2025.

... but add weight for JPY given Japan's 'energy-importer' status.

As Canada receives a windfall, Japan is set to come under greater pressure given its 'energy-importer' status. Admittedly, Japan's energy bill is not currently a major issue for the market with participants instead focused on the Bank of Japan's next policy move. But as the market recognises the Bank of Japan's policy normalisation will remain glacial and contingent on the data-flow, the price of oil is likely to again have a material impact on the currency's value.

We continue to expect the BoJ to move at a glacial pace ...

Taking a closer look at the Bank of Japan outlook: the market has viewed recent official comments as a signal of near-term policy tightening. In particular, BoJ Governor Ueda anticipated that his job would become more challenging from year end while speaking to lawmakers in Parliament. Deputy Governor Himino also questioned the economic significance of a potential first rate hike since 2007.

We do not believe these comments were intended to be a signal of imminent action. Indeed, contrary to the market interpretation, it is possible that Governor's Ueda's comments were meant to question the sustainability of above-target inflation and growth and consequently the need for any further policy adjustment. Highlighting the uncertainty that Japan and the BoJ face, not only did the Tokyo CPI come in well below expectations and the prior outcome in November (2.6%yr compared to the 3.0%yr consensus and 3.2%yr in October), but Q3 GDP was also revised down due to weakness in consumption.

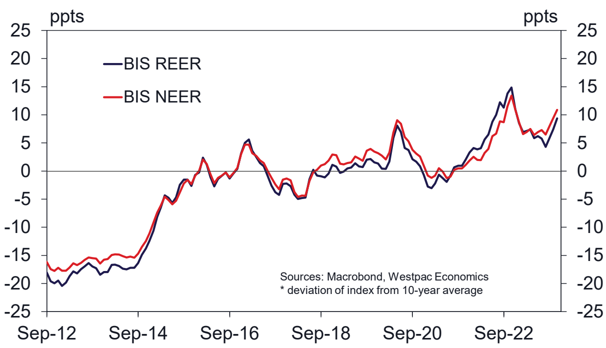
... ensuring the inflation and wage pulse remains resilient.

Despite its incredibly weak starting point, we suspect gains for the Yen are unlikely to significantly outpace the DXY trend over the course of 2024 as the BoJ takes its time with policy and given a likely lift in the price of oil. That said, once the FOMC, ECB, BoE and BoC rate-cutting cycles are entrenched and as Japan's export industry benefits from broadening global growth, the Yen's uptrend is likely to accelerate. From JPY145 currently, we see USD/JPY at JPY138 end-2024, then JPY127 by end-2025. Note though, a USD/JPY return to near 2018 and 2019's JPY115 will require much weaker conditions in the US than we currently envisage.

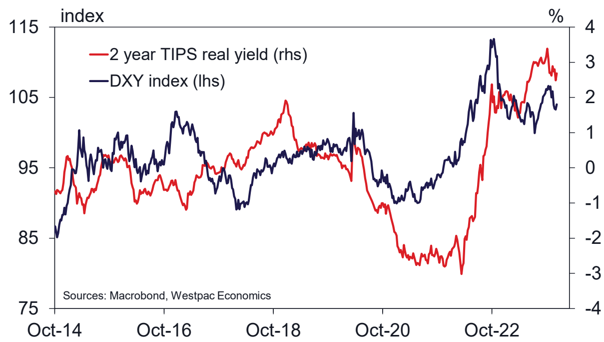
Elliot Clarke, CFA, CAIA, Senior Economist & **Illiana Jain, Economist**

... and will sustain through to 2025

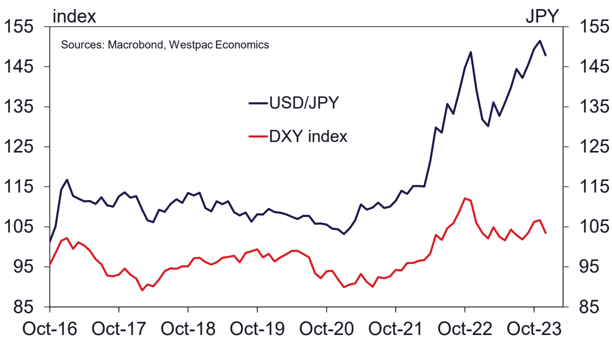
USD historically elevated on broad basis



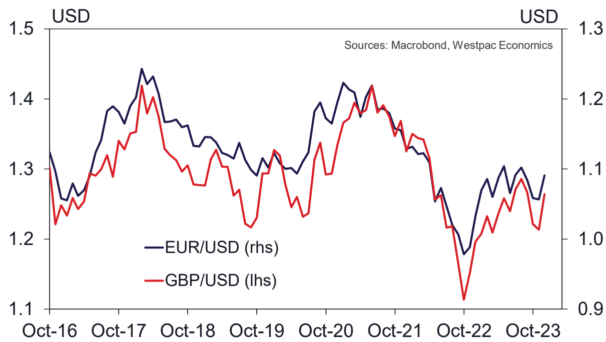
US real yields support for USD wavering



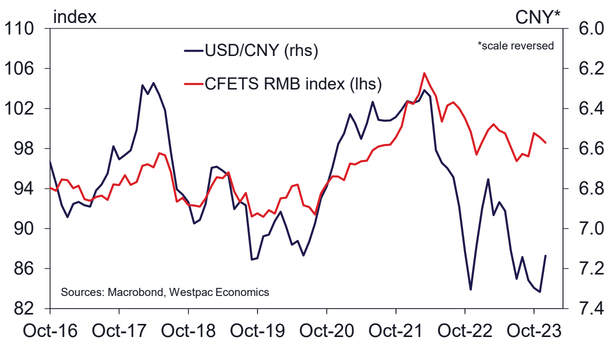
JPY weakness unlikely to fully reverse



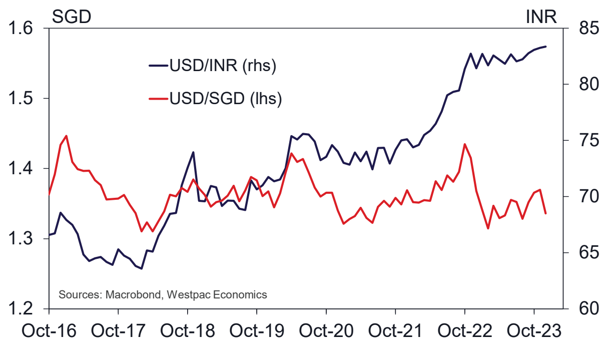
EUR negatives should fade in 2024



Renminbi 'weakness' USD-centric



Rest of Asia well positioned for growth



Now is not the time for rate cuts ...

The RBNZ held the OCR at 5.5% as expected ...

As widely expected, the RBNZ left the OCR at 5.5% at its final policy review for this year. Of much greater interest to markets was what the Bank had to say about the outlook for the OCR next year and beyond.

... but surprised with a hawkish outlook.

The updated projections in the accompanying Monetary Policy Statement (MPS) contained significant revisions from those published back in August. A key change is that the RBNZ's projections reflect a heightened risk that a further 25bp OCR hike will be required in 2024. The probability of a further 25bp hike in 2024 is now estimated at around 75% compared with 36% previously (the peak OCR increased to 5.69% from 5.59% previously). Thereafter, the RBNZ's projections imply a modest easing cycle from mid-2025 – much later than implied by current market pricing. The RBNZ's revised OCR track now closely resembles our own – albeit with the tightening coming around six months later.

Strong migration, sticky core inflation and the fiscal outlook all seen as concerning.

The key drivers of the more heightened perceptions of inflation risk stem from a reassessment of the medium-term impacts of very strong migration-driven population growth. In addition, the RBNZ has become more cautious on the pace to which they expect core inflation pressures to moderate. That reassessment is reflected in: a stronger housing market (and rental growth) profile; stronger near-term economic growth and lower unemployment forecasts; and a higher profile for government investment in the infrastructure required to support a growing population.

The balance of risks is seen as being to the upside.

The RBNZ notes an asymmetric (upside) risk profile around medium-term inflation. The RBNZ seems more focused on ensuring that inflation hits the middle of the target range in the next 18 months to 2 years. Hence, given still persistent core inflation, strong population growth and an upwardly revised long-run neutral OCR (increased a further 25bps to 2.5%) the clear message is that the balance of risks has shifted towards a need for further tightening. And certainly, there is reduced tolerance for upside surprises to inflation – which is also consistent with the new government's objectives when the new Monetary Policy Committee Remit (and new RBNZ Act) is promulgated.

Key message 1: no cuts in 2024.

The RBNZ has put the market on notice that policy easings are very unlikely for the foreseeable future. Easings are going to need to be motivated by a much weaker run of data on future core inflation pressures, and housing market trends. Our recent note on what it will take for rate cuts to become reality still seems very relevant.

Key message 2: The fiscal stance needs to significantly tighten.

A second message for the new Government is that the fiscal stance needs to be noticeably tighter than was embodied in the Pre-Election Economic and Fiscal Update (PREFU). The new Government's fiscal plans in the forthcoming Half-Year Economic and Fiscal Update (HYEFU) need to reflect a tight stance to avert the need for a higher OCR.

Data needs to confirm easing core inflation and demand pressures to keep the RBNZ comfortable.

The RBNZ is not yet at the point where an OCR rise is certain. Data will guide their thinking including: the Q3 GDP report on 14 December (RBNZ expects growth of 0.3% in Q3); migration data and all housing-related data (given the RBNZ's concern about the impact of migrant inflows on domestic demand); the HYEFU (which will need to show a more contractionary 'fiscal impulse' in 2024/25 than was provided in the PREFU under the previous Labour government's policies); the Q4 CPI report on 24 January and preceding monthly updates (where core inflation indicators such as non-tradables inflation will be key and will need to show a notable step-down in quarterly inflation rates compared to those seen in the last year); and the Q4 labour market surveys on 7 February (which while downplayed by the RBNZ will be important in gauging the durability of wage and unemployment rate trends).

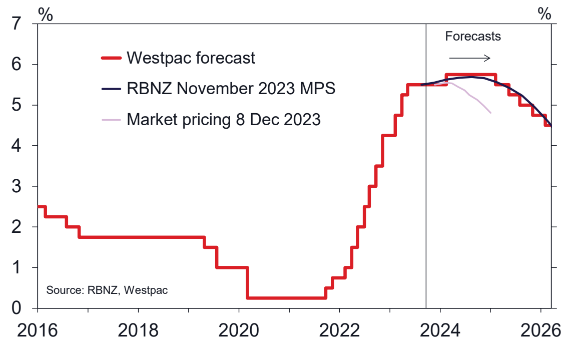
The RBNZ's new Remit and Act will reduce the chances of pre-emptive easing.

The new National-led coalition government confirmed it plans to quickly move ahead with changes to the RBNZ's Remit and Act to focus the RBNZ solely on inflation control. We do not see these adjustments changing the conduct of policy much in most circumstances. However, in the current context we think they will affect the RBNZ's assessment of the balance of risks for policy in the next year or so. The Government is sending the RBNZ a clear message that inflation needs to be its highest priority and there is no room to be taking chances that might cause inflation to remain well above 2% in mid-2025. Hence, we think the upshot is that we should expect the RBNZ to be unforgiving of any shocks that boost the growth and inflation outlooks over the next year. Also, the RBNZ will likely be less willing to pre-emptively ease, as markets seem to currently expect. A pre-emptive easing that turns out to be the wrong judgement would not be greeted warmly by the Minister under the new Remit.

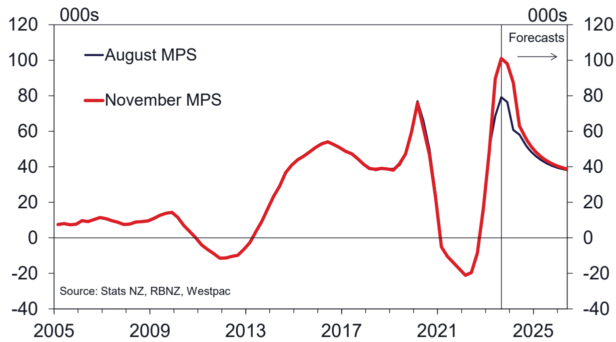
Kelly Eckhold, Chief Economist

... and hikes are very possible

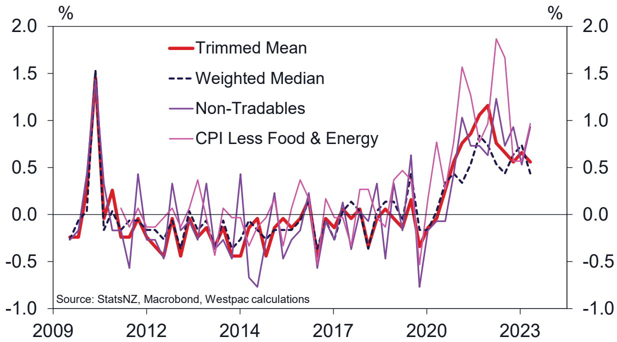
Official Cash Rate forecasts



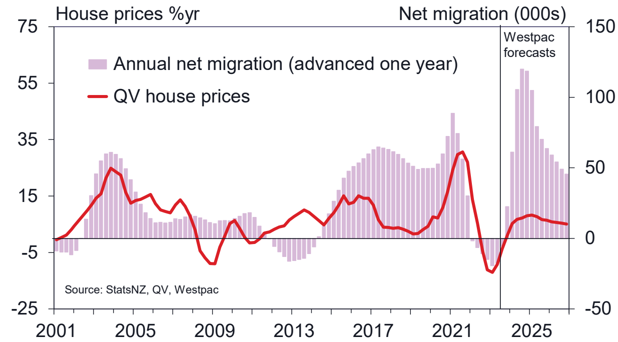
RBNZ working age net migration



Core inflation indicators vs 1995-2019 average



House price growth and migration



	2022	2023										
Monthly data	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
REINZ house sales %mth	–6.5	6.8	–2.3	12.3	7.4	3.7	4.2	–6.4	7.2	–2.3	–10.1	–
Residential building consents %mth	–7.7	–6.6	–7.1	6.2	–3.0	–2.7	2.8	–5.6	–6.9	–4.5	8.8	–
Electronic card transactions %mth	–1.4	3.6	–1.4	2.4	0.6	–1.9	1.3	–1.0	0.8	–0.2	–0.3	–
Private sector credit %yr	4.6	4.2	3.8	3.6	3.3	3.0	3.0	2.7	2.6	2.3	2.5	–
Commodity prices %mth	–0.2	–1.1	1.4f	1.3	–1.7	0.4	–1.7	–2.6	–2.9	1.4	2.8	–1.3
Trade balance $m	-1025	-1551	-1410	-1890	-1346	-959	-695	-1499	-831	-1107	-870	–

Quarterly data	**Q2:21**	**Q3:21**	**Q4:21**	**Q1:22**	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**
Westpac McDermott Miller Consumer Confidence	107.1	102.7	99.1	92.1	78.7	87.6	75.6	77.7	83.1	80.2
Quarterly Survey of Business Opinion	20	11	–1	–5	–3	4	–15	–10	–15	–17
Unemployment rate %	4.0	3.3	3.2	3.2	3.3	3.2	3.4	3.4	3.6	3.9
CPI %yr	3.3	4.9	5.9	6.9	7.3	7.2	7.2	6.7	6.0	5.6
Real GDP %yr	5.9	5.4	6.0	5.2	1.2	2.9	2.7	2.9	3.2	–
Current account balance % of GDP	–3.3	–4.6	–5.8	–6.6	–7.9	–8.3	–8.8	–8.2	–7.5	–

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

A new challenge awaits ...

Managing the restrictiveness of policy will prove critical in 2024.

As 2023 comes to a close, it is becoming clear that the FOMC's key risk for 2024 will be managing the restrictiveness of policy to suppress any lingering inflation risks without imposing undue hardship on the economy.

Without rate cuts ...

In their discussions at the November meeting, Committee participants judged "that the current stance of monetary policy was restrictive… putting downward pressure on economic activity and inflation" and that "financial conditions had tightened significantly in recent months". While both two and ten year yields have since fallen back from their October highs, they remain respectively 40bps and 60bps above the average yields seen over the first half of 2023.

... continued disinflation will see the real stance of policy tighten further.

With inflation decelerating at a rapid clip, the change in nominal yields understates the severity of the tightening the US economy is experiencing, particularly if assessed using actual inflation versus inflation expectations. Importantly, this trend has further to run, the disinflation expected to increase real yields by another 100bps over the coming year if nominal rates are not reduced.

Credit conditions are also being tightened for businesses and affordability is weak.

The change in credit conditions brought about by 2023's bank closures and associated regulatory reform are also yet to fully impact businesses and households. Apparent in the October edition of the Federal Reserve's Senior Loan Officer survey is that, in the three months to October, more than a third of respondent banks tightened lending standards for commercial and industrial loans to middle-market and large firms. Roughly half also reported increasing credit spreads. Households have not been materially affected by changes to bank lending standards or spreads, but the rise in base rates has already seen affordability for new borrowers fall to historic lows.

The combined effect of these developments on credit growth is becoming entrenched, with six-month annualised credit growth for large banks having recently fallen below zero from almost 13% in August 2022. The peak for smaller banks came at the end of 2022, but the deceleration since has been equally dramatic.

Household real incomes are also set to remain under pressure.

In thinking about the implications for activity growth, it is critical to recognise that credit growth's deceleration is occurring at a time when household income growth is also coming under pressure. Nominal wage growth is running at a similar pace to inflation, limiting the recovery in real wage rates. Hours worked are down over the year, while business indicators are pointing to a stalling out of job creation, or possibly a period of retrenchment.

It is for these reasons we remain of the view that the US economy is entering a lengthy period of below-trend growth that will carry through to end-2025. Central to stopping the economy from stalling or falling into recession is, in our view, continued success with inflation and active policy easing by the FOMC from March 2024.

Like Westpac, the market sees need for active policy support from the FOMC ...

Ahead of the December meeting, this is a view the market is increasingly drawn to. Indeed, against our 100bps of rate cuts through each of 2024 and 2025, the market has now priced a circa 60% chance of another two cuts in 2024 (i.e. a cumulative rate decline of 128bps).

... to minimise the risk of recession ...

It is still best to only consider recession as a risk. Both the market's view and our own would leave the fed funds rate above the FOMC's 'longer run' neutral estimate, and this is with the consensus and FOMC forecasts for inflation in 2025 both being close to 2.0%yr. Structural strength is also apparent in US household finances, with household debt low and investments continuing to be made in financial assets. Also, while cyclical momentum has been lost, the labour market is still historically strong, with the unemployment rate just 0.3ppts off its record low and underutilisation similarly placed.

... and persistent stagnation.

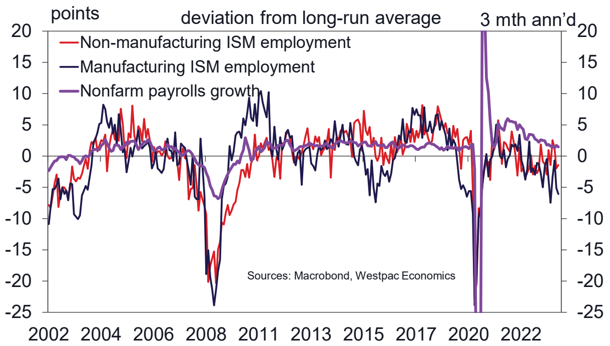
The more probable downside risk for the US economy is a prolonged period of low growth that embeds weak private-sector investment in the economy. The CHIPS Act and IRA are incentivising rapid investment in certain areas of the economy, but gains are not broad-based. Further, whether the US economy has the power generation capacity to fuel rapid growth in high-tech production and the logistics to source resources and other necessary inputs is also open to debate.

Moreover, with the federal deficit running at 6% of GDP even with historically-low unemployment; above-average nominal wage growth; and interest costs yet to reset, there is a real risk of the financial needs of the US Government restricting access to medium and long-term funding for the private sector through an increase in the market's term premium, particularly as key historic owners of Treasuries, including China and the Federal Reserve, reduce their holdings. Again, this is not an immediate cyclical risk for growth and wealth, but rather a potential medium to long-term structural headwind.

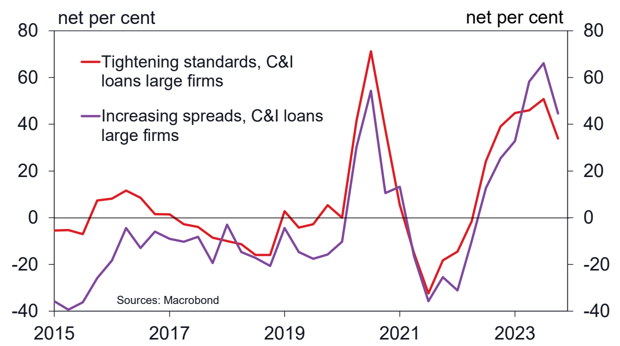
Elliot Clarke, CFA, CAIA, Senior Economist

… the FOMC in 2024

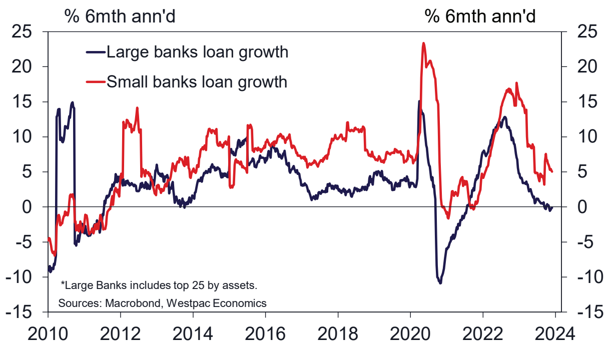
Surveys point to downside risks for jobs



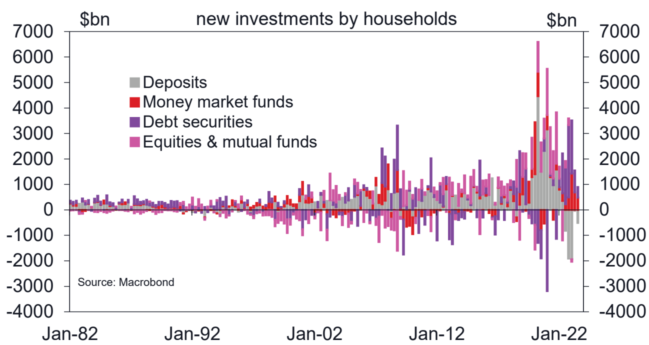
Credit standards being tightened



Credit growth to remain weak



US HH's investing as savings run down



	2023											
Monthly data	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
PCE deflator %yr	5.5	5.2	4.4	4.4	4.0	3.2	3.4	3.4	3.4	3.0	–	–
Unemployment rate %	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.9	3.7	–
Non-farm payrolls chg '000	472	248	217	217	281	105	236	165	262	150	199	–
House prices* %yr	2.8	0.6	-1.0	f1.7	-1.8	-1.2	0.1	2.2	3.9	–	–	–
Durables orders core 3mth %saar	1.4	5.3	0.3	-0.2	2.2	2.9	-1.7	0.4	1.4	1.8	–	–
ISM manufacturing composite	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0	46.7	46.7	–
ISM non-manufacturing composite	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6	51.8	52.7	–
Personal spending 3mth %saar	7.2	9.3	7.8	3.0	2.5	4.5	5.7	6.3	7.5	5.3	–	–
UoM Consumer Sentiment	64.9	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	61.3	69.4
Trade balance USDbn	-70.8	-70.6	f-60.4	-72.9	-66.9	-64.0	-65.0	-58.6	-61.2	-64.3	–	–

Quarterly data	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23f**
Real GDP % saar	2.7	2.6	2.2	2.1	5.2	1.3
Current account USDbn	-222.8	-216.2	-214.5	-212.1	–	–

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

Opportunity awaits in 2024 ...

Market remains pessimistic on China's outlook ...

The market remains pessimistic on China's outlook after an almost 20% cumulative contraction in property investment through 2022 and 2023 and with exports to the West under significant pressure. While conscious of the risks to activity and sentiment, we instead remain optimistic, forecasting growth of 5.3% in 2024. Putting the above outcomes into context helps explain why.

.... despite rapid growth in its capacity and productivity.

In stark contrast to property investment, China's productive capacity is being invested in at a rapid rate to take advantage of multi-decade global mega trends such as the green transition and the next wave of economic development across Asia. At October 2023, utilities investment was up 25% year-to-date while capacity in key high-tech manufacturing sectors expanded between 13%ytd and 37%ytd. Further aiding connectivity and productivity, infrastructure ex utilities is compounding at a 6%ytd pace.

This investment is occurring to allow margins to be sustained or increased while prices are cut and production is grown rapidly. The sharp decline in Chinese export prices therefore has at least as much to do with gains in productivity and efficiency as softer global demand.

Asian growth is boosting Chinese exports, offsetting soft Western demand.

This is important because, by lowering the price of goods and expanding production, Chinese firms are opening up new markets, particularly across the developing world. Highlighting this, over the year to October 2023, China's trade surplus with Asia was almost as large as its surplus with the US and larger than its surplus with the EU. Given developing Asia has the capacity to sustainably grow at a multiple of US and European growth, and with most countries in the region open to expansive trade and investment, income gains for China should be robust and enduring.

The key downside risk for China is not investment or trade but consumption. The NBS PMI employment series make this clear. A slow re-opening from COVID-19, paired with the wealth and sentiment effects of regulatory reform in housing and tech has left services employment weak. Absent a quick turn, the growth trajectory of other sectors will be put at risk.

For China, consumption is the prime risk

It has been pleasing to see the PMI employment series stabilise in recent months and households become less cautious. Announced and mooted support for housing should further aid this trend into 2024. However, we expect it will be difficult for China to fully win back market confidence.

Indeed, with 2024 being a US Presidential election year, it is difficult to see global markets becoming outright positive on China in 2024 or even 2025. The extent to which unease sustains will depend on the approach to trade and technology policies taken by the next US administration.

Western trade policy is likely to encourage China to continue looking to Asia.

China will fare better if the actions taken to restrict its economic and technological power are bilateral. That would mean China would be freer not only to develop closer ties with Asia and the developing world but also with the likes of Europe and Australia. But, if Europe, Japan and South Korea join the US in their policy actions, China will face a much greater challenge to fostering the necessary investment and technological progress to achieve its aims.

Additional restrictions could put the West's green transition and at-target CPI at risk.

In closing, it is also worth noting that constraining China's industry and economic development risks the developed-world's access to low-cost technology necessary for the green transition – from wind turbines to solar panels to EVs. More broadly, this course of action would likely see higher rates of inflation in the West as the global supply chain fragments and producers compete for resources. Note though, these circumstances would not necessarily preclude Asia's development from still fuelling robust growth in China.

Elliot Clarke, CFA, CAIA, Senior Economist

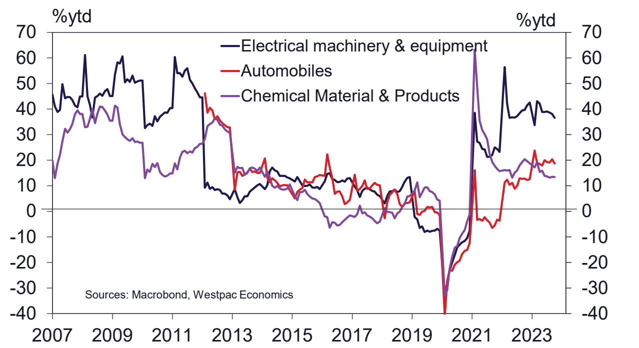
	2022	2023										
Monthly data %yr	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**
Consumer prices – headline	1.80	2.10	1.00	0.70	0.10	0.20	0.00	–0.30	0.10	0.00	–0.20	–0.50
Money supply M2	11.8	12.6	12.9	12.7	12.4	11.6	11.3	10.7	10.6	10.3	10.3	–
Manufacturing PMI (official)	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4
Fixed asset investment %ytd	5.1	5.1	5.5	5.1	4.7	4.0	3.8	3.4	3.2	3.1	2.9	–
Industrial production (IVA)	1.3	1.3	2.4	3.9	5.6	3.5	4.4	3.7	4.5	4.5	4.6	–
Exports	–12.6	–11.9	–2.7	11.1	7.6	–7.3	–12.2	–14.1	–8.4	–6.1	–6.4	0.5
Imports	–7.5	–20.9	4.5	–1.8	–8.6	–5.0	–6.8	–12.1	–7.2	–6.2	3.0	–0.6
Trade balance USDbn	69.0	92.0	12.0	77.5	86.1	65.4	69.5	79.8	67.8	77.6	56.5	68.4

Quarterly data	**Q2:22**	**Q3:22**	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**
Real GDP %yr	0.4	3.9	2.9	4.5	6.3	4.9
Nominal GDP %yr	3.9	6.2	2.9	5.0	4.8	3.5

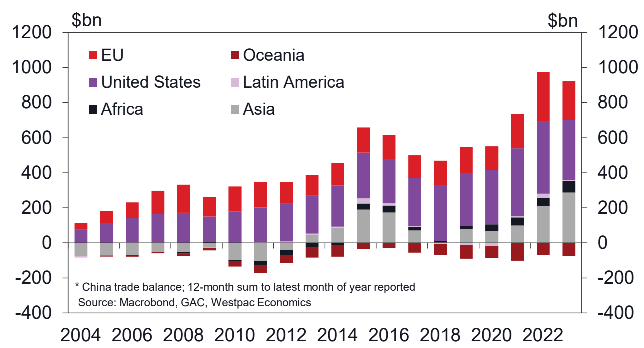
Sources: Government agencies, Bloomberg, Macrobond, Westpac Economics. Some data omitted from certain series due to Lunar New Year distortions. *4qma

... but politics a risk

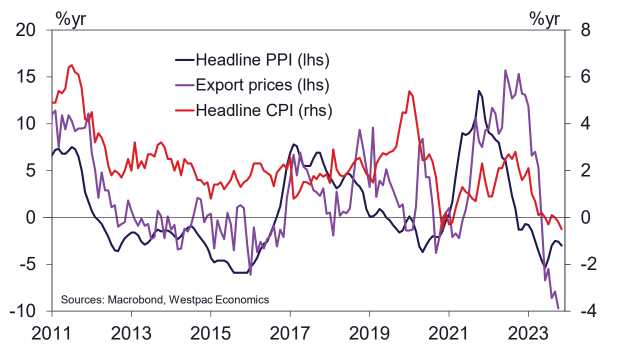
High-tech manufacturing gearing into...



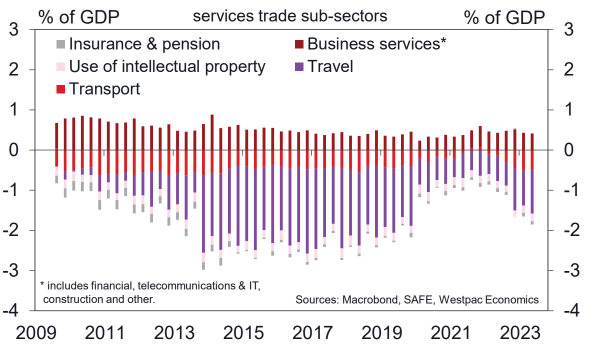
... Asian economic development



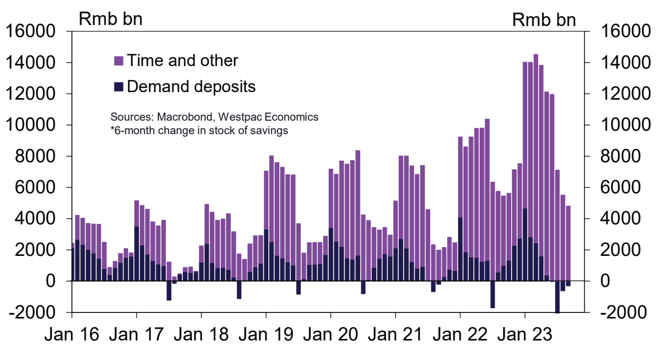
Productivity & capacity weighing on prices



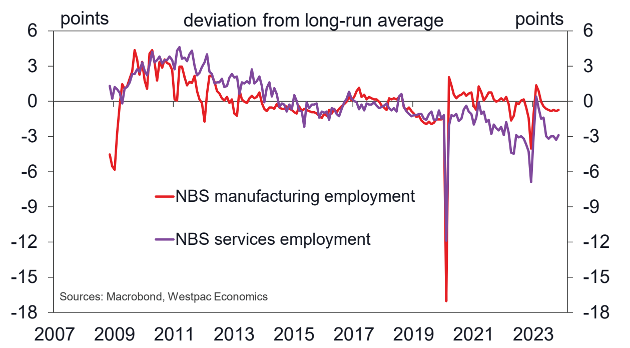
Business income potential offset for travel



Household savings points to less risk aversion



Employment income to drive consumption



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's promise shines bright ...

Asia ex-China is on a strong footing ...

Asian economies recovered through 2023 but are still some way from returning to their pre-pandemic growth trend. An array of factors has influenced conditions during 2023 and will again in 2024, most notably: inflation, monetary policy dynamics, and each country's place in the global production chain.

... poised to benefit from global disinflation and rate cuts ...

Asian core inflation has decelerated throughout 2023 after peaking in late-2022, most notably in India, Indonesia, and Thailand. Japanese core inflation has proven more stubborn, having held around 3% since February, yet weak household consumption precludes a re-acceleration.

Cooling inflation, coupled with the conclusion of the FOMC's tightening cycle, has allowed Asian central banks to refrain from aggressive monetary action during 2023. Comparatively low interest rates may be supportive for domestic credit demand but are less attractive for foreign capital.

... and renewed capital flows.

Most Asian currencies consequently depreciated against the dollar during 2023, the exceptions being the Indonesian rupiah and Philippine peso which, at end-2022, were already historically-weak. Movements in real effective exchange rates (REER's) have varied. India, Indonesia, the Philippines and South Korea all saw an increase in their REERs while Japan and Thailand experienced a fall. A higher REER limits concerns of imported inflation, which is a risk driving policy decisions across the region. As global inflation risks subside and developed-world policy normalisation begins, risks of further currency depreciation will subside and capital flows should improve.

Developed-world demand has affected exports, but the case for investment is strong.

Contractionary monetary policy has reined in demand for consumer goods across Europe, the UK and the US, resulting in developed markets taking a declining share of total exports from key Asian manufacturers such as Japan, South Korea, Thailand and Indonesia. Producers' expectations for new orders have also remained pessimistic since the second quarter of the year in Japan, South Korea and Taiwan. Still there is considerable justification for strong investment in productive capacity across the region.

Asia has considerable comparative advantage for the green transition ...

Car manufacturing has been a particularly bright spot among Asian manufacturers since late 2021. This trend is likely just getting started given the projected growth in demand for electric vehicles (EVs) to 2030 and beyond. In addition to China, South Korea, Thailand and Indonesia will all play key roles in the global EV production chain. Many critical minerals required for EV production are also mined in Asia, particularly Indonesia. The full supply chain can therefore be situated in the region, creating a competitive advantage over developed economies such as the US which only have part of the production chain within their borders. As noted on p18, US policies aimed at restricting China in these areas are likely to increasingly benefit Asia ex-China, with production for the US being increasingly located in the region.

... and Chinese tourism is likely to be a boon for the rest of Asia.

On services, Chinese households are slowly but surely returning to international tourism as confidence firms. Q2 2023 saw 864,642 people travel outside China compared to 177,495 in Q1 2023 but 12.1mn in Q2 2019. Asia tends to be a popular destination for Chinese tourists, with Asia (excluding Hong Kong, Macau and Taiwan) being the destination of choice for 73% of tourists. With the vast majority of Chinese travellers yet to recommence trips post pandemic, Asia's tourism markets are likely to see a major resurgence in 2024 and 2025 despite poor developed-world demand.

Prospects for domestic demand are disparate across the region.

Asian domestic demand meanwhile is set to not only rely on income from trade and capital flows but also the underlying economic development of each nation. India and Indonesia are likely to lead, having both benefited from strong investment in recent years and with demographics, logistics, and production costs all supportive. On the other hand, investment in the Philippines and Thailand is likely to remain reactive given a higher reliance on discretionary trade and with political uncertainty lingering.

For South Korea and Japan, the primary issue for domestic demand is weak real disposable income. Monetary and fiscal policy both have a role to play here, to increase capacity and efficiency while inflation is brought fully under control – each of these three factors can contribute meaningfully to disposable income and wealth, and consequently spending.

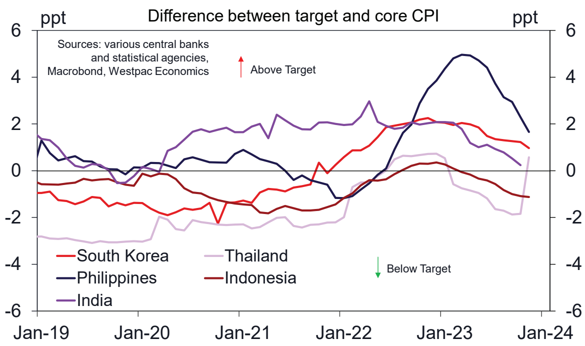
For Australia, the region holds lasting promise.

For Australia, the evolving Asian economic landscape should aid goods disinflation in the near and medium-term, especially for durable goods like vehicles. Additionally, there will be growing demand for Australian resources and investment given the expansion in productive capacity set to occur in Asia. As the region's economic development continues, Australia will have an opportunity to diversify markets beyond China and to also grow industries outside of mining and core services such as education. Asia's promise is therefore not just a theme for 2024 but for decades to come.

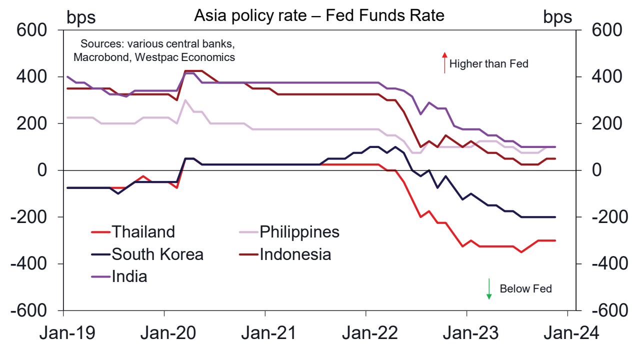
Illiana Jain, Economist

... for 2024 and decades beyond

Inflation returning to target across Asia

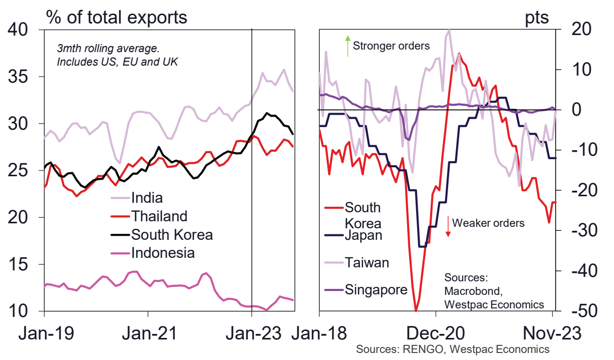


Policy rates lower than US

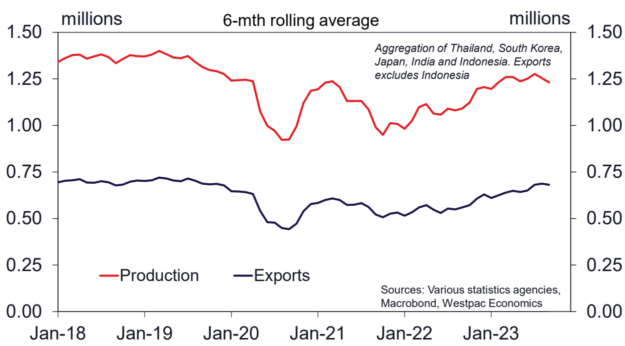


REER is holding up, limiting imported inflation

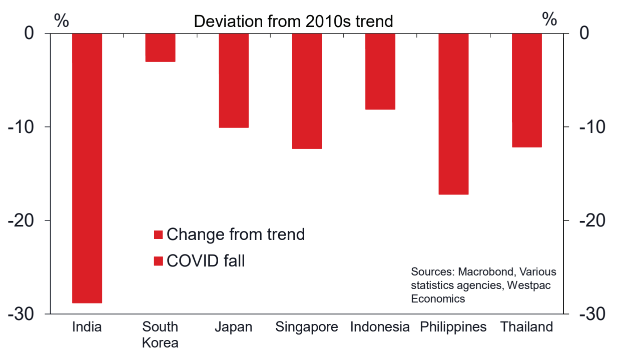
Developed market demand soft



Car production uptrend intact



Growth is still recovering post pandemic



FINANCIAL FORECASTS

Australia

Interest rate forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	4.35	4.35	4.35	4.10	3.85	3.60	3.35	3.10	3.10
90 Day BBSW	4.36	4.55	4.47	4.22	3.97	3.72	3.47	3.30	3.30
3 Year Swap	4.11	4.15	4.10	4.05	4.00	3.90	3.70	3.60	3.50
3 Year Bond	3.93	3.95	3.90	3.85	3.80	3.70	3.50	3.40	3.30
10 Year Bond	4.29	4.35	4.30	4.20	4.15	4.10	4.05	4.00	4.00
10 Year Spread to US (bps)	9	10	10	5	5	5	0	0	0

Currency forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
AUD vs									
USD	0.6567	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73
JPY	95.47	97	98	97	97	96	95	94	93
EUR	0.6082	0.61	0.61	0.61	0.61	0.62	0.62	0.62	0.62
NZD	1.0699	1.08	1.11	1.11	1.11	1.13	1.14	1.14	1.15
CAD	0.8922	0.90	0.90	0.90	0.90	0.90	0.91	0.90	0.91
GBP	0.5225	0.53	0.54	0.54	0.54	0.55	0.55	0.55	0.56
CHF	0.5747	0.59	0.59	0.60	0.60	0.61	0.61	0.61	0.62
DKK	4.5352	4.58	4.57	4.55	4.58	4.60	4.63	4.59	4.65
SEK	6.8469	6.92	6.90	6.88	6.91	6.95	6.99	6.93	7.02
NOK	7.1938	7.27	7.25	7.22	7.26	7.30	7.34	7.28	7.38
ZAR	12.46	12.6	12.7	12.8	12.9	12.9	13.0	13.0	13.1
SGD	0.8805	0.90	0.90	0.91	0.91	0.92	0.94	0.94	0.95
HKD	5.1286	5.23	5.30	5.38	5.45	5.51	5.58	5.58	5.66
PHP	36.67	36.9	37.1	37.3	37.5	37.6	37.8	37.4	37.6
THB	23.43	23.5	23.5	23.5	23.5	23.4	23.4	23.0	23.0
MYR	3.0763	3.05	3.03	3.04	3.05	3.05	3.06	3.02	3.03
CNY	4.7057	4.76	4.69	4.69	4.69	4.69	4.68	4.61	4.60
IDR	10258	10251	10200	10212	10220	10295	10368	10296	10293
TWD	20.65	20.8	20.7	20.8	20.9	21.0	21.1	20.9	21.0
KRW	862	864	870	869	875	880	886	878	883
INR	54.97	54.3	53.7	53.1	52.5	52.9	53.3	52.9	53.3

Australia

Activity forecasts*

	2023			2024				Calendar years			
%qtr / yr avg	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	0.1	0.0	0.1	0.1	0.1	0.4	0.4	6.6	1.2	0.6	2.1
Dwelling investment	0.5	0.2	–1.9	–1.9	–1.7	–1.0	–0.1	–4.0	–1.8	–4.8	2.0
Business investment*	2.5	0.6	0.3	–0.1	–0.3	–0.1	0.5	5.4	8.8	0.9	3.2
Private demand *	0.6	0.2	0.1	0.0	0.0	0.3	0.5	5.1	1.9	0.5	2.5
Public demand *	1.5	1.4	0.5	0.5	0.5	0.5	0.5	5.1	3.1	2.6	2.0
Domestic demand	0.9	0.5	0.2	0.1	0.1	0.3	0.5	5.1	2.2	1.1	2.3
Stock contribution	–1.2	0.4	–0.1	0.0	0.1	0.2	0.1	0.5	–0.8	–0.1	0.3
GNE	–0.4	0.9	0.0	0.1	0.2	0.5	0.6	5.6	1.4	1.0	2.6
Exports	4.5	–0.7	1.5	1.1	0.9	0.9	1.0	2.5	7.1	4.4	4.0
Imports	1.8	2.1	1.2	0.3	0.3	1.4	1.8	12.8	4.5	4.1	6.4
Net exports contribution	0.8	–0.6	0.1	0.2	0.2	–0.1	–0.1	–1.8	0.9	0.3	–0.3
Real GDP %qtr / yr avg	**0.4**	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.5**	3.8	2.0	1.3	2.2
%yr end	**2.0**	**2.1**	**1.4**	**1.2**	**1.0**	**1.3**	**1.6**	**2.3**	**1.4**	**1.6**	**2.5**
Nominal GDP %qtr	–0.7	1.2	1.7	0.8	0.4	0.5	0.6				
%yr end	3.9	4.5	4.5	3.0	4.2	3.5	2.5	12.0	4.5	2.5	4.8

Other macroeconomic variables

	2023			2024				Calendar years			
% change	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Employment (2)	0.8	0.6	0.7	0.3	0.0	0.0	0.3	–	–	–	–
%yr	3.2	2.9	2.9	2.5	1.7	1.1	0.6	5.2	2.9	0.6	1.7
Unemployment rate % (2)	3.6	3.7	3.7	3.9	4.2	4.4	4.5	3.5	3.7	4.5	4.6
Wages (WPI) (2)	0.9	1.3	0.9	0.9	0.8	0.8	0.7	–	–	–	–
%yr	3.6	4.0	4.1	4.1	4.0	3.5	3.2	3.3	4.1	3.2	3.0
CPI Headline (2)	0.8	1.2	0.8	0.7	0.8	1.0	0.7	–	–	–	–
%yr	6.0	5.4	4.3	3.5	3.5	3.3	3.2	7.8	4.3	3.2	2.8
Core inflation trimmed mean	1.0	1.2	0.9	0.9	0.8	0.8	0.7	–	–	–	–
%yr (2)	5.9	5.2	4.4	4.0	3.8	3.4	3.2	6.8	4.4	3.2	2.8
Current account AUDbn	7.7	–0.2	3.0	3.0	1.0	–4.0	–7.0	26.4	23.0	–7.0	–45.0
% of GDP	1.2	0.0	0.4	0.4	0.2	–0.6	–1.0	1.1	0.9	–0.3	–1.6
Terms of trade annual chg (1)	–11.7	–8.7	–3.2	–8.0	–3.9	–4.0	–9.3	7.2	–5.7	–6.3	–4.8

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

	2023										
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Employment '000 chg	59	70	–10	75	26	–1	70	8	55	–	–
Unemployment rate %	3.5	3.5	3.7	3.6	3.5	3.7	3.7	3.6	3.7	–	–
Westpac–MI Consumer Sentiment	78.5	78.5	85.8	79.0	79.2	81.3	81.0	79.7	82.0	79.9	82.1
Retail trade %mth	0.0	0.3	–0.1	0.9	–0.8	0.6	0.2	0.9	–0.2	–	–
Dwelling approvals %mth	8.1	0.3	–6.3	22.0	–8.8	–7.5	7.7	–4.0	7.5	–	–
Credit, private sector %yr	7.2	6.8	6.6	6.2	5.6	5.3	5.2	5.0	4.8	–	–
Trade in goods balance AUDbn	14.2	14.7	9.9	10.4	9.8	7.8	9.9	6.2	7.1	–	–

FORECASTS

New Zealand

Interest rate forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash	5.50	5.75	5.75	5.75	5.75	5.50	5.25	5.00	4.75
90 Day Bill	5.63	5.85	5.85	5.85	5.75	5.50	5.20	5.00	4.75
2 Year Swap	5.17	5.37	5.20	4.99	4.78	4.71	4.45	4.36	4.24
10 Year Bond	4.85	4.95	4.90	4.85	4.75	4.65	4.55	4.50	4.40
10 Year Spread to US	65	70	70	70	65	60	50	50	40
10 Year Spread to Aust	56	60	60	65	60	55	50	50	40

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
NZD vs									
USD	0.6138	0.62	0.62	0.62	0.63	0.63	0.63	0.63	0.64
JPY	89.23	90	89	87	87	85	83	82	81
EUR	0.5684	0.57	0.55	0.55	0.55	0.55	0.54	0.54	0.54
AUD	0.9347	0.93	0.90	0.90	0.90	0.88	0.87	0.88	0.87
CAD	0.8339	0.83	0.81	0.81	0.81	0.80	0.79	0.79	0.79
GBP	0.4884	0.49	0.48	0.48	0.49	0.48	0.48	0.48	0.48
CNY	4.4053	4.40	4.24	4.22	4.22	4.14	4.09	4.05	4.00

Sources: Bloomberg, Westpac Economics.

Activity forecasts*

	2023			2024				Calendar years			
% change	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	0.4	-0.2	0.6	0.5	0.9	0.8	0.7	3.2	1.8	2.1	2.8
Government consumption	2.0	-1.7	-0.2	-0.3	-0.4	-0.7	-0.5	4.6	-1.4	-1.7	-0.5
Residential investment	-0.8	-0.2	-2.0	-2.5	-3.0	-2.5	-1.0	1.1	-3.1	-7.9	0.1
Business investment	2.5	-1.4	-1.2	-1.4	-1.2	-0.8	-0.3	5.5	4.3	-3.7	0.6
Stocks (ppt contribution)	-1.3	2.9	-0.4	0.1	0.4	-0.1	0.0	-0.3	-0.7	1.2	-0.4
GNE	-0.8	2.0	-0.4	-0.1	0.4	0.0	0.2	3.4	0.2	0.8	1.3
Exports	5.0	-1.3	3.6	3.1	0.8	1.7	0.8	-0.2	9.8	7.9	3.3
Imports	-2.0	1.0	1.1	1.4	1.4	0.3	0.4	4.7	1.5	3.8	2.7
GDP (production)	**0.9**	**-0.1**	**0.1**	**0.2**	**0.2**	**0.3**	**0.3**	**2.7**	**1.2**	**0.9**	1.3
Employment annual %	4.1	2.4	2.0	1.0	0.1	0.3	0.2	1.7	2.0	0.2	0.7
Unemployment rate % s.a.	3.6	3.9	4.3	4.5	4.8	5.0	5.2	3.4	4.3	5.2	5.3
Labour cost index, all sect incl o/t, ann %	4.3	4.3	4.2	4.0	3.8	3.5	3.4	4.1	4.2	3.4	2.6
CPI annual %	**6.0**	**5.6**	**4.8**	**4.4**	**4.1**	**3.3**	**3.3**	**7.2**	**4.8**	**3.3**	**2.5**
Current account balance % of GDP	-7.5	-7.7	-7.3	-6.8	-6.8	-6.3	-5.6	-8.8	-7.3	-5.6	-4.3
Terms of trade annual %	-3.6	-4.5	-7.5	-3.4	-1.8	5.5	9.5	-4.2	-7.5	9.5	5.8

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (13 Dec)***	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Australian commodities index#	328	314	299	291	285	**285**	**285**	**287**	**289**	**292**
Bulk commodities index#	**525**	**502**	**461**	**421**	**394**	**385**	**376**	**373**	**371**	**378**
iron ore finesTSI @ 62% US$/t	137	120	109	99	88	87	88	89	90	90
Premium low vol met coal (US$/t)	335	320	305	293	281	269	257	251	245	244
Newcastle spot thermal coal (US$/t)	156	140	127	120	118	117	116	115	114	115
crude oil (US$/bbl) Brent ICE	75	77	80	82	85	87	90	92	95	97
LNG in Japan US$mmbtu	13.38	13.4	12.6	13.2	13.5	13.9	14.1	14.5	14.7	15.0
gold (US$/oz)	2,010	2,050	2,075	2,100	2,100	2,080	2,050	2,070	2,080	2,100
Base metals index#	**183**	**183**	**183**	**186**	**192**	**196**	**202**	**206**	**212**	**216**
copper (US$/t)	8,323	8,350	8,400	8,500	8,800	9,000	9,300	9,500	9,900	10,100
aluminium (US$/t)	2,103	2,100	2,050	2,100	2,160	2,200	2,250	2,290	2,350	2,380
nickel (US$/t)	16,472	16,300	16,400	16,750	17,200	17,500	17,900	18,200	18,600	18,800
zinc (US$/t)	2,408	2,410	2,420	2,450	2,510	2,550	2,600	2,640	2,700	2,730
lead (US$/t)	2,016	2,020	2,050	2,075	2,140	2,180	2,250	2,290	2,350	2,400
Rural commodities index#	**134**	**128**	**131**	**135**	**140**	**144**	**149**	**153**	**158**	**161**
NZ commodities index ##	**323**	**336**	**344**	**349**	**351**	**352**	**353**	**355**	**357**	**360**
dairy price index ^^	276	300	314	322	322	322	322	323	326	328
whole milk powder US$/t	3,104	3,305	3,500	3,500	3,500	3,500	3,500	3,526	3,553	3,580
skim milk powder US$/t	2,671	2,840	3,000	3,000	3,000	3,000	3,000	3,020	3,050	3,070
lamb leg UKp/lb	400	411	419	428	436	444	452	461	469	477
bull beef US¢/lb	245	245	245	245	245	245	245	245	245	245
log price index ##	160	160	160	161	161	162	163	164	164	165

	levels				% change			
Annual averages	**2022**	**2023(e)**	**2024(f)**	**2025(f)**	**2022**	**2023(e)**	**2024(f)**	**2025(f)**
Australian commodities index#	**379**	**322**	**300**	**286**	**23.6**	**-15.1**	**-6.6**	**-4.8**
Bulk commodities index#	**557**	**499**	**460**	**382**	**9.2**	**-10.4**	**-7.7**	**-17.1**
iron ore fines @ 62% USD/t	120	120	108	89	-24.4	-0.5	-9.9	-17.7
LNG in Japan $mmbtu	18.2	15.3	13.2	14.2	77.3	-16.3	-13.7	8.0
ave coking coal price (US$/t)	240	219	258	222	67.2	-8.4	17.6	-13.8
ave thermal price (US$/t)	282	216	145	128	184.4	-23.6	-32.7	-12.1
iron ore fines contracts (US¢ dltu)	174	160	156	131	-27.0	-8.3	-2.3	-15.9
Premium low vol met coal (US$/t)	372	292	304	257	81.2	-21.5	4.3	-15.4
crude oil (US$/bbl) Brent ICE	97	82	80	90	38.4	-16.1	-1.8	12.6
gold (US$/oz)	1,809	1,959	2,074	2,071	0.5	8.3	5.9	-0.2
Base metals index#	**230**	**201**	**186**	**202**	**8.0**	**-12.6**	**-7.6**	**9.0**
copper (US$/t)	8,827	8,500	8,500	9,400	-5.1	-3.7	0.0	10.6
aluminium (US$/t)	2,711	2,264	2,100	2,300	9.5	-16.5	-7.2	9.5
nickel (US$/t)	26,228	21,598	16,600	17,900	42.1	-17.7	-23.1	7.8
zinc (US$/t)	3,471	2,644	2,400	2,600	15.4	-23.8	-9.2	8.3
lead (US$/t)	2,154	2,128	2,100	2,300	-1.6	-1.2	-1.3	9.5
Rural commodities index#	**171**	**141**	**133**	**149**	**14.0**	**-17.9**	**-5.5**	**12.0**
NZ commodities index ##	**376**	**330**	**345**	**354**	**4.7**	**-12.4**	**4.6**	**2.7**
dairy price index ##	353	286	315	323	9.5	-18.8	9.8	2.7
whole milk powder US$/t	3,889	3,077	3,400	3,500	1.2	-20.9	10.5	2.9
skim milk powder US$/t	3,819	2,642	2,900	3,000	14.6	-30.8	9.8	3.4
lamb leg UKp/lb	624	385	421	454	4.3	-38.3	9.2	7.8
bull beef US¢/lb	280	249	245	245	0.5	-11.0	-1.9	0.0
log price index ##	171	159	160	163	-4.3	-7.0	0.7	1.7

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

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.

United States

Interest rate forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Fed Funds*	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	3.375
10 Year Bond	4.20	4.25	4.20	4.15	4.10	4.05	4.05	4.00	4.00

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

Currency forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USD vs									
DXY index	103.87	103.1	101.5	99.8	98.6	97.6	96.6	95.7	95.4
JPY	145.37	145	144	141	138	135	132	130	127
EUR	1.0798	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
AUD	0.6567	0.67	0.68	0.69	0.70	0.71	0.72	0.72	0.73
NZD	0.6138	0.62	0.62	0.62	0.63	0.63	0.63	0.63	0.64
CAD	1.3587	1.34	1.32	1.30	1.28	1.27	1.26	1.25	1.25
GBP	1.2569	1.26	1.27	1.28	1.29	1.30	1.30	1.31	1.31
CHF	0.8751	0.88	0.87	0.87	0.86	0.86	0.85	0.85	0.85
ZAR	18.95	18.8	18.6	18.5	18.4	18.2	18.1	18.1	18.0
SGD	1.3408	1.34	1.33	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8094	7.80	7.80	7.79	7.78	7.76	7.75	7.75	7.75
PHP	55.59	55.0	54.5	54.0	53.5	53.0	52.5	52.0	51.5
THB	35.68	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.6838	4.55	4.45	4.40	4.35	4.30	4.25	4.20	4.15
CNY	7.1772	7.10	6.90	6.80	6.70	6.60	6.50	6.40	6.30
IDR	15621	15300	15000	14800	14600	14500	14400	14300	14100
TWD	31.47	31.0	30.5	30.2	29.9	29.6	29.3	29.0	28.8
KRW	1312	1290	1280	1260	1250	1240	1230	1220	1210
INR	83.39	81.0	79.0	77.0	75.0	74.5	74.0	73.5	73.0

Activity forecasts*

	2023			2024				Calendar years			
% annualised, s/adj	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2022**	**2023f**	**2024f**	**2025f**
Private consumption	0.8	3.6	1.6	0.9	0.7	1.0	1.2	2.5	2.2	1.3	1.2
Dwelling investment	-2.2	6.2	0.0	0.0	0.0	2.8	4.1	-9.0	-10.8	1.2	1.1
Business investment	7.4	1.3	2.7	2.2	3.6	4.1	4.1	5.4	4.1	3.1	3.5
Public demand	3.3	5.5	2.4	2.4	2.0	1.6	1.6	-0.9	3.9	2.6	2.1
Domestic final demand	2.0	3.7	1.8	1.3	1.3	1.6	1.8	1.9	2.2	1.8	1.6
Inventories contribution ppt	-0.2	1.2	-0.2	-0.9	-0.4	0.0	0.0	0.5	-0.4	-0.2	-0.1
Net exports contribution ppt	0.1	-0.1	-0.3	-0.3	-0.4	-0.4	-0.3	-0.5	0.5	-0.3	-0.3
GDP	2.1	5.2	1.3	0.2	0.5	1.2	1.6	1.9	2.4	1.4	1.3
%yr annual chg	2.4	3.0	2.7	2.2	1.8	0.8	0.9				

Other macroeconomic variables

Non-farm payrolls mth avg	222	199	165	80	60	50	50	427	227	60	88
Unemployment rate %	3.6	3.7	3.8	4.0	4.2	4.4	4.5	3.6	3.8	4.5	4.6
CPI headline %yr	3.0	2.9	2.5	2.3	2.2	2.1	2.0	6.4	2.7	2.2	2.5
PCE deflator, core %yr	3.8	3.1	2.5	2.4	2.3	2.3	2.2	3.6	2.4	2.2	2.5
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

Europe & the United Kingdom

Interest rate forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro area									
ECB Deposit rate	4.00	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
10 Year Bund	2.23	2.40	2.45	2.45	2.45	2.45	2.45	2.45	2.45
10 Year Spread to US	-197	-185	-175	-170	-165	-160	-160	-155	-155
United Kingdom									
BoE Bank Rate	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50
10 Year Gilt	3.97	4.05	4.05	4.05	4.05	4.00	4.00	4.00	4.00
10 Year Spread to US	-23	-20	-15	-10	-5	-5	-5	0	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
euro vs									
USD	1.0798	1.09	1.11	1.13	1.14	1.15	1.16	1.17	1.17
JPY	156.98	158	160	159	157	155	153	152	149
GBP	0.8591	0.87	0.87	0.88	0.88	0.88	0.89	0.89	0.89
CHF	0.9450	0.96	0.97	0.98	0.98	0.99	0.99	0.99	0.99
DKK	7.4567	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.2595	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
NOK	11.8304	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
sterling vs									
USD	1.2569	1.26	1.27	1.28	1.29	1.30	1.30	1.31	1.31
JPY	182.72	183	183	180	178	176	172	170	166
CHF	1.0999	1.11	1.10	1.11	1.11	1.12	1.11	1.11	1.11
AUD	0.5225	0.53	0.54	0.54	0.54	0.55	0.55	0.55	0.56

Source: Bloomberg, Westpac Economics.

Activity forecasts*

Annual average % chg	2020	2021	2022	2023f	2024f	2025f
Eurozone GDP	-6.1	5.4	3.5	0.6	0.8	1.4
private consumption	-8.0	3.5	3.2	0.8	0.8	1.3
fixed investment	-8.4	3.6	2.9	2.0	1.5	2.0
government consumption	1.4	3.8	1.0	1.1	1.5	1.0
net exports contribution ppt	-0.7	1.0	0.3	0.1	0.2	0.3
Germany GDP	-3.7	2.6	1.9	-0.2	0.5	1.3
France GDP	-7.9	6.8	2.5	0.7	0.9	1.2
Italy GDP	-9.0	6.7	3.8	0.7	0.5	0.9
Spain GDP	-10.8	5.1	5.5	2.3	1.5	1.7
Netherlands GDP	-3.9	4.9	4.3	0.2	0.8	1.3
memo: United Kingdom GDP	-9.3	7.4	4.3	0.4	0.5	1.3

FORECASTS

Asia

China

Calendar years	2019	2020	2021	2022	2023f	2024f	2025f
Real GDP	6.0	2.2	8.4	3.0	5.3	5.3	5.0
Consumer prices	4.5	0.2	1.5	1.8	0.2	1.4	2.2
Producer prices	-0.5	-0.4	10.3	-0.7	-2.7	0.9	1.5
Industrial production (IVA)	5.7	2.8	9.6	3.6	4.6	5.0	4.5
Retail sales	8.0	-3.9	12.5	-0.2	8.2	7.0	6.0
Money supply M2	8.7	10.1	9.0	11.8	11.5	10.0	9.0
Fixed asset investment	5.4	2.9	4.9	5.1	4.0	5.5	5.0
Exports %yr	7.9	18.1	20.9	-9.9	-5.2	2.5	4.0
Imports %yr	16.5	6.5	19.5	-7.5	-5.5	3.0	2.5

Source: Macrobond.

Chinese interest rates & monetary policy

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Required reserve ratio %*	10.50	10.25	10.25	10.25	10.25	10.00	10.00	10.00	10.00
Loan Prime Rate, 1-year	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45	3.45

* For major banks.

Currency forecasts

	Latest (13 Dec)	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
JPY	145.37	145	144	141	138	135	132	130	127
SGD	1.3408	1.34	1.33	1.32	1.31	1.30	1.30	1.30	1.30
HKD	7.8094	7.80	7.80	7.79	7.78	7.76	7.75	7.75	7.75
PHP	55.59	55.0	54.5	54.0	53.5	53.0	52.5	52.0	51.5
THB	35.68	35.0	34.5	34.0	33.5	33.0	32.5	32.0	31.5
MYR	4.6838	4.55	4.45	4.40	4.35	4.30	4.25	4.20	4.15
CNY	7.1772	7.10	6.90	6.80	6.70	6.60	6.50	6.40	6.30
IDR	15621	15300	15000	14800	14600	14500	14400	14300	14100
TWD	31.47	31.0	30.5	30.2	29.9	29.6	29.3	29.0	28.8
KRW	1312	1290	1280	1260	1250	1240	1230	1220	1210
INR	83.39	81.0	79.0	77.0	75.0	74.5	74.0	73.5	73.0

Source: Bloomberg, Westpac Economics.

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023f	2024f	2025f
World	**2.8**	**-2.8**	**6.3**	**3.4**	**3.2**	**3.0**	**2.9**
United States	2.3	-2.8	5.9	2.1	2.4	1.4	1.3
Japan	-0.4	-4.3	2.1	1.1	1.7	0.9	0.9
Euro zone	1.6	-6.1	5.4	3.5	0.6	0.8	1.4
Group of 3	**1.7**	**-4.2**	**5.3**	**2.5**	**1.7**	**1.1**	**1.3**
United Kingdom	1.6	-11.0	7.6	4.0	0.4	0.5	1.3
Canada	1.9	-5.1	5.0	3.4	1.2	0.8	2.1
Australia	1.8	-2.1	5.6	3.8	2.0	1.3	2.2
New Zealand	3.1	-1.5	6.0	2.7	1.2	0.9	1.3
OECD total	**1.8**	**-4.6**	**5.6**	**2.8**	**1.5**	**1.1**	**1.4**
China	6.0	2.2	8.4	3.0	5.3	5.3	5.0
Korea	2.2	-0.7	4.1	2.6	1.2	2.2	2.3
Taiwan	3.1	3.4	6.5	2.5	1.0	3.0	2.5
Hong Kong	-1.7	-6.5	6.4	-3.5	3.4	2.9	2.8
Singapore	1.3	-3.9	8.9	3.6	1.1	2.5	2.8
Indonesia	5.0	-2.1	3.7	5.3	5.2	5.3	5.5
Thailand	2.1	-6.2	1.6	2.6	2.8	3.6	3.6
Malaysia	4.4	-5.5	3.1	8.7	4.1	4.4	4.5
Philippines	6.1	-9.5	5.7	7.6	5.2	5.9	6.0
Vietnam	7.4	2.9	2.6	8.0	4.9	6.2	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.7**	**4.9**	**4.8**
East Asia ex China	3.8	-2.3	4.3	4.5	3.4	4.2	4.3
NIEs*	**2.0**	**-0.5**	**5.6**	**2.1**	**1.3**	**2.5**	**2.5**
India	3.9	-5.8	9.1	6.8	6.6	6.3	6.4
Russia	2.2	-2.7	5.6	-2.1	0.0	1.0	1.0
Brazil	1.2	-3.3	5.0	2.9	2.8	1.8	2.0
South Africa	0.3	-6.3	4.9	2.0	0.2	1.2	1.5
Mexico	-0.2	-8.0	4.7	3.1	2.8	2.2	2.1
Argentina	-2.0	-9.9	10.4	5.2	-2.5	0.0	2.0
Chile	0.7	-6.1	11.7	2.4	-1.0	-0.9	-0.9
CIS^	-1.7	0.3	12.6	4.2	3.5	3.4	3.3
Middle East	1.3	3.2	2.8	2.8	2.8	2.7	2.6
C & E Europe	-2.5	-4.9	8.7	5.4	2.9	2.0	2.0
Africa	3.3	-1.7	4.8	3.9	3.6	3.6	3.6
Emerging ex-East Asia	**1.6**	**-2.5**	**6.4**	**3.7**	**3.4**	**3.4**	**3.5**
Other countries	6.8	-3.6	6.3	3.9	5.4	4.0	0.9
World	**2.8**	**-2.8**	**6.3**	**3.4**	**3.2**	**3.0**	**2.9**

#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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