



August 2025

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

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Markets tread water

Australian economy:

Recovery in private demand

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

An uneasy calm?



It has been a mixed month since our last report. Tariff developments continue to feature, most of the new US rates coming into effect on August 1 but US–China negotiations extended by another 90 days, and some notable sub-plots by both country and commodity. Financial markets have been largely unfazed, bond rates down a touch, the USD steady and equities and commodity prices tending to rally. Remarkably, market measures of risk and volatility are back below average.

Whether this calm continues still depends on how substantive tariff impacts are. In the US, market calm is partly keying off a view that labour market softening will outweigh inflation concerns when it comes to FOMC policy-setting. This may be a little premature with most of the price effects from tariff changes yet to appear and the pre-tariff starting point for inflation a touch firmer than the Fed would have liked. While we acknowledge the risk of a more abrupt labour market turn, our base case is still that there will only be scope for 50bps in easing rather than the 125bps the market currently has priced in. All of this is being clouded somewhat by increasing political pressure on the FOMC to ease and questions about the veracity of key employment measures.

Elsewhere, conditions and prospects are becoming more varied. China is still tracking nicely towards its growth goals, although more support from domestic consumer and housing-related activity will likely be required heading into 2026. In Europe, growth is ticking over at a reasonable pace with central banks having a freer hand to use policy easing to cushion against a bigger trade shock. Japan is in a different spot with an added domestic inflation issue complicating things. Meanwhile, closer to home the RBA and RBNZ are both less perturbed by trade risks but trying to finesse quite different easing cycles with both uncertain about growth, capacity and where inflation will settle.

Indeed, a wider overarching theme at the moment is of growth and policy cycles becoming less synchronised compared to the common shocks and cycles during and coming out of the pandemic. All else equal, this more complex environment will tend to see more idiosyncratic and unsettled market moves going forward.

Australia: Following the lacklustre start to the year, economic growth looks to have picked up a little in the June quarter 2025. Consumer spending has been a touch firmer on the back of a continued improvement in real incomes. It remains to be seen whether this a sign of what's to come or another short-lived flourish.

Commodities: Through July and into August a broad strengthening in commodity prices unfolded. Iron ore and coal prices rose, partly offset by falls in oil and LNG prices. Copper is in a tizz over tariffs, iron ore is facing Chinese steel mill closures, supply is rising faster than demand for crude oil while there are reasons to suspect that coal demand could peak later than 2026.

Global FX Markets: The US dollar is experiencing a period of stability after a 10% decline between February and July. We expect a further depreciation in time, but at a slower pace than through 2025-to-date. Growth differentials and inflation risks increasingly count against the US economy.

New Zealand: Economic growth is on a bumpy but recovering trend, supported by low interest rates and strong export returns. Inflation is pushing the limits of the 1–3% target range and will limit the RBNZ's interest in cutting rates below 3% as activity strengthens.

United States: Inflation remains of greater concern for the FOMC, with Committee members' confidence in the underlying health of the US economy intact. That said, the labour market is losing momentum and may result in an abrupt change in the direction of policy, or at least guidance on the risk outlook.

China: Authorities are on track to achieve their 5.0% 2025 GDP goal after growth outperformed in the first half at 5.3%. Still, trade and investment cannot provide as much support to GDP hence, creating need for a broader growth pulse. Additional fiscal support is necessary.

Japan: The Bank of Japan has recently upgraded its inflation profile, primarily due to surging rice prices. However, underlying inflation pressures remain externally driven rather than locally sourced. Consumers are constrained by the cost-of-living and the profit outlook is clouded by tariff uncertainty. The Bank of Japan is expected to remain cautious herein, closely monitoring domestic inflation dynamics before any policy shifts are considered.

Europe & UK: The EU–US trade deal imposes a 15% tariff on most EU exports to the US. The outcome appears to be worse than many in Europe expected, presenting downside risks to euro area growth. With inflationary pressures under control, the ECB has room to cut interest rates further if needed. Looking ahead, increased public spending should continue to support medium-term prospects.

Global markets tread water ...

Luci Ellis

Chief Economist, Westpac Group

Major central banks are increasingly following their own paths in response to diverging domestic outlooks. The post-pandemic theme of responding to a common global inflation shock and then 'gliding to neutral' has now passed. While most major central banks other than the Bank of Japan still have some policy rate cuts ahead, the size and timing of these depend on local circumstances. Financial markets have been less volatile than during the peak uncertainty immediately followed initial tariff announcements but are lacking in direction.

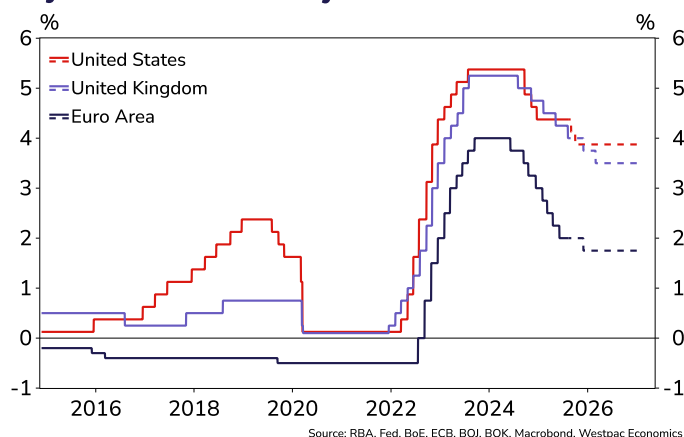
The Federal Reserve is currently on hold, balancing up the inflation risks from tariffs against the prospects of a slowing labour market. The higher final tariff rates are only now coming into effect following the 90-day pause announced soon after 'Liberation Day' meaning the full impact on inflation is yet to come through. Meanwhile signs of a turning point in the labour market would in other circumstances call for a lower Fed funds rate. How these competing forces resolve will determine the path ahead for Fed policy. On current information, our forecast of two cuts still seems like the right base case, though it is a smaller decline than markets are currently pricing.

Policy rates are also still on a downward path in other peer economies (except Japan). Inflation is on target and the policy rate broadly neutral in the euro area, leaving the ECB data-dependent. Further rate cuts are expected in the UK as well, with nascent growth in labour supply likely to be helpful for future inflation risks.

Real long-term interest rates, as measured by inflation-indexed bond yields, have declined over the past month in the US and Australia, though broadly speaking they remain in the same range seen over the past year. By contrast, real long yields continue to drift up in Europe and the UK, consistent with a transition to the longer-term global pattern of the structure of interest rates averaging higher than was seen in the period between the GFC and the pandemic.

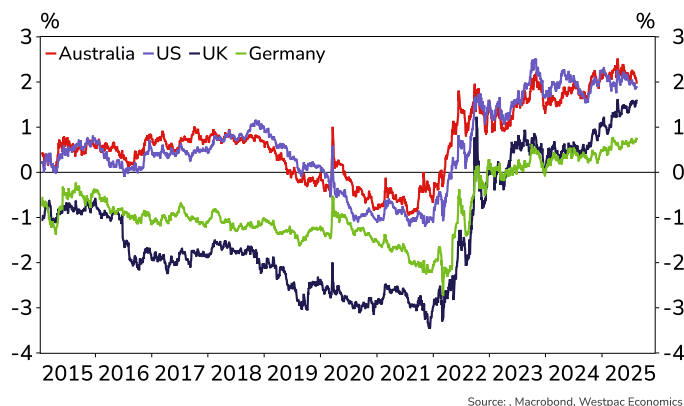
FX markets have lacked direction in recent months. The USD remains around 14% overvalued on a real effective basis, as it has been for the past few months. This follows a sharp adjustment from being more than 20% overvalued prior to the tariff announcements in April. While history would suggest that the USD will depreciate to be closer to fair value over the coming years, this realignment can come in fits and starts. We have accordingly adjusted the forecasts to imply a slower adjustment in the near term, even though the end-point some years hence is broadly unchanged. Within that multi-year trend, movements in cross-rates can vary depending on economy-specific factors including interest rate differentials.

Major Central Bank Policy Rates

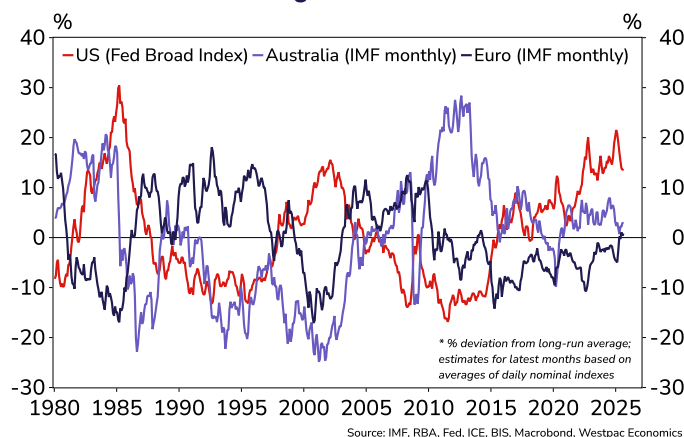


Global Real Interest Rates

10-Year Inflation-Linked Bonds



Real Effective Exchange Rate Indices



... as RBA sees downward path for rates more clearly

The RBA cut the cash rate by 25bps to 3.6% following its August meeting, as was widely expected. Bonds nonetheless rallied across the curve following the announcement.

Inflation is clearly inside the 2–3% target and likely to stay there. The RBA still assesses the labour market as being 'a little tight' but close to full employment. The RBA's forecasts for inflation and the labour market are essentially unchanged from May, with the extension of the forecast horizon to end-2027 now admitting a 2.5% forecast for trimmed mean inflation following several years at 2.6%. The RBA's unemployment rate forecast is likewise unchanged and flat as pancake at 4.3%, although this assumes that the multi-decade increasing trend in participation ends.

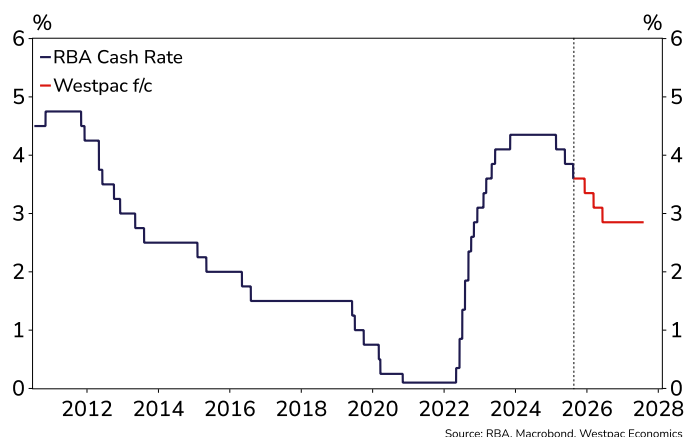
In contrast to past meetings, the post-meeting communication more clearly acknowledged that achieving this outcome will require further rate cuts. The RBA's forecasts are predicated on an assumption (not a forecast) that the cash rate follows market pricing, implying a trough level for the cash rate of 2.9%, similar to our own view but with slightly later timing. This acknowledgement goes beyond a 'bias to ease' to recognising that further rate cuts can be anticipated. This is not the same as forward guidance in that it is not a commitment, and the exact timing and extent of future cuts will depend on the data.

Given this change in tone, all future meetings can be considered live. In the post-meeting media conference, Governor Bullock did not rule out back-to-back cuts. We still regard our forecast of three cuts from here with moves coming every other meeting, in line with the RBA's fresh forecasts, to be the most reasonable base case.

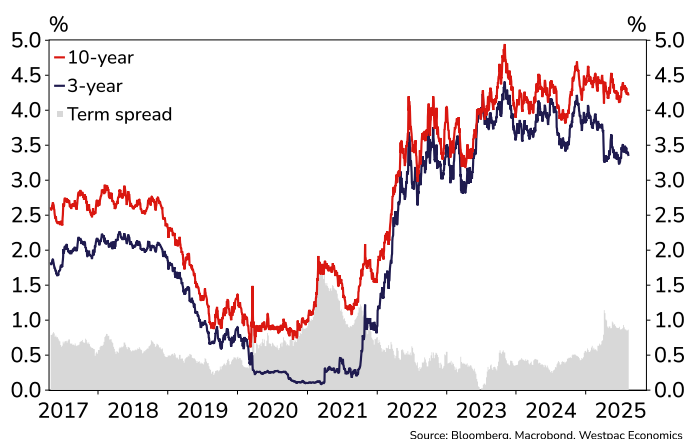
The main changes to the RBA's forecasts were a downgrade to GDP and wages growth, driven by a lower assumed trend rate for productivity growth. These changes were the outworking of the RBA's efforts to square inflation and unemployment turning out largely as forecast but GDP and wages growth undershooting the RBA's forecasts.

Within that change, the RBA now more clearly acknowledges that recent weak productivity growth partly stems from industry-specific factors in the mining and non-market sectors that weighed on growth temporarily and will fade; Westpac Economics has been [highlighting these factors for some time](#). However, the RBA now expects that the growth rate that productivity will revert to once those factors have washed through is 0.7%yr not 1.0%yr as previously assumed. More importantly, the RBA now recognises that slow trend productivity growth has no implications for inflation and thus monetary policy, with demand and supply both adjusting. This change in tone brings the RBA more into line with how some of its peer central banks view these relationships.

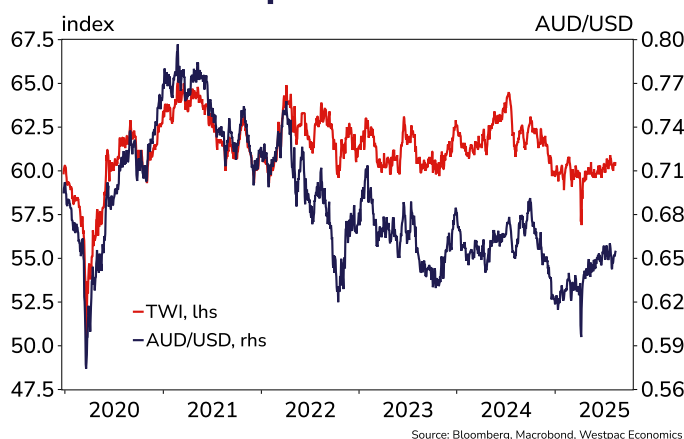
RBA Cash Rate



Australian Government Bond Yields



Australian Dollar – Spot vs TWI



Recovery in private demand ...

Pat Bustamante, Senior Economist
Matt Hassan, Head of Australian Macro-Forecasting

Following the lacklustre start to the year, economic growth looks to have picked up a little in the June quarter 2025. Consumer spending has been a touch firmer on the back of a continued improvement in real incomes. It remains to be seen whether this is a sign of what's to come or another short-lived flourish.

Housing construction is seeing solid gains but private investment outside of housing is still sluggish at best. Despite this, there appears to be enough supply capacity to meet this gradual rise in demand without generating a lift in inflation. Productivity growth is expected to normalise at a much higher rate than recent outcomes (around 0.75%yr v -1.0%yr in Q1 2025), which will also help ensure demand and supply remain in balance.

We expect to see a pick-up in economic growth over Q2 when the National Accounts are released in early September. Consumer spending firmed a little over the quarter, with partial measures pointing to increased spending on discretionary items such as recreational services. The ABS Household Spending Indicator rose 0.7%qtr in real terms, up from 0.5%qtr in Q1. This is now the main 'partial' indicator feeding into quarterly estimates of consumer spending in the National Accounts, covering around 65% of total spend.

Our [Westpac-DataX Consumer Panel](#) also showed average customer spending rose 1.5%qtr in Q2 in nominal terms, up from 0.6%qtr in Q1. Most of this improvement was driven by discretionary items (retail shopping, dining and bars, and entertainment), where average spending increased 1.6%qtr in Q2 from a flat result in Q1.

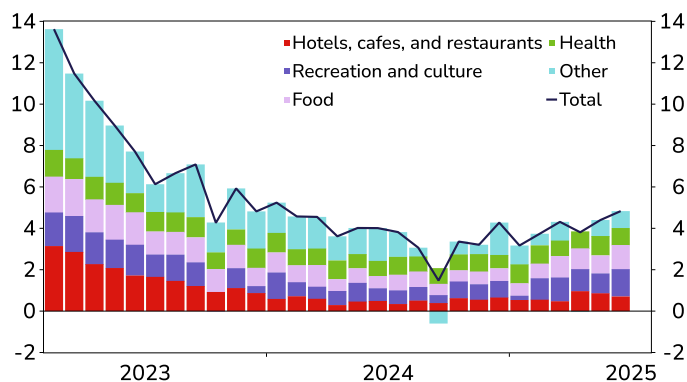
It remains to be seen whether the pick-up is a sign of what's to come, or another temporary flourish. At least some of the strength appears to reflect consumers shifting spending to take more advantage of discounting periods, including the 'End of Financial Year' sales in late June. The [Westpac-DataX Card Tracker Index](#) also showed a firmer Q2 result but has been more subdued since mid-year, suggesting some of the lift in momentum may have faded.

There may be some other drags in the mix as well. Cost of living support measures are rolling off, with most state government supports having ended and the Federal government's electricity rebates set to expire at the end of the year. While this is showing up as an increase in 'out of pocket' consumer spending on energy, it may indirectly see consumers cut back on other, more discretionary areas of spending as well.

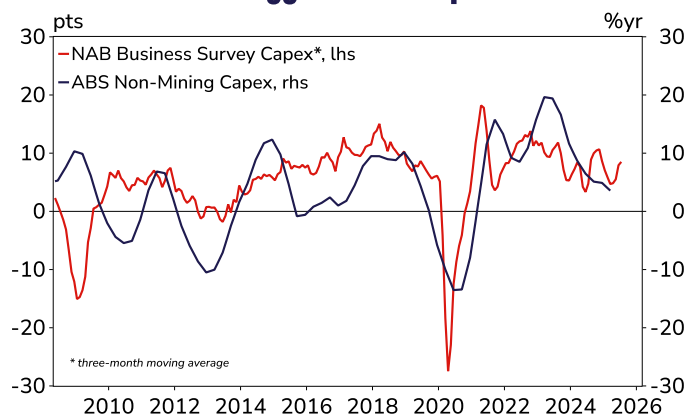
Housing construction continues to be a clear bright spot, with rising approvals and an elevated pipeline of work set to support

Discretionary spending has picked up

Contribution to year-ended growth

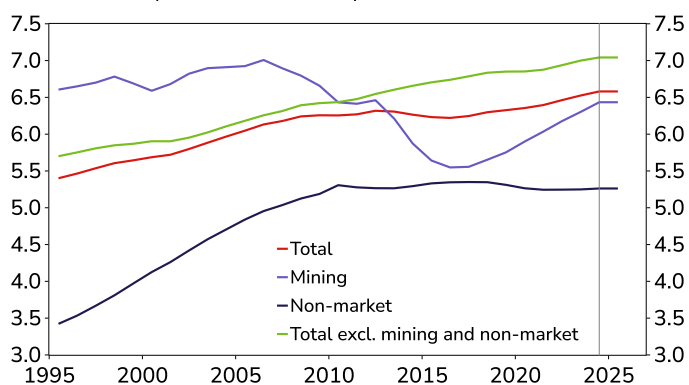


CAPEX intentions suggests some upside



Depreciation rate by sector

Share of the capital stock, financial years



... remains tentative, but there's more certainty ...

activity through 2025 and 2026. Outside of housing, private investment remains soft. A rebound in endogenous capital goods imports over Q2 suggests investment in machinery and equipment has seen a turnaround from the fall recorded last quarter. CAPEX intentions in business surveys also point to some upside, with the pipeline of total investment projects ticking 2.7%qtr higher over the June quarter.

As we move toward a technology focussed, services-based economy, the makeup of the underlying capital stock will shift to items that depreciate more quickly (i.e. towards data centres, AI and machine learning software services and away from commercial buildings and manufacturing tools). This will mean investment will need to grow more quickly to keep up with the evolving technology.

Shaky handover?

On the public side, the level of spending continues to stabilise. Partial indicators suggest growth in recurrent Federal spending slowed over April and May, while infrastructure spending stabilised after falling in Q1. This is consistent with our view that growth in public demand has passed its peak, particularly as infrastructure projects come to an end and are replaced with smaller-sized projects (i.e. the \$5.3bn Western Sydney Airport that was completed in Q2 and is set to start operating in 2026).

What about the supply side?

With demand showing signs of firming, the question quickly shifts to whether there's enough capacity in the economy, now and going forward, to cater for this demand?

In our view there's plenty to be optimistic about.

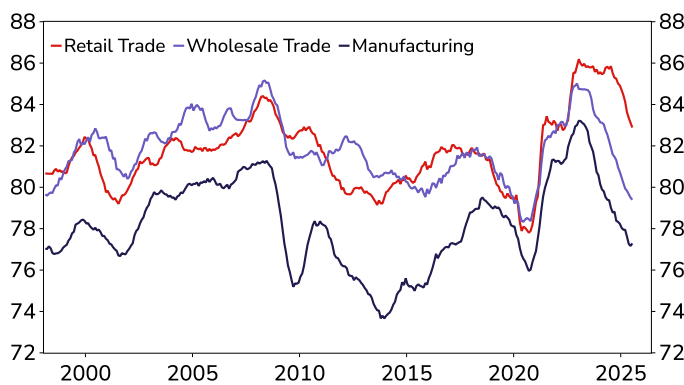
Firstly, there is capacity in several consumer-facing industries, including retail and wholesale trade. Capacity utilisation in the wholesale industry is at its lowest level ever, outside of COVID, while capacity utilisation has fallen since early 2023 in the retail industry.

Capacity utilisation levels are more balanced in the construction, utilities and businesses services industries. But here too there's plenty to be optimistic about. Some of these structurally-driven sectors (such as utilities and IT) have been responsible for much of the investment gains in recent years. As demand picks up, there's new capacity to come online and deliver more supply.

Secondly, we are seeing important supply-side metrics normalise. The capital to labour ratio, which measures the amount of capital (i.e. infrastructure, computers and other machinery and equipment) available for each hour worked, experienced the largest decline on record in the aftermath of the pandemic, as investment was unable to keep up with the surge in hours worked. While this ratio has now stabilised, it has not grown the way it has in past decades.

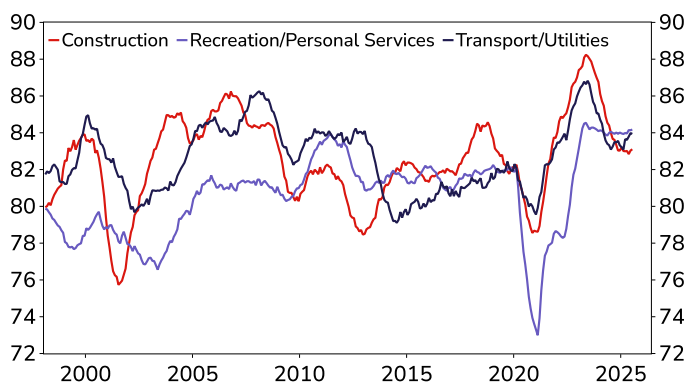
Spare capacity in the consumer facing industries

Capacity utilisation by industry (%), moving annual average



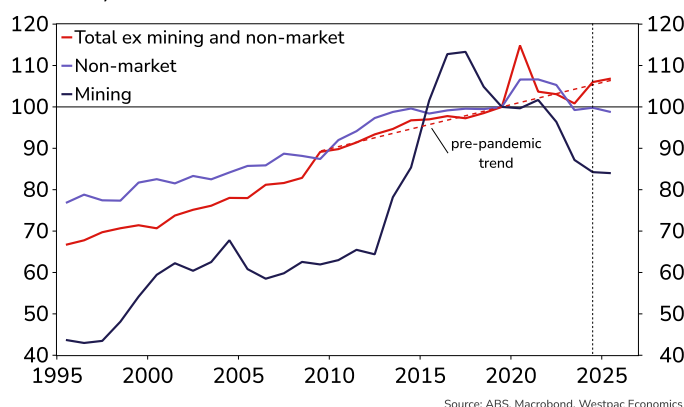
Capacity more balanced elsewhere

Capacity utilisation by industry (%), moving annual average



Capital to labour ratios by sector

Financial years, Index 2019FY = 100



... over the supply side

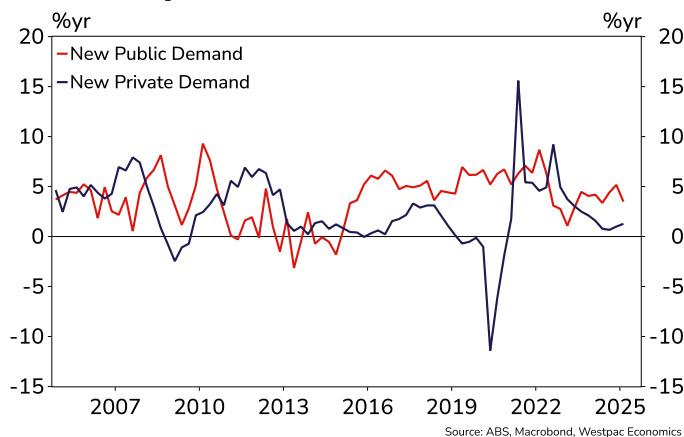
However, the aggregate outcome masks underlying trends which point to an economy where the supply side is normalising. Outside the mining and non-market (or care) sectors, we estimate that the capital to labour ratio has increased almost 7% since the 2019FY – in line with the pre pandemic average. On the other hand, this ratio has fallen sharply in the mining and care sectors since the 2019FY (–16% and –1.5%, respectively).

This normalisation will deliver expanded capacity, which will show up as improving productivity growth. The RBA's estimates suggest productivity growth of 0.7%yr when the drag from the mining industry, and the expansion in the non-market sector, stabilises. This is in line with our own estimates (see [here](#)) and is much stronger than recent outcomes, which have 'measured productivity' going backwards (i.e. productivity declined 1.0%yr in Q1 2025).

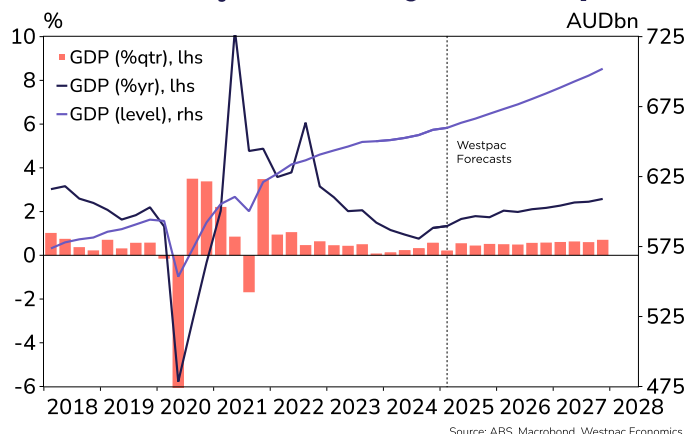
And while we estimate productivity growth of 0.75%yr when the impact of shocks stabilise, it's important to note that this is by no means set in stone – changes to policy, technology, processes and culture will all influence the ultimate outcome. And there's a lot of upsides here too – the IMF estimates that in nations like Australia that are well-positioned to benefit from AI, its widespread adoption could boost productivity growth by 0.9 to 1.5 percentage points a year.

The Government's Economic Reform Roundtable later this month will discuss how to ensure we benefit from the technological advances already happening and in train. Westpac's submission to the Roundtable (see [here](#)) calls for a reduction to red tape to speed up investment in renewables, housing and AI; making the Regions an economic powerhouse; and ensuring the tax system supports growth and risk-taking, including by addressing bracket creep.

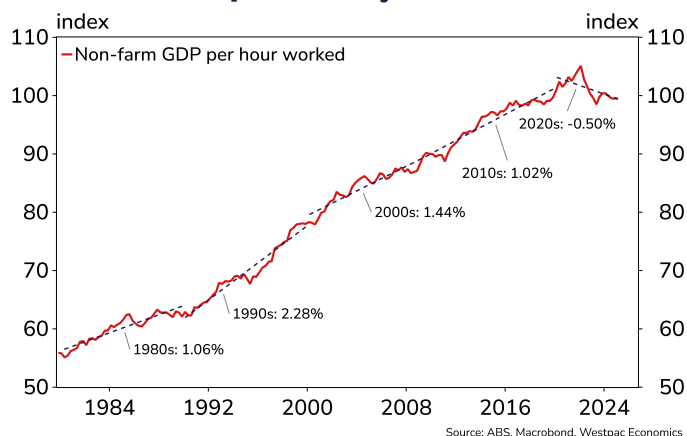
Private and public demand



Gradual recovery in economic growth anticipated



Australia: labour productivity



Copper market in a bit of a tizz ...

Justin Smirk
Senior Economist, Westpac

Through July and into August a broad strengthening in commodity prices unfolded. The Westpac Commodities Export Price Index lifted 3.0% since the last report. This was driven by a solid 6.0% gain in iron ore, a 3.4% gain in met coal and a 1.8% gain in thermal coal which were only partly offset by a 4.1% fall in crude oil and a 1.5% decline in LNG. This has led us to mark to market our near term forecast for iron ore: at December 2025 we now have US\$90/t, it was US\$86/t.

Trump 'bait and switch' on copper

The copper market is experiencing heightened volatility, driven by a mix of tariff shocks, inventory distortions and shifting demand dynamics. In early July, US President Trump shocked markets by stating, "We're going to make [the tariff on copper] 50%." In response, COMEX copper surged 13% on the day, following a 17% rally compared to the previous day. Then as we were pulling together this report, President Trump confirmed that refined copper would be exempt, with tariffs applying to semi-finished products (e.g., pipes, wires, rods, tubes) effectively removing tariffs on the bulk of US imports.

Markets reacted swiftly: COMEX prices dropped over 20%, and spot premiums collapsed, reflecting the loss of arbitrage opportunities. Westpac uses the globally relevant LME prices for analysis, but US market moves still influence global trends.

US copper output is declining, down 6% in 2024, and has limited refining capacity – just two smelters. The US relies on imports for nearly half of its refined copper demand, with China the dominant destination for US copper concentrate. China's rapid expansion in smelting (now 53% of global capacity) drove treatment and refining charges (TC/RCs) to record lows. In July, spot TC/RCs fell to ~\$65.80/ton, making refining uneconomical for most Western firms. While all smelters are supported by by-product revenues (e.g. sulphuric acid, silver, gold), subsidised Chinese smelters have a clear advantage.

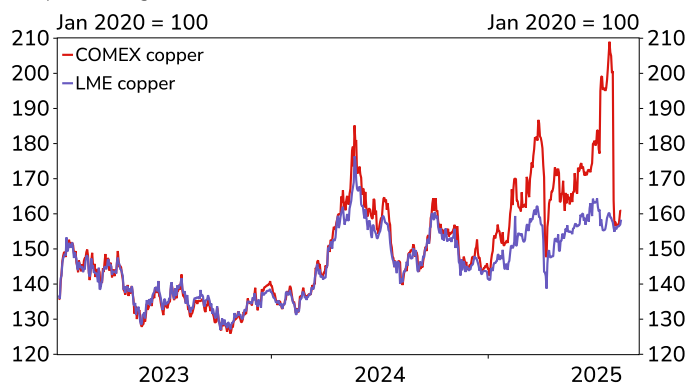
We maintain a constructive view on copper but are cautious for the near term. The physical market was distorted by the US tariffs threat, so subsequent exemptions weighed on prices. The US accounts for less than 10% of global copper demand but the tariff threat drove a surge in imports, tightening supply in key markets like China (~55%) and Europe (~15%).

Iron ore holds the high ground, for now

Independent steel mills in Hebei and Tangshan are facing intermittent production halts from August followed by mandatory suspensions from August 25 to September. These measures are in preparation for the military parade in Beijing commemorating the 80th anniversary of WWII victory with restrictions applying to 35 independent mills

US vs. UK Copper Prices

US prices surged, and then declined, with the threat of tariffs



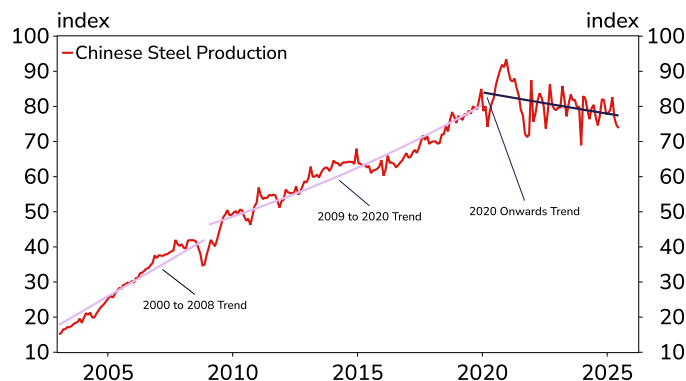
Source: CME Group, LME, Macrobond, Westpac Economics

and should reduce daily steel output by around 90k tonnes. However, these suspensions are unlikely to be as widespread as those in 2015, when over 10k factories and power plants were temporarily shut and all steel mills within 100km of Beijing suspended operations. This more targeted approach has resulted in a firmer tone in iron ore prices, which rose to \$101.22/t on August 8, up 6.2% over the past month. Prices have been further supported by the 90-day extension of the US–China tariff truce, which delays tariff hikes until November 10 and provides short-term relief for supply chains.

Despite the recent price strength, we do not expect iron ore to sustain gains above the \$103–105 range. Rising inventories of steel products and extreme weather conditions are likely to dampen construction activity and demand. We maintain our view that iron ore prices will fall back below \$100/t as we move toward year-end.

Chinese steel production peaked in 2020

Since peaking steel production has been trending down



Source: World Steel Association, Macrobond, Westpac Economics

... while the headwinds build for crude oil

Crude oil facing some headwinds

Crude oil markets remain under pressure amid rising supply and softening demand. Brent crude is trading around US\$67-69/bbl, down from over \$71 in July. The decline reflects a combination of OPEC+ production increases, muted demand growth, and rising inventories. OPEC+ has accelerated its unwinding of voluntary output cuts, with eight key producers – including Saudi Arabia, Russia, and the UAE – raising production by 548kbpd in August, exceeding expectations. This move is part of a broader strategy to phase out the 2.2mbpd cuts agreed in late 2023, with full reversal expected by September 3.

On the other side of the equation, global demand is softening. The IEA is projecting a 680kbpd increase in 2025, with most of the growth coming from non-OECD countries. Demand in China, India, and Brazil has underperformed, while OECD consumption remains flat. In China, petrochemical demand is rising but transport fuel consumption is declining due to EV adoption and LNG usage for heavy haulage.

Westpac is forecasting Brent to be down around US\$60/bbl at end 2025 and in early 2026. We have US\$67/bbl pencilled in for end 2027 but see downside risks to this estimate.

Will peak coal turn out like peak oil?

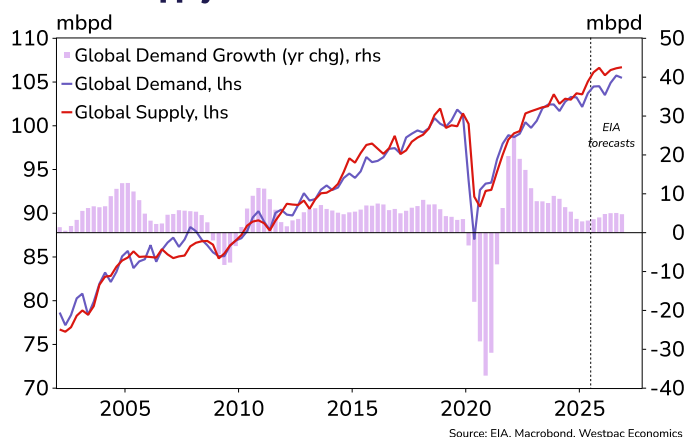
Wood Mackenzie forecast global coal demand to peak in 2026. In its base-case Energy Transition Outlook, global coal-fired power generation is projected to decline by around 70% between 2025 and 2050. This shift is driven by the increasingly competitive costs of renewable energy, advances in battery storage, a potential nuclear resurgence, and the expansion of dispatchable natural gas-fired capacity – all of which reduce the utilisation of coal assets worldwide. The most significant contraction is expected in Asia, particularly China, which accounts for 78% of global consumption.

However, many will recall the narrative of 'peak oil' – the idea that the world would run out of oil as demand continued to rise. Economists, including ourselves, challenged that view noting that markets adjust with prices balancing supply and demand. That's exactly what happened.

While 'peak coal' refers to peak demand, market principles still apply. Despite major international climate agreements – the 1997 Kyoto Protocol, the 2015 Paris Accord, and the 2021 COP26 agreement – global coal demand has continued to rise. Between 2013 and 2025, China's coal-fired power output increased by more than 36%, even as its economy doubled in size. Today, coal remains the largest single source of electricity generation globally.

This underscores a key reality: coal demand has proven more resilient than many expected. While we continue to see 2026 as the most likely year for peak coal demand, Wood Mackenzie

Crude oil supply & demand

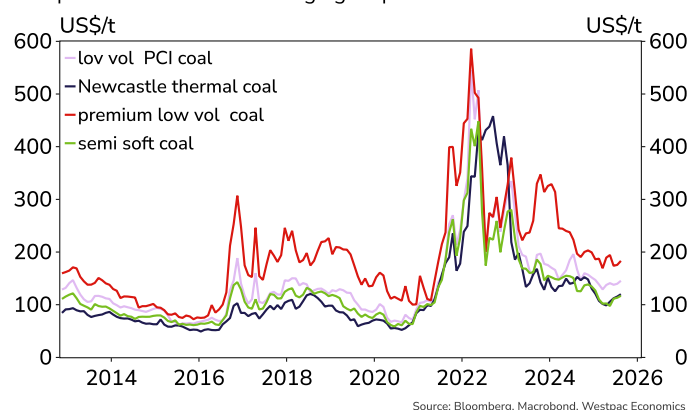


developed a high coal demand scenario, in which demand remains more robust due to three key factors:

- **Energy security and affordability.** For many of Asia's largest and fastest-growing economies, coal is a strategic domestic resource that supports energy security and affordability.
- **Power demand growth:** The rapid rise in electricity demand – driven by data centres, artificial intelligence, and broader electrification – may lead governments and companies to extend the life of existing coal assets.
- **Technological improvements:** Advances in flexible coal plant operations, carbon capture, utilisation and storage (CCUS), and hydrogen co-firing could improve the emissions profile, potentially extending the life of these assets.

Australian coal prices

Sub premium coals are converging on price



US exceptionalism draws to a close ...

Elliot Clarke

Head of International Economics

The US dollar DXY index is broadly unchanged from a month ago at 98.25 having traded a tight range between 96.9 and 100.3 in the interim. This follows a trend decline from 107.7 in February to a cycle low of 96.4 (–10%) in early July.

This stabilisation questions whether the US dollar selloff has run its course and a period of US dollar stability or appreciation is forthcoming. Or conversely, if this is just a brief pause before the currency's next leg lower.

Our expectation is that the latter view will prove correct, although we believe the US dollar's depreciation will slow materially now that DXY's 10-year average has been traded through, 98.5, and as the 20-year average of 90.3 remains inconsistent with market participants' growth and policy expectations, both for the US and the rest of the world.

Beginning with growth expectations, at its current level, DXY is consistent with little-to-no growth disparity between the US and its major trading partners. Broadly speaking, this is consistent with the data to hand. At a headline level, US, Euro Area, UK and Japanese GDP growth are all around trend.

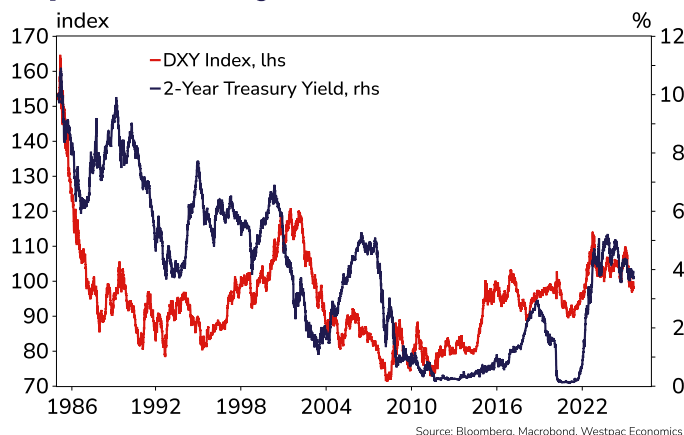
Ahead though, whereas the Euro Area and UK are likely to experience stronger, or at least more resilient conditions, growth in the US is clearly decelerating and susceptible to stalling out. Further, while authorities in the Euro Area and UK have capacity to act should their economy go off course, it will be difficult for US policy makers to do so outside of recession given persistent structural price pressures and the slow pass-through of tariffs.

The comparative health of Canada and Japan is likely to act as a partial offset to this negative US dollar view against Euro and Sterling. While Canada's economy has shown resilience, the full impact of US trade policy is yet to be seen. The tariff consequences for Canadian inflation are also expected to require Bank of Canada decision making that gives a higher weight to price risks than those for activity.

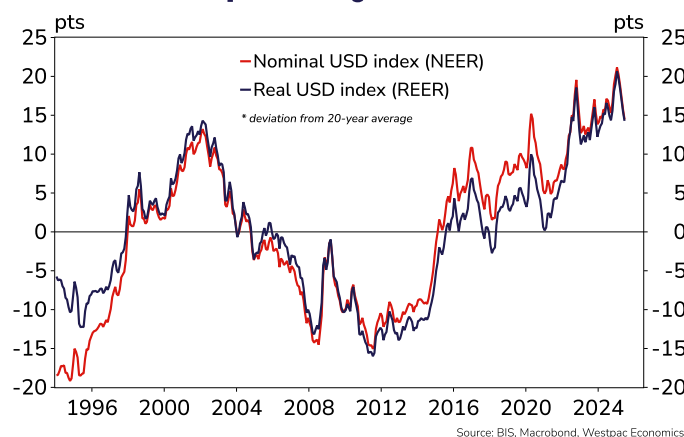
Japan's activity outlook also looks prone to headwinds, not only from growing competition from China and South Korea, but also because the trade deal with the US arguably incentivises Japanese firms to locate some of their future capacity expansion in the US instead of Japan – this is partly due to the tariffs but also the agreed investment quota.

From 98.25 today, we therefore see the DXY index edging down to 97.0 at December 2025, 94.6 by December 2026 and 93.8 come June 2027. Note that all these outcomes are materially above the 20-year average for the index (90.3). This implies that, while we believe this era of US exceptionalism has drawn to a close and that downside risks for the US economy will

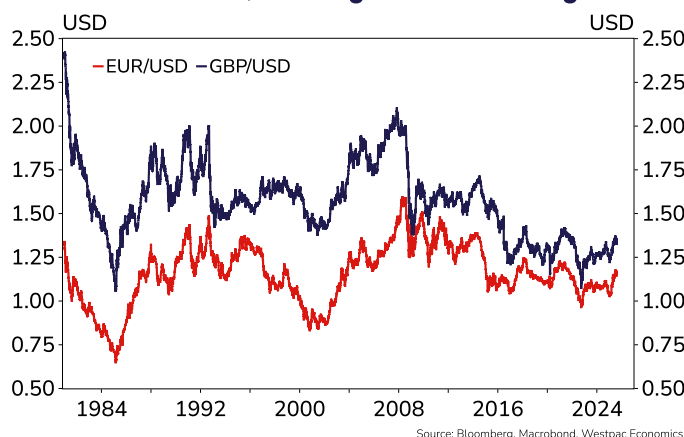
US prime factor of global markets



USD valuation experiencing a reset



Euro now in favour, Sterling also benefitting



... where to now for USD

remain elevated, the position that the US economy holds within the global financial order is unlikely to be threatened near term. It also implies that: the risks to the global economy emanating from US trade policy are likely to persist for some time; and that US policymakers still have capacity to provide cyclical support to the economy, limiting the threat of recession.

In terms of the key bilaterals, Euro is expected to see the strongest support, EUR/USD forecast to rise from around USD1.165 currently to USD1.20 end-2026 and USD1.21 mid-2027. Sterling is meanwhile only expected to edge higher to USD1.37 end-2026 and USD1.38 mid-2027. If realised, these forecasts will see EUR/GBP hold modestly above its 10-year average, consistent with the greater opportunities and more limited downside risks before the Euro Area compared to the UK.

The Canadian dollar is also expected to gain against the US dollar, but likely not until later in the forecast period, with time necessary to discern the scale and trajectory of downside risks. From CAD1.38 today, we see USD/CAD only edging down to CAD1.36 at end-2025, but then CAD1.32 by end-2026 and CAD1.30 mid-2027. Risks to this view are skewed towards more persistent Canadian dollar weakness given current sentiment and the nation's exposure to the US.

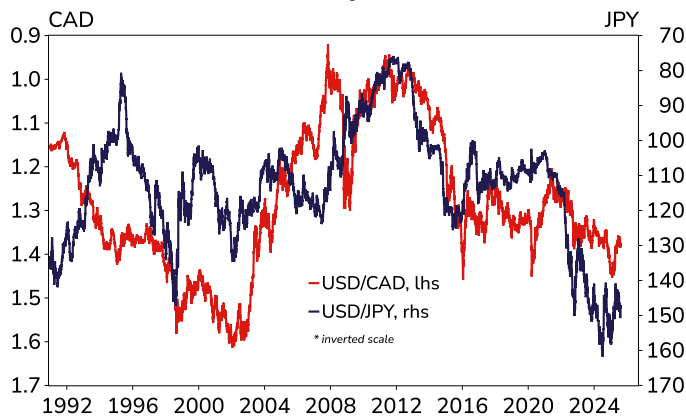
Finally to Japan. Our profile for the Yen continues to point to only a very slow and partial unwind of the sharp depreciation the currency experienced during and after the pandemic. In recent months though, the Yen hasn't even been able to achieve limited progress against the US dollar.

This disappointment has been primarily due to the uncertainty created by Prime Minister Ishiba's coalition's Upper House election losses, the struggle to achieve favourable terms with the US on trade, and with expectations over the future path of Japanese monetary policy remaining modest.

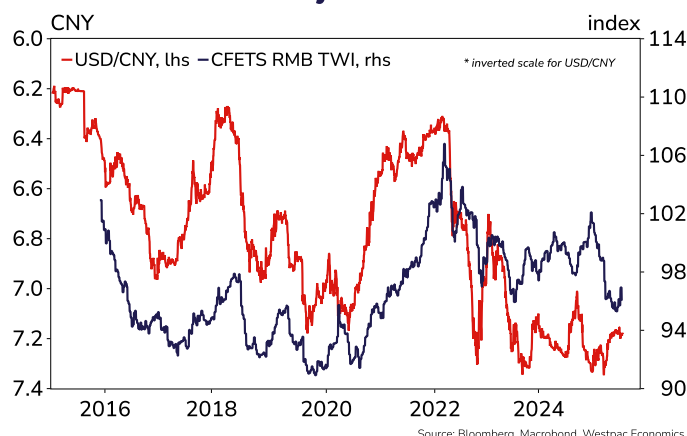
None of these headwinds for the Yen are likely to turn or even abate quickly. So there remains considerable downside risk to our profile for the Yen against the US dollar and other major currencies.

As a starting point to assess progress and sentiment, however, on the basis of the US dollar's broader decline, we continue to look for the USD/JPY to decline from JPY148 today to JPY136 by end-2026 and JPY133 mid-2027. This would still leave USD/JPY 22% above its 2019 level – clearly a weak level versus history.

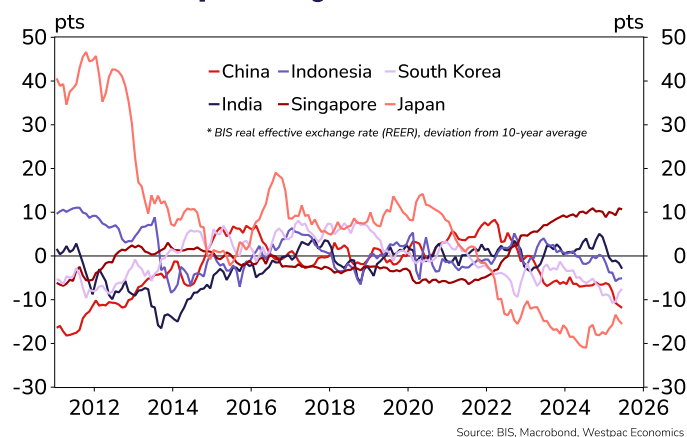
Concern over CAD to slowly abate



Renminbi to sustain rally



Asia's outlook promising



Growth is set for an improving but bumpy ride ...

Kelly Eckhold
Chief Economist NZ

The New Zealand economy looks set to continue a bumpy path to recovery over the next year. As concerns over the global trade environment fade, low interest rates and strong export returns should underpin a sustainable return to trend growth. Inflation pressures remain elevated but should ultimately fade given excess capacity in the economy. A further 25bp OCR cut to 3% looks likely from the RBNZ, however after that the outlook is less assured. A trough in the OCR at 3% seems most likely if the economy recovers as anticipated.

[Our new August 2025 Economic Overview](#) paints a picture of cautious optimism for New Zealand's economy. While growth has slowed in the middle of the year, the outlook for 2026 is more promising, with GDP growth expected to rise from 2.4% in 2025 to 3.1% in 2026. This improvement is underpinned by the cumulative effects of monetary easing, resilient export performance, and a gradual recovery in household and business demand.

The Reserve Bank of New Zealand (RBNZ) has already cut the Official Cash Rate (OCR) by 225 basis points, with a further 25bp cut expected in August. These reductions are anticipated to provide a significant boost to disposable incomes and demand over the next 6 to 12 months. However, the pass-through of these cuts has been slow, and the full impact is yet to be felt.

It's still very much a two-speed economy. Household finances remain under pressure due to high living costs and a weak labour market. Hence consumer spending remains modest, especially for discretionary items. The housing market is unusually well-balanced as demand has picked up a bit, as can be seen in stronger house sales (up 17% year-on-year). But house prices remain stable, rising around 1% year-to-date, and are expected to grow 3–4% in 2025 and 6% in 2026. Housing supply has been unusually responsive to rising demand as more properties have come to market, while the level of new home building remains firm despite recent declines. Population growth has slowed, helping to cap price increases.

Business sentiment remains cautious, and many businesses say the going has been tough. While activity lifted earlier in the year, recent indicators have softened. Firms are optimistic about future conditions as they look forward to lower interest rates and government initiatives like the Investment Boost scheme. But in the here and now, firms remain in hunker-down mode. Investment demand is tentative and hiring sporadic. Some firms are still letting staff go to remain afloat and all firms are trying to do more with their existing workforce for now.

The labour market remains weak, although the unemployment rate is only rising gently. It reached 5.2% in the June quarter

and is expected to peak at 5.3% by year-end. That's very modestly above the RBNZ's quite optimistic recent forecasts, but in line with their expectations for most of the last couple of years, of the degree of adjustment that would be required of the labour market to bring inflation back to 2%. The labour market always lags the cycle, hence job advertisements remain below pre-COVID levels.

The strong point in the economy is the agricultural sector – and this strength is expected to continue.

“When the labour market decisively turns, this will likely boost consumer sentiment, spending and demand and elicit a virtuous cycle from businesses.”

Export prices remain high, and we expect to retain those gains for the foreseeable future. Milk prices are forecast at a historically high \$10/kg, while beef and lamb prices are elevated due to global supply constraints. Kiwifruit and apple prices are also strong, supported by demand and quality improvements. Export log prices are set to rise slightly, aided by China's recovery. The most vulnerable area in the primary sector is the wine industry, where global supply is ample and where tariffs might blunt consumer appetites and promote diversion of product into markets we already rely on.

“But for most of our commodity exporters, the still-supportive level of the New Zealand dollar and global supply constraints mean that returns can remain robust.”

A

generally supportive factor has been the stabilisation and improvement in the global outlook in recent months. Risks of a full-blown trade war have diminished, and the US tariff framework is now clearer. The 15% tariff on New Zealand's goods exports to the US is manageable, and exporters seem to be adapting well even though trading partner growth is forecast at 2.7% in 2025, below pre-pandemic averages.

... which should see the OCR trough around 3%

Government policy remains non-stimulatory in the near term, but there are reasons to expect a greater contribution looking forward. For now, the budget is tight, but our forecasts suggest tax revenue will outstrip Budget 2025's relatively pessimistic forecasts. There may be scope for increased discretionary spending or modest tax cuts in Budget 2026 – which may be well timed for next year's election. We think the Government will stick with the objective of returning to a small surplus (0.2% of GDP) by 2028/29 which will leave net debt peaking at 44% of GDP in 2026/27 and gradually declining thereafter.

The Government's efforts to boost infrastructure development, ease regulatory constraints on building and agriculture and, critically, the new Investment Boost policy should add to growth over the medium term. The Investment Boost policy should be most heavily felt in the agriculture-linked sectors where incomes are strongest, and also in the commercial property sector.

It's possible that credit rating agencies may become impatient with the long period of fiscal deficits and rising net debt. Investors should be alert for risks that any slippage in fiscal discipline prompts a sovereign credit rating downgrade. These risks might be elevated by New Zealand's generally weak productivity performance and still-wide current account deficit. We see the current account deficit narrowing further reflecting the strong export returns, but it's likely to remain wider than historical norms at around 4.5% of GDP.

The inflation outlook will be a key factor driving interest rates. Right now, inflation is elevated and remains a central concern – particularly with some measures of inflation expectations lifting in recent months. Consumer price inflation rose to 2.7% in the year to June and core inflation is contained but not low.

Inflation is expected to peak around 3% later in 2025 before easing to 2% in 2026. The RBNZ will likely be comfortable to cut rates to 3% in August and retain an easing bias. But further cuts from there will likely require tangible signs that inflation is trending back towards 2% or adverse labour market trends that indicate a markedly higher unemployment rate for longer and hence greater excess capacity. We suspect it will be hard for the RBNZ to get confident in the inflation outlook before November at the earliest. By then, if the economy is on a recovering path the need for further cuts may reduce.

The New Zealand dollar is expected to rise modestly against a softening US dollar and underperform against many trading partner currencies. There are push and pull factors driving the currency. On one hand, high commodity prices might support the NZD, although the twin fiscal and current account deficits and the still slow recovery may temper gains – especially if interest rates end up remaining lower for longer.

Our overarching theme is one of "Are we there yet?". This refers to the significant frustration around the quite prolonged period of slow economic growth and the ongoing challenges associated with inflation, a soft labour market, and still weak per-capita growth. However, the foundations for recovery are in place even though the lags to monetary policy are long. Lower interest rates, strong export prices, and improving fiscal conditions are expected to support growth through 2026 and beyond. Hence the answer to the question is: not quite, but the direction is promising.

	2024					2025						
Monthly data	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
REINZ house sales %mth	0.4	2.7	3.3	2.1	-3.4	-0.8	7.2	1.5	1.1	-3.4	-4.2	-
Residential building consents %mth	-6.1	2.9	-5.1	4.9	-5.5	3.1	0.4	9.9	-14.9	10.3	-6.4	-
Electronic card transactions %mth	0.3	-0.1	0.9	0.0	2.9	-2.0	0.1	-1.4	0.0	-0.1	0.5	0.2
Private sector credit %yr	2.8	2.8	2.6	3.1	3.1	3.2	3.0	2.9	3.0	3.0	3.3	-
Commodity prices %mth	2.1	1.8	1.4	2.9	0.1	1.8	3.0	-0.4	0.0	1.9	-2.4	-1.8
Trade balance \$m	-1014	-781	-506	-299	-308	128	-195	-170	83	-285	-559	-
Quarterly data	Q1:23	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25		
Westpac McDermott Miller Consumer Confidence	77.7	83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2	91.2		
Quarterly Survey of Business Opinion	-13	-11	-17	7	-28	-27	-28	-24	-21	-23		
Unemployment rate %	3.5	3.7	3.9	4.0	4.4	4.7	4.9	5.1	5.1	5.2		
CPI %yr	6.7	6.0	5.6	4.7	4.0	3.3	2.2	2.2	2.5	2.7		
Real GDP %yr	3.5	4.0	2.4	1.8	1.4	0.6	0.0	-0.6	-1.1	-		
Current account balance % of GDP	-8.6	-7.9	-7.7	-6.9	-6.6	-6.6	-6.5	-6.1	-5.7	-		

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

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China's resilience proven ...

Elliot Clarke

Head of International Economics

While market participants continue to hold doubts, Chinese authorities' 5.0% GDP growth target for 2025 looks to be within reach. Indeed, in the first half, GDP growth beat this benchmark, rising 5.3%ytd.

Trade was a critical support for the first-half outcome. Net exports year-to-date contribution at June was 1.7ppts, more than four times the average of the past decade.

While that is partly due to the pull-forward of exports to the US in Q4 2024 and Q1 2025, the strength seen over the past year is also a consequence of strong growth in China's other major export markets across Asia and, albeit much smaller in scale, the ongoing development of emerging markets such as Latin America.

In stark contrast to the US flow, Asia and Latin America's contributions to China's trade surplus are long-term opportunities fuelled by regional economic development as well as the modernisation and expansion of critical infrastructure.

Chinese firms and government-controlled entities are doing all they can to propagate growth across both regions, and to strengthen China's standing in these markets via rapid growth in foreign direct investment.

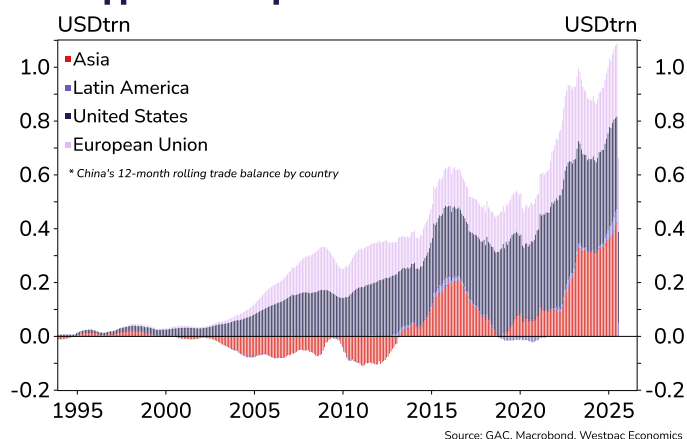
While demand for China's exports is expected to continue trending higher, the strong growth to date means trade's overall contribution to GDP growth will moderate. Moreover, as capital expenditure is now being split across domestic and international projects, business investment's support to China's GDP growth is also likely to be capped. To sustain growth near 5.0% beyond end-2025, China is in need of new growth drivers.

Household consumption remains the great hope. Government incentives have certainly benefited momentum and continue to be rolled out – the latest a subsidised loan scheme to boost discretionary consumption across a variety of sub-categories, principally funded by the Central Government.

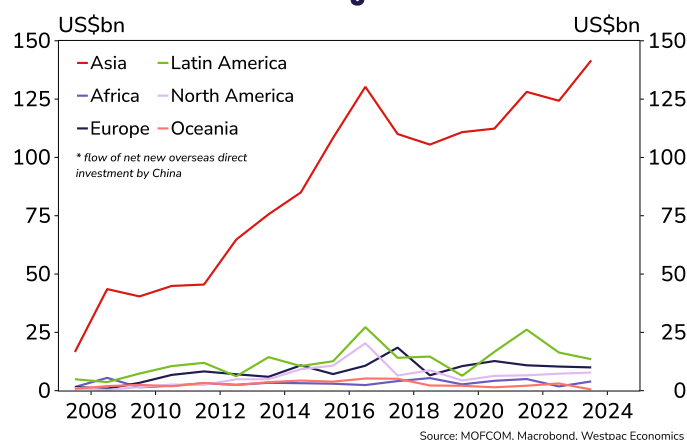
Labour market expectations are also building a base now that structural reforms to key sectors such as technology and finance have concluded and as authorities allow greater labour flexibility, albeit at the margin. That said, progress is likely to be slow, credit and deposit data continuing to imply the average consumer remains extremely cautious around family finances and discretionary consumption.

To accelerate consumer momentum sustainably, household wealth needs to trend up. The just-agreed second 90-day extension of the US–China trade truce will support flows into equities from domestic and international investors, as will NVIDIA and AMD being allowed to sell some of their less-advanced chips into China.

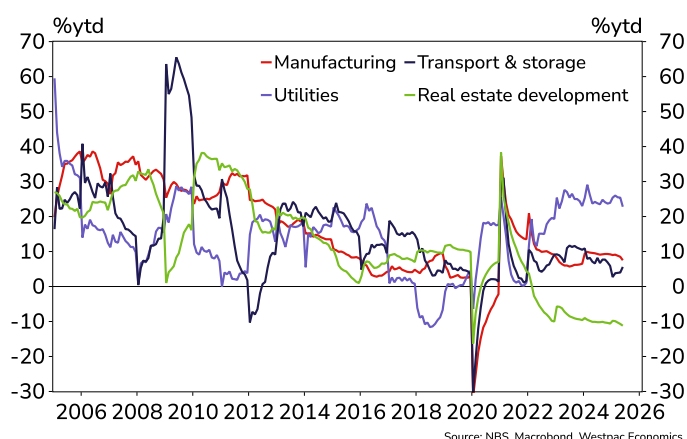
Trade opportunities plentiful



China to continue investing in Asia



Domestic investment needs to broaden



... growth now has to broaden

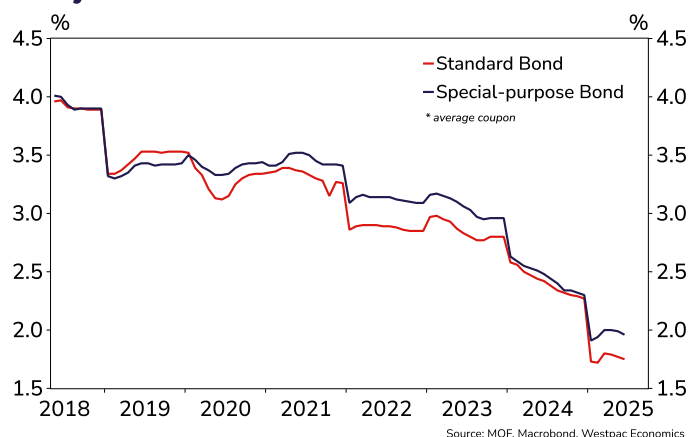
But a meaningful, lasting recovery for housing is also necessary.

We are yet to see any evidence of this starting, however. As at June, new and established house prices continued to decline at a similar pace to that seen since late-2021; while property investment remained 11% lower year-to-date, taking the cumulative decline over the past five years to more than 30%. What's more, there has been little-to-no evidence of developers readying for a recovery in land sales, or indeed progressing the working-out of the sector's legacy financial liabilities.

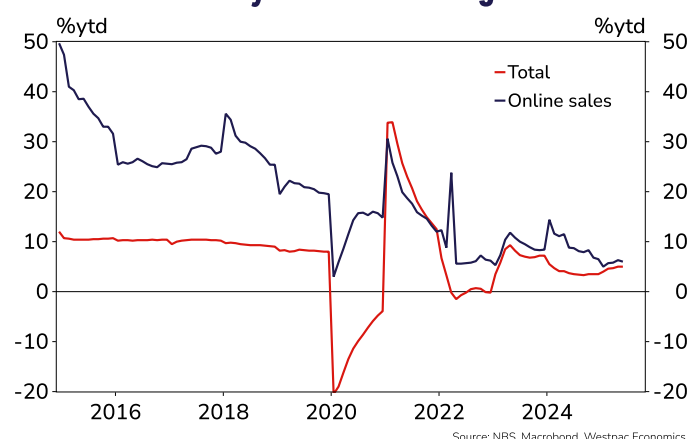
From the perspective of authorities and regulators, being able to achieve the 5.0% GDP growth target without pump-priming property would be a significant achievement, one that should also pay a dividend in the long run by educating on the merits of income/employment-producing investment over mere capital gains. Still, the longer the sector remains slumped, the more difficult it will be to right expectations and create optimism, leaving the economy susceptible to downside shocks.

If our expectation of 4.6% growth for 2026 is to be achieved, let alone a repeat of 2025's expected 5.0%, changes to the policy mix need to be made. This should be given some consideration as the CCP finalises the 15th five-year plan in October, ahead of its implementation through 2026–2030.

Low yields should aid the case for investment



Consumer recovery nascent and fragile



	2024					2025						
Monthly data %yr	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Headline CPI %yr	0.6	0.4	0.3	0.2	0.1	0.5	-0.7	-0.1	-0.1	-0.1	0.1	0.0
M2 money supply %yr	6.3	6.8	7.5	7.1	7.3	7	7	7	8	7.9	8.3	8.8
Manufacturing PMI (official)	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49.0	49.5	49.7	49.3
Fixed asset investment ytd %yr	3.4	3.4	3.4	3.3	3.2	3.2	4.1	4.2	4.0	3.7	2.8	-
Industrial production %yr	4.5	5.4	5.3	5.4	6.2	6.2	5.9	7.7	6.1	5.8	6.8	-
Exports %yr	8.6	2.3	12.6	6.6	10.7	5.9	-3.1	12.3	8.1	4.7	5.9	7.2
Imports %yr	0.0	0.1	-2.4	-4.0	0.8	-16.3	1.5	-4.4	-0.3	-3.4	1.1	4.1
Trade balance USDbn	91.6	81.8	95.7	97.3	105.2	138.2	31.4	102.5	96.0	103.1	114.8	98.2
Quarterly data	Mar-24		Jun-24		Sep-24		Dec-24		Mar-25		Jun-25	
Real GDP %yr	5.3		4.7		4.6		5.4		5.4		5.2	
Nominal GDP %yr	4.2		4.0		4.0		4.6		4.6		3.9	

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

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Spotlight turns to the US labour market ...

Elliot Clarke

Head of International Economics

The FOMC voted to leave the fed funds rate unchanged at its July meeting. That said, the consensus views of the Committee and additional colour provided by Chair Powell in the press conference made clear the FOMC is willing to cut when the balance of risks warrants it.

In the statement, guidance on inflation was restricted to a simple present-tense phrase: "Inflation remains somewhat elevated". Then, at the press conference, Chair Powell stated it was currently appropriate for monetary policy to be modestly restrictive as annual inflation remains above the 2.0% target, excluding the impact of tariffs which is nascent.

The subsequent July CPI report showed that Chair Powell and the FOMC are right to remain guarded on the inflation outlook. Components unrelated to tariffs continue to show robust momentum, in particular medical services, shelter and transport services which grew 4.3%yr, 3.7%yr and 3.5%yr respectively.

We believe this inflation is principally the result of capacity constraints which are unlikely to dissipate anytime soon given the business investment trend. Tariff effects are also slowly becoming evident, core goods inflation picking up from 0% on a six-month annualised basis in December 2024 to an average of 1.2% in June/July. With the US effective tariff rate having almost doubled in August to around 20%, another lift in goods inflation seems inevitable.

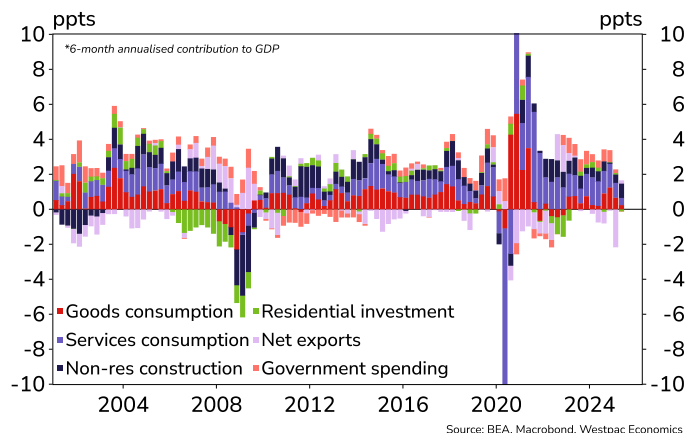
This is not to say annual core inflation will necessarily rise further from July's 3.1%yr. If it only holds near the current rate into 2026, this would still be a material and troubling deviation from the FOMC's 2.0%yr medium-term target. Without a marked deterioration in the labour market, more than a couple of rate cuts would be hard to justify in such a circumstance.

At the time of the July FOMC meeting, a deterioration in the labour market was a potential risk to watch out for, not an immediate concern, with the unemployment rate having essentially been unchanged on an annual basis. Two days later, however, the July employment report challenged this view.

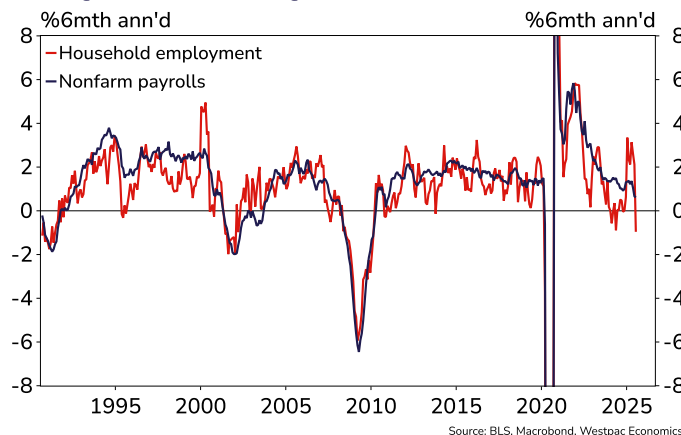
Not only did nonfarm payrolls employment rise disappoint in July at 73k, but May and June's gains were revised down by an unusually large 258k, taking the 3-month average change in nonfarm payroll employment from 150k to just 35k. Household survey employment has been weaker still, averaging a monthly decline of 132k per month over the six months to July. If the participation rate had not declined by 0.4ppts since January, the unemployment rate would now be around 4.6%, not the 4.2% reported in July.

Considering household demand growth almost stalled in the first half of 2025 (household consumption growth well

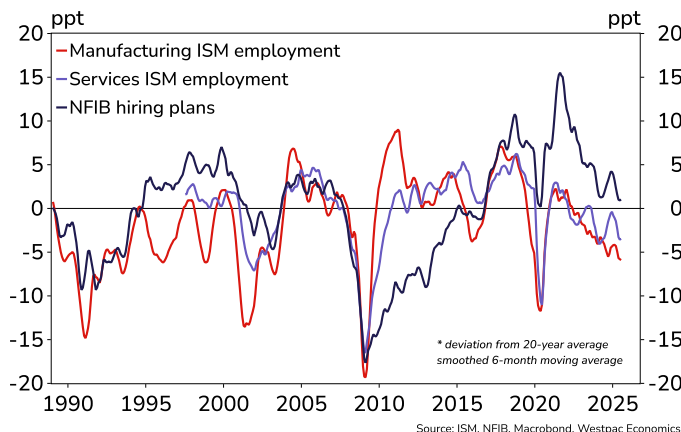
US GDP pulse is narrow



Jobs growth is stalling out



Risks to labour market one way



... with a further weakening likely in H2 2025

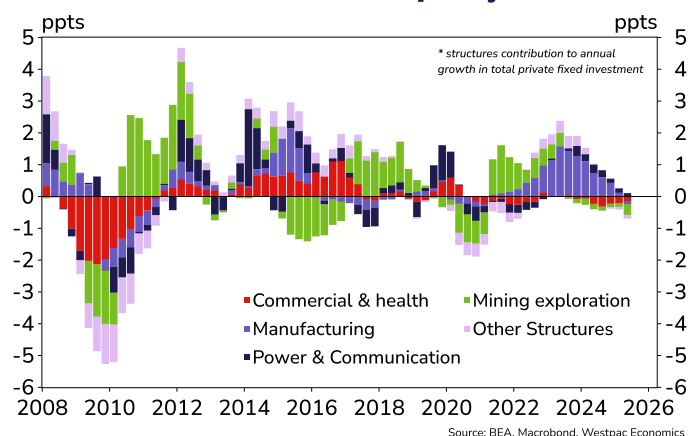
below trend at just 0.9% annualised and housing investment down 3.0% annualised), government spending was flat and a tariff-induced surge in business investment in the three months to March proved fleeting (capital expenditure rising 1.9% annualised in Q2 after Q1's 10.3%), the US labour market is likely to weaken further in the second half of 2025 and remain soft in early-2026. Ahead then, the FOMC will not only have to contend with upside risks to inflation but also a real-time deterioration in employment and activity growth.

Before the FOMC's next meeting, we will receive another read on the US labour market. Unless that release counters July's narrative, the FOMC is likely to cut by 25bps in September. The more material question is what happens from the December quarter on. The market believes US inflation concerns are simply a transitory tariff shock which can be looked through. As above, we are less convinced, expecting structural capacity constraints to continue putting upward pressure on inflation through 2026 and into 2027.

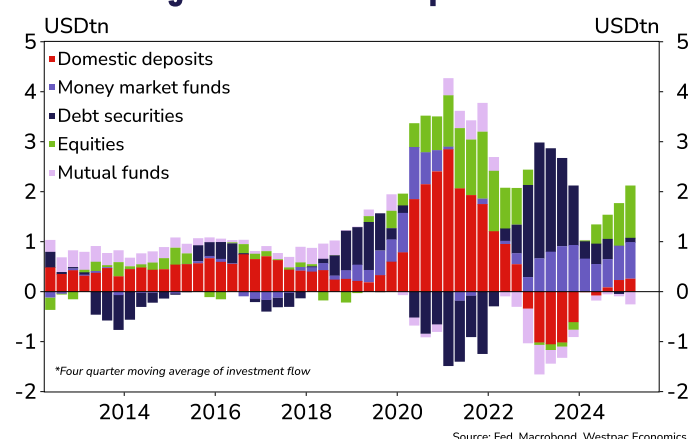
If our read on capacity and inflation is right, the FOMC is unlikely to be able to justify cutting much more than 50bps from here – i.e. one more cut beyond the September meeting – even with a further modest deterioration in the published unemployment rate to 4.5% and 5.0%. This is a fraction of the easing the market has priced – 130bps to end-2026.

Obviously though, the labour market deterioration could accelerate, forcing the FOMC's hand. If the published unemployment rate moves above 5.0%, additional easing will be warranted without delay. Currently, there is not enough in the data flow to suggest this is likely. That said, until the July employment report, labour demand and supply were believed to be in balance.

Weak investment constrains capacity



Wealth being accumulated not spent



	2024					2025						
Monthly data	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
PCE deflator %yr	2.3	2.1	2.3	2.5	2.6	2.6	2.7	2.3	2.2	2.4	2.6	–
Unemployment rate %	4.2	4.1	4.1	4.2	4.1	4.0	4.1	4.2	4.2	4.2	4.1	4.2
Nonfarm payrolls chg '000	71	240	44	261	323	111	102	120	158	19	14	73
House prices* %yr	5.2	4.6	4.3	4.4	4.6	4.8	4.5	4.1	3.4	2.7	–	–
Durables orders core 3mth %saar	3.3	5.2	0.1	3.1	0.6	14.5	6.9	6.5	–6.9	2.6	–1.9	–
ISM manufacturing composite	47.5	47.5	46.9	48.4	49.2	50.9	50.3	49.0	48.7	48.5	49.0	48.0
ISM non-manufacturing composite	51.6	54.5	55.8	52.5	54.0	52.8	53.5	50.8	51.6	49.9	50.8	50.1
Personal spending 3mth %saar	4.3	6.1	5.3	6.8	7.5	5.0	4.0	3.4	5.0	3.5	2.1	–
UoM Consumer Sentiment	67.9	70.1	70.5	71.8	74.0	71.7	64.7	57.0	52.2	52.2	60.7	61.7
Trade balance USDbn	–71.2	–81.5	–74.3	–79.8	–96.9	–130.3	–122.0	–138.3	–60.3	–71.7	–60.2	–
Quarterly data	Jun–24		Sep–24		Dec–24		Mar–25		Jun–25		Sep–25(f)	
Real GDP % saar	3.0		3.1		2.4		–0.5		3.0		0.5	
Current account USDbn	–286.3		–326.2		–312.0		–450.2		–		–	

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

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Salient prices and trade risks are ...

Illiana Jain
Economist

The Bank of Japan (BoJ) left its policy settings unchanged at its July meeting but revised up its near-term inflation outlook. The median estimate for CPI (ex. fresh food) was nudged up to 2.7% for FY2025 (ending March 2026) from 2.2% previously. The revision was driven primarily by higher rice prices, which are included in the core measure.

While the upward revision was the result of a supply-side shock, the BoJ remain confident in achieving sustained demand-driven inflation at their 2.0%yr target by the end of the forecast period. In our view, the BoJ's policy reaction function remains focused on demand-side dynamics. Constructively, there were minimal adjustments to the GDP outlook despite an acknowledgement of increased uncertainty from global trade.

Through the remainder of FY2025, a tight labour market and elevated profitability are expected to support wage gains, although the BoJ's Outlook noted that "the growth rate is likely to decelerate somewhat, affected by the decline in corporate profits."

The outlook for business investment is expected to be similar, with profits still supporting critical investment, but with the pace of investment expected to "decelerate". Beyond FY2025, profit growth is anticipated to continue driving robust wage and investment gains.

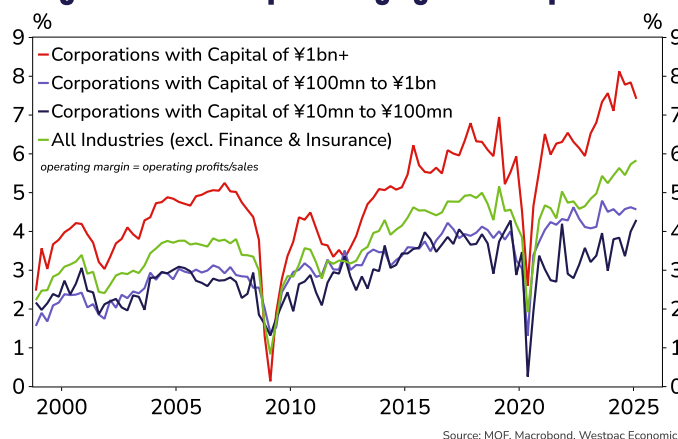
While the BoJ has sought comfort in greater certainty around the trade relationship between Japan and the US, risks remain. For one, export prices of motor vehicles (measured when cargo is loaded) fell dramatically since news of the tariffs hit the headlines, down 18.4% in July. A similar but less extreme outcome was also evident in the South Korean data (-3.4% in June to the world).

These price declines suggest exporters may bear some of the costs of increased US tariffs. That said, the full scale and duration of the effect on profitability (and therefore on employee wages and bonuses) will not be known for some time. It is possible that prices measured at the border may be capturing shifts in transfer pricing between local 'parent' businesses and offshore subsidiaries. It is also worth highlighting that the Japanese firm Subaru has already announced price increases for some models imported from Japan and Canada to the US. So at least some of the cost of the tariff measures will not be borne by Japanese producers.

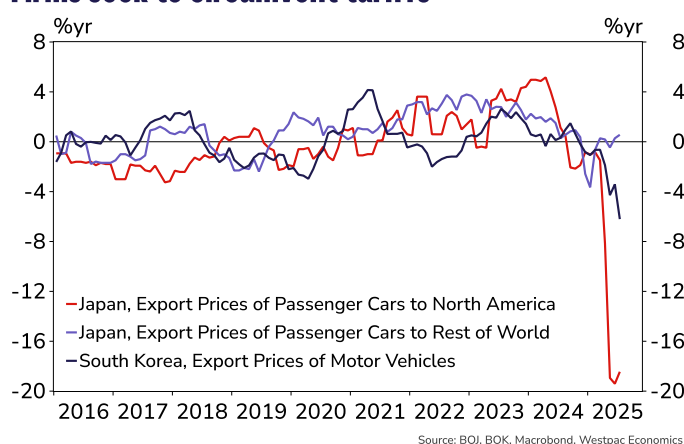
Looking at the local risks to consumer demand, a spike in rice prices (+100%yr) remains integral to the near-term outlook.

A combination of weather and demand factors alongside mismanagement of government-controlled production and

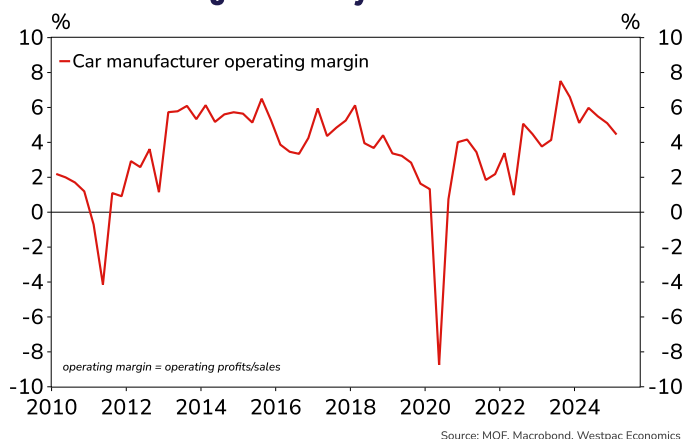
Margins must hold up for wage growth to persist



Firms seek to circumvent tariffs



Auto firms' margins unlikely to remain robust



... shaping the Bank of Japan's path

strategic reserves, and restrictions on imports have seen rice prices accelerate rapidly over the last year. In addition to rice, price growth for other foods such as bread (+4.0%yr) has also started accelerating, broadening the impact of this supply shock.

Research suggests that the price of staples like rice can have a big impact on inflation expectations. In an environment of weak real wage growth, this may encourage consumers to pull back on spending elsewhere. Some evidence of this can already be seen in the stagnation of real household consumption while nominal household consumption continues to rise.

This dynamic complicates the Bank of Japan's goal of fostering stable and positive domestically-driven inflation. Soft demand limits firms' pricing power across discretionary goods and services and their ability to sustain increases in employee compensation.

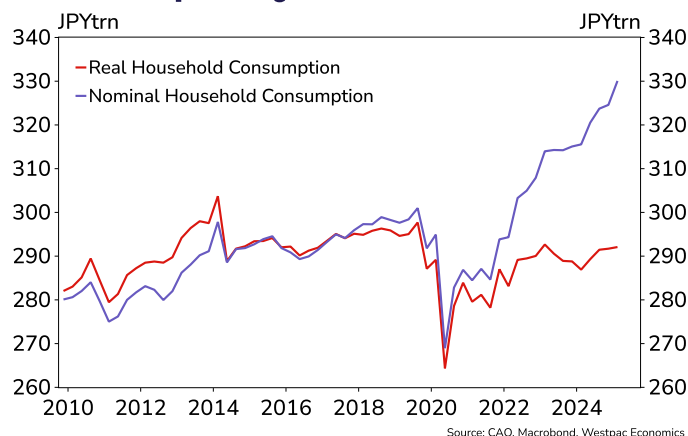
The BoJ has stated that, should their current outlook materialise, they will continue to raise rates. The minutes to the Bank's July meeting noted that "it may be possible for the Bank to exit from its current wait and see stance, perhaps as early as the end of this year". However, this is contingent on how the economy evolves over the next few months. And, in particular, how businesses respond to the 15% tariff imposed by the US.

Our base case remains that the next hike is most likely to be delivered in March 2026. However, with the recent strength in summer bonuses coming alongside greater confidence amongst BoJ members, the risks skew towards an earlier move in December. Crucial in assessing the timing of the next move will be how profitability evolves, in particular the health of firms as captured by the Q2 Financial Statement data (due early September).

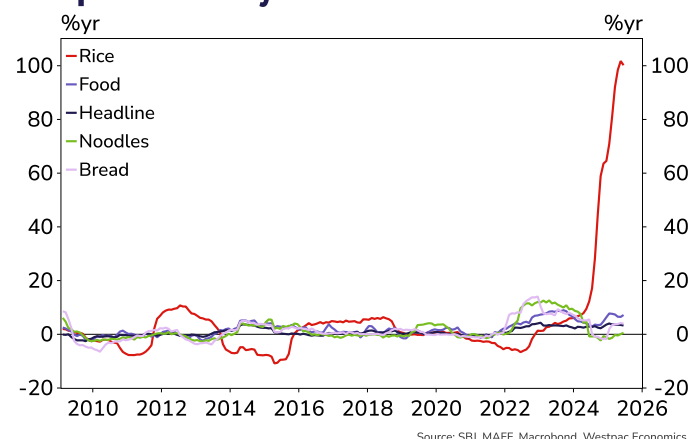
Still, given the above dynamics and balance of risks, it seems likely the BoJ is near the end of its rate hiking cycle – with inflation near target and activity growth near trend, there is little incentive to move from a neutral policy setting to a potentially contractionary one, unless there is a material threat to inflation expectations.

Such a turn is highly unlikely in Japan, and so the upward momentum seen over the past two years in Japanese yields is likely to top out. Uncertainty also remains for the currency given the potential impact of tariffs on goods trade and investment. Given the historically weak level of the currency however, services exports should continue to receive material support.

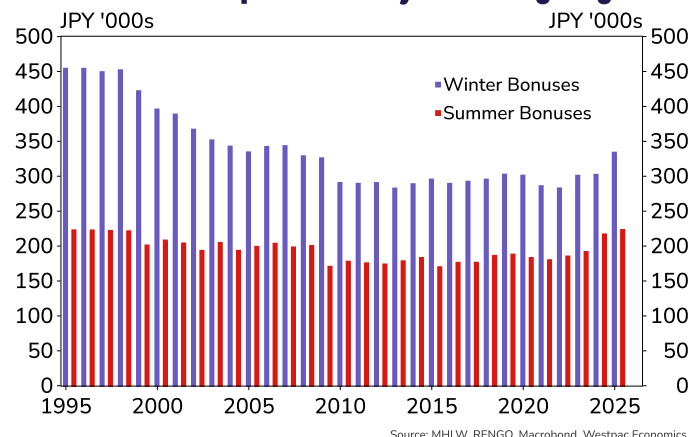
Real consumption lags behind nominal



Rice prices create yet another shock for the BoJ



Summer bonuses pave the way for strong wages



Disappointing deal dials optimism down ...

Mantas Vanagas

Senior Economist, Westpac Group

The recent US–EU trade negotiations represented a clash of two very different approaches to policy making: the carefully choreographed bureaucratic EU system, which facilitates cooperation among 27 sovereign nations, and the unilateral executive decision making of the US President, seemingly at-least-in-part driven by feelings and instincts. Despite the differences, just ahead of the 1 August deadline for a 30% tariff on EU imports to the US, the two parties reached an agreement on the key parameters of their trade relationship.

The official EU statement described the agreement as “the first step in a process that will be further expanded over time to cover additional areas.” However, even for the included areas, the deal merely sets out a framework, leaving the precise treatment and nuances of different product types for later.

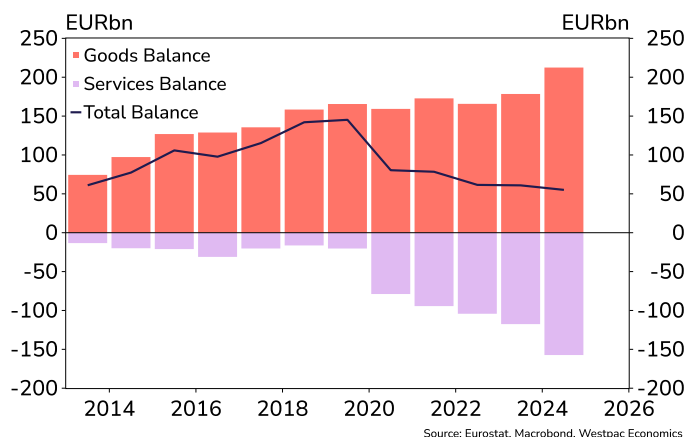
The centrepiece of the deal is a 15% tariff on the majority of EU exports to the US. This includes general tariffs imposed by the US on all trading partners under World Trade Organization Most Favoured Nation (MFN) rules. Comparisons have been drawn to April’s agreement between the US and UK, which secured a headline 10% tariff. However, the UK’s tariff applies on top of the MFN rate, and higher industry-specific tariffs were mitigated largely through quotas.

Under the EU–US deal, the 15% tariff ceiling reportedly applies to all major sectors. This includes pharmaceutical exports which represent about one-fifth of total EU goods exports to the US. Pharmaceuticals are currently exempt from US tariffs, but may face steep levies if the Section 232 investigation into the national security risks of imported goods concludes in favour of such measures. Cars and car parts, another pillar of European industry, are also covered by the 15% cap – a reduction from the previous 25% levy, but still a substantial penalty for European exporters given their higher cost of production versus Asia.

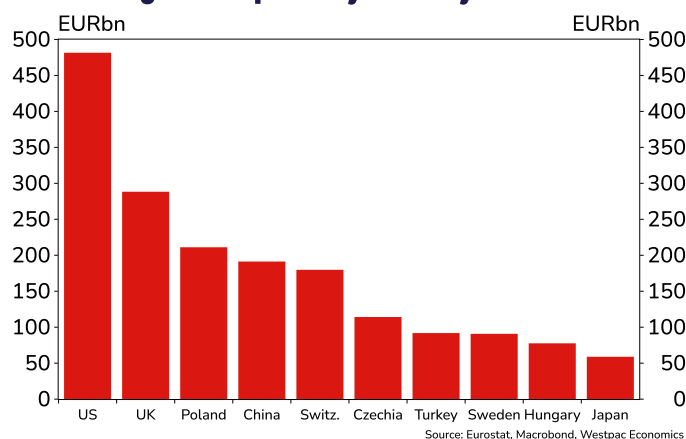
The EU was unable to secure significant concessions regarding steel and aluminium tariffs. However, special treatment will be given to aircraft and their parts, certain chemicals, specific generic drugs, and select natural resources. In exchange, the EU will lower tariffs on US industrial goods, fishery products, and certain agricultural items. Over the next three years, the EU is also committed to purchasing €750bn of US energy products and an additional €40bn in AI-related chips. Details on how the European Commission will encourage private sector participation in these purchases remains unclear.

Reactions in Europe’s capitals were mixed. Some welcomed reduced economic uncertainty, while others lamented that the deal effectively validates US protectionism. The agreement also fails to account for the EU’s significant services trade deficit with the US. Some doubt also remains over ratification of the deal which requires approval by the European Commission,

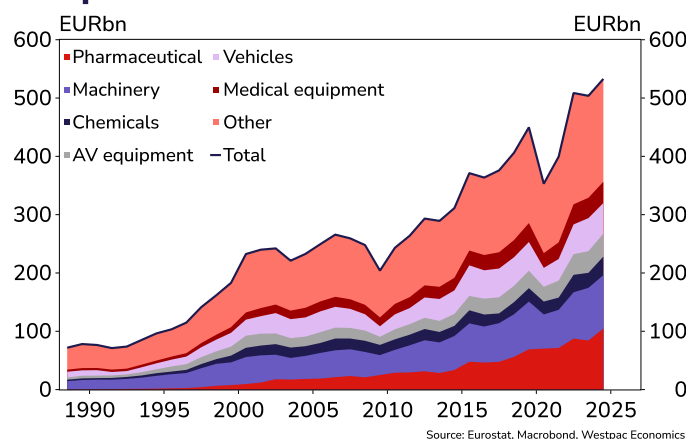
Euro area trade with the US



Euro area goods exports by country (2024)



EU exports to the US



... but Europeans can deal with it

the EU Parliament, and all 27 member states – a process prone to complications.

The ongoing war between Russia and Ukraine was likely an additional factor in the US–EU negotiations, with EU officials carefully considering the diplomatic repercussions on peace talks between Russia and Ukraine if agreement could not be reached on trade by the US and EU.

Financial markets initially responded negatively, particularly regarding euro area growth prospects. The euro depreciated by 1.3% following the announcement, while German Bunds rallied. Survey data, including recent Sentix and ZEW releases, suggest economic uncertainty persists across Europe.

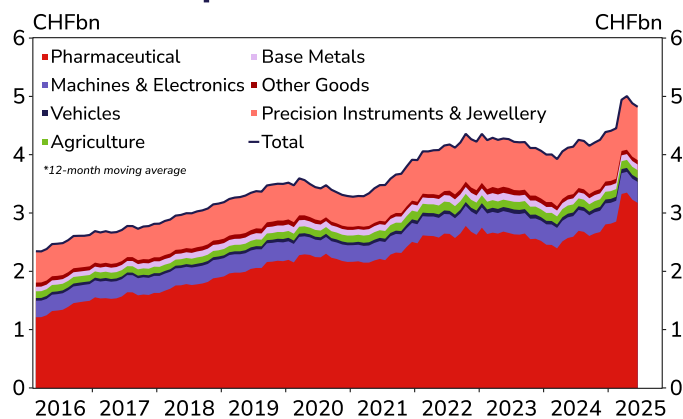
It is important to note that the alternative – a 30% tariff – would have been much more damaging. Switzerland serves as a good example. Despite the attempts to ease tensions with Washington, it now faces a 39% levy on its exports to the US, exceeding the 31% rate announced by the US on Liberation Day. Pharmaceuticals and gold, subject to zero tariffs, account for a large portion of Swiss exports, but steep tariffs on other products pose a significant shock to Switzerland's economy, which is already under pressure.

Euro area's goods exports to the US account for roughly 3% of regional GDP. With higher tariffs, some trade will be redirected to other markets, yet in core sectors such as pharmaceuticals (once tariffs are implemented) and automobiles, some trade flows could cease altogether.

Consequently, the deal entails some downside risk for euro area growth. Our forecasts for GDP growth in 2025, 2026, and 2027 have therefore been revised slightly lower, by 0.1ppt each. Nevertheless, longer-term prospects remain supported by robust fiscal measures in Germany and other member states. This should help lift GDP growth to 1.5%yr by 2027.

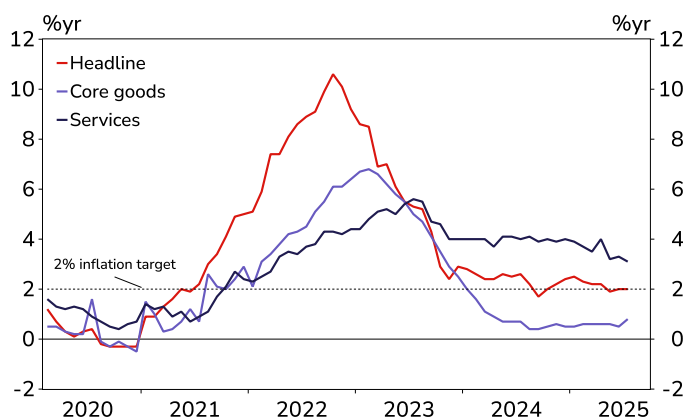
Recent euro area HICP inflation data showed headline inflation holding steady at the European Central Bank's 2.0% target, corroborating the central bank's view that inflationary pressures are under control. Combined with solid gains for activity and a labour market in robust health, the ECB is not under immediate pressure to ease further, though we still think another rate cut to the bottom of the ECB's neutral range remains likely in coming months given the lingering activity risks and the disinflationary benefit provided by a stronger euro and Asian imports. We have pencilled in this cut for Q4, but the precise timing will be determined by the flow of data and evolving spectrum of risks. Into 2026 though, the monetary policy stance will be materially looser than in 2024 and 2025.

Switzerland exports to the US



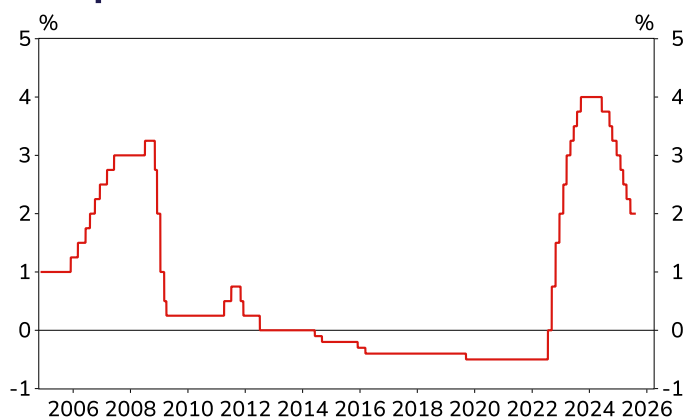
Source: EZV, Macrobond, Westpac Economics

Euro area HICP inflation



Source: Eurostat, Macrobond, Westpac Economics

ECB deposit rate



Source: ECB, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Cash	3.60	3.60	3.35	3.10	2.85	2.85	2.85	2.85	2.85
90 Day BBSW	3.61	3.55	3.30	3.05	2.95	2.95	2.95	2.95	2.95
3 Year Swap	3.29	3.35	3.45	3.60	3.70	3.80	3.85	3.90	3.95
3 Year Bond	3.38	3.40	3.50	3.65	3.75	3.85	3.90	3.95	3.95
10 Year Bond	4.24	4.25	4.30	4.35	4.45	4.55	4.60	4.65	4.70
10 Year Spread to US (bps)	-5	-10	-10	-15	-15	-15	-15	-15	-15

Currency forecasts

	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
AUD vs									
USD	0.6499	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
JPY	95.98	96	98	98	98	98	97	96	96
EUR	0.5577	0.56	0.58	0.58	0.59	0.59	0.59	0.60	0.60
NZD	1.0974	1.10	1.12	1.13	1.13	1.14	1.14	1.14	1.14
CAD	0.8976	0.90	0.92	0.93	0.94	0.94	0.93	0.94	0.94
GBP	0.4803	0.49	0.50	0.51	0.51	0.52	0.52	0.52	0.52
CHF	0.5247	0.53	0.54	0.55	0.56	0.56	0.56	0.57	0.57
DKK	4.1630	4.21	4.31	4.34	4.38	4.42	4.41	4.46	4.44
SEK	6.2285	6.30	6.45	6.50	6.55	6.62	6.60	6.67	6.65
NOK	6.6392	6.71	6.87	6.92	6.98	7.05	7.03	7.11	7.08
ZAR	11.43	11.5	11.7	11.8	11.9	12.0	12.0	12.0	12.0
SGD	0.8346	0.84	0.87	0.88	0.90	0.90	0.90	0.91	0.91
HKD	5.0917	5.17	5.32	5.38	5.46	5.50	5.50	5.58	5.58
PHP	37.18	37.0	37.7	38.0	38.2	38.3	37.6	37.4	37.4
THB	21.10	21.3	21.9	22.1	22.3	22.3	22.0	22.0	21.7
MYR	2.7498	2.77	2.86	2.86	2.87	2.88	2.84	2.84	2.81
CNY	4.6641	4.72	4.83	4.86	4.90	4.93	4.90	4.90	4.82
IDR	10473	10626	10880	10902	10920	10934	10792	10800	10656
TWD	19.49	19.6	20.0	20.1	20.3	20.5	20.4	20.7	20.7
KRW	903	911	932	932	938	948	944	954	950
INR	57.16	56.8	57.8	58.0	58.1	58.2	57.5	57.6	56.9

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

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	0.5	0.6	0.5	0.6	0.6	0.6	0.7	0.9	2.0	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	2.4	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	2.3	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	2.3	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	0.6	0.3	0.1	0.2	0.2	0.4	0.4	-	-	-	-
%yr end **	2.3	2.3	1.7	1.3	1.2	0.8	0.9	1.3	2.3	1.3	1.3	1.8
Unemployment rate % **	4.1	4.2	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	0.7	0.8	0.8	0.6	0.8	-	-	-	-
%yr end	3.4	3.4	3.3	3.2	3.0	3.0	2.9	3.0	3.2	3.2	3.0	3.1
Headline CPI %qtr	0.9	0.7	0.8	0.5	0.6	0.8	0.6	0.5	-	-	-	-
%yr end	2.4	2.1	2.7	2.9	2.6	2.7	2.5	2.6	2.4	2.9	2.6	2.6
Trimmed Mean CPI %qtr	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.7	-	-	-	-
%yr end	2.9	2.7	2.4	2.4	2.3	2.2	2.2	2.3	3.2	2.4	2.3	2.5
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	Jul
Employment '000 chg	27.5	42.9	1.8	19.0	59.3	33.4	-54.8	25.6	86.5	-3.0	1.0	24.5
Unemployment rate %	4.1	4.1	4.1	3.9	4.0	4.1	4.1	4.1	4.1	4.1	4.3	4.2
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	93.1
Household spending %mth	0.4	-0.2	0.9	0.8	0.2	0.5	0.3	-0.1	0.0	1.0	0.5	-
Dwelling approvals %mth	-3.9	6.1	5.9	-3.6	1.0	8.4	-1.3	-7.7	-3.0	2.2	11.9	-
Private sector credit %mth	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.7	0.6	0.6	-
Trade in goods balance AUDbn	5.4	4.4	5.2	6.1	4.2	4.5	2.5	6.0	4.2	1.6	5.4	-

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.

New Zealand

Interest rate forecasts

	Latest	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	3.15	3.10	3.10	3.10	3.10	3.20	3.45	3.70	3.85
2 Year Swap	3.04	3.20	3.35	3.50	3.65	3.80	3.90	3.95	4.00
10 Year Bond	4.42	4.50	4.60	4.65	4.75	4.85	4.90	4.95	4.95
10 Year Spread to US	13	15	20	15	15	15	15	15	10
10 Year Spread to Aust	18	25	30	30	30	30	30	30	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
NZD vs									
USD	0.5922	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
JPY	87.47	88	88	87	87	86	85	84	84
EUR	0.5082	0.51	0.52	0.52	0.52	0.52	0.52	0.52	0.52
AUD	0.9112	0.91	0.90	0.89	0.88	0.88	0.88	0.87	0.88
CAD	0.8180	0.82	0.83	0.83	0.83	0.83	0.82	0.82	0.82
GBP	0.4376	0.45	0.45	0.45	0.45	0.45	0.46	0.46	0.46
CNY	4.2537	4.30	4.32	4.32	4.33	4.32	4.31	4.28	4.23

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2025				2026				Calendar years			
% change	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Private consumption	1.3	0.0	0.9	1.0	1.1	1.1	1.0	0.9	0.0	1.9	3.9	3.3
Government consumption	1.1	-0.7	0.0	0.0	0.0	0.0	0.5	0.5	-0.1	0.5	0.1	2.1
Residential investment	2.0	-0.5	0.0	0.2	0.8	1.5	2.3	2.5	-11.4	-4.9	3.8	9.9
Business investment	-0.1	0.0	1.8	2.1	2.4	2.0	1.8	1.6	-2.3	0.9	7.9	5.9
Stocks (ppt contribution)	-0.3	1.5	-0.6	0.2	-0.1	-0.1	-0.1	0.0	0.2	0.7	0.1	-0.1
GNE	0.3	1.2	0.3	1.2	1.1	1.0	1.0	1.0	-1.1	1.8	4.0	3.7
Exports	0.1	-2.5	2.7	0.7	0.8	0.7	0.7	0.7	4.1	1.6	3.2	2.8
Imports	0.4	-2.1	1.6	2.0	1.8	1.7	1.4	1.4	1.9	0.5	6.1	4.6
GDP (production)	0.8	0.0	0.5	1.1	0.8	0.7	0.8	0.8	-0.6	1.0	2.9	3.2
Employment annual %	-0.7	-0.9	-0.2	0.2	0.7	1.5	2.1	2.5	-1.2	0.2	2.5	1.9
Unemployment rate % s.a.	5.1	5.2	5.3	5.3	5.2	5.0	4.8	4.6	5.1	5.3	4.6	4.2
LCI, all sect incl o/t, ann %	2.9	2.4	2.3	2.2	2.2	2.1	2.1	2.2	3.3	2.2	2.2	2.2
CPI annual %	2.5	2.7	3.1	3.1	2.6	2.3	2.0	2.0	2.2	3.1	2.0	2.1
Current account % of GDP	-5.7	-5.1	-4.6	-4.5	-4.4	-4.6	-4.9	-5.0	-6.1	-4.5	-5.0	-4.8
Terms of trade annual %	10.3	16.3	12.4	7.5	4.7	-2.7	-1.2	0.7	13.7	7.5	0.7	1.4

Sources: Statistics NZ, Westpac Economics.

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Commodity prices

End of period	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27
Australian commodities index#	324	316	305	297	296	294	297	300	302	303
Bulk commodities index#	385	380	350	350	350	340	350	350	350	350
iron ore fines TSI @ 62% US\$/t	102	97	90	86	85	82	84	85	85	86
Premium low vol met coal (US\$/t)	184	175	170	170	169	168	168	169	170	171
Newcastle spot thermal coal (US\$/t)	118	115	110	107	110	111	111	112	113	113
crude oil (US\$/bbl) Brent ICE	66	65	60	60	62	65	67	70	71	72
LNG in Japan US\$mmbtu	12.03	11.2	10.7	9.6	9.3	9.3	9.8	10.1	10.5	10.7
gold (US\$/oz)	3,397	3,400	3,400	3,350	3,300	3,280	3,250	3,230	3,200	3,180
Base metals index#	211	211	207	205	203	203	209	218	221	224
copper (US\$/t)	9,747	9,750	9,600	9,400	9,250	9,250	9,580	10,070	10,240	10,400
aluminium (US\$/t)	2,787	2,800	2,800	2,800	2,800	2,750	2,820	2,940	2,970	3,010
nickel (US\$/t)	15,149	15,000	14,750	14,500	14,100	14,640	14,990	15,520	15,700	15,870
zinc (US\$/t)	2,834	2,750	2,600	2,600	2,610	2,670	2,720	2,790	2,810	2,830
lead (US\$/t)	1,980	2,000	1,950	1,930	1,900	1,960	2,010	2,070	2,090	2,110
Rural commodities index#	117	118	119	123	126	129	127	126	128	130
NZ commodities index ##	388	388	383	381	385	388	392	395	398	400
dairy price index ##	351	350	336	333	337	343	349	353	355	358
whole milk powder USD/t	3,928	3,840	3,700	3,770	3,850	3,920	4,000	4,030	4,060	4,090
skim milk powder USD/t	2,785	2,690	2,550	2,570	2,600	2,650	2,700	2,720	2,740	2,760
lamb price index ##	584	593	594	594	592	587	582	578	575	572
beef price index ##	314	322	325	328	331	333	335	336	335	334
forestry price index ##	148	148	148	150	151	153	156	158	161	164

	levels				%change			
Annual averages	2024	2025(f)	2026(f)	2027(f)	2024	2025(f)	2026(f)	2027(f)
Australian commodities index#	312	312	298	302	-3.4	-0.1	-4.6	1.6
Bulk commodities index#	436	381	349	354	-13.0	-12.6	-8.4	1.3
iron ore fines @ 62% USD/t	109	98	85	85	-8.5	-10.3	-13.6	0.6
LNG in Japan \$mmbtu	13.3	11.9	9.6	10.4	-10.6	-10.5	-19.5	8.8
ave coking coal price (US\$/t)	206	144	134	137	-4.1	-30.0	-7.1	2.1
ave thermal price (US\$/t)	136	121	118	122	-26.1	-10.8	-2.3	2.8
iron ore fines contracts (US¢ dltu)	163	141	126	124	1.3	-13.2	-10.9	-1.7
Premium low vol met coal (US\$/t)	241	180	169	170	-18.6	-25.2	-6.4	0.8
crude oil (US\$/bbl) Brent ICE	78	67	63	71	-1.7	-14.0	-6.1	12.7
gold (US\$/oz)	2,410	3,247	3,306	3,202	22.8	34.7	1.8	-3.2
Base metals index#	210	210	205	221	-1.0	0.2	-2.4	7.9
copper (US\$/t)	9,200	9,600	9,400	10,200	8.1	4.3	-2.1	8.5
aluminium (US\$/t)	2,700	2,800	2,800	3,000	-1.4	3.7	0.0	7.1
nickel (US\$/t)	16,900	15,200	14,500	15,700	-21.8	-10.1	-4.6	8.3
zinc (US\$/t)	2,800	2,700	2,600	2,800	5.6	-3.6	-3.7	7.7
lead (US\$/t)	2,100	2,000	1,900	2,100	-1.4	-4.8	-5.0	10.5
Rural commodities index#	126	119	125	127	-10.3	-5.6	4.6	2.1
NZ commodities index ##	357	389	385	396	8.4	9.0	-1.1	2.9
dairy price index ##	318	353	342	359	10.9	11.2	-3.1	4.8
whole milk powder USD/t	3439	3,949	3,856	4,063	11.6	14.8	-2.4	5.4
skim milk powder USD/t	2686	2,707	2,615	2,743	1.8	0.8	-3.4	4.9
lamb price index ##	439	557	576	556	-4.6	26.7	3.5	-3.5
beef price index ##	283	289	322	331	4.4	2.1	11.4	2.8
forestry price index ##	159	150	150	155	-0.1	-6.2	0.3	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

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United States

Interest rate forecasts

	Latest (15 Aug)	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	4.28	4.35	4.40	4.50	4.60	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 (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
USD vs									
DXY index	98.25	97.8	97.0	96.3	95.6	95.1	94.6	94.2	93.8
JPY	147.71	146	144	142	140	138	136	134	133
EUR	1.1652	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21
AUD	0.6499	0.66	0.68	0.69	0.70	0.71	0.71	0.72	0.72
NZD	0.5922	0.60	0.61	0.61	0.62	0.62	0.62	0.63	0.63
CAD	1.3814	1.37	1.36	1.35	1.34	1.33	1.32	1.31	1.30
GBP	1.3531	1.35	1.36	1.36	1.37	1.37	1.37	1.37	1.38
CHF	0.8074	0.80	0.80	0.80	0.80	0.79	0.79	0.79	0.79
ZAR	17.59	17.5	17.2	17.1	17.0	16.8	16.8	16.7	16.7
SGD	1.2844	1.28	1.28	1.28	1.28	1.27	1.27	1.27	1.27
HKD	7.8345	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	56.92	56.0	55.5	55.0	54.5	54.0	53.0	52.0	52.0
THB	32.46	32.3	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2123	4.20	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1813	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
IDR	16115	16100	16000	15800	15600	15400	15200	15000	14800
TWD	29.99	29.7	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1390	1380	1370	1350	1340	1335	1330	1325	1320
INR	87.56	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Activity forecasts

	2025				2026				Calendar years			
% annualised, s/adj	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
Private consumption	0.5	1.4	1.1	1.2	1.3	1.6	1.6	1.8	2.8	2.0	1.4	2.3
Dwelling investment	-1.3	-4.6	1.6	0.0	0.8	1.2	1.6	1.6	4.3	-0.7	0.6	2.5
Business investment	10.3	1.9	1.7	1.5	1.2	1.6	2.3	2.7	3.6	3.4	1.7	4.0
Public demand	-0.6	0.5	0.8	0.8	0.8	0.4	0.4	0.4	3.4	1.5	0.6	1.5
Domestic final demand	1.6	1.2	1.1	1.1	1.2	1.4	1.5	1.7	3.0	2.0	1.3	1.6
Inventories contribution ppt	2.6	-3.2	2.1	-0.3	0.0	-0.2	0.0	0.0	0.0	0.4	-0.2	0.0
Net exports contribution ppt	-5.2	5.7	-0.3	-0.3	-0.6	-0.3	-0.4	-0.4	-0.4	-1.2	-0.3	-0.1
GDP	-0.5	3.0	3.0	0.5	0.6	1.0	1.2	1.5	2.6	1.7	1.0	1.5
%yr annual chg	2.0	2.0	2.0	1.5	1.8	1.3	0.8	1.1	-	-	-	-

Other macroeconomic variables

Non-farm payrolls mth avg	174	139	70	20	0	50	90	110	161	101	60	115
Unemployment rate %	4.1	4.2	4.3	4.5	4.7	4.8	4.9	4.9	4.0	4.3	4.8	4.9
CPI headline %yr	2.7	2.6	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	2.7	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.

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Europe & the United Kingdom

Interest rate forecasts

	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Euro Area									
ECB Deposit Rate	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.71	2.75	2.80	2.85	2.90	2.95	3.00	3.05	3.10
10 Year Spread to US	-157	-160	-160	-165	-170	-175	-175	-175	-175
United Kingdom									
BoE Bank Rate	4.00	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.64	4.65	4.70	4.75	4.80	4.85	4.90	4.95	4.95
10 Year Spread to US	36	30	30	25	20	15	15	15	10

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
euro vs									
USD	1.1652	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21
JPY	172.11	171	170	168	167	165	163	162	161
GBP	0.8612	0.87	0.87	0.87	0.87	0.88	0.88	0.88	0.88
CHF	0.9408	0.94	0.94	0.94	0.95	0.95	0.95	0.95	0.95
DKK	7.4642	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46
SEK	11.17	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2
NOK	11.90	11.9	11.9	11.9	11.9	11.9	11.9	11.9	11.9
sterling vs									
USD	1.3531	1.35	1.36	1.36	1.37	1.37	1.37	1.37	1.38
JPY	199.85	197	196	193	191	189	186	184	183
CHF	1.0925	1.08	1.09	1.08	1.09	1.09	1.09	1.08	1.08
AUD	0.4803	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
Euro area GDP	6.3	3.6	0.7	0.9	1.2	1.1	1.5
<i>private consumption</i>	4.7	5.0	0.6	1.1	1.2	1.3	1.4
<i>fixed investment</i>	3.6	2.0	2.2	-1.9	3.3	1.5	2.4
<i>government consumption</i>	4.4	1.1	1.6	2.5	1.5	1.9	2.5
<i>net exports contribution ppt</i>	1.4	-0.1	0.3	0.4	-0.5	-0.2	-0.2
Germany GDP	3.9	1.9	-0.7	-0.5	0.4	1.2	1.9
France GDP	6.8	2.8	1.6	1.1	0.6	1.0	1.4
Italy GDP	8.8	5.0	0.8	0.5	0.5	0.8	0.9
Spain GDP	6.7	6.2	2.7	3.2	2.6	1.9	1.8
Netherlands GDP	6.2	5.0	-0.6	1.1	1.4	1.2	1.4
United Kingdom GDP	8.6	4.8	0.4	1.1	1.3	1.3	1.5

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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 (15 Aug)	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 (15 Aug)	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	1.55	1.40	1.40	1.45	1.50	1.50	1.50	1.50	1.50

Currency forecasts

	Latest (15 Aug)	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
JPY	147.71	146	144	142	140	138	136	134	133
SGD	1.2844	1.28	1.28	1.28	1.28	1.27	1.27	1.27	1.27
HKD	7.8345	7.84	7.82	7.80	7.80	7.75	7.75	7.75	7.75
PHP	56.92	56.0	55.5	55.0	54.5	54.0	53.0	52.0	52.0
THB	32.46	32.3	32.2	32.0	31.8	31.4	31.0	30.6	30.2
MYR	4.2123	4.20	4.20	4.15	4.10	4.05	4.00	3.95	3.90
CNY	7.1813	7.15	7.10	7.05	7.00	6.95	6.90	6.80	6.70
IDR	16115	16100	16000	15800	15600	15400	15200	15000	14800
TWD	29.99	29.7	29.4	29.2	29.0	28.9	28.8	28.7	28.7
KRW	1390	1380	1370	1350	1340	1335	1330	1325	1320
INR	87.56	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0

Source: Bloomberg, Westpac Economics.

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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	3.1	3.0	3.2
United States	-2.2	6.1	2.5	2.9	2.6	1.7	1.0	1.5
Japan	-4.2	2.7	0.9	1.5	0.1	0.8	0.8	0.8
Euro zone	-6.0	6.3	3.5	0.4	0.9	1.2	1.1	1.5
Group of 3	-3.9	5.8	2.7	1.8	1.7	1.4	1.0	1.4
United Kingdom	-10.3	8.6	4.8	0.4	1.1	1.3	1.3	1.5
Canada	-5.0	6.0	4.2	1.5	1.5	1.3	1.2	1.8
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	-0.6	1.0	2.9	3.2
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	3.0	2.7	2.7
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	2.0	2.4
Indonesia	-2.1	3.7	5.3	5.0	5.0	4.8	5.0	5.2
Thailand	-6.1	1.5	2.6	2.0	2.5	2.1	2.2	2.5
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	5.6	5.7	5.8
Vietnam	2.9	2.6	8.5	5.1	7.1	6.5	6.5	6.4
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	1.9	2.1	2.2
India	-5.8	9.7	7.6	9.2	6.5	6.3	6.4	6.3
Russia	-2.7	5.9	-1.4	4.1	4.1	1.2	1.1	1.1
Brazil	-3.3	4.8	3.0	3.2	3.4	2.2	1.8	2.3
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	4.0	4.1
Other countries	1.4	5.9	4.3	3.6	2.9	2.4	3.0	3.3
World	-2.7	6.6	3.6	3.5	3.3	3.1	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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