March 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK March 2025

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Tariff war goes live

It's been another eventful month. The five weeks since our last report have seen the 'Trump tariff war' go live; a clearer schism open up between the US and its allies; and the beginning of efforts to rapidly shrink the size of the US Federal government. These disruptions have been compounded by often erratic changes in both substance and messaging that have added to the general air of confusion.

That has tipped the balance for both US consumers and global markets since mid-February, the vibe turning distinctively negative. The S&P500 has dropped over 10%, erasing all of the post-election gains. Consumer sentiment weakened sharply as well with possibly more to come.

Some real-time measures are pointing to contracting US economic activity. These are likely overstating the case as at March, but there are now valid fears of a bigger hit to economic activity coming from a shock to confidence on top of the likely change in trade patterns. In our view this has shifted the risks for the FOMC, from high inflation to weak growth, meaning further interest rate cuts can be expected sooner than we previously thought. The US dollar has depreciated significantly as a result.

Aside from reciprocal tariff measures, the response from other countries has included a clearer shift towards increased defence spending in Europe and a commitment to provide ongoing support for domestic demand in China.

Australia and New Zealand have been peripheral to most of these developments and have not been particularly targeted for US tariff measures. Inflation threats locally are also minor with moderating inflation still expected to allow for further interest rates easing over the course of 2025.

The volatile environment is likely here to stay. There will no doubt be some moments of good news, such as the US economy not contracting in the first quarter. The sharemarket and sentiment response may also lead the Trump administration to 'tone down' some of its more unsettling moves. But this may be wishful thinking. Reprieves have been short lived to date and have often ended up adding to the confusion.

Australia: The Australian economy expanded 0.6% in the December quarter, lifting annual growth to 1.3%yr with gains more evenly balanced across the private and public sectors. This improved performance still leaves growth below long-term trends. Meanwhile there continue to be challenges around weak productivity growth and uneven private sector investment.

Commodities: February was a soft month for commodities: iron ore fell 4%, thermal coal down 6%, and crude oil down 7%. Base metals responded positively to the Trump tariff announcements but supply increases and softer demand pushed crude oil, LNG, and thermal coal prices lower. We still hold an iron ore year-end target of US$86/t.

Global FX Markets: A month ago, markets seemed convinced the USD would move higher from its already historically-elevated level of 108. Now the debate is whether the DXY index can even hold on to its current, much lower, level of 103.5. A partial reversal is likely in coming months as tariffs are implemented, but the longer-run trend is down.

New Zealand: Local developments over the past month have played out much as expected. Data suggests that the economy has turned the corner, thanks to easier financial conditions and much-improved export commodity prices. One surprise has been the sudden resignation of the RBNZ's Governor. We do not think this changes the near-term outlook for the OCR, but it may have implications for the Bank's prudential policy. Over the next month we await more clarity on how US tariff policy might impact.

United States: Repeated escalations and retreats on trade policy; an aggressive immigration stance; and extreme uncertainty over public sector efficiency initiatives have recently sparked confusion and concern amongst market participants and US households. Downside risks to the US growth outlook are intensifying, but it may be some time before the FOMC acts.

China: Authorities have struck a defiant tone over the past month against US President Trump's protectionist policies and other risks to China's outlook. Authorities have made it clear that they will do what it takes to deliver a repeat of 2024's 5% GDP growth in 2025, driven by the domestic economy.

Thematic: Since the pandemic, long yields in developed markets have risen and are stabilising at higher levels due to increased inflation risks and evolving debt environments. Government deficits have led to an abundant supply of bonds, as has quantitative tightening by central banks. This abundance has implied a decline in the convenience yield, as noted by the ECB's Isabel Schnabel. The upshot is higher borrowing costs for governments, necessitating a more considered approach to spending.

The 'vibe shift' shifts ...

Luci Ellis
Chief Economist, Westpac Group

Reality is sinking in for markets. Immediately after the US Presidential election, a 'US exceptionalism' narrative took hold. Expectations of stronger growth – and more inflation – relative to peers saw bond yields and equity markets rise the most in US markets. Expectations of Fed easing were scaled back and pushed out. Since about mid-February, though, the shine has come off this narrative. The negative implications of the trade war and a chaotic attempt to shrink the public sector have weighed on sentiment in US markets and across the US consumer. Year-to-date, European equity markets have now outperformed their US counterparts. While most major equity markets have sold off in recent days, the main European index is still up over the past month, while US and Australian accumulation indexes are down more than 8%.

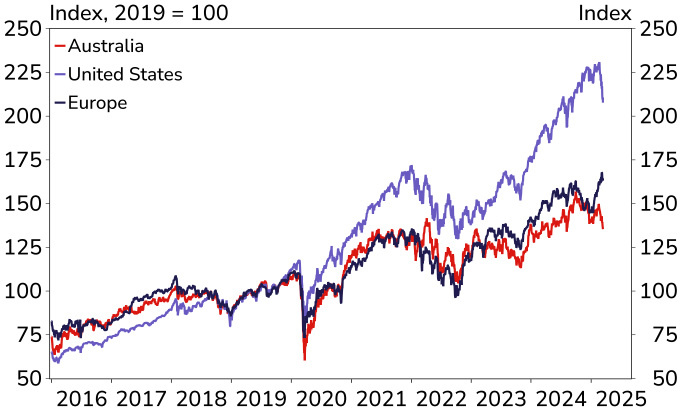
The tariffs will raise prices in the US domestic market, as well as for US production exported abroad, with the risk of an extended period of elevated inflation. Risks to growth have been more prominent, however – though not as stark as some timely indicators, which have been affected by the rush of imports into the US as exporting nations try to beat the tariffs.

Markets are now pricing in more cuts to the Fed funds rate, and sooner than they were earlier in 2025. US yields have declined more than in Australia and other peers. Given the risks to growth, we now think it is more likely that the remaining cuts in the Fed funds rate will occur later this year rather than in 2026. That said, 10-year yields continue to have a 4-handle, consistent with our house view that yields are likely to average higher in future than they did pre-pandemic.

When a country imposes import tariffs, its exchange rate can typically be expected to appreciate, dampening the inflationary impact but weighing on growth. This was the initial reaction in FX markets both before and immediately after the US election. As market sentiment has turned though, so has the USD which is now down 5.8% from its mid-January peak in DXY terms. The currency was already overvalued before the election and became even more so following the initial tariff announcements, peaking more than 20% above long-run averages on a real effective basis. Some reversal was to be expected though historically this has tended to take 3–5 years to play out. The recent shift has clearly brought some of that adjustment forward. We continue to expect the remainder of that reversal to occur over a longer horizon.

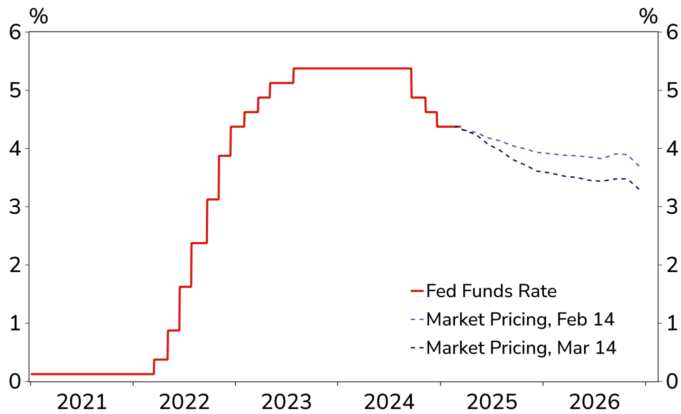
Another element of the shift in sentiment stems from geopolitical developments. While the US has resumed military aid and intelligence-sharing with Ukraine after briefly withdrawing them, there has been a significant change in how the US is seen by allies. European governments, especially

Equity Market Total Return Indices, USD



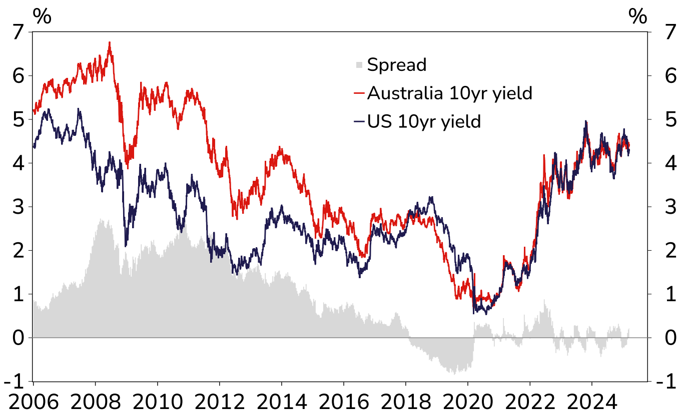
Source: S&P Global, STOXX, Macrobond, Westpac Economics

Markets have pulled back on Fed pricing



Source: Fed, Macrobond, Bloomberg, Westpac Economics

Bonds yields higher, especially in US



Source: Macrobond, U.S. Treasury, Westpac Economics

… while the RBA remains hawkish

Germany, have responded decisively with significant increases in planned defence spending. Together with some of the exuberance coming out of investor interest in the AI/tech space, this has contributed to the pivot in market sentiment and relative pricing of these sectors.

Meanwhile, the narrative in Australia shifted by a lot less. The RBA delivered on the widely-expected first rate cut in February. The rhetoric surrounding the decision was more hawkish than expected, however. While trimmed mean inflation has recently declined faster than the RBA had expected, the Board has been focused on its policy mandate (made explicit in the latest Statement on the Conduct of Monetary Policy) to always aim to get to 2.5%, the midpoint of the RBA's 2–3% target range. Based on the staff forecasts, the Board assessed that if the cash rate were lowered around 90bps, consistent with the market path at the time, then trimmed mean inflation would not decline all the way to 2.5%. Instead, it would stabilise around 2.7%, the (annualised) rate recorded over the second half of 2024.

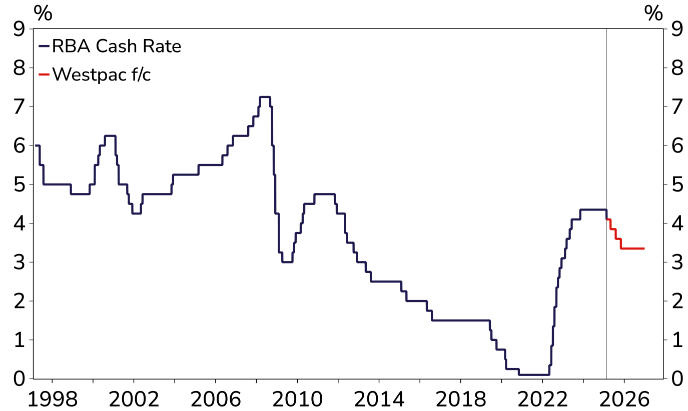
Among the drivers of this view on inflation, the RBA's forecasts see the labour market barely easing from here, with its unemployment forecast to hold at 4.2% all the way to mid-2027. It also sees a relatively robust pick-up in consumption growth. If these expectations were borne out, then getting inflation all the way back to 2.5% would require some policy easing but not as much as the market was pricing as at mid-February, when the RBA was finalising its forecasts. With one cut already delivered, it would be reasonable to expect perhaps one more cut later in the year under that scenario.

Our own forecasts differ a little. While the labour market has been surprisingly robust lately we still see a bit more easing ahead compared to the RBA. Our read of recent consumption indicators also points to a more gradual pick-up in consumption growth over 2025 with consumers expected to continue prioritising saving over spending.

These differences in view are small relative to other sources of uncertainty, including the global trade war and the opposing influences on household consumption coming from rising real incomes but slowing population growth. These forecast differences are, however, enough to have different policy implications. If the domestic economy turns out in line with our forecasts rather than the RBA's, then a further three cuts can reasonably be expected, with inflation fluctuating around and close to the 2.5% target midpoint.

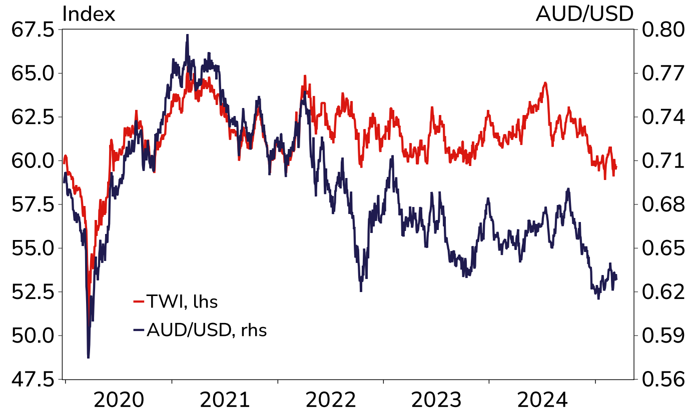
As the overvaluation of the USD unwinds, we can expect that to show up as an appreciation in the AUD/USD bilateral exchange rate, and to a lesser extent with the TWI and other measures of Australia's effective exchange rate. Together with lower USD oil prices, this will mitigate any inflationary impacts of a higher US cost base from tariffs on the Australian price of imported goods and services.

Further RBA rate cuts anticipated



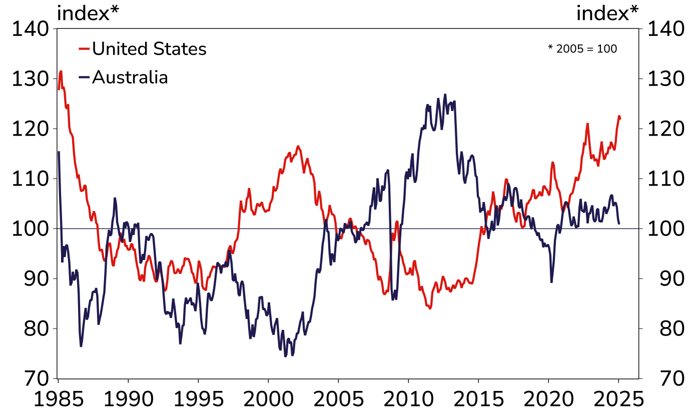
Source: RBA, Macrobond, Westpac Economics

Australian dollar - spot vs TWI



Source: Bloomberg, Macrobond, Westpac Economics

Real Effective Exchange Rates



Source: IMF, RBA, Fed, Macrobond, Westpac Economics

Private demand lifts ...

Matthew Hassan, Head of Australian Macro-Forecasting
Neha Sharma, Economist

The Australia economy expanded 0.6% in the December quarter, lifting annual growth to 1.3%yr with gains becoming more evenly balanced across the private and public sectors. While improving, the economy's performance remains well below long-term trends. Meanwhile there continue to be challenges around weak productivity growth and uneven private sector investment.

A tentative recovery begins

The headline results from the December quarter national accounts were largely as expected, including the quarter marking the end of the longest 'per capita recession' in Australia's history. While the economy may not have contracted, these have been relatively difficult years for individual Australians.

New private demand rose 0.4%qtr – the strongest increase in six quarters, having stagnated through Q2 and Q3. Household consumption lifted as improving real disposable incomes provided a slight boost to spending. Despite this, spending continued to decline in per capita terms. New business investment delivered a solid result but there was a lot of uneveness in the details. New engineering construction surged and investment in intellectual property (mainly software) grew at an above-average annual pace but the quarter saw offsetting weakness in non residential building and machinery & equipment.

New public demand continued to outpace private demand, expanding 1.0%qtr and 5.5%yr – the fastest pace since the pandemic. Much of the gain came from increased investment by state and local governments, particularly on transport and utilities infrastructure projects. With public spending outpacing overall GDP growth, its share of the economy hit a new record high of 27.7%.

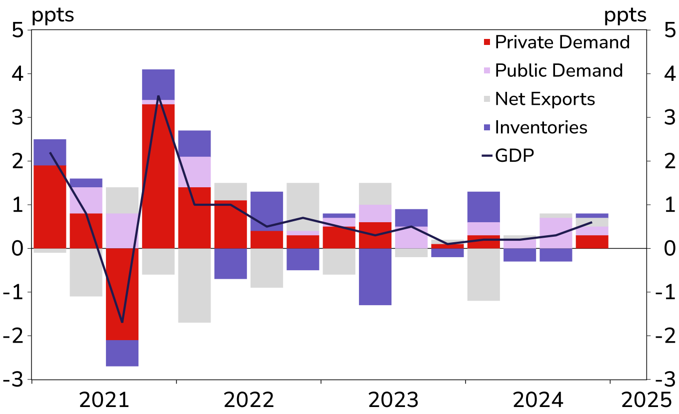
That said, when adjusting for relative size, private and public demand made roughly equal contributions to GDP growth, a shift from the previous two quarters when public demand accounted for over 90% of the gains. This aligns with our view that a gradual recovery in private demand will see a 'handover' from a public to private sector led expansion.

Some surprises

Weak tourism spending by residents led us to lower our household consumption forecast the day before the National Accounts were released. The Accounts revealed an even softer profile for consumption, though still a notable improvement from the negative results of the previous two quarters.

The December quarter lift was supported by essentials, partly reflecting a normalisation in electricity spend as the effects

Contributions to quarterly GDP growth



Source: ABS, Macrobond, Westpac Economics

of government subsidies faded. Discretionary spending saw only a modest lift, supported by year-end sales events. Early indications from the **Westpac Card Tracker** suggest this spending momentum has waned a little in the new year.

The household savings ratio rose to 3.8% in the December quarter, up from 3.6% previously and well above the 2.5% average over the first half of 2024. Our **Westpac Consumer Panel** had foreshadowed this outcome, pointing to households saving about 75% of the income boost from tax cuts over the second half of 2024.

Overall, these trends highlight that the consumer spending response to tax cuts remains muted and non-threatening as far as the inflation outlook goes.

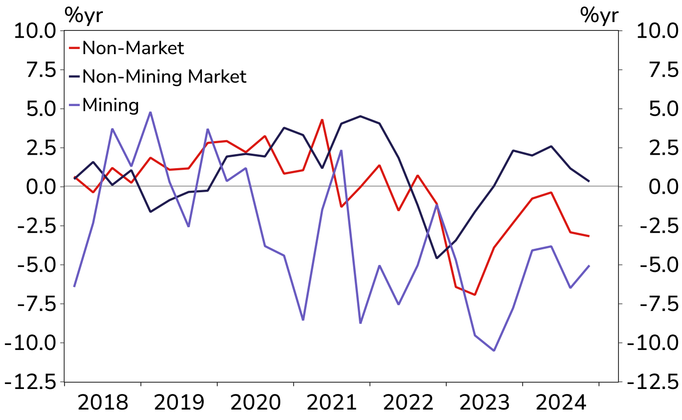
A 0.4%qtr fall in new dwelling investment was the biggest surprise, questioning the extent to capacity constraints have eased. However, this followed three straight quarters of gains with annual growth at 3.5%yr still suggesting backlogged work is clearing. New non residential building also fell, though this seems to reflect a softer front-end rather than renewed capacity constraints given a decline in non-dwelling approvals over the year to June quarter 2024. Approvals did stabilise in the second half of 2024, which should flow through to activity in 2025.

Productivity once again disappointed. Hours worked rose 0.7%qtr in the December quarter, meaning labour productivity declined for a third consecutive quarter, reversing the positive trend seen in the second half of 2023 and early 2024. However, we still attribute the overall weakness to expansion of the care economy, which has a lower level of 'measured' productivity.

While productivity in aggregate declined -1.2%yr in the December quarter, we estimate that productivity fell by a steeper -3.2%yr in the non-market sector and -5.0%yr in the

... tracking broadly as expected

Productivity results mixed across sectors



Source: ABS, Macrobond, Westpac Economics

mining sector. Meanwhile productivity growth in the non-mining market sector rose 0.3%yr, though this is still a slowdown from 2.6%yr in the June quarter 2024. This, combined with an increase in wages resulted in a meaningful bump up in unit labour cost growth.

Outlook broadly unchanged, uncertainty high

With the last quarter of 2024 unfolding largely as anticipated, our base case for the Australian economy remains broadly unchanged. We continue to expect private demand to strengthen over the year, gradually overtaking the public sector as the primary vehicle of growth. Our year-ended GDP growth forecast for 2025 and 2026 are unchanged at 2.2%, though there are some slight tweaks to the underlying detail.

Since mid-2024, households have largely directed the gains in real incomes toward savings and rebuilding financial buffers rather than increasing spending. As a result, we now expect the flow through of these gains to consumption to take a little longer. Accordingly, we have nudged down our 2025 consumption forecast by 0.1ppt, while our outlook for 2026 remains unchanged. The risks are finely balanced. Rate cuts have lifted buyer sentiment, and with our base case being three more cuts this year, consumption could rebound more quickly than anticipated. However, elevated household debt and an uncertain global backdrop may temper the response – particularly as government subsidies continue to phase out.

On the private investment front, we have upgraded our dwelling investment forecast for 2025 by 0.9ppts, while the rest of the profile is unchanged. We remain of the view that supply constraints have largely been resolved, despite the blip in the quarter, allowing backlogged projects to clear at a faster pace. This suggests growth in dwelling investment should re-converge with growth in the pipeline of dwellings under construction.

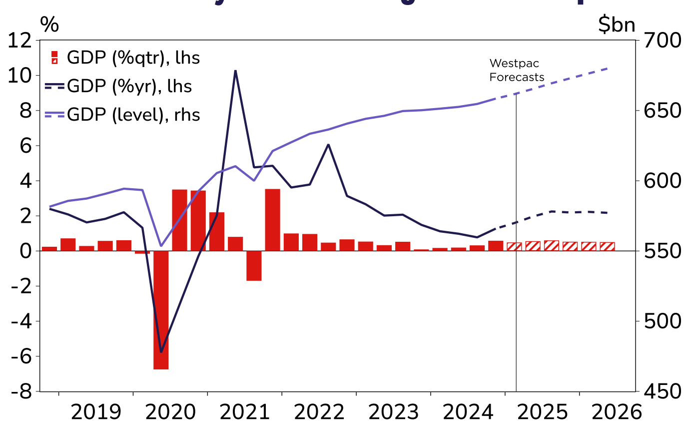
New business investment was a stand out in the quarter, driven by capacity expansions to cater to a rising population, the transition to net zero and increased intellectual property investment. However, other surveys suggest CAPEX spending plans are being scaled back, likely reflecting concerns over sluggish growth and uncertainty surrounding both global and domestic policy settings. In light of this, we have revised our new business investment forecast down by 0.4ppts for 2025 and 0.1ppt for 2026.

Growth in new public demand is expected to gradually return to its long-term trend over 2025 and 2026, though the level of activity will remain higher than our previous set of forecasts. Our public sector growth forecasts remain unchanged in the near-term, but risks are tilted to the upside. The 2025-26 federal and state budgets could introduce additional policy measures, particularly around cost-of-living relief, that may ad a lift to government demand. There may also be some substantial costs involved in the aftermath of Cyclone Alfred.

We have also adjusted our external sector forecasts in response to slightly softer consumer demand as well as ongoing global trade disputes. As a result, we have lowered our forecasts for both export and import growth in 2025. Consequently, the net export contribution to GDP is now expected to be -0.3ppts in 2025, down from our previous estimate of -0.4ppts.

Our updated forecasts continue to indicate that by end-2026 Australia will have experienced five consecutive years of below-trend growth, with GDP per capita remaining largely static. While this does not constitute a recession, it marks a more prolonged period of economic stagnation than was seen during the early 1990s recession. Policy uncertainty is also high and there is a risk that the economy may struggle to gather momentum over 2025.

Gradual recovery in economic growth anticipated



Source: ABS, Macrobond, Westpac Economics

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

Population unwind might take longer ...

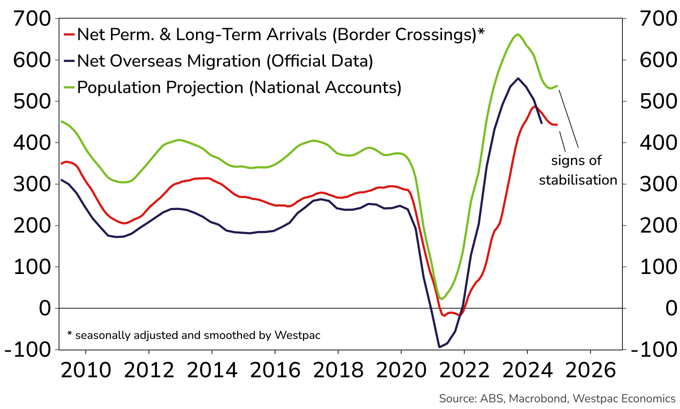
Ryan Wells
Economist, Westpac Group

Over the past two years, population dynamics have played a significant role in shaping Australia's economic performance. While GDP per capita contracted –1.6% over that period, a 4.4% increase in population has kept aggregate growth positive, helping Australia avoid the 'technical' recessions seen in many of our peer economies. The latest official data suggests population growth is decelerating rapidly from its peak, to 2.1%yr as of June 2024. However, these estimates are published with a long lag – they are already nine months old. How has growth tracked since then?

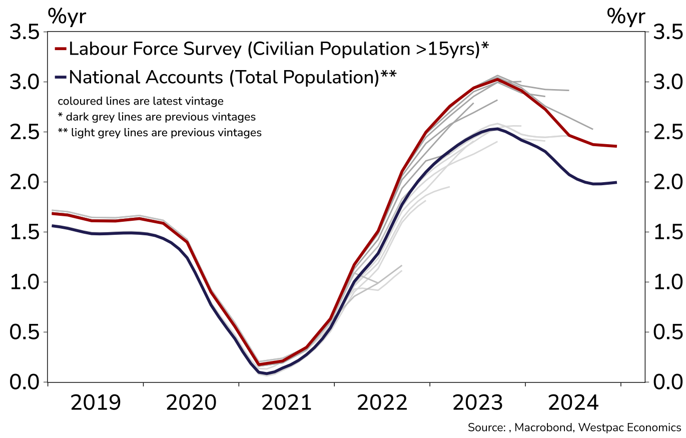
Fortunately, there are other sources that provide us with timelier insights. These fall into two broad categories: 'inputs' and 'projections'. As the name suggests, 'inputs' are directly used by the ABS to calculate official population statistics, but this data tends to be very noisy and difficult to interpret. While 'projections' have the advantage of being much smoother and easier to interpret, the ABS uses assumptions to form these that can be misleading when there are large swings in population dynamics. It is important to assess the full suite of indicators to obtain the clearest signal on recent shifts.

The System of National Accounts (SNA) and Labour Force Survey (LFS) are the two main ABS releases that include population projections. The former covers the entire resident population while the latter covers civilians aged 15+. Both point to a clear 'stabilisation' in population growth over the second half of last year, holding at 2.0%yr in the SNA and 2.4%yr in the LFS (the latter typically growing a few points faster than total population due to the age mix of migrants). But as noted above, projections have not performed well when trends are shifting, undershooting population growth in 2022/23 and overshooting in 2024. As such, 'projected' estimates have been prone to revision, as shown in the chart below.

Border crossings data foreshadowed stabilisation



Population projections have missed over the cycle



The 'input' datasets, while noisier, have generally provided a good sense check against these projections as they are directly used in population calculations. These include measures based on the flow of border crossings, visa applications and grants, and stock counts on the number of temporary visa holders in Australia. So far over the cycle, these datasets have not corroborated the evidence from the ABS projections but that looks to have changed recently.

Starting with the border crossings data, this shows the annual net inflow of permanent and long-term travellers, which serves as a broad proxy for the net migration flows, started to level off at around the 450k mark, some 50% above the pre-pandemic level of around 300k. This aligns quite closely with the projection patterns from the SNA and LFS, noting the level difference between these series is largely a result of definitional differences (border crossings can have 'double counting' issues versus actual migration, particularly when foreign students travel home during study breaks).

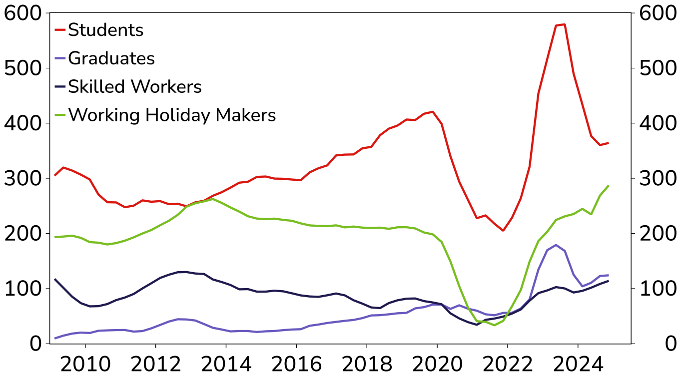
The breakdown of border crossings flows by visa category is also telling. It indicates that the composition of temporary visa holder inflows is transitioning from a student-dominated mix over 2023 to one with a higher share of worker-orientated visa classes. While net inflows of students have returned to pre-pandemic 'norms', net inflows of skilled workers and working holiday makers are holding notably above these levels.

This is corroborated by visa grant data, which suggests that the flow of grants for graduates, skilled workers and working holiday makers continues to lift well beyond pre-pandemic levels, while for students, the deceleration in grant flows looks to have paused. It is also worth noting that the data (where available), suggests that student and skilled worker visas are still mostly granted offshore, suggesting that at least in the near-term, border crossings could remain solid.

... adding upside risk to growth

Visa grants to worker-orientated visas strengthen

Rolling annual change, thousands



Source: Australian Department of Home Affairs, Macrobond, Westpac Economics

Stock measures on the number of temporary visa holders in Australia have been slower to adjust but the shift in composition is becoming clear. Most categories are still growing in an absolute sense, but similar to the visa grant data, we are seeing graduates, skilled workers and working holiday makers slowly gain as a share of the temporary visa holder stock. Meanwhile, the relative shares of students and New Zealanders, the two largest constituents, are declining.

Another source of upside risk that we have flagged for some time is the significant portion of visa holders stuck in 'limbo', including those on bridging and (now terminated) pandemic support visas. The collective pool here is around double its pre-pandemic size, in excess of 400k. This may reflect lasting issues in the visa approval backlog, but ultimately represents a significant portion of temporary visa holders that may, after some time, be reclassified as migrants, adding to population counts.

What does this mean for the outlook?

Overall, there looks to be a fairly consistent pattern across the timelier indicators of population growth. 'Projections' tentatively point to a stabilisation in the population growth rate since mid-2024 and this looks to be corroborated by most 'input' data sources. That the main factor driving this dynamic looks to be still-elevated inflows (rather than shifting outflows or reclassifications of onshore visa holders) highlights a risk that the trajectory for population growth could remain 'stable and elevated' over the first half of this year. Note that our current forecasts have population growth easing from 2.0%yr in 2024 to 1.6%yr in 2025.

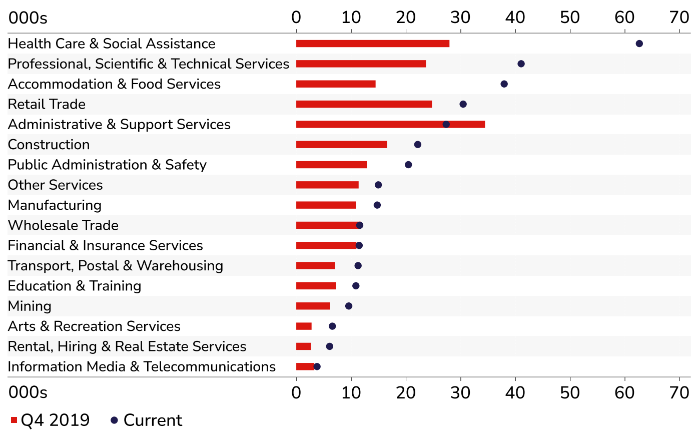
The potential flow-on impacts will also depend on how the composition of population growth evolves. If recent dynamics around stronger inflows of worker-orientated temporary visa holders persist, this could have important implications for the labour market. The number of job vacancies remains around 50% higher than pre-pandemic levels, with many sectors still reporting difficulties in sourcing skilled labour. That backlogged demand for labour could be met more quickly if we see a a higher 'worker-orientated' migrant mix.

Of course, migration flows add to both supply and demand. As such, firmer population-driven demand gives some upside risk to GDP growth in 2025. It may also be important for particular sectors. The RBA assumes that the net effect on inflation is broadly neutral on an economy-wide scale, but its impact can be uneven. For housing, a slower moderation in temporary migration inflows suggests rental markes will remain tight while 'underling demand' for housing (more closely linked to permanent migration) is likely to remain firm into the medium-term.

We should get preliminary confirmation on this 'stabilisation' next week with the release of the September quarter official estimates for the residential population. Looking forward though, there remains a degree of uncertainty around population dynamics. While the latest data points to some upside risk to our 2025 forecast, government policies will play a much more important role in the longer-term.

The government has implemented various adjustments to the rules and restrictions around temporary visas. Some of these coincide with the goals under the refreshed 'Migration Strategy' – aimed at reducing exploitation, inefficiencies and ensuring better pathways to permanent residency – such as raising requirements for language proficiency and savings. Other changes have been more targeted toward reshaping the composition of temporary visa flows, such as higher fees, tighter length-of-stay provisions and more stringent 'genuine student' requirements. With a federal election due by May, we may see more focus on migration policy including proposals to put limits on new enrolments of overseas students.

Job vacancies by industry



Crude oil faces downside risks in 2025 ...

Justin Smirk
Senior Economist, Westpac Group

February was a soft month for Australian commodities with our bulks under the most pressure: iron ore down –4%, thermal coal shedding –6% and crude oil losing –7%. Base metals responded positively to Trump's tariff announcements, with copper up 5%, nickel gaining close to 6% while gold lifted 2%. Given unfolding supply increases and softer demand, we have had to mark down our crude oil, LNG and thermal coal forecasts. Our near-term estimate for base metals is a touch firmer, before demand softens over the second half of 2025. Our iron ore estimates remain unchanged with a year-end target of US$86/t.

Crude oil facing firmer supply and softer demand

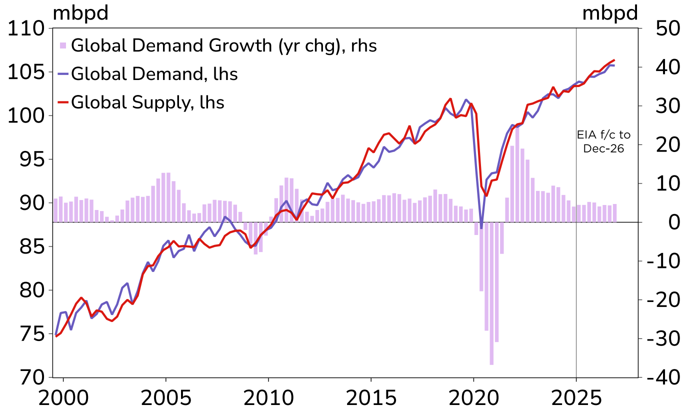
In early March, crude oil prices fell below US$70/bbl for the first time since December 2021, driven by the Trump tariff war and rising uncertainty around global growth expectations. Despite crude hovering around US$71/bbl amid geopolitical and economic uncertainty – including ongoing US sanctions on Russia, Iran and Venezuela, and a looming global tariff war – OPEC+ decided to proceed with its long-delayed production increase, seemingly responding to pressure to return output to previous levels. Starting in April, OPEC+ will add about 138,000 barrels per day (bpd), marking their first increase in output since 2022 and a cautious step towards unwinding the 2.2 million bpd production cut implemented to support prices.

Robert Rennie noted that it may take a few weeks to establish a new lower range for Brent, due to the OPEC+ decision to increase production coinciding with the potential restart of the Ceyhan pipeline and Kazakhstan's planned production increase. In the near-term, Chevron's license to operate in Venezuela has been revoked, requiring them to wind up operations by April 3. Meanwhile, US Treasury Secretary Scott Bessent continues to push for increased sanctions on Russia to force a ceasefire in Ukraine and the shutting down of Iran's oil sector. Russia also threatened that "if there is an imbalance in the market, we can always play in the other direction." As such, we expect some volatility before prices eventually settle around US$65/bbl with US producers forming a base as they respond to lower margins as prices remain below US$70/bbl.

Base metals face mixed risks

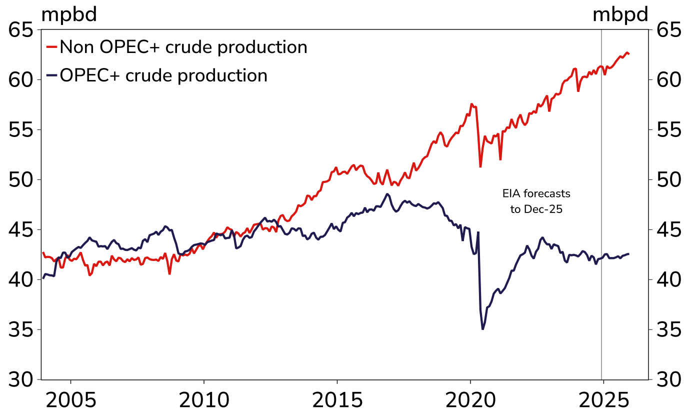
The copper market anticipates 10% tariffs but, with an average 255-day delay in Section 232 investigations, no action is expected before mid-November. That said, the market remains nervous. President Trump's pledge to "take historic action to dramatically expand production of critical minerals and rare earths in the USA", potentially including the controversial Resolution Mine, could reshape US copper supply.

Crude oil supply & demand



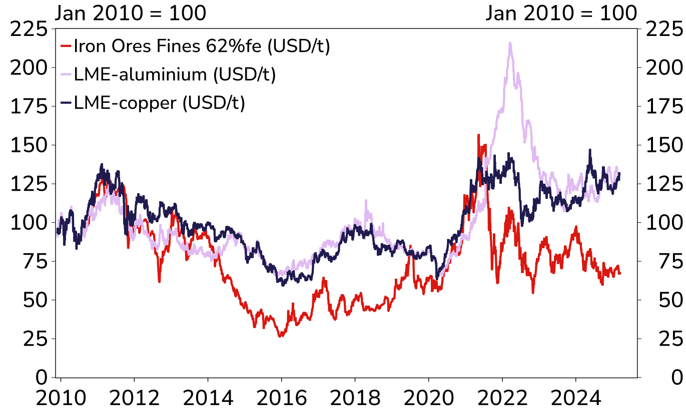
Source: EIA, Bloomberg, Macrobond, Westpac Economics

OPEC+ set to join the increase in supply in 2025



Source: EIA, Bloomberg, Macrobond, Westpac Economics

Australian metal export prices



Source: Westpac Banking Corporation, Macrobond, Westpac Economics

... while iron ore is waiting for Simandou

As such, while copper could push higher in the near-term, Robert Rennie argues that copper remains expensive above US$9,500/t and as global growth slows prices should dip to US$9,200/t by end 2025.

Aluminium is expected to outperform copper. Chinese aluminium exports fell 11% in January and February which is in line with our view that Chinese production caps will limit supply, and as the lagged impact of a period of record high alumina prices hits smelter production just as the 20% tariffs on China are implemented. As with copper, we see near-term upside risks before softer demand results in a price correction in the second half of the year.

Iron ore: waiting for Simandou

Iron ore prices have held within a US$105–110/t range constrained by high Chinese port inventories and a halt to steel production to improve air quality for the 'two sessions' (the annual National People's Congress and the Chinese People's Political Consultative Conference held in early March) and high pollution levels in Hebei. Meanwhile, iron ore supply has been soft with shipments from traditional markets down –3% this year. Additionally, the NDRC announced another round of steel industry rationalisation with Mysteel reporting that steel mills in Shandong have been instructed to reduce production, with potential cuts of up to 50mt this year. If realised, 2025 Chinese steel production would hit its lowest level since 2017, reducing demand just as new African supply enters the market.

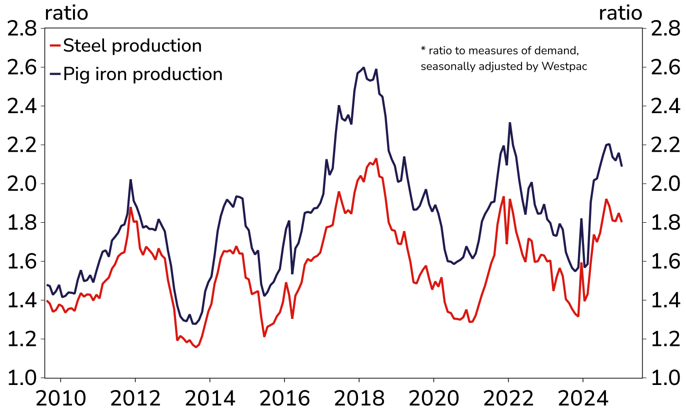
The Mysteel International Iron Ore Market conference in Qingdao may provide further clarity on how this rationalisation will unfold. Until then, we maintain the view that iron ore prices will decline meaningfully into 2026, driven by rising supply and weaker demand.

Thermal coal facing supply constraints

Coal prices for Australia's Newcastle benchmark corrected to around US$100/t, driven by a mild northern hemisphere winter and global oversupply. While the global transition to a low-carbon economy is expected to reduce coal demand, this shift has been slower than anticipated. The December International Energy Agency annual coal report now forecasts that coal demand will grow through to at least 2027 – a reversal from last year's prediction that demand had peaked.

This creates a classic dilemma for resource industries: although current demand remains strong, the expectation of a long-term decline discourages coal miners from investing in new production, given the lengthy time lines involved. Rising demand in the face of constrained supply is a classic recipe for higher prices. This is why we expect prices to stabilise around US$100/t and find stronger support as we approach 2026.

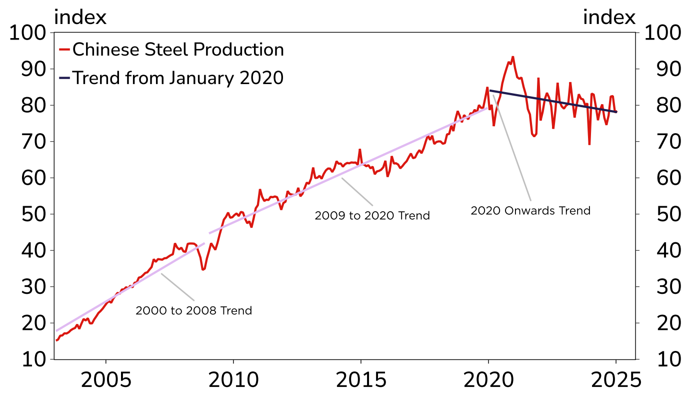
China Iron Ore Port Inventories



Source: Bloomberg, Macrobond, Westpac Economics

Chinese steel production peaked in 2020

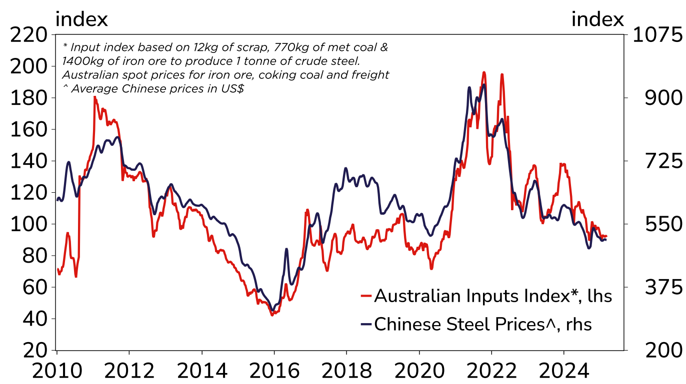
Since peaking steel production has been trending down



Source: World Steel Association, Macrobond, Westpac Economics

Chinese Steel Input and Output Prices

Prices appear to be finding a base



Source: Bloomberg, Macrobond, Westpac Economics

A sudden and decisive change ...

Elliot Clarke
Head of International Economics

The past month has seen an abrupt turn in sentiment towards the US economy and the US dollar. Whereas a month ago, the market seemed convinced the US dollar would move higher from its already historically-elevated level of 108 on a DXY basis. Now debate surrounds whether the US dollar can even hold onto its current, lower level of 103.8.

What's changed? We certainly have not seen an end to uncertainty around US trade policy. The initial month-long grace given to Canada and Mexico was followed by another partial reprieve to April 2, but the second deferral was paired with a promise that this would be the last.

Tariffs for steel and aluminium were subsequently brought forward from April 2 to March 12 with no exemptions. China was hit with another 10% tariff increase and Europe warned it would soon face additional measures above those for steel and aluminium which it has retaliated against.

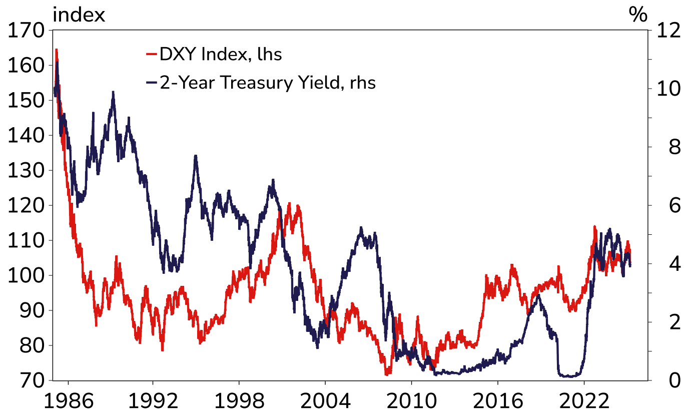
With the US facing entrenched capacity constraints as well as tariffs, the outlook for US inflation remains troubling, keeping interest rate risks skewed to the upside, which is supportive of term interest rates and the US dollar. What has flipped the market's view on the US dollar is instead the growth outlook, both in absolute and relative terms.

On an absolute basis, as detailed on p17, incoming data for early-2025 is materially weaker than experienced through 2023 and 2024. GDP is forecast to decline in Q1 by the Atlanta Federal Reserve's GDPnow nowcast but, as this outcome is the consequence of a one-off pull-forward of imports to get ahead of tariffs, the truer signal is the halving of domestic demand growth to a pace well below trend.

Business surveys also point to downside risks to the currently balanced state of the labour market. This is before we see any hit to job creation from DOGE's initiatives and a pull-back by state and local government spending, let alone if activity in the housing market and consumer demand continues to soften.

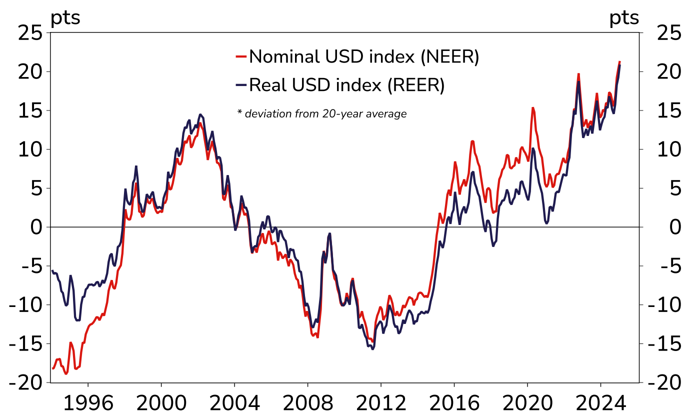
The reversal in growth expectations has been as acute for the Euro Area, but in the opposite direction. A potential loss of US military support for Ukraine has this month triggered an expectation that the Continent's governments will materially increase defence spending. Mooted plans to also increase infrastructure expenditure in Germany was also well received. Other sectors of the economy remain under considerable pressure and at risk of shocks, but still Euro Area growth is likely to return to around trend in 2026 and remain there, in contrast to the below-trend outcomes in 2023 and 2024.

US prime factor of global markets



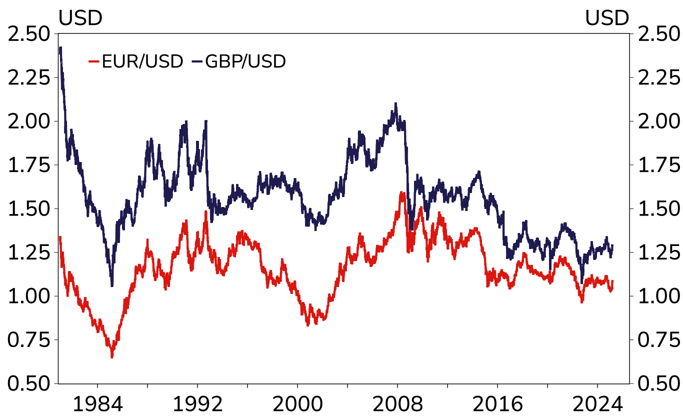
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation abnormally rich



Source: BIS, Macrobond, Westpac Economics

Euro now in favour, Sterling also benefitting



Source: Bloomberg, Macrobond, Westpac Economics

... in sentiment

Broadly, we agree with the market's take on recent data and expectations going forward. So, in light of participants' change of heart, we expect further weakness in the US dollar through 2025 and 2026. Q2 is likely to be an exception however, with fear over the implementation of tariffs and consequent inflation, plus evidence the US is not entering recession, to see a partial reversal in favour of the US dollar.

From spot at 103.8, we therefore see the US dollar DXY index rising briefly to 105.7 at June, then back to the current level at September and 102.6 come December. A continued gradual decline in the DXY index is then expected through 2026, to 98.9 at December 2026 and 97.8 at June 2027. Underlying the dollar view are broad-based gains for Euro, Sterling and Yen as well as CAD – in time.

However, it is important to recognise that the forecast gains for each of these currencies sees them back near average levels – at best. If the US economy deteriorates to a greater extent than we anticipate, i.e. the economy stalls or recession ensues, there is plenty of downside risk for the US dollar and blue sky for the other side of each bilateral rate.

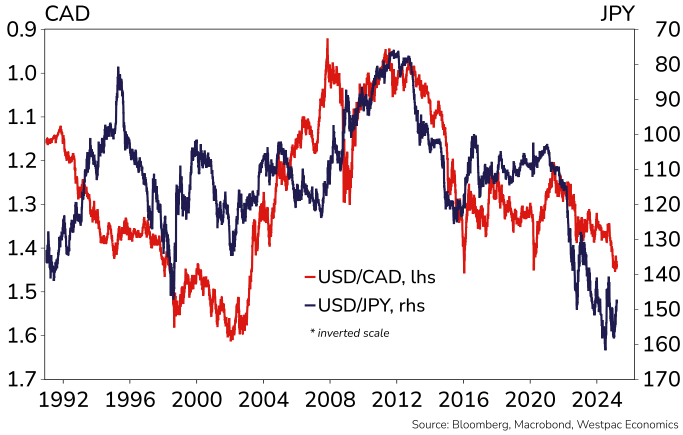
Arguably, these risks are likely to be most prominent in the coming three-to-six months as US tariffs are implemented, retaliated against and the consequences are progressively felt. This is also the time when the effect of changes to US immigration will also begin to be seen – a negative for growth and an additional source of inflation.

While not immediately relevant to the DXY outlook, the resilience of the Asian growth and investment story has the potential to create an environment conducive to a weaker US dollar.

Chinese authorities have made it clear they will support domestic growth as much as necessary and that they are also committed to aiding economic development across the Asian region. Much of the region is also aware of the risks US tariffs pose and intent on preserving their growth pulses. As they prove able to do so, they incentivise capital transfers from the 'safe-harbour' of the US dollar.

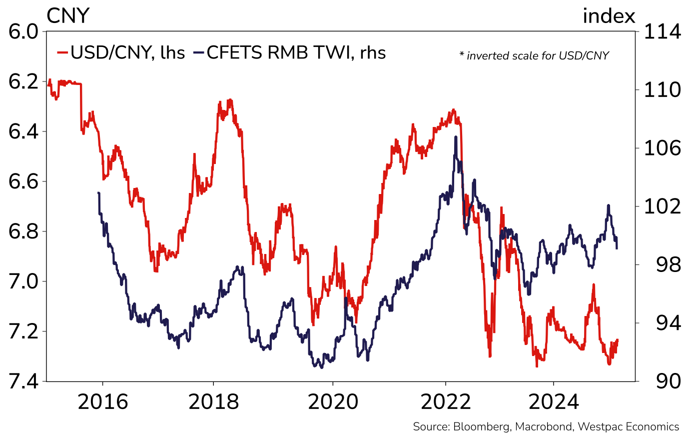
While we suspect it will take time, the countries of Asia therefore have the greatest capacity to outperform the DXY trend. China's Renminbi, which we expect to fall from CNY7.24 to CNY6.80 at June 2027 against the dollar, and India's Rupee, from INR 87.0 today to INR79.0, are best positioned, but countries like Indonesia and Thailand also have the capacity to leverage windfalls from manufacturing and services – tourism in particular. South Korea, Taiwan and Japan are more likely to get caught up in geopolitical and trade uncertainty, and have less flexibility domestically to offset.

CAD outlook highly uncertain



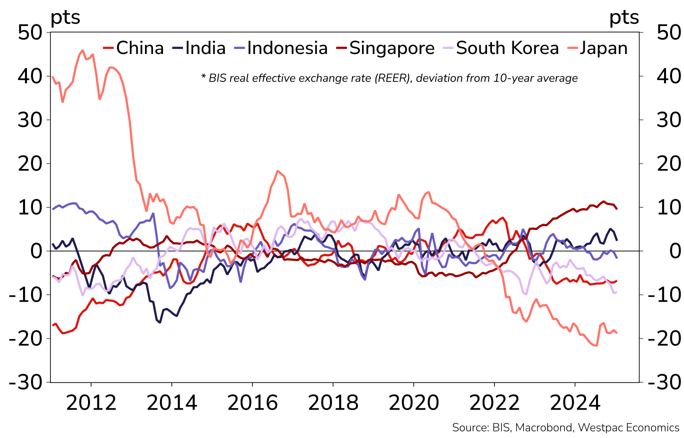
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi TWI broadly stable



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

Economy gradually finding its feet ...

Darren Gibbs
Senior Economist

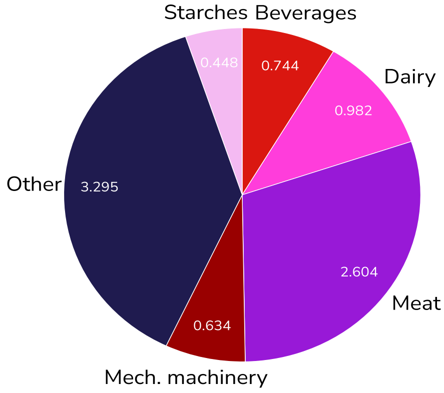
Since our last Market Outlook, developments in the New Zealand economy have played out largely as expected. Following a significant mid-year slump, indicators suggest activity began to turn the corner around the end of last year. Easier financial conditions and much-improved export commodity prices have been the key drivers of that turnaround. Importantly, with firms now seeing light at the end of the tunnel, the labour market is showing signs of stabilising following the large net job losses recorded last year. Over the coming month, firms will be seeking clarity on how US tariff policy might impact the fledging recovery.

The RBNZ's February Monetary Policy Statement (MPS) provided no major surprises. The Bank delivered the 50bp cut in the OCR to 3.75% that it had clearly foreshadowed in late November. As we had expected, it also signalled that future rate cuts are likely to be smaller, albeit more front-loaded than it had forecast in November. Specifically, the RBNZ indicated that further 25bp cuts in the OCR should be expected at the upcoming April and May meetings (in line with our own forecasts). It also projected a better-than-even chance of one final 25bp rate cut by the end of this year. We think that final cut is likely more a placeholder than any kind of promise. Our forecast is that the 25bp cut in May will most likely be the last for this cycle.

One unexpected development since the MPS was released has been the resignation of the RBNZ Governor, Adrian Orr. The Deputy Governor, Christian Hawkesby, has been appointed to act as Governor until the end of this month and will likely continue in this role until a permanent replacement is appointed later this year. Given the high degree of consensus amongst the Monetary Policy Committee, we do not think that the Governor's resignation will result in a move away from the 25bps cuts signalled for the April and May meetings. But we will be alert to any signs of new dynamics in the Committee when they announce the April OCR. The identity of the new Governor will clearly have some bearing on policy decisions that will be taken later in the year.

Meanwhile, in a development that may not be unrelated to the Governor's sudden departure, the Minister of Finance has indicated that she is taking advice on whether she can compel the RBNZ to abandon its policy of gradually raising capital requirements for New Zealand banks – a policy that had been fiercely defended by the Governor. The Minister is concerned that bank capital requirements and the risk weights that are applied to business and farm loans might be unduly onerous and be unnecessarily restraining economic growth. The Minister will likely have more to say in coming months

New Zealand exports to the US (NZDbn, 2024)



Source: Stats NZ, Macrobond, Westpac

(perhaps as part of the Budget announcement in May). Easier bank capital standards could help support the recovery in credit demand which has gathered strength in recent months. But actual policy changes may not come for a while – perhaps not until a new Governor is appointed.

Turning to the recent data flow, following the release of the final batch of partial indicators, we estimate that next week's report will indicate that GDP grew 0.5%qtr in Q4. As currently reported, this would follow a cumulative 2% contraction in output over the previous two quarters. That said, this growth is entirely due to issues that we have identified with the seasonal adjustment of the data. Our sector-by-sector estimates suggest effectively zero growth in activity, as does our GDP nowcast model. It is possible that revisions to historical data could moderate the magnitude of the mid-year contraction and the extent of the rebound in Q4. Therefore, we will also pay attention to the level of GDP in Q4, as this will factor into the RBNZ's estimate of the output gap.

More contemporary data suggests a genuine expansion of the economy in the current quarter, albeit at a below-trend pace. Retail spending data points to a gradual uptrend in spending that continued in February, in part supported by an ongoing recovery in tourist arrivals. Indicators also continue to point to an uptrend in housing market activity, although prices remained constrained with unsold inventory sitting at a 10-year high. In the labour market, the previous significant downtrend in job advertisements appears to have ended and a tax-based indicator of filled jobs suggests that, on net, employers are no longer shedding staff. Despite tariff-related uncertainty, business sentiment about the medium-term outlook remains very positive.

... as firms await clarity on US tariff policy

Recent updates on the Government's financial performance have also had a better tone. At the end of last year, the Treasury surprised the market with the Half-Year Economic and Fiscal Update (HYEFU) reporting a much larger than expected downward revision to tax revenue forecasts.

Since then, data available through to the end of January suggests that tax revenue is now running slightly ahead of those forecasts, with both goods and services tax and corporate tax outperforming those lowered expectations. At this stage it seems likely that this outperformance will continue, so that this year's full-year operating deficit might be slightly lower than signalled in the HYEFU. However, we doubt that this will translate to an improvement in the medium-term fiscal outlook. This is especially so given pressures on the Government to boost spending in some areas – notably defence – and the likelihood that medium-term financing costs will be higher than forecast in the HYEFU (the Treasury had assumed that the 10-year bond rate will decline to 4.0%).

Looking ahead, one factor that could dampen the fledging recovery is US tariff policy. New Zealand exports around $9bn to the US each year, including $2.6bn of meat, $1.0bn of dairy products and $0.7bn of beverages (mostly wine). While most of New Zealand's exports are not currently the subject of tariffs (exports of steel and aluminium being the notable exception), that could change when the US announces so called 'reciprocal tariffs' in early April. Indeed, President Trump has indicated that he is also considering imposing specific tariffs on agricultural exports into the US, that might be cumulative with any general country tariff. Such tariffs would clearly have implications for New Zealand's primary sector.

At least as importantly, New Zealand will also be impacted indirectly by tariffs imposed on its major trading partners.

Tariffs can be expected to lower global growth – especially if a retaliatory trade war ensues – and so lower demand and prices for New Zealand's exports. That said, other than in an extreme scenario, we do not expect that developments in US tariff policy will completely derail the recovery that is now in train. Importantly, should the outlook for the global economy weaken more than expected, a lower NZ dollar is likely to mitigate the negative impact on New Zealand exporters.

In this update we have made no changes to our forecasts for New Zealand interest rates (swap or bond). But the NZ dollar has held up a little better than we had expected last month, and this resilience may continue until at least early April when further details of US tariff policy are scheduled to be released. Consequently, and reflecting adjustments to Westpac's broad US dollar view, our baseline expectation for the NZD/USD envisages a low of 0.56 this year – 2 cents higher than forecast previously. Our sense is that the skew of risks around our new forecast remains to the downside however.

	2024											2025
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
REINZ house sales %mth	2.3	–2.9	–1.0	–8.2	11.1	0.1	2.4	3.1	1.9	–4.7	–3.1	–
Residential building consents %mth	0.0	–2.2	–1.6	–16.9	26.5	–5.4	2.4	–5.0	4.8	–5.6	2.4	–
Electronic card transactions %mth	–0.7	–0.4	–1.1	–0.6	–0.1	0.2	0.1	0.7	0.2	2.4	–1.6	0.3
Private sector credit %yr	2.7	2.5	3.0	2.7	2.6	2.8	2.8	2.6	3.1	3.1	3.2	–
Commodity prices %mth	–1.3	0.5	1.1	1.5	–1.7	2.1	1.8	1.4	2.9	0.1	1.8	2.9
Trade balance $m	–362	–973	–1018	–367	–804	–1031	–798	–512	–302	–258	266	–

Quarterly data	Q3:22	Q4:22	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24
Westpac McDermott Miller Consumer Confidence	87.6	75.6	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5
Quarterly Survey of Business Opinion	2	–12	–17	–11	–14	10	–26	–27	–30	–26
Unemployment rate %	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.6	4.8	5.1
CPI %yr	7.2	7.2	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2
Real GDP %yr	2.7	2.9	3.5	4.0	2.4	1.8	1.4	1.4	0.6	–
Current account balance % of GDP	–8.7	–9.2	–8.6	–8.0	–7.7	–6.9	–6.6	–6.6	–6.6	–

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

China defiantly focused ...

Elliot Clarke
Head of International Economics

Chinese authorities have struck a defiant tone over the past month, not only against President Trump's protectionist policies but also other risks to the outlook, most notably persistent weakness in domestic confidence and employment growth. While Premier Li Qiang's address to the National People's Congress did not include new policy initiatives, his intent was clear. Authorities across China will do what it takes to deliver a repeat of 2024's 5% GDP growth in 2025, driven by the domestic economy.

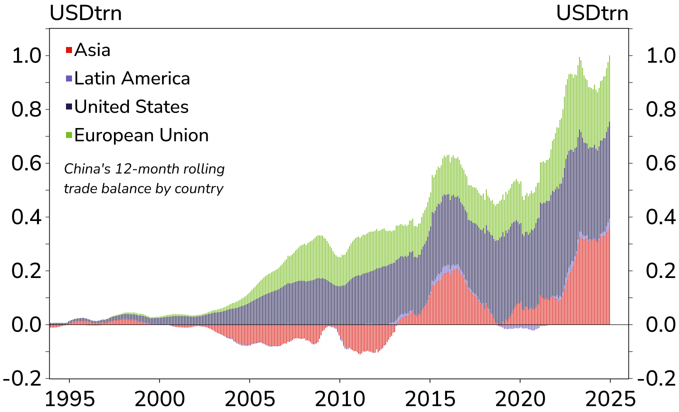
While trade's contribution is set to recede, it is still worth starting our discussion here given China is experiencing a 20ppt increase in US tariffs. These measures are open ended by design and apply across all Chinese exports to the US. Chinese firms are also potentially at risk from the 25% tariff on Mexico and product-specific tariffs like those for steel and aluminium which are set for full implementation by April 2. These are significant but surmountable impediments. The reason being that, for the past five years, China has been actively broadening its export markets across Asia and, while nascent, Latin America. For longer still, more than fifteen years, Chinese firms have also been expanding their production and logistic networks across Asia, particularly through ASEAN.

Not only is China therefore able to redirect exports to non-US markets, where demand is strong and growing, it can also produce for the US outside of China to avoid US tariffs. The existing slate of tariffs in the US will prove extremely challenging to implement let alone an expansion to consider the source of all inputs in complex manufactured goods and/or the true economic owner of production facilities in a third-party country.

It is also worth noting that China's global investment has been as much about cheaper inputs and production as it has been about meeting demand. Consequently, even where Chinese firms cannot avoid US tariffs, they are likely able to at least partly offset the cost of the tariffs through improved efficiency. Chinese exporters are therefore extremely well placed to weather the economic uncertainty the US is creating.

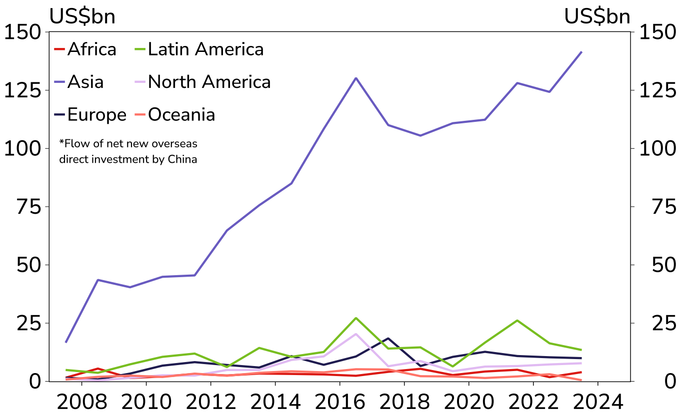
In terms of retaliating against the US, it is worth noting that Premier Li Qiang's NPC address very clearly stated a plan to increase domestic food production and continue China's technological development. Both initiatives are set to support Chinese growth and improve the living standards of China's population at the expense of US producers. Highlighting the risk that the US faces on this front is the circa 33% decline in Tesla's share price in recent weeks as deliveries of its Chinese made vehicles, which supply China and many other global markets, reportedly slumped 49% over the year to February,

Trade expansion providing resilience



Source: GAC, Macrobond, Westpac Economics

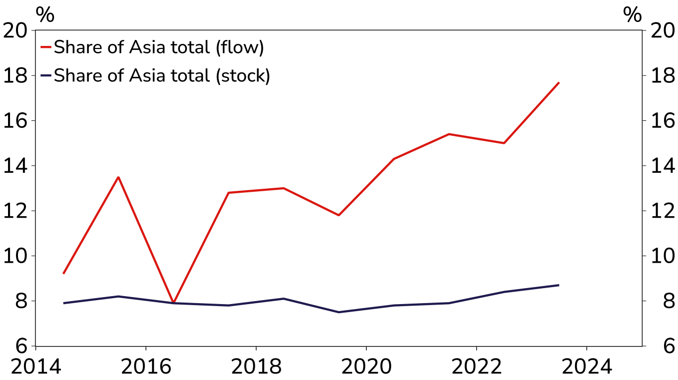
Overseas investment creates flexibility



Source: MOFCOM, Macrobond, Westpac Economics

ASEAN a focus given economic development

China's share of direct investment into ASEAN



Source: MOFCOM, Macrobond, Westpac Economics

... on growth opportunities

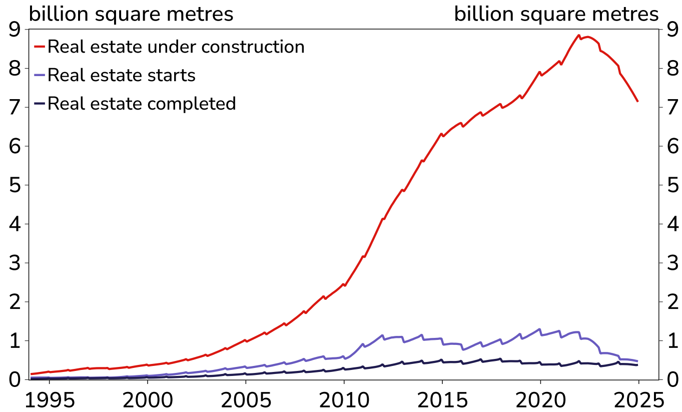
partly as a result of strong competition from Chinese firms such as BYD, Xpeng and Geely.

Turning to the other key risks to China's outlook: these centre on the labour market and confidence. While reduced imports and continued, but slower, growth in exports should promote further employment gains in trade-related sectors, it is the domestic economy where the greatest opportunity for an outsized windfall lies. The NPC address called for support for the housing sector, both through improving the financial position of developers and securing confidence in the outlook for prices. This is critical not only for creating jobs in construction and related production, but also, as consumers become less cautious, in discretionary consumer sub-sectors.

Also an opportunity for employment and confidence is the technology sector. Deepseek's development is evidence of Chinese tech's ability to innovate and grow despite heavy restrictions. Now, with a clear government directive for private and public entities to collaborate and pursue technological progress, confidence in long-term employment and wealth prospects should grow amongst consumers and businesses, and with it their appetite to spend.

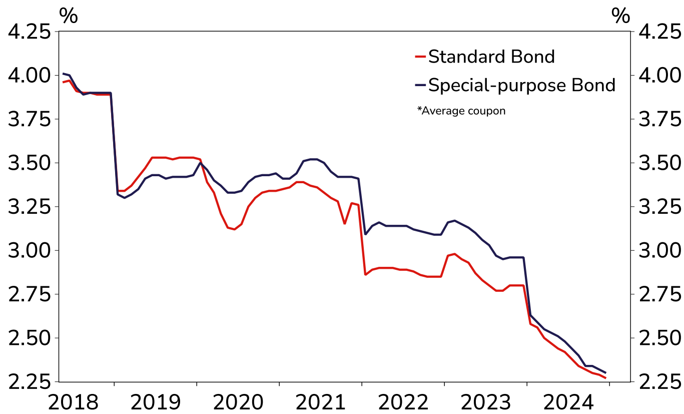
Note however, Chinese authorities are not looking to supercharge growth in any given year. Instead they intend to promote robust, sustainable development which improves welfare broadly and strengthens financial stability as well as opportunity. If the outlook is put at material risk by the US or another party, infrastructure investment will be accelerated and the property sector incentivised. But otherwise authorities will instead allow the economy's structure to evolve in keeping with authorities' long-term ambitions for income and productivity-led development. We believe the 5% growth target for 2025 is readily achievable and consider the risks to be balanced either side.

Real estate pipeline must be replenished



Source: NBS, Macrobond, Westpac Economics

Decline in government yields freeing up cash flow



Source: MOF, Macrobond, Westpac Economics

	2024										2025	
Monthly data %yr	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Consumer prices – headline	0.1	0.3	0.3	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	–0.7
Money supply M2	8.3	7.2	7	6.2	6.3	6.3	6.8	7.5	7.1	7.3	7.0	–
Manufacturing PMI (official)	50.8	50.4	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2
Fixed asset investment %ytd	4.5	4.2	4.0	3.9	3.6	3.4	3.4	3.4	3.3	3.2	–	–
Industrial production (IVA) %yr	4.5	6.7	5.6	5.3	5.1	4.5	5.4	5.3	5.4	6.2	–	–
Exports	–7.6	1.3	7.4	8.5	6.9	8.6	2.4	12.7	6.6	10.7	–	–
Imports	–2.0	8.3	2.0	–2.5	6.8	0.2	0.2	–2.4	–4.0	1.0	–	–
Trade balance USDbn	58.6	72.0	81.7	98.9	85.3	91.3	81.7	95.7	97.3	104.8	–	–

Quarterly data	Sep–23	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24
Real GDP %yr	5.0	5.3	5.3	4.7	4.6	5.4
Nominal GDP %yr	4.1	4.4	4.2	4.0	4.0	4.6

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

The tide is turning ...

Elliot Clarke
Head of International Economics

Repeated escalations and retreats on trade policy; an aggressive stance on immigration; and extreme uncertainty over government efficiency initiatives have recently sparked confusion and concern amongst market participants and US households. The promise of an extension of tax cuts beyond 2025 and support for economic growth from deregulation now seem decidedly distant positives and immaterial versus the immediate hit to households' cost-of-living and profit margins as a result of tariffs and unskilled labour shortages. The FOMC is meanwhile showing a reticence to ease policy significantly until the full effect of the administration's policy agenda is known for inflation, which could take many months.

While the swing in GDP growth from Q4 2024 to Q1 2025 foreshadowed by the Atlanta Federal Reserve's GDPnow nowcast, from +2.3% to -2.4% annualised, is striking, the projected outcome is a consequence of an outsized –3.8ppt subtraction coming from net exports as companies front-run the implementation of tariffs. Abstracting from this factor, the Atlanta Fed's nowcast suggests domestic demand growth will remain positive in Q1 at 1.4% annualised. That said, such an outcome would be less than half the average 3.2% annualised growth of 2024, and therefore still indicative of a marked loss of momentum, albeit not the feared start of recession.

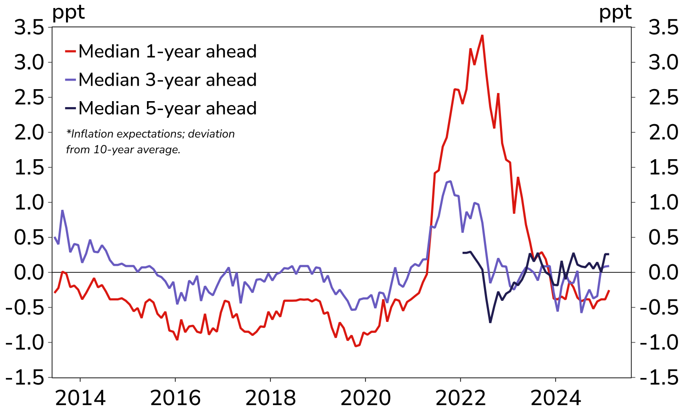
Giving weight to the Atlanta Fed's estimate, nominal personal consumption jolted lower in January, from +0.8% in December to –0.2% (not annualised), or –0.5% removing the effect of inflation. This came despite an acceleration in disposable income growth from 0.4% to 0.9%, suggesting households made an explicit choice to forego spending.

If we extrapolate forward using University of Michigan's sentiment survey, discretionary consumer demand looks set to deteriorate further, the headline sentiment index having fallen 13% between December and February, with three-quarters of the loss occurring in February. The effect of tariffs on the cost-of-living was certainly front and centre in the results, but job loss fears are also trending up – they have been since the beginning of 2024. After the past week, anxiety over household wealth may also be creeping in.

Regarding household financial wellbeing, the recent loss of confidence in the housing market is also notable. Existing homes sales were more than 20% below the average of the past decade in January, while new home sales and building permits are near average despite pent-up demand driven by above-average international and inter-state migration post-pandemic. A NAHB housing market index 33% below the decade average suggests this weakness is likely to endure.

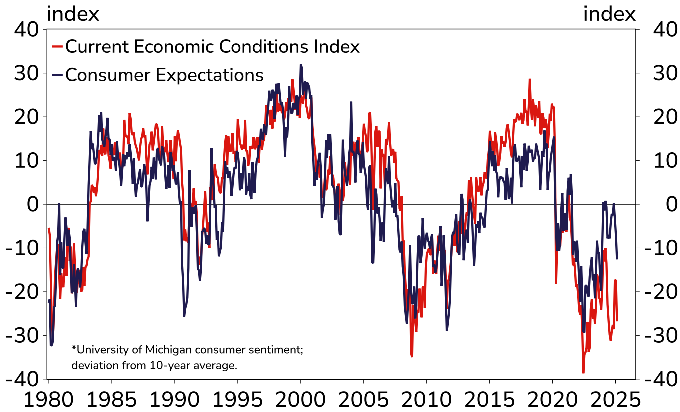
Of course, this state of affairs is the logical consequence of current mortgage pricing. The abundance of 30-year fixed

Consumers concerned over inflation outlook



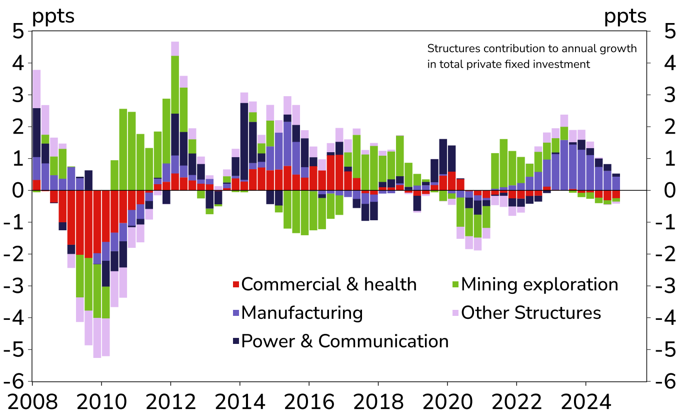
Source: New York Fed, Macrobond, Westpac Economics

Uncertainty weighing on consumer confidence



Source: University of Michigan, Macrobond, Westpac Economics

US investment spending losing IRA aid



Source: BEA, Macrobond, Westpac Economics

... against the US

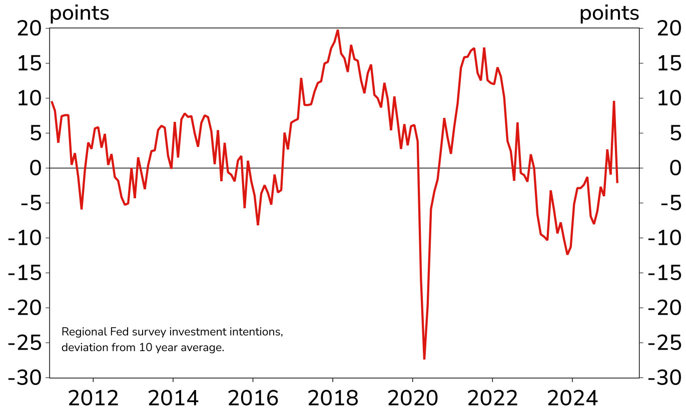
rates insulates existing home buyers from Fed hikes but only as long as they do not have to relocate or renovate. Those that move, plus new entrants, face interest rates around 250bps higher than the aggregate effective rate on outstanding debt. While growing at a slower rate, rents are also historically elevated and will remain so.

Results for the US economy have historically been dictated by household consumption and this looks likely to remain the case. Given the above trends and the expectation that immigration will decelerate, housing investment is unlikely to contribute meaningfully to GDP growth in coming years.

More at odds with the current expectation of the market, we also anticipate business investment will offer only marginal support to growth and remain susceptible to downside risks. For all the fanfare surrounding the IRA and CHIPS Acts, equipment investment has not kept pace with the rate of economic depreciation over the past four years, averaging just 3.2% annual growth after an even weaker run before and during the pandemic – the decade average to December is just 1.9%yr. Structures investment was stronger during the last Presidential term, averaging growth of 4.6%, but the average annual rate of growth over the decade is extremely weak at 1%.

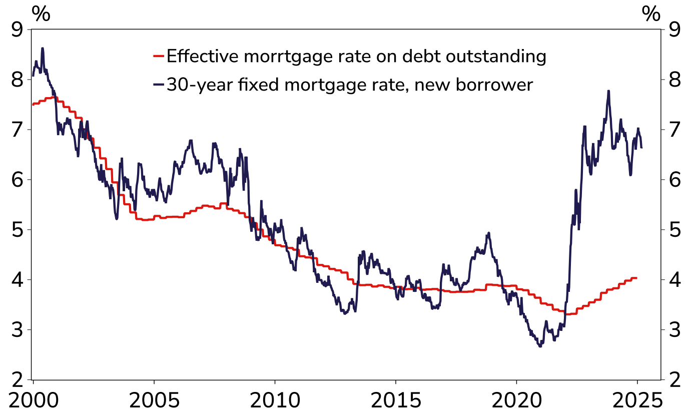
The effective erosion of the capital stock is not just an issue for US long-term growth potential, it also has a bearing on inflation. Capacity constrained, a growing population is likely to bid up the price of essentials, from housing to health to energy. This is why we expect annual inflation to remain materially above target even as growth slows below trend and the bulk of the tariff effect fades. Annual inflation near 3.0%yr in 2025 then circa 2.5%yr in 2026 warrants the FOMC stopping at two more cuts in late-2025, remaining modestly contractionary thereafter at 3.875%. A path where investment and deregulation rights this imbalance is difficult to foresee.

Optimism over business investment reversing



Source: Dallas Fed, Kansas City Fed, New York Fed, Richmond Fed, Philadelphia Fed, Macrobond, Westpac Economics

Interest costs big headwind for housing



Source: BEA, Freddie Mac, Macrobond, Westpac Economics

	2024										2025	
Monthly data	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
PCE deflator %yr	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	–
Unemployment rate %	3.9	3.9	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1
Non–farm payrolls chg ‘000	246	118	193	87	88	71	240	44	261	323	125	151
House prices* %yr	7.5	7.2	6.8	6.5	5.9	5.2	4.6	4.3	4.4	4.5	–	–
Durables orders core 3mth %saar	–1.2	2.3	–3.4	–0.5	–2.5	1.9	0.9	1.5	4.0	3.6	7.5	–
ISM manufacturing composite	49.8	48.8	48.5	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3
ISM non–manufacturing composite	51.3	49.6	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54.1	52.8	53.5
Personal spending 3mth %saar	5.6	6.2	6.0	4.0	5.5	4.3	6.1	5.5	7.0	7.6	5.0	–
UoM Consumer Sentiment	79.4	77.2	69.1	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7
Trade balance USDbn	–68.5	–75.9	–76.6	–74.2	–79.9	–71.4	–85.0	–73.7	–78.2	–98.1	–131.4	–

Quarterly data	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25(f)
Real GDP % saar	3.2	1.6	3.0	3.1	2.3	0.5
Current account USDbn	–221.8	–241.0	–275.0	–310.9	–	–

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

Bond demand and supply …

Illiana Jain
Economist, Westpac Group

Across developed markets, bond yields have risen dramatically in recent years and are currently settling well above levels prevailing before the pandemic. Beyond economic factors such as inflation risks and the shift in the global balance of saving and investment, debt dynamics are also providing support for yields. Two main debt-related factors argue for a higher term structure. First, wide government deficits at risk of further expansion have significant boosted actual and expected new bond issuance. Second, quantitative tightening by central banks has reduced their holdings and led to broader questions about the appetite for government paper in the years to come.

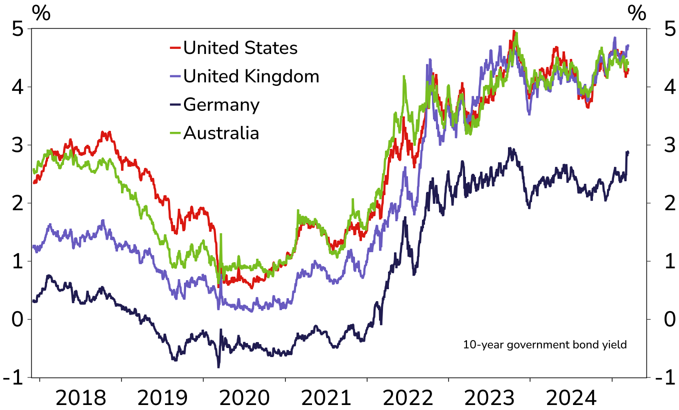
These debt-related factors translate into a lower 'convenience yield', the yield investors are willing to forgo to hold safe and highly liquid assets like government bonds. In a recent speech, European Central Bank Committee member Isabel Schnabel outlined evidence that this convenience yield is beginning to decline. This in turn has contributed to the increase in yields on government bonds.

The decline in the convenience yield has occurred as government issuance has grown since the onset of the pandemic. Estimates by the Federal Reserve suggests in the US the convenience yield is around 70bps down from around 125bps prior to the pandemic. The research also shows a steady downtrend in the yield since GFC, interrupted briefly by COVID.

Looking ahead, budget deficits are anticipated to persist across developed markets adding materially to the stock of government debt. The US Congressional Budget Office anticipates the US deficit will hold around 6% of GDP, while, in the UK, the budget position is only expected to improve slowly from around 5% to 2.5% of GDP by 2029, assuming a favourable outlook for growth. In Europe, increased defence spending alone looks set to drive larger deficits. For example, the German parliament is set to vote on a constitutional amendment that allows for a significant lift in defence-related borrowing. Even in Australia, where the Federal budget has been closer to balance, the Parliamentary Budget Office expects small deficits to be the norm out to 2033. All this points to a historic supply of developed-market government bonds coming to market.

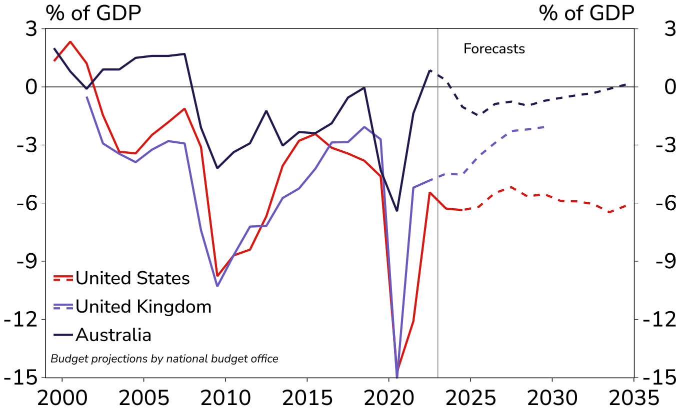
With ample supply, investors are no longer willing to accept a lower yield for the privilege of holding what was once seen as a scarce resource. Evidence of sated demand can also be seen in swap/bond spreads turning negative in numerous countries. Recent developments in Germany are a prime example, with reports of plans to increase defence spending substantially jolting government yields higher while swap yields held firm. Widening swap/bond spreads turned materially negative for the first time in December 2024.

A lower convenience yield supports yields



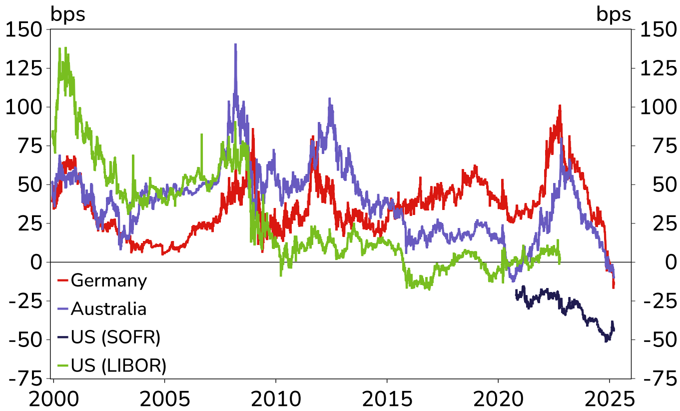
Source: U.S. Treasury, Macrobond, Macrobond, Westpac Economics

Governments anticipate deficits will persist



Source: CBO, OBR, APH, Macrobond, Westpac Economics

Swap spreads signal demand for debt may be sated



Source: , Macrobond, Westpac Economics

… argue for 'higher-for-forever' yields

In Australia, swap spreads were negative during 2020, when an unprecedented amount of fiscal support was given during COVID, and again in November 2024, as US President Donald Trump was re-elected and markets anticipated slower growth and greater US government spending, dragging up bond yields globally. These negative spreads have widened since mid-December. All told, larger negative swap/bond spreads speak to greater uncertainty in the minds of investors around future government finances and consequently to a higher required return for holding government bonds.

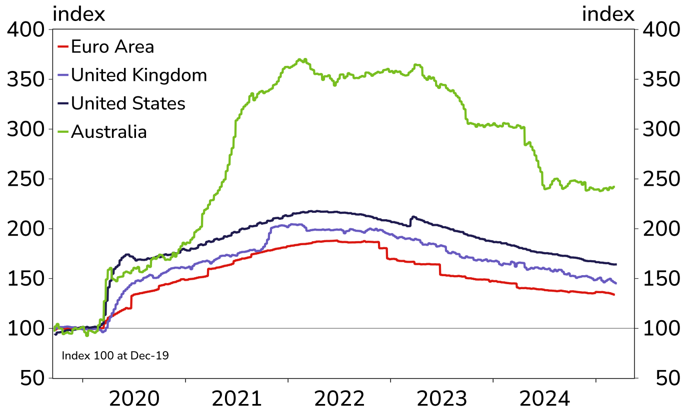
It is not only supply that has shifted but also demand. Central bank assets have come down substantially since their peak in 2022; monetary authorities have been reducing the scale of their balance sheets as they unwind earlier quantitative easing programs. Assuming another crisis does not materialise, central bank holdings of government securities will be smaller than prior to and during the pandemic. This development also supports a higher term structure across the curves of major markets.

As this transition continues, central banks are also likely to reduce the duration of their assets, removing the downward pressure put on term premia by quantitative easing (QE). Estimates from the Australian Office of Financial Management show that since the RBA decided to end its QE programme in February 2022, term premia has started to drift up from -20bps to +85bps in January 2025. Term premia had been steadily declining since 2010, while current estimates are close to where it was in March 2023. Similarly, term premia have trended higher since the FOMC decided to start normalising its balance sheet in June 2022. Note however, the scale and pace of the increase in term premia will also depend on where along the curve governments issue. The further out this skews, the wider the term premia will travel.

The primary implication of these developments is that, for a given monetary policy stance, the yields at which governments borrow will be higher, placing upward pressure on borrowing costs and current and future deficits. Given the increase in interest costs a higher term structure brings, governments will need to become more considered about how they spend.

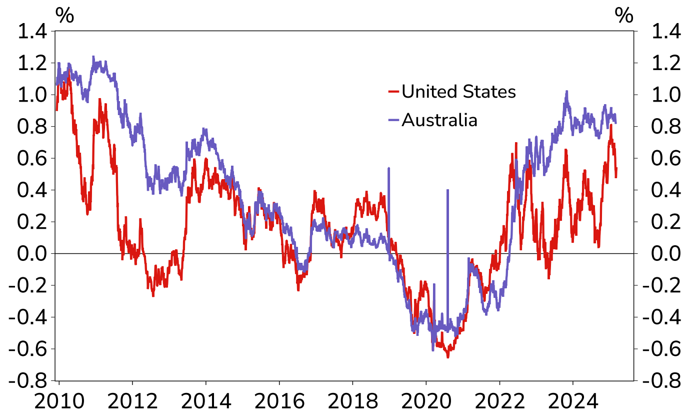
For nations like Australia, a strong labour market, robust population growth and resilient export receipts offer flexibility to manage the budget, particularly with a broadly balanced starting point and tax brackets that are fixed in dollar terms. Countries such as the US and UK, in contrast, face considerable challenges, though admittedly are likely to see greater 'safe-haven' demand, dampening the drift higher in yields. Unlike the US with its CPI-indexed tax brackets, the UK can also achieve budget repair through bracket creep.

Central banks are shrinking their balance sheets



Source: BOJ, BoE, Fed, SNB, PBoC, Riksbanken, RBA, StatCan, RBNZ, ECB, Macrobond, Westpac Economics

QT to see term premia drift up



Source: Fed, AOFM, Macrobond, Westpac Economics

The risk to watch out for in the US and UK in particular is if/when a shock arises. Given the current size of deficit and debt levels, the ability of these nations to balance providing support for the economy and ongoing debt servicing will become materially more complex and difficult.

Whether other nations' circumstances follow or not, risks priced into core developed-world yields are likely to permeate across global debt markets, impacting markets as far away as Australia and New Zealand.

Australia

Interest rate forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	4.10	3.85	3.60	3.35	3.35	3.35	3.35	3.35	3.35	3.35
90 Day BBSW	4.12	3.90	3.70	3.45	3.50	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.69	3.75	3.80	3.80	3.85	3.90	3.95	4.00	4.00	4.00
3 Year Bond	3.76	3.85	3.90	3.90	3.90	3.95	4.00	4.05	4.00	4.00
10 Year Bond	4.39	4.65	4.70	4.75	4.80	4.80	4.80	4.80	4.90	4.90
10 Year Spread to US (bps)	12	15	10	5	0	0	0	0	0	0

Currency forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD vs										
USD	0.6284	0.62	0.64	0.65	0.66	0.67	0.68	0.69	0.70	0.71
JPY	92.96	91	92	91	91	92	92	93	94	94
EUR	0.5792	0.58	0.59	0.60	0.60	0.60	0.61	0.61	0.62	0.62
NZD	1.1025	1.12	1.14	1.15	1.15	1.15	1.15	1.15	1.15	1.15
CAD	0.9068	0.91	0.93	0.93	0.93	0.93	0.93	0.94	0.95	0.95
GBP	0.4853	0.49	0.50	0.50	0.50	0.51	0.51	0.51	0.52	0.53
CHF	0.5546	0.56	0.56	0.57	0.57	0.58	0.58	0.59	0.60	0.60
DKK	4.3206	4.37	4.42	4.45	4.48	4.50	4.53	4.56	4.62	4.65
SEK	6.4062	6.48	6.56	6.60	6.64	6.68	6.72	6.76	6.86	6.90
NOK	6.7180	6.79	6.88	6.92	6.96	7.01	7.05	7.09	7.19	7.23
ZAR	11.51	11.6	11.8	11.9	12.0	12.0	12.1	12.2	12.3	12.4
SGD	0.8396	0.83	0.85	0.86	0.87	0.88	0.89	0.90	0.91	0.92
HKD	4.8840	4.82	4.97	5.04	5.12	5.19	5.27	5.35	5.43	5.50
PHP	36.11	36.0	36.8	37.2	37.6	38.1	38.5	38.9	39.3	39.8
THB	21.18	21.1	21.6	21.8	21.8	21.8	21.8	21.7	21.7	22.0
MYR	2.7908	2.76	2.78	2.76	2.74	2.71	2.72	2.73	2.77	2.80
CNY	4.5535	4.50	4.64	4.68	4.75	4.79	4.83	4.83	4.83	4.83
IDR	10323	10230	10496	10530	10494	10452	10404	10350	10290	10408
TWD	20.72	20.5	20.9	21.1	21.2	21.3	21.4	21.5	21.7	21.9
KRW	914	905	922	923	924	925	925	925	924	930
INR	54.73	54.3	55.0	55.3	55.4	55.6	55.8	55.9	56.0	56.1

Australia

Activity forecasts*

	2024		2025				2026		Calendar years			
%qtr / %yr avg	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	–0.1	0.4	0.3	0.5	0.5	0.5	0.6	0.6	2.5	0.6	1.3	2.2
Dwelling investment	1.5	–0.4	1.5	1.5	1.2	1.2	1.3	1.6	–1.3	–0.4	4.2	5.8
Business investment **	–0.4	0.5	0.6	0.7	0.8	0.9	1.1	1.2	8.3	2.5	2.0	4.4
Private demand **	0.0	0.4	0.5	0.6	0.6	0.6	0.7	0.8	2.8	1.0	1.7	3.0
Public demand **	2.5	1.0	0.8	0.7	0.9	0.7	0.7	0.6	3.1	4.4	4.1	2.7
Domestic demand	0.7	0.5	0.5	0.7	0.7	0.6	0.7	0.7	2.9	1.9	2.4	2.9
Stock contribution	–0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.1	–1.0	0.1	–0.2	0.2
GNE	0.4	0.6	0.5	0.7	0.7	0.7	0.8	0.8	1.9	2.0	2.2	3.1
Exports	0.2	0.7	0.5	0.4	0.3	0.4	0.4	0.4	6.9	0.9	1.8	1.5
Imports	–0.2	0.1	0.7	0.7	0.7	0.9	1.5	1.6	6.8	5.5	1.9	5.0
Net exports contribution	0.1	0.2	0.0	–0.1	–0.1	–0.1	–0.3	–0.3	0.3	–1.0	0.0	–0.8
Real GDP %qtr / yr avg	**0.3**	**0.6**	**0.5**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	2.1	1.0	2.0	2.2
%yr end	**0.8**	**1.3**	**1.6**	**2.0**	**2.3**	**2.2**	**2.2**	**2.2**	**1.5**	**1.3**	**2.2**	**2.2**
Nominal GDP %qtr	0.5	1.6	0.6	0.8	1.0	0.7	0.7	0.8	–	–	–	–
%yr end	3.5	3.7	3.0	3.6	4.0	3.1	3.2	3.2	4.3	3.7	3.1	3.3

Other macroeconomic variables

	2024		2025				2026		Calendar years			
% change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Employment (2)	0.9	0.7	0.8	0.1	0.0	0.0	0.2	0.2	–	–	–	–
%yr	2.7	2.7	3.2	2.7	1.7	1.0	0.4	0.5	3.0	2.7	1.0	1.2
Unemployment rate % (2)	4.1	4.0	4.0	4.2	4.4	4.5	4.5	4.5	3.9	4.0	4.5	4.5
Wages (WPI) (sa) (2)	0.9	0.7	0.8	0.7	0.7	0.7	0.8	0.8	–	–	–	–
annual chg	3.6	3.2	3.2	3.0	2.9	2.9	3.0	3.1	4.2	3.2	2.9	3.3
CPI Headline (2)	0.2	0.2	0.7	0.9	0.9	0.6	0.6	0.8	–	–	–	–
annual chg	2.8	2.4	2.2	2.0	2.7	3.2	3.1	3.0	4.1	2.4	3.2	2.7
Trimmed mean	0.8	0.5	0.5	0.6	0.7	0.7	0.6	0.6	–	–	–	–
annual chg	3.6	3.2	2.7	2.4	2.3	2.5	2.6	2.6	4.2	3.2	2.5	2.5
Current account $bn	–13.9	–12.5	–12.8	–13.6	–13.9	–14.4	–16.6	–18.1	–	–	–	–
% of GDP	–2.0	–1.8	–1.8	–1.9	–2.0	–2.0	–2.3	–2.5	–0.2	–1.8	–2.0	–2.8
Terms of trade annual chg (1)	–4.7	–4.8	–4.3	–4.1	–3.4	–3.1	–2.6	–2.7	–6.2	–4.8	–3.1	–2.8

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

	2024									2025	
Monthly data	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
Employment '000 chg	22.3	23.4	41.6	51.0	43.8	59.2	12.9	29.2	60.0	44.0	–
Unemployment rate %	4.1	4.0	4.1	4.2	4.1	4.1	4.1	3.9	4.0	4.1	–
Westpac–MI Consumer Sentiment	82.4	82.2	83.6	82.7	85.0	84.6	89.8	94.6	92.8	92.1	95.9
Retail trade %mth	0.2	0.7	0.5	0.0	0.7	0.3	0.5	0.7	–0.1	0.3	–
Dwelling approvals %mth	1.4	4.7	–5.8	10.7	–4.4	3.2	7.6	–2.9	1.7	6.3	–
Private sector credit %mth	0.5	0.4	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.5	–
Trade in goods balance AUDbn	5.6	5.0	5.1	5.4	5.4	4.3	5.3	6.6	4.9	5.6	–

New Zealand

Interest rate forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.75	3.25	3.25	3.25	3.25	3.50	3.75	3.75	3.75	3.75
90 Day Bill	3.69	3.35	3.35	3.35	3.45	3.70	3.85	3.85	3.85	3.85
2 Year Swap	3.45	3.50	3.65	3.80	3.90	3.95	4.00	4.00	4.00	4.00
10 Year Bond	4.55	4.70	4.85	4.90	5.00	5.00	5.00	4.95	4.95	4.95
10 Year Spread to US	28	20	25	20	20	20	20	15	5	5
10 Year Spread to Aust	16	5	15	15	20	20	20	15	5	5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
NZD vs										
USD	0.5700	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.61	0.62
JPY	84.32	82	80	79	79	80	80	81	82	82
EUR	0.5252	0.52	0.52	0.52	0.52	0.52	0.53	0.53	0.54	0.54
AUD	0.9070	0.90	0.88	0.87	0.87	0.87	0.87	0.87	0.87	0.87
CAD	0.8225	0.81	0.81	0.81	0.81	0.81	0.81	0.82	0.82	0.83
GBP	0.4402	0.44	0.43	0.44	0.44	0.44	0.44	0.45	0.45	0.46
CNY	4.1247	4.03	4.06	4.08	4.12	4.16	4.19	4.20	4.21	4.22

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024		2025				2026		Calendar years			
% change	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024f**	**2025f**	**2026f**
Private consumption	–0.3	0.3	–0.3	0.7	0.8	1.3	1.1	1.2	1.0	0.2	1.0	4.5
Government consumption	–1.9	–0.5	–0.5	0.0	0.4	0.4	0.5	0.5	0.8	–0.4	–1.6	1.8
Residential investment	–2.0	–2.0	–0.5	0.3	1.0	1.1	1.5	1.8	–5.6	–9.2	–3.0	5.9
Business investment	–2.5	–0.9	–0.4	0.6	1.1	1.4	1.5	1.4	1.9	–2.7	–0.7	5.3
Stocks (ppt contribution)	–0.4	1.3	0.2	0.2	0.0	0.0	0.0	–0.1	–1.4	0.3	1.1	–0.2
GNE	–1.0	1.1	–0.1	0.7	0.7	1.1	1.1	1.0	–0.9	–0.7	1.2	4.0
Exports	–2.1	2.2	2.2	1.1	0.5	0.6	0.7	0.7	11.4	4.0	4.3	2.6
Imports	–0.4	–1.8	0.0	0.9	1.2	1.6	1.6	1.5	–0.6	1.3	–0.1	6.0
GDP (production)	–1.0	0.5	0.4	0.8	0.5	0.8	0.8	0.7	1.8	–0.5	1.1	3.0
Employment annual %	–0.6	–1.1	–0.6	–0.7	0.0	0.4	0.8	1.2	2.8	–1.1	0.4	1.9
Unemployment rate % s.a.	4.8	5.1	5.3	5.4	5.4	5.3	5.2	5.0	4.0	5.1	5.3	4.6
LCI, all sect incl o/t, ann %	3.8	3.3	3.0	2.4	2.3	2.2	1.9	1.8	4.3	3.3	2.2	1.8
CPI annual %	2.2	2.2	2.2	2.3	2.7	2.6	2.5	2.3	4.7	2.2	2.6	2.0
Current account % of GDP	–6.4	–5.9	–5.0	–4.1	–3.6	–3.5	–3.7	–4.0	–6.9	–5.9	–3.5	–4.3
Terms of trade annual %	1.4	17.2	18.2	16.5	12.0	4.2	–2.1	–1.6	–10.7	17.2	4.2	2.1

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Jun–27
Australian commodities index#	307	295	283	281	279	280	282	283	285	286	288
Bulk commodities index#	**398**	**370**	**340**	**340**	**340**	**340**	**340**	**340**	**340**	**340**	**350**
iron ore finesTSI @ 62% US$/t	101	95	88	86	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	180	175	170	170	170	169	167	167	168	170	171
Newcastle spot thermal coal (US$/t)	108	100	100	105	107	110	111	111	112	113	114
crude oil (US$/bbl) Brent ICE	70	67	65	65	67	70	72	72	73	73	74
LNG in Japan US$mmbtu	12.84	12.1	10.7	10.3	9.8	9.4	9.5	9.5	9.5	9.6	9.6
gold (US$/oz)	2,952	2,950	2,970	2,980	2,970	2,960	2,960	2,970	2,980	2,980	2,990
Base metals index#	**217**	**215**	**210**	**204**	**206**	**215**	**221**	**222**	**224**	**225**	**227**
copper (US$/t)	9,669	9,650	9,450	9,200	9,300	9,740	10,030	10,100	10,170	10,240	10,320
aluminium (US$/t)	2,903	2,930	2,870	2,800	2,830	2,940	3,020	3,040	3,060	3,080	3,090
nickel (US$/t)	16,439	16,200	15,780	15,200	15,300	15,950	16,380	16,490	16,590	16,700	16,810
zinc (US$/t)	2,888	2,800	2,700	2,600	2,650	2,740	2,800	2,810	2,830	2,840	2,850
lead (US$/t)	2,051	2,000	1,920	1,840	1,870	1,930	1,970	1,980	2,000	2,010	2,020
Rural commodities index#	**121**	**115**	**113**	**113**	**117**	**122**	**126**	**127**	**128**	**129**	**130**
NZ commodities index ##	**399**	**382**	**375**	**371**	**372**	**376**	**380**	**384**	**387**	**391**	**393**
dairy price index ##	364	334	322	313	312	316	320	324	328	330	333
whole milk powder USD/t	4,061	3,800	3,670	3,550	3,600	3,650	3,700	3,750	3,780	3,810	3,840
skim milk powder USD/t	2,744	2,600	2,520	2,450	2,500	2,550	2,600	2,650	2,670	2,690	2,710
lamb price index ##	516	493	498	504	512	520	528	536	544	553	562
beef price index ##	301	299	301	302	304	306	308	310	312	315	317
forestry price index ##	157	164	165	167	169	169	170	170	170	170	171

	levels				%change			
Annual averages	**2024**	**2025(f)**	**2026(f)**	**2027(f)**	**2024**	**2025(f)**	**2026(f)**	**2027(f)**
Australian commodities index#	**312**	**294**	**281**	**286**	**–3.7**	**–5.7**	**–4.4**	**2.0**
Bulk commodities index#	**444**	**368**	**337**	**344**	**–11.3**	**–17.1**	**–8.5**	**1.9**
iron ore fines @ 62% USD/t	109	94	84	85	–8.5	–14.1	–10.9	1.9
LNG in Japan $mmbtu	13.0	11.7	9.6	9.6	–12.4	–10.2	–17.9	–0.1
ave coking coal price (US$/t)	195	140	125	126	–9.3	–28.2	–10.9	0.5
ave thermal price (US$/t)	136	120	125	129	–26.1	–11.4	3.9	3.5
iron ore fines contracts (US¢ dltu)	155	140	124	124	–3.6	–9.4	–11.6	0.5
Premium low vol met coal (US$/t)	241	176	169	170	–18.6	–26.8	–4.4	0.7
crude oil (US$/bbl) Brent ICE	78	68	70	74	–1.6	–12.9	2.1	5.5
gold (US$/oz)	2,410	2,937	2,963	2,986	22.8	21.9	0.9	0.8
Base metals index#	**210**	**211**	**214**	**225**	**–1.0**	**0.4**	**1.7**	**5.0**
copper (US$/t)	9,200	9,400	9,700	10,300	8.1	2.2	3.2	6.2
aluminium (US$/t)	2,700	2,900	2,900	3,100	–1.4	7.4	0.0	6.9
nickel (US$/t)	16,900	15,800	15,900	16,700	–21.8	–6.5	0.6	5.0
zinc (US$/t)	2,800	2,800	2,700	2,800	5.6	0.0	–3.6	3.7
lead (US$/t)	2,100	2,000	1,900	2,000	–1.4	–4.8	–5.0	5.3
Rural commodities index#	**126**	**116**	**122**	**129**	**–10.3**	**–8.0**	**5.1**	**5.8**
NZ commodities index ##	**357**	**380**	**378**	**391**	**8.4**	**6.4**	**–0.5**	**3.6**
dairy price index ##	318	330	318	331	10.9	4.0	–3.7	4.2
whole milk powder USD/t	3,439	3,813	3,654	3,809	11.6	10.9	–4.2	4.2
skim milk powder USD/t	2,686	2,608	2,554	2,692	1.8	–2.9	–2.1	5.4
lamb price index ##	462	497	521	555	0.3	7.6	4.9	6.4
beef price index ##	283	300	306	315	4.4	5.9	2.0	2.9
forestry price index ##	159	163	169	171	–0.1	2.5	3.6	0.8

Chain weighted index: weights are Australian export shares. * Australian export prices fob – ABS 5432.0 Merchandise Trade Exports. ** WCFI – Westpac commodities futures index. *** Weekly averages except for the Bulks Index. ^ AWEX market prices. Sources for all tables: Westpac Economics, Bloomberg ##ANZ NZ commodity price index ^^ GlobalDairyTrade

United States

Interest rate forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Fed Funds*	4.375	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.27	4.50	4.60	4.70	4.80	4.80	4.80	4.80	4.90	4.90

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

Currency forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
USD vs										
DXY index	103.83	105.7	103.7	102.6	101.6	100.7	99.7	98.9	98.6	97.8
JPY	147.93	147	143	140	138	137	136	135	134	133
EUR	1.0851	1.06	1.08	1.09	1.10	1.11	1.12	1.13	1.13	1.14
AUD	0.6284	0.62	0.64	0.65	0.66	0.67	0.68	0.69	0.70	0.71
NZD	0.5700	0.56	0.56	0.57	0.57	0.58	0.59	0.60	0.61	0.62
CAD	1.4430	1.46	1.45	1.43	1.41	1.39	1.37	1.36	1.35	1.34
GBP	1.2949	1.27	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.35
CHF	0.8825	0.90	0.88	0.88	0.87	0.87	0.86	0.86	0.85	0.85
ZAR	18.32	18.7	18.4	18.3	18.1	18.0	17.9	17.7	17.6	17.5
SGD	1.3360	1.34	1.33	1.32	1.32	1.31	1.31	1.30	1.30	1.29
HKD	7.7718	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	57.36	58.0	57.5	57.2	57.0	56.8	56.6	56.4	56.2	56.1
THB	33.70	34.0	33.8	33.5	33.0	32.5	32.0	31.5	31.0	31.0
MYR	4.4346	4.45	4.35	4.25	4.15	4.05	4.00	3.95	3.95	3.95
CNY	7.2432	7.25	7.25	7.20	7.20	7.15	7.10	7.00	6.90	6.80
IDR	16428	16500	16400	16200	15900	15600	15300	15000	14700	14659
TWD	32.97	33.1	32.7	32.4	32.1	31.8	31.5	31.2	31.0	30.9
KRW	1454	1460	1440	1420	1400	1380	1360	1340	1320	1310
INR	87.01	87.5	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Activity forecasts

	2024		2025				2026		Calendar years			
% annualised, s/adj	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	3.7	4.2	1.2	2.0	2.0	2.0	1.6	1.5	2.5	2.8	2.5	1.7
Dwelling investment	–4.3	5.3	3.2	3.6	4.1	4.1	3.2	3.2	–8.3	4.2	2.5	3.5
Business investment	4.0	–2.2	2.6	3.4	3.4	3.2	2.7	2.8	5.8	3.7	2.3	3.0
Public demand	5.1	2.5	2.0	2.0	2.0	2.0	0.8	0.8	3.9	3.4	2.5	1.2
Domestic final demand	3.7	3.0	1.6	2.3	2.3	2.3	1.7	1.6	2.8	3.0	2.5	1.9
Inventories contribution ppt	–0.2	–0.9	1.1	–0.2	–0.2	–0.2	–0.2	0.0	–0.4	0.0	0.1	–0.1
Net exports contribution ppt	–0.6	0.0	–2.3	–1.0	–0.1	–0.1	–0.1	–0.1	0.5	–0.5	–0.9	–0.1
GDP	3.1	2.3	0.5	1.1	2.2	2.1	1.5	1.6	2.9	2.8	1.7	1.7
%yr annual chg	2.7	2.5	2.2	1.7	1.5	1.5	1.7	1.9	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	113	170	160	140	120	100	80	80	213	161	130	90
Unemployment rate %	4.2	4.1	4.1	4.2	4.3	4.3	4.4	4.5	3.8	4.1	4.3	4.5
CPI headline %yr	2.5	2.5	2.3	2.2	2.1	2.0	2.2	2.5	3.4	2.9	2.9	2.6
PCE deflator, core %yr	2.5	2.5	2.4	2.3	2.3	2.2	2.4	2.5	2.7	2.6	2.8	2.5

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Euro Area										
ECB Deposit Rate	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.86	3.05	3.10	3.20	3.30	3.30	3.40	3.45	3.60	3.60
10 Year Spread to US	–141	–145	–150	–150	–150	–150	–140	–135	–130	–130
United Kingdom										
BoE Bank Rate	4.50	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.68	4.80	4.80	4.85	4.90	4.90	4.90	4.90	4.95	4.95
10 Year Spread to US	41	30	20	15	10	10	10	10	5	5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
euro vs										
USD	1.0851	1.06	1.08	1.09	1.10	1.11	1.12	1.13	1.13	1.14
JPY	160.53	156	154	153	152	152	152	153	151	152
GBP	0.8380	0.83	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84
CHF	0.9577	0.95	0.95	0.96	0.96	0.97	0.96	0.97	0.96	0.97
DKK	7.4607	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.07	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
NOK	11.60	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6	11.6
sterling vs										
USD	1.2949	1.27	1.29	1.30	1.31	1.32	1.33	1.34	1.35	1.35
JPY	191.56	187	184	182	181	181	181	181	181	180
CHF	1.1428	1.14	1.14	1.14	1.14	1.15	1.14	1.15	1.15	1.15
AUD	0.4853	0.49	0.50	0.50	0.50	0.51	0.51	0.51	0.52	0.53

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024	2025f	2026f
Eurozone GDP	–6.1	5.9	3.4	0.4	0.7	0.9	1.3
private consumption	–8.0	3.5	4.0	0.6	0.8	1.0	1.3
fixed investment	–8.4	3.6	3.5	1.0	–1.9	0.8	1.9
government consumption	1.4	3.8	1.2	0.1	1.6	1.4	1.5
net exports contribution ppt	–0.7	1.0	0.3	0.1	0.2	0.1	0.2
Germany GDP	–3.8	3.2	1.8	–0.3	–0.2	0.5	1.1
France GDP	–7.5	6.3	2.5	0.9	1.0	0.8	1.2
Italy GDP	–9.0	8.3	4.0	0.9	0.5	0.8	0.9
Spain GDP	–11.2	6.4	5.8	2.5	3.2	2.4	2.0
Netherlands GDP	–3.9	6.2	4.3	0.1	0.8	1.5	1.4
memo: United Kingdom GDP	–10.4	8.7	4.3	0.1	0.7	0.7	1.2

Asia

China activity forecasts

Calendar years	2019	2020	2021	2022	2023	2024	2025f	2026f
Real GDP	6.0	2.2	8.4	3.0	5.2	5.0	5.0	4.7
Consumer prices	2.9	2.5	0.9	2.0	0.2	0.7	1.0	1.7
Producer prices	–0.5	–0.4	10.3	–0.7	–3.0	–1.5	0.5	1.5
Industrial production (IVA)	5.8	5.1	6.7	3	4.4	5.2	5.0	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.6	3.8	5.0	5.2
Money supply M2	8.7	10.1	9.0	11.8	11.2	7.2	8.3	8.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.5	4.0	4.7	4.5
Exports %yr	7.9	18.1	20.9	–9.9	–4.6	4.6	2.5	3.0
Imports %yr	16.5	6.5	19.5	–7.5	–5.3	3.0	1.5	2.5

Source: Macrobond

Chinese interest rates & monetary policy

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Required reserve ratio %*	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Loan Prime Rate, 1–year	3.10	2.90	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Currency forecasts

	Latest (14 Mar)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
JPY	147.93	147	143	140	138	137	136	135	134	133
SGD	1.3360	1.34	1.33	1.32	1.32	1.31	1.31	1.30	1.30	1.29
HKD	7.7718	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	57.36	58.0	57.5	57.2	57.0	56.8	56.6	56.4	56.2	56.1
THB	33.70	34.0	33.8	33.5	33.0	32.5	32.0	31.5	31.0	31.0
MYR	4.4346	4.45	4.35	4.25	4.15	4.05	4.00	3.95	3.95	3.95
CNY	7.2432	7.25	7.25	7.20	7.20	7.15	7.10	7.00	6.90	6.80
IDR	16428	16500	16400	16200	15900	15600	15300	15000	14700	14659
TWD	32.97	33.1	32.7	32.4	32.1	31.8	31.5	31.2	31.0	30.9
KRW	1454	1460	1440	1420	1400	1380	1360	1340	1320	1310
INR	87.01	87.5	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2019	2020	2021	2022	2023	2024	2025f	2026f
World	**2.8**	**–2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.2**	**3.2**
United States	2.5	–2.2	5.8	1.9	2.5	2.8	1.7	1.7
Japan	–0.4	–4.1	2.6	1.0	1.9	–0.1	1.2	1.0
Euro zone	1.6	–6.1	5.9	3.4	0.4	0.7	0.9	1.3
Group of 3	**1.8**	**–3.9**	**5.5**	**2.4**	**1.7**	**1.7**	**1.3**	**1.5**
United Kingdom	1.6	–10.4	8.7	4.3	0.1	0.7	0.7	1.2
Canada	1.9	–5.0	5.3	3.8	1.1	1.3	1.3	1.5
Australia	1.8	–2.1	5.5	3.9	2.1	1.0	2.0	2.2
New Zealand	3.1	–1.4	5.6	2.4	1.8	–0.5	1.1	3.0
OECD total	**1.8**	**–4.3**	**5.8**	**2.8**	**1.7**	**1.5**	**1.4**	**1.5**
China	6.0	2.2	8.4	3.0	5.2	5.0	5.0	4.7
Korea	2.2	–0.7	4.3	2.6	1.4	2.1	1.8	2.1
Taiwan	3.1	3.4	6.6	2.6	1.4	4.3	2.8	2.7
Hong Kong	–1.7	–6.5	6.5	–3.7	3.2	2.5	2.3	2.3
Singapore	1.3	–3.9	9.7	3.8	1.1	3.9	2.8	2.5
Indonesia	5.0	–2.1	3.7	5.3	5.0	5.0	5.1	5.1
Thailand	2.1	–6.1	1.5	2.5	1.9	2.7	3.0	3.0
Malaysia	4.4	–5.5	3.3	8.7	3.7	5.1	4.8	4.6
Philippines	6.1	–9.5	5.7	7.6	5.6	5.6	6.0	6.0
Vietnam	7.4	2.9	2.6	8.1	5.0	7.1	6.8	6.5
East Asia	**5.2**	**0.7**	**7.1**	**3.5**	**4.6**	**4.8**	**4.7**	**4.5**
East Asia ex China	3.8	–2.3	4.3	4.5	3.3	4.3	4.1	4.1
NIEs*	**2.0**	**–0.5**	**5.9**	**2.2**	**1.5**	**3.0**	**2.3**	**2.3**
India	3.9	–5.8	9.7	7.0	7.8	6.6	6.5	6.5
Russia	2.2	–2.7	6.0	–1.2	3.6	3.3	1.5	1.5
Brazil	1.2	–3.3	4.8	3.0	2.9	3.3	2.0	2.0
South Africa	0.3	–6.0	4.7	1.9	0.6	0.9	1.2	1.4
Mexico	–0.3	–8.6	5.7	3.9	3.2	2.4	0.4	1.5
Argentina	–2.0	–9.9	10.7	5.0	–1.6	–2.8	5.0	4.5
Chile	0.6	–6.1	11.3	2.1	0.2	2.0	2.5	2.4
CIS^	–1.4	0.1	10.4	–1.6	–0.6	5.9	5.0	6.6
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	–2.4	–4.8	9.0	4.3	3.2	2.5	3.2	3.4
Africa	3.2	–1.6	4.7	4.0	3.4	3.8	4.0	4.0
Emerging ex–East Asia	**1.6**	**–2.6**	**6.5**	**3.6**	**3.9**	**4.0**	**3.8**	**4.0**
Other countries	**6.7**	**–2.9**	**6.9**	**3.4**	**4.9**	**4.0**	**3.5**	**3.5**
World	**2.8**	**–2.7**	**6.5**	**3.5**	**3.2**	**3.3**	**3.2**	**3.2**

#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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