May 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK May 2025

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

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NB: Australian activity forecasts on page 24 now includes annual through-the-year percent changes for components of GDP.

Taking a breather

Markets were in a state of intense uncertainty and utter confusion at the time our last report. Between President Trump's 'Liberation Day' announcement, the rapid escalation in US–China trade tensions and a 90-day pause on non-China tariffs days later, early April had seen the proverbial "week where decades happen". Equities, rates and currencies were whipsawed as they responded both to the sudden shifts and a more fundamental reassessment of a 'regime shift' in US policy.

The situation has calmed considerably over the last few weeks, albeit with no real change. We are 30 days into the 90-day pause and constructive developments around trade policy negotiations have been piecemeal and provisional at best. The UK is the only country to sign an official agreement with the US although this is being billed as more of a 'framework' than a 'deal'. Meanwhile, the US and China have been more restrained insofar as there has been no further escalation in trade measures. Progress towards de-escalation has been minimal, though upcoming talks between officials of the two nations this weekend are a positive sign.

Notably, Chinese authorities have announced a suite of measures to support the economy. This, alongside a solid March quarter, bolsters our view that China will still be able to achieve its 5% growth target this year despite the tariff shock. Europe and the UK have also started 2025 on a firmer than expected footing.

In contrast, US GDP dipped slightly in Q1. While the result was affected by 'pull-forward effects' ahead of tariff increases, consumer spending softened materially and there is clearly a bigger negative shock to come. The risks to activity, employment and inflation still look to be much larger for the US than for other countries. The FOMC recognised this plight in its decision to leave the federal funds rate unchanged this week, with "extremely elevated" uncertainty implying that any policy relief is unlikely until the second half of this year.

Overall, we do not view prospects for global growth this year as having shifted materially since we downgraded our forecast last month, from 3.2% to 2.9%. But the coming months will provide important updates on how the trade war is impacting the real economy and how key risks are playing out. While the relatively calmer news flow has allowed markets to take a breather, the dust is far from settled.

Australia: Last month, we downgraded our view slightly with GDP growth expected to recover to 1.9%yr in 2025 vs. 2.2%yr previously. Data over the last month shows consumers remained very restrained in early 2025, underscoring downside risks to spending. Against this, trade flows have been more positive for Australia although some of this will be temporary.

Commodities: Crude crashed through US$60/bbl on the back of OPEC+ agreeing to lift output while 'Liberation Day' left iron ore trading below $100/t. However, the Westpac Export Price Index (WEPI) gained 2.5% over the month, driven by a 14% rally in gold. We have reassessed our forecasts given these significant shifts. We also note the ongoing degradation of Australian iron ore quality and the impact it might have on pricing.

Global FX markets: As trade tensions continued to escalate following Liberation Day, the DXY slipped into a 98.2–101.0 range. Compared to its 20-year average of 98.3, this could be interpreted as predicting the US is returning to the pack after an exceptional period. However, given the ongoing deterioration in US economic data, there is a possibility that markets are caught between pricing in future US underperformance and acute global risk aversion.

New Zealand: Data in the last month continued to suggest an improving economy. But the global storm clouds have arrived, and uncertainty is very high. The RBNZ looks likely to plot a slow and methodical path until the fog of war clears.

United States: The US economy continues to hold its head above water, but every week of uncertainty raises the risk of stagnation or outright recession. The FOMC is not in a position to help near term, with consumer inflation expectations ringing alarm bells for medium-term price stability. Also of concern, weak activity growth and elevated term interest rates, now being experienced, risk destabilising the Federal fiscal position.

China: Expectations of China's outlook vary greatly amongst market participants, the IMF's latest forecast of just 4.0% and Bloomberg's April consensus estimate of 4.2% a stark contrast to Chinese authorities' recently affirmed 5.0% growth target. We still see authorities' 5.0% ambition as achievable. However, it is important to understand how the composition of growth needs to change and its susceptibility to risks.

Asia: The US trade war has clouded the outlook for Asian exports, leading many economies to shift focus toward domestic demand to sustain growth. In response to slowing growth, central banks have begun cutting rates since Q3 2024, aiming to realign interest rates with domestic conditions. With inflation risks now tilted to the downside, further monetary easing is expected.

Europe: Growth in Europe and the UK accelerated in Q1, boosted by industrial production and exports. But the real test of their resiliency will be Q2, which is likely to be significantly lower. The UK–US trade deal suggests lower uncertainty in the second half of the year should enable a gradual recovery.

Initial tariff turmoil has passed …

Luci Ellis
Chief Economist, Westpac Group

After a burst of volatility following the Trump administration's tariff announcements, markets have calmed considerably. The early-April sell-off in both equity and bond markets has reversed. Measures of volatility and illiquidity have also returned to more normal levels. The re-rating of US assets that started a few weeks before 'Liberation Day' has persisted, however. For example, the S&P500 remains 7½% below its December peak, while European equity indices are up about 5½%. Over the same period, the US dollar index is down around 7½%.

Selling out of US assets entirely is not on the agenda. The US economy is too big, and the US Treasury market is too deep and liquid for an exit to make sense. Even so, some investors have become sensitive to the prospect of more policy announcements that would narrow the longer-term growth differential which, despite everything, still tilts in favour of the US.

Another bout of re-rating of US assets against those of other advanced economies cannot be ruled out in the current environment. This would include a further decline in the US dollar. Even after the recent depreciation, the USD remains around 15% overvalued on standard measures. Our medium-term view remains that this misalignment is likely to unwind over the next couple of years. However, given the febrile policy environment and the US's deteriorating status as an attractive investment destination, this shift could come through faster.

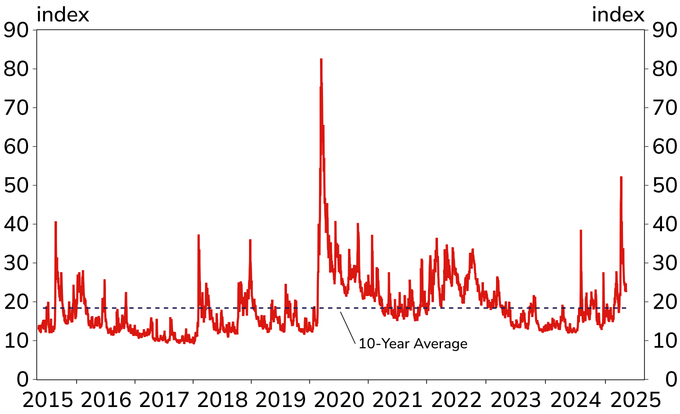
Weaker growth, especially in the US, and slower trade more generally, will weigh on global industrial production. Prices of hard commodities have therefore declined more than agricultural commodity prices (see page 10). This is disinflationary for the world outside the US. In addition, the shape of Chinese stimulus is likely to expand manufacturing supply capacity and dampen prices for these items.

Against that, markets are not currently pricing in a view that the Chinese authorities stimulate the economy enough to reach their 5% target for 2025 growth. If they do manage to do this – as we are assuming – then the sell-off in hard commodities will prove to have been a little overdone.

While tariff increases and other US policies are disinflationary for the rest of the world, they constitute an impending inflation shock for the US. The FOMC therefore faces a difficult trade-off: the tariffs and other policies will weigh on US growth but inflation is likely to increase. The depreciating US dollar also tends to add to inflation at the margin.

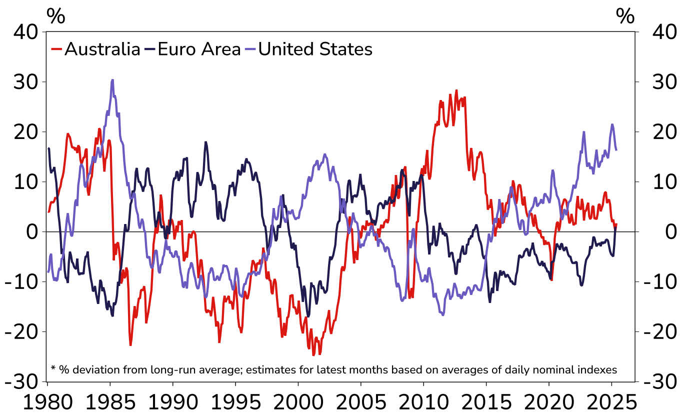
Worryingly, US consumers' medium-term inflation expectations have increased materially – something that did not happen during the pandemic-driven surge in inflation.

VIX Volatility Index



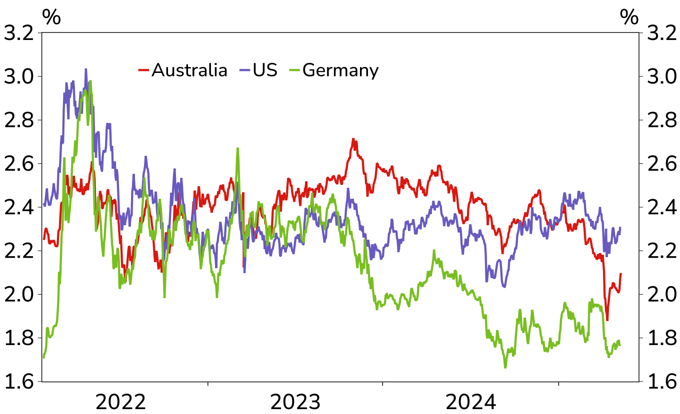
Source: Bloomberg, Macrobond, Westpac Economics

Real Effective Exchange Rates



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

10-Year Breakeven Inflation



Source: Bloomberg, Macrobond, Westpac Economics

... while some central banks face tricky trade-offs

That said, market-based measures of inflation expectations have remained well-anchored.

Our current base case view of the outlook for FOMC policy remains that the Fed funds rate will fall another 50bps this year, but there is clearly a risk scenario where these cuts do not occur.

RBA faces a different test

The trade-offs in Australia are very different. Three months ago, the RBA was a reluctant rate-cutter, still looking to see the last 0.2ppts squeezed out of its forecast for underlying inflation. Since then, the global outlook has slowed, inflation has continued to decline broadly as expected and consumer spending has continued to undershoot the RBA's above-market forecast. We are also detecting some early signs of a loss of momentum in the labour market, though it is not clear if these will be sustained and if population growth is also slowing.

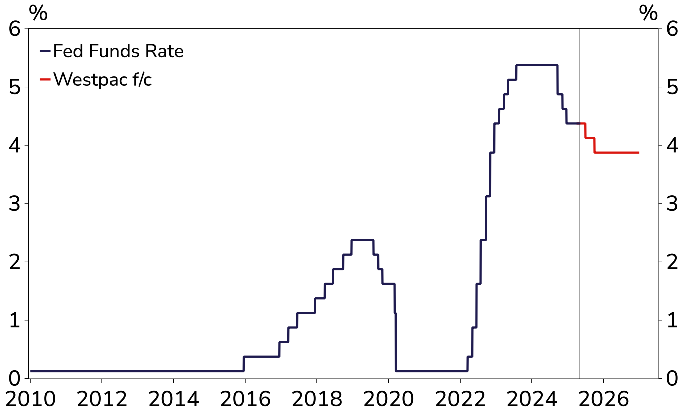
The most likely scenario remains that the RBA will cut a further 75bps this year, including 25bps this month. This would return monetary policy to a relatively neutral stance by the end of the year. However, risks around the RBA policy outlook have clearly flipped to the downside.

The RBA's communications and forecasts following its May meeting will provide a helpful steer on its reaction function and the evolution of its thinking. Points to watch include: how far it revises its current bullish view of near-term consumption growth; whether it views the labour market as having lost momentum; whether it is still concerned about weak supply capacity given developments in productivity and wages growth; and whether and how it expects China to meet the 5% growth target for 2025.

If some of our key assumptions – that global growth slows only modestly, the US manages to avoid recession and China meets its growth target – prove incorrect, then the RBA may need to provide additional policy support in 2026.

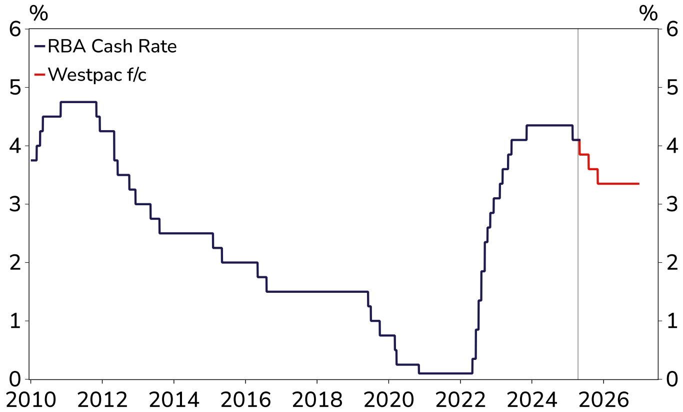
If, on the other hand, we are correct in our view that China's growth prospects are undiminished by the current trade conflicts, markets will have some repricing to do as this outcome becomes clearer. As well as hard commodity prices (as noted), a revision to market views about China will tend to support the AUD, which is often used as a proxy to express views about China given our close trade links and free-flowing capital markets. While the AUD has bounced against the USD – touching USD0.65 in recent days – it has underperformed against other currencies. On a trade-weighted basis, the AUD is roughly where it was before 'Liberation Day', despite the 3% appreciation against the USD over that period. This underperformance can be expected to unwind if and as markets review their view of the outlook for China.

Federal Funds Rate



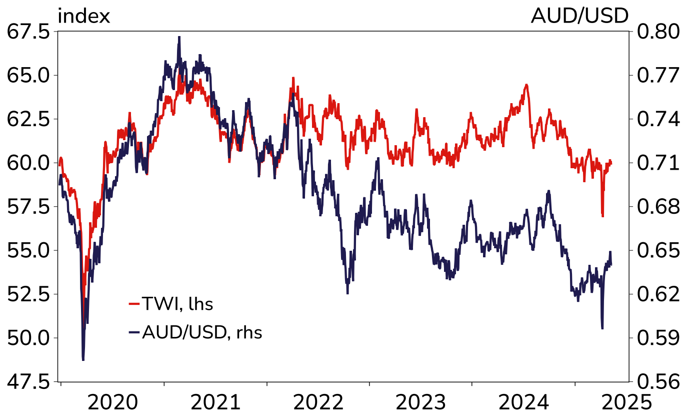
Source: Fed, Macrobond, Bloomberg, Westpac Economics

RBA Cash Rate



Source: RBA, Macrobond, Westpac Economics

Australian Dollar – Spot vs TWI



Source: Bloomberg, Macrobond, Westpac Economics

Sluggishness continues …

Matthew Hassan,
Head of Australian Macro-Forecasting

The Australian economy entered 2025 with a tentative recovery that was expected to gradually gain momentum over the course of the year. Last month, we downgraded our view slightly with GDP growth now expected to track up from 1.3%yr in 2024 to 1.9%yr in 2025 vs. 2.2%yr previously. The shift reflects a small additional drag coming from US tariff measures and associated financial market turmoil. Part of the latter is expected to come through a more gradual and cautious recovery in consumer spending. Data over the last month shows consumers remained very restrained in early 2025, underscoring downside risks to spending over the first half of the year. Against this, trade flows have been more positive for Australia, although some of this will be a pre-tariff pull forward. Labour market updates have hinted at some softening across the wider economy, some of which will be due to a further slowing in population growth.

No change to tariff impact assessments

Last month we set out our 'base case' assessment of the tariff shock to the Australian economy. The bottom-line impact on growth was expected to be muted, albeit with significant downside risks.

We noted that economies were still in the 'lag time' between when a shock occurs and when it becomes apparent in the data. This is still very much the case. While financial market and sentiment reactions have been captured, the so-called 'hard data' on trade, sales and prices is only just starting to show an impact. And in the case of trade, this is still mostly the 'bow wave' of the shock in the form of a pre-tariff rush. That will change in coming weeks as the April monthly updates start to roll through with the relevant updates for Australia coming from early June.

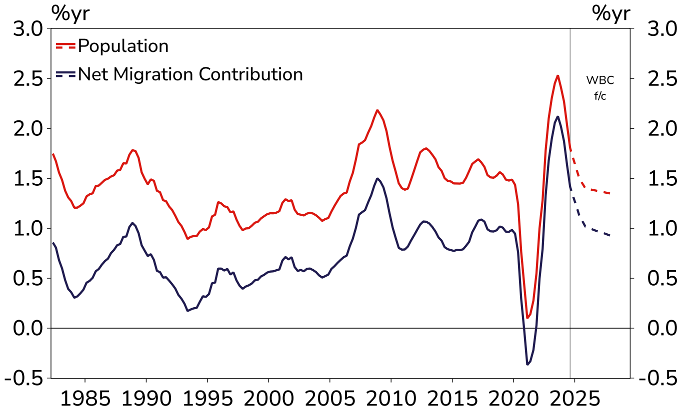
As noted, the policy and financial market situation has calmed down since our April report. While there continues to be twists and turns, these have been much less dramatic. Policy uncertainty is still high but we remain comfortable with the base case assessment set down last month and will continue to monitor the situation closely.

Inflation benign, domestic conditions soft

Locally, a quick fly-over of the latest data continues to show the domestic economy is tracking broadly as expected.

The March quarter CPI update showed another relatively benign read on inflation, the headline measure rising 0.9%qtr to 2.4%yr but mainly reflecting the start of an unwind to a range of 'cost-of-living' measures. The trimmed mean

Population growth to continue slowing



Source: ABS, Macrobond, Westpac Economics

measure, which largely excludes these effects, posted a 0.7%qtr gain, taking the annual pace down to 2.9%yr, within the RBA's 2–3% target range for the first time since 2021, with the two-quarter annualised pace dropping to 2.5% (see here and here for more details). All of which is to say that inflation is tracking broadly as expected and looking much more comfortable for the RBA than six months ago, when the trimmed mean inflation rate was at 3.6%yr.

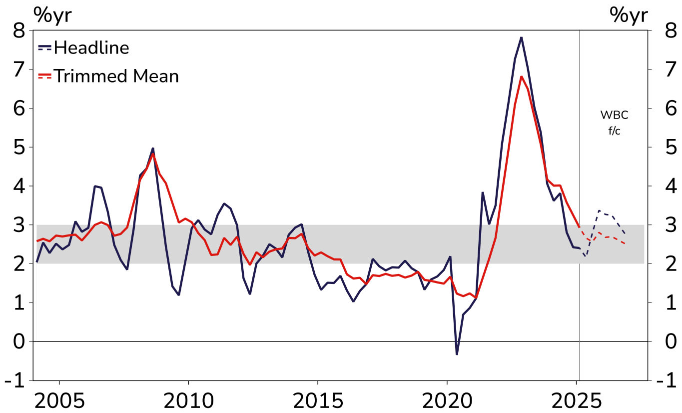
Meanwhile the data-flow around consumer spending has remained soft. The ABS retail sales and household spending indicator were both flat in real, inflation-adjusted terms over the March quarter – the nominal results in line with the signal from our **Westpac–DataX Card Tracker** that has carried into early April. Our latest **Westpac–DataX Consumer Panel** update also showed a similar picture, with the detail indicating consumers continue to save a high proportion – 80¢ in the dollar – of the income boost from last year's tax cuts. With tariff turmoil generating added uncertainty, that restrained, cautious behaviour is likely to persist into the June quarter as well.

The updates present some downside risk to the already small 0.3%qtr gain we have pencilled in for consumer spending in the March quarter (all of which is expected to come from service sectors not covered by available indicators).

Note that the RBA's May Statement on Monetary Policy is likely to include a material downward revision to its more bullish consumer spending forecasts. The Bank's February forecasts had spending growth at 1.8%yr by June 2025, implying average gains of 0.7%qtr in March and June. That sits in stark contrast to Westpac's current forecasts which have growth tracking only slightly higher to 0.9%yr by mid-year.

… but domestic election risks now out of the way

Underlying inflation to reach midpoint of target



Source: ABS, Macrobond, Westpac Economics

Some of that revision is likely to come through a lower profile for population growth as well. The RBA's February forecasts are conditioned on population growth of 1.9%yr by June 2025. Latest official ABS figures already have growth back to 1.8%yr as at the September quarter 2024, with our estimates suggesting growth will track back to 1.5%yr by June. Indeed, that slowdown is likely a factor in some of the more subdued spending results in 2025.

It may also be having a hand in the somewhat softer tone coming from recent labour market data. While monthly reads have been choppy, employment growth slowed in the March quarter, tracking at 0.4%qtr vs the 0.7%qr average over the previous nine months (see here for more). While not definitive, the weight of recent labour market data suggests there has been a more general loss of momentum.

Australia's trade performance in the March quarter balances out some of these risks. Nominal goods exports posted a solid 2.4%qtr rise, driven by a 40%+ surge in non-monetary gold (see here). While much of this looks to be price-driven, goods export volumes may also have been a touch firmer than expected. Note that the full picture on trade, including services, will be released with March quarter balance of payments on June 3.

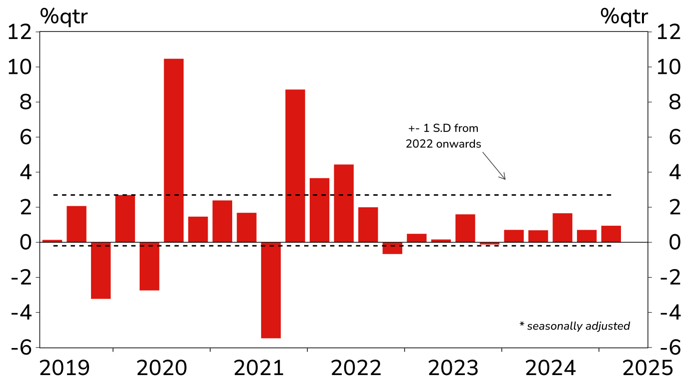
On balance we continue to expect GDP to show a subdued 0.4%qtr gain, lifting growth to 1.5%yr when the March update is released on June 4, but we will review this as more 'partial' estimates are released.

Election risk off the table

Lastly, it is worth noting that the Federal election in early May removes one source of risk around the domestic economy. Earlier polling had suggested it would be a close-run result with a material chance of either a change of government or a 'hung' parliament requiring a minority government and all of the horse-trading and policy uncertainty this would bring. The incumbent ALP government was instead returned with an expanded majority in the House of Representatives. Note that the government will still require cross-bench support to pass legislation through the Senate. The election result does not greatly alter the fiscal outlook – PBO estimates show election commitments from the two major parties were fairly similar over the next three years, although a change of government would have meant more stimulus near term with the small tax cuts legislated for 2026 and 2027 being replaced by a temporary reduction in fuel excise in 2025 and a one-off LMITO-style tax offset in 2026. More generally, the result lowers the risk of a 'bumpier' transition from public to private demand driven growth that we flagged in earlier reports.

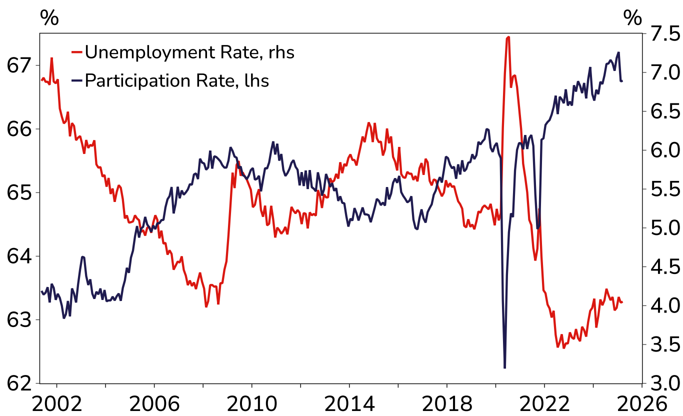
Westpac-DataX Consumer Panel

Average quarterly spend per person



Source: , Macrobond, Westpac Economics

Participation moves lower, unemployment steady



Source: ABS, Macrobond, Westpac Economics

'Gold rush' offsets weakness elsewhere ...

Justin Smirk
Senior Economist

Grabbing headlines in the past month has been crude oil crashing through and holding below US$60/bbl on the back of OPEC+ agreeing to lift output while the demand outlook softened. Additionally, the aftermath of 'Liberation Day' has left iron ore trading below $100/t, range-bound between US$94.5/t and US$99.5/t. While the overall market was marked with losses as is typically the case, the underlying story was more mixed. The Westpac Export Price Index (WEPI) gained 2.5% over the month, led by a 14% rally in gold to fresh record highs and a near 8% gain in met coal. Offsetting this was a 3.3% fall in base metals, led by copper (–2.6%), an almost 4% fall in iron ore, and a 3% fall in thermal coal.

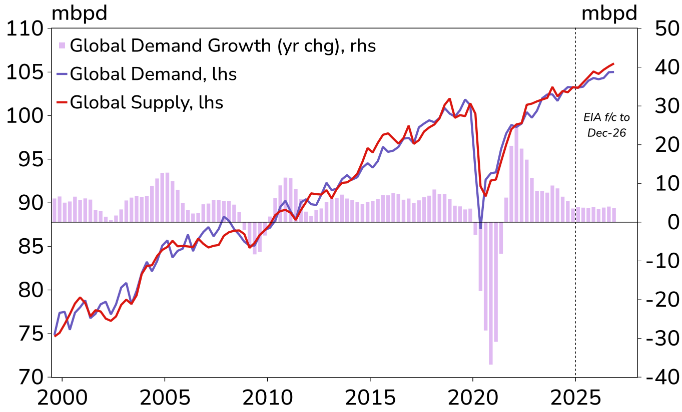
Putting the recent 'gold rush' in perspective, gold prices have lifted a whopping 44% in the year to April. This has managed to fully offset declines over the same period across iron ore (–16%), met coal (–22%), thermal coal (–26%), crude oil (–29%), LNG (–6%) and base metals (–4%), leaving the WEPI basically flat over the year to date.

The ongoing rally in gold has seen us lift our near-term forecast for the precious metal, and we now expect it to hold around current levels (US$3,400oz) while acknowledging significant upside risks that are hard to quantify. We have incorporated further near-term downside risks for crude oil and have Brent at US$55/bbl in June before a modest recovery to US$57/bbl in September and US$60/bbl in December. Our iron ore and met coal forecasts are unchanged with a gradual correction down to US$86/t and US$167/t respectively in December. We expect falling crude prices to be a drag on LNG export prices which now have a low of US$9/mmbtu in December. For thermal coal, we expect prices to hold around US$100/t for the near term.

Brent below US$60/bbl

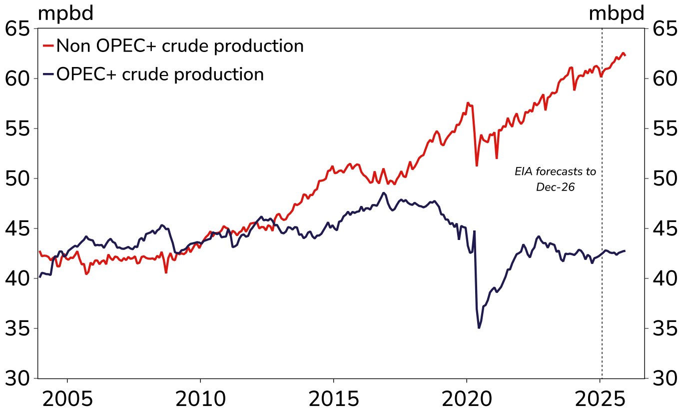
OPEC+ is adding an additional 411kbpd to the market this month and the same amount next month. As noted by Westpac Strategy colleague Robert Rennie, we see a risk that this will continue, meaning all 2.2mbpd in production restrictions could be returned to the market by October. At the same time, demand destruction from tariffs and trade wars will likely peak around the third quarter of the year, adding to an already strong inventory build. The latest crude oil outlook by the EIA is broadly in line with our thinking, with crude production set to rise a combined 2.6mbpd over 2025 and 2026. However, consumption is forecast to rise by just 2mbpd, a downward revision of 0.5mbpd compared to their earlier forecasts as demand destruction kicks in. Given the fall in crude prices, it is not surprising that the forecast for US production has been revised down. From an all-time record output of 13.7mbpd at

Crude oil supply & demand



Source: EIA, Bloomberg, Macrobond, Westpac Economics

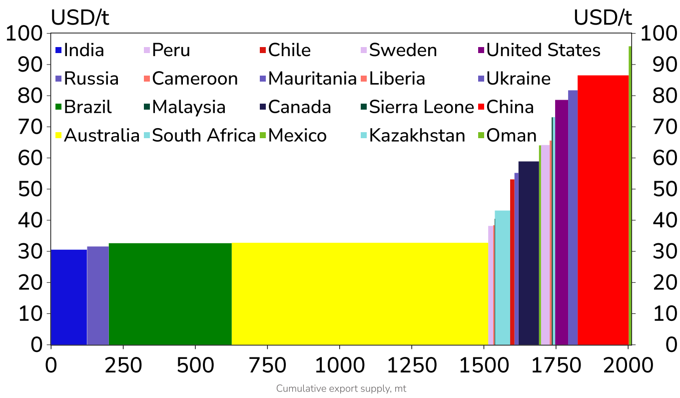
Crude oil supply outlook is very robust



Source: , Macrobond, Westpac Economics

Iron ore cash cost curve

Chinese production remains at the top of the cost curve



Source: , 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.

... while iron ore prices are heading south

the end of this year, the EIA is expecting US production to drop to 13.44mbpd at the end of 2026. Here is where 'drill baby drill' crashes up against the realities of US crude production and the need for oil producers to have solid margins. However, the EIA is expecting this to be more than offset by strong production increases from non-OPEC+ countries. In addition, while Kazakhstan is "considering all possible options for meeting its [OPEC+] commitments" we remain sceptical given that we have heard this for some time with nothing to show. Hence, we expect to see further weakness below US$60/bbl.

Iron ore now on the path down to US$86/t

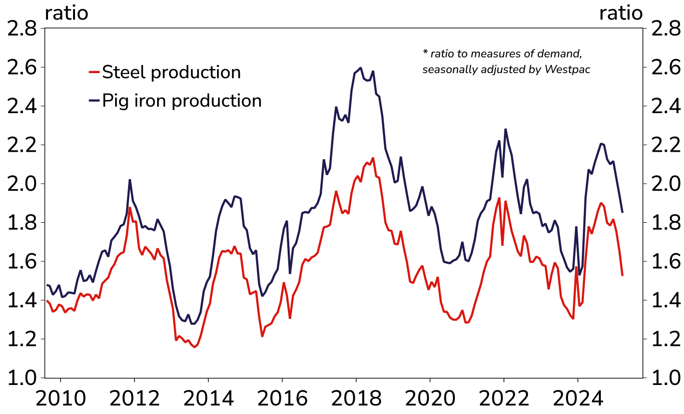
Westpac has long been looking for iron ore prices to weaken with an 2025 end point around US$86/t. At least for the near term, we expect prices to be supported above US$95/t but we are looking for a drop below US$90/t in the second half of the year. Recent reports suggest Chinese steel production will be 50mt lower this year. As iron ore exports from Australia and Brazil normalise after the extreme weather disruptions in February, a rebuilding of iron ore inventories at Chinese ports is underway. However, the level of inventories remains relatively low compared to steel production.

Simandou is slated to start production later this year while Sinosteel confirmed that output from the Kribi-Lobe mine in Cameroon should start by March 2026. The long-awaited new supply out of Africa is just about here. Offsetting this is prospects of an increase in new equipment investment in China as domestic policies focus on stimulating growth and stabilising confidence. So while we believe that iron ore prices have a bit of a cushion for the moment, we are increasingly confident that prices will fall below US$90/t later this year.

In the background there has been an emerging story that has important implications for the long-run pricing of our iron ore exports. It is the ongoing gradual degradation Rio Tinto's and BHP's ore bodies. Both are lowering the grades of their Pilbara blends with Rio Tinto facing the challenge somewhat earlier. Through the first quarter of 2025 Rio's lower grade 58% iron ore (fe) product was 29% of total shipments, a new record high share. So it is not surprising to read Platts' report that Rio plans to lower the iron content of its Pilbara Blend Fines from 61.6%fe currently to less than 61%fe. It has also been reported that BHP is also lowering the grade of its Pilbara Fines.

To put this in perspective, 58%fe trades at a 12% discount to benchmark 62% fines and we expect this discount to increase over time as steel makers focus on productivity and lower emissions (higher iron content means less coal is burnt). A lower iron content will see a greater discount applied to Australian iron ore exports. By contrast, Vale should see a medium-term benefit due to the higher iron content of its ore which is set to improve further due to expansion of its Northern system.

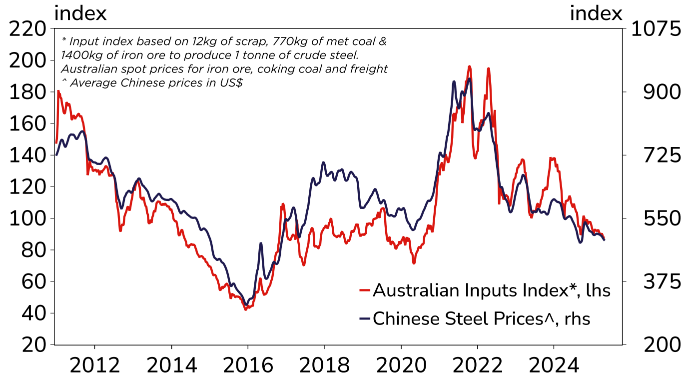
China Iron Ore Port Inventories



Source: Bloomberg, Macrobond, Westpac Economics

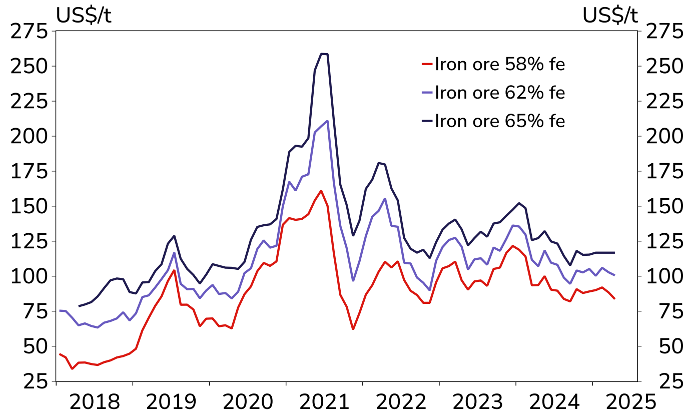
Chinese Steel Input and Output Prices

Prices appear to be finding a base



Source: Bloomberg, Macrobond, Westpac Economics

Chinese iron ore prices by quality/grade



Source: Bloomberg, Macrobond, Westpac Economics

Pivoting to growth in …

Elliot Clarke
Head of International Economics

The US dollar DXY index held around 103 for almost a week after President Trump's 'Liberation Day'. However, as the Administration continued to escalate trade tensions, the US dollar slipped into a 98.2–101.0 range. Compared to its 20-year average of 98.3, this move could be interpreted as predicting the US is simply returning to the pack after an exceptional period. However, given the ongoing deterioration in US economic data and President Trump's determination to pursue higher tariffs, there is also the possibility that markets are caught between pricing in future US underperformance and acute global risk aversion.

Euro and Sterling have been the primary beneficiaries of the turn in the US dollar, EUR/USD rising from USD1.085 on Liberation Day (2 April) to as high as USD1.15 (+6%) before easing back to USD1.12 currently. GBP/USD meanwhile rallied from USD1.30 on 2 April to a high of USD1.34 (+3%), now USD1.32.

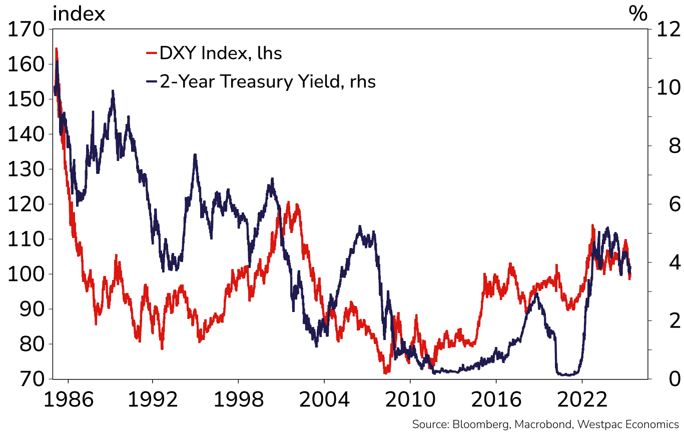
As has been the case since the DXY's January 2025 high, these gains are not only the consequence of growing uncertainty around the US outlook and politics but also greater belief in Europe and the UK.

Indeed, despite the turmoil foisted on the world by the US, this month we have revised up our 2025 GDP forecasts for the Euro Area and UK (from 0.7% and 0.6% respectively to 0.9% and 1.0%) after data surprises in Q1 and also recognising that, at least in Europe, fiscal policy has become more constructive for the outlook – off balance sheet spending on infrastructure and additional sizeable defence spending now confirmed. While amorphous, the many anecdotes of travel to the US being shunned also holds promise for the Euro and Sterling on a 6–18 month view, given the lags in decision-making for travel, particularly for leisure.

For these positives, and the heavy downside risks for the US, we have brought forward and modestly scaled up the appreciation forecast for Euro and Sterling. Though Euro and Sterling are expected to settle at USD1.12 and USD1.32 in the current quarter, the currencies are then expected to rally further to USD1.16 (+4%) and USD1.36 (+3%) late-2026 and early-2027 respectively.

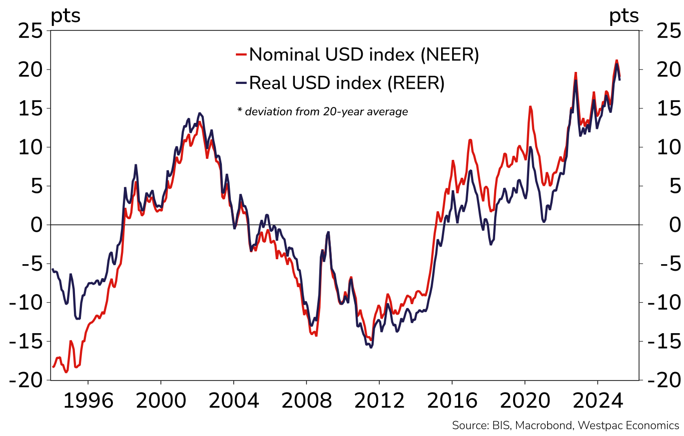
It is worth emphasising that there is clear upside risk to these forecasts if investors recoil from the US because of open-ended political and/or fiscal uncertainty. Whereas the 10-year average for the DXY index is 98.3, the 20-year threshold is 8% lower at 90.1. For Euro and Sterling, a full reset back to the 20-year average for DXY would equate to respective bilateral crosses around USD1.24 and USD1.45.

US prime factor of global markets



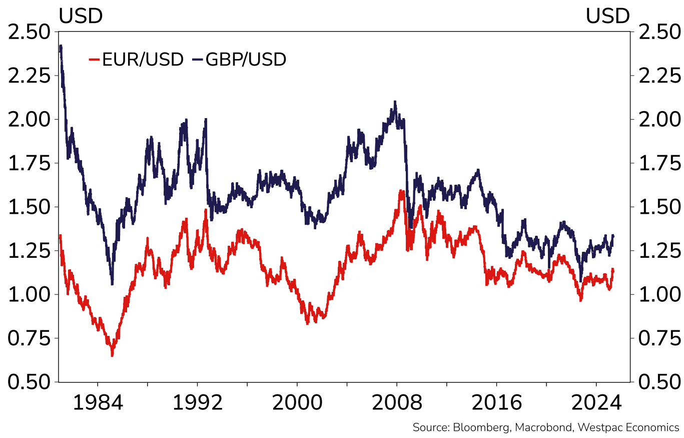
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation still above average



Source: BIS, Macrobond, Westpac Economics

Euro now in favour, Sterling also benefitting



Source: Bloomberg, Macrobond, Westpac Economics

... anticipation of thawing relations

It is also evident from Asian trade that global investors are beginning to consider the benefits of diversified FX holdings with a skew towards growth capacity and trade flexibility.

While Singapore's dollar initially depreciated against the US dollar immediately after Liberation Day, since then USD/SGD has jolted lower from USD1.34 to USD1.30 today (–3%), near the bottom of the range traded over the past decade.

The appreciation in Taiwan dollar's and South Korea's Won has been much stronger circa 9% and 5% respectively, USD/TWD falling from above TWD33.0 to TWD30.3 and USD/KRW from KRW1481 to KRW1404. Though, with the starting point considerably weaker than for Singapore, these currencies are only in the middle of the trading range of past decade not its low.

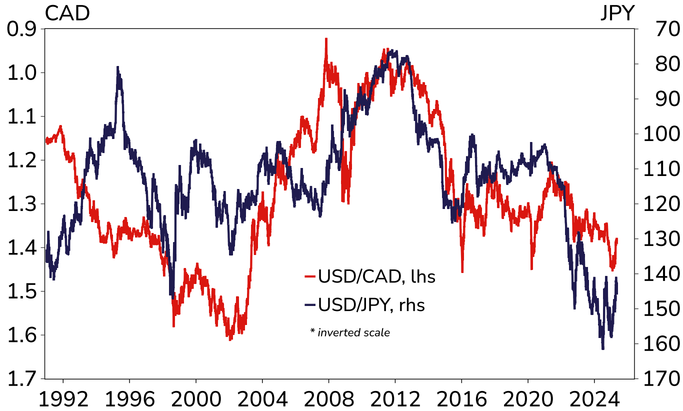
The Yen also started at a historically-weak rate, but its net appreciation over the past month has been smaller than Singapore, USD/JPY falling from JPY149.3 to JPY146.1 (–2%).

Like for Europe and the UK, the experience of these currencies implies investors are favouring growth prospects, with Taiwan, Singapore and South Korea all expected to grow at a multiple of Japan's pace in 2025. But participants also look to be placing bets on the likelihood and scale of US trade deals. Taiwan and South Korean firms have been at the forefront of new manufacturing capacity expansion in the US; in stark contrast, Japan has warned its sizeable holdings of US Treasury securities will form part of negotiations. As long as Asian nations reach agreement with the US and there is little blowback for China, hubs such as Singapore (and Vietnam) stand to benefit greatly.

Ahead, we expect a degree of normalisation for Asian currencies. As an example, further gains for Singapore's dollar are likely to be limited, but the currencies of countries like India and even China should, in time, receive a robust bid as their growth potential is seen and more favourable trade terms are agreed with the US. On a trade-weighted basis, the movement will be minimal however, with everyone currently dislocated from the US dollar not each other.

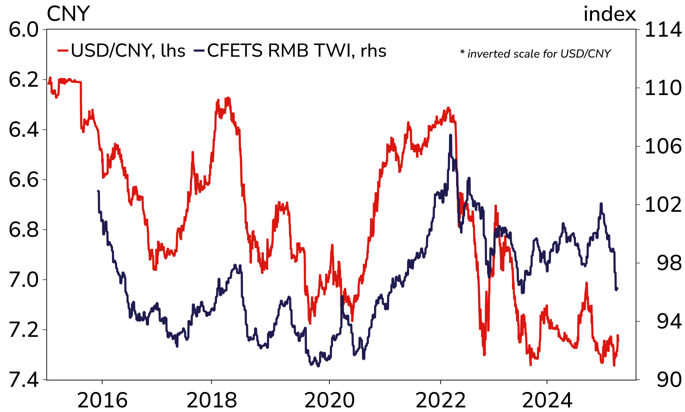
We do not typically discuss the Australian dollar on this page, but it is worthy of note in closing. It is not a coincidence that our currency has rallied strongly off its 8 April low of USD0.5960 to a high of USD0.6515 (USD0.6398 today) as the US has shown a willingness to negotiate and other nations a capacity to grow amid adversity. As long as these trends continue, the Australian dollar should outperform the US dollar index over the forecast period, along with China and India. Notably though, a return to around USD0.72 towards the end of the forecast period would see our currency back around average levels against major developed market pairs and only modestly higher on a trade-weighted basis. There is therefore upside risks for the Australian dollar should tensions fully resolve.

Concern over CAD abating



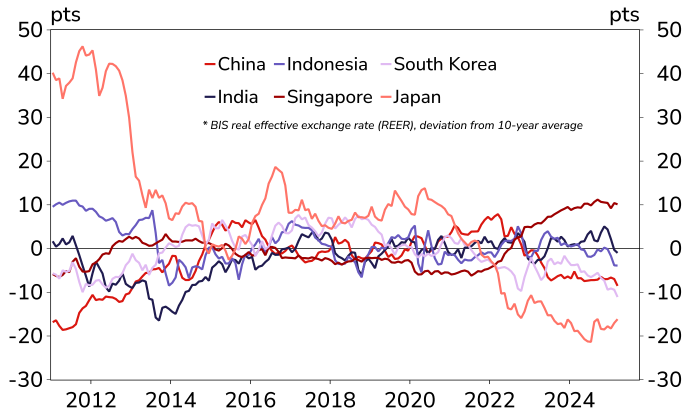
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi to rally in time



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

Past data suggests growth continues …

Kelly Eckhold
Chief Economist NZ

Since our last Market Outlook, the domestic data continued to paint a picture of a gradually improving economy. This more positive picture has been overshadowed by high uncertainty from the trade war that has enveloped New Zealand's largest trading partners. The fog of war is likely to persist for at least a few months, leaving the RBNZ to slowly and methodically reduce interest rates further towards 3%.

The New Zealand economy continued its steady recovery up until the trade shock hit. Data in April generally confirmed the view that growth was continuing – albeit with some normal month to month volatility. Consumer confidence picked up, business confidence remained robust, the manufacturing and composite PMIs remained in expansionary territory, while the housing market continued its gradual rise. Economic indicators have not all been positive, however. For instance, consumer spending took a step back in March. At the same time, labour market conditions have been more mixed – the March quarter saw a modest gain in employment and the unemployment rate remained unchanged at 5.1%, but wage growth continued to cool.

This picture of gradually improving economic activity has been in line with our expectations from earlier this year. Given that inflation pressures show no signs of undershooting the RBNZ's 2% target mid-point, it is likely we would have been nearing the end of the easing cycle.

Interest rates have fallen a long way and are delivering significant stimulus that is only just hitting the bloodstream right now. The RBNZ delivered the expected 25bp cut to 3.5% in its April meeting as had been well signalled in the February Monetary Policy Statement. That brings the total amount of OCR cuts delivered this cycle to 200bps. The associated cuts in mortgage rates are generating a significant increase in household monthly disposable income. The roughly 4% reduction in average debt servicing costs seen in the year to March 2025 compares favourably with other periods of monetary easing in the last 30 years. Indeed, it was only the large reduction seen in the wake of the Global Financial Crisis that has been larger.

Lower interest rates have come at a time when commodity markets are delivering the key NZ primary sector a boom in incomes that is helping underpin growth. Spending in the regions where the primary sector and tourism gains have a higher weight shows strength compared to the major urban areas.

Nevertheless, growth remains narrowly based and vulnerable to a setback. Concerns that such a setback could be upon us have arrived, now that the threats to the global outlook coming from the onset of intense uncertainty stemming from the unpredictable nature of the US tariff policy and the global trade outlook. The direct impact of New Zealand's 10% tariff is unwelcome but, in the end, manageable. It is the indirect effects that are of greater importance.

Markets will remain alert to the potential that the uncertain operating environment is impinging on the nascent recovery in consumption and investment. Businesses indicated some risks here in the April business confidence survey, where firms that responded to the survey later in April took a much more pessimistic view on the outlook for investment and employment than those who answered earlier in the month.

But critical will be the extent to which weaker global growth reduces the terms of trade that is delivering the recovery thus far. News to date has been encouraging. Export prices have not fallen and by and large, orders have not been cancelled. While damage has been done in some areas (for example, for some local manufacturers with facilities based in Asia but exporting to the United States), opportunities beckon in others. For example, suppliers of beef and dairy products to China may see increased demand replacing highly tariffed US-exported products.

The behaviour of the exchange rate will be critical in managing the damage done by the indirect tariff effects. The volatility in the exchange rate in the last month is testament to the uncertainty on the outlook. The NZD/USD exchange rate fell below 55 cents in early April on the tariff announcements but recovered to around 60 cents as sentiment regarding the US dollar soured and as better news emerged on the tariff front. On a trade-weighted basis, the NZD has traded in a 6% range in the last month. While our forecast is for the NZD to track around current levels versus the USD for the remainder of this year, there is a risk of further weakness and volatility. We see further trend weakness in the NZD on a trade-weighted basis around a volatile path as views wax and wane on the US dollar and global uncertainty.

Our analysis suggests a downside scenario for the global economy that is perhaps around a quarter of the intensity seen during the GFC, which would slow growth and push inflation somewhat lower. That scenario is less positive than our baseline view in that the total downgrade to trading partner growth is larger with a greater impact on Chinese and Asian trading partner growth. We would expect such a scenario to be more negative for New Zealand's terms of trade (which we marked down 5 percentage points) and would likely have more pronounced confidence and uncertainty impacts on the most cyclical elements of the economy – consumption and investment. Inflation would head towards 1.5% for a while, even though the exchange rate would fall. That downside scenario is plausible, but by no means certain, both in

… but high global uncertainty looks set to persist

terms of likelihood and its composition. But we think it gives a tenable scalar in terms of the impact on the economy.

The starting point for inflation is still uncomfortably high for the RBNZ. For various reasons, domestic inflation continues to fall more slowly than expected given past weakness in the economy. While we see cyclical elements of inflation moving lower, there are plenty of other sources of inflation that are more persistent – for example in less competitive parts of the economy including in areas dominated by central and local government. On its own, that persistence in domestic inflation pressures would not argue for further cuts into more stimulatory territory, especially when compounded by the rise in the prices for food and other commodities.

But we should consider and put some weight on the downside risks for global growth. It is those risks that markets have responded to recently and which the RBNZ MPC will likely act on when cutting the OCR a further 25bp in their May meeting.

We had thought that the easing cycle would be over by mid-2025, but trade uncertainty is likely to persist for longer than that, which means the downside risks will be with us until at least August and possibly longer.

We expect the RBNZ to continue to move methodically in the easing direction while those downside risks remain. A move in the OCR to 3% now seems likely by August. We do not expect a lurch lower – it would take tangible signs of a more significant impact on the NZ economy and critically the inflation outlook to cause the MPC to move more quickly.

Another factor that may keep the MPC's eyes on easing is the role fiscal policy will play. The Minister of Finance (MoF) has declared an intention to run an austere policy for the coming year which should not be supportive of growth if the government follows through on its promises. But at least this policy approach will be supportive for the bond market which might otherwise have been under pressure if the forecast return to surplus was further pushed out to the 2030s.

It is likely the interim RBNZ Governor and the MPC will have that in mind when determining the best path forward. Treasury and the MoF have been vocal in suggesting that interest rates should be cut in the event of the downside risks crystallising.

"We expect the RBNZ to continue to move methodically in the easing direction while those downside risks remain. A move in the OCR to 3% seems likely in coming meetings."

But it is by no means clear that the downside risks will eventuate. That means it is appropriate to follow a methodical data driven approach. We suspect this will be the path the RBNZ will take. This will be important to ensure the MPC's actions now do not necessitate an aggressive rise in interest rates down the track should conditions not prove as weak as feared by markets. Policy is likely stimulatory now.

	2024								2025			
Monthly data	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**
REINZ house sales %mth	–0.6	–7.3	10.9	0.6	2.9	3.6	2.1	–3.3	–0.5	7.4	–0.9	–
Residential building consents %mth	–1.3	–17.4	27.3	–5.3	2.6	–4.8	5.3	–5.4	3.1	0.7	9.6	–
Electronic card transactions %mth	–1.1	–0.6	–0.1	0.2	0.1	0.7	0.1	2.4	–1.6	0.3	–0.8	–
Private sector credit %yr	3.0	2.7	2.6	2.8	2.8	2.6	3.1	3.1	3.2	3.0	2.9	–
Commodity prices %mth	1.1	1.5	–1.7	2.1	1.8	1.4	2.9	0.1	1.8	3.0	–0.4	0.0
Trade balance (s.a.) $mn	–1007	–352	–793	–1026	–790	–505	–300	–301	143	–215	–36	–

Quarterly data	**Q4:22**	**Q1:23**	**Q2:23**	**Q3:23**	**Q4:23**	**Q1:24**	**Q2:24**	**Q3:24**	**Q4:24**	**Q1:25**
Westpac McDermott Miller Consumer Confidence	75.6	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2
Quarterly Survey of Business Opinion	–14	–13	–11	–17	7	–27	–28	–28	–24	–21
Unemployment rate %	3.4	3.4	3.6	3.9	4.0	4.4	4.6	4.8	5.1	5.1
CPI %yr	7.2	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2	2.5
Real GDP %yr	2.9	3.5	4.0	2.4	1.8	1.4	0.6	0.1	–0.5	–
Current account balance % of GDP	–9.2	–8.6	–7.9	–7.7	–6.9	–6.6	–6.6	–6.5	–6.2	–

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

Authorities' ambition ...

Elliot Clarke
Head of International Economics

Expectations of China's outlook vary greatly amongst market participants, the IMF's latest forecast of just 4.0% and Bloomberg's April consensus estimate of 4.2% sitting in stark contrast to the Chinese authorities' 5.0% growth target. Bolstered by the strength of Q1 2025 (and Q4 2024), we still see the 5.0% ambition as readily achievable, though it is important to understand how the composition of growth needs to evolve and its susceptibility to risks.

Q1 2025's 1.2% gain following Q4 2024's 1.6% rise puts the six-month annualised pace of growth at a very healthy 5.7% at the beginning of 2025. Including the weaker outcomes of mid-2024, year-to-date growth is still above target at 5.4%.

On an annual basis, the key contributors to aggregate growth have been consumption (2.8ppts, including both household and government spending) and net exports (2.1ppts), while gross capital formation added just 0.5ppts despite continued strength in high-tech manufacturing and infrastructure investment.

Though the detailed data does not provide a definitive view, households' contribution to growth over the year to March is best considered weak versus history. Annual growth in retail sales did accelerate from 3.7% in February to 5.9% in March, a rate almost twice the March 2024 outcome of 3.1%. However, the average of the decade prior to the pandemic is 11.4%. Property investment is also still down 9.9% compared with the first three months of 2024, having averaged growth in excess of 20% per annum prior to the pandemic.

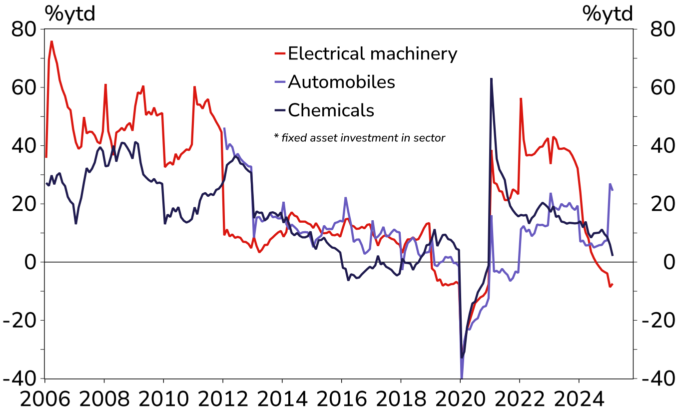
The divergences between private and public consumption and between residential and non-residential investment (total fixed asset investment up 4.2% despite property's 9.9% contraction) emphasises the weak state of confidence across China's households but also the capacity of the Government to spend and to coax a change in narrative, which the credit and house price data suggests is in train.

From February to March 2025, year-to-date new yuan loans jumped from RMB6.1trn to RMB9.8trn. Aggregate finance (which also includes bond and equity issuance) was stronger still, ramping up from RMB9.3trn to RMB15.2trn – 20% larger than at the same time last year.

Notably, the more liberal provision of credit looks to be having a material effect on housing wealth, the monthly decline in new home prices abating from –0.7% at September last year to less than –0.1% in March, with secondary home prices following suit. Chinese equities have also stabilised and are now attracting greater demand from local and foreign investors.

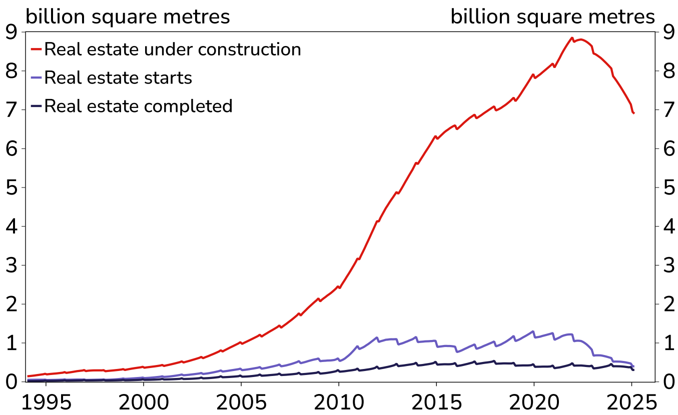
Here it is important to recognise that the labour market has only just started to receive support – policy easing continues

Capacity expansion has offset ...



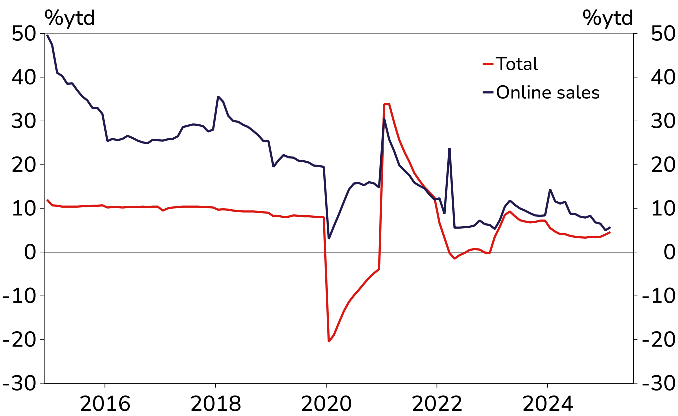
Source: NBS, Macrobond, Westpac Economics

... structural reset of housing



Source: NBS, Macrobond, Westpac Economics

Pent up consumer demand needs trigger



Source: NBS, Macrobond, Westpac Economics

... still in hand

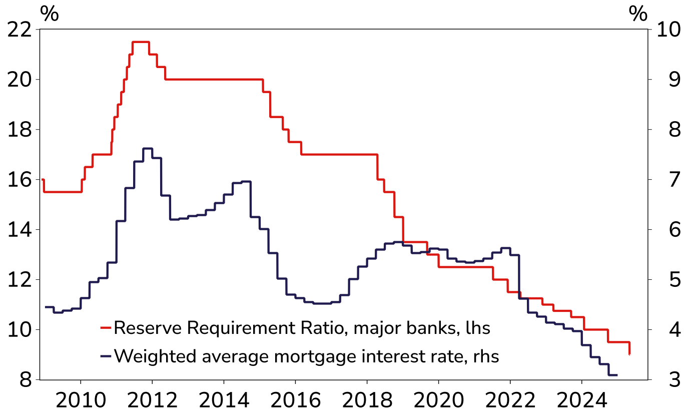
to focus on the availability and cost of funds with firms left to decide how to employ/invest. Ahead, authorities aim for gains for wealth, employment and sentiment to jointly and sustainably accelerate consumer spending, broadening the growth pulse for consumption and investment.

This development is a 'need to have' not a 'nice to have'. This is because the 2.1ppt net export contribution to annual GDP growth over the year to March will not be sustained. That said, the pull-forward of exports to get ahead of US tariffs may still have some way to run as it takes time for businesses to find alternative suppliers, if they can, and, in the absence of negotiations, the risk of higher prices tomorrow persists. While it gets less airtime, China's demand for US goods is also in rapid decline, benefiting China's trade position and, where there is switch to domestic suppliers, GDP growth. Moreover, export markets across Asia continue to grow at a robust pace, bolstered by these nation's domestic economic development.

To us, the most probable outlook is one where Chinese authorities manage stimulus and confidence to offset the external risk emanating from the US. Should a quick resolution be found, this support will be short-lived. If, in contrast, the current impasse persists, open-ended support will be provided along with a directive to local governments and state-linked firms across the economy to vigorously support employment and investment as well as the equity and housing markets.

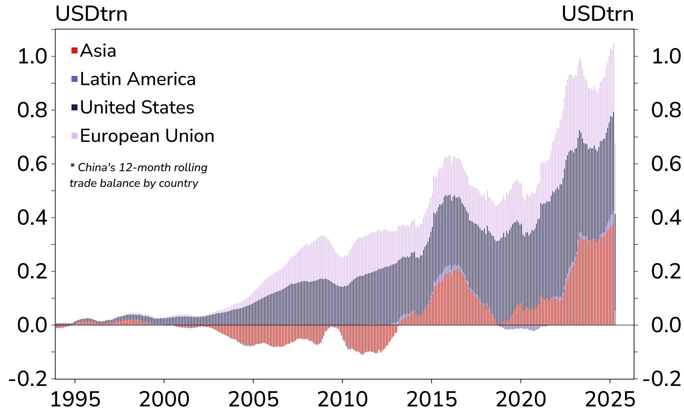
The key risk for China is not the direct threat from the US, but rather other countries, particularly in Asia, agreeing to tariff China in return for access to the US being restored. Such a course would see a much broader and persistent conflict. The cost to the other nation(s) would be material, potentially fully offsetting any benefit from the US, and so such an escalation seems unlikely. Still, the potential consequences for activity and confidence mean it is a risk that warrants close scrutiny.

Policy now highly stimulatory



Source: Bloomberg, Macrobond, Westpac Economics

Trade opportunities plentiful



Source: GAC, Macrobond, Westpac Economics

	2024								2025			
Monthly data %yr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Headline CPI %yr	0.3	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	-0.7	-0.1	-
M2 Money Supply %yr	7.0	6.2	6.3	6.3	6.8	7.5	7.1	7.3	7.0	7.0	7.0	-
Manufacturing PMI (Official)	49.5	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49.0
Fixed Asset Investment ytd %yr	4.0	3.9	3.6	3.4	3.4	3.4	3.3	3.2	3.2	4.1	4.2	-
Industrial Production %yr	5.6	5.3	5.1	4.5	5.4	5.3	5.4	6.2	6.2	5.9	7.7	-
Exports %yr	7.4	8.5	6.9	8.6	2.3	12.7	6.6	10.7	6.0	-3.0	12.4	-
Imports %yr	2.1	-2.6	6.7	0.1	0.2	-2.3	-3.9	0.9	-16.4	1.4	-4.3	-
Trade Balance USDbn	81.4	99.0	85.4	91.5	81.7	95.6	97.2	105.1	138.6	31.7	102.6	-

Quarterly data	Dec–23	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25
Real GDP %yr	5.3	5.3	4.7	4.6	5.4	5.4
Nominal GDP %yr	4.4	4.2	4.0	4.0	4.6	4.6

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

A lack of confidence is hard to escape ...

Elliot Clarke
Head of International Economics

The US economy continues to hold its head above water, but every week of uncertainty with respect to trade policy raises the risk of open-ended stagnation or outright recession. The FOMC is not in a position to help near term, with consumer inflation expectations ringing alarm bells for medium-term price stability. Also of concern, weak activity growth and elevated term interest rates, now being experienced, risk destabilising the Federal fiscal position over time.

US GDP largely met expectations in Q1 2025, declining 0.3% annualised. A key contributor to this deterioration was household consumption which slowed from a 4.0% annualised pace in Q4 to 1.8% in Q1 2025. Government spending meanwhile declined and dwelling investment stalled after mortgage rates snapped back to near recent highs. The Q1 aggregate result would have been much worse had it not been for a surge in business investment. But this activity only came as a result of firms looking to complete projects ahead of the implementation of tariffs. This bring-forward was a key reason why imports grew at a 41% annualised pace in Q1 compared to a meagre 1.8% for exports.

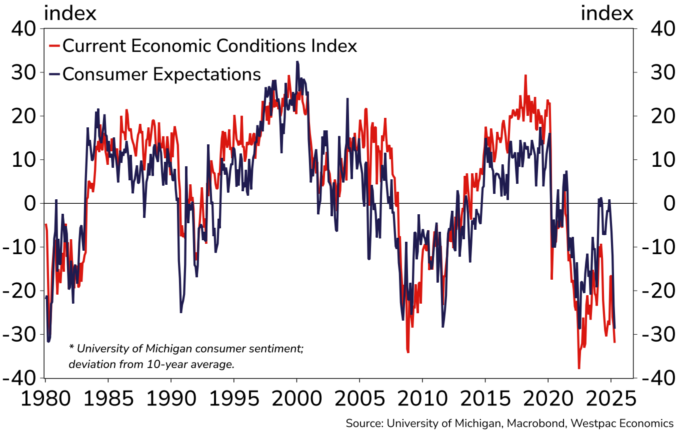
Another way to highlight the significance of the trade shock experienced by the US in the quarter is to note that, while GDP growth declined from 2.4% annualised to –0.3% in Q1, annualised growth in domestic demand (which omits the net contribution from trade) was around trend at 2.4% annualised, just 0.5ppts lower than the prior quarter.

Assessed in isolation, domestic demand suggests there is no cause for alarm over the US growth outlook. Consumption growth more than halving from Q4 2024 to Q1 2025 ahead of April's tariff escalation suggests otherwise, however. Justifying our and the market's concern, consumer and business sentiment have plunged and consumer inflation expectations have skyrocketed.

In its final release for April, University of Michigan consumer sentiment was 7.5% below March and almost 30% lower than December 2024. It was also clearly the result of tariffs – the 1-year view for inflation now 6.5%, more than three times the FOMC's 2.0%yr target. The Conference Board's measure was similarly downbeat, particularly expectations which have declined 12.5pts to the lowest level since October 2011, again owing to concerns over the inflationary impact of tariffs. The Conference Board's 1-year gauge of inflation expectations is broadly consistent with the Michigan survey at 6.0%yr.

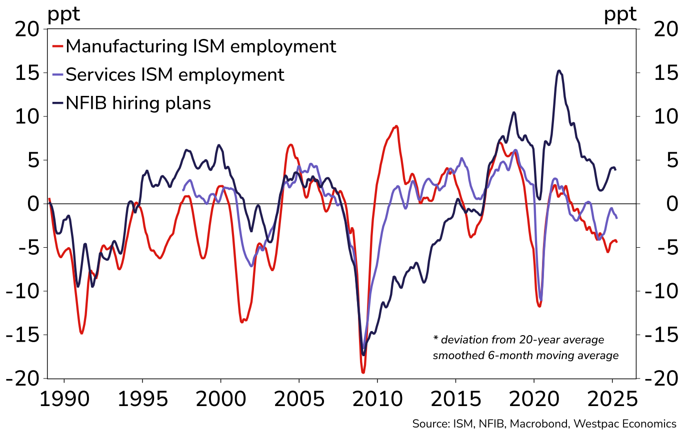
Both consumer surveys are also highlighting growing anxiety over job prospects. The Conference Board's assessment of 'jobs plentiful' minus 'jobs hard to get' recorded its second lowest reading for the cycle in April. The University of Michigan's probability of job loss measure has also trended higher since December to now be meaningfully above average.

Uncertainty weighing on consumer confidence



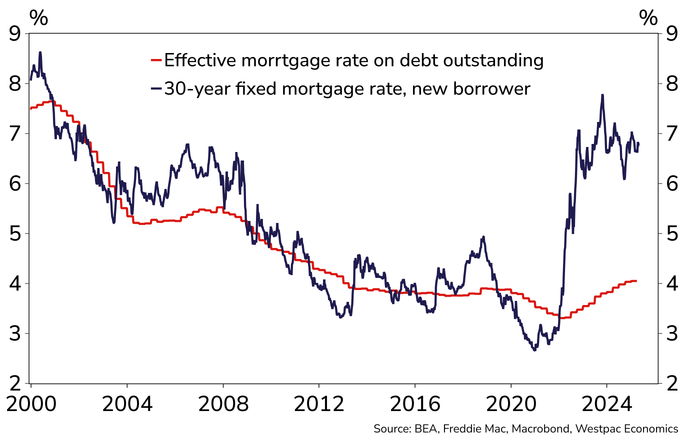
Source: University of Michigan, Macrobond, Westpac Economics

Risk of job loss now a concern



Source: ISM, NFIB, Macrobond, Westpac Economics

Interest costs a big headwind for housing



Source: BEA, Freddie Mac, Macrobond, Westpac Economics

... even with capacity and intent

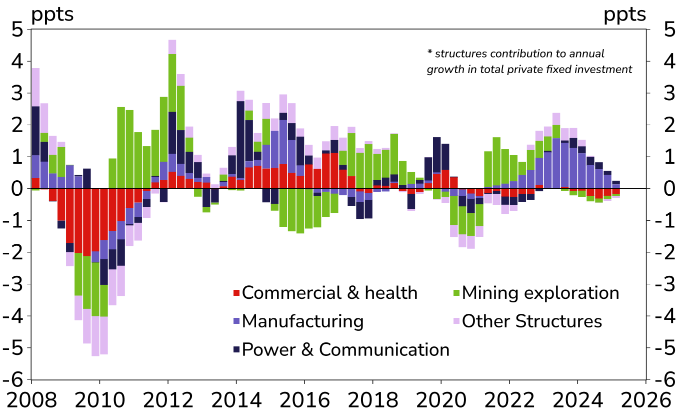
The business surveys are coincidentally pointing to downside risks for employment and wage growth from tariffs. At April, the ISM manufacturing survey was almost 10 points below its 20-year average. The ISM services employment index was of less concern though, just 3 points below the 20-year average. It is worth keeping in mind that respondents to these two surveys are the largest, most established firms in their respective sectors. Smaller businesses and their employees face a much more challenging and uncertain outlook.

Our base case for a stagnating economy concurs with these recent outcomes as well as the deceleration evident in nonfarm payrolls over the six months to April. This trend is likely to see the unemployment rate grind higher to around 5.0% mid-2026, with risk of a further deterioration if growth fails to recover towards the end of the forecast period.

As taxes related to investment make up almost 85% of Federal Government revenue, even a modest rise in unemployment and downside surprise for growth will put the deficit's trajectory at risk. Through 2025 and 2026, our current forecasts see: the unemployment rate at least 0.5ppts higher than the last CBO forecasts in January; real GDP growth a cumulative 2ppts lower; and US term yields circa 75bps higher. If our forecasts are correct, the US could easily print deficits at or above 7% of GDP in both 2026 and 2027 compared to 6.4% in 2024. Outright recession would see the deficit gap even higher.

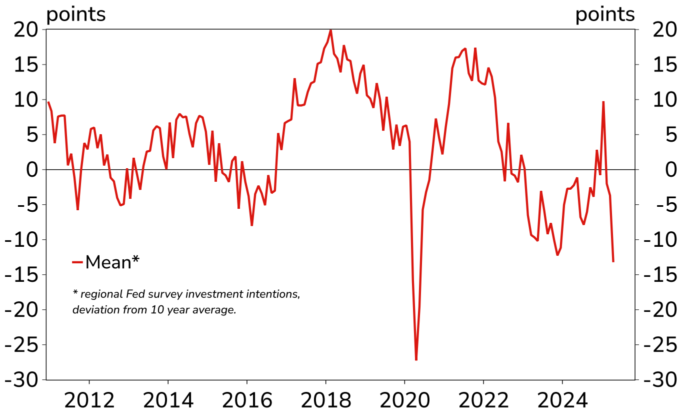
The current trend, and threat of recession, puts at risk not only the expected extension of Trump's tax cuts at year end but also the ability of the Federal Government to provide stimulus and/or direction to the economy in the medium to long-run. In such circumstances, it is not a given that the US will return to trend growth, let alone bounce back above it. All the while, the FOMC will have to remain cautious regarding inflation.

US investment in downtrend



Source: BEA, Macrobond, Westpac Economics

Businesses' concern clear



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

	2024								2025			
Monthly data	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
PCE deflator %yr	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.6	2.7	2.3	-
Unemployment rate %	4.0	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2
Nonfarm payrolls chg '000	193	87	88	71	240	44	261	323	111	102	185	177
House prices* %yr	6.8	6.5	5.9	5.2	4.6	4.3	4.4	4.6	4.8	4.5	-	-
Durables orders core 3mth %saar	-3.4	-0.5	-2.5	1.9	0.9	1.5	4.0	3.6	8.3	3.3	3.0	-
ISM manufacturing composite	48.5	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7
ISM non–manufacturing composite	53.5	49.2	51.4	51.6	54.5	55.8	52.5	54.1	52.8	53.5	50.8	51.6
Personal spending 3mth %saar	6.0	4.0	5.5	4.3	6.1	5.3	6.8	7.5	5.8	5.7	4.9	-
UoM Consumer Sentiment	69.1	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	52.2
Trade balance USDbn	-76.6	-74.2	-79.9	-71.4	-85.0	-73.7	-78.2	-98.1	-130.7	-123.2	-140.5	-

Quarterly data	Mar–24	Jun–24	Sep–24	Dec–24	Mar–25	Jun–25(f)
Real GDP % saar	1.6	3.0	3.1	2.4	-0.3	-0.8
Current account USDbn	-242.7	-276.7	-310.3	-303.9	-	-

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

Asian central banks to balance currency risks ...

Illiana Jain
Economist

The US' trade war has put the outlook for Asian exports at risk, so economies in the region are increasingly looking to domestic demand to drive growth. The experience of India, Indonesia, Thailand and South Korea highlight the varied conditions and challenges the region faces.

Concerns over growth have already seen Asian central banks start cutting rates since Q3 2024, focussing on returning interest rates to a level consistent with domestic conditions having previously maintained spreads with developed markets to mitigate pressure on their currencies. With inflation risks now skewed to the downside, thanks to softening commodity prices and the lingering influence of previously tight monetary policy, additional easing is expected.

Reserve Bank of India

Compared to the rest of Asia, India's domestic demand has picked up strongly to be above the pre-pandemic trend. But to sustain this momentum, private investment must grow its contribution.

Recognising this task, the RBI has cut rates twice to 6.5% and noted in their most recent statement that their monetary policy stance has shifted to 'accommodative'. Economists are expecting further cuts which could see the rupee remain under pressure, especially if the current conflict with Pakistan persists. So far, the INR has been the only currency to depreciate against the USD since 'Liberation Day', a far cry from the 3%+ appreciation of most its peers.

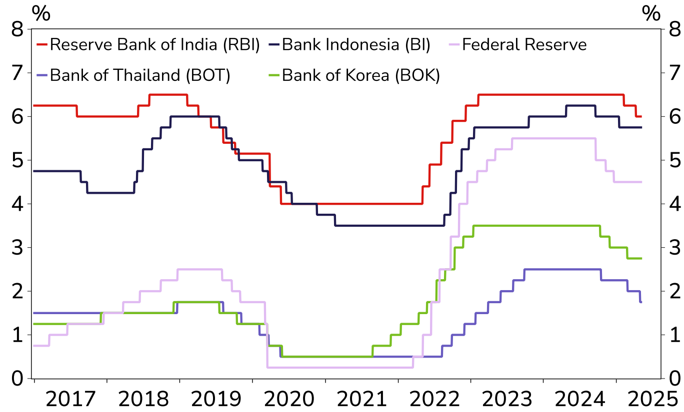
However, policymakers in India are arguably the least concerned about depreciation risks compared with their peers due to both strong reserves to offset short-term volatility and the benefits of a weak rupee for the trade position.

Bank Indonesia

For Indonesia, currency stability was a focus through 2024 and this has remained the case in 2025, particularly in the aftermath of Liberation Day. At its nadir for 2025, the currency was down 4%, making it the weakest performer in Asia.

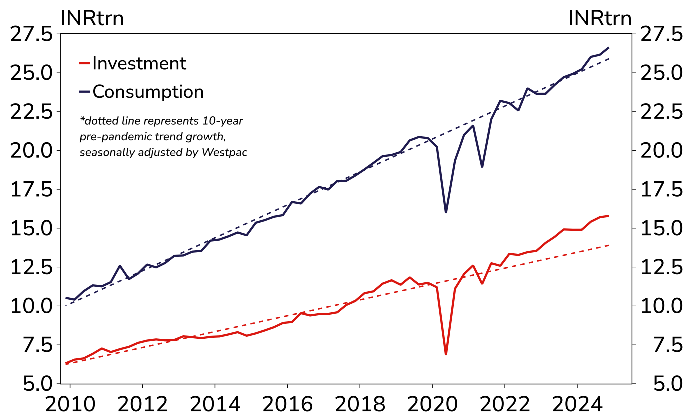
BI has opted to intervene to stabilise the currency in 2025, using some of its FX reserves and acting in the offshore non-deliverable forwards market. BI is also using macroprudential measures to increase liquidity, entice lending and subsequently economic growth. Fiscal policy is also likely to continue to play a crucial role in Indonesia's growth throughout 2025, but spending will have to be managed to make sure new initiatives do not raise concerns over of a potential widening in the fiscal and current account deficits at a time of uncertainty for the global economy.

Asia on its way to easy monetary policy



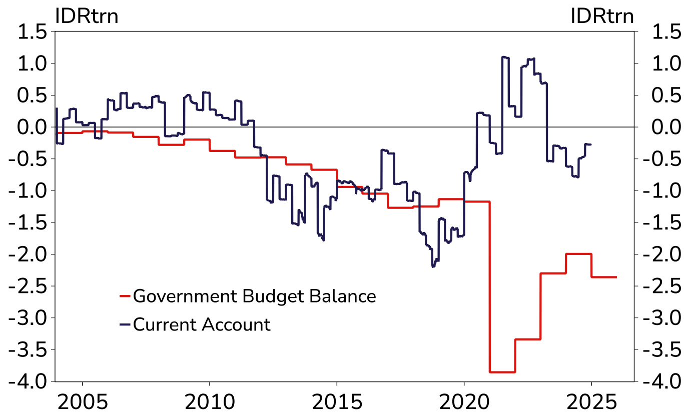
Source: Fed, BOT, BOK, BI, RBI, Macrobond, Westpac Economics

Growth outpaces pre-pandemic trend in India



Source: MoS&PI, Macrobond, Westpac Economics

Twin deficits to weigh on Indonesian Rupiah



Source: BI, Indonesian Ministry of Finance, Macrobond, Westpac Economics

... while stimulating domestic demand

As such, monetary policy will prioritise currency stability and financial system function, with growth to be more of a focus for the Government.

Bank of Thailand

With the current global backdrop, Thailand is in a tougher spot than most in the region given its exports are worth around 70% of GDP.

Services exports have yet to fully recover from the pandemic while Thailand's main goods exports – cars, semiconductors and electrical equipment – are at risk from the US administration's objective to build its own domestic capability.

So far the BoT have cut rates to help ease financial conditions. Although, having eased by 75bps already to 1.75%, their ability to boost the domestic economy is likely to diminish from here.

However, to the extent that our baseline view for the global economy remains robust, with growth around 3.0% in both 2025 and 2026, an underperforming currency should organically aid the Thai economy over time. It is also worth emphasising that the more-developed nations around Thailand are growing faster than the world and should see an acceleration in discretionary consumer spending hence. The outlook for the Thai baht therefore is favourable albeit susceptible to lags and downside risks.

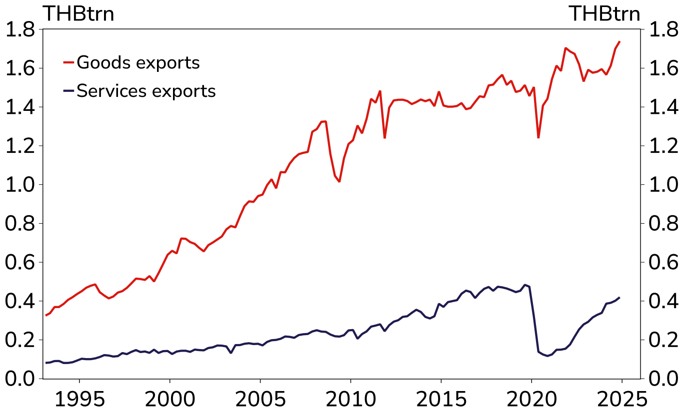
Bank of Korea

South Korea is grappling with a myriad of domestic challenges compounding the risks posed by its export dependency. The BoK has lowered rates three times to manage risks from high household debt and to boost demand as confidence falls in light of domestic political uncertainty.

In the near term, trade tensions will invariably weigh on the economy given exports equate to 50% of GDP. However, South Korea's position as a leader in chips manufacturing should, in time, help the country negotiate favourable terms with the US while also remaining an important player in Asian trade. Also, South Korean firms have been at the forefront of new manufacturing investment in the US, activity which the Trump administration should look favourably on.

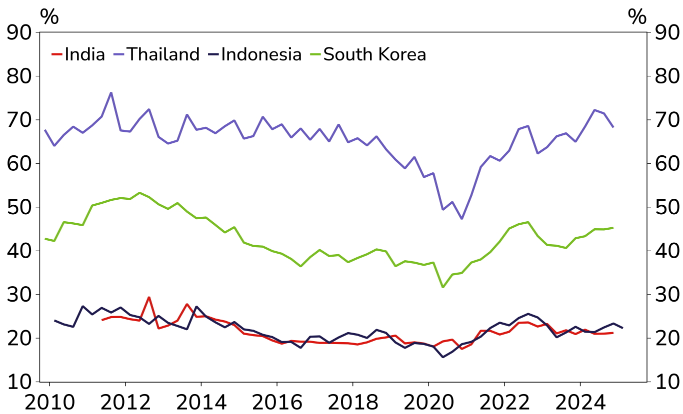
This is reflected in the currency: the won is one of the best performers across Asia in 2025, allowing the central bank to take a sanguine approach to inflation and currency risks and instead focus on growth.

Services under recovery, goods under threat



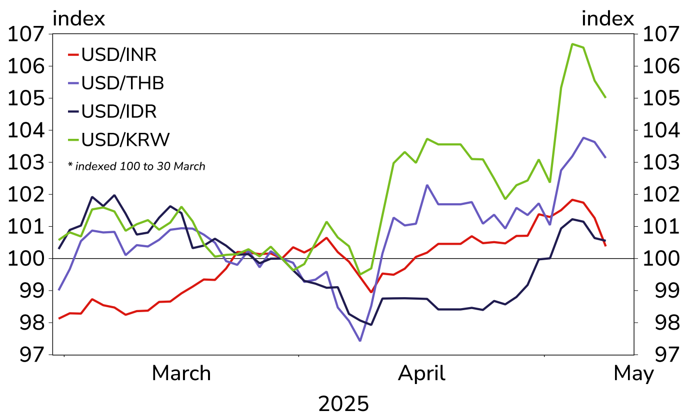
Source: NESDC, Macrobond, Westpac Economics

Exports share of GDP



Source: MoS&PI, BPS, CAO, NESDC, BOK, Macrobond, Westpac Economics

Asian currencies benefit post Liberation Day



Source: 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.

Euro area and UK growth accelerated in Q1 ...

Mantas Vanagas
Senior Economist

The 'Liberation Day' tariffs shook the world in early April, prompting economists to re-evaluate prospects for global growth. Reacting to chaotic trade policy announcements from President Trump, US economic sentiment surveys went from bad to worse over the course of Q1, so it was not a complete surprise that the US economy contracted in Q1, even before the 'reciprocal' tariffs were announced. The early impact on European economies was always less certain, and so the latest GDP figures were closely scrutinised.

In the event, euro area GDP growth ended up accelerating from a 0.2% lift in Q4 to a 0.4% lift in Q1. Among the key member states, Germany returned to a positive-growth path, posting a 0.2% gain, and France managed to expand 0.1% after contracting by a similar amount in Q4. Spain remains the main source of growth in the region, Q1's 0.6% gain only modestly softer than the 0.7–1.0%qtr pace of the past year-and-a-half. Ireland, which represents only about 4% of the euro area economy, accounted for a third of the quarterly increase as distorted figures showed a 3.2% bounce in Q1.

Across the Channel, momentum in the UK has been surprisingly strong too. The official preliminary estimate of Q1 GDP will be announced next week, but the monthly data reported a 0.5%mth jump in February. To date, the monthly profile implies a strong chance that quarterly growth will rise to 0.7%qtr, which would represent a sharp recovery from near-flat GDP over the second half of last year.

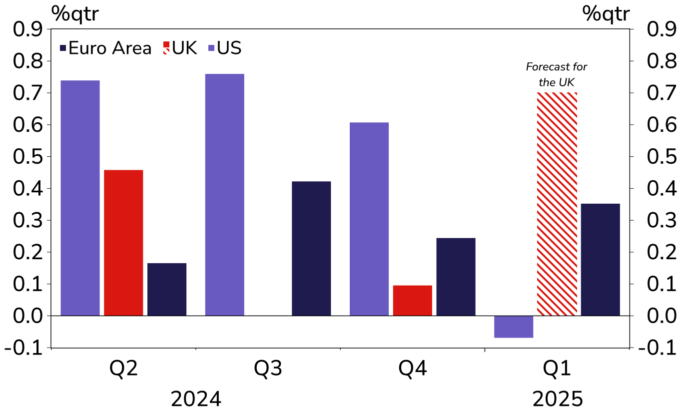
Among the sources of growth in Q1 across both economies, manufacturing output and exports seem to have played a role. Having struggled to grow in recent years, the manufacturing sector looks to have been reinvigorated by an increase in goods exports to the US ahead of the 'Liberation Day' tariffs.

Consumers in the UK and euro area also seem to be holding up quite well, despite a barrage of alarming news coming from the US. Indeed, consumer sentiment surveys – the most sensitive indicators to the news flow – were weaker, but considerably less pessimistic in comparison to the crisis levels seen in the US.

In terms of hard data, national releases suggest that growth in euro area household consumption should remain positive in Q1 (a full euro area GDP expenditure breakdown is not available at this point). In the UK, retail sales growth of 1.6% in Q1 was the strongest since the post-pandemic recovery, pointing to an even bigger impulse from private consumption.

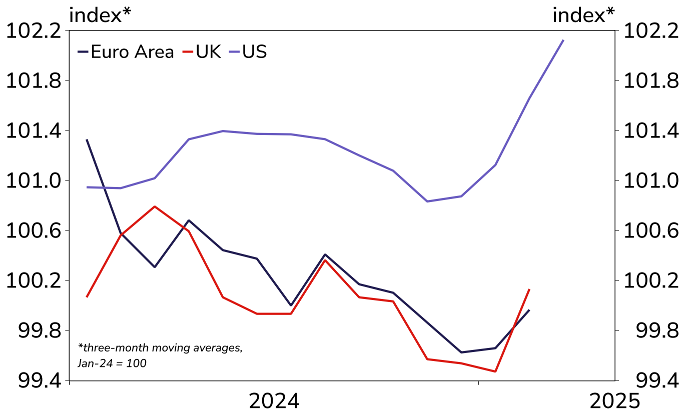
Resilience of European consumers can partly be explained by labour market dynamics. In the UK, higher employment growth has helped keep the unemployment rate stable at 4.4% in recent months, even as labour force participation rose. And the euro area unemployment rate remained stable at a record low of 6.2%, with only a small rise in the number of unemployed.

GDP growth



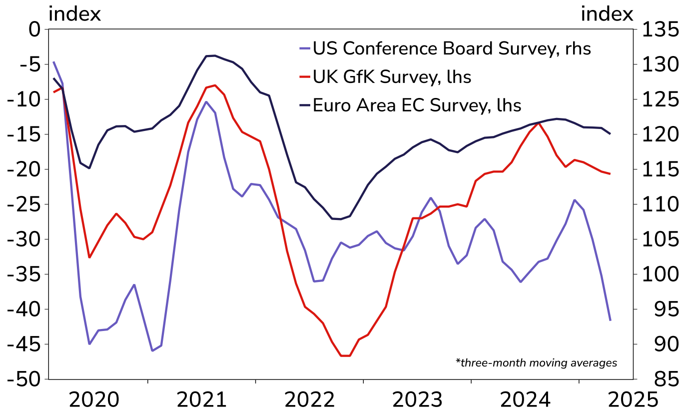
Source: BEA, ONS, Eurostat, Macrobond, Westpac Economics

Manufacturing Production



Source: ONS, Fed, Eurostat, Macrobond, Westpac Economics

Consumer Sentiment Surveys



Source: TCB, GfK, Eurostat, Macrobond, Westpac Economics

... Q2 will be the real test of their resiliency

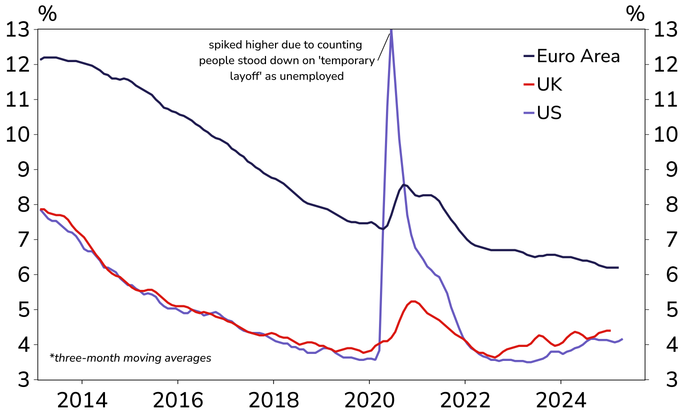
Do the major European economies have enough resilience to go through the tariff turmoil unscathed? The real test will be Q2 growth, and we think that a small contraction is likely for both the UK and euro area. The payback from stronger exports in Q1 on top of the tariff effects imply a negative contribution from net exports, and persisting uncertainty is likely to be a drag on business investment, although the latest business survey data showed only a small deterioration in April.

Beyond Q2, the growth outlook to a large extent depends on the trade deals the EU and UK reaches with US administration, and how their exporters respond to them. Around 18% of the euro area external exports flow into the US, but around a fifth is pharmaceuticals, which have been exempted from tariffs so far. The EU has expressed its dissatisfaction with the 20% 'reciprocal' tariff, with top officials calling it unjust and unfair, and news reports suggesting that the EU is preparing retaliatory measures, if trade negotiations fail to deliver desirable results. While the EU runs a significant goods trade surplus with the US, it also has a sizeable services deficit. If taken into account, it reduces the euro area trade surplus to around €50bn per year, a manageable level that negotiators should be able to resolve, in particular given the EU seems to be prepared to collaborate with the US in its efforts to curb China's export growth.

The UK's broadly balanced goods outflows and inflows with the US meant that it was hit with the lowest 'reciprocal' tariff of 10%. But politically the UK finds itself in a trickier position, having to carefully balance its interests with the EU and the US. The Labour government is hoping to turn a new page in the post-Brexit relationship with the EU, with the security threat from Russia and diplomatic efforts supporting Ukraine acting as a catalyst for closer cooperation. At the same time, the UK has adopted a softer tone towards the US which seems to have helped to facilitate the trade negotiations. The announcement of the UK–US trade deal is a positive step, but while President Trump depicted it as an historic achievement, it lacks the weight of the "full and comprehensive" agreement he previously pledged to accomplish, with a lot of details left to be clarified in the future. The UK managed to achieve concessions on car, steel and aluminium and pharmaceutical exports, but the baseline 10% tariff on all other goods remained untouched.

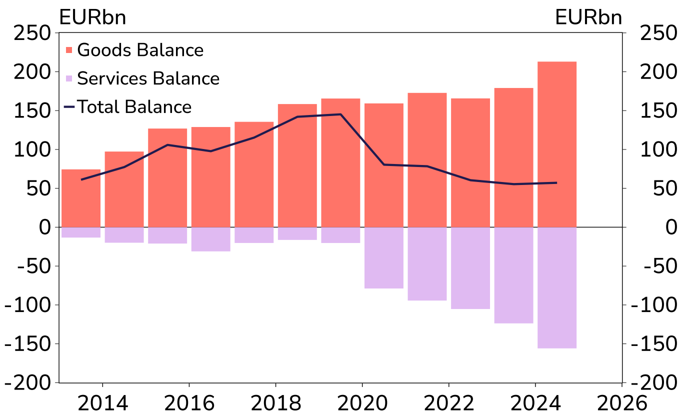
With the precedent set by the UK–US deal suggesting that tariffs on some other economies, likely including the EU, should be lowered as well, we expect that exports growth in both economies will start to recover in the second half of this year. Alongside reduced uncertainty and a resilient consumer sector, higher government spending in the euro area countries should support a gradual recovery. We forecast 0.9%yr euro area GDP growth this year and an acceleration to 1.3%yr next year. We note negotiations to reach peace in Ukraine represent notable two-sided risks to the growth outlook. The economic backdrop is similar in the UK – there we predict GDP growth of 1.0%yr and 1.2%yr in 2025 and 2026 respectively.

Unemployment Rates



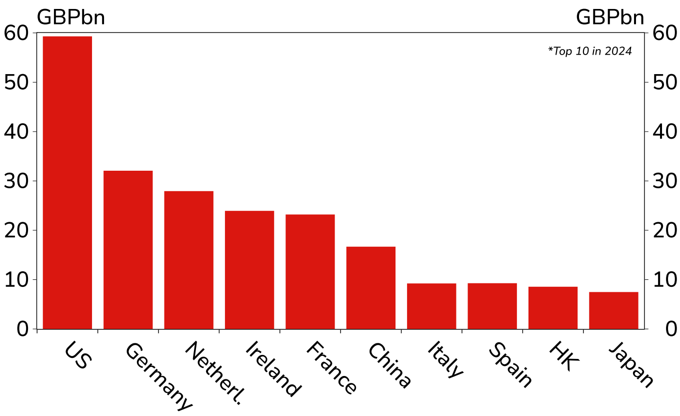
Source: BLS, ONS, Eurostat, Macrobond, Westpac Economics

Euro Area Trade with the US



Source: Eurostat, Macrobond, Westpac Economics

United Kingdom - Goods Exports by Country



Source: HMRC, ONS, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (9 May)	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	3.82	3.90	3.70	3.45	3.50	3.50	3.55	3.55	3.55	3.55
3 Year Swap	3.33	3.35	3.40	3.50	3.65	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.41	3.40	3.45	3.55	3.70	3.85	3.90	3.95	3.95	4.00
10 Year Bond	4.29	4.35	4.40	4.45	4.50	4.55	4.60	4.70	4.80	4.80
10 Year Spread to US (bps)	-8	5	5	5	5	5	0	0	0	0

Currency forecasts

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD vs										
USD	0.6398	0.64	0.65	0.67	0.68	0.69	0.70	0.71	0.72	0.72
JPY	93.37	92	93	94	95	95	95	96	96	96
EUR	0.5698	0.57	0.58	0.59	0.59	0.60	0.60	0.61	0.62	0.62
NZD	1.0838	1.08	1.10	1.13	1.13	1.13	1.15	1.15	1.15	1.15
CAD	0.8907	0.88	0.90	0.92	0.92	0.93	0.94	0.94	0.95	0.94
GBP	0.4831	0.48	0.49	0.50	0.51	0.51	0.52	0.52	0.53	0.53
CHF	0.5320	0.53	0.54	0.55	0.56	0.57	0.57	0.58	0.58	0.58
DKK	4.2509	4.26	4.29	4.38	4.41	4.48	4.50	4.57	4.63	4.63
SEK	6.2338	6.25	6.29	6.42	6.47	6.56	6.60	6.70	6.79	6.79
NOK	6.6749	6.69	6.73	6.87	6.92	7.02	7.07	7.17	7.27	7.27
ZAR	11.66	11.7	11.7	11.9	12.0	12.1	12.2	12.3	12.4	12.4
SGD	0.8318	0.83	0.85	0.86	0.88	0.89	0.90	0.91	0.92	0.92
HKD	4.9742	4.96	5.04	5.19	5.27	5.35	5.43	5.50	5.58	5.58
PHP	35.72	35.5	35.8	36.5	36.7	36.9	37.1	37.3	37.4	37.4
THB	21.14	21.1	21.2	21.6	21.6	21.7	21.7	21.7	21.7	21.7
MYR	2.7456	2.75	2.76	2.81	2.82	2.79	2.80	2.80	2.81	2.81
CNY	4.6328	4.64	4.68	4.79	4.83	4.86	4.90	4.93	4.97	4.90
IDR	10558	10624	10660	10854	10812	10764	10710	10650	10584	10584
TWD	19.38	19.5	19.6	20.1	20.3	20.4	20.6	20.7	20.9	20.9
KRW	898	896	897	918	925	932	938	944	950	950
INR	54.96	54.1	54.6	55.9	56.4	56.9	57.4	57.5	57.6	56.9

Australia

Activity forecasts

	2024		2025				2026		Calendar years			
%qtr / %yr end	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2023	2024	2025f	2026f
Household consumption	-0.1	0.4	0.3	0.2	0.5	0.5	0.6	0.6	0.9	0.7	1.5	2.4
Dwelling investment	1.5	-0.4	1.5	1.5	1.2	1.2	1.3	1.6	-2.6	2.5	5.5	6.5
Business investment *	-0.4	0.5	0.6	0.7	0.8	0.9	1.1	1.2	8.8	0.3	3.0	5.2
Private demand *	0.0	0.4	0.5	0.4	0.6	0.6	0.7	0.8	2.1	0.8	2.2	3.4
Public demand *	2.5	1.0	0.8	0.7	0.9	0.7	0.7	0.6	4.1	5.5	3.0	2.4
Domestic demand	0.7	0.5	0.5	0.5	0.7	0.6	0.7	0.7	2.6	2.1	2.4	3.1
Stock contribution	-0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.1	-1.0	0.2	0.0	0.2
GNE	0.4	0.6	0.5	0.5	0.7	0.7	0.8	0.8	1.5	2.3	2.4	3.3
Exports	0.2	0.7	0.1	0.0	0.3	0.4	0.4	0.4	3.7	1.7	0.8	1.7
Imports	-0.2	0.1	0.7	0.3	0.7	0.9	1.5	1.6	5.5	5.8	2.6	6.0
Net exports contribution	0.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.3	-0.3	-0.2	-0.9	-0.4	-1.0
Real GDP %qtr / %yr avg	**0.3**	**0.6**	**0.4**	**0.4**	**0.6**	**0.5**	**0.5**	**0.5**	**2.1**	**1.0**	**1.8**	**2.2**
%yr end	**0.8**	**1.3**	**1.5**	**1.7**	**2.0**	**1.9**	**2.1**	**2.2**	**1.5**	**1.3**	**1.9**	**2.2**
Nominal GDP %qtr / %yr avg	0.5	1.6	0.2	0.9	1.0	0.7	0.9	0.9	5.6	3.9	3.0	3.4
%yr end	3.5	3.7	2.5	3.2	3.7	2.7	3.4	3.3	4.3	3.7	2.7	3.4

Other macroeconomic variables

	2024		2025				2026		Calendar years			
% change	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2023	2024	2025f	2026f
Employment %qtr	0.8	0.6	0.4	0.2	0.1	0.0	0.3	0.3	–	–	–	–
%yr end	2.4	2.4	2.4	2.0	1.3	0.7	0.6	0.7	3.0	2.4	0.7	1.5
Unemployment rate %	4.1	4.0	4.1	4.2	4.4	4.5	4.5	4.5	3.9	4.0	4.5	4.5
Wages (WPI) (sa) %qtr	0.9	0.7	0.8	0.7	0.7	0.7	0.8	0.8	–	–	–	–
%yr end	3.6	3.2	3.2	3.0	2.9	2.9	3.0	3.0	4.2	3.2	2.9	3.2
Headline CPI %qtr	0.2	0.2	0.9	0.8	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	2.8	2.4	2.4	2.2	2.8	3.4	3.3	3.2	4.1	2.4	3.4	2.8
Trimmed Mean CPI %qtr	0.8	0.5	0.7	0.6	0.7	0.7	0.6	0.6	–	–	–	–
%yr end	3.6	3.3	2.9	2.7	2.6	2.8	2.7	2.7	4.2	3.3	2.8	2.5
Current account $bn, qtr	–13.9	–12.5	–15.6	–14.6	–15.1	–16.3	–18.0	–19.3	–	–	–	–
% of GDP	–2.0	–1.8	–2.2	–2.1	–2.1	–2.3	–2.5	–2.7	–0.2	–1.8	–2.3	–3.2
Terms of trade %yr avg	–4.7	–4.8	–4.6	–4.5	–3.9	–3.7	–2.8	–2.9	–6.2	–4.8	–3.7	–2.8
Population %yr end	1.8	1.7	1.6	1.5	1.5	1.4	1.4	1.4	2.4	1.7	1.4	1.4

Calendar year changes are annual through-the-year percentage changes unless otherwise specified.
* Business investment, private and public demand are adjusted to exclude the effect of private sector purchases of public sector assets.

Macroeconomic variables – recent history

	2024							2025			
Monthly data	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Employment '000 chg	37.4	40.2	37.6	45.6	5.2	23.4	61.5	31.7	–57.5	32.2	–
Unemployment rate %	4.1	4.2	4.1	4.1	4.1	3.9	4.0	4.1	4.0	4.1	–
Westpac–MI Consumer Sentiment	83.6	82.7	85.0	84.6	89.8	94.6	92.8	92.1	92.2	95.9	90.1
Retail trade %mth	0.5	0.0	0.7	0.3	0.5	0.7	–0.2	0.4	0.2	0.3	–
Dwelling approvals %mth	–6.2	10.9	–4.7	4.3	6.7	–2.6	1.7	6.9	–0.2	–8.8	–
Private sector credit %mth	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	–
Trade in goods balance AUDbn	5.1	5.3	5.3	4.2	5.2	6.4	4.7	5.2	2.9	6.9	–

New Zealand

Interest rate forecasts

	Latest (9 May)	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Cash	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.37	3.15	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.11	3.10	3.15	3.30	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.53	4.55	4.60	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US	16	25	25	30	30	30	25	20	15	15
10 Year Spread to Aust	24	20	20	25	25	25	25	20	15	15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (9 May)	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
NZD vs										
USD	0.5903	0.59	0.59	0.59	0.60	0.61	0.61	0.62	0.62	0.63
JPY	86.15	85	84	84	83	84	83	84	84	83
EUR	0.5257	0.53	0.52	0.52	0.52	0.53	0.53	0.53	0.54	0.54
AUD	0.9227	0.92	0.91	0.89	0.88	0.88	0.87	0.87	0.87	0.87
CAD	0.8219	0.81	0.81	0.81	0.82	0.82	0.82	0.82	0.82	0.82
GBP	0.4458	0.45	0.44	0.45	0.45	0.46	0.45	0.46	0.46	0.46
CNY	4.2758	4.28	4.25	4.25	4.26	4.30	4.27	4.31	4.31	4.26

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2024		2025				2026		Calendar years			
% change	**Q3**	**Q4**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	–0.3	0.1	0.4	0.7	1.2	1.0	1.1	1.2	1.0	0.2	1.7	4.5
Government consumption	–2.1	1.9	–0.5	0.0	0.4	0.4	0.5	0.5	0.8	0.0	0.1	1.8
Residential investment	–1.7	–3.9	0.0	0.0	0.8	1.8	2.0	2.0	–5.6	–10.2	–4.2	6.9
Business investment	–2.6	1.5	–0.4	0.6	1.1	1.3	1.4	1.3	2.6	–2.2	0.9	5.0
Stocks (ppt contribution)	–0.3	0.4	1.0	–0.1	0.0	0.2	0.0	–0.1	–1.4	0.2	1.2	–0.1
GNE	–1.0	0.6	1.0	0.4	1.0	1.2	1.1	1.0	–0.8	–0.8	2.0	4.1
Exports	–1.8	3.5	2.8	0.6	0.6	0.5	0.7	0.7	11.4	4.2	5.7	2.6
Imports	0.0	1.1	–0.2	0.5	1.4	1.4	1.6	1.5	–0.6	2.4	1.9	5.9
GDP (production)	–1.1	0.7	0.4	0.4	0.8	1.0	0.8	0.7	1.8	–0.5	1.0	3.2
Employment annual %	–0.6	–1.2	–0.7	–0.7	0.2	0.8	1.3	1.8	2.8	–1.2	0.8	2.3
Unemployment rate % s.a.	4.8	5.1	5.1	5.3	5.3	5.2	5.0	4.8	4.0	5.1	5.2	4.4
LCI, all sect incl o/t, ann %	3.8	3.3	2.9	2.3	2.2	2.0	2.0	2.0	4.3	3.3	2.0	2.2
CPI annual %	2.2	2.2	2.5	2.4	2.7	2.8	2.3	2.4	4.7	2.2	2.8	2.0
Current account % of GDP	–6.5	–6.2	–5.5	–4.6	–4.3	–4.0	–4.1	–4.3	–6.9	–6.2	–4.0	–4.5
Terms of trade annual %	1.6	13.6	15.8	16.1	12.1	8.0	0.7	–1.4	–10.7	13.6	8.0	1.4

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Jun–27
Australian commodities index#	314	309	292	289	288	289	290	292	295	296	297
Bulk commodities index#	**378**	**370**	**340**	**330**	**340**	**340**	**340**	**340**	**350**	**350**	**350**
iron ore finesTSI @ 62% US$/t	98	95	88	86	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	191	175	170	167	167	166	164	164	166	167	168
Newcastle spot thermal coal (US$/t)	104	100	100	105	107	110	111	111	112	113	114
crude oil (US$/bbl) Brent ICE	62	55	57	60	60	62	65	67	70	71	72
LNG in Japan US$mmbtu	12.13	12.2	8.9	9.1	9.5	9.1	9.3	9.6	9.7	10.0	9.9
gold (US$/oz)	3,381	3,400	3,400	3,300	3,280	3,250	3,200	3,180	3,150	3,130	3,100
Base metals index#	**210**	**207**	**203**	**200**	**200**	**204**	**213**	**219**	**228**	**231**	**234**
copper (US$/t)	9,466	9,450	9,250	9,000	8,900	9,210	9,680	9,990	10,460	10,620	10,780
aluminium (US$/t)	2,983	2,900	2,830	2,830	2,830	2,850	2,960	3,030	3,140	3,180	3,210
nickel (US$/t)	15,462	15,000	14,500	14,000	14,250	14,680	15,320	15,740	16,380	16,590	16,800
zinc (US$/t)	2,602	2,500	2,550	2,580	2,600	2,610	2,670	2,730	2,810	2,840	2,870
lead (US$/t)	1,935	1,900	1,880	1,850	1,850	1,890	1,960	2,000	2,060	2,080	2,100
Rural commodities index#	**116**	**117**	**117**	**119**	**119**	**123**	**129**	**134**	**140**	**142**	**144**
NZ commodities index ##	**397**	**400**	**394**	**393**	**392**	**394**	**396**	**398**	**401**	**403**	**405**
dairy price index ##	366	369	354	349	349	351	354	356	359	361	364
whole milk powder USD/t	4,374	4,000	3,950	3,900	3,920	3,950	3,970	4,000	4,030	4,060	4,090
skim milk powder USD/t	2,828	2,700	2,670	2,650	2,670	2,700	2,720	2,750	2,770	2,790	2,810
lamb price index ##	522	566	572	576	574	572	571	570	570	570	570
beef price index ##	315	311	312	314	316	318	320	322	325	327	329
forestry price index ##	151	151	152	152	153	154	156	157	158	160	161

	levels				% change			
Annual averages	**2024**	**2025(f)**	**2026(f)**	**2027(f)**	**2024**	**2025(f)**	**2026(f)**	**2027(f)**
Australian commodities index#	**312**	**301**	**290**	**296**	**-3.4**	**-3.5**	**-4.0**	**2.2**
Bulk commodities index#	**436**	**368**	**341**	**349**	**-13.0**	**-15.5**	**-7.3**	**2.4**
iron ore fines @ 62% USD/t	109	94	84	85	-8.5	-13.6	-11.4	1.9
LNG in Japan $mmbtu	13.3	11.0	9.3	9.9	-10.6	-17.5	-14.9	6.0
ave coking coal price (US$/t)	206	143	125	128	-4.1	-30.5	-13.0	2.6
ave thermal price (US$/t)	136	120	126	130	-26.1	-11.3	4.5	3.5
iron ore fines contracts (US¢ dltu)	163	141	125	126	1.3	-13.0	-11.5	0.6
Premium low vol met coal (US$/t)	241	176	166	167	-18.6	-26.8	-6.0	0.8
crude oil (US$/bbl) Brent ICE	78	63	63	71	-1.6	-19.3	-0.3	12.7
gold (US$/oz)	2,410	3,219	3,235	3,126	22.8	33.6	0.5	-3.4
Base metals index#	**210**	**207**	**207**	**230**	**-1.0**	**-1.4**	**0.2**	**11.2**
copper (US$/t)	9,200	9,300	9,400	10,600	8.1	1.1	1.1	12.8
aluminium (US$/t)	2,700	2,900	2,900	3,200	-1.4	7.4	0.0	10.3
nickel (US$/t)	16,900	15,000	14,900	16,600	-21.8	-11.2	-0.7	11.4
zinc (US$/t)	2,800	2,700	2,600	2,800	5.6	-3.6	-3.7	7.7
lead (US$/t)	2,100	1,900	1,900	2,100	-1.4	-9.5	0.0	10.5
Rural commodities index#	**126**	**119**	**124**	**141**	**-10.3**	**-6.0**	**4.9**	**13.5**
NZ commodities index ##	**357**	**395**	**395**	**404**	**8.4**	**10.6**	**0.0**	**2.2**
dairy price index ##	318	357	352	363	10.9	12.5	-1.4	3.0
whole milk powder USD/t	3,439	4,023	3,952	4,063	11.6	17.0	-1.8	2.8
skim milk powder USD/t	2,686	2,720	2,702	2,793	1.8	1.2	-0.7	3.4
lamb price index ##	462	557	572	570	0.3	20.6	2.7	-0.4
beef price index ##	283	311	319	327	4.4	9.6	2.6	2.7
forestry price index ##	159	153	155	160	-0.1	-4.2	1.4	3.3

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

United States

Interest rate forecasts

	Latest (9 May)	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	4.37	4.30	4.35	4.40	4.45	4.50	4.60	4.70	4.80	4.80

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

Currency forecasts

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
USD vs										
DXY index	100.64	100.6	99.9	98.8	98.1	97.8	97.0	96.8	96.6	96.4
JPY	145.94	144	143	141	139	137	136	135	134	133
EUR	1.1228	1.12	1.13	1.14	1.15	1.15	1.16	1.16	1.16	1.16
AUD	0.6398	0.64	0.65	0.67	0.68	0.69	0.70	0.71	0.72	0.72
NZD	0.5903	0.59	0.59	0.59	0.60	0.61	0.61	0.62	0.62	0.63
CAD	1.3924	1.38	1.38	1.37	1.36	1.35	1.34	1.33	1.32	1.31
GBP	1.3242	1.32	1.33	1.33	1.34	1.34	1.35	1.35	1.36	1.36
CHF	0.8316	0.83	0.83	0.82	0.82	0.82	0.81	0.81	0.81	0.81
ZAR	18.22	18.2	18.1	17.8	17.7	17.5	17.4	17.3	17.2	17.2
SGD	1.3002	1.30	1.30	1.29	1.29	1.29	1.28	1.28	1.28	1.28
HKD	7.7748	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	55.62	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0	52.0
THB	33.05	33.0	32.6	32.2	31.8	31.4	31.0	30.6	30.2	30.2
MYR	4.2808	4.30	4.25	4.20	4.15	4.05	4.00	3.95	3.90	3.90
CNY	7.2427	7.25	7.20	7.15	7.10	7.05	7.00	6.95	6.90	6.80
IDR	16502	16600	16400	16200	15900	15600	15300	15000	14700	14700
TWD	30.28	30.5	30.2	30.0	29.8	29.6	29.4	29.2	29.0	29.0
KRW	1404	1400	1380	1370	1360	1350	1340	1330	1320	1320
INR	85.72	84.5	84.0	83.5	83.0	82.5	82.0	81.0	80.0	79.0

Activity forecasts

	2024	2025				2026			Calendar years			
% annualised, s/adj	**Q4**	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**2023**	**2024**	**2025f**	**2026f**
Private consumption	4.0	1.8	1.1	1.1	1.2	1.3	1.6	1.6	2.5	2.8	2.3	1.4
Dwelling investment	5.5	1.3	3.2	2.4	0.0	1.6	1.6	1.6	–7.8	4.2	1.5	1.5
Business investment	–3.0	9.8	1.1	1.2	1.2	1.3	1.6	2.3	6.0	3.6	3.0	1.5
Public demand	3.1	–1.5	2.0	1.6	1.2	0.8	0.4	0.4	3.9	3.4	1.7	0.9
Domestic final demand	2.9	2.4	1.3	1.2	1.1	1.2	1.4	1.5	2.8	3.0	2.2	1.3
Inventories contribution ppt	–0.8	2.2	–1.0	–1.0	0.1	0.1	0.2	0.2	–0.4	0.0	0.1	–0.1
Net exports contribution ppt	0.3	–5.5	–1.1	–0.1	–0.1	–0.4	–0.4	–0.4	0.5	–0.4	–1.7	–0.4
GDP	2.4	–0.3	–0.8	0.1	1.2	1.0	1.3	1.3	2.9	2.8	0.9	0.9
%yr annual chg	2.5	2.1	1.1	0.4	0.1	0.4	0.9	1.2	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	170	181	70	20	-30	20	50	90	213	161	60	68
Unemployment rate %	4.1	4.1	4.3	4.5	4.7	4.9	5.0	5.0	3.8	4.1	4.7	5.0
CPI headline %yr	2.5	2.5	2.5	2.3	2.2	2.1	2.0	3.3	3.4	2.9	3.5	3.0
PCE deflator, core %yr	2.5	2.5	2.5	2.4	2.3	2.3	2.2	3.3	2.7	2.6	3.5	3.0

Sources: Official agencies, Factset, Westpac Economics

Europe & the United Kingdom

Interest rate forecasts

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Euro Area										
ECB Deposit Rate	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.54	2.50	2.55	2.60	2.65	2.70	2.75	2.80	2.80	2.80
10 Year Spread to US	-184	-180	-180	-180	-180	-180	-185	-190	-200	-200
United Kingdom										
BoE Bank Rate	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.55	4.50	4.55	4.60	4.65	4.70	4.75	4.80	4.85	4.85
10 Year Spread to US	17	20	20	20	20	20	15	10	5	5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
euro vs										
USD	1.1228	1.12	1.13	1.14	1.15	1.15	1.16	1.16	1.16	1.16
JPY	163.87	161	162	161	160	158	158	157	155	154
GBP	0.8479	0.85	0.85	0.86	0.86	0.86	0.86	0.86	0.85	0.85
CHF	0.9337	0.93	0.94	0.94	0.94	0.94	0.94	0.94	0.94	0.94
DKK	7.4608	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	10.94	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	11.72	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7	11.7
sterling vs										
USD	1.3242	1.32	1.33	1.33	1.34	1.34	1.35	1.35	1.36	1.36
JPY	193.26	190	190	188	186	184	184	183	182	181
CHF	1.1012	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
AUD	0.4831	0.48	0.49	0.50	0.51	0.51	0.52	0.52	0.53	0.53

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2020	2021	2022	2023	2024	2025f	2026f
Eurozone GDP	–6.2	6.3	3.6	0.5	0.8	0.9	1.3
private consumption	–7.9	4.7	5.0	0.6	1.0	1.1	1.3
fixed investment	–6.0	3.7	2.1	1.9	–1.9	0.4	1.5
government consumption	1.2	4.3	1.1	1.4	2.7	2.1	1.8
net exports contribution ppt	–0.6	1.4	–0.1	0.3	0.4	-0.5	0.0
Germany GDP	–4.5	3.6	1.4	–0.1	–0.2	0.0	1.3
France GDP	–7.6	6.8	2.6	1.1	1.1	0.5	1.1
Italy GDP	–9.0	8.8	5.0	0.8	0.5	0.6	1.1
Spain GDP	–10.9	6.7	6.2	2.7	3.2	2.3	2.0
Netherlands GDP	–3.8	6.2	5.0	0.1	1.0	1.1	1.2
memo: United Kingdom GDP	–10.3	8.6	4.8	0.4	1.1	1.0	1.2

Asia

China activity forecasts

Calendar years	2019	2020	2021	2022	2023	2024	2025f	2026f
Real GDP	6.0	2.3	8.6	3.1	5.4	5.0	5.0	4.6
Consumer prices %yr	4.5	0.2	1.5	1.8	–0.3	0.1	0.5	1.3
Producer prices %yr	–0.5	–0.4	10.3	–0.7	–2.7	–2.3	–1.2	1.0
Industrial production (IVA)	5.7	2.8	9.6	3.6	4.6	5.8	5.2	4.5
Retail sales	8.0	–3.9	12.5	–0.2	7.2	3.5	5.0	5.2
Money supply M2 %yr	8.7	10.1	9.0	11.8	9.7	7.3	8.3	8.0
Fixed asset investment	5.4	2.9	4.9	5.1	3.0	3.2	4.7	4.5
Exports %yr	7.9	18.1	20.9	–9.9	–2.3	10.7	2.0	3.0
Imports %yr	16.5	6.5	19.5	–7.5	0.2	0.9	1.5	2.5

Source: Macrobond, Bloomberg. Year-to-date growth unless otherwise noted.

Chinese interest rates & monetary policy

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Required reserve ratio %*	9.00	9.00	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
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.

Japanese interest rates & monetary policy

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Policy Rate	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.37	1.35	1.35	1.40	1.50	1.75	1.75	1.75	1.75	1.75

Currency forecasts

	Latest (9 May)	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
JPY	145.94	144	143	141	139	137	136	135	134	133
SGD	1.3002	1.30	1.30	1.29	1.29	1.29	1.28	1.28	1.28	1.28
HKD	7.7748	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	55.62	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.00	52.00
THB	33.05	33.0	32.6	32.2	31.8	31.4	31.0	30.6	30.2	30.2
MYR	4.2808	4.30	4.25	4.20	4.15	4.05	4.00	3.95	3.90	3.90
CNY	7.2427	7.25	7.20	7.15	7.10	7.05	7.00	6.95	6.90	6.80
IDR	16502	16600	16400	16200	15900	15600	15300	15000	14700	14700
TWD	30.28	30.5	30.2	30.0	29.8	29.6	29.4	29.2	29.0	29.0
KRW	1404	1400	1380	1370	1360	1350	1340	1330	1320	1320
INR	85.72	84.5	84.0	83.5	83.0	82.5	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	2.9	-2.7	6.6	3.6	3.5	3.3	2.9	3.0
United States	2.6	-2.2	6.1	2.5	2.9	2.8	0.9	0.9
Japan	-0.4	-4.2	2.7	0.9	1.5	0.1	1.0	0.8
Euro zone	1.6	-6.0	6.3	3.5	0.4	0.9	0.9	1.3
Group of 3	1.8	-3.9	5.8	2.7	1.8	1.8	0.9	1.0
United Kingdom	1.6	-10.3	8.6	4.8	0.4	1.1	1.0	1.2
Canada	1.9	-5.0	6.0	4.2	1.5	1.5	1.2	1.2
Australia	1.8	-2.1	5.5	3.9	2.1	1.3	2.0	2.2
New Zealand	3.0	-1.3	5.7	2.9	1.8	-0.5	1.0	3.2
OECD total	1.9	-4.2	6.1	3.1	1.9	1.8	1.1	1.2
China	6.1	2.3	8.4	3.1	5.4	5.0	5.0	4.6
Korea	2.3	-0.7	4.6	2.7	1.4	2.0	1.4	1.8
Taiwan	3.1	3.4	6.7	2.7	1.1	4.3	2.8	2.6
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2	2.5	2.2	2.2
Singapore	1.3	-3.8	9.8	4.1	1.8	4.4	2.4	2.2
Indonesia	5.0	-2.1	3.7	5.3	5.0	5.0	4.8	4.9
Thailand	2.1	-6.1	1.5	2.6	2.0	2.5	2.4	2.6
Malaysia	4.4	-5.5	3.3	8.9	3.6	5.1	4.5	4.4
Philippines	6.1	-9.5	5.7	7.6	5.5	5.7	5.7	5.7
Vietnam	7.4	2.9	2.6	8.5	5.1	7.1	6.2	6.4
East Asia	5.3	0.9	7.1	3.6	4.7	4.8	4.6	4.4
East Asia ex China	3.8	-2.2	4.4	4.6	3.3	4.3	3.7	3.8
NIEs*	2.0	-0.5	6.0	2.3	1.5	3.0	2.0	2.1
India	3.9	-5.8	9.7	7.6	9.2	6.5	6.2	6.2
Russia	2.2	-2.7	5.9	-1.4	4.1	4.1	1.5	0.9
Brazil	1.2	-3.3	4.8	3.0	3.2	3.4	2.0	2.0
South Africa	0.3	-6.2	5.0	1.9	0.7	0.6	1.0	1.3
Mexico	-0.4	-8.4	6.0	3.7	3.3	1.5	-0.3	1.4
Argentina	-2.0	-9.9	10.4	5.3	-1.6	-1.7	5.5	4.5
Chile	0.6	-6.1	11.3	2.2	0.5	2.6	2.0	2.2
CIS^	-6.9	-34.0	23.0	-6.4	-8.4	10.0	11.0	11.0
Middle East	1.3	3.2	2.8	2.8	2.8	2.9	2.9	2.9
C & E Europe	-2.4	-5.5	9.0	4.2	3.2	2.9	2.5	3.0
Africa	3.2	-1.5	4.7	4.1	3.6	4.0	3.8	4.2
Emerging ex–East Asia	1.4	-3.7	6.9	3.7	4.3	4.2	3.8	4.0
Other countries	4.1	1.4	5.9	4.3	3.6	2.9	2.5	3.0
World	2.9	-2.7	6.6	3.6	3.5	3.3	2.9	3.0

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

Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner
Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Jameson Coombs
Economist
E: jameson.coombs@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au

IQ

westpaciq.com.au

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