



**December 2025 & January 2026**

# **WESTPAC MARK ET OUTLOOK**

Your monthly report on Australia and the global economy.

# WESTPAC MARKET OUTLOOK

## December 2025 & January 2026

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# Policy normalises, but touchdowns vary



Our final report for 2025 takes stock on what has been quite the tumultuous year for markets and the global economy. Going in, central banks had already started charting the course back to more 'normal' policy settings, after having largely tamed the post-pandemic inflation surge. This played through broadly as expected, with the question now being whether they are finished, or whether there is still a little more to come in 2026.

The FOMC is looking into an extended period of above-target inflation, underscored by binding capacity constraints even as the effects of tariff pass-through abates. Only one more cut seems probable here. The ECB and Bank of England also likely have some more room for easing toward neutral, with inflation looking sustainably at/heading to target. Meanwhile, the emergence of weaker growth and softer labour markets saw the RBNZ and Bank of Canada bring policy rates to slightly stimulatory levels. The Bank of Japan is normalising but from a different starting point – the goal of sustainable inflation is in hand, making the way for two more rate hikes next year.

The RBA's policy easing cycle was largely par for the course this year, but over recent months, discourse surrounding the trajectory for interest rates has shifted. This follows a stronger showing in Q3 underlying inflation and the debut of the new monthly series in October which, together with a more pessimistic view on supply capacity, has brought concerns over upside inflation risks to the fore. As temporary factors wash-out, and if our more constructive view on supply capacity proves correct, inflation pressures in the market sector will ease over the course of 2026. For now, monetary policy looks emphatically on hold, but we still see room for cuts from mid next year.

As our Year in Review highlights, there was no shortage of "twists and turns" along the way. Whiplash in tariff policy, renewed concerns over fiscal sustainability and questions around AI valuations made for a year of significant volatility, punctuated by brief periods of 'uneasy calm' as markets sought to assess the endurance of such risks. Ultimately, we are left heading into 2026 with an uneven terrain of evolving trade policy issues set against a fractious global backdrop.

**Australia:** Australia's economic recovery gathered momentum through 2025 as the upswing broadened to businesses and the construction sector. Government spending also resumed its climb after contracting in the first half of the year. Amid a recovery in real incomes, household spending strengthened over the calendar year.

**Commodities:** Commodities delivered a surprisingly strong performance in 2025, with our broad index up 17%, led by a 60% rally in gold, 30% surge in copper, and a 12% gain in aluminium. Losses in LNG (-25%), crude oil (-14%) and thermal coal (-11%) only partially offset these gains, while iron ore defied expectations, rising 4% to US\$105/t. This resilience underscores the potential for continued strength into 2026.

**Global FX Markets:** Into year end, the US dollar DXY index has been contained by 100 on the top side, although the currency hasn't threatened to move materially lower either. Coming quarters are likely to see the US dollar edge down.

**New Zealand:** The RBNZ finished the year, and apparently the interest rate cycle, with a 25bp OCR cut to 2.25%. With a high hurdle in place for further easing the focus turns to how quickly the economy recovers and when interest rate rises could occur. Indicators remain mixed but generally encouraging. But it's likely the NZD will remain weak for a while.

**United States:** The state of the US economy is abnormally uncertain owing to the continued absence of data post shutdown and with significant risks evident for inflation and growth. 2026 will also be a year of change for the FOMC and potentially Congress.

**China:** The economy met expectations in 2025 despite authorities' reactive support amid constant geopolitical tension. In 2026, export's contribution has to recede given its current strength. Authorities must proactively support domestic demand to maintain momentum.

**Japan:** Japan's economy bounced back in 2025, supported by rising real wages and fiscal measures aimed at alleviating cost of living pressures. More efficient capital allocation and governance reforms are also strengthening corporate profitability, underpinning wage and wealth gains and therefore household consumption.

**Europe & UK:** It was a challenging year for the euro area economy, but the growth outlook is looking somewhat better, driven by investment and defence spending. While consumer sentiment remains subdued, stable labour markets and resilient incomes offer support. Growth per capita outpaces Australia, but broader economic vulnerabilities persist, with structural reforms progressing too slowly.

# Data-driven US policy versus political tactics ...

**Luci Ellis**

Chief Economist, Westpac Group

With the US data flow resuming now that the government shutdown has ended, the Federal Reserve’s policy task has become less obscure. The challenges of interpreting those data and weighing up the trade-offs remain, however. Inflation remains sticky even without much pass-through of tariff costs. And while the labour market shows early signs of softening, so does labour supply.

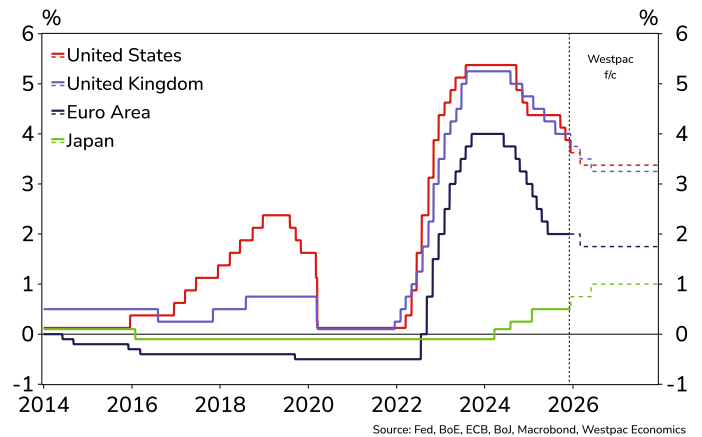
We do not think recent data truly justified moving this month. Indeed, earlier communication by some senior Fed officials including Chair Powell had tried to hose down such expectations. Given that some further cuts are likely to be needed eventually and noting the political pressure on the Fed, it made tactical sense to take advantage of the opportunity provided by the market pricing a cut as a near-certainty. The FOMC therefore opted to cut by 25bps. This cut brings forward one of the two that we were already expecting; the second has also been brought forward to Q1 2026. Markets are pricing in at least two more Fed cuts. The administration will also favour further cuts. But inflation pressures and labour supply constraints limit the scope for significant easing by the Fed from here.

The question for most other major advanced economies is whether they are finished the easing phase, or whether there is a bit more to go. We continue to think that there is more room for both the ECB and Bank of England to cut. By contrast, RBNZ (see [page 17](#)) and Bank of Canada look to be done, having already brought policy rates to apparently expansionary levels. Japan remains in a very different phase than other advanced economies, and the way is clear for the Bank of Japan to continue hiking, including at the coming meeting. This is a normalisation rather than tightening. It is significant for the fact this has not been possible in many years, and that this shift changes the basis for many ‘carry trade’ style strategies used by global investors.

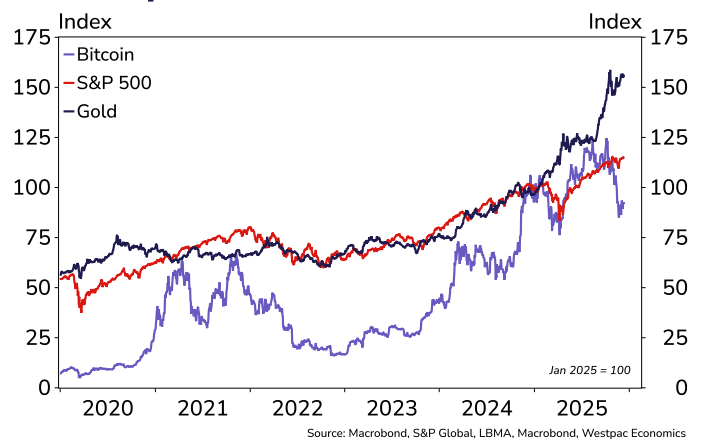
Heightened market speculation about further Fed easing has weighed on US bond yields. The 10-year benchmark yield declined to around 4%, but has since risen as the market reduced rate cut expectations. Asset classes more dependent on risk appetite all saw a sell-off at some stage over recent months. Some, including US equities and gold, have mostly recovered; by contrast, Bitcoin is well down from its recent peak.

The USD depreciated in the recent broader sell-off, with DXY erasing recent recoveries. The USD nonetheless remains overvalued on standard metrics, though less so than at the beginning of the year. We continue to expect further unwinding of this overvaluation over a multi-year horizon. The near-term path depends on risk perceptions and the policy outlook.

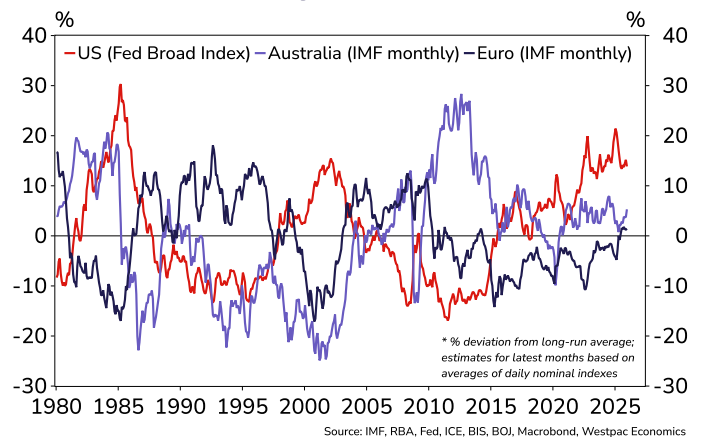
## Major Central Bank Policy Rates



## Gold, US Equities and Bitcoin



## Real Effective Exchange Rate Indices



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# ... while inflation bump complicates RBA's task

The RBA's task has also become more complex in recent months. The labour market has eased a little, and there are few signs of inflation coming from the market sector's supply side, with base wages growth moderating as expected and productivity growth already outstripping the RBA's 0.7%yr assumptions about trend. However, CPI and underlying inflation measures have surprised on the upside, driven disproportionately by administered prices. And, while we believe that the latest data on unit labour cost growth does not reflect underlying trends, it will be hard for the RBA to look through the current elevated growth rate.

The RBA is also boxed in by its view of supply capacity, which it thinks is growing at around a 2%yr trend. We believe that this is too pessimistic. As well as the latest data on productivity, which is already running a little faster than the RBA's assumption, the risks around its implied assumptions about growth in labour supply are also skewed very much to the upside.

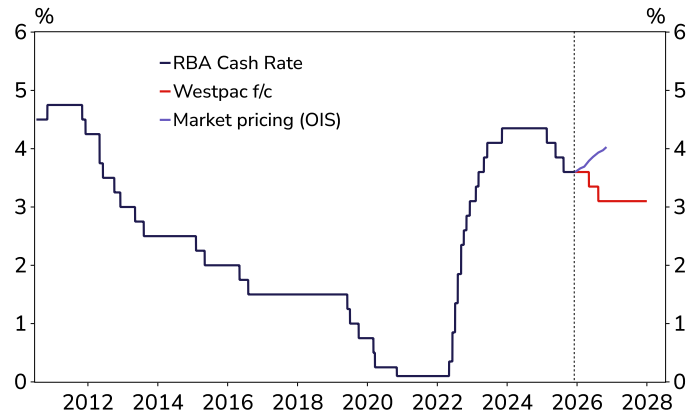
Monetary policy therefore looks to be emphatically on hold in coming months. If our view of growth in supply capacity is correct, inflation pressures in the market sector will ease over the course of 2026. This would still leave room for cuts from mid next year as we have previously flagged, assuming the labour market also eases a bit further, as we expect.

This is not the view of the RBA, and [the rhetoric took a more hawkish turn following the December meeting. After highlighting in November that some of the September quarter inflation surprise reflected temporary factors, in December the emphasis was firmly on the upside risks to inflation. Indeed, not only was a rate cut not on the table, the Board discussed the potential necessary conditions for a rate hike in 2026.

Markets have taken an even more hawkish view. They are fully pricing in an increase in the cash rate by August. Australian bond yields have therefore ramped up noticeably in recent weeks, with growing speculation of a near-term hike. The repricing has been seen across the curve and in both real yields and break-even inflation rates. Spreads on Australian bonds against other major economies have widened. Given the Fed has been cutting concurrently, Australian bond spreads to US paper have widened to levels not seen in several years.

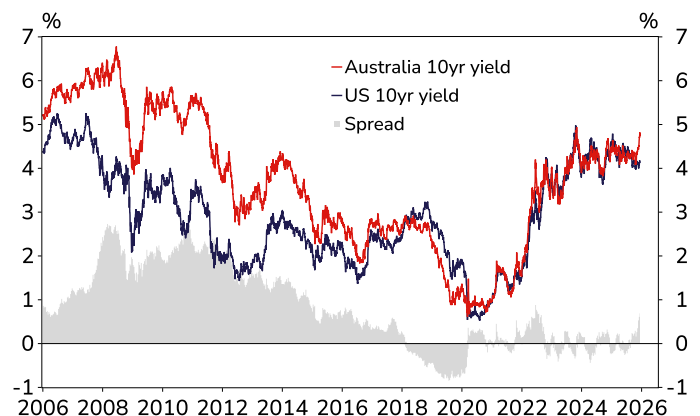
Following the December meeting the probability of a rate hike has risen. If inflation turns out higher than we expect, a rate hike in 2026 cannot be ruled out, although a more likely scenario is a prolonged pause. If we are right that domestic inflationary pressures will continue easing, though, markets may need to reprice in the future. Possible triggers for such a repricing would be the release of labour market data showing a further softening, or inflation prints that are more benign than market participants currently expect.

## RBA Cash Rate



Source: RBA, Macrobond, Westpac Economics

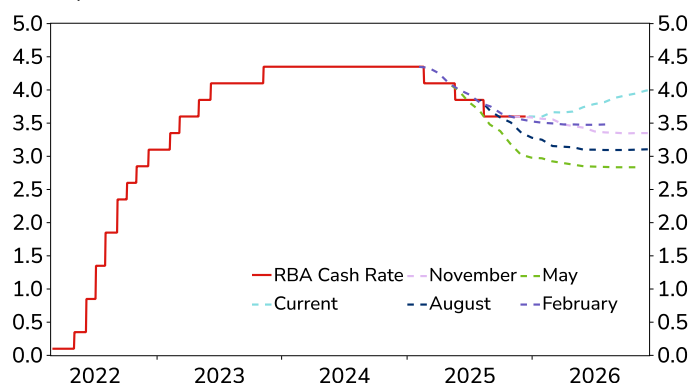
## 10 Year Bond Yields



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

## Evolution of RBA Cash Rate Market Pricing

30-Day Interbank Cash Rate Futures



Source: RBA, Macrobond, Westpac Economics

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# Private demand rebounds, easing 'handover' risks ...

**Pat Bustamante**  
Senior Economist

Australia's economic recovery gathered momentum through 2025 as the upswing broadened to businesses and the construction sector. Government spending also resumed its climb after contracting in the first half of the year. Amid a recovery in real incomes, household spending strengthened over the calendar year.

The September quarter National Accounts were more revealing than usual, answering several lingering uncertainties: Would the pickup in consumer spending extend into the second half of 2025? Would stronger household demand boost activity in other sectors? Would productivity growth normalise as the economy rebalanced toward private-led drivers of growth? The answer to all three was a resounding yes. Downside risks associated with a 'shaky handover' have not materialised, as the pickup in private spending has been stronger than expected, more than offsetting the slowdown in public demand.

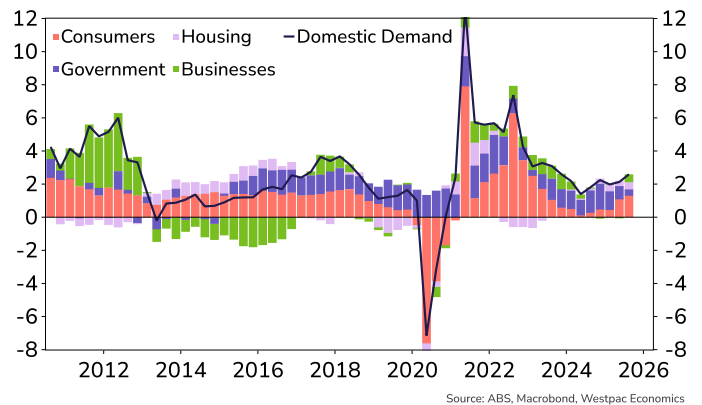
**New private demand** grew a brisk 1.2% in the September quarter and 3.1% over the year. Outside the pandemic period, we have to go back to the mining investment boom to see quarterly growth rates of this magnitude. Like then, the surge in Q3 2025 was driven by business investment – but this time it was in data centres and civil aviation, not LNG and mining structures. Consumers also look firmer on the back of recovering real incomes or purchasing power. Per capita consumption continues to improve, particularly after adjusting for the estimated impact of international students ([see here](#) for more details), though it remains below its pre-pandemic trend.

Looking ahead, household consumption is expected to maintain its current momentum of around 2½%yr. This will support investment in consumer-facing sectors, complementing solid capital expenditure growth in structurally driven industries such as energy generation and transmission, as well as AI and emerging technologies. Housing construction is also set to expand as the sector works through its existing pipeline of projects. Together, this will see new private demand grow by around 3%yr in 2025, before picking up to 3¼%yr over 2026 and 2027.

At the same time, **new public demand** resumed its climb in the September quarter after falling in the first half of 2025. Public infrastructure work stabilised and increased in Q3 following three consecutive quarters of decline, as a new large-scale project commenced in South Australia. Despite this pickup, new public demand grew by just 1.3% over the year—the slowest pace in more than a decade (since March quarter 2015). Looking ahead, demand-driven programs such as the NDIS and ongoing funding for education and health services to support the growing population will continue to underpin

## Domestic demand growth continues to advance

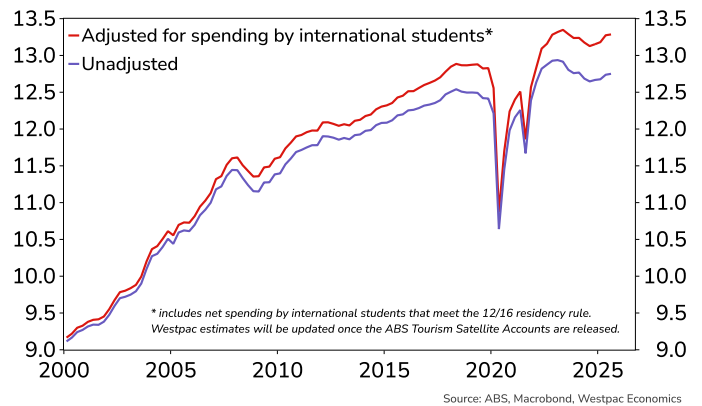
Contributions to year-ended growth



Source: ABS, Macrobond, Westpac Economics

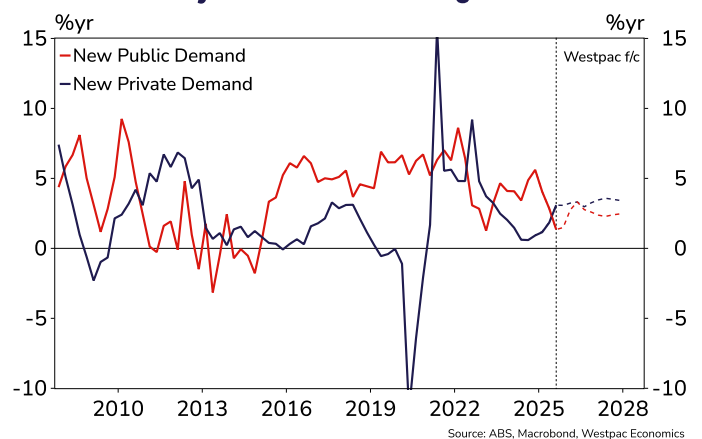
## Household Consumption

Per capita, Thousands & Real (or adjusted for prices).



Source: ABS, Macrobond, Westpac Economics

## Risk of a 'shaky handover' receding



Source: ABS, Macrobond, Westpac Economics

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# ... positions the economy for productivity gains ...

growth in new public demand, albeit at a slower rate. Overall, we expect new public demand to grow by around 1½%yr in 2025 and 2½%yr in both 2026 and 2027.

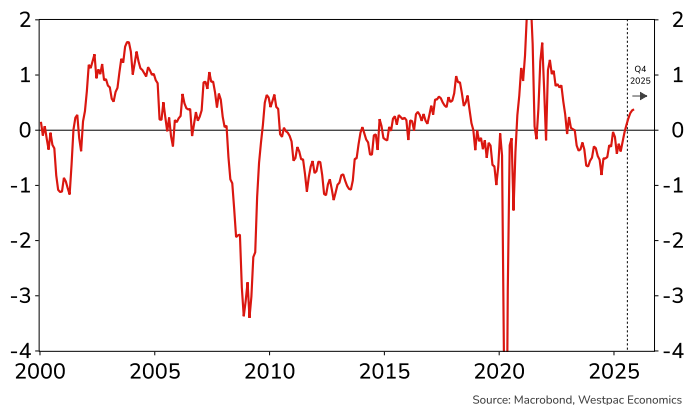
**Partial economic data point to the pickup in demand extending into Q4 2025.** [The Westpac Monthly Activity Index](#) suggests activity continued its upswing through the first two months of the quarter, with growth estimated to be maintaining a pace of 0.7%qtr in Q4. Westpac-Now was updated to include new data up to and including the November Labour Force Survey. The solid read aligns with the ABS household spending indicator, which rose a solid 1.3% in October, pushing annual growth to a two-year high of 5.6%.

Importantly, the longer this upswing lasts, the greater the likelihood it becomes self-sustaining into the future.

**If there is sufficient capacity to meet rising demand, accelerating growth does not have to be inflationary.**

## Westpac Monthly Activity Index

Index. Axis truncated for covid.



The September quarter National Accounts confirmed what we expected: the supply side of the economy is normalising. Labour productivity rebounded, growing 0.8% over the year in Q3, with market-sector productivity (excluding mining) up a solid 1.5%.

Looking ahead, we expect total labour productivity to grow around 1.0% per year through 2025 and maintain this pace in 2026 and 2027. This outlook reflects our broader forecasts: GDP expanding by around 2¼% per year in 2025 and 2026, and 2½% in 2027, while growth in hours worked slows to around 1.0% in 2025 before normalising to 1¼% in 2026 and 1½% in 2027.

Stronger productivity growth will be key to meeting future demand without adding inflationary pressure.

## How will we know there is enough supply to meet demand?

Estimating “star variables” is highly uncertain at the best of times, let alone when the underlying structure of the economy is evolving. The unprecedented expansion in the non-market sector, combined with increased investment in structurally driven industries has muddied the waters.

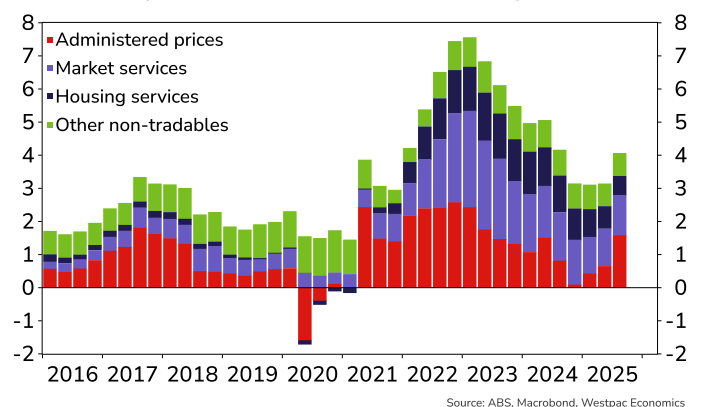
The shift toward a greater share of non-market employment and activity, where measured productivity is lower, mechanically reduces overall productivity growth. Similarly, higher levels of investment in energy infrastructure and data centres weigh on measured productivity during the construction phase, with the payoff accruing over time as this capital comes online.

As the expansion in the non-market sector slows and the economy rebalances toward private-sector sources of growth, we expect productivity growth to lift to around 1% per year, a touch higher than the RBA’s estimate of 0.7%. Over the medium term, the payoff from investment in structurally driven industries is likely to provide further upside.

But this outlook remains highly uncertain. Stronger-than-expected growth in underlying inflation over Q3 was driven by administered prices, which rose 8.2% on a six-month annualised basis, slightly below the record high of 10.5% (outside COVID) recorded in Q2. These prices tend to be backward-looking, and change infrequently, usually only once a year.

## Non-tradable (domestic) inflation

Seasonally adjusted, Contribution to annual % change



At the same time, prices that move more contemporaneously with demand, such as market services, were softer. This can also be partly attributed to several one-off factors, including the accommodation and food services industry rebuilding margins after a period of weak demand, and the pass-through of the 2025–26 Fair Work Commission (FWC) award and minimum wage increases, along with other industry-specific determinations by the FWC.

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# ... and for inflation to moderate

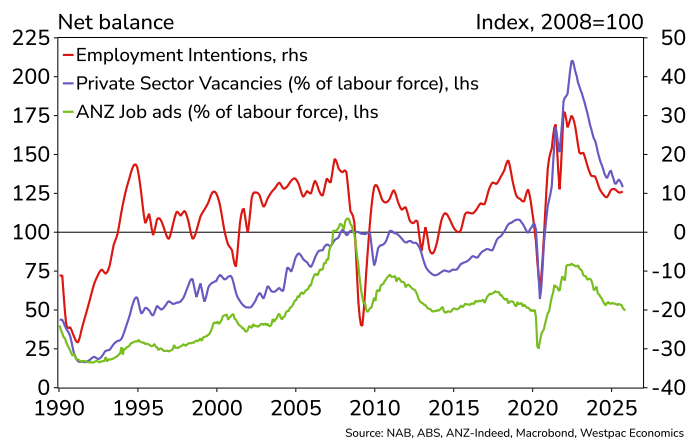
## The labour market holds the key

The signal taken by market participants is that the stronger-than-expected outcome for underlying inflation in Q3 reflects a reacceleration of the inflation impulse in an economy operating at or beyond capacity. While some of the surprise will take time to cycle out of annual inflation measures, it remains uncertain whether the bulk of the upside surprise will carry forward

If it does, potentially due to second-round effects, with administered prices (such as higher electricity costs) feeding through into market prices, then, without a corresponding pickup in wages growth, consumers would face a negative income shock, weighing on consumption growth. This is a point the RBA Governor has repeatedly emphasised over recent years.

Such a scenario is more likely to play out in a gradually easing labour market. *We believe this is where we are now, given the shift from 'jobs-rich' public demand toward private sources of growth (which is seeing employment slow even as activity picks up) and as labour supply continues to expand. The unemployment rate has risen by 0.3ppts over the eleven months to November 2025, while the employment-to-participation ratio has fallen by around 0.7ppts. For males, the employment-to-population ratio is back to pre-pandemic levels. Importantly, forward indicators point to further softening in labour market conditions in the months ahead.*

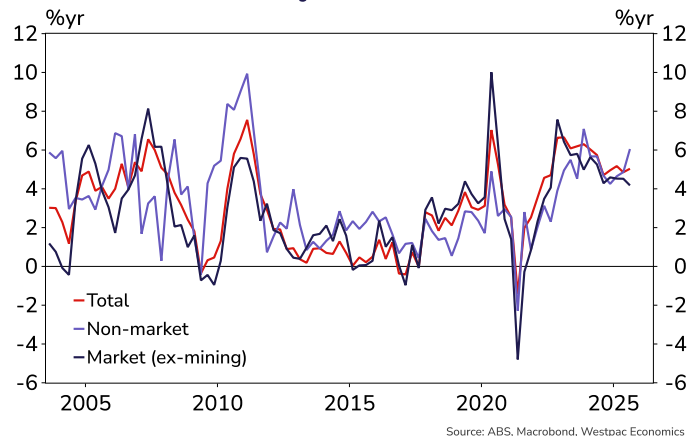
## Labour Demand Indicators



Easing labour market conditions, moderating wages growth, and normalising productivity gains should reduce growth in unit labour costs across the economy and in the market (ex-mining) sector, which is more closely tied to domestic prices. In this sector, costs are currently growing at around 4.0%yr, down from nearly 8.0%yr in Q4 2022 and 4.5%yr in June quarter 2019, when underlying inflation was below the RBA's target. This is why we expect underlying inflation to moderate from 3.2%yr in 2025 to 2.3%yr in 2026 and then return to around the midpoint of the RBA's target at 2.6%yr in 2027.

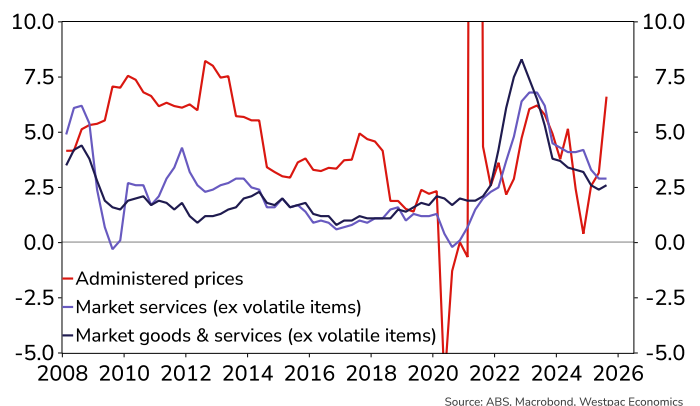
The key risk is that stronger private spending could stall the gradual easing in the labour market, or even trigger a re-tightening. That would likely halt the moderation in wages growth and potentially push it higher. This is not our base case, but we remain open-minded. Inflation risks are tilted to the upside and grow the longer the upswing lasts.

## Growth in the economy's cost base moderates



## Administered and services inflation

Year-ended % change. Axis truncated for covid.



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# The end of the beginning ...

**Illiana Jain**  
International Economist

**2025 was characterised by three key themes: the surge and dominance of the AI industry across investment and equity markets, escalating trade tensions and the erosion of US' exorbitant privilege. These seismic shifts prompted many to rethink the world order going into 2026 and brought to the forefront the importance of defence and strategic initiatives.**

## The end of the beginning for AI

2025 saw a surge in available AI applications and sharp increase in actual and planned AI infrastructure investment. In February, China's DeepSeek released its R1 model, a direct competitor of OpenAI's ChatGPT that used far less computing power. Through the year new technologies were released with speed -- OpenAI launched its GPT-5 model while Google launched its Gemini 2.5 "Flash Image" model focusing on image creation. Investor enthusiasm for AI technology companies underpinned exuberant growth in equity markets in the US. However, the ascent was not without some turbulence. The aftermath of President Trump's reciprocal tariffs in April sparked concerns over growth and inflation, triggering a sharp correction in equity prices. The AI infrastructure build also boosted demand for semiconductor technology, benefiting Asia, a region where interconnected supply chains have made it the leader in chip production. Stock market indices in South Korea, Japan, Hong Kong and China finished 73%, 27%, 27% and 17% higher respectively, outpacing the S&P500's 16% growth year to date. China's economy also fared well and remains on track to reach its 5.0% target, supported by its high-tech manufacturing sector. To pull from Winston Churchill, 2025 was simply the end of the beginning for AI. The benefits of strong investment will materialise as adoption accelerates through 2026 and beyond. With it, will be the challenge of regulating this transformative technology.

## Trade talk trouble

US President Trump announced 'reciprocal' tariffs on 2 April. The world had anticipated higher tariffs under his presidency with exporters rushing to 'front-run' the measures by accelerating shipments to the US ahead of implementation. However, the announced tariffs far exceeded expectations and were much higher than the 10% the FOMC modelled in its Teal Book several years ago. The announcement sparked market volatility and while a 90 day pause was announced a week later, uncertainty persisted given the rapid changes in policy as tariffs rates, targeted items and the country in focus changed almost daily.

The worst case scenario of a full trade war between the US and the rest of the world was averted. Instead there was a redirection in trade and strengthening trade relationships between countries outside the US. China redirected more of its trade from the US to

Latin America and Europe. Free trade agreements between the UK and India were announced while China upgraded its trade pact with ASEAN. Mexico also removed its last tariffs on European goods. The rising tide of US protectionism also saw more attention being paid to critical components like rare earth minerals and with greater urgency to diversifying supply chains from single key producers like China. While countries adapted to the tariff turmoil, there is now a greater sense of nationalism among politicians ushering in greater focus on domestic resilience.

## US' exorbitant privilege stands on pillars of sand

US trade and international and domestic policy stance under the Trump administration ushered an era of broader geopolitical uncertainty which led to businesses and investors questioning the safe haven status of US assets and their allocations towards the US. This could be seen in the large increases in gold prices (+63%) and the strong appreciation in the euro and pound as investors sought alternative stores of value. The DXY lost ground from 109.4 to 99.2 though this was a story of two halves with the dollar unusually losing ground in H1 due to uncertainties around the US economy and tariffs but stabilising and finding support as these concerns eased. Hedging activity also increased through the year led by Asian asset managers like Taiwanese Life Insurers whose decision to hedge their USD exposure led to an 8% appreciation in the TWD over a 10-day period. Investors also began losing faith in US debt, with US Treasury yields now higher than government bond yields of high beta countries like Australia and of corporate bonds of companies like Microsoft.

With trade and defence relations with the US becoming murkier, the rest of the world found a way to move forward. As Russia's invasion of Ukraine entered its fourth year, Europe announced plans to increase its defence spending. Germany amended its constitution to increase defence spending to above 1.0% of GDP. Other NATO European countries also announced plans to increase defence spending towards the 3.5% of GDP target. The excitement around the fiscal impulse in Europe brought extra demand for assets with the EuroStoxx rising 17%.

As 2026 approaches, technological innovation and shifting trade dynamics underscore a world in transition. The rapid evolution of AI marks a structural shift that will define productivity and competitiveness for decades to come, even as concerns have risen over the viability of all this AI investment. Meanwhile, the turbulence in trade and the erosion of the US dollar's dominance signal a move towards a more fragmented, multipolar order where resilience and diversification become paramount. For investors and businesses alike, the coming year will demand agility, foresight, and a renewed focus on strategic positioning in an environment where certainty is no longer the norm, but adaptability is the ultimate advantage.

# ... AI, trade turbulence, and a shifting world order

January	February	March
DeepSeek announced its R1 model rivalling ChatGPT. The BoJ hikes rates by 25bps to 0.5%. Trump is inaugurated as the 47th US president. Canada's Trudeau resigns as PM. USD/JPY hits a high of 158.87. Oil prices peak at \$80.77 for WTI.	The RBA starts its rate-cutting cycle. Trump announces tariffs on Canada, Mexico and China alongside tariffs on steel and aluminium. Germany amends its constitution to increase defence spending to above 1.0%. USD/CAD hits a high of 1.4793.	Mark Carney becomes Canada's PM. An Israeli drone strikes Lebanon. Canada, Europe and China retaliate on tariffs. Adrian Orr resigns as RBNZ Governor. Further talks of debt-induced spending seeing sees the 10Y Bund yield hit 2.938%, a high for the year.
April	May	June
President Trump announces 'reciprocal tariffs' on all trade partners before putting in a 90-day pause. Some countries respond with tariff threats of their own — Chinese tariffs on US goods reach 125%. Risk-off moves see AUD/USD and NZD/USD at their weakest at 0.5915 and 0.5486. JPY hits its strongest against the USD at 139.89 following tariff relief. Tensions between India and Pakistan arise after a terrorist attack in Kashmir. The VIX hits a high of 60.13 for the year. Major equity indexes hit their year lows. Aussie 3Y, 10Y and 30Y bond yields fell to their lowest for 2025.	Trump tries to cap Harvard's share of foreign student enrolments. Lee Jae Myung becomes the President of South Korea. The Australian Labor party increases its majority in the federal elections. Friedrich Merz is elected Chancellor of Germany. China and the US reach a deal to lower tariffs from 145%. US Court of International Trade finds some tariffs unlawful but this decision is appealed. Moody's lowers its credit rating for the US from Aaa to Aa1. The US 30Y bond yield hits a high of 5.1501%.	Middle East tensions escalate and Israel launches aerial attacks on Iranian nuclear facilities. The US provides support. The US imposes 50% tariffs on imports of steel and aluminium. USD/CAD hits its a year-low of 1.354.
July	August	September
The One Big Beautiful Bill is signed into law raising concerns for debt sustainability. The LDP-Komeito coalition loses its majority in Japan's House of Councillors election. The US announces deals with multiple trade partners including Japan, South Korea and the EU where tariffs are lowered to 15%. GBP/USD hits a high of 1.3789.	Trump launches an investigation into FOMC member Lisa Cook. Trump replaces the head of the Bureau of Labor Statistics. Bilateral talks between leaders of the US, Ukraine and Russia start. Anti-government demonstrations break out in Indonesia. RBNZ Board Chair Quigley resigns. The VIX hits a year-low of 14.12.	BOJ announces it will sell its holdings of ETFs. Trump announces changes to the H-1B visa program. Euro and Aussie dollar hit highs of 1.19 and 67 cents against the US. Dr Anna Breman announced as new RBNZ Governor. Debt concerns see ultralong 30Y government bond yields hit highs for the year — 3.932% for Canada, 5.693% for the UK, and 3.432% for Germany.
October	November	December
US government enters a shutdown Sanae Takaichi becomes Japan's first female PM. China outlines its five-year plan for 2026-2030. Indian regulators take action against quant trading firm Jane Street. A ceasefire between Israel and Hamas is reached. Gold prices hit a high of US\$4358/oz. The S&P500 peaks at US\$6920.34; the ASX200 hits A\$9115.2; Hang Seng tops out at HK\$27381.34.	US government agrees to resume after a record 43-day shutdown. EU parliament signs off on its first defence industry program worth EUR1.5bn. Japan's Takaichi announces a JPY21tril yen package. The Nikkei hit a high of JPY52636.87, the EuroStoxx of EUR5818.07, the FTSE100 of GBP9930.09 and the Shanghai composite of CNY4034.08.	NZ gets its first IKEA store. Australian government bond yields rise to a year high as RBA turns more hawkish on inflation; 4.21% for 3Y, 4.81% for 10Y and 5.29% for 30Y. <b>Year to date:</b> S&P500 +17.3%; ASX +6.4%; Nikkei +27.6%; gold +62.9%; crude oil -19.2%; US 10yr bond -42bps; Aus 10yr bond +36bps

# Trade-offs and triggers ...

**Luci Ellis**

Chief Economist, Westpac Group

Monetary policy always involves trade-offs. Policymakers must balance inflation targets versus full employment aspirations, forward transparency versus avoiding reputation-damaging reversals. Similarly, governments and businesses alike face trade-offs stemming from multiple, potentially competing, objectives. Looking ahead to 2026 and beyond, we must watch for triggers that could flip a trade-off and switch the emphasis from one objective to another.

## Dual mandates mean a balance to be struck

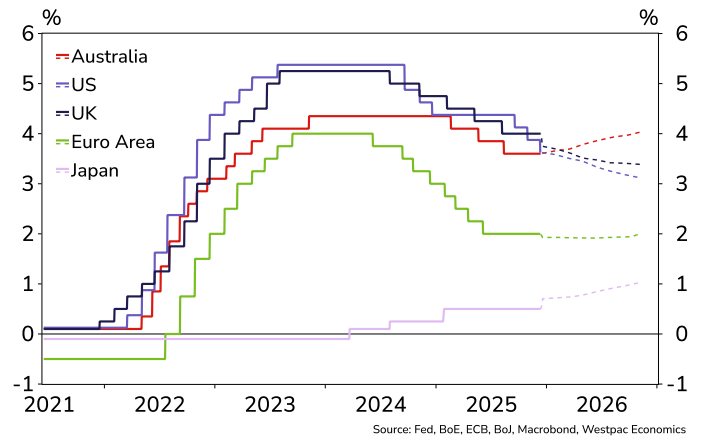
The Federal Reserve cut rates at its December meeting. This is despite solid growth, above-target inflation and a relatively benign set of financial conditions. The FOMC is facing a trade-off between its inflation and full-employment goals, in the face of uncertainty about the impact of immigration policy on labour supply.

The RBA is also facing trade-offs. In a welcome shift, private sector demand growth is finally recovering. And while the labour market is gradually easing, unemployment is still low. However, inflation surprised on the upside in the September quarter, and was also higher than the market (but not Westpac Economics) expected in October. Some of this increase reflected temporary factors, as the RBA acknowledged at the time, but it is not clear how much. This suggests a trade-off between the RBA's inflation and full employment objectives, but also between a desire to appear decisive in the face of inflation risks and a need to be more certain in the face of uncertainty, especially about the extent of spare capacity. Given that many of the drivers of recent high inflation prints have been pricing policies of governments at all levels, it may take some time before the RBA has sufficient comfort around inflation's return to target. An early hike in this environment could end up generating some regret.

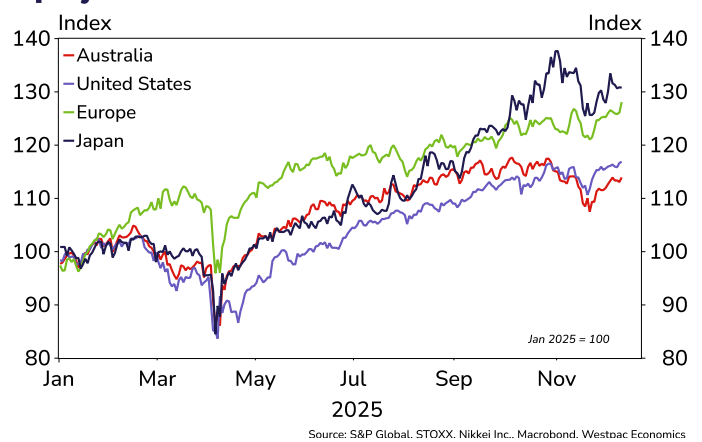
Looking forward, both central banks will need to navigate uncertainty and avoid jumping at noise. Both will also need to navigate the inevitable push-back to the extent that they do not fall in line with the prevailing narrative. We continue to expect that the US is more likely to come up against supply capacity constraints in 2026 and beyond than Australia is, but recognise that the prevailing narrative is for the opposite.

For this reason, we expect that domestic markets will remain focused on a narrative supporting rate hikes unless, and until, the data meaningfully move against that view. Secondary data that goes against the prevailing view, such as productivity, will be under-weighted. First-tier data such as for the labour market and inflation will more likely be needed to shift market participants' thinking.

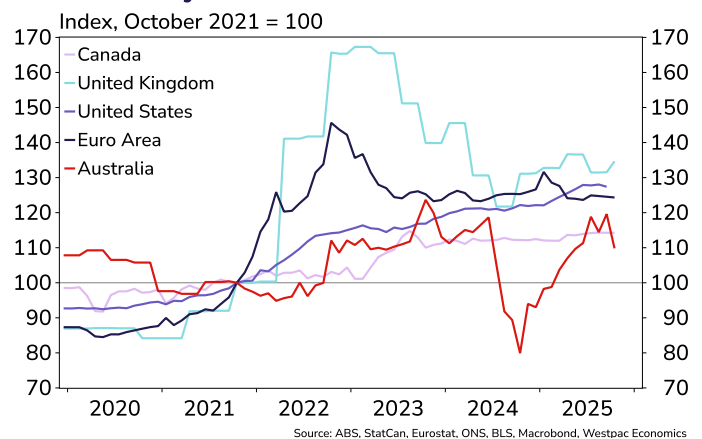
## Market Pricing for Major Central Bank Policy Rates



## Equity Market Total Return Indices



## CPI Electricity Prices



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## ... in policy and technology

### Shifting narratives can trigger market reaction

Financial markets started 2025 with a dominant narrative of 'US exceptionalism' boosting both US equities and the USD. Cracks in that narrative soon appeared. US equity markets had already sold off even before the policy chaos of tariff announcements. Risk assets more broadly and bonds also all sold off in the wake of the announcement. The subsequent delay and pull-back in tariff rates show that the US administration also faced a trade-off, between tariff rates and bond yields.

Some of the pre-tariff sell-off reflected a realisation that the US was not quite the safe bet, or (following the Oval Office meeting with Ukrainian President Zelenskyy) the reliable defence partner, that had been assumed in the past. The trigger was less the actuality than the narratives people told themselves about it.

The narratives people tell themselves have also played a role in the hawkish shift in market views of Australian monetary policy recently. A pervading view that Australia's growth limit is around 2% has fuelled this shift, though actual inflation data was the trigger. We do not ascribe to this pessimistic view of domestic supply capacity. However, it will take a more benign run of inflation data, as well as ongoing evidence on labour supply, to shift this narrative.

Looking ahead to 2026 and beyond, the question for the major advanced economies is whether further policy action is required to defend the growth trajectory.

In Australia, the ramp-up in the so-called "care economy" appears to have normalised, according to the labour accounts data. The recovery in the market sector – and the attendant improvement in productivity growth – has proceeded smoothly. In the event, the "shaky handover" risk that we called out as a risk scenario (though not a base case) a year or so ago has not eventuated. We expect this pivot to continue, but recognise that the risk scenario of tighter monetary policy than we expect would risk derailing our benign base case. In that scenario, slower growth in late 2026 and into 2027 and a higher peak for the unemployment rate could be expected.

Fiscal narratives globally have shifted into something of a holding pattern. The US fiscal position remains challenging even with tariff revenue, while the situation in the UK and Europe is not as dire as is sometimes claimed. This means that the planned lift in EU defence spending will continue. To the extent that a poor fiscal outcome could trigger a market rout, we do not expect this to happen in 2026.

Meanwhile market participants will have their views shaped by relative asset returns. Ongoing policy normalisation in Japan and decent growth in Europe will also support a narrative that is less focused on the US as an investment destination.

### Grid constraints and adoption shape AI in 2026

The other prominent trend for 2026 is around AI technologies, especially their agentic capabilities. With adoption still at an early stage in most firms, the full benefits of even the current generation of AI technologies are far from being reaped. Even if there was no further improvement from the current generation of models, a backlog of additional productivity uplift in white-collar industries will be worked through over 2026 and beyond. This will expand the supply – and lower the relative price – of the things that AI can do. The things that only humans can do – including knowing what the right question is and knowing what is important – will become relatively scarce and more valuable.

The large tech firms driving the AI boom are nonetheless determined to push ahead developing even better models than are currently available. The amount of actual and planned investment in AI development and the associated data centres globally has been enormous. Understandably, concerns have arisen over how viable all this investment will be, with implications for the valuations of these tech firms. A trade-off is emerging between pushing forward with new model development versus reaping the benefits of the models that already exist.

There are several possible triggers for a repricing of valuations. Diminishing returns in new model development using the current training paradigm could emerge (some would argue they already are). Alternatively, the economics of this paradigm could deteriorate, including because of construction or power constraints. Electricity inflation in the US has been rising, to be above 5%yr recently. On this basis the US no longer appears to have a growing cost advantage over some other advanced economies. Another possible trigger for a repricing would be financing issues around funding data centre investment coming to a head. While the largest tech firms are extremely cash-rich both in a balance sheet and an income sense, the same cannot be said for the whole ecosystem. A financial bump or funding disruption for one firm could be a trigger that shifts the narrative on the viability of parts of the industry.

Precisely because of the energy consumption of the AI industry, it faces a trade-off between further development of models in the current paradigm and using the energy constraint as a spur for creativity and the development of a different kind of model. As we have [previously highlighted](#), the LLM paradigm is an algorithm and therefore vulnerable to someone coming up with a better, and perhaps more power-efficient, algorithm. The hyperscalers and other incumbent firms are all pursuing the current paradigm at scale, and have absorbed all the US-located AI talent to do so. That leads us to suspect that a new algorithmic paradigm that disrupts, if seen, will emerge outside the US – perhaps in China, other Asia or Europe. It is impossible to say if a disruptive new algorithmic paradigm emerges in 2026, but if it does happen, it will certainly shift the narrative on market valuations for the US-based incumbents.

# Gold is shining brightly but copper not a poor cousin ...

**Justin Smirk**  
Senior Economist

Completing a year in review we admit, some surprise in how just how robust the overall commodities market was in 2025. In the year our broad index gained 17% led by a 60% rally in gold, a 30% surge in copper and a 12% gain in aluminium. These gains were only partially offset by the 25% decline in LNG, 14% drop in crude oil and a 11% fall in thermal coal. Even iron ore, which was broadly expected to fall through 2025, rallied 4% to US\$105/t. So even with significant variation in the performance of commodities, in acknowledging the outperformance through 2025 we have to admit the potential for this to continue into 2026. We now expect the broad commodities index to fall just 5% by December 2026 led by a 20% decline in iron ore to US\$83/t, a 12% fall in LNG and a 7% fall in crude oil%. Nevertheless, at 337 by end 2026, our broad commodities index is 18% higher than were we forecast it to be at the end of 2024 and gold is a prime mover behind this upgrade.

## Iron ore has all the settings for a correction

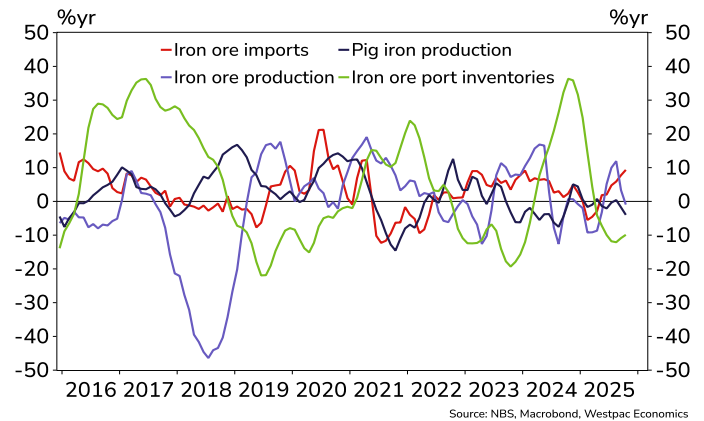
We know that Chinese steel production peaked in 2020 and has been trending down since. In October there was a further moderation in global steel production with output down 3% in the month to be down 6% in the year. Excluding China, output was flat in the month, edging the annual pace to 1%/yr. Asia recorded the steepest decline, down 4% in the month/8% in the year, led by weaker production in China and South Korea. Chinese pig iron production is down almost 7% in the year to October while crude steel output is down almost 11%.

In contrast, EU and UK output slipped 3%/yr with France and Spain posting the largest falls. South America was marginally lower, down 1%/yr while North America bucked the trend lifting 5%/yr driven by a 9%/yr increase in US production as domestic mills replaced lost import volumes following the introduction of the S232 tariffs. Global utilisation rates fell 1.8 percentage points on the month to around 69%, compared to roughly 73% a year earlier.

In the face of declining Chinese steel production, Chinese imports of iron ore are broadly flat, being up less than 1% in the year to October, while Chinese domestic ore production is down almost 2%. As such it is not surprising that port inventories of ore have grown more than 6% in the year and are now rising back towards cyclical highs compared to the level of demand as measured by the output of crude steel and pig iron.

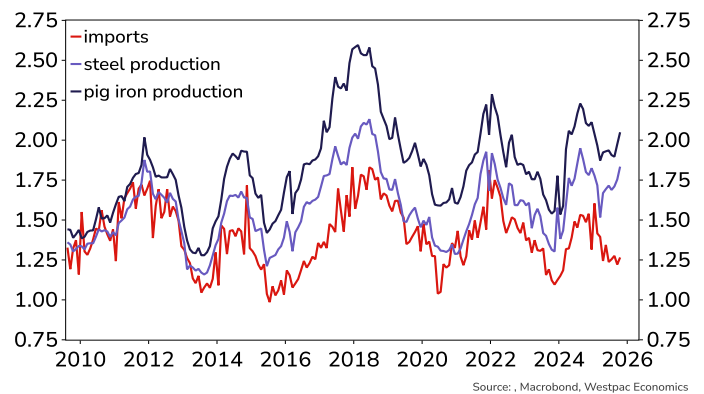
We also note that the cost of Australian steel making inputs in China, that is iron ore and met coal, continue to rise while Chinese steel prices continue to fall resulting in the widest gap between the two since mid-2024. Back then, this gap

## China ore supply, consumption & inventories



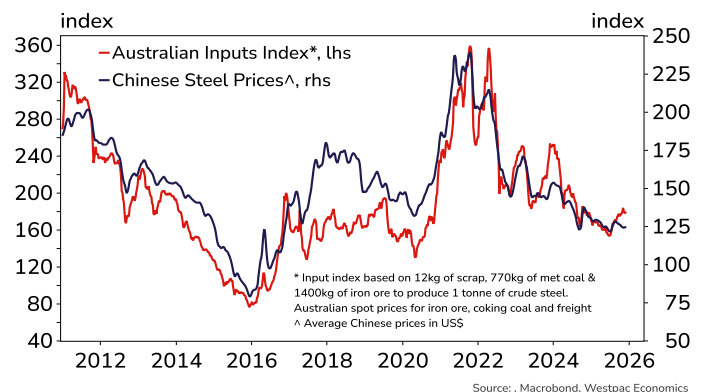
## China iron ore port inventories

Inventories are holding up compared to demand



## Chinese Steel Input and Output Prices

Prices appear to have found a base for now



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# ... while bulk commodities have seen the best days

was corrected by a 21% fall in the price of Australian iron ore and met coal. This does give a move confidence in our expectations a correction in iron ore prices as we move into 2026. We are forecasting a 20% fall in iron ore to US\$83/t by end 2026, unchanged from our November report and little different to US\$84/t we had forecast at the end of 2024.

## Gold can build on a solid base

Gold has eased from its mid-October highs near US\$4,400/oz, following the resolution of the US government shutdown and more constructive Trump–Xi discussions on the APEC sidelines. While prices have consolidated, gold remains one of the standout performers this year, with strength across the precious metals complex. Silver has surged an extraordinary 110% year-to-date, driven by US buyers stockpiling ahead of potential tariffs. This has pushed SFE inventories down by 41%, the lowest level in a decade, leaving silver in overbought territory and providing a supportive backdrop for gold.

Looking ahead to 2026, as noted by my colleague [Kaitlyn Buhariwalla](#), several factors suggest gold remains well supported. The Federal Reserve faces a delicate balancing act between downside risks to the labour market and upside inflation pressures. The rate-cut path remains uncertain, but growing signs of labour market fragility and the likelihood of a more dovish, Trump-aligned FOMC tilt the bias toward easing. At the same time, the full impact of tariffs and the extended government shutdown has yet to materialise, which could structurally weaken the US dollar and underpin gold demand.

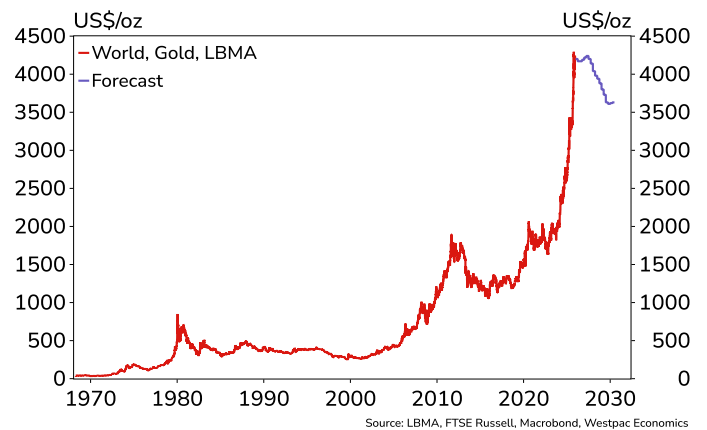
Geopolitical and market risks remain elevated. The recent spending bill only extends federal funding until January 2026, leaving the door open for another government shutdown. Russia–Ukraine peace talks continue to stall, while concerns linger over stretched valuations in AI-tech stocks. There is also the risk of a Supreme Court ruling against IEEPA tariffs, which could weigh on fiscal sustainability and the US dollar.

Against this backdrop, we expect gold to retest US\$4,300/oz in early 2026, with scope to approach US\$4,500/oz in the second half of the year. However, the catalyst for a decisive break higher remains unclear. A sharp rebound in US inflation driving interest rates higher would undermine gold's appeal, while a durable Russia–Ukraine ceasefire could reduce safe-haven demand. On balance, we maintain a bullish stance on gold, supported by policy uncertainty, geopolitical risk, and structural US dollar weakness. This is a significant upgrade of +60% on our 2024 forecast for end 2026 at US\$2810/oz.

## Copper to shine like gold but not all are equal

Copper delivered a strong performance in 2025, supported by geopolitical uncertainty and tightening supply conditions. While rare earths and other “critical” minerals dominated headlines as Western policymakers sought to decouple supply chains from China, momentum in these sectors has stalled

## Gold rallies from 2024



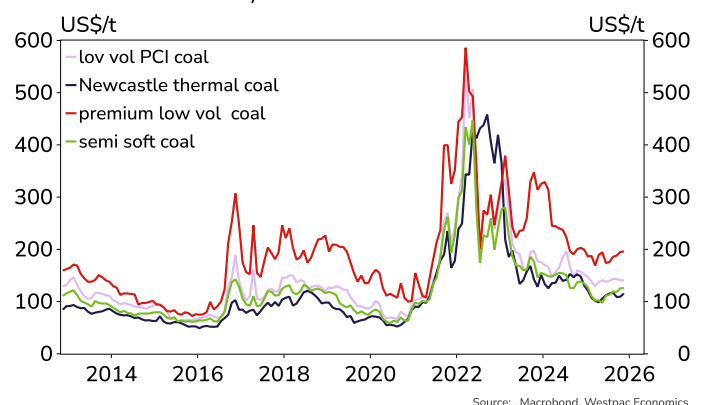
with policy implementation proving slow. It is worth noting that, in terms of scale, Australia's critical minerals industry lacks the capacity to rival gold mining, let alone replace coal or iron ore as a major export driver.

The multiple supply disruptions that pushed the copper market into deficit in 2025 have and laid a solid foundation for higher prices in 2026. Aluminium also appears to be well supported, with China's 45Mt production cap expected to hold, constraining supply against a backdrop of robust demand. Meanwhile, metallurgical coal prices climbed above US\$200/t following the Indian monsoon and ahead of potential supply interruptions typically associated with the Queensland wet season. However, as supply from the US and Australia lifts, we expect prices to moderate through 2026.

Thermal coal is likely to prove more resilient, with only modest downside risk as Chinese domestic supply recovers. In contrast, Brent crude and TTF gas prices are expected to soften over the year, reflecting improved supply dynamics and easing geopolitical risk premiums.

## Australian coal prices

Downside constrained by cost curve



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# USD capped and ...

**Elliot Clarke**  
Head of International Economics

Into year end, the US dollar DXY index has been contained by 100 on the top side, although the currency hasn't threatened to move materially lower either. Coming quarters are likely to see the US dollar edge down. A more rapid descent is a risk if US growth disappoints or fiscal risks escalate further.

Currencies are, by definition, determined by the health of at least two countries. But, at the present time, we remain of the view that the US economy is the prime determinant of the dollar's value and inherent volatility.

The Euro Area and UK are experiencing relatively firm growth with diminishing downside risks to growth and, more so for the Euro Area than the UK, broadly neutral policy making. Through 2026 and into 2027, this baseline should remain in place as 'defence' investment is undertaken and financial conditions remain accommodative for investment by businesses and households.

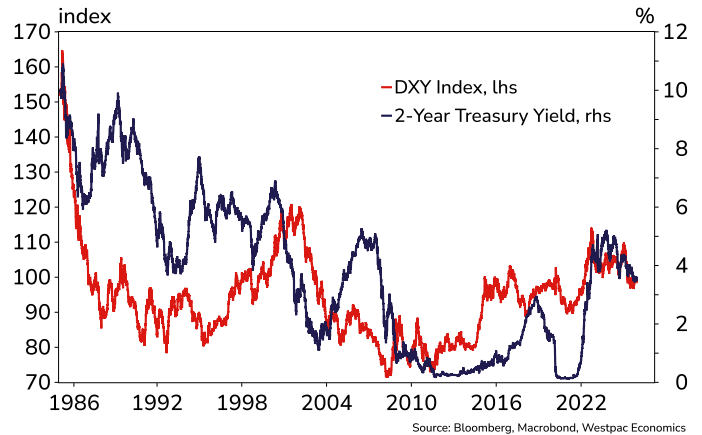
Canada too should experience an improving underlying trend over 2026 and 2027. There is also a distinct possibility that they (along with Mexico) gain from investment by non-US firms looking to export to the US given the opportunities afforded by the USMCA agreement and President Trump's recent tariff compromises. Commodity prices could provide additional support; although Canada's commodity mix is energy heavy, and prices in this sub-sector are unlikely to rally anytime soon.

Even Japan's outlook is growing in strength and certainty. As detailed on [page 23](#), Prime Minister Sanae Takaichi looks set to deliver a degree of fiscal stimulus to the economy in 2026, while the economy receives benefit from a booming tourist trade and wage growth is bolstered by consumer inflation's persistence. Which month the Bank of Japan choose to hike in is largely immaterial; but the fact that the Monetary Policy Committee are within reach of sustainably raising the policy rate to, or some believe above, 1.0% over the coming year should also aid the currency, so too the 10-year JGB yield holding closer to 2.0% than 1.0%.

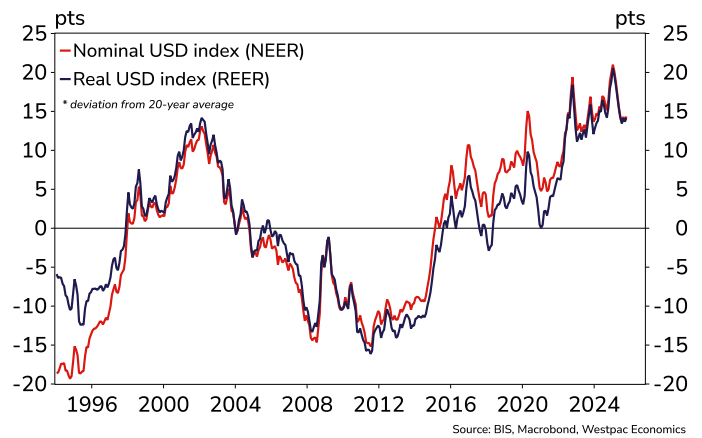
If we assess our forecasts for the above currencies in turn, it is clear we have the greatest confidence in the Euro, expecting it to rise from USD1.17 today to USD1.19 at end-2026 and USD1.21 by end-2027. Though fiscal policy uncertainty and its potential impact on the economy is considerably higher in the UK than the Euro Area, Sterling's performance over recent years suggests the two currencies are likely to largely move in step, seeing GBP/USD at USD1.36 by end-2026 and USD1.38 at end-2027 from USD1.34 today.

Although CAD has a weaker starting point, its proximity to the US and the damage already done by President Trump's trade

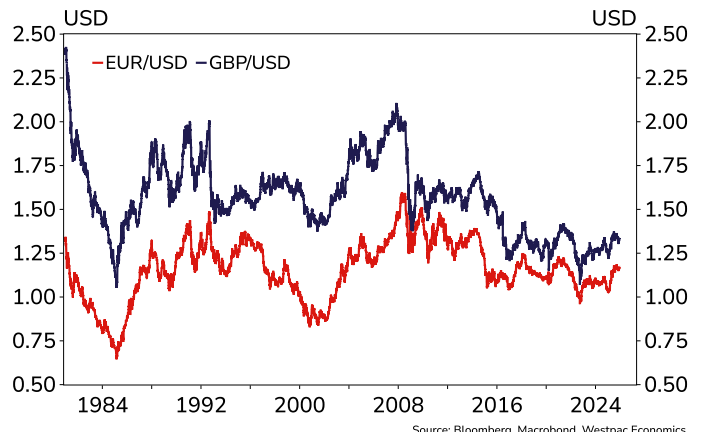
## US prime factor of global markets



## USD valuation experiencing a reset



## Euro and Sterling to benefit



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# ... susceptible to risks

policies are likely to limit achievable gains. From CAD1.38, we see USD/CAD falling to CAD1.36 at end-2026 then CAD1.32 by end-2027. There should be opportunity for the Canadian dollar to appreciate further in 2028, but it is likely to again be at a measured pace and require an imbalance between Canadian and US growth opportunities.

The Yen's forecast appreciation is, in contrast to CAD, likely to materially outperform the US dollar trend. As above, Yen should benefit from both Japan's opportunities with respect to growth and inflation as well as the US' weaknesses. Note, the cumulative 7% and 11% appreciation we forecast to end-2026 and end-2027 still only leaves Yen at JPY145 and JPY138 respectively. These levels are still a long way from 2019's average of JPY109, highlighting the upside potential for Yen against the US dollar if the two nations' diverging risk profiles assert more aggressively.

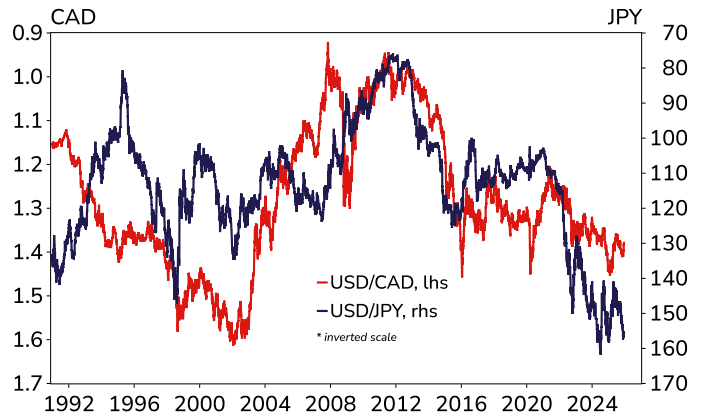
The rest of Asia is also well positioned to appreciate against the US dollar. For the most part, this is likely to be proportional to their starting level and the economic development journey each nation is on, allowing individual competitive advantages to be kept. Broadly for the region, appreciating currencies will aid the management of inflation and reduce risks around capital flight, allowing central banks a relatively free hand to supporting their economies. By and large, the region also has fiscal capacity locally and, for the up-and-coming nations of the region, from major Asian nations such as China and South Korea through foreign direct investment.

China's Renminbi is, in our view, at the beginning of a lasting uptrend. USD/CNY is seen appreciating from CNY7.06 to CNY6.90 over the next year, then to CNY6.50 and beyond at end-2027 and come 2028.

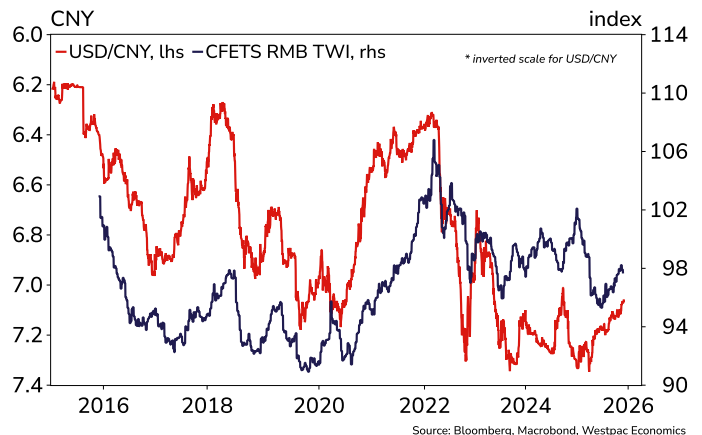
In terms of the risks to our forecast profiles, arguably they stand against the US dollar as a result of the uncertainty the US faces. While interest rate differentials have been a material support for the US dollar in recent years, ahead higher rates to combat price pressures are more likely to come with sub-par economic growth not exceptionalism. Such a mix of conditions also argues for growing fiscal concern, potentially made worse by a hostile Congress following the mid-terms. Over time, sentiment could therefore compound against the US dollar.

At the other end of the risk spectrum, if inflation surprises to the downside in the US (most likely due to further weakness in shelter), the FOMC will have greater capacity to support the economy with lower rates. This could be enough to hold the US dollar around the 10-year average of 98.5, where it trades today, versus tending towards the 20-year average of 90.5.

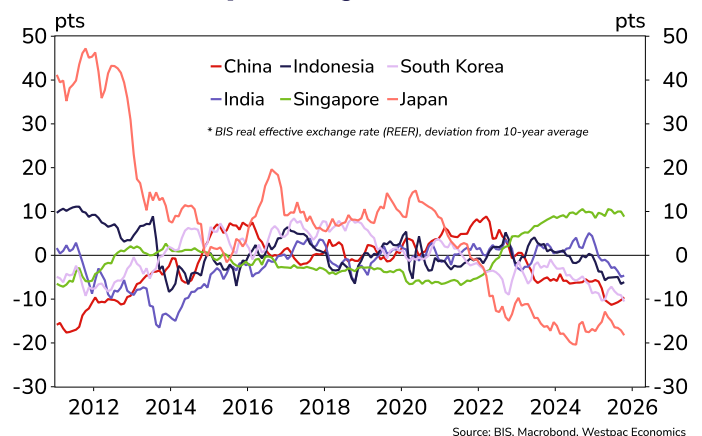
## Concern over CAD to slowly abate



## Renminbi to sustain rally



## Asia's outlook is promising



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# The outlook looks promising for 2026 ...

**Darren Gibbs**  
Senior Economist

**Monetary conditions are now unequivocally in stimulatory territory which changes the balance of risks for the direction of the economy in 2026. The RBNZ sees a high hurdle for further rate cuts in line with our view that 2.25% will mark the bottom of the cycle. The economy is now set to recover and allow interest rate normalisation in December 2026, after the General Election. Risks are two-sided around that view but even so, it's hard to make a case for a particularly strong New Zealand dollar for a while.**

The highlight of the last month was the RBNZ Monetary Policy Statement where the Bank unexpectedly called time on the rate cut cycle. While we had forecast that 2.25% would mark the end of the cycle, we expected the RBNZ would be reluctant to send that sort of signal just yet. However, the RBNZ noted a high hurdle for further rate cuts and the associated commentary indicated that Monetary Policy Committee members thought they were done cutting the OCR absent some significant shock.

Monetary conditions now look reasonably stimulatory reflecting a combination of the OCR being noticeably below neutral rates and an exchange rate that is relatively low, especially at a time when the terms of trade remains robust. The RBNZ continues to emphasise their view that the neutral OCR is in the 3-3.5 % range while we continue to see 3.75% as a reasonable estimate. Either way, interest rates are likely low enough that, given sufficient time, they will support a recovery in the economy.

Economic indicators have generally remained somewhat mixed but have started to look a bit more robust in recent weeks. On the positive side, consumer spending and construction indicators are picking up even as house prices remain stable. Business sector indicators look uniformly more positive in terms of current conditions as well as future expectations.

More cautiously, the labour market remains flat with just a few hints of improved hiring (mainly in the government sector). Overall, the labour market remains in a state of low-hire and low-fire for now. Inflation increasingly looks well behaved. Recent data have shown flatter food prices and residential rents while weaker wholesale dairy prices point to easing cost of living pressures ahead.

Financial markets have moved to price out the chance of cuts and bring forward when tightening might start. Current market pricing has moved ahead of our relatively hawkish scenario of the OCR remaining on hold until December 2026. Markets now imply tightening around the middle part of mid-year and an additional 25 basis points of tightening by the end of 2026.

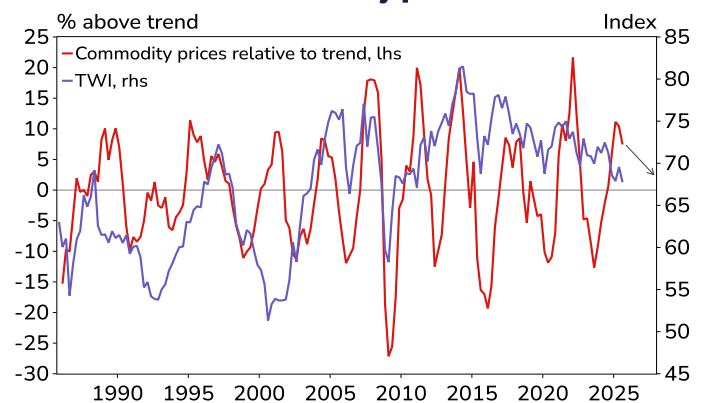
While the RBNZ was sufficiently confident to call time on the easing cycle, it's projection for the OCR did not signal OCR increases in the foreseeable future. Over the coming months, as the data flow evolves, it will become clear how long the OCR will need to remain at 2.25% to deliver an economy sustainably operating above trend such that excess capacity is eliminated. We don't think the data seen to date supports expectations of early OCR normalisation right now.

We suspect that in 2026, with inflation generally falling towards 2%, the hurdle for RBNZ OCR hikes will probably be high. The RBNZ will need to gain confidence that significant excess capacity will be sustainably unwound. It will likely take at least six months of solid data all going well to gain that confidence. And we are not close to that point yet.

Markets will need to be patient while waiting for the next OCR cycle to evolve. Our sense is that it will be FX rather than interest rate markets that will present more interesting opportunities through 2026.

While interest rates are clearly at stimulatory levels, implying a bias towards rate rises than falls looking forward, the exchange rate lacks such a positive bias. Interest rate differentials weigh heavily on the NZD and will continue to do so for at least a year given the OCR will be in the low 2's while comparators such as the US and Australia remain in the 3's (or higher). Our house view of a weaker USD is possibly the only factor in support of the NZD but only versus the USD. Investors will likely find other currencies more attractive. Should the USD strengthen, any bull case for the NZD could collapse entirely.

## TWI vs detrended commodity price index



## ... but the NZD might struggle to rise much

Key to the performance of the NZD will be the market's assessment of the strength of the recovery in New Zealand growth. Significant strength in the NZD will likely require a pickup in growth such that markets see a good chance of a series of OCR hikes in the foreseeable future. As we note above, we are some distance from that point yet.

It's also important to note that after two good years, there are signs the commodity cycle has peaked as the global farmer responds to the strong returns recently available in dairy, meat and horticulture. Hence the NZD likely won't receive as much support from the external sector as in the last year. New Zealand could get a boost if the US Courts require the US authorities to abandon their "reciprocal" tariffs. But even then, this may not be NZD positive given the introduction of tariffs ended up being supportive of the NZD as the USD weakened. It would be strange if the reverse didn't occur on removal of NZ tariffs.

So far, in contrast to most recent cycles, the nascent recovery in domestic demand has not been boosted by wealth effects from stronger housing prices. Hence the recovery in demand could be gradual, and it may take a further push from a still weaker exchange rate to rebalance the economy. And if domestic demand doesn't increase sufficiently to allow New Zealand interest rates to remain competitive relative to global comparators then the implication is the NZD must fall to restore internal balance. A lower exchange rate would also boost our competitiveness, making it more likely that the current account deficit remains near recent lower levels.

Hence overall, these downside risks to the NZD remain significant and suggest a negative skew to the distribution of future NZD outcomes – particularly outside of the USD (which may also be weak).

One way to see the downside risks to the NZD versus the AUD is to compare the forecast trajectories of the unemployment rate in NZ vs Australia. Historically, New Zealand's unemployment rate is generally lower than Australia's. But our forecasts imply that New Zealand's unemployment rate will remain at 5% or higher over 2026 whereas Australia's unemployment rate is expected to remain well below 5%. This unusual divergence could imply a lack of New Zealand competitiveness. The evolution of the Australasian labour markets could be key to the direction of the NZD/AUD over 2026.

One last key area of risk in 2026 is the General Election. Polls currently suggest a tight race which implies uncertainty about the outcome. It's likely that parties on the left and right will be offering quite different policy prescriptions (notably in the areas of tax and housing market policy) that will have very different distributional implications. The resultant uncertainty could hamstring business confidence from mid-year with implications on the durability of the recovery. Uncertainty around tax policy, particularly with regards to the treatment of rental properties, could also be a dampener on housing market activity. If the economy has not built significant momentum by mid-year the risks of a temporary stall may grow. This would delay OCR normalisation and place downward pressure on the NZD.

Monthly data	2024		2025									
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
REINZ house sales %mth	-3.4	-0.8	7.5	1.7	1.3	-2.4	-2.0	0.5	-2.7	-1.7	5.5	-
Residential building consents %mth	-5.5	3.2	1.0	10.4	-14.4	11.0	-5.3	5.6	6.1	7.4	-0.9	-
Electronic card transactions %mth	2.9	-1.9	0.1	-1.4	0.0	-0.1	0.4	0.1	0.6	-0.5	0.2	-
Private sector credit %yr	3.1	3.2	3.0	2.9	3.0	3.0	3.2	3.5	3.8	4.2	4.6	-
Commodity prices %mth	0.1	1.8	3.0	-0.4	0.0	1.9	-2.4	-1.8	0.7	-1.1	-0.3	-1.6
Trade balance \$m	-310	115	-251	-178	5	-265	-523	-363	-90	334	-155	-

Quarterly data	Q2:23	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25
	Westpac McDermott Miller Consumer Confidence	83.1	80.2	88.9	93.2	82.2	90.8	97.5	89.2	91.2
Quarterly Survey of Business Opinion	-10	-16	6	-28	-26	-28	-25	-22	-22	-14
Unemployment rate %	3.7	3.9	4.0	4.4	4.7	4.9	5.1	5.1	5.2	5.3
CPI %yr	6.0	5.6	4.7	4.0	3.3	2.2	2.2	2.5	2.7	3.0
Real GDP %yr	4.0	2.3	1.8	1.4	0.6	0.0	-0.6	-1.1	-1.1	-
Current account balance % of GDP	-7.5	-7.1	-6.3	-5.7	-5.5	-5.2	-4.7	-4.2	-3.7	-

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

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# Proactive policy is necessary ...

**Elliot Clarke**  
Head of International Economics

China's economy has met expectations in 2025 despite authorities remaining reactive and restrained with their support amid constant geopolitical tension. This outcome highlights the power of the nation's manufacturing sector and global trade network. While trade tensions should abate in 2026, export's contribution to growth has to recede given its strength to date. Authorities will therefore have to be more proactive hence, if aggregate momentum is to be sustained.

For all the concerns over the impact of US tariffs on China's export industry, the sector continues to go from strength-to-strength. In November, the trade surplus widened to a striking \$112bn having averaged \$97bn over the past year. To provide context, over the two years prior to the pandemic (2018–2019), the average monthly trade surplus was less than a third of the current pace, circa \$32bn.

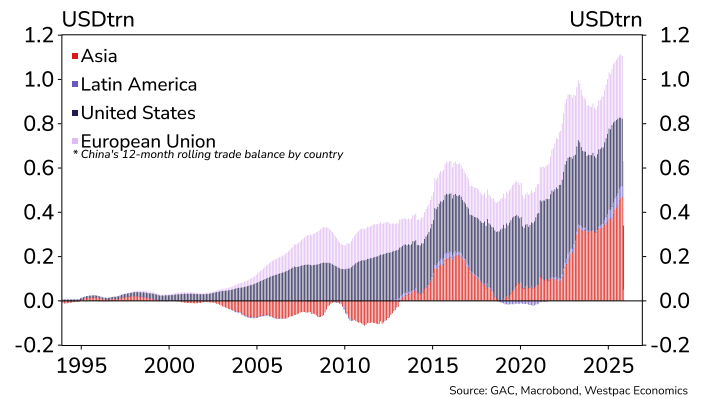
While hard to quantify, given the dramatic growth in high-tech manufacturing over the past five years, the manufacturing sector of today is also almost certainly delivering a much higher net return to national income for every dollar of output. China's investment in neighbouring nations is furthermore setting up another avenue for return – repatriated profits from foreign entities.

Domestic investment in high-growth sectors is currently taking a breather into year end having risen rapidly in recent years. Growth will return in 2026 and beyond, but is highly unlikely to exhibit the persistence of recent years again owing to scale already achieved, authorities focus on profitability and the national imperative to embed Chinese trade and industry across the Asian region (and beyond). Domestic infrastructure spending similarly has a lot further to run, but it too is likely past its prime contribution to aggregate growth given the scale already achieved.

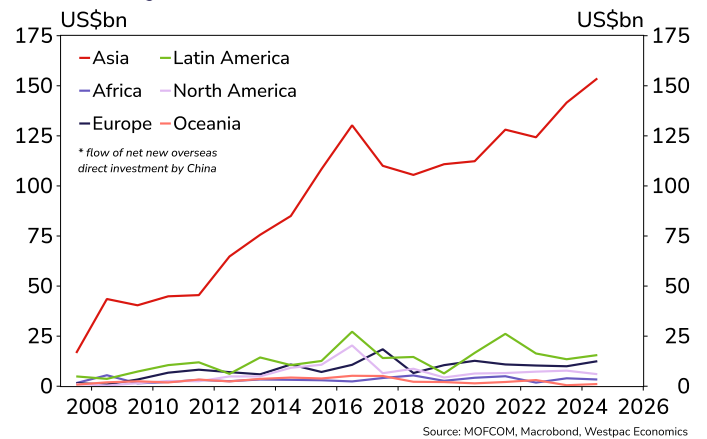
If GDP growth is going to sustain in the mid-4%'s in 2026 and beyond, let alone reach for the 5.0% rate set to be achieved in 2025, the domestic consumer and related investment has to drive the outcome(s). To be achieved, a radical change in sentiment and individuals' willingness to spend must be seen. Cue active fiscal stimulus in scale.

Authorities have clearly not been sitting on their hands over the past twelve months as the housing market continued to go backwards, both activity and prices, and retail sales growth muddled along. However, their actions have been passive, incentivising activity by making credit more easily available and / or cheaper, but stopping short of creating new demand, as has occurred in prior cycles.

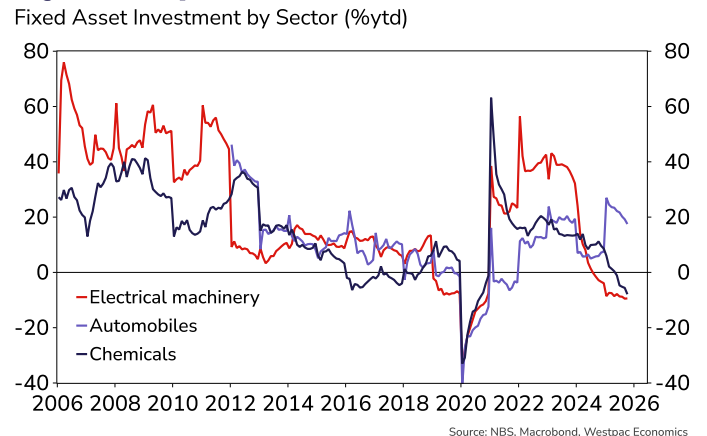
## Trade's success to limit future growth opportunities



## Particularly as China also invests offshore



## High-tech expansion to slow in 26/27



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# ... else sentiment fail

Given how entrenched pessimism over the property market has become and the immense uncertainty clouding the outlook for employment, this approach needs to change. It is not enough for the Government to say house prices and property investment will not go down anymore; authorities need to turn the tide.

Most likely this will take the form of government entities and corporates buying existing housing stock and / or new projects off the plan for use as rental stock or to demolish. The latter option has, in the past, provided a double dividend, with the initial purchases of existing homes by the Government triggering a second round of purchases by residents and therefore a two-fold reduction in available on-market supply.

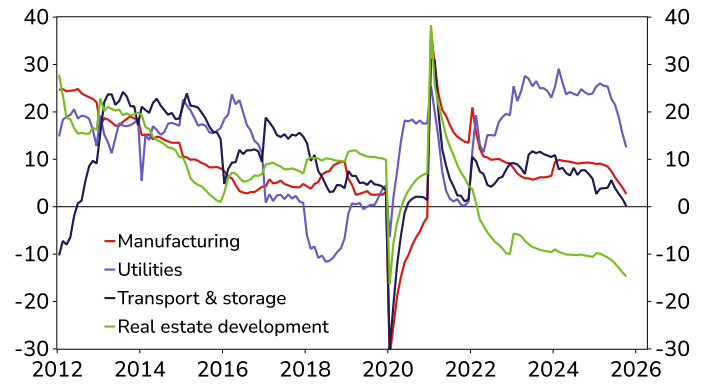
Inevitably a decisive turn in the housing market is only step one in preserving China's growth capacity, with a floor for household wealth a necessary, but not sufficient condition, to stir discretionary consumption. We suspect central authorities will also have to reset and accelerate the pipeline of non-residential construction related to urban development, to boost sentiment and employment, incentivise employment across the other services sub-sectors, to put the nation's high and rising education standard to good use, and entice another wave of demand for equity investment.

Actioned together, a broad array of initiatives as above would make clear to households they have reason to be confident in their financial position improving over time and, as such, can afford to increase their discretionary spending.

While likely still a way off, eventually authorities will also need to offer a progressive safety net and access to investments those with means can benefit from. However, these are initiatives we are likely to see at the end of this five-year plan, or potentially the beginning of the next.

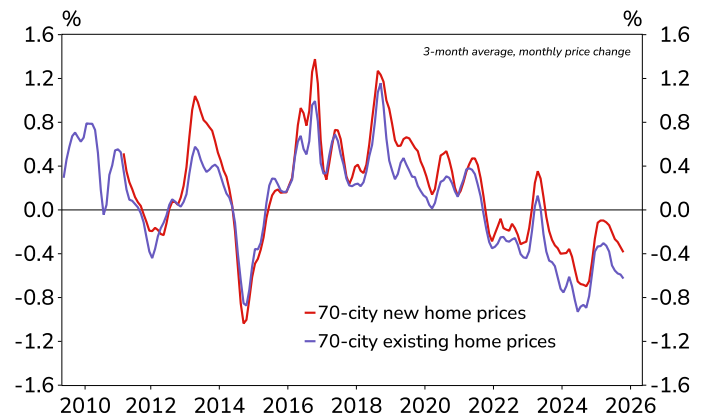
## The property market has to turn to aid activity ...

Fixed Asset Investment by Industry (%ytd)



Source: NBS, Macrobond, Westpac Economics

## ... and aggregate household wealth



Source: Bloomberg, Macrobond, Westpac Economics

2025												
Monthly data %yr	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Headline CPI %yr	0.1	0.5	-0.7	-0.1	-0.1	-0.1	0.1	0	-0.4	-0.3	0.2	0.7
M2 money supply %yr	7.3	7	7	7	8	7.9	8.3	8.8	8.8	8.4	8.2	-
Manufacturing PMI (official)	50.1	49.1	50.2	50.5	49.0	49.5	49.7	49.3	49.4	49.8	49.0	49.2
Fixed asset investment ytd %yr	3.2	3.2	4.1	4.2	4.0	3.7	2.8	1.6	0.5	-0.5	-1.7	-
Industrial production %yr	6.2	6.2	5.9	7.7	6.1	5.8	6.8	5.7	5.2	6.5	4.9	-
Exports %yr	10.7	5.9	-3.1	12.2	8.0	4.6	5.8	7.1	4.3	8.3	-1.1	5.9
Imports %yr	0.8	-16.3	1.7	-4.3	-0.3	-3.4	1.2	4.1	1.3	7.4	1.0	1.9
Trade balance USDbn	105.2	138.0	31.1	102.0	95.9	102.8	114.4	97.8	102.1	90.5	90.1	111.7
Quarterly data	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25						
Real GDP %yr	4.7	4.6	5.4	5.4	5.2	4.8						
Nominal GDP %yr	4.0	4.1	4.6	4.6	3.9	3.7						

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

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# A narrow focus on investment ...

**Elliot Clarke**  
Head of International Economics

As we head into 2026, the state of the US economy is abnormally uncertain owing to the continued absence of data post shutdown and with significant risks evident for both inflation and growth. 2026 will also be a year of change for the FOMC and potentially Congress, impacting policy and market rates.

A month on from the longest-ever Government shutdown, US economic data remains scarce. Overall, the official data that has been received points to an economy where growth is still running at or above trend, with limited downside risks. Qualitative measures of activity such as the ISM surveys and the Federal Reserve’s Beige Book meanwhile suggest growth has, or is about to, stall. Qualitative guidance on the economy has been skewed down relative to the official data for more than a year. So to us, the growth pulse is most likely around trend, not materially below.

Admittedly, these quantitative and qualitative readings on the economy are only a guide on conditions up to November at the latest. It is entirely possible that the shutdown and persistent inflation will trigger a marked deterioration in growth into the new year. But, because of the position of households, i.e. record levels of wealth and persistent real income growth, we remain relatively sanguine on the risks to the outturn, anticipating growth will hold near trend, primarily thanks to discretionary consumption by households.

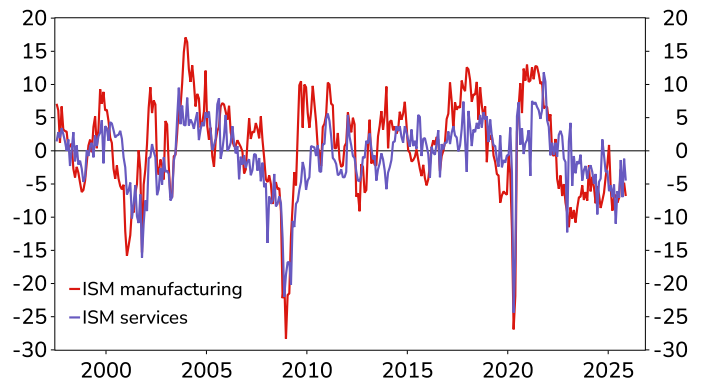
Where we have greater concern for US economic growth is into the medium term. Simply, with the exception of investment in hyper scaler data centres and some very niche areas of high-tech manufacturing, business investment has been insufficient to maintain capacity for a number of years.

Further, the research and development occurring in the US economy increasingly looks to be heavily skewed towards a battle over AI model development in pursuit of artificial general intelligence. This is a striking contrast to China and Asia’s focus on making real-time use of evolving compute capacity to increase efficiency and productivity across the entire economy -- in effect opening up the opportunities presented by technology to the entire population.

It is also evident in both the investment detail and electricity price data that the US is not developing the power and grid capacity necessary to provide for AI and cloud services rapidly expanding needs, let alone power demand created by the adoption of new goods and processes. Again this is a striking contrast to China and, to a lesser extent, Asia where power capacity and grid infrastructure are being expanded with medium to long-term needs in mind.

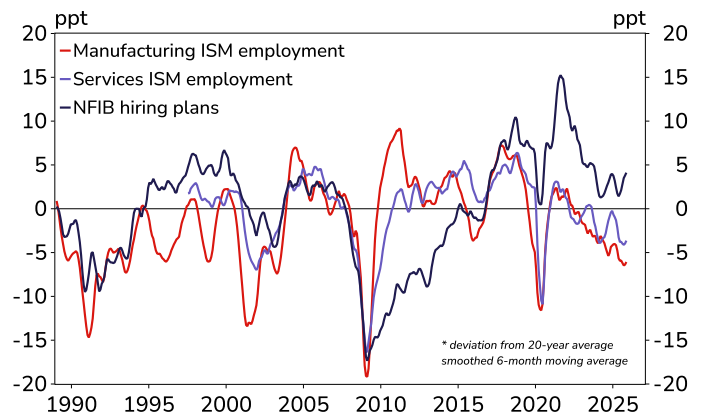
## Forward looking indicators downbeat

New Orders, deviation from 10-year average (pts)



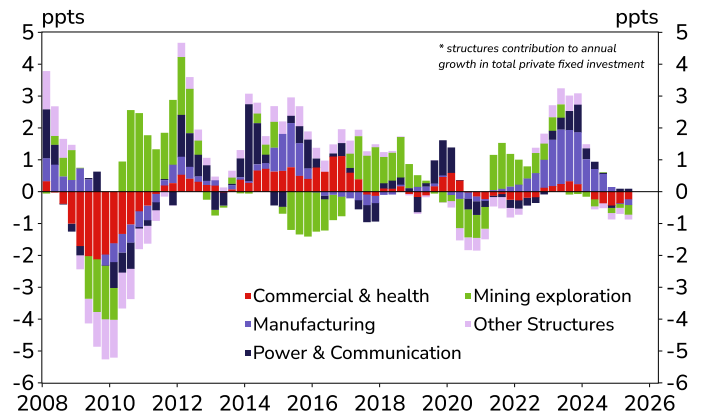
Source: ISM, Macrobond, Westpac Economics

## Risks to labour market one way



Source: ISM, NFIB, Macrobond, Westpac Economics

## US firms refraining from expansion



Source: BEA, Macrobond, Westpac Economics

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# ... engenders price and growth risks

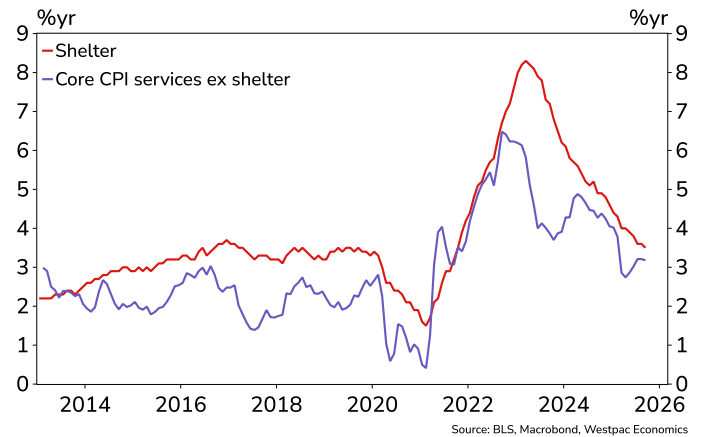
This brings us to the inflation outlook, which we perceive to be the bigger concern for the US come 2026. Currently, i.e. as of September given the shutdown, annual US inflation is materially above target, circa 3.0%yr.

Tariffs are a factor here, but price pressures are broad. While goods inflation (excluding food) came in at just 1.2%yr in September, food inflation printed at 3.1%yr, shelter around 3.5%yr and other services 3.7%yr. Further, on a 6-month annualised basis, core services excluding shelter looks to be at risk of trending higher, having troughed most recently at 1.9% in July and since risen to 3.3%.

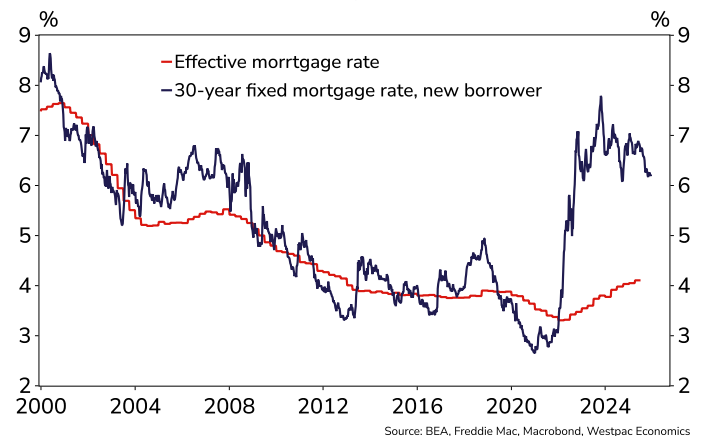
While the effect of tariffs will quickly fade, migration reform and the focus fiscal authorities and the private sector have on niche strategic investment initiatives will not. The implication is that labour availability and economic capacity will remain tight for the foreseeable future, holding inflation meaningfully above target. The longer this trend persists, the more likely it is that the relationship between inflation and growth will become distorted, increasing growth's susceptibility to downside shocks and inflation's persistence at the same time.

This combination is not only a concern for the success of businesses and households, but also the long-term financial position of the US Government. Since mid-October, it is notable that, while expectations of multiple rate cuts over the year ahead held firm, the US 10-year yield has increasingly held to the top of its recent range, now 4.15%. Given the above imbalance between growth and inflation and the associated risks, we expect only one more cut in this cycle compared to the market's expectation of two or more. With the passage of time, this is likely to result in long-term US yields continuing to trend higher, further risking the Government's ability to provide support to the economy when necessary, thereby exaggerating risks and potentially economic and market volatility.

## Services inflation a persistent concern



## Rates to hold back housing



2025												
Monthly data	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PCE deflator %yr	2.6	2.7	2.4	2.3	2.5	2.6	2.6	2.7	2.8	-	-	-
Unemployment rate %	4.0	4.1	4.2	4.2	4.2	4.1	4.2	4.3	4.4	-	-	-
Nonfarm payrolls chg '000	111	102	120	158	19	-13	72	-4	119	-	-	-
House prices* %yr	4.8	4.5	4.1	3.4	2.8	2.1	1.8	1.6	1.4	-	-	-
Durables orders core 3mth %saar	14.5	6.9	6.5	-6.9	2.6	-0.9	8.4	4.0	10.2	-	-	-
ISM manufacturing composite	50.9	50.3	49.0	48.7	48.5	49.0	48.0	48.7	49.1	48.7	48.2	-
ISM non-manufacturing composite	52.8	53.5	50.8	51.6	49.9	50.8	50.1	52.0	50.0	52.4	52.6	-
Personal spending 3mth %saar	4.8	4.1	3.3	5.7	4.7	3.6	4.6	6.6	5.6	-	-	-
UoM Consumer Sentiment	71.7	64.7	57.0	52.2	52.2	60.7	61.7	58.2	55.1	53.6	51.0	53.3
Trade balance USDbn	-128.8	-120.3	-136.4	-60.2	-71.1	-59.1	-78.2	-59.6	-	-	-	-

Quarterly data	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25(f)
Real GDP % saar	3.0	3.1	2.5	-0.5	3.3	3.1
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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# Japan's homegrown tailwinds ...

**Illiana Jain**  
International Economist

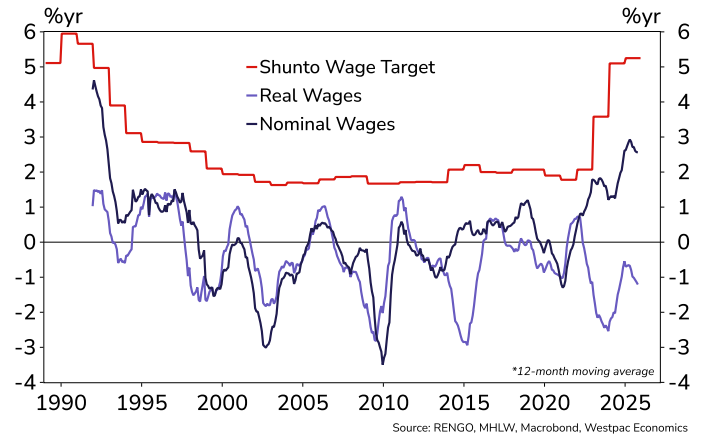
Looking towards 2026, homegrown tailwinds for Japan's economy should keep growth robust and support the Bank of Japan's objective of reaching its neutral rate of 1.0%. Household consumption is set to receive support from further real wage gains and the Takaichi government's recent fiscal package which seeks to mitigate cost of living pressures. There is also a growing probability of real wage gains proving persistent thanks to the corporate sector's improving profitability, the result of corporate governance reform and the more efficient allocation of capital.

In recent years, households have been strained by inflation which reached a high of 3.4%yr in 2025 supported by food prices, particularly rice. Much of the increase reflected supply shocks, particularly for food prices and energy, which are expected to unwind through 2026. Indeed, Prime Minister Sanae Takaichi's fiscal plan will see taxes on diesel and gasoline scrapped, and subsidies for electricity and gas in Q1 2026. Food prices, which make up around 60% of headline inflation, are also expected to decelerate as rice crop yields pick up and restrictions on rice imports are lifted. Providing targeted support for the prices of things front of mind for consumers should help consumers build confidence in their finances. And timing targeted fiscal support to overlap recurring real wage gains should materially amplify the effect on consumption by boosting sentiment.

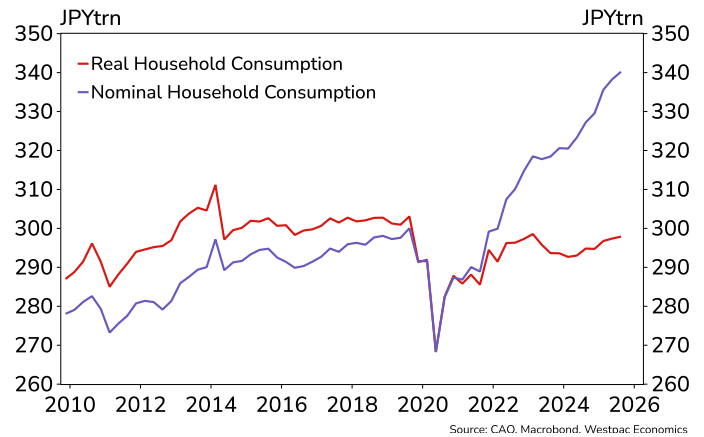
To give a sense of scale and timing, the expected deceleration in inflation will give real wages an opportunity to catch up after three years of declines. While nominal wages rose an average of 2.5% through 2025, a pace of growth not seen since the 1990s, real wages still fell 1.2%. RENGO, Japan's largest trade union confederation is targeting wage growth of "around 5%" for 2026, in line with their demand for 2025. But this year, their statement also included a reference to targeting real wage growth of 1.0%. Should nominal wages increase as they have in 2025 and the BoJ's forecast of 1.8% inflation be realised, real wages should deliver in line with RENGO's goal. There is good reason to believe that RENGO will be as successful given summer bonuses were ahead of those reported in 2024, reflecting labour shortages, particularly for services, and as profitability remains strong.

Looking further out, this upswing in wages and the resulting gains in consumption can only endure if the corporate sector retains its ability to deliver. Corporate governance reforms over the last three years have helped Japanese firms deploy capital better. In particular, policies such as pressing firms to have at least 35% of their listed shares trading freely instead of held by other companies has promoted the deployment of capital to boost real investment. These reforms have

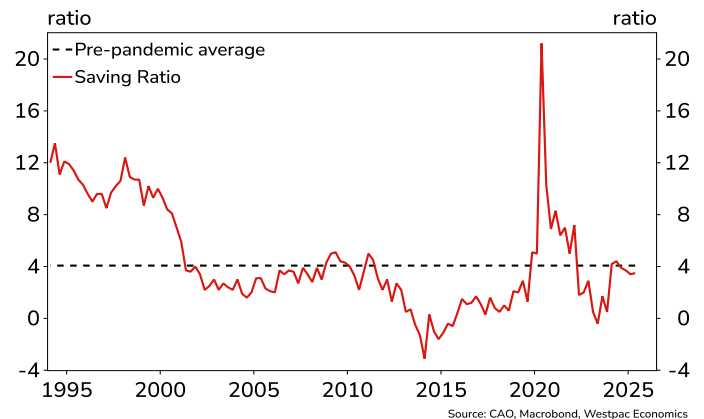
## Hope on the horizon for real wages



## Real consumption lags behind nominal



## Confidence fragile amid lack of real wage gains



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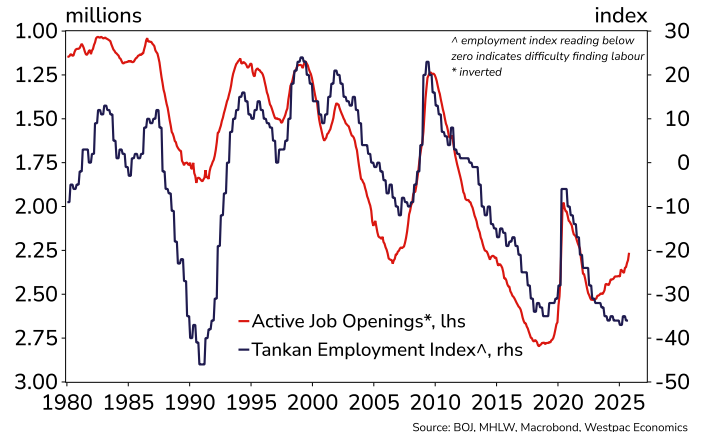
# ... wages, reform, and the path to sustainable growth

also fostered a burgeoning culture of shareholder activism, which itself should further train management to strategize for growth and productivity not the status quo. The uptrend in R&D spending per employee evident since COVID is evidence of a much more growth focused culture taking root and should support productivity in the economy and help boost profits into the long term.

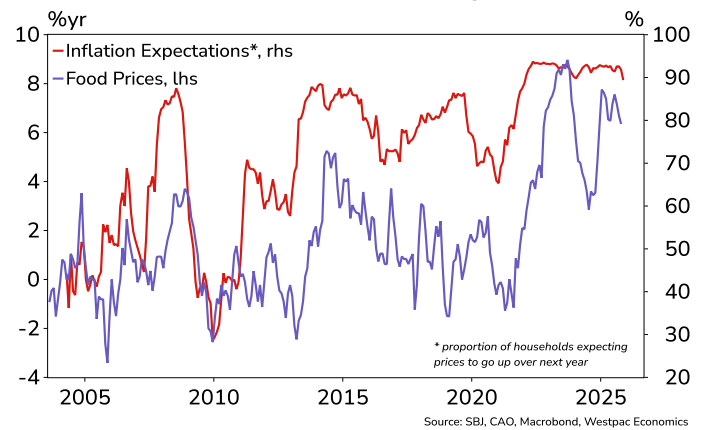
In aggregate, this shift in corporate governance culture has seen improvements in the return on equity and return on assets, evidence capital is being deployed more efficiently and in pursuit of maximum return. It is therefore no surprise that profitability has held up -- operating profits to sales hitting a high of 5.85 in Q2 2025, the highest level for this ratio since the 1960s. Efficient capital use alongside strong profitability will allow companies to continue to deliver wage gains and support wage-driven inflation in the year ahead.

We therefore anticipate upside risks to the BoJ's forecast of 0.7% growth for FY25 (ending March 2026) and FY26. A strengthening of household spending supported by real wage gains should help support this. Such an outturn will provide support for the yen which we anticipate will fall from 155 against the USD to 145 through 2026. The outlook for stronger demand should give the BoJ Policy Board the confidence it needs to raise the policy rate to 1.0% through 2026 and for the 10-year yield to hold near 2.0%. This set up should aid the yen in 2027 and beyond too, allowing it to slowly retake ground lost since the start of the pandemic.

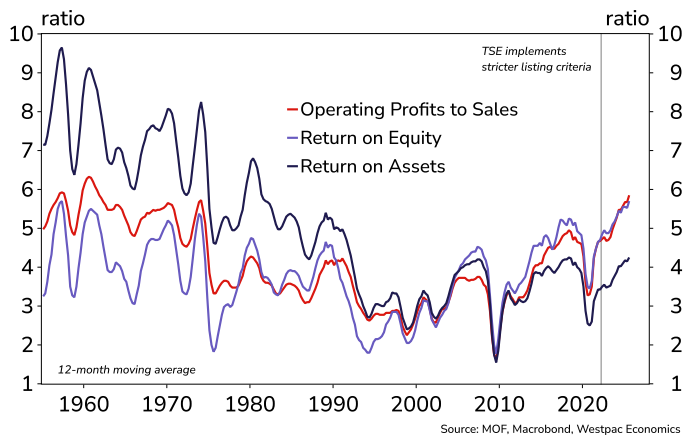
## Hiring sentiment and job openings deviate



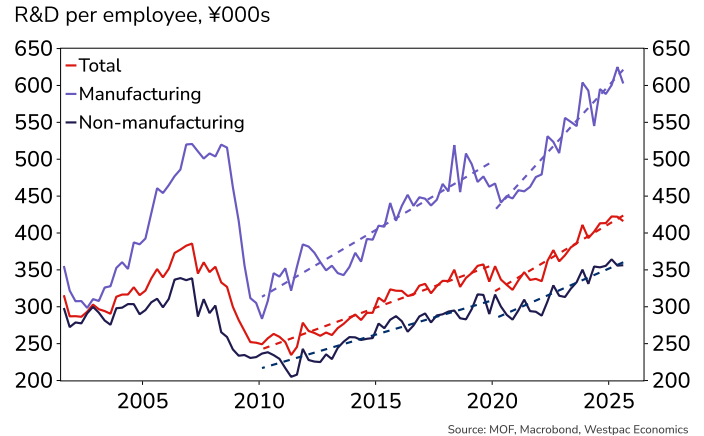
## Inflation expectations up on soaring food prices



## Early signs of better capital deployment



## Labour saving investment is accelerating



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# Growth in Europe: far from amazing ...

**Mantas Vanagas**  
Senior Economist

As outlined in our domestic economic commentaries, Australia's recovery continues to gain traction. The September quarter national accounts showed that the recovery in consumer spending is looking more assured, with momentum now spreading to other sectors, such as business investment. These trends suggest Australian GDP growth could rise from a forecasted 1.9% this year to nearly 2½% in 2026.

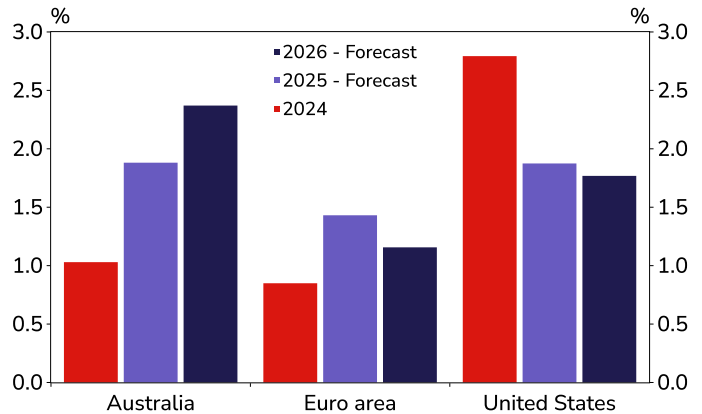
The picture in Europe is quite different. Reflecting on 2025, Germany's newly elected government initially boosted optimism with bold spending promises designed to strengthen national defence and transform the economy. However, sentiment soon soured after the US raised import tariffs, hitting Europe's export-focused industries and compounding the struggles faced by manufacturers trying to adapt to new technologies and tough competition from China.

Political uncertainty further complicated efforts to address major economic challenges. France was thrown into turmoil by two government resignations, while right-wing populist parties surged in opinion polls in both Germany and the UK, ramping up pressure on those in power. Meanwhile, ongoing attempts to reach peace in the Russia-Ukraine conflict kept European security interests on edge. Although a new defence funding facility was introduced to help lighten the financial load for national governments, the EU still lacks the depth of cooperation needed for real progress in defence procurement and policy. Efforts to bridge the innovation gap with the US and China, and to reduce fragmentation in financial markets and banking, have also made little headway.

Despite these challenges, euro area GDP growth accelerated to around 1.5% this year, up from less than 1% in each of the previous two years. Investment rebounded by more than 2.5% after a fall in 2024, providing material support. Consumer spending growth held, but couldn't gain additional momentum. Net exports acted as a significant drag meanwhile – even though exports managed to increase amid higher US import tariffs.

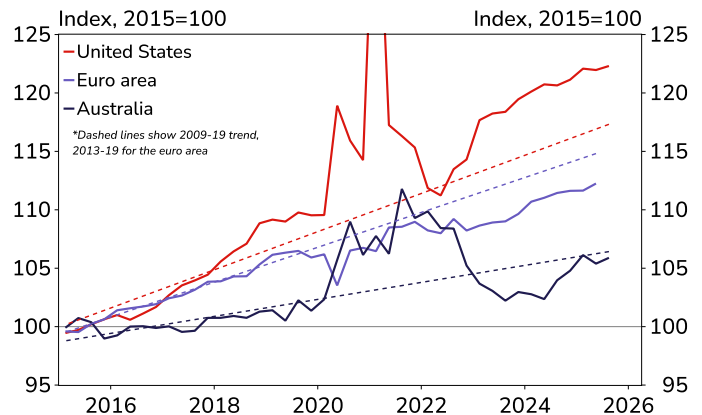
Next year is unlikely to see major changes in Europe's economic structure, with efforts to tackle deep-rooted vulnerabilities set to continue at a slow pace, especially if political parties with anti-EU views gain more ground. That said, increased government spending on defence, especially in Germany, should give a boost to some manufacturing sub-sectors, not just by ramping up production but also by encouraging investment in new technology.

## GDP growth



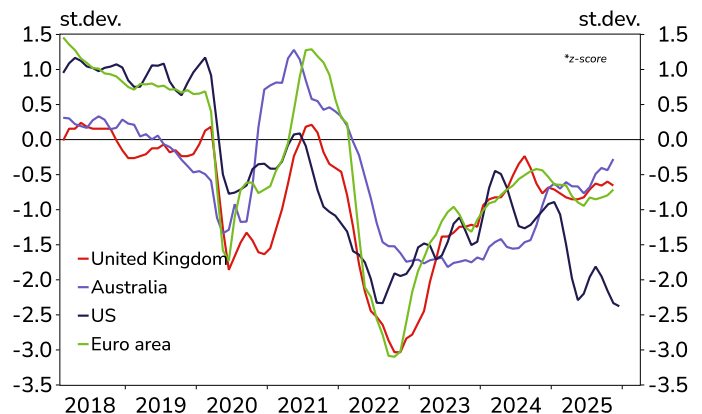
Source: ABS, BEA, ONS, Eurostat, Macrobond, Westpac Economics

## Real disposable income per capita



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

## Consumer sentiment



Source: GfK, Westpac-MI, University of Michigan, DG ECFIN, Macrobond

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# ... but better than it looks

Looking ahead, we expect euro area GDP to grow by 1.2%yr in 2026 before rising back to 1.5%yr in 2027. The external sector should be less of a drag, as exporters find new markets. At the same time, defence spending and AI investment looks set to lift demand for capital goods imports. Government spending will step up, mainly due to Germany's larger fiscal deficit, but its effect may be offset by tighter fiscal policies in Italy, Spain, and possibly France.

In terms of investment themes, AI-driven intellectual property investment should accelerate, while renewed defence and infrastructure spending is expected to drive machinery and equipment expenditure. Both residential and non-residential construction should benefit from easier financing conditions, with total real investment set to rise by close to 2%, a little below this year's rate.

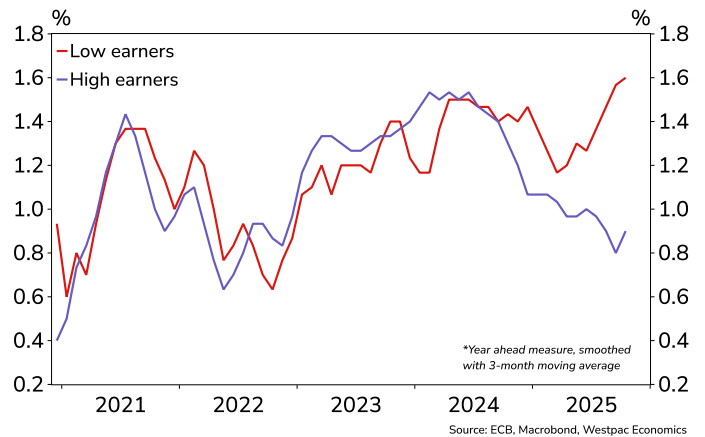
Labour market conditions are broadly stable, and so we do not expect major changes in the growth outlook for euro area consumers. Sentiment surveys show they remain somewhat pessimistic compared to historical norms. Although they are only slightly less optimistic than Australians, and much more upbeat than Americans. Notably, optimism about income growth is strongest among lower earners who tend to spend more of their income, which could help support consumption growth in the near term.

In the last couple of years, euro area consumption per capita has been growing slowly but steadily, and is now in a similar level in comparison to Australia. Interestingly, the real household disposable income shock in the euro area during 2022–23 was less severe than in Australia. Incomes fell well below the pre-pandemic trend, which had been rising faster than Australia's and was closer to the US, where strong consumer incomes and spending drove the post-pandemic surge. If euro area household incomes start returning to pre-pandemic trend levels as is being seen in Australia, euro area consumer spending growth could see a meaningful lift.

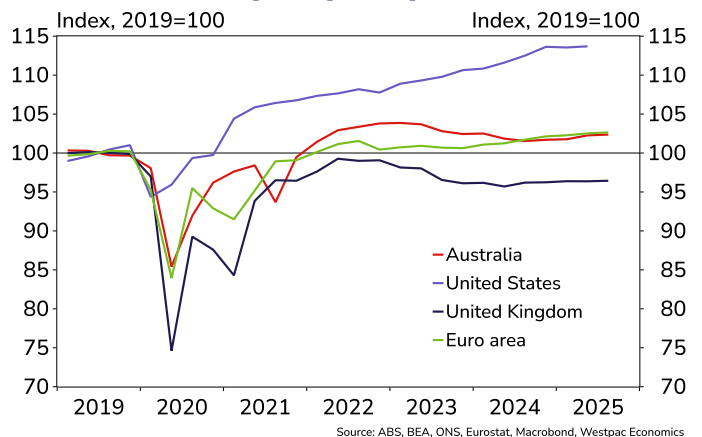
On the surface, euro area GDP growth – for 2026, about half of Australia's projected rate – seems underwhelming. But a deeper look reveals that the euro area is not necessarily lagging Australia when measured in per capita terms.

Population growth in the euro area is barely above zero, while Australia's population growth, though slowing, is still above 1.5%. Adjusting for these demographic differences, euro area GDP per capita rose by 1.1% in the September quarter, compared to only 0.4% in Australia, implying a stronger underlying improvement in living standards in the euro area.

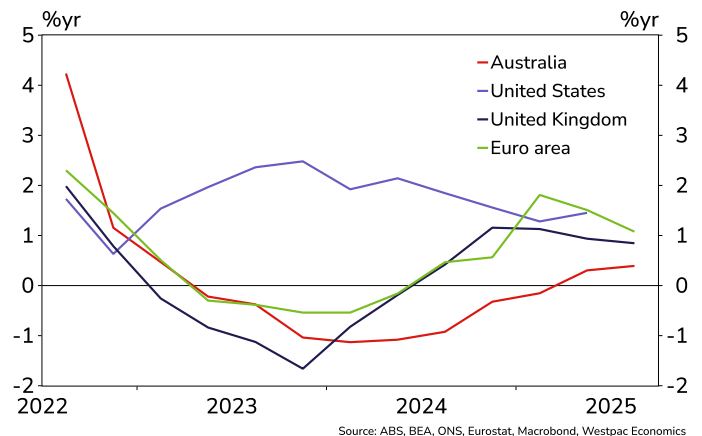
## Euro area household income growth expectations



## Household consumption per capita



## GDP per capita



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# Australia

## Interest rate forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Cash	3.60	3.60	3.35	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10
90 Day BBSW	3.71	3.50	3.25	3.15	3.15	3.20	3.20	3.20	3.20	3.20	3.20
3 Year Swap	4.13	3.50	3.50	3.60	3.70	3.80	3.90	3.95	4.00	4.00	4.00
3 Year Bond	4.11	3.50	3.50	3.60	3.70	3.80	3.90	3.95	4.00	4.00	4.00
10 Year Bond	4.72	4.45	4.40	4.45	4.50	4.55	4.60	4.60	4.60	4.65	4.70
10 Year Spread to US (bps)	58	30	20	15	10	10	10	5	0	0	0

## Currency forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>AUD vs</b>											
USD	0.6662	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73	0.73
JPY	103.63	101	102	102	102	103	102	102	101	99	98
EUR	0.5675	0.57	0.58	0.59	0.59	0.60	0.60	0.60	0.60	0.60	0.60
NZD	1.1471	1.17	1.16	1.16	1.16	1.15	1.14	1.13	1.12	1.12	1.12
CAD	0.9177	0.93	0.95	0.95	0.96	0.96	0.96	0.96	0.96	0.96	0.95
GBP	0.4975	0.50	0.51	0.51	0.52	0.52	0.52	0.53	0.53	0.53	0.53
CHF	0.5295	0.53	0.55	0.55	0.56	0.56	0.57	0.57	0.57	0.57	0.57
DKK	4.2384	4.28	4.34	4.37	4.41	4.46	4.47	4.49	4.51	4.51	4.51
SEK	6.1641	6.22	6.31	6.35	6.42	6.48	6.51	6.53	6.55	6.55	6.55
NOK	6.7066	6.77	6.86	6.92	6.99	7.06	7.08	7.11	7.13	7.13	7.13
ZAR	11.24	11.3	11.4	11.5	11.6	11.6	11.7	11.7	11.8	11.8	11.8
SGD	0.8606	0.86	0.88	0.88	0.90	0.91	0.91	0.91	0.92	0.92	0.92
HKD	5.1845	5.21	5.32	5.39	5.46	5.54	5.58	5.62	5.66	5.66	5.66
PHP	39.20	39.0	39.4	39.5	39.5	39.3	38.9	38.4	38.3	38.3	38.3
THB	21.07	21.2	21.5	21.7	21.9	22.0	22.0	21.9	22.0	22.0	22.0
MYR	2.7323	2.75	2.79	2.81	2.82	2.82	2.81	2.79	2.77	2.77	2.77
CNY	4.7074	4.72	4.80	4.83	4.86	4.86	4.82	4.79	4.75	4.71	4.67
IDR	11109	11055	11166	11120	11069	11011	10872	10730	10658	10658	10658
TWD	20.83	20.4	20.5	20.4	20.4	20.6	20.7	20.7	20.8	20.8	20.8
KRW	981	965	966	959	959	958	958	957	960	960	960
INR	60.10	59.6	60.3	59.8	59.2	58.6	57.6	56.6	56.2	55.5	55.5

# Australia

## Activity forecasts

%qtr / %yr end	2025		2026				2027		Calendar years			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2024	2025f	2026f	2027f
Household consumption	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.9	2.5	2.5	2.8
Dwelling investment	1.8	1.2	1.3	1.6	1.7	1.7	1.7	1.5	5.3	5.9	6.6	5.5
Business investment *	3.4	0.6	0.8	0.9	1.1	1.1	1.1	1.1	-0.7	3.9	4.0	4.6
Private demand *	1.2	0.6	0.7	0.8	0.9	0.9	0.9	0.9	1.0	3.1	3.3	3.4
Public demand *	1.1	0.7	0.8	0.7	0.5	0.6	0.6	0.6	5.6	1.5	2.6	2.5
Domestic demand	1.2	0.6	0.7	0.8	0.8	0.8	0.8	0.8	2.2	2.6	3.1	3.2
Stock contribution	-0.5	0.1	0.1	0.0	-0.0	0.0	-0.0	-0.1	0.0	-0.1	0.1	-0.1
GNE	0.6	0.8	0.8	0.8	0.7	0.8	0.8	0.8	2.3	2.5	3.2	3.1
Exports	1.0	0.3	0.4	0.4	0.4	0.5	0.6	0.7	1.7	3.4	1.7	2.5
Imports	1.5	0.8	1.3	1.3	1.3	1.3	1.2	1.2	6.2	4.8	5.3	4.9
Net exports contribution	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.9	-0.3	-0.8	-0.6
<b>Real GDP %qtr / %yr avg</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>1.0</b>	<b>1.9</b>	<b>2.4</b>	<b>2.5</b>
<b>%yr end</b>	<b>2.1</b>	<b>2.2</b>	<b>2.4</b>	<b>2.2</b>	<b>2.4</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>1.3</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>
Nominal GDP %qtr / %yr avg	1.7	1.6	1.0	0.9	1.0	0.9	0.9	0.9	3.7	4.6	4.8	4.0
%yr end	5.4	5.4	5.2	5.4	4.6	3.9	3.8	3.8	3.5	5.4	3.9	4.4
Real household disp. income	0.9	0.3	0.8	0.5	1.8	-0.6	1.3	0.9	3.1	2.9	2.4	3.1

## Other macroeconomic variables

% change	2025		2026				2027		Calendar years			
	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2024	2025f	2026f	2027f
Employment %qtr **	0.2	0.3	0.4	0.3	0.4	0.4	0.5	0.5	-	-	-	-
%yr end **	1.5	1.3	1.5	1.2	1.3	1.4	1.6	1.8	2.2	1.3	1.4	2.1
Unemployment rate % **	4.3	4.3	4.4	4.5	4.6	4.6	4.6	4.5	4.0	4.3	4.6	4.4
Wages (WPI) (sa) %qtr	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.8	-	-	-	-
%yr end	3.4	3.4	3.2	3.1	3.0	3.0	3.1	3.1	3.2	3.4	3.0	3.1
Headline CPI %qtr	1.3	0.6	0.8	0.7	0.7	0.5	0.5	0.6	-	-	-	-
%yr end	3.2	3.6	3.4	3.4	2.7	2.7	2.5	2.4	2.4	3.6	2.7	2.7
Trimmed Mean CPI %qtr	1.0	0.8	0.6	0.6	0.6	0.6	0.6	0.5	-	-	-	-
%yr end	3.0	3.2	3.1	3.0	2.6	2.3	2.3	2.2	3.3	3.2	2.3	2.6
Current account \$bn, qtr	-16.6	-13.8	-13.6	-14.1	-16.2	-16.5	-16.8	-17.3	-	-	-	-
% of GDP	-2.3	-1.9	-1.8	-1.9	-2.2	-2.2	-2.2	-2.2	-2.5	-1.9	-2.2	-2.2
Terms of trade %yr avg	-3.3	-1.9	-0.3	1.1	1.6	1.4	0.6	-0.2	-4.8	-1.9	1.4	-0.5
Population %yr end	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.6	1.5	1.4	1.4

Calendar year changes are annual through-the-year percentage changes unless otherwise specified.

\* Business investment, private and public demand are adjusted to exclude the effect of private sector purchases of public sector assets. \*\* Quarter-averages.

## Macroeconomic variables – recent history

Monthly data	2024	2025										
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Employment '000 chg	52.2	28.6	-62.2	18.7	92.4	-3.2	2.3	32.9	-10.4	11.2	41.1	-21.3
Unemployment rate %	4.0	4.1	4.1	4.1	4.1	4.1	4.3	4.3	4.3	4.4	4.3	4.3
Westpac-MI Consumer Sentiment	92.8	92.1	92.2	95.9	90.1	92.1	92.6	93.1	98.5	95.4	92.1	103.8
Household spending %mth	0.3	0.5	0.3	0.1	0.1	1.1	0.3	0.5	0.0	0.3	1.3	-
Dwelling approvals %mth	0.3	9.5	-2.0	-5.8	-4.6	2.8	14.2	-10.2	-3.7	11.1	-6.4	-
Private sector credit %mth	0.6	0.5	0.5	0.5	0.7	0.6	0.6	0.7	0.6	0.6	0.7	-
Trade in goods balance AUDbn	4.1	4.6	2.8	6.0	4.5	1.8	4.6	6.4	1.3	3.7	4.4	-

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# New Zealand

## Interest rate forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Cash	2.25	2.25	2.25	2.25	2.50	2.75	3.00	3.25	3.50	3.75	3.75
90 Day Bill	2.49	2.35	2.35	2.40	2.70	2.95	3.20	3.40	3.70	3.85	3.85
2 Year Swap	3.08	3.05	3.20	3.40	3.60	3.75	3.85	3.95	4.00	4.00	4.00
10 Year Bond	4.49	4.40	4.45	4.55	4.70	4.85	4.90	4.95	4.95	4.95	4.95
10 Year Spread to US	-23	25	25	25	30	40	40	40	35	30	25
10 Year Spread to Aust	35	-5	5	10	20	30	30	35	35	30	25

Sources: Bloomberg, Westpac Economics.

## Currency forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
NZD vs											
USD	0.5808	0.57	0.58	0.59	0.60	0.62	0.63	0.64	0.65	0.65	0.65
JPY	90.35	86.6	88.2	89.1	89.4	90.5	90.7	90.9	91.0	89.7	88.4
EUR	0.4947	0.49	0.49	0.50	0.51	0.52	0.52	0.53	0.54	0.54	0.54
AUD	0.8718	0.85	0.85	0.85	0.86	0.87	0.88	0.88	0.89	0.89	0.89
CAD	0.8000	0.79	0.81	0.81	0.82	0.84	0.84	0.85	0.86	0.85	0.85
GBP	0.4337	0.43	0.44	0.44	0.44	0.45	0.46	0.46	0.47	0.47	0.47
CNY	4.0984	4.02	4.09	4.13	4.17	4.22	4.22	4.22	4.23	4.19	4.16

Sources: Bloomberg, Westpac Economics.

## Activity forecasts

% change	2025		2026			2027			Calendar years			
	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2024	2025f	2026f	2027f
Private consumption	0.4	0.7	0.9	1.0	1.0	1.0	1.0	0.9	-0.3	2.0	3.4	3.8
Government consumption	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.5	0.4	2.1	0.3	2.1
Residential investment	0.0	0.2	0.8	1.5	2.3	2.8	2.8	2.8	-11.5	-4.8	3.5	10.6
Business investment	1.5	2.0	2.2	2.0	1.8	1.7	1.5	1.3	-2.2	0.8	7.2	6.0
Stocks (ppt contribution)	0.5	0.3	-0.1	-0.4	-0.1	0.3	0.0	-0.3	0.2	0.4	0.2	-0.1
GNE	0.9	1.0	0.9	0.7	1.0	1.4	1.1	0.7	-1.2	1.5	3.6	4.1
Exports	1.0	0.9	0.7	0.6	0.7	0.7	0.6	0.7	4.7	1.6	2.8	2.7
Imports	0.5	1.8	1.6	1.7	1.4	1.5	1.3	1.0	1.6	2.3	5.7	5.0
GDP (production)	0.9	0.8	0.6	0.3	0.8	1.2	0.9	0.6	-0.6	0.5	2.3	3.4
Employment annual %	-0.6	-0.1	0.4	1.1	1.8	2.3	2.5	2.6	-1.2	-0.1	2.3	2.2
Unemployment rate % s.a.	5.3	5.4	5.4	5.3	5.1	4.9	4.7	4.5	5.1	5.4	4.9	4.3
LCI, all sect incl o/t, ann %	2.1	2.1	2.1	2.0	2.2	2.3	2.3	2.2	3.3	2.1	2.3	2.2
CPI annual %	3.0	2.9	2.3	2.3	2.1	2.3	2.3	2.1	2.2	2.9	2.3	2.1
Current account % of GDP	-3.5	-3.5	-3.6	-3.9	-4.1	-4.2	-4.2	-4.1	-4.7	-3.5	-4.2	-4.0
Terms of trade annual %	10.5	6.2	4.6	1.2	1.3	3.2	3.8	4.0	13.7	6.2	3.2	2.3

Sources: Statistics NZ, Westpac Economics.

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# Commodity prices

End of period	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Australian commodities index#	355	346	341	342	336	333	333	334	339	341	338
<b>Bulk commodities index#</b>	<b>379</b>	<b>370</b>	<b>350</b>	<b>340</b>	<b>330</b>	<b>340</b>	<b>340</b>	<b>340</b>	<b>340</b>	<b>350</b>	<b>350</b>
iron ore fines TSI @ 62% US\$/t	104	95	87	85	83	84	85	85	86	86	87
Premium low vol met coal (US\$/t)	206	200	192	196	198	199	201	202	203	205	206
Newcastle spot thermal coal (US\$/t)	115	110	108	108	109	109	110	111	111	112	112
crude oil (US\$/bbl) Brent ICE	62	61	60	59	58	59	60	65	70	71	70
LNG in Japan US\$mmbtu	10.40	9.8	9.5	9.3	9.1	8.8	8.9	8.7	9.4	10.2	10.3
gold (US\$/oz)	4,238	4,300	4,400	4,500	4,400	4,300	4,280	4,250	4,180	4,130	4,000
<b>Base metals index#</b>	<b>227</b>	<b>228</b>	<b>230</b>	<b>229</b>	<b>224</b>	<b>222</b>	<b>221</b>	<b>224</b>	<b>239</b>	<b>242</b>	<b>239</b>
copper (US\$/t)	11,566	11,600	11,700	11,700	11,500	11,400	11,300	11,150	12,040	12,220	12,100
aluminium (US\$/t)	2,849	2,880	3,000	2,950	2,880	2,800	2,800	2,980	3,160	3,200	3,160
nickel (US\$/t)	14,598	14,600	14,700	14,800	14,700	14,600	14,770	15,600	16,420	16,580	16,300
zinc (US\$/t)	3,157	3,100	3,000	2,950	2,850	2,830	2,800	2,780	2,920	2,940	2,900
lead (US\$/t)	1,956	1,970	1,960	1,940	1,930	1,920	1,940	2,060	2,170	2,190	2,150
<b>Rural commodities index#</b>	<b>123</b>	<b>122</b>	<b>123</b>	<b>124</b>	<b>125</b>	<b>123</b>	<b>124</b>	<b>135</b>	<b>146</b>	<b>148</b>	<b>147</b>
<b>NZ commodities index ##</b>	<b>379</b>	<b>362</b>	<b>363</b>	<b>371</b>	<b>380</b>	<b>388</b>	<b>393</b>	<b>397</b>	<b>399</b>	<b>401</b>	<b>402</b>
dairy price index ##	315	285	285	298	313	325	333	339	342	344	346
whole milk powder USD/t	3,364	3,100	3,200	3,390	3,600	3,700	3,800	3,840	3,880	3,880	3,880
skim milk powder USD/t	2,498	2,450	2,500	2,570	2,650	2,700	2,750	2,780	2,810	2,810	2,810
lamb price index ##	588	592	586	577	568	564	562	561	560	561	561
beef price index ##	366	335	337	338	340	340	341	340	340	339	338
forestry price index ##	154	155	156	157	159	161	163	166	168	170	170

Annual averages	levels				%change			
	2024	2025(f)	2026(f)	2027(f)	2024	2025(f)	2026(f)	2027(f)
Australian commodities index#	311	323	343	334	-3.4	4.0	6.1	-2.5
<b>Bulk commodities index#</b>	<b>433</b>	<b>377</b>	<b>352</b>	<b>342</b>	<b>-13.4</b>	<b>-12.9</b>	<b>-6.8</b>	<b>-2.6</b>
iron ore fines @ 62% USD/t	109	102	89	85	-8.5	-7.0	-12.3	-5.1
LNG in Japan \$mmbtu	13.0	11.8	9.6	8.9	-10.7	-9.5	-18.8	-6.7
ave coking coal price (US\$/t)	206	164	162	166	-4.1	-20.3	-1.3	2.2
ave thermal price (US\$/t)	136	119	112	113	-27.6	-12.3	-6.1	0.8
iron ore fines contracts (US¢ dltu)	163	142	130	120	1.3	-12.5	-8.7	-7.4
Premium low vol met coal (US\$/t)	241	188	197	201	-18.6	-21.9	4.9	1.9
crude oil (US\$/bbl) Brent ICE	78	67	60	63	-1.7	-13.2	-11.1	4.4
gold (US\$/oz)	2,410	3,460	4,390	4,270	22.8	43.6	26.9	-2.7
<b>Base metals index#</b>	<b>202</b>	<b>208</b>	<b>228</b>	<b>227</b>	<b>0.3</b>	<b>2.9</b>	<b>9.8</b>	<b>-0.7</b>
copper (US\$/t)	9,200	9,900	11,600	11,400	8.1	7.6	17.2	-1.7
aluminium (US\$/t)	2,400	2,600	2,900	2,900	5.6	8.3	11.5	0.0
nickel (US\$/t)	16,900	15,200	14,700	15,200	-21.8	-10.1	-3.3	3.4
zinc (US\$/t)	2,800	2,900	3,000	2,800	5.6	3.6	3.4	-6.7
lead (US\$/t)	2,100	2,000	2,000	2,000	-1.4	-4.8	0.0	0.0
<b>Rural commodities index#</b>	<b>126</b>	<b>120</b>	<b>123</b>	<b>130</b>	<b>-10.3</b>	<b>-4.9</b>	<b>2.3</b>	<b>5.9</b>
<b>NZ commodities index ##</b>	<b>357</b>	<b>390</b>	<b>369</b>	<b>394</b>	<b>8.4</b>	<b>9.1</b>	<b>-5.3</b>	<b>6.8</b>
dairy price index ##	318	348	295	335	10.9	9.6	-15.2	13.3
whole milk powder USD/t	3,439	3,908	3,291	3,774	11.6	13.6	-15.8	14.7
skim milk powder USD/t	2,686	2,705	2,528	2,742	1.8	0.7	-6.6	8.5
lamb price index ##	462	579	583	562	0.3	25.4	0.6	-3.6
beef price index ##	283	338	338	340	4.4	19.3	-0.1	0.8
forestry price index ##	159	152	157	165	-0.1	-4.7	2.9	5.2

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

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

# United States

## Interest rate forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Fed Funds*	3.625	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375
10 Year Bond	4.14	4.15	4.20	4.30	4.40	4.45	4.50	4.55	4.60	4.65	4.70

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

## Currency forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>USD vs</b>											
DXY index	98.35	98.3	97.5	96.7	96.2	95.6	95.2	94.7	94.2	93.9	93.7
JPY	155.57	151	149	147	145	144	142	140	138	136	134
EUR	1.1740	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21	1.21	1.21
AUD	0.6662	0.67	0.69	0.70	0.71	0.72	0.72	0.73	0.73	0.73	0.73
NZD	0.5808	0.57	0.59	0.60	0.61	0.62	0.63	0.64	0.65	0.65	0.65
CAD	1.3776	1.39	1.38	1.37	1.36	1.35	1.34	1.33	1.32	1.31	1.30
GBP	1.3391	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38	1.39	1.39
CHF	0.7948	0.80	0.80	0.79	0.79	0.79	0.79	0.79	0.79	0.79	0.79
ZAR	16.87	16.8	16.6	16.5	16.4	16.3	16.2	16.2	16.1	16.1	16.1
SGD	1.2918	1.29	1.28	1.27	1.27	1.27	1.27	1.26	1.26	1.26	1.26
HKD	7.7821	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	59.00	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.5	52.5	52.5
THB	31.63	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1	30.1
MYR	4.1068	4.10	4.08	4.05	4.00	3.95	3.90	3.85	3.80	3.80	3.80
CNY	7.0572	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50	6.45	6.40
IDR	16676	16500	16300	16000	15700	15400	15100	14800	14600	14600	14600
TWD	31.26	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5	28.5
KRW	1472	1440	1410	1380	1360	1340	1330	1320	1315	1315	1315
INR	90.37	89.0	88.0	86.0	84.0	82.0	80.0	78.0	77.0	76.0	76.0

## Activity forecasts

	2025				2026				Calendar years			
	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	2024	2025f	2026f	2027f
% annualised, s/adj												
Private consumption	0.5	1.6	1.1	0.5	2.1	2.0	2.0	2.0	2.8	2.0	1.6	2.1
Dwelling investment	-1.3	-4.7	1.6	0.0	0.8	1.2	1.6	1.6	4.2	-0.8	0.6	1.8
Business investment	10.3	5.7	2.3	2.3	3.4	3.5	3.8	3.8	3.6	4.2	3.3	3.5
Public demand	-0.6	-0.2	0.8	0.8	0.8	0.4	0.4	0.4	3.4	1.2	0.6	0.4
Domestic final demand	1.6	1.7	1.2	0.8	2.0	2.0	2.0	2.0	3.0	2.1	1.6	2.0
Inventories contribution ppt	2.6	-3.3	2.4	-0.4	0.4	0.4	-0.1	0.0	-0.2	0.3	0.1	-0.2
Net exports contribution ppt	-5.2	5.6	-0.3	-0.3	-0.6	-0.3	-0.4	-0.3	-0.5	-0.1	-0.4	-0.1
GDP	-0.5	3.3	3.2	0.1	1.8	2.1	1.6	1.8	2.8	1.9	1.8	1.8
%yr annual chg	2.0	2.1	2.1	1.5	2.1	1.8	1.4	1.8	-	-	-	-

## Other macroeconomic variables

Non-farm payrolls mth avg	174	93	25	15	0	40	70	90	161	101	60	115
Unemployment rate %	4.1	4.2	4.4	4.6	4.7	4.8	4.8	4.7	4.0	4.3	4.8	4.9
CPI headline %yr	2.7	2.6	3.0	3.2	3.2	3.0	2.8	2.5	3.0	2.9	2.9	2.5
PCE deflator, core %yr	2.8	2.7	3.0	3.1	3.1	2.9	2.7	2.4	2.8	2.9	2.8	2.3

Sources: Official agencies, Factset, Westpac Economics.

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# Europe & the United Kingdom

## Interest rate forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>Euro Area</b>											
ECB Deposit Rate	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
10 Year Bund	2.86	2.80	2.80	2.80	2.85	2.85	2.85	2.85	2.90	2.95	3.00
10 Year Spread to US	-128	-135	-140	-150	-155	-160	-165	-170	-170	-170	-170
<b>United Kingdom</b>											
BoE Bank Rate	4.00	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
10 Year Gilt	4.50	4.50	4.55	4.60	4.65	4.70	4.70	4.70	4.70	4.70	4.75
10 Year Spread to US	36	35	35	30	25	25	20	15	10	5	5

Sources: Bloomberg, Westpac Economics.

## Currency forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>euro vs</b>											
USD	1.1740	1.17	1.18	1.19	1.19	1.20	1.20	1.21	1.21	1.21	1.21
JPY	182.62	177	176	175	173	173	171	169	167	165	162
GBP	0.8767	0.88	0.88	0.88	0.88	0.87	0.87	0.88	0.88	0.87	0.87
CHF	0.9331	0.93	0.94	0.94	0.95	0.94	0.95	0.95	0.95	0.95	0.95
DKK	7.4690	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	10.86	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	11.82	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8
<b>sterling vs</b>											
USD	1.3391	1.33	1.34	1.35	1.36	1.37	1.37	1.38	1.38	1.39	1.39
JPY	208.31	201	200	198	197	197	195	193	190	189	186
CHF	1.0643	1.06	1.07	1.07	1.08	1.08	1.08	1.08	1.09	1.09	1.09
AUD	0.4975	0.50	0.51	0.51	0.52	0.52	0.52	0.53	0.53	0.53	0.53

Sources: Bloomberg, Westpac Economics.

## Activity forecasts

Annual average % chg	2021	2022	2023	2024	2025f	2026f	2027f
Euro area GDP	6.4	3.7	0.6	0.8	1.4	1.2	1.5
<i>private consumption</i>	4.6	5.3	0.6	1.2	1.3	1.2	1.4
<i>fixed investment</i>	3.7	2.2	2.7	-2.1	2.6	1.7	2.5
<i>government consumption</i>	4.3	1.3	1.5	2.2	1.7	2.0	2.1
<i>net exports contribution ppt</i>	1.4	-0.1	0.3	0.3	-0.5	-0.1	-0.2
Germany GDP	3.9	1.9	-0.7	-0.5	0.3	1.1	1.7
France GDP	6.8	2.8	1.6	1.1	0.9	1.0	1.2
Italy GDP	8.8	5.0	1.1	0.5	0.6	0.8	0.9
Spain GDP	6.7	6.4	2.5	3.5	2.9	2.1	2.1
Netherlands GDP	6.2	5.0	-0.6	1.1	1.7	1.3	1.6
United Kingdom GDP	8.5	5.1	0.3	1.1	1.4	1.0	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	0.2	0.9	1.5
Producer prices %yr	-0.4	10.3	-0.7	-2.7	-2.3	-2.4	-0.9	1.0
Industrial production (IVA)	2.8	9.6	3.6	4.6	5.8	5.6	4.8	4.6
Retail sales	-3.9	12.5	-0.2	7.2	3.5	4.8	4.8	5.0
Money supply M2 %yr	10.1	9.0	11.8	9.7	7.3	8.1	7.7	7.5
Fixed asset investment	2.9	4.9	5.1	3.0	3.2	0.5	4.2	4.5
Exports %yr	18.1	20.9	-9.9	-2.3	10.7	4.8	2.0	2.5
Imports %yr	6.5	19.5	-7.5	0.2	0.9	0.0	1.0	1.5

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

## Chinese interest rates & monetary policy

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Required reserve ratio %*	9.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Loan Prime Rate, 1-year	3.00	2.80	2.80	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 (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Policy Rate	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	1.93	1.95	1.95	1.90	1.90	1.85	1.85	1.80	1.80	1.80	1.80

## Currency forecasts

	Latest (12 Dec)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
JPY	155.57	151	149	147	145	144	142	140	138	136	134
SGD	1.2918	1.29	1.28	1.27	1.27	1.27	1.27	1.26	1.26	1.26	1.26
HKD	7.7821	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75
PHP	59.00	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.50	52.50	52.50
THB	31.63	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1	30.1
MYR	4.1068	4.10	4.08	4.05	4.00	3.95	3.90	3.85	3.80	3.80	3.80
CNY	7.0572	7.05	7.00	6.95	6.90	6.80	6.70	6.60	6.50	6.45	6.40
IDR	16676	16500	16300	16000	15700	15400	15100	14800	14600	14600	14600
TWD	31.26	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5	28.5
KRW	1472	1440	1410	1380	1360	1340	1330	1320	1315	1315	1315
INR	90.37	89.0	88.0	86.0	84.0	82.0	80.0	78.0	77.0	76.0	76.0

Source: Bloomberg, Westpac Economics.

# Worldwide

## Economic growth forecasts (year average) #

Real GDP %ann	2020	2021	2022	2023	2024	2025f	2026f	2027f
<b>World</b>	<b>-2.7</b>	<b>6.6</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>
United States	-2.1	6.2	2.5	2.9	2.8	1.9	1.8	1.8
Japan	-4.2	2.7	1.0	1.2	0.1	1.2	0.8	0.8
Euro zone	-6.2	6.4	3.7	0.6	0.8	1.4	1.2	1.5
<b>Group of 3</b>	<b>-3.9</b>	<b>5.8</b>	<b>2.8</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>
United Kingdom	-10.0	8.5	5.1	0.3	1.1	1.4	1.0	1.5
Canada	-5.0	6.0	4.2	1.5	1.6	1.2	1.2	1.8
Australia	-2.0	5.4	4.1	2.1	1.0	1.9	2.4	2.5
New Zealand	-1.3	5.7	2.9	1.8	-0.6	0.5	2.3	3.4
<b>OECD total</b>	<b>-4.2</b>	<b>6.1</b>	<b>3.2</b>	<b>1.9</b>	<b>1.8</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>
China	2.3	8.4	3.1	5.4	5.0	5.0	4.6	4.5
Korea	-0.7	4.6	2.7	1.6	2.0	0.9	1.8	1.9
Taiwan	3.4	6.7	2.7	1.1	4.8	5.6	2.9	2.7
Hong Kong	-6.5	6.5	-3.7	3.2	2.5	3.0	2.5	2.5
Singapore	-3.8	9.8	4.1	1.8	4.4	4.0	2.5	2.5
Indonesia	-2.1	3.7	5.3	5.0	5.0	5.0	5.1	5.2
Thailand	-6.1	1.5	2.6	2.0	2.5	2.0	2.1	2.5
Malaysia	-5.5	3.3	9.0	3.5	5.1	4.9	4.4	4.4
Philippines	-9.5	5.7	7.6	5.5	5.7	5.1	5.5	5.7
Vietnam	2.9	2.6	8.5	5.1	7.1	7.2	6.8	6.5
<b>East Asia</b>	<b>0.9</b>	<b>7.1</b>	<b>3.6</b>	<b>4.7</b>	<b>4.8</b>	<b>4.7</b>	<b>4.4</b>	<b>4.3</b>
East Asia ex China	-2.2	4.4	4.6	3.4	4.3	4.1	3.9	4.0
<b>NIEs*</b>	<b>-0.5</b>	<b>6.0</b>	<b>-2.3</b>	<b>1.6</b>	<b>3.2</b>	<b>2.9</b>	<b>2.3</b>	<b>2.3</b>
India	-5.8	9.7	7.6	9.2	6.5	6.6	6.8	6.3
Russia	-2.7	5.9	-1.4	4.1	4.3	0.6	1.2	1.2
Brazil	-3.3	4.8	3.0	3.2	3.4	2.3	1.9	2.1
South Africa	-6.2	4.9	2.1	0.8	0.5	1.1	1.2	1.5
Mexico	-8.4	6.0	3.7	3.4	1.4	1.0	1.5	2.0
Argentina	-9.9	10.4	6.0	-1.9	-1.3	4.5	4.0	4.0
Chile	-6.1	11.3	2.2	0.5	2.6	2.5	2.0	2.3
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	3.0	2.9	2.8	2.9	3.1
Africa	-3.1	3.8	4.4	3.7	4.1	4.1	4.4	4.5
Emerging ex-East Asia	-3.8	6.7	3.7	4.3	4.5	4.1	4.2	4.1
Other countries	2.4	6.7	4.8	4.7	1.6	3.3	3.0	3.1
<b>World</b>	<b>-2.7</b>	<b>6.6</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>3.2</b>	<b>3.2</b>	<b>3.2</b>

#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.



# Corporate Directory

## Westpac Economics / Australia

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