June 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

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June 2025

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This issue was finalised on 13 June 2025.

NB: Australian activity forecasts on page 23 now includes annual through-the-year percent changes.

Trade tail risks subside

Markets have settled somewhat over the last month as the risk of extreme tariff scenarios has continued to recede. The shift has even found a handy new acronym in form of 'the TACO trade'– Trump Always Chickens Out – reflecting the walkbacks we have seen on what were now more clearly 'ambit' bids on tariffs. Comforting as that may be, the outlook for US and global growth still looks challenging and unsettled.

And there are always other sources of risk. As we go to press, Israeli missile strikes on Iran have sparked concerns of renewed conflict in the Middle East. Interestingly, the eventual USD rally in the wake of the news shows it remains the clear 'safe haven' during global risk events, at least those that are not being instigated by the US.

These events are unlikely to have implications for monetary policy. On this front, little has changed on a month ago. The Fed is still waiting for more clarity on the growth and inflation impacts of tariffs. The next batch of economic updates should start to show some clearer pictures (prices in particular look to only have started adjusting from around mid-May). That said, it will be some time yet before the Fed can be confident of inflation returning to target. Most other central banks have continued to move to less restrictive settings, the ECB, BoE and RBA all cutting by 25bps in May.

Our central case continues to be for a material slowing in global growth, albeit one heavily concentrated in the US. China remains on track to achieve 5% growth in 2025 although gains still look overly dependent on trade and investment with a broadening to the consumer and housing sectors desirable.

Locally, the latest batch of activity data confirmed that Australia's domestic economy started the year on a weak footing. More broadly, we have reassessed the outlook for growth, inflation and monetary policy. A slower, 'shakier' recovery is now expected to see inflation dip below the mid-point of the RBA's target in late 2025. As such, we now anticipate the RBA's withdrawal of restrictiveness will extend into the first half of next year with an additional 50bps of rate cuts on top of the 50bps already pencilled in for the remainder of 2025, bringing the cash rate to a broadly neutral 2.85%.

Australia: A tight labour market and lingering inflation concerns mean the RBA is taking a 'cautious and predictable' approach to setting the cash rate. This means further cuts will occur at a moderate pace and not be front-loaded. After revising our inflation forecast we now expect a further 50bps of easing in 2026 in addition to the 50bps more expected this year.

Commodities: After the post-Liberation Day sell off, a rally in gold, a strong rally in crude oil and copper was offset by weaker iron ore, met coal and aluminium. Crude was boosted by supply disruptions, and new geopolitical risks emerging as we go to press. Barring worst-case scenarios, prices should soften through the second half of 2025. Iron ore is trending lower as 'peak steel' has passed Simandou's high grade supply weighs on the market.

Global FX Markets: After our May report, the USD DXY index briefly tested the top of its recent range at 101.8 before quickly retracing to hug the bottom of range around 99 since. A growing list of US negatives, most notably the uncertainty around trade policy and the debt trajectory are influencing the market, which seems to be sizing up a further move lower.

New Zealand: With the OCR now inside the neutral zone the RBNZ has indicated that it will tread more cautiously in lowering rates further. But the 225bps of easing already undertaken and very positive export commodity prices should be sufficient to support a strengthening economic recovery this year.

United States: US equities have rallied strongly over the past two months, the S&P500 retracing its circa 20% decline around Liberation Day. GDPNow, the Atlanta Fed's estimate of current quarter GDP growth has also rebounded strongly, pointing to a 3.8% annualised gain in Q2 after Q1's marginal contraction of -0.2%. This is despite the FOMC guiding that the current restrictive stance is likely to remain in place for the foreseeable future and the US 10-year yield pushing higher.

China: With data now available up to April/May, China remains on track to achieve 5.0% growth in 2025. However, as best we can tell, this momentum continues to depend on trade and investment as the consumer remains lacklustre and uncertain. Broadening growth should be a priority and will require additional pro-active support by authorities.

Asia: Despite the US administration's goal of reducing trade dependence on Asia through tariffs, the region's dominance in tech manufacturing and integrated supply chains makes meaningful decoupling unlikely. Instead of weakening China's influence, the tariffs have accelerated regional integration within Asia, reinforcing China's role in cross-border production and trade.

Europe: Major central banks in Europe are significantly ahead of the RBA with the monetary policy debate there already shifting from when interest rates will fall further to whether additional monetary policy support is required at all. We expect that both the ECB and BoE will cut interest rates further.

'Damp squib' deals allay market's worst fears ...

Luci Ellis
Chief Economist, Westpac Group

Prior to Israel's strike on Iran, global financial markets had settled down from the volatility following the 'Liberation Day' tariff announcements. Tariffs at the originally announced levels were simply too self-destructive to stick. They were always ambit claims, with a dose of political theatre built in. As it became clearer that the Trump administration would de-escalate, market volatility did, too.

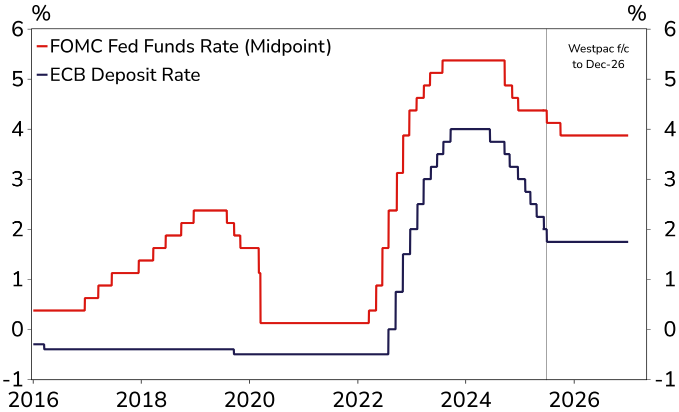
The deals that have been announced are light on genuine concessions but remove most of the risk that tariffs end up at materially higher levels than we previously expected. The US tariffs are likely to settle at around 10% for most countries, and higher for China and a few others. Scenarios involving countries (other than China) retaliating and escalating the trade war also look highly unlikely now. This implies the hit to global growth from this source will be limited. Israel's strike on Iran highlights, though, that there are still plenty of other global risks around.

A lower level of tariffs than initially announced also reduces the upside shock to US inflation. The trade-off between slower growth and higher inflation remains a tension for Fed policy, which will keep the FOMC on the sidelines for the next few months. That said, the de-escalation on tariffs lowers the risk that the FOMC ends up not cutting at all this year. We continue to expect 50bps of cuts (25bp each in September and December) this year. The ECB and Bank of England are also expected to cut rates further, though they are further advanced and thus closer to the end of their rate-cutting phases. With no real urgency to cut rates from here, central banks are likely to take a 'wait and see' approach to conflicts in the Middle East.

The more structural recent market shifts have persisted, with moves away from long US positions as the 'US exceptionalism' narrative faded. The tariff war is inflationary for the US but disinflationary for the rest of the world given moderately lower global growth and the disinflationary impetus coming from China into global goods prices. Markets have recognised this distinction: inflation expectations implied by 10-year break-even rates are broadly unchanged for the US versus a year ago but noticeably lower for Germany, the UK and Australia.

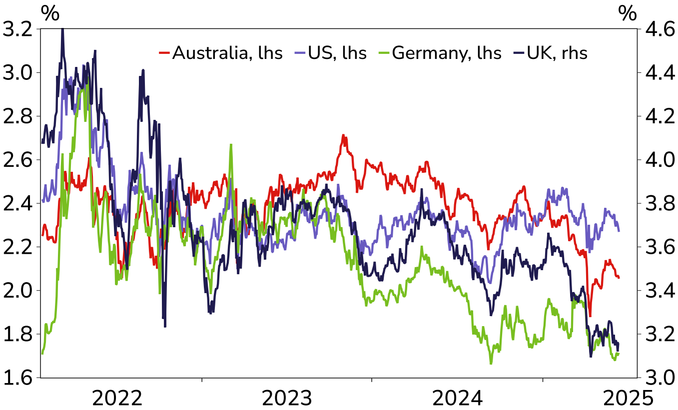
In line with this, US bond yields have underperformed those in peer countries, reflecting the more concerning fiscal outlook there as well as the inflation differences. At the 10-year tenor, AGS yields have fallen below those of equivalent-duration US Treasury bonds, and we expect that negative spread to persist. Both yields remain in the 4-point-something range that established itself since around late 2023. This is consistent with our longstanding house view that the global structure of interest rates will average higher in future than it did before the pandemic, given the shifts in global saving and investment.

FOMC and ECB Policy Rates



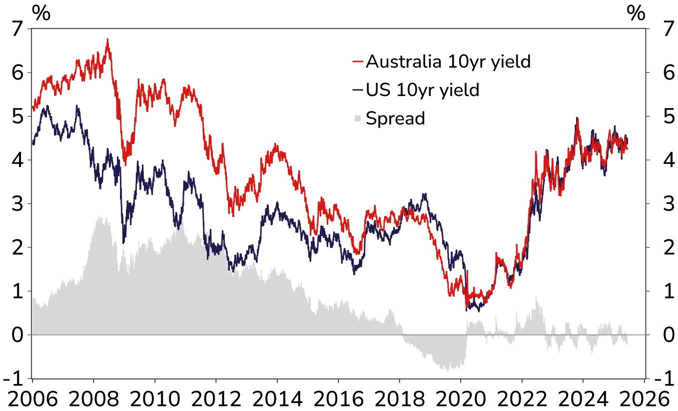
Source: BIS, ECB, Fed, Macrobond, Westpac Economics

10-Year Breakeven Inflation



Source: Bloomberg, Macrobond, Westpac Economics

10 Year Bond Yields



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

… RBA will have more work to do next year

RBA to cut further in 2026

As expected, the RBA cut the cash rate by 25bps at its May meeting. It welcomed inflation's return to the 2–3% target range and acknowledged that further cuts were possible if inflation remained sustainably in that range. It also revised down its bullish view of the near-term outlook for consumption growth to something closer to market consensus, but still above it. Like Westpac, the RBA expects that China will do enough stimulus to meet its 5% growth target for 2025. Accordingly, the RBA has scaled back its domestic growth forecasts only modestly. This also implies that it views the labour market as remaining tight relative to its model-informed view of what constitutes full employment.

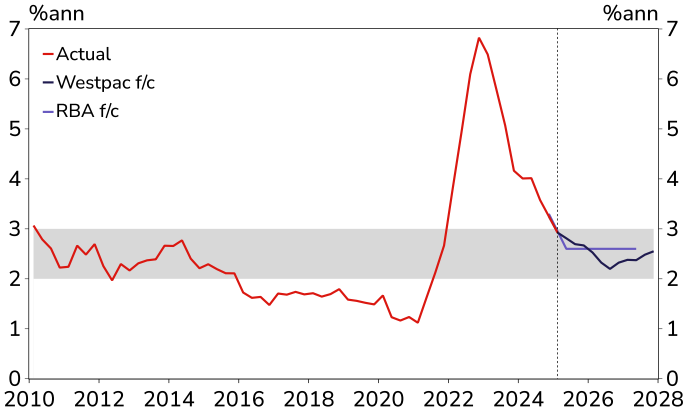
Given this near-term outlook, the RBA is unlikely to rush further cuts to the cash rate. Its post-meeting communication and minutes made clear that the Board favours a 'cautious and predictable' approach to withdrawing policy restrictiveness. It does not plan a rapid return towards neutral of the kind the Federal Reserve started its rate-cutting phase with. We therefore continue to expect that the RBA will cut rates again in August and November, even though markets are currently pricing a high chance of a cut in July. The RBA Board will want to wait for further confirmation that inflation is sustainably within its 2–3% target range, and that will not come quickly.

Looking further out though, we expect a lower inflation profile than previously, with trimmed mean inflation drifting below the 2.5% midpoint of the RBA's 2–3% target range around the end of the year. This is more noticeably below the RBA's own forecasts for trimmed mean inflation (holding dead flat at 2.6%) than our previous forecast round. So while the RBA does not currently expect that it will need to do more than about two cuts, our revised forecasts suggest a need to remove policy restrictiveness altogether. We have therefore added two more 25bp cuts to the RBA cash rate forecast in the first half of 2026, with February and May the most likely timing. That would mean that the RBA cash rate will bottom out at 2.85%, from a peak of 4.35%, and 3.85% currently. We regard the cash rate at 2.85% as being at the lower end of the 'neutral range'.

Our change in forecast brings some of the downside risks we had previously been flagging into our base case. Downside risks remain however, especially if growth also disappoints.

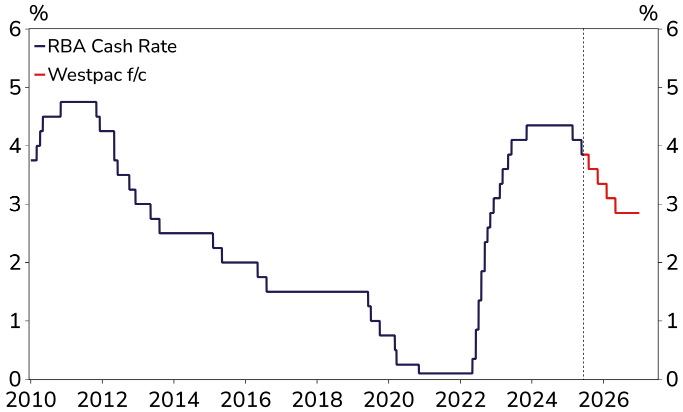
Given that markets are already expecting a sharper decline in Australian rates than we had previously been forecasting, the implications of our change in rates view for the AUD are minimal. The main drivers of the outlook for the AUD/USD cross continue to be the tug-of-war between the higher US interest rate differential pushing the USD up in the short term, versus the expected unwind of the USD's current overvaluation over the medium term.

Trimmed Mean Inflation



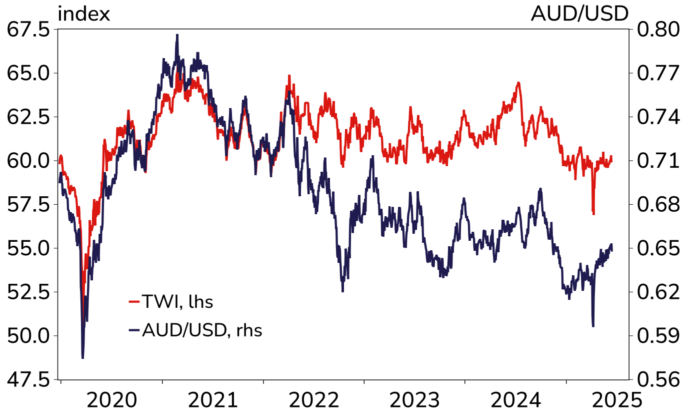
Source: ABS, RBA, Macrobond, Westpac Economics

RBA Cash Rate



Source: RBA, Macrobond, Westpac Economics

Australian Dollar – Spot vs TWI



Source: Bloomberg, 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.

Growth impulse remains faint ...

Pat Bustamante, Senior Economist

The Australian economy had a weak Q1, barely growing 0.2%qtr and 1.3%yr. This is on par with the weakest reads since the early 1990s recession, excluding COVID. The recovery effectively stalled in annual terms with year-ended growth stuck at a soft 1.3%yr.

The start to calendar 2025 was softer than Westpac Economics (and the median market) expectation prior to the release of partial economic indicators, which highlighted downside risks. We expect part of the weakness to be temporary – for instance, the adverse weather in NSW and Queensland which temporarily delayed mining exports. Additionally, business investment and consumer spending were likely impacted by the global uncertainty shock resulting from the evolving situation around US trade policy. This uncertainty effect could persist for a while even though trade tensions have de-escalated and worst-case tariff scenarios look less likely now.

Despite these temporary shocks, the underlying growth impulse remains faint. Unless there's a seamless handover from public to private led economic growth, activity is likely to remain sluggish. If anything, the March quarter National Accounts confirmed that this handover is likely to be 'shaky' with growth in new public demand likely to slow from here and the recovery in private demand running behind schedule.

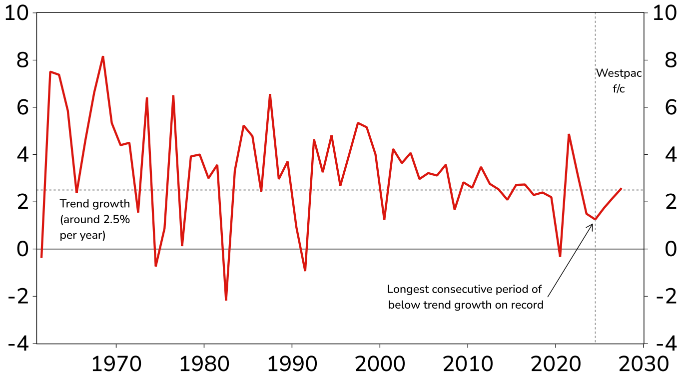
After an unprecedented expansion, public demand is likely to remain at an elevated level, but its rate of growth is likely to slow from here. Over the past two years new public demand has accounted for more than 80% of total growth in the economy and more than 95% of the total increase in hours worked. That has seen new public demand increase to over 27.4% of GDP, a record high up from an average of 23.7% in 2019 and a decade average of 22.3% prior to the pandemic.

That support now looks to be ebbing. The pipeline of public engineering construction projects has ticked lower for the better part of a year now. This is now flowing to public construction activity which declined a hefty 2.8%qtr in Q1. We are starting to see a slowing in public consumption as well, as programs reach maturity (e.g. the increase in childcare subsidies and, more tentatively, the rollout of the NDIS) and as temporary measures expire (e.g. state-based electricity rebates). We expect new public demand to remain elevated but to have passed the peak when it comes to contribution to growth in the economy.

Meanwhile, the recovery in private demand remains modest with private business investment disappointing, consumer spending remaining subdued, while housing construction continues to be the one bright spot in the economy.

Australian economic growth

Year-ended percentage changes, calendar years



Source: ABS, Macrobond, Westpac Economics

New business investment increasing a soft 1.3%yr in the March quarter with new machinery and equipment recording an outright decline, down 2.6%yr. Since late 2023 investment has increased in structurally-driven industries, including renewables, information technology and construction, but has gone backwards in the remaining industries.

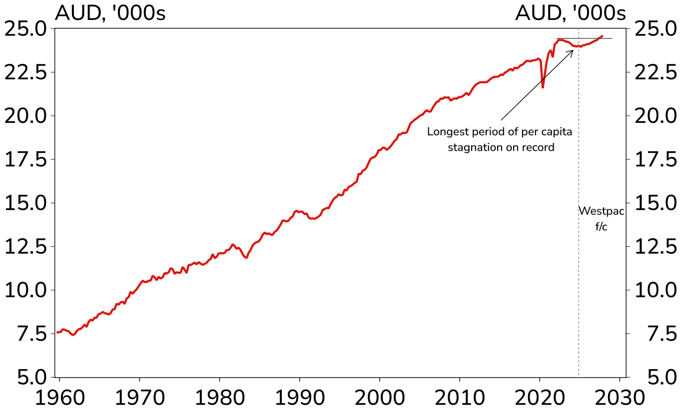
Concerningly, ABS capex expectations suggest soft investment is here to stay. Early estimates of non-mining capex expectations for 2025-26 are unchanged compared with the previous year, pointing to a lack of confidence. This is one area where the global uncertainty shock, and potentially the Federal election held in early May, could have an impact as businesses take a wait-and-see approach.

Private consumer spending continues to be weak, up 0.7%yr in the March quarter, a poor outcome given population growth of 1.7%yr and improving real incomes. The bulk (on average around 80%) of the gains from the stage 3 tax cuts, moderating inflation and more recently, interest rate cuts has been saved by consumers. In part, this reflects the extent of income squeeze over the previous three years which has left households in repair mode.

Housing construction continues to be the one bright spot in the economy, with activity picking up 2.6% in the March quarter, as the capacity constraints that have dogged the sector since the pandemic finally look to be dissipating. Both new home building and renovation activity recorded solid outcomes, up 2.3%qtr and 2.9%qtr, respectively.

… 'shaky handover' looking shakier

Real GDP per capita



Source: ABS, Macrobond, Westpac Economics

Near term forecast downgrade

We have downgraded our already soft near-term growth forecasts. We now expect the economy to grow a very sluggish 1.7%yr in 2025 - around one-quarter of a percentage point lower than our forecasts before the release of the March quarter Accounts.

The Accounts showed that our starting position is weaker with public demand likely to have peaked a few quarters earlier than previously expected and the recovery in the private sector running behind schedule. Accordingly, growth in new public demand has been revised lower from 3.0%yr to 2.1%yr in 2025, while, on the back of ABS capex expectations and other survey indicators, growth in private new business investment was also downgraded from 3.0%yr to 2.7%yr in 2025 and by half a percentage point in 2026 (from 5.2%yr to 4.7%yr). The outlook for household consumption is broadly unchanged with growth at a very soft 1.8%yr in 2025, 2.4% in 2026 and 2.8%yr in 2027.

We expect the external sector to drag on activity going forward with the outlook broadly unchanged. The weather-related detraction made by net exports in the March quarter is expected to be paid back over the remainder of 2025.

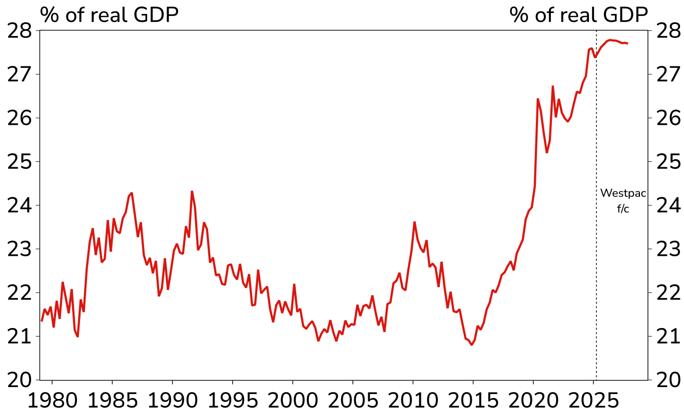
Beyond 2025 we expect activity and private demand to pick up. The underlying growth impulse will gather momentum in the second half of 2026 and into 2027 on the back of further interest rate cuts (we expect to see the cash rate at 2.85% by this time next year) and two new rounds of small tax cuts which kick in from July 2026 and July 2027. Growth in 2026 is expected to be 2.2%yr and 2.6%yr in 2027.

What do our forecasts mean?

Our revised forecasts show that it will take at least five years for GDP per capita to return to June 2022 levels – the longest period of per capita stagnation on record back to the 1950s. That is a weaker five-year performance than during the early 1990s recession. It also means that by end-2026, Australia will have recorded five years of continuous below-trend growth.

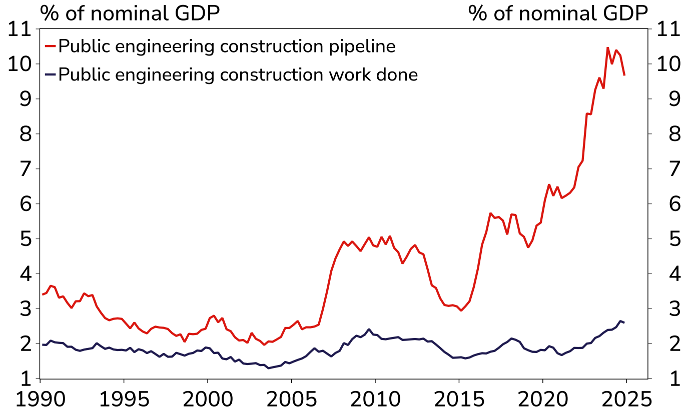
While the labour market remains in good shape given the weak growth performance, in part due to the expansion in the public or non-market sector, stagnant GDP per capita (a long run proxy for living standards) shows just how tough it has been for households. The slow-moving nature of this cycle suggests the recovery may be more susceptible to losses of momentum.

New public demand



Source: ABS, Macrobond, Westpac Economics

Public engineering construction pipeline & activity



Source: ABS, Macrobond, Westpac Economics

Crude oil rally was set to fade prior to Israeli strikes ...

Justin Smirk
Senior Economist, Westpac Group

The Westpac Export Price Index is flat compared to where it was when we published the May Market Outlook, the net result of a robust rally in crude oil (+9.4% in the month) offset by falling bulk commodities (iron ore –3.5%, met coal –4.0% partially offset by 5.1% lift in thermal coal). Gold and base metals were broadly flat in the month, –0.8% and –0.7% respectively, but the latter masks the 3% rally in copper and a –5.7% correction in aluminium. With the crude oil market rallying since early May, we had lifted our September 2025 forecast to US$65/bbl but still expect it to drop back to US$60/bbl in December and March quarters as additional supply enters the market. Israeli strikes on Iran as we go to press mean this profile is likely to be more volatile. Near-term copper prices have lifted on the back of the current surge but we are looking for prices to pull back at the end of the year once the US tariffs have been announced. Iron remains in a modest correction, with prices expected to fall to US$86/t in the December quarter this year.

Iron ore's very gradual decline

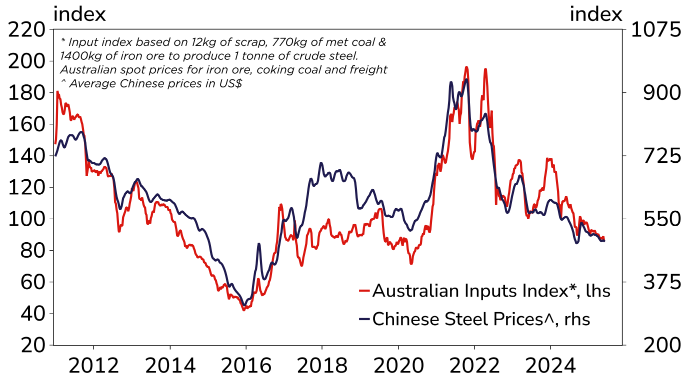
Our view on iron ore remains unchanged. Chinese steel production peaked back in 2020 and has been in a trend decline since. This, combined with the outlook for new supplies of higher grade ore from the Simandou mine in Africa, will see a gradual decline in the pricing of Australian 62%fe. In the last month, prices have started to probe the key US$95/t level, a move we have been expecting for some time. Chinese residential property sales have, at best, only just started to pull out of a tectonic five-year collapse and remain stalled around 15yr lows. In addition, Chinese authorities have confirmed they are actively pushing forward with steel production control measures and, perhaps more critically, enforcement is happening. Meanwhile, rebar futures are at 8yr lows, which may result in many steel mills going into early maintenance this month. Additionally, the China Iron & Steel Association (CISA) has warned that the current China EV price war has resulted in some auto manufacturers asking steel mills to reduce prices by more than 10%. All up, we are comfortable with our view that iron ore prices will be below US$90/t in the second half of this year.

Israel strikes and crude gaps higher

Westpac's Head of Commodity Strategy, Robert Rennie, has been arguing for a near-term bounce in Brent up to US$68/bbl and potentially beyond given the loss of Venezuelan exports and Canadian wildfires shutting down heavy crude production. In addition, it appears that OPEC+ production rose only by 180kbpd versus a target of 310kbpd. As such, another push higher was looking possible. The outbreak of renewed conflict in the Middle East has made that a certainty.

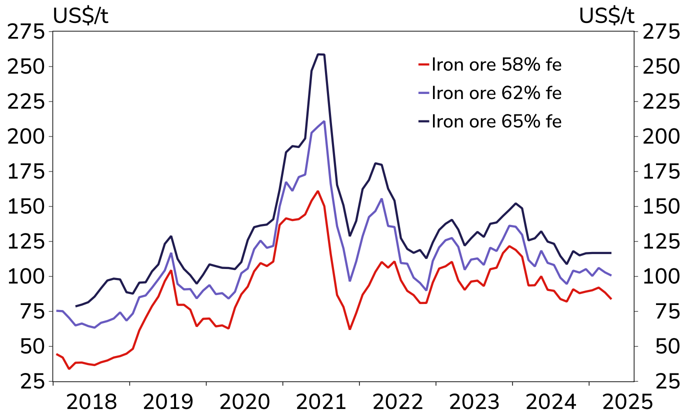
Chinese Steel Input and Output Prices

Prices had found a base looking weak again



Source: Bloomberg, Macrobond, Westpac Economics

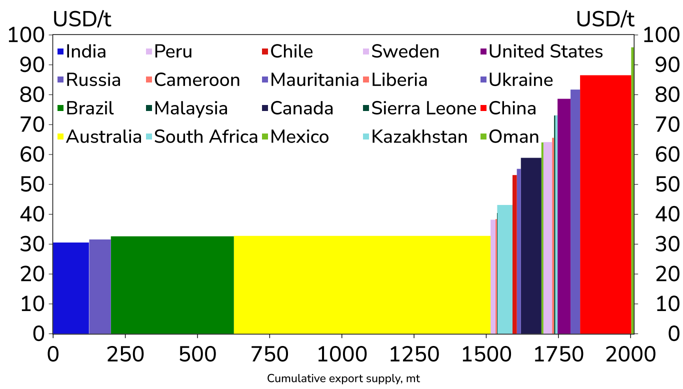
Chinese iron ore prices by quality/grade



Source: Bloomberg, Macrobond, Westpac Economics

Iron ore cash cost curve

Chinese production remains at the top of the cost curve



Source: Wood McKenzie, Macrobond, Westpac Economics

... copper losing its pre-tariff premium

As we go to press, Israel has launched military strikes across Iran with a high likelihood of retaliation. Brent jumped almost 9% to US$78/bbl but eased back to US$75/bbl through the day. There are many unknowns at this point but this clearly increases the risk of further disruptions to Middle East supplies. For now, we hold to peak around US$75/bbl given that we the Energy Information Agency (EIA) is forecasting global production to rise a 1.54mbpd this year while consumption is set to rise by just 0.78mbpd. An important offset is that the EIA cut its 2026 forecast for US crude production despite the Trump administration's "Drill Baby Drill" mantra n is now forecasting a contraction versus 2025. We have long argued that prices are more important for US production than government policies and so are not surprised to see the US rig count has declined to the lowest level since October 2021. All combined, global crude production is forecast to rise just 0.79mbpd in 2026 while global demand is set to rise by 1.05mbpd. Hence, we see crude prices firming in 2026. Nevertheless, we continue to expect crude to dip back to ~US$60/bbl if current tensions in the Middle East subside.

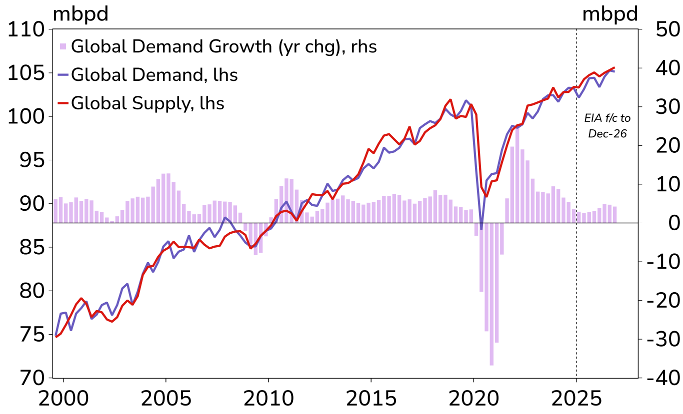
Copper rally nearing its peak

Copper has rallied strongly from the post 'Liberation Day' losses with LME futures up around 10% and COMEX futures up more than 15% year to date. This is despite trade war uncertainty and resulting downgrades to the global growth outlook (albeit partially reversed following de-escalation). What has driven the moves and resilience? A key reason has been physical market dislocations associated with the potential for US copper import tariffs. There had been a rundown of LME copper inventories and a rise in COMEX inventories as the US stockpiles copper ahead of an expected copper tariff announcement. The final decision on this tariff is now expected to come in the September quarter so we are looking for copper prices to soften once the rate is known. As such while the medium-term supply and demand outlook for copper remains positive, currently supportive physical market conditions are likely to soften near-term. Trade war de-escalation, if it extends, reduces near term downside risks but ongoing uncertainty means end demand is likely to be softer than what was expected before Liberation Day. However, generally resilient demand from secular drivers (such as electrification) and support from moderate China stimulus will continue to support prices as we move through 2026.

Thermal coal facing a tough year

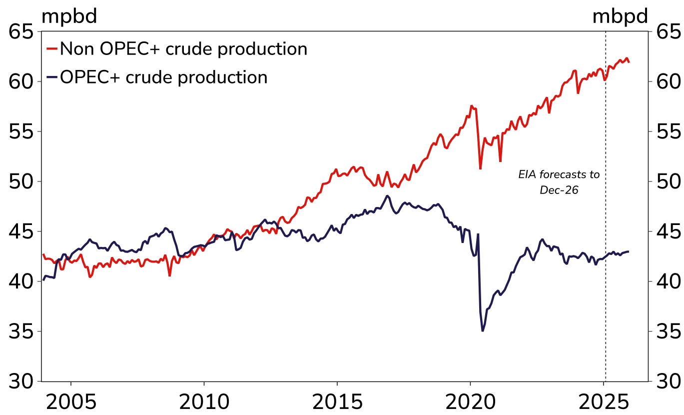
The thermal coal market is facing weak demand, oversupply, evolving clean energy policies, unstable trade policies and economic uncertainty. Demand is subdued with the only possible upside a hot northern hemisphere summer boosting electricity demand. Chinese imports declined as domestic production rose with a similar situation in India. Oversupply remains persistent with few miners curtailing production. Overall, Westpac expects Newcastle thermal coal to end 2025 at US$105/t.

Crude oil supply & demand



Source: EIA, Bloomberg, Macrobond, Westpac Economics

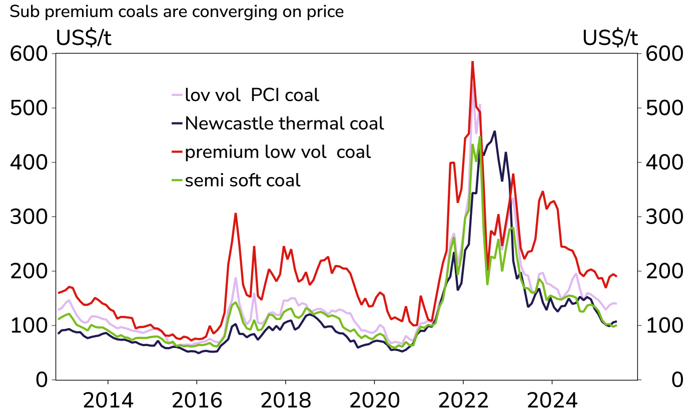
Crude oil supply outlook is very robust



Source: EIA, Macrobond, Westpac Economics

Australian coal prices

Sub premium coals are converging on price



Source: Bloomberg, Macrobond, Westpac Economics

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USD slowly losing its exceptional status ...

Elliot Clarke
Head of International Economics

Immediately after our May Market Outlook, the US dollar DXY index tested the recent range to the upside, running up from 100.6 to 101.8. However, this move quickly retraced and for the past three weeks, the index has instead hugged the bottom of the recent range around 99.0 with a low of 98.1. On the minds of market participants are a growing list of negatives for the US economy, most notably the uncertainty that surrounds trade policy and the debt trajectory. It seems many in the market are increasingly sizing up a further move lower in coming months – or potentially even weeks.

It has to be said at the start of our discussion that US data is certainly not recessionary, or even consistent with a stalled economy. These possibilities remain risks, not a baseline view. Having contracted 0.2% annualised in Q1 2025, GDP looks set to rebound strongly in Q2, the Atlanta Fed's GDPNow measure consistent with a 3-4% annualised gain. The latest data on the labour market is more in keeping with the pace of domestic final demand growth, which is sub-par but still definitively positive, suggesting businesses are seeking to work through current uncertainty rather than give into their fears.

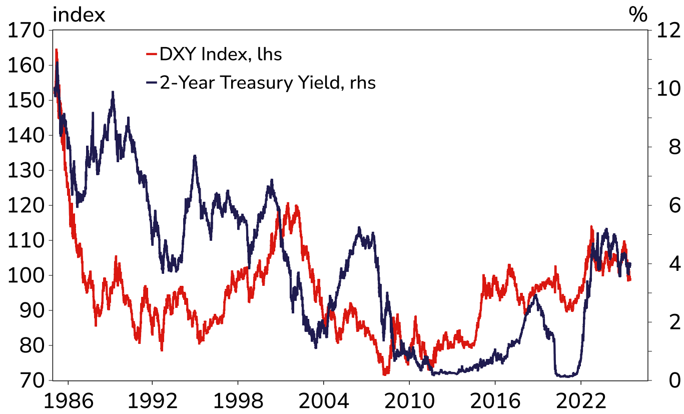
We expect this decelerating but positive growth trend to persist into year end, and for momentum to be very slow to pick up in 2026 and 2027 (respectively 0.9%yr, 1.0%yr and 1.5%yr). The unemployment rate is likely to drift higher to 5.0% as a result, a soft but not outright weak rate relative to history.

Our baseline view for the US dollar is therefore a period of stability near the DXY index's 10-year average in Q3 (circa 98.3) followed by a slow grind lower to 97.4 in Q4 2025, 95.6 in Q4 2026 and 95.2 Q2 2027. But this level is still a long way from the 20-year average of 90.2, highlighting that participants are some way from becoming outright pessimistic on the US economy; instead, they are just losing prior exuberant enthusiasm for the prospects of the US economy and, as a consequence, the currency.

As we have often highlighted, this shift in sentiment is not solely the result of views on the US. The wilting of confidence in the US has occurred coincident to a strengthening of sentiment in the Euro Area and a reduction in perceived risks for Asia.

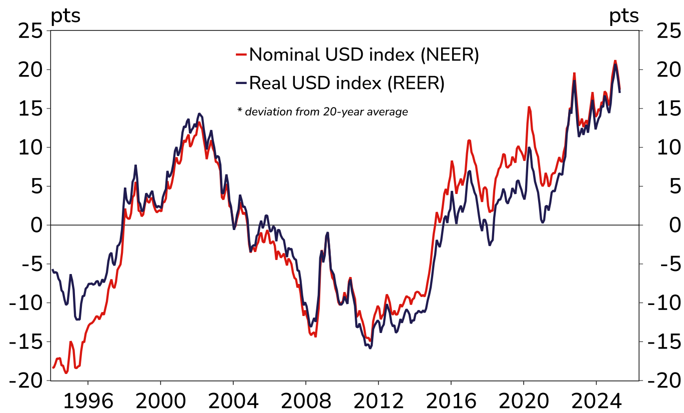
Vis-à-vis the Euro Area, this shift has occurred as current momentum has surprised to the upside – resulting in an edging higher of our current-year growth view – and expectations for 2026 and beyond firm, in large part because of pledged spending for defence and infrastructure, but also due to the Euro Area's mutually-beneficial approach to trade negotiations with Asia and given the ECB has successfully returned the policy rate to a neutral setting with dissipating inflation risks. It is not surprising then that the Euro continues to test the upper end of its 5-year range around USD1.15.

US prime factor of global markets



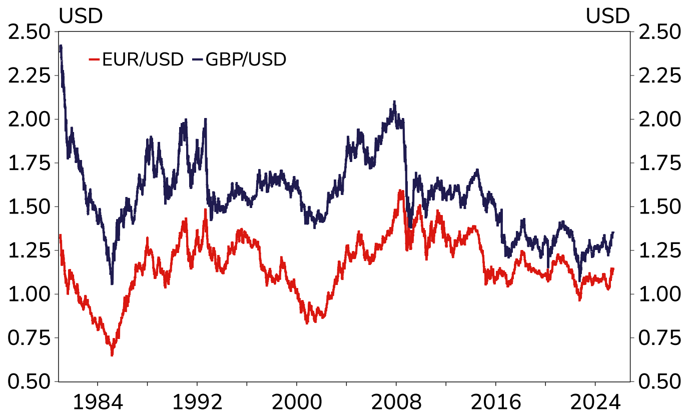
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation still above average



Source: BIS, Macrobond, Westpac Economics

Euro now in favour, Sterling also benefitting



Source: Bloomberg, Macrobond, Westpac Economics

… but still a long way from being weak

Ahead, we look for Euro to continue to show strength, holding around USD1.16 in Q4 2025 then rising to 1.18 from Q2 2026. The foundation for an extended appreciation cycle past USD1.18 is certainly in place, though trading above USD1.20 has only been seen infrequently and briefly over the past decade. Arguably the US economy and/or policy makers will need to disappoint for this level to be reached and sustained.

Sterling and the Canadian dollar are also expected to appreciate against the US dollar through 2025–2027, although likely at a more modest pace. GBP/USD is expected to edge up to USD1.36 by Q4 2025, then USD1.37 in 2026. Starting from a much weaker level, the Canadian dollar is likely to experience some catch-up gains into year end, but then only slowly appreciate through 2026 and 2027 as their economy continues to face a tension between growth and inflation. In terms of the levels, we see USD/CAD declining from CAD1.36 today to CAD1.34 in Q4 2025, but then only to CAD1.32 H2 2026.

Japan's Yen is expected to continue on a measured appreciation path through 2025–2027, from JPY143 to JPY141 in Q4 2025, then JPY135 by Q4 2026 and JPY133 come Q2 2027. The point-to-point appreciation in Yen is ahead of the overall change in the DXY index, but will still leave the currency some 20% below the figure averaged in 2019 relative to the US dollar. Herein we see the consequence of a historically-wide yield differential and limited growth potential, which together are likely to offset safe-haven flow to the Yen as questions are raised over the US dollar's status.

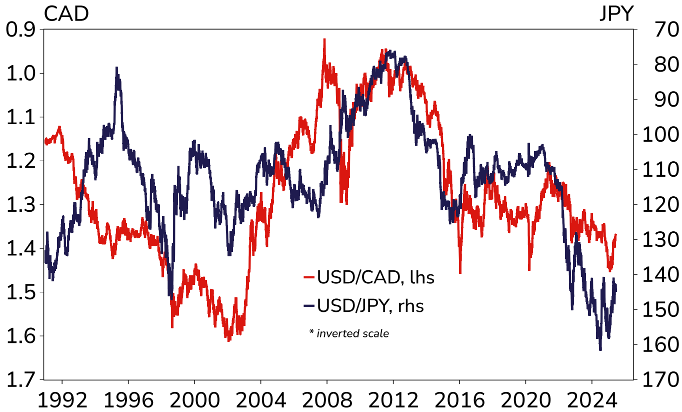
In time, and along with the Euro, it is likely that the major currencies of Asia will find greater favour as destinations for capital flowing out of the US dollar.

If we are right in our view that the US economy will experience low GDP growth and domestic fiscal uncertainty but not enter recession or cause another wave of lasting trade uncertainty, there will be good reason for global investors to pursue growth and currency appreciation elsewhere.

USD/SGD has already fallen sharply from SGD1.37 mid-Q4 2024 to around SGD1.28, near the lows back to mid-2014.

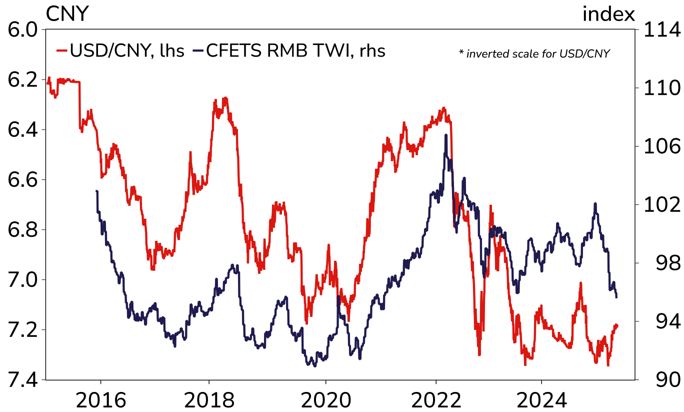
China's Renminbi and many other key currencies of the region have also begun to slowly but consistently appreciate against the US dollar,. We see this trend continuing throughout 2025–27, with the Renminbi eventually proving a primary support for regional gains.

Concern over CAD slowly abating



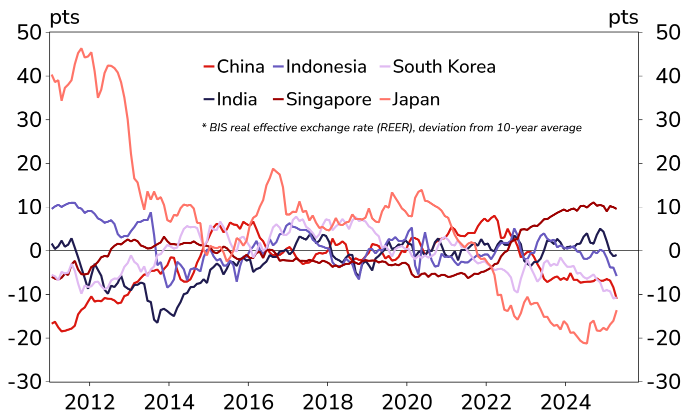
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, 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.

RBNZ expected to tread cautiously …

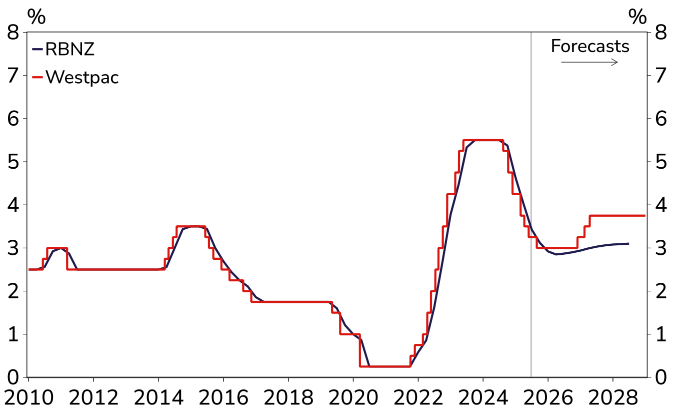
Darren Gibbs
Senior Economist

Since our last Market Outlook, we have received updates on the outlook for monetary and fiscal policy settings from the RBNZ and the Government respectively. Neither update provided a huge surprise, although the former did cause us to push out the timing of what we expect to be the final rate cut in this monetary policy easing cycle.

The RBNZ's decision to lower the OCR by 25bps to 3.25% on 29 May was fully anticipated by the market and brought the total easing over the past six meetings to 225bps. The RBNZ also lowered its forecast of where the OCR would bottom by 25bps to 2.85%, reflecting a less positive outlook for the global economy. This was very close to the 20bps adjustment that we – and we suspect many commentators – had expected. Nonetheless, local interest rates moved higher on the day.

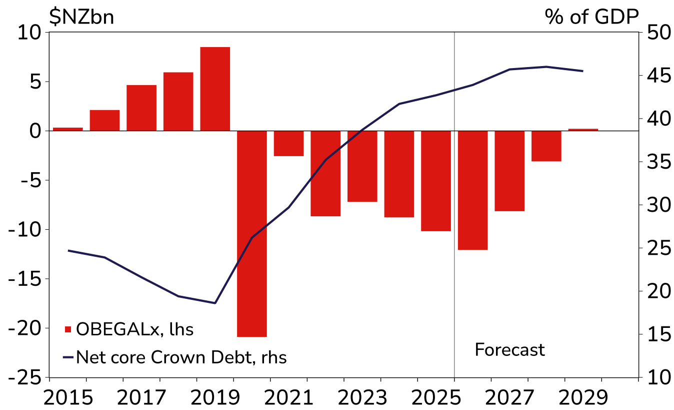
Budget 2025, released the week before the MPS, provided no great surprises at the macro level. Indeed, the RBNZ noted that the Budget had no bearing on the decision made at its May meeting. As had been foreshadowed, the Treasury revised down its forecasts of global growth given changes in US tariff policy. This caused it to lower its forecast of local GDP growth, leading it to further downward revision to its forecast for tax revenue. An additional revenue loss was created by the policy centrepiece of the Budget – the "Investment Boost" scheme. This policy will allow firms to frontload an additional 20% of depreciation on physical assets in the first year of investment. This will be especially helpful for smaller cash-constrained firms and should see some investment projects brought forward.

Official Cash Rate



Source: RBNZ, Macrobond, Westpac Economics

Operating balance & net Core Crown debt



Source: NZ Treasury, Macrobond, Westpac Economics

What the market had not anticipated was that for only the second time since the new MPC structure was launched in 2019, the decision to ease was taken to a vote. And while the MPC reached consensus on the medium-term outlook, one member voted to hold the OCR unchanged, pending more information on the global outlook and the likely persistence of the recent lift in several measures of inflation expectations. In addition, in the post-meeting press conference Governor Hawkesby indicated that the MPC would enter the next meeting on 9 July with no "bias" regarding the outcome. Market pricing had been leaning towards a further rate cut at the July meeting. Given the RBNZ's commentary, we have pushed out the timing of our forecast final OCR cut to the August MPS meeting. This will allow the RBNZ to see June quarter CPI inflation and labour market data before deciding whether to lower the OCR further.

On the other side of the ledger, spending on new initiatives in Budget 2025 was cut to the lowest level in a decade. In addition, the Budget booked substantial savings due to changes in pay equity legislation. Those changes are expected to reduce the extent of future claims against the Government, saving close to $13bn over the forecast period. With spending forecast to shrink relative to GDP, a steady improvement in the fiscal position is expected from 2026/27 onwards. As a result, the Government expects a wafer-thin operating surplus (on its preferred definition) in 2028/29. The forecast bond programme was revised up by a cumulative $4bn – in line with our expectations – with all that increase occurring towards the end of the horizon.

With the RBNZ uncommitted to a particular course of action at the next meeting, we are now back to carefully watching the data and other developments to see how the economic recovery and inflation will unfold. There are now clear

… with the policy rate now in the neutral zone

signs that the economy is expanding in aggregate, with the March quarter GDP report – due next week – expected to reveal a second consecutive quarter of growth. However, for now the general theme remains one of a two-speed recovery. Conditions are noticeably firmer in the rural regions and in those regions exposed to the tourism sector. By contrast, conditions are relatively subdued in the major cities and especially in Wellington whether fiscal retrenchment is also weighing on the local economy.

Encouragingly, supply-side constraints elsewhere means that prices for New Zealand's key exports – dairy and meat – have so far remained resilient at high levels despite the angst being expressed about the global outlook. Conditions also remain very favourable in the horticulture sector, with Kiwifruit exporters receiving excellent returns even as local supply has rebounded in the wake of the 2023 storms. Banking system data indicates that deposits have grown strongly in the primary sector over the past year, after being run down when prices were much less favourable. Over time, it seems reasonable to expect that farmers will boost their spending, especially if commodity prices remain near current levels.

Significant falls in mortgage rates have led to increased activity in the housing market, with the number of sales up about 10%y/y in April after adjusting for seasonal factors. However, given high levels of new home construction – albeit well down from the 2022 peak – the inventory of homes for sale has remained at a decade high. Not surprisingly, therefore, house prices have remained subdued. While it has edged higher over the past six months, the REINZ house price index was still down 0.3%y/y in April.

Retail spending has remained restrained, with electronic data suggesting little growth in nominal spending in recent months. However, we continue to expect that spending will strengthen over the second half of this year as mortgaged households continue to refinance at the much lower mortgage rates than are currently on offer. We also expect that consumer confidence will begin to lift from current lower-than-average levels once the labour market shows clear signs of turning the corner. Data points to little change in either employment or job advertising over recent months. That should change as the year goes on, although we do expect the unemployment rate will rise to 5.3% in the June quarter.

In judging the outlook for monetary policy, we are also closely monitoring developments in inflation and inflation expectations. Rising global food commodity prices mean that tradables good prices are no longer the significant disinflationary force that they were previously. And while non-tradables inflation has normalised in the much of the private sector, there continues to be significant price increases recorded in areas with significant local or central government influence. Local authority rates and utility charges are rising much faster than the general pace of inflation as councils and utility providers seek to fund long overdue infrastructure maintenance and upgrades.

These ongoing very visible and large price rises, together with those for some food, may help to explain why some measures of inflation expectations have lifted recently. Earlier weakness in the NZ dollar may also have contributed to these readings. Given the proximity of the pandemic inflation shock, the RBNZ needs to be alert to the possibility that broad-based inflation pressures could quickly re-emerge as spare capacity in the economy begins to be eliminated.

	2024							2025				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
REINZ house sales %mth	-7.1	10.7	0.5	2.9	3.7	2.1	-3.3	-0.5	7.2	0.9	-1.7	-
Residential building consents %mth	-17.5	28.0	-5.9	2.5	-4.8	4.9	-5.6	3.1	0.4	10.7	-15.6	-
Electronic card transactions %mth	-0.8	-0.1	0.2	0.0	0.7	0.1	2.3	-1.7	0.3	-0.8	0.0	-0.2
Private sector credit %yr	2.7	2.6	2.8	2.8	2.6	3.1	3.1	3.2	3.0	2.9	3.0	-
Commodity prices %mth	1.5	-1.7	2.1	1.8	1.4	2.9	0.1	1.8	3.0	-0.4	0.0	1.9
Trade balance $m	-353	-804	-1035	-799	-513	-297	-291	168	-116	-87	260	-

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

On track to achieve the 2025 target …

Elliot Clarke
Head of International Economics

With data now available up to April/May, China remains on track to achieve 5% growth in 2025. However, as best we can tell, this momentum continues to depend headily on trade and investment as the consumer remains lacklustre and uncertain. Broadening growth should be a priority and will require additional pro-active support by authorities.

Most notable in the data received so far in 2025 has been the strength of the trade position, which continues to beat our and the market's expectations.

The May trade surplus was USD103bn having averaged USD93bn over the past five months compared to USD83bn per month in 2024 and just USD35bn back in 2019, prior to the pandemic. At face value, this is a strong result; but considering it has been achieved despite a 34% decline in exports to the US over the past year, the recent results are better characterised as exceptional.

Offsetting the loss of US market share has been rapid growth in exports from China to Asia and, to a lesser extent, Europe and Latin America. This is growth that stems from China's ongoing industrial development as well as nascent economic development in up-and-coming markets and Europe.

Note, China's exports to these markets will continue to grow at a robust pace indefinitely, absent political drama, regardless of whether Chinese manufacturers regain access to the US on favourable terms, as current negotiations suggest, or if Sino-US relations sour again.

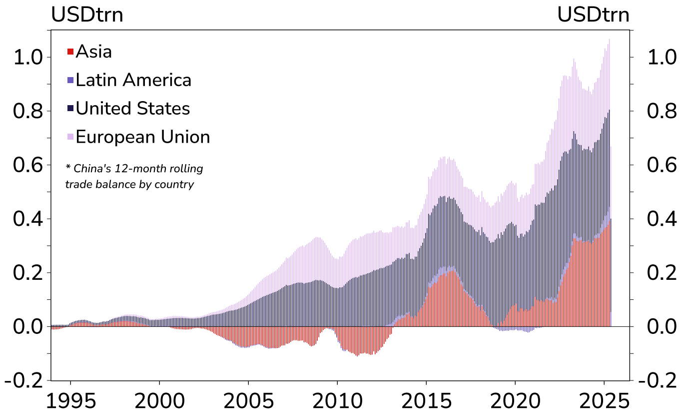
While fixed asset investment has disappointed this year, registering growth of just 4%ytd to April, this has largely been due to the slow turn in property investment which is still down 10%ytd. All the while, Chinese industry continues to add to productive capacity and improve efficiency.

In stark contrast to the US, Chinese government authorities and the private sector have also pro-actively expanded the power and logistical infrastructure that fuels and directs commerce and trade. Contrary to the Western view, controlled disinflation and deflation amongst businesses is not a sign of weakness in China but rather evidence of successful investment. Reducing the cost of production opens up new markets, particularly consumer markets across emerging Asia and Latin America.

While not an immediate support for Chinese GDP, the strong and sustained investment flow from China to neighbouring nations is also part of the Chinese authorities' grand plan vis-à-vis economic development and export growth.

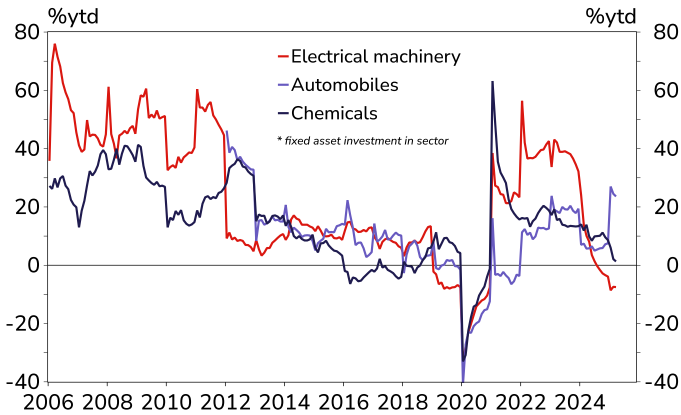
Simply put, consumers in other nations are much more likely to purchase a product their fellow citizens have had a hand in making.

Trade opportunities plentiful



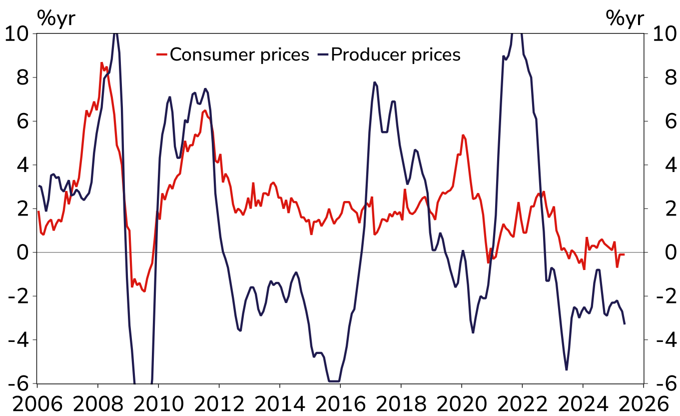
Source: GAC, Macrobond, Westpac Economics

Capacity expansion leading to …



Source: NBS, Macrobond, Westpac Economics

… intentional disinflation



Source: NBS, Macrobond, Westpac Economics

… but at risk of falling short long-term

Moreover, Chinese firms stand to benefit from lower wages and other production costs, more open trade policy, and a younger, but highly-skilled, workforce by doing so. Also, at a time of international hostility, actively promoting mutually beneficial trade can be expected to pay dividends outside the immediate bilateral trade engagements.

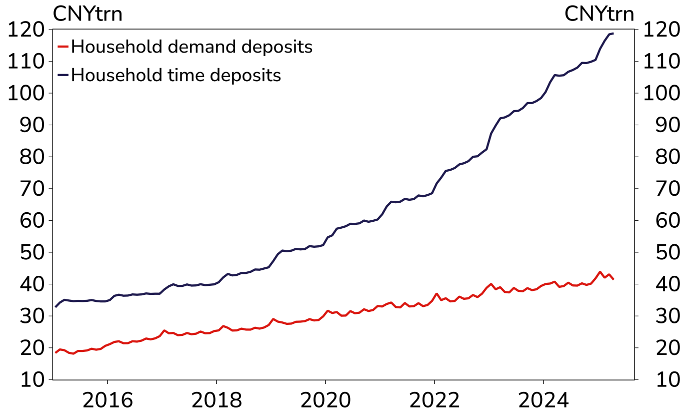
As made clear at the top however, the willingness of the Chinese consumer to spend on goods and services as well as housing remains a clear and immediate threat to aggregate growth, albeit one authorities can easily extinguish. Retail sales growth is yet to pick up from just below 5%ytd, and the distribution of gains across sub-categories has remained diverse.

As noted, residential construction also remains 10% lower over the year and down close to a third since mid-2021. This is not because households are short of savings – deposits are instead at record highs – or as a result of declining real incomes. Rather, it is because of an absence of confidence, including confidence that property prices will grow sustainably.

Once a lasting agreement is reached with the US, hopefully within weeks, Chinese authorities are likely to gauge the support required for a meaningful lift in house prices and construction activity into year-end and provide it without delay.

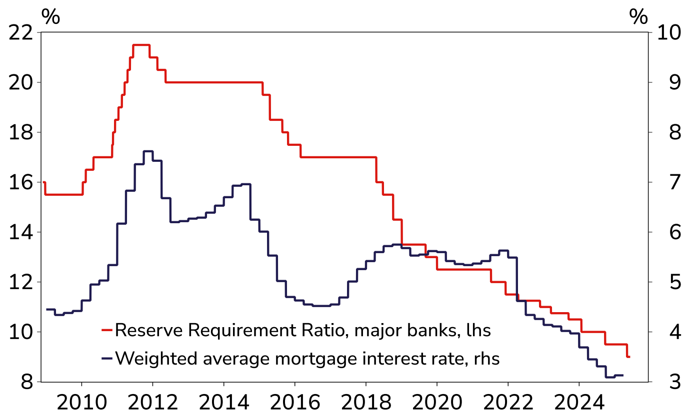
Without this action, Chinese GDP growth risks a sudden deceleration heading into 2026, putting consumer and business confidence at greater risk and also increasing the probability of the Politburo failing to achieve its medium-term economic and social ambitions. Such an out-turn would put at risk all they have worked to achieve over many decades domestically as well as the long-term relationships being sought across borders.

Households have plenty of savings



Source: PBoC, Macrobond, Westpac Economics

Policy needs to boost confidence



Source: Bloomberg, Macrobond, Westpac Economics

								2025				
Monthly data %yr	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Headline CPI %yr	0.2	0.5	0.6	0.4	0.3	0.2	0.1	0.5	-0.7	-0.1	-0.1	-0.1
M2 Money Supply %yr	6.2	6.3	6.3	6.8	7.5	7.1	7.3	7.0	7.0	7.0	8.0	–
Manufacturing PMI (Official)	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49.0	49.5
Fixed Asset Investment ytd %yr	3.9	3.6	3.4	3.4	3.4	3.3	3.2	3.2	4.1	4.2	4.0	–
Industrial Production %yr	5.3	5.1	4.5	5.4	5.3	5.4	6.2	6.2	5.9	7.7	6.1	–
Exports %yr	8.4	6.9	8.6	2.3	12.6	6.6	10.7	6.0	-3.0	12.3	8.1	4.8
Imports %yr	-2.6	6.7	0.1	0.2	-2.3	-3.9	0.9	-16.4	1.5	-4.4	-0.2	-3.4
Trade Balance USDbn	99.0	85.4	91.5	81.7	95.6	97.0	105.0	138.6	31.6	102.4	96.2	103.2

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

Beneath trade-related volatility …

Elliot Clarke
Head of International Economics

US equities have rallied strongly over the past two months, the S&P500 retracing its circa 20% decline around Liberation Day at the beginning of April. GDPNow, the Atlanta Fed's estimate of current quarter GDP growth has also rebounded strongly, pointing to a 3.8% annualised gain in Q2 after Q1's marginal contraction of –0.2%. This is despite the FOMC guiding that the current restrictive stance is likely to remain in place for the foreseeable future and the US 10-year yield pushing higher on inflation and fiscal risk.

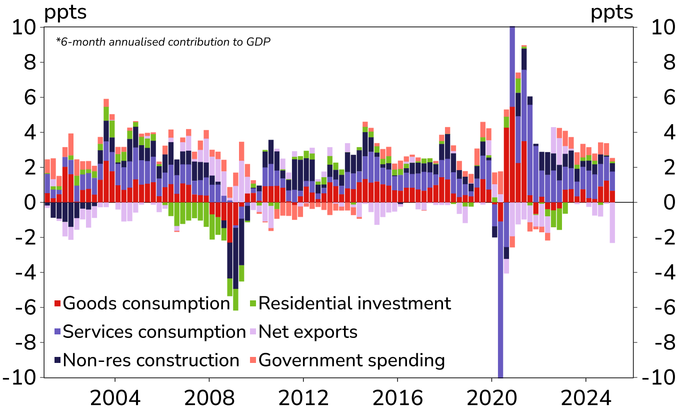
In assessing the current trend for both equity markets and activity growth, it is first necessary to recognise the importance of trade developments. April's bear market in equities and the subsequent reversal were two sides of the same coin: the threat of historic tariffs and open-ended uncertainty driving the decline; the subsequent 90-day truce and promise of lasting trade deals the recovery. For GDP, Q1's 0.2% annualised decline was the result of a 5.5 percentage point subtraction by net exports as US importers raced to get ahead of the tariffs. In Q2, a rapid decline in imports while exports held up is, in contrast, expected to see net exports add 2 percentage points to annualised GDP growth.

If we abstract from this volatility and instead consider only domestic final demand, a concerning trend becomes apparent. In Q1, activity grew by 2.4% annualised, modestly below the average of the past decade, 2.9%. And, based on the detail of the GDPNow indicator, a similar result is likely in Q2. Behind these results is a historically-weak consumer. Both in Q1 and (expected for) Q2 is household spending growth roughly half the average of the past decade. Residential construction is also challenged, roughly flat in Q1, Q2 and over the year.

If sustained, the current bilateral tariff reprieve will ease concerns over inflation, but businesses are unlikely to quickly regain confidence and become interested in expanding capacity and employment domestically – particularly given the recent doubling of the steel and aluminium tariffs, the threat of additional industry tariffs and questions over the legality of the bilateral tariffs of Liberation Day. It is therefore difficult to foresee a renewed uptrend in employment and real income growth, and consequently household demand.

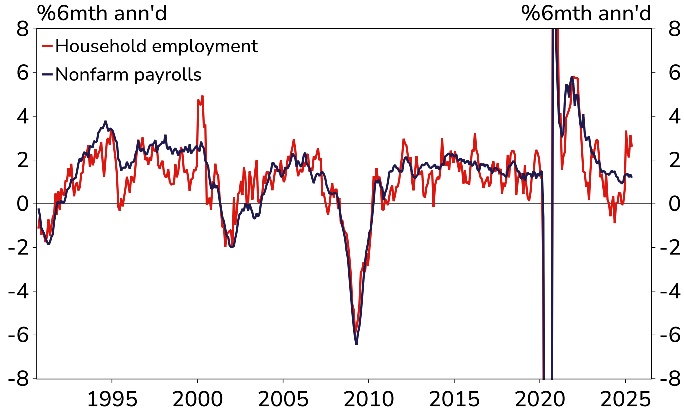
The latest employment report points to the opposite risk, i.e. a deterioration in employment and income growth. May's nonfarm payroll gain of 139k was in the middle of the 100-200k range often quoted as consistent with balance between labour demand and supply, but job creation in the prior two months was revised down by a cumulative 95k – in effect suggesting employment growth is nearing stall speed. The household survey painted a similar picture, with the unemployment rate only unchanged at 4.2% because the participation rate declined 0.2%. Yet to be updated for Q2, the

US GDP is consumer dependent



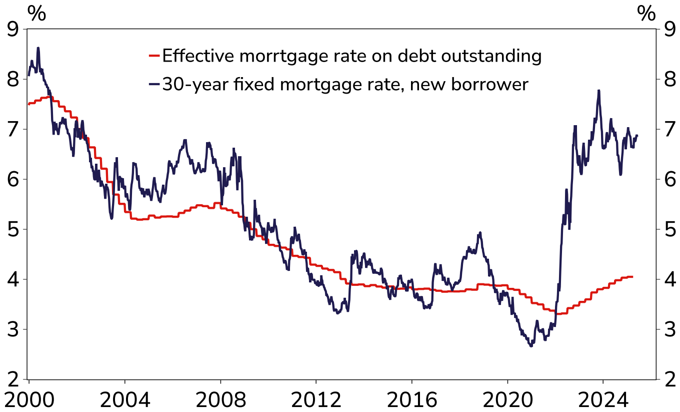
Source: BEA, Macrobond, Westpac Economics

Jobs growth slowing but positive



Source: BLS, Macrobond, Westpac Economics

Interest costs a big headwind for housing



Source: BEA, Freddie Mac, Macrobond, Westpac Economics

... a troubling trend is emerging

employment cost index has shown a consistent downtrend in total compensation growth over the past year to 3.6%yr in Q1.

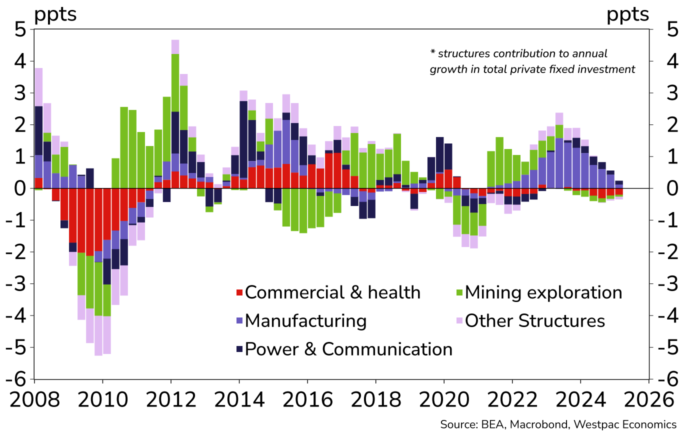
Considering the outlook for household demand, it is also important to be cognisant of developments in the housing market. While households who already have a mortgage are insulated from today's historically-high mortgage rate, the more time passes, the greater the share of the population who need to, or desire to, transact. To do so requires a much greater share of household income to fund a new mortgage; and, before a transaction occurs, a longer period to save the necessary funds. This process has implications for aggregate wealth too, with tighter affordability and reduced transaction volumes limiting cumulative gains.

If both households and businesses remain reluctant to spend while the Government is fiscally constrained, the underlying trend for growth is sure to disappoint and remain highly susceptible to downside risks.

On the latter point, the US faces the very real likelihood of a lengthy period of tight financial conditions and weak confidence in addition to sub-par growth – a combination that is certainly not priced in to US markets today. Accentuating to these risks is a potentially lengthy and bitter fight over fiscal policy, particularly if the debt ceiling and/or critical social security programs are used as bargaining chips.

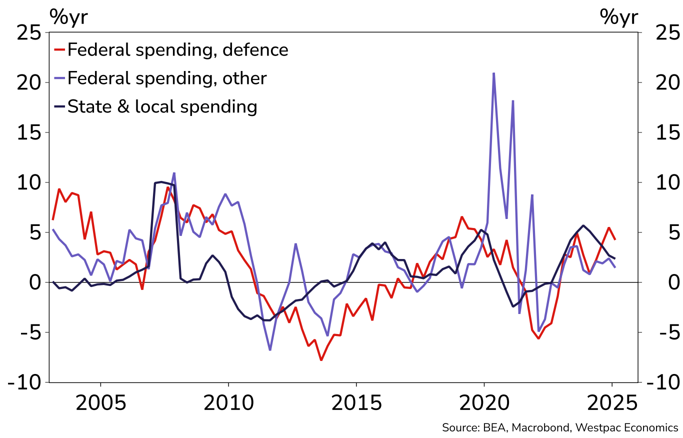
For these reasons, we continue to forecast a deteriorating growth trend for the US into 2026 despite the rebound in GDP expected in Q2. In time, the US dollar and other US asset values could be materially affected, creating yet more downside risk. Intriguingly, as shown by recent market developments, the greater the success of other developed markets (such as Europe) in weathering these uncertain times, the greater both the immediate and long-term cost to the US as its 'exceptionalism' fades.

US investment in downtrend



Source: BEA, Macrobond, Westpac Economics

Government support also fading



Source: BEA, Macrobond, Westpac Economics

	2024							2025				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
PCE deflator %yr	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	2.6	2.3	2.1	–
Unemployment rate %	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2
Nonfarm payrolls chg '000	87	88	71	240	44	261	323	111	102	120	147	139
House prices* %yr	6.5	5.9	5.2	4.6	4.3	4.4	4.6	4.8	4.5	4.1	–	–
Durables orders core 3mth %saar	-2.4	-3.3	3.3	5.2	0.1	3.1	0.6	14.5	6.9	6.5	-6.7	–
ISM manufacturing composite	48.3	47.0	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7	48.5
ISM non–manufacturing composite	49.2	51.4	51.6	54.5	55.8	52.5	54.1	52.8	53.5	50.8	51.6	49.9
Personal spending 3mth %saar	4.0	5.5	4.3	6.1	5.3	6.8	7.5	5.4	4.7	4.3	5.6	–
UoM Consumer Sentiment	68.2	66.4	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	52.2	52.2
Trade balance USDbn	-73.9	-78.6	-71.2	-81.5	-74.3	-79.8	-96.9	-130.3	-122.0	-138.3	-61.6	–

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	-0.2	3.2
Current account USDbn	-242.7	-276.7	-310.3	-303.9	–	–

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

Tariffs won’t reduce the US trade ...

Illiana Jain
Economist

On 2 April, the US administration announced large tariffs on much of Asia, and globally to ‘level the playing field’ on trade barriers other countries had put on the US. These measures were put in place to help nurture domestic industries and reduce the US’ goods trade dependence. However, this objective is unlikely to be realised. There are two outcomes we anticipate from this move: first, the US is unlikely to decouple from Asia given the region’s dominance in manufacturing and second, rather than weakening China’s position, tariffs will only seek to strengthen intra-regional economic linkages across Asia.

One objective of the tariffs is to allow the US to become less reliant on imports from Asia and build out its own manufacturing sector. However, with tariffs currently at 10% for most goods, and even exemptions on electronics, the USD still some 15% overvalued and relative wages notably higher in the US, a meaningful reshoring of manufacturing, particularly lower value added manufacturing, back to the US is unlikely.

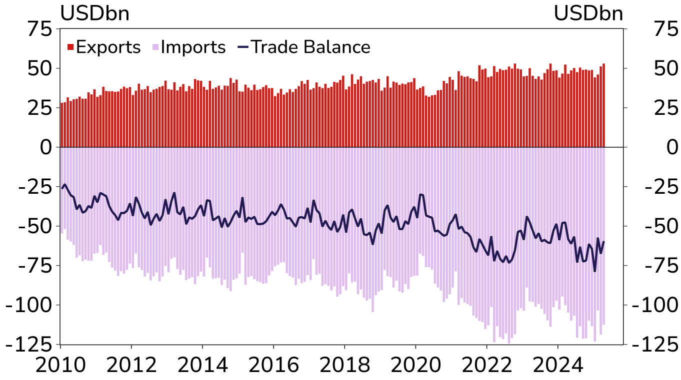
After decades of strong investment, China has now become a dominant producer of global exported manufactured goods. This has enabled them to invest and boost capacity across Asia, as evinced by FDI inflows into ASEAN that has helped the region occupy a larger share of total global exports. Vietnam, in particular, has seen flows of foreign investment pick up strongly since 2022 which has underpinned a large increase in export growth to the US.

At a more granular level, investment has led Asia to be a leader in manufacturing, particularly in electronics. This has created a well-established electronics supply chain across the region which makes it difficult for the US, or any other developed nation, to reduce its reliance on Asia. As just one example, the US receives around 70% of its small tech imports (such as chips, laptops and other smaller tech goods) from Asia, and this share has been stable for over 10 years. Around 20% of these imports come from North America while 10% come from Europe. Moreover, while US domestic policy intends to support reshoring of manufacturing, this is a lengthy process.

In 2024, the US semiconductor manufacturing industry contributed US$12.7bn to the US economy while imports of semiconductors from Asia equated to US$33.7bn. Most of this was from Taiwan, South Korea and Japan which have a long standing comparative advantage given their technology and skilled labour force in this sector. This highlights the scale of the task before the US if it wishes to reshore much of what it imports from Asia.

Imports driving a widening deficit with Asia

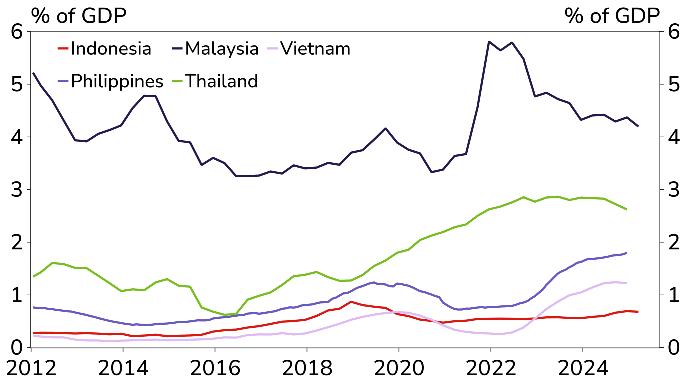
US trade balance with Asia



Source: USCB, Macrobond, Westpac Economics

Investment has supported growth in tech sector

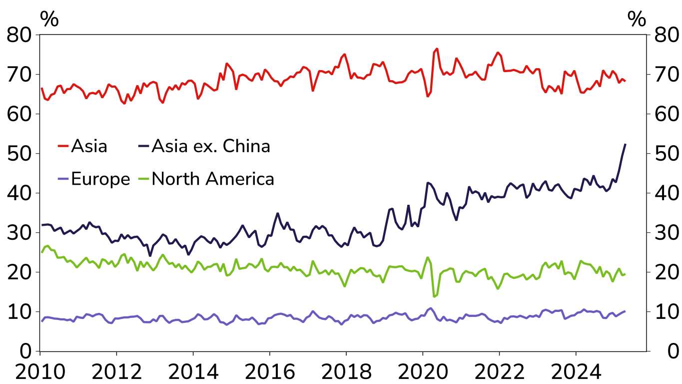
BoP Investment Income Credits



Source: BI, BSP, DOSM, BOT, State Bank of Vietnam, Macrobond, Westpac Economics

US chips imports dominated by Asia

Share of total US imports



Source: USCB, Macrobond, Westpac Economics

… dependence on Asia

Of course, it is worth noting risks are asymmetric across different countries. For example, Japan and South Korea, whose primary exports to the US are vehicles, are at risk of seeing tariffs impact their exports and hamper domestic growth. Asia encompasses 33% of total imports compared to North America's 49%. Companies in Japan and South Korea have announced plans to increase production in the US.

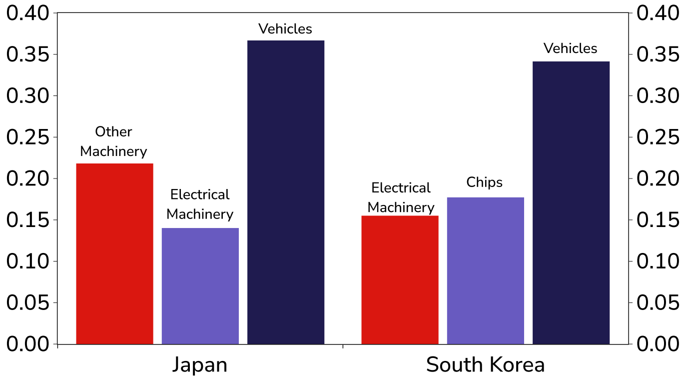
The second objective of the tariffs was to reduce China's dominance across Asia. However, US foreign policy may have the very opposite effect. Since the first Trump administration, supply chains have become more interlinked across Asia. Evidence that corroborates this comes from the strength in growth of exports from China to the ASEAN-5 which as of April 2025, exceed that to the US. While exports to ASEAN have posted strong growth, that to the US have been easing since their peak in September 2025.

This also subsequently translates to patterns seen in the US import data. While the share of tech imports coming from Asia have remained relatively stable, the share coming from China has declined while the rest of Asia has filled the gap. This trend picked up speed after Trump's first administration and steadily increased since then. This reflects the trend of China increasingly exporting intermediate goods to ASEAN where they are finished and exported to their final destination.

While the US may be using tariffs to ease its trade dependence and reduce China's influence over Asia, these objectives are unlikely to be realised. Given how large a share Asia occupies in total tech imports to the US, it is unlikely that businesses will be able to shift to another provider or build industries fast enough to reduce its reliance on imports. Additionally, the first trade war kicked off China's integration within the Asian supply chain which has not only strengthened China's position as a regional player but also gave them a way to reduce the impact of the higher tariffs placed upon them. These two findings together suggest demand for Asian imports will remain and there is likely to be less re-routing of trade that initially anticipated.

Cars makes the largest share of exports

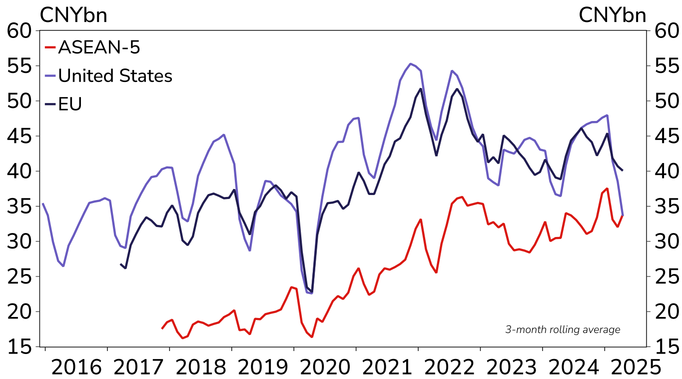
Share of total exports to the US



Source: MOF, KCS, Macrobond, Westpac Economics

ASEAN-5 importing more from China than US

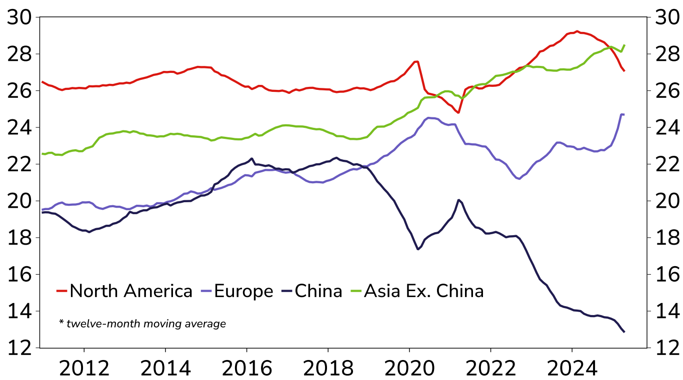
Imports from China



Source: GAC, Macrobond, Westpac Economics

China's share of US imports falls but Asia's grows

Share of US imports



Source: USCB, Macrobond, Westpac Economics

Cutting, fast and slow …

Mantas Vanagas
Senior Economist, Westpac Group

The RBA has repeatedly highlighted that its strategy for fighting the post-pandemic inflationary shock was different from other major central banks. It chose to lean against it less aggressively in order to prevent the labour market from suffering bigger job losses. That decision had several implications – for example, the RBA's cash rate rose to lower levels than the fed funds rate and the BoE's Bank Rate, but it remained at the peak for longer. Now with the global monetary policy cycle well into the easing phase, major central banks in Europe are significantly ahead of the RBA with the monetary policy debate there already shifting from when interest rates will fall further to whether in the current situation additional monetary policy support is required at all.

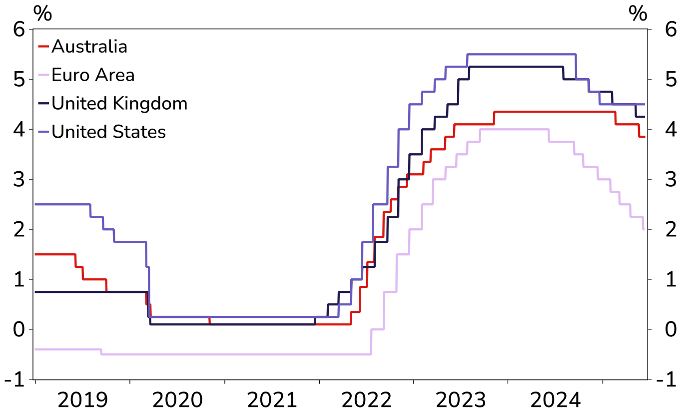
Last week the ECB cut the policy rates by 25bps for the eighth time in this cycle, taking the Deposit Rate to 2%, down from the peak rate of 4% last seen a year ago. In the press conference, ECB President Lagarde was pleased to note that underlying inflationary pressures, including broader indicators on wage and profits growth, are settling sustainably at levels consistent with the inflation target. She then concluded that the ECB is getting to the end of the monetary policy cycle.

Remarkably, the ECB got to this position even though the euro area's growth momentum remains fragile. According to the updated ECB economic projections, euro area GDP growth this year should be little changed from 2024 at 0.9%yr. That includes a 0.3%qtr GDP increase in Q1, which exceeded expectations but was doubled to a 0.6%qtr rise in the final Q1 GDP print released after the ECB's decision.

Growth over the remainder of the year is expected to be more subdued, as tariff changes impact exports and uncertainty over future trade policy settings suppresses business investment. The Governing Council statement reflected some optimism that, over time, growth should be supported by government investment in defence and infrastructure. Nevertheless, growth was forecast to pick up to only 1.1%yr, slightly below our forecast of 1.3%yr.

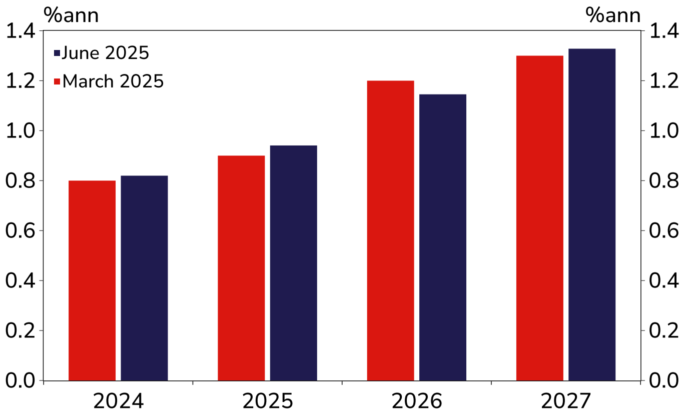
With regard to inflation, the ECB forecast that it will average 2%yr this year before dipping to 1.6%yr in 2026 due to lower energy prices and a stronger euro. Both rates represent a 0.3ppt downward revision from the previous ECB forecasts. Importantly, inflation then returns to 2.0% in 2027. Despite that profile being fully consistent with the ECB target, President Lagarde refused to declare victory, noting that the future might bring new economic shocks. And, with the current economic environment characterised by 'exceptional uncertainty', the ECB's forward guidance remained unchanged – the Governing Council will continue to "follow a data-dependent and meeting-by-meeting approach" when determining policy.

Central Bank Policy Rates



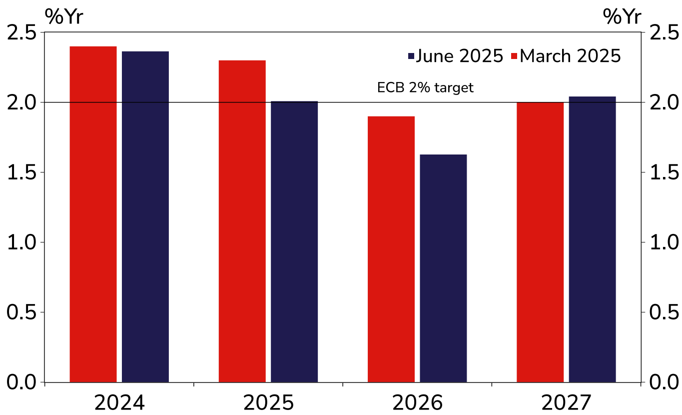
Source: RBA, ECB, BoE, Fed, Macrobond, Westpac Economics

ECB GDP Growth Forecasts



Source: ECB, Macrobond, Westpac Economics

ECB Inflation Forecasts



Source: ECB, Macrobond, Westpac Economics

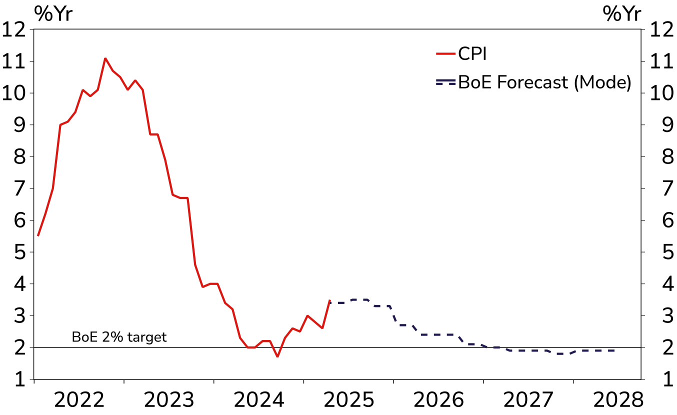
... with a little more to go

On balance, the ECB's hawkish tone increased the probability of a pause at the next meeting in July, but it does not rule out a further cut in September or later, particularly if the near-term uncertainty and tariff effects prove to be a bigger issue than the ECB expects. With our forecasts showing a drop in GDP growth to zero this quarter, we maintain our view of an additional Deposit Rate cut in Q3.

Across the Channel, the monetary policy dynamic differs. The Bank of England has been on a slower easing path, with the Bank Rate falling 25bps per quarter since Q3 last year. In May, the Monetary Policy Committee (MPC) cut Bank Rate for a fourth time this cycle to 4.25%. However, voting details suggested the outlook for UK interest rates was far less predictable. The minutes revealed a wide range of views among committee members, two voting to leave policy unchanged, two favouring a bigger 50bp cut, and five – only a slim majority – supporting the 25bp cut. The minutes noted that, within the latter group, most members, Governor Andrew Bailey included, thought the decision was finely balanced, and it was mainly the global trade news that tipped the vote towards policy easing.

The MPC's language about the policy stance remained largely unchanged, continuing to emphasise "a gradual and careful approach to the further withdrawal of monetary policy restraint". In its statement, the committee made clear that the easier policy reflected ongoing disinflation, which was also evident in the BoE's updated projections. These showed downward revisions, with inflation expected to reach 2%yr in Q1 2027, three quarters earlier than in the February forecast. And while GDP growth this year was also revised significantly higher, to 1.1%yr, the change mostly reflected a steeper increase in Q1 2025 with growth in 2026 now expected to be 0.3ppt lower at 1.2%yr. This is below the BoE's estimate of supply growth, suggesting that demand weakness will continue to act against remaining inflation pressures.

BoE Inflation Forecast

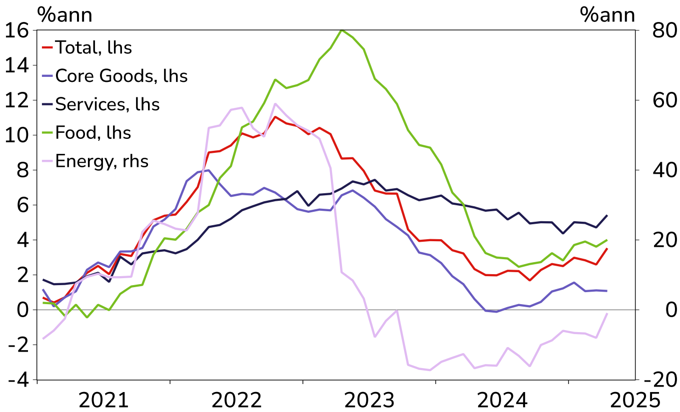


Source: ONS, BoE, Macrobond, Westpac Economics

The latest UK CPI data showed headline inflation jumping up by almost 1ppt to 3.5%yr but the increase was driven mainly by a higher energy price cap for households. The BoE is looking through this temporary increase.

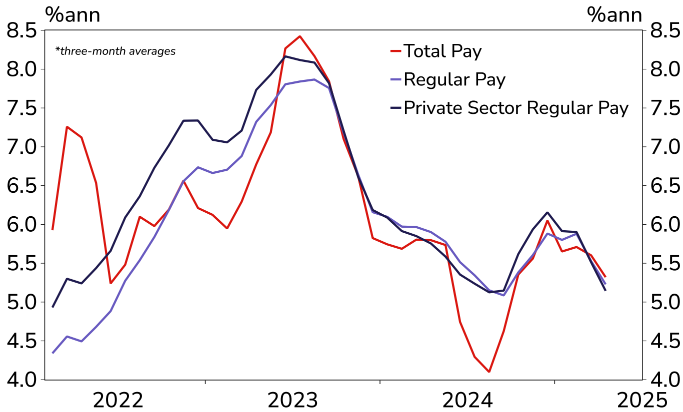
More relevant to policymakers is the signal of the underlying price pressures coming from the labour market. On that front, the latest figures were soft. The headline three-month UK unemployment rate inched up to 4.6% in April, a new cycle high. More importantly, despite the 6.7% increase in the UK's National Living Wage in April, headline average weekly earnings growth fell 0.3ppts in the month to 5.3%yr. Regular wages in the private sector, the indicator closely watched by the BoE, saw growth fall 0.4ppts to 5.1%yr, below the central bank's latest forecast for Q2 of 5.2%yr. We think the latest data will help to address concerns of some of the hawkish voices on the MPC. As a result, the BoE should continue cutting interest rates through the second half of this year.

UK CPI Components



Source: ONS, Macrobond, Westpac Economics

UK Average Weekly Earnings



Source: ONS, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Cash	3.85	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.72	3.65	3.45	3.20	3.00	3.00	3.05	3.05	3.05
3 Year Swap	3.20	3.40	3.50	3.65	3.80	3.85	3.90	3.95	4.00
3 Year Bond	3.26	3.45	3.55	3.70	3.85	3.90	3.95	4.00	4.00
10 Year Bond	4.12	4.30	4.35	4.40	4.45	4.55	4.60	4.65	4.70
10 Year Spread to US (bps)	-20	-20	-20	-20	-20	-15	-15	-15	-15

Currency forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
AUD vs									
USD	0.6481	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
JPY	92.77	94	96	96	96	97	96	96	96
EUR	0.5609	0.57	0.59	0.59	0.59	0.60	0.60	0.61	0.61
NZD	1.0769	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14
CAD	0.8831	0.90	0.91	0.92	0.93	0.93	0.93	0.94	0.94
GBP	0.4775	0.49	0.50	0.51	0.51	0.52	0.52	0.52	0.52
CHF	0.5236	0.54	0.55	0.56	0.56	0.58	0.58	0.58	0.58
DKK	4.1839	4.28	4.37	4.40	4.43	4.49	4.49	4.55	4.55
SEK	6.1421	6.28	6.42	6.46	6.50	6.59	6.59	6.68	6.68
NOK	6.4532	6.61	6.75	6.79	6.83	6.92	6.92	7.02	7.02
ZAR	11.58	11.7	11.9	12.0	12.1	12.1	12.1	12.2	12.2
SGD	0.8306	0.85	0.88	0.88	0.90	0.91	0.91	0.92	0.92
HKD	5.0871	5.17	5.32	5.38	5.46	5.50	5.50	5.58	5.58
PHP	36.17	36.6	37.4	37.6	37.8	38.0	37.6	37.8	37.4
THB	21.00	21.4	21.9	22.1	22.3	22.3	22.0	22.0	21.7
MYR	2.7484	2.81	2.86	2.86	2.87	2.88	2.84	2.84	2.81
CNY	4.6835	4.72	4.83	4.86	4.90	4.93	4.90	4.93	4.90
IDR	10527	10692	10880	10902	10920	10934	10792	10800	10656
TWD	19.13	19.5	20.0	20.1	20.3	20.5	20.4	20.7	20.7
KRW	885	904	925	932	938	948	944	954	950
INR	55.64	56.1	57.5	58.0	58.1	58.2	57.5	57.6	56.9

Australia

Activity forecasts

	2025				2026				Calendar years			
%qtr / %yr end	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Household consumption	0.4	0.3	0.6	0.5	0.6	0.6	0.6	0.7	0.9	1.8	2.4	2.8
Dwelling investment	2.6	1.0	1.2	1.2	1.3	1.6	1.7	1.7	3.5	6.0	6.5	5.5
Business investment *	0.4	0.7	0.8	0.8	0.9	1.1	1.2	1.3	0.4	2.7	4.7	4.9
Private demand *	0.5	0.5	0.7	0.6	0.7	0.8	0.9	0.9	1.0	2.3	3.3	3.5
Public demand *	–0.6	1.0	0.9	0.8	0.8	0.6	0.5	0.6	5.2	2.1	2.5	2.3
Domestic demand	0.2	0.6	0.8	0.7	0.7	0.7	0.8	0.8	2.2	2.2	3.1	3.2
Stock contribution	0.1	0.0	–0.1	0.0	0.0	0.1	0.0	0.0	0.2	0.0	0.2	0.0
GNE	0.3	0.6	0.6	0.7	0.8	0.8	0.8	0.8	2.3	2.2	3.2	3.2
Exports	–0.8	0.5	0.1	0.3	0.4	0.4	0.4	0.5	1.3	0.1	1.7	2.5
Imports	–0.4	0.7	0.7	0.9	1.5	1.6	1.3	1.5	6.4	1.9	6.0	4.8
Net exports contribution	–0.1	0.0	–0.1	–0.1	–0.3	–0.3	–0.2	–0.2	–1.1	–0.4	–1.0	–0.5
Real GDP %qtr / %yr avg	**0.2**	**0.6**	**0.4**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**	**1.0**	**1.6**	**2.1**	**2.4**
%yr end	**1.3**	**1.7**	**1.8**	**1.7**	**2.0**	**2.0**	**2.1**	**2.2**	**1.3**	**1.7**	**2.2**	**2.6**
Nominal GDP %qtr / %yr avg	1.4	1.3	1.0	0.9	0.8	0.8	1.0	1.1	3.8	4.6	3.7	4.3
%yr end	3.7	4.7	5.3	4.6	4.1	3.6	3.6	3.7	3.7	4.6	3.7	4.5
Real household disp. income	1.7	1.5	0.1	0.0	0.9	1.4	1.0	–0.5	2.0	3.3	2.9	2.3

Other macroeconomic variables

	2025				2026				Calendar years			
% change	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Employment %qtr **	0.4	0.8	0.2	0.1	0.2	0.2	0.4	0.4	–	–	–	–
%yr end **	2.5	2.6	2.0	1.5	1.3	0.8	0.9	1.3	2.4	1.5	1.3	1.8
Unemployment rate % **	4.1	4.1	4.3	4.4	4.4	4.5	4.5	4.5	4.0	4.4	4.5	4.3
Wages (WPI) (sa) %qtr	0.9	0.8	0.7	0.6	0.8	0.8	0.7	0.7	–	–	–	–
%yr end	3.4	3.4	3.2	3.1	3.0	2.9	2.9	3.0	3.2	3.1	3.0	3.0
Headline CPI %qtr	0.9	1.0	0.9	0.6	0.6	0.8	0.7	0.5	–	–	–	–
%yr end	2.4	2.4	3.1	3.4	3.1	3.0	2.7	2.7	2.4	3.4	2.7	2.6
Trimmed Mean CPI %qtr	0.7	0.8	0.7	0.5	0.5	0.6	0.6	0.6	–	–	–	–
%yr end	2.9	2.8	2.7	2.7	2.5	2.3	2.2	2.3	3.3	2.7	2.3	2.6
Current account $bn, qtr	–14.7	–14.3	–13.3	–12.9	–14.7	–15.8	–17.3	–17.5	–	–	–	–
% of GDP	–2.1	–2.0	–1.9	–1.8	–2.0	–2.2	–2.3	–2.3	–2.4	–1.8	–2.3	–2.6
Terms of trade %yr avg	–4.0	–3.3	–1.9	–0.7	0.2	0.0	–0.8	–1.2	–4.8	–0.7	–1.2	0.1
Population %yr end	1.6	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.7	1.4	1.4	1.3

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. ** Quarter–averages.

Macroeconomic variables – recent history

	2024					2025					
Monthly data	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Employment '000 chg	37.7	45.5	5.9	23.6	62.6	34.6	–56.3	36.4	89.0	–	–
Unemployment rate %	4.1	4.1	4.1	3.9	4.0	4.1	4.0	4.1	4.1	–	–
Westpac–MI Consumer Sentiment	85.0	84.6	89.8	94.6	92.8	92.1	92.2	95.9	90.1	92.1	92.6
Retail trade %mth	0.7	0.3	0.5	0.7	–0.2	0.4	0.2	0.3	–0.1	–	–
Dwelling approvals %mth	–4.8	4.5	6.8	–2.7	1.6	7.0	–0.1	–7.1	–5.7	–	–
Private sector credit %mth	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.7	–	–
Trade in goods balance AUDbn	5.3	4.2	5.1	6.4	4.4	5.2	2.9	6.9	5.4	–	–

New Zealand

Interest rate forecasts

	Latest (13 Jun)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Cash	3.25	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
90 Day Bill	3.30	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.24	3.30	3.35	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.49	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US	17	15	15	15	15	15	15	15	10
10 Year Spread to Aust	37	35	35	35	35	30	30	30	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Jun)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
NZD vs									
USD	0.6018	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
JPY	86.14	86	86	85	85	85	84	85	84
EUR	0.5209	0.52	0.52	0.52	0.52	0.53	0.53	0.54	0.54
AUD	0.9285	0.91	0.89	0.89	0.88	0.88	0.88	0.88	0.88
CAD	0.8200	0.81	0.81	0.82	0.82	0.82	0.82	0.83	0.82
GBP	0.4433	0.44	0.45	0.45	0.45	0.46	0.46	0.46	0.46
CNY	4.3524	4.29	4.32	4.31	4.33	4.32	4.29	4.33	4.30

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2025				2026				Calendar years			
% change	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
Private consumption	0.1	0.6	1.0	1.0	1.1	1.1	1.0	1.0	0.2	1.2	4.1	3.8
Government consumption	–0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.0	–0.2	0.4	1.9
Residential investment	–0.5	–0.5	0.0	1.5	2.0	2.0	2.5	2.5	–10.2	–5.4	6.6	9.0
Business investment	–0.2	0.9	1.3	1.6	1.8	1.6	1.4	1.3	–2.2	1.6	6.3	4.6
Stocks (ppt contribution)	0.7	0.1	0.1	0.2	0.0	–0.1	–0.2	–0.1	0.2	1.0	0.1	–0.3
GNE	0.5	0.5	0.9	1.2	1.0	0.9	0.9	0.9	–0.8	1.5	4.0	3.5
Exports	2.9	0.6	0.4	0.4	0.6	0.7	0.7	0.7	4.2	5.7	2.3	2.8
Imports	–0.3	0.5	1.2	1.4	1.6	1.4	1.5	1.4	2.4	1.6	5.6	5.3
GDP (production)	0.7	0.6	0.7	0.9	0.8	0.7	0.7	0.7	–0.5	1.4	3.0	2.7
Employment annual %	–0.7	–0.7	0.2	0.8	1.3	1.8	2.2	2.3	–1.2	0.8	2.3	1.9
Unemployment rate % s.a.	5.1	5.3	5.3	5.2	5.0	4.8	4.6	4.4	5.1	5.2	4.4	4.1
LCI, all sect incl o/t, ann %	2.9	2.2	2.1	2.0	2.0	2.0	2.1	2.2	3.3	2.0	2.2	2.2
CPI annual %	2.5	2.5	2.7	2.8	2.5	2.5	2.6	2.3	2.2	2.8	2.3	2.0
Current account % of GDP	–5.5	–4.4	–3.8	–3.3	–3.2	–3.5	–3.8	–3.9	–6.2	–3.3	–3.9	–3.8
Terms of trade annual %	15.4	21.6	16.6	12.3	4.6	–3.0	–1.1	0.3	13.6	12.3	0.3	1.7

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27
Australian commodities index#	313	302	297	291	289	290	292	294	296	296
Bulk commodities index#	**374**	**350**	**340**	**340**	**340**	**340**	**340**	**340**	**350**	**350**
iron ore finesTSI @ 62% US$/t	95	88	86	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	181	180	170	170	169	167	167	169	170	171
Newcastle spot thermal coal (US$/t)	111	100	105	107	110	111	111	112	113	114
crude oil (US$/bbl) Brent ICE	68	65	60	60	62	65	67	70	71	72
LNG in Japan US$mmbtu	12.07	11.0	10.6	9.5	9.1	9.3	9.6	9.7	10.0	9.9
gold (US$/oz)	3,368	3,400	3,400	3,350	3,300	3,280	3,250	3,230	3,200	3,180
Base metals index#	**210**	**210**	**207**	**204**	**203**	**203**	**209**	**218**	**221**	**224**
copper (US$/t)	9,748	9,800	9,600	9,400	9,250	9,250	9,580	10,070	10,240	10,400
aluminium (US$/t)	2,808	2,830	2,830	2,830	2,800	2,750	2,820	2,940	2,970	3,010
nickel (US$/t)	15,139	14,750	14,500	14,000	14,100	14,640	14,990	15,520	15,700	15,870
zinc (US$/t)	2,639	2,600	2,600	2,600	2,610	2,670	2,720	2,790	2,810	2,830
lead (US$/t)	1,971	1,930	1,880	1,850	1,850	1,910	1,950	2,020	2,040	2,060
Rural commodities index#	**119**	**120**	**114**	**114**	**118**	**125**	**129**	**135**	**137**	**139**
NZ commodities index ##	**405**	**394**	**387**	**384**	**386**	**388**	**390**	**392**	**393**	**394**
dairy price index ##	382	358	344	341	345	349	352	355	358	361
whole milk powder USD/t	4,173	3,950	3,800	3,850	3,900	3,950	4,000	4,030	4,060	4,090
skim milk powder USD/t	2,807	2,670	2,600	2,620	2,650	2,670	2,700	2,720	2,740	2,760
lamb price index ##	578	602	604	600	594	588	582	578	574	570
beef price index ##	340	348	348	345	342	340	338	337	335	335
forestry price index ##	148	148	148	149	151	152	153	155	156	157

	levels				% change			
Annual averages	**2024**	**2025(f)**	**2026(f)**	**2027(f)**	**2024**	**2025(f)**	**2026(f)**	**2027(f)**
Australian commodities index#	**312**	**306**	**291**	**296**	**-3.4**	**-2.0**	**-5.0**	**1.7**
Bulk commodities index#	**436**	**371**	**343**	**350**	**-13.0**	**-14.8**	**-7.7**	**2.2**
iron ore fines @ 62% USD/t	109	94	84	85	-8.5	-13.7	-11.3	1.9
LNG in Japan $mmbtu	13.3	11.7	9.5	9.9	-10.6	-11.9	-19.3	4.6
ave coking coal price (US$/t)	206	143	126	128	-4.1	-30.6	-12.2	2.1
ave thermal price (US$/t)	136	116	118	122	-26.1	-14.3	1.5	3.5
iron ore fines contracts (US¢ dltu)	163	142	123	124	1.3	-12.7	-13.3	0.6
Premium low vol met coal (US$/t)	241	181	169	170	-18.6	-24.6	-7.1	0.8
crude oil (US$/bbl) Brent ICE	78	67	63	71	-1.6	-14.4	-5.8	12.7
gold (US$/oz)	2,410	3,249	3,306	3,202	22.8	34.8	1.8	-3.2
Base metals index#	**210**	**210**	**204**	**221**	**-1.0**	**-0.1**	**-2.5**	**8.0**
copper (US$/t)	9,200	9,600	9,400	10,200	8.1	4.3	-2.1	8.5
aluminium (US$/t)	2,700	2,900	2,800	3,000	-1.4	7.4	-3.4	7.1
nickel (US$/t)	16,900	15,100	14,400	15,700	-21.8	-10.7	-4.6	9.0
zinc (US$/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	2,000	-1.4	-9.5	0.0	5.3
Rural commodities index#	**126**	**119**	**120**	**136**	**-10.3**	**-6.0**	**0.9**	**13.5**
NZ commodities index ##	**357**	**394**	**387**	**394**	**8.4**	**10.3**	**-1.8**	**1.7**
dairy price index ##	318	358	347	359	10.9	12.8	-3.2	3.7
whole milk powder USD/t	3,439	4,028	3,904	4,063	11.6	17.1	-3.1	4.1
skim milk powder USD/t	2,686	2,723	2,652	2,743	1.8	1.4	-2.6	3.4
lamb price index ##	462	579	593	574	0.3	25.4	2.4	-3.3
beef price index ##	283	337	342	336	4.4	18.8	1.7	-1.9
forestry price index ##	159	150	151	156	-0.1	-5.7	0.6	3.4

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 (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Fed Funds*	4.375	4.125	3.875	3.875	3.875	3.875	3.875	3.875	3.875
10 Year Bond	4.32	4.50	4.55	4.60	4.65	4.70	4.75	4.80	4.85

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

Currency forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
USD vs									
DXY index	98.02	98.3	97.4	96.7	95.9	95.7	95.6	95.4	95.2
JPY	143.12	143	141	139	137	136	135	134	133
EUR	1.1555	1.15	1.16	1.17	1.18	1.18	1.18	1.18	1.18
AUD	0.6481	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD	0.6018	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3626	1.36	1.34	1.34	1.33	1.32	1.32	1.31	1.30
GBP	1.3575	1.36	1.36	1.37	1.37	1.37	1.37	1.38	1.38
CHF	0.8078	0.82	0.81	0.81	0.81	0.81	0.81	0.81	0.81
ZAR	17.89	17.7	17.5	17.3	17.2	17.1	17.1	17.0	17.0
SGD	1.2814	1.29	1.29	1.28	1.28	1.28	1.28	1.28	1.28
HKD	7.8487	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	55.88	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.0
THB	32.39	32.4	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2409	4.25	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1726	7.15	7.10	7.05	7.00	6.95	6.90	6.85	6.80
IDR	16242	16200	16000	15800	15600	15400	15200	15000	14800
TWD	29.51	29.6	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1366	1370	1360	1350	1340	1335	1330	1325	1320
INR	85.59	85.0	84.5	84.0	83.0	82.0	81.0	80.0	79.0

Activity forecasts

	2025				2026				Calendar years			
% annualised, s/adj	**Q1**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2024**	**2025f**	**2026f**	**2027f**
Private consumption	1.2	1.3	1.1	1.2	1.3	1.6	1.6	1.8	2.8	2.1	1.4	2.3
Dwelling investment	–0.6	2.4	1.6	0.0	0.8	1.2	1.6	1.6	4.3	0.8	1.1	2.5
Business investment	10.4	3.3	1.7	1.5	1.2	1.6	2.3	2.7	3.6	3.6	1.7	4.0
Public demand	–0.7	1.2	0.8	0.8	0.8	0.4	0.4	0.4	3.4	1.6	0.7	1.5
Domestic final demand	2.1	1.6	1.1	1.1	1.2	1.4	1.5	1.7	3.0	2.2	1.3	1.6
Inventories contribution ppt	2.6	–0.4	–0.8	–0.3	0.0	–0.1	0.0	0.0	–0.2	0.3	0.0	0.0
Net exports contribution ppt	–5.5	1.8	–0.4	–0.4	–0.6	–0.3	–0.4	–0.4	–0.5	–1.1	–0.4	–0.1
GDP	–0.2	3.2	0.1	0.5	0.6	0.9	1.2	1.5	2.8	1.6	0.9	1.5
%yr annual chg	2.1	2.1	1.4	0.9	1.1	0.5	0.8	1.0	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	181	70	20	0	50	90	100	110	161	68	88	130
Unemployment rate %	4.1	4.3	4.5	4.6	4.8	4.8	4.8	4.8	4.1	4.6	4.8	4.7
CPI headline %yr	2.7	2.7	2.9	3.1	3.1	2.9	2.7	2.5	3.0	2.9	2.8	2.4
PCE deflator, core %yr	2.8	2.8	2.9	3.0	3.0	2.8	2.6	2.4	2.8	2.9	2.7	2.2

Sources: Official agencies, Factset, Westpac Economics.

Europe & the United Kingdom

Interest rate forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Euro Area									
ECB Deposit Rate	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.48	2.65	2.70	2.75	2.80	2.90	2.95	3.00	3.05
10 Year Spread to US	–184	–185	–185	–185	–185	–180	–180	–180	–180
United Kingdom									
BoE Bank Rate	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.48	4.60	4.65	4.70	4.75	4.75	4.80	4.85	4.85
10 Year Spread to US	16	10	10	10	10	5	5	5	0

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
euro vs									
USD	1.1555	1.15	1.16	1.17	1.18	1.18	1.18	1.18	1.18
JPY	165.38	164	164	163	162	160	159	158	157
GBP	0.8512	0.85	0.85	0.86	0.86	0.86	0.86	0.86	0.86
CHF	0.9334	0.94	0.94	0.95	0.95	0.96	0.96	0.96	0.96
DKK	7.4586	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	10.95	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	11.50	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
sterling vs									
USD	1.3575	1.36	1.36	1.37	1.37	1.37	1.37	1.38	1.38
JPY	194.29	194	192	190	187	186	184	185	184
CHF	1.0966	1.12	1.10	1.11	1.10	1.11	1.11	1.12	1.12
AUD	0.4775	0.49	0.50	0.51	0.51	0.52	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2021	2022	2023	2024	2025f	2026f	2027f
Eurozone GDP	6.3	3.6	0.6	0.8	1.2	1.3	1.6
private consumption	4.7	5.0	0.6	1.1	1.2	1.3	1.4
fixed investment	3.7	2.1	1.8	–1.8	2.3	1.3	2.4
government consumption	4.3	1.2	1.5	2.5	1.6	1.9	2.5
net exports contribution ppt	1.4	0.0	0.3	0.4	–0.4	–0.1	–0.2
Germany GDP	3.6	1.4	–0.1	–0.2	0.3	1.4	1.9
France GDP	6.8	2.8	1.6	1.1	0.4	0.9	1.4
Italy GDP	8.8	5.0	0.8	0.5	0.5	0.9	1.0
Spain GDP	6.7	6.2	2.7	3.2	2.3	1.9	1.8
Netherlands GDP	6.2	5.0	0.1	1.0	1.1	1.1	1.6
memo: United Kingdom GDP	8.6	4.8	0.4	1.1	1.0	1.2	1.6

Asia

China activity forecasts

Calendar years	2020	2021	2022	2023	2024	2025f	2026f	2027f
Real GDP	2.3	8.6	3.1	5.4	5.0	5.0	4.6	4.5
Consumer prices %yr	0.2	1.5	1.8	–0.3	0.1	0.5	1.3	1.6
Producer prices %yr	–0.4	10.3	–0.7	–2.7	–2.3	–1.2	1.0	1.5
Industrial production (IVA)	2.8	9.6	3.6	4.6	5.8	5.2	4.5	4.2
Retail sales	–3.9	12.5	–0.2	7.2	3.5	5.0	5.2	5.5
Money supply M2 %yr	10.1	9.0	11.8	9.7	7.3	8.3	8.0	8.0
Fixed asset investment	2.9	4.9	5.1	3.0	3.2	4.7	4.5	4.2
Exports %yr	18.1	20.9	–9.9	–2.3	10.7	2.0	3.0	2.5
Imports %yr	6.5	19.5	–7.5	0.2	0.9	1.5	2.5	2.0

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

Chinese interest rates & monetary policy

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Required reserve ratio %*	9.00	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Loan Prime Rate, 1–year	3.00	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 (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
Policy Rate	0.50	0.50	0.50	0.75	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.40	1.50	1.55	1.70	1.75	1.75	1.75	1.75	1.75

Currency forecasts

	Latest (13 Jun)	Sep–25	Dec–25	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27
JPY	143.12	143	141	139	137	136	135	134	133
SGD	1.2814	1.29	1.29	1.28	1.28	1.28	1.28	1.28	1.28
HKD	7.8487	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	55.88	55.5	55.0	54.5	54.0	53.5	53.0	52.5	52.00
THB	32.39	32.4	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2409	4.25	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1726	7.15	7.10	7.05	7.00	6.95	6.90	6.85	6.80
IDR	16242	16200	16000	15800	15600	15400	15200	15000	14800
TWD	29.51	29.6	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1366	1370	1360	1350	1340	1335	1330	1325	1320
INR	85.59	85.0	84.5	84.0	83.0	82.0	81.0	80.0	79.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2020	2021	2022	2023	2024	2025f	2026f	2027f
World	**–2.7**	**6.6**	**3.6**	**3.5**	**3.3**	**3.0**	**3.0**	**3.2**
United States	–2.2	6.1	2.5	2.9	2.8	1.6	0.9	1.5
Japan	–4.2	2.7	0.9	1.5	0.1	0.8	0.9	0.8
Euro zone	–6.0	6.3	3.5	0.4	0.9	1.2	1.3	1.6
Group of 3	**–3.9**	**5.8**	**2.7**	**1.8**	**1.8**	**1.4**	**1.0**	**1.4**
United Kingdom	–10.3	8.6	4.8	0.4	1.1	1.0	1.2	1.4
Canada	–5.0	6.0	4.2	1.5	1.5	1.2	1.2	1.6
Australia	–2.0	5.4	4.1	2.1	1.0	1.6	2.1	2.4
New Zealand	–1.3	5.7	2.9	1.8	–0.5	1.4	3.0	2.7
OECD total	**–4.2**	**6.1**	**3.1**	**1.9**	**1.7**	**1.4**	**1.2**	**1.5**
China	2.3	8.4	3.1	5.4	5.0	5.0	4.6	4.5
Korea	–0.7	4.6	2.7	1.4	2.0	1.1	1.8	1.9
Taiwan	3.4	6.7	2.7	1.1	4.3	2.8	2.6	2.8
Hong Kong	–6.5	6.5	–3.7	3.2	2.5	2.2	2.2	2.2
Singapore	–3.8	9.8	4.1	1.8	4.4	2.0	2.1	2.4
Indonesia	–2.1	3.7	5.3	5.0	5.0	4.8	4.9	5.0
Thailand	–6.1	1.5	2.6	2.0	2.5	2.2	2.3	2.7
Malaysia	–5.5	3.3	8.9	3.6	5.1	4.2	4.4	4.6
Philippines	–9.5	5.7	7.6	5.5	5.7	5.7	5.7	5.7
Vietnam	2.9	2.6	8.5	5.1	7.1	6.4	6.4	6.5
East Asia	0.9	7.1	3.6	4.7	4.8	4.6	4.4	4.3
East Asia ex China	–2.2	4.4	4.6	3.3	4.3	3.6	3.8	4.0
NIEs*	**–0.5**	**6.0**	**2.3**	**1.5**	**3.0**	**1.8**	**2.1**	**2.3**
India	–5.8	9.7	7.6	9.2	6.5	6.1	6.2	6.2
Russia	–2.7	5.9	–1.4	4.1	4.1	1.5	0.9	1.1
Brazil	–3.3	4.8	3.0	3.2	3.4	1.8	1.8	2.4
South Africa	–6.2	5.0	1.9	0.7	0.6	1.0	1.3	1.6
Mexico	–8.4	6.0	3.7	3.3	1.5	–0.3	1.4	2.1
Argentina	–9.9	10.4	5.3	–1.6	–1.7	5.5	4.5	4.0
Chile	–6.1	11.3	2.2	0.5	2.6	2.0	2.2	2.3
CIS^	–34.0	23.0	–6.4	–8.4	10.0	11.0	11.0	11.0
Middle East	3.2	2.8	2.8	2.8	2.9	2.9	2.9	2.9
C & E Europe	–5.5	9.0	4.2	3.2	2.9	2.5	3.0	3.4
Africa	–1.5	4.7	4.1	3.6	4.0	3.8	4.2	4.3
Emerging ex–East Asia	–3.7	6.9	3.7	4.3	4.2	3.8	3.9	4.1
Other countries	**1.4**	**5.9**	**4.3**	**3.6**	**2.9**	**2.5**	**3.0**	**3.3**
World	**–2.7**	**6.6**	**3.6**	**3.5**	**3.3**	**3.0**	**3.0**	**3.2**

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

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