February 2026

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK February 2026

Australia

The World

Summary forecast tables

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New year, same vibes?

Dramatic swings in risk sentiment have driven some eye-catching moves across alternative assets over the last two months. This was perhaps most apparent in commodity markets, where US President Trump's increasingly forceful foreign interventions and threats to the Fed's independence catapulted gold and silver prices 30% and 70% to new record highs. While subsequent falls and a 32% drop in Bitcoin have again highlighted the erratic nature of sentiment on the market's periphery, the core 'traditional' asset markets – stocks and bonds – have been less affected. The main exception is an ongoing sell-off in the US dollar, which suggests the defining trends of 2025 are still firmly in play.

This is also true for the real economy, where developments have had a somewhat clearer throughline moving into the new year. Growth is generally holding up better than feared a year ago. In China, there is still a clear need for authorities to provide more domestic support for households and confidence, with likely limits on the scope for wider growth targets to continue being met by expanding net exports alone. The ECB meanwhile looks like it will be emphatically on hold as inflation holds sustainably at target. The Bank of England still likely has a few more rate cuts in the tank now that inflation has continues its gradual descent to target.

However, the 'vibe' has shifted for some other economies. A more constructive starting point for jobs growth and incomes in the US has reduced some of the downside risks to activity, leading us to push out our forecast for what we believe will be the FOMC's final rate cut, in June. Another cut beyond June is a high hurdle given above-target inflation and binding capacity constraints, though markets appear to be bracing for a dovish shift as Kevin Warsh takes over from Jerome Powell as FOMC Chair in May.

Surprisingly hotter reads on inflation saw a policy u-turn for the RBA, with a 25bp rate hike in February and a likely follow-up in May dimming growth prospects in 2026 and 2027 at the margin. New Zealand's economic rebound also looks much more assured, which we believe will see the RBNZ start its policy normalisation process later this year.

Australia: The flow of data has surprised to the upside since our last update. The strength in consumer spending observed over Q3 appears to have accelerated through Q4 and into early 2026. Inflation has also surprised to the upside, with the underlying impulse gaining more momentum than we had anticipated. Against this backdrop, the RBA moved to hike rates 25bps at its February meeting and we now expect it to deliver another 25bp rate hike in May.

Commodities: The strong finish to 2025 has carried into 2026, with our broad commodities index rising 11% since December. Gold grabbed the headlines and led the gains, but coal, nickel, copper and oil also rose. We upgraded our end 2026 price forecasts with the index now 16% higher at December 2026.

Global FX Markets: The US dollar has lost its way, falling back to a near 4-year low, 15% below its mid-2022 peak and 1.7% under its 10-year average. Our baseline expectation is that the dollar will settle between its current level and the 20-year average, but risks are arguably skewed to the downside.

New Zealand: The tone of the economic data since late 2025 has been stronger and GDP was surprisingly strong in the second half of 2025. Markets are now looking more confidently for OCR increases in 2026, but we still think the RBNZ will hold fire until the end of year. The OCR should move up more quickly in 2027 once its clear excess capacity has dwindled and inflation is still a bit high.

United States: In 2026, growth is likely to normalise towards trend after 5 years of outperformance, but a sustained period of sub-par momentum seems remote. There seems little reason for the FOMC to cut more than once more in 2026.

China: Growth expectations were met in 2025, but this performance is unlikely to repeat absent pro-active stimulus at scale within months. Achieving sustainable growth above 4% requires domestic demand take over from net exports.

Asia: Equity investment is increasingly split between tech-focused economies and those more reliant on services. Demand for AI infrastructure has supported electronics producers after years of high-tech manufacturing investment. China plays a central role as both innovator and investor. In contrast, India and the Philippines saw outflows and weaker currencies as investors shifted toward northeast Asia's AI-driven opportunities.

Europe & UK: In contrast to the RBA, major European central banks have stayed on a steady policy course, with the European Central Bank showing little inclination to change its current stance, and the Bank of England positioned to continue lowering Bank Rate by 25bp per quarter in both Q1 and Q2 this year.

De-dollarisation and politics shape global markets ...

Luci Ellis
Chief Economist, Westpac Group

It has been an eventful start to the year. On top of a procession of geopolitical events and ongoing uncertainty about the implications of the AI boom, global markets have been buffeted by a growing pivot out of USD-denominated assets. Some of that pivot has involved investors retaining exposure to the underlying US assets but hedging the exchange rate exposure, while in other cases, portfolios are being reallocated outright.

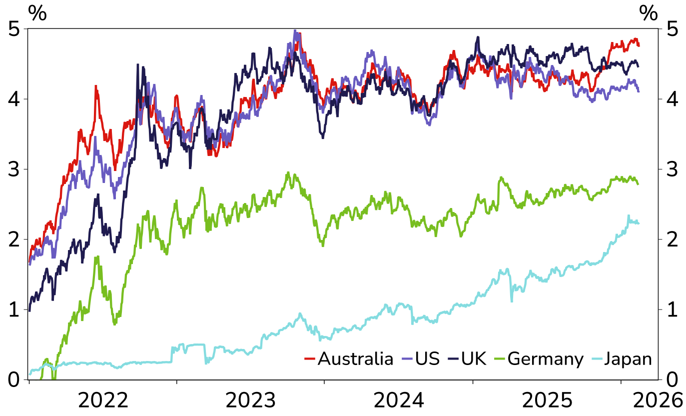
This shift has not materially altered debt pricing in the large US and other major markets, with 10-year government bond yields little changed in recent months. However, its impact is more evident in compressed credit spreads, and in smaller debt markets such as Australia's, where issuance volumes have expanded to take advantage of strong investor demand. It also involved further buying of gold and other precious metals though some of the latest run-up has reversed.

Among the triggers for the latest phase of this 'de-dollarisation' pivot have been the various geopolitical events of recent weeks, many of which are seen as US-negative and USD-negative. For example, January saw a new front open in the struggle over Fed independence, with the US Department of Justice announcing an investigation into Fed Chair Powell that could potentially involve criminal charges. The nominee for next Fed Chair, Kevin Warsh, is seen as less dovish than the other candidates, so the news contributed to a brief sell-off in US bond markets.

More broadly, we continue to see the FOMC cutting the fed funds rate by less than markets have been pricing – and less than the Trump administration would like. The labour market is manifestly not weakening currently. Indeed, its supply outlook is increasingly constrained and likely to underpin above-target inflation. We see one further cut as possible, with this occurring in the June quarter at the earliest, after the change in leadership. Most other central banks are towards the end of easing phases with policy rate increases seen as being a long way off – with the BoJ, and now the RBA, being clear exceptions.

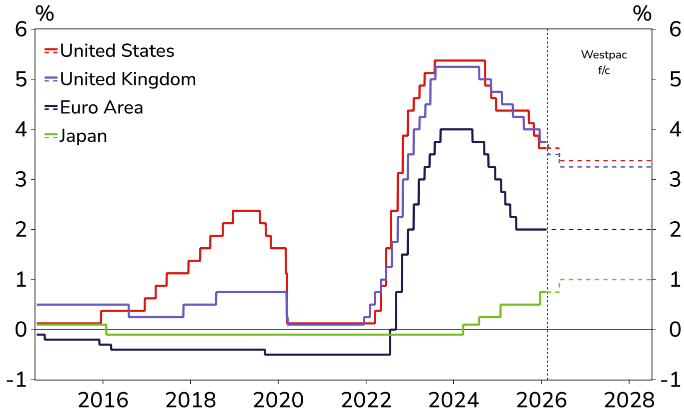
The pivot out of USD assets has materially contributed to a sell-off of the USD in recent weeks. Over the past month, DXY is down 2%. Despite this, standard metrics still show the USD as moderately overvalued, with the real effective exchange rate around 12% above its long-run average. Meanwhile, because the Chinese currency is closely managed to maintain its USD exchange rate, it has moved relatively little in trade-weighted terms. But China's lower inflation rate means its real effective exchange rate is around 15% below the peak in early 2022. JPY is also around 40% below its long-run average in real effective terms; some of this decline could be structural.

Global 10-year bond yields



Source: Bloomberg, Macrobond, Westpac Economics

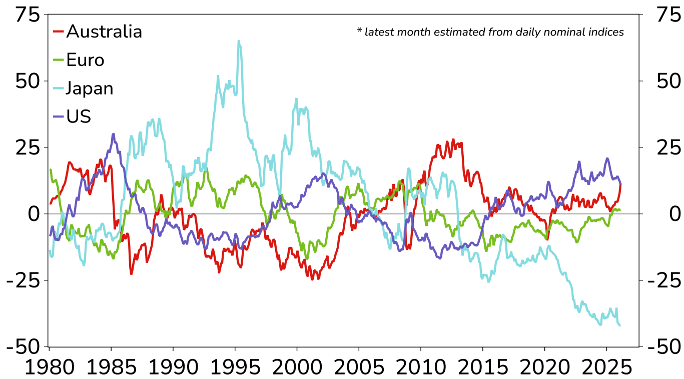
Major Central Bank Policy Rates



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

Real Effective Exchange Rates

Deviation from long-run average (%)



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

… while the RBA turns both hawkish and gloomy

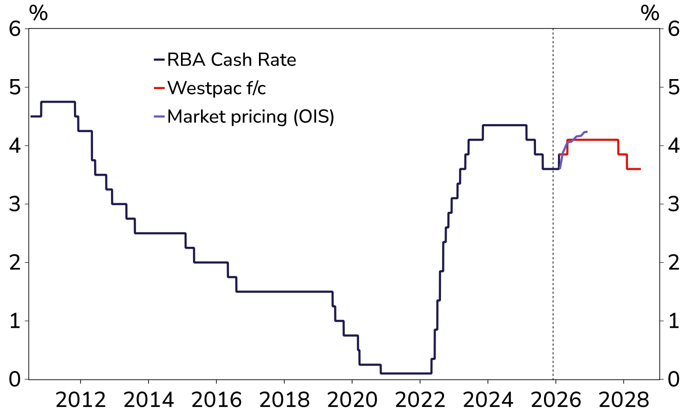
In Australia, the interest rate outlook has shifted significantly in the past two months. Inflation remained elevated in Q4 following Q3's high result. While a large part of this is likely to be temporary, a portion may prove more lasting (the RBA does not expect trimmed mean inflation to return to the 2–3% target range until next year). The softening in the labour market appeared to have paused around the end of the year. Private sector spending picked up more sharply than we or the RBA expected. The RBA Monetary Policy Board (MPB) therefore raised the cash rate by 25bps to 3.85% at its February meeting. We expect the RBA to hike the cash rate again at its May meeting, given the Q1 inflation print is unlikely to be subdued enough to assuage the RBA's concerns. The risks around our view are that the RBA moves sooner, in March, or does more.

Further out, a key uncertainty around the outlook for rates comes from the exchange rate. The AUD has appreciated noticeably since the start of the year. In trade-weighted terms, it is up 5% since the beginning of the year and 10% since the start of 2025. Part of this appreciation is attributable to the shifting outlook for interest rates; yields on Australian 10-year sovereign bonds are now around 65bp above their US equivalents, making them attractive to global investors, within the broader pivot away from USD-denominated assets.

However, at least some of the AUD's appreciation stems from other factors, including higher prices for some key commodities (see page 9) and the sell-off in the USD. Note that the USD and CNY together have a roughly 40% weight in the TWI and the import-weighted index. The TWI's appreciation is larger than model-implied responses to the shifting rates outlook. As such, if it sustained, downward pressure on inflation in imported items can be expected over the next year or two. Our assessment is that – partly for timing reasons – the RBA might not have fully allowed for this possibility in its February forecasts or assessment of risks.

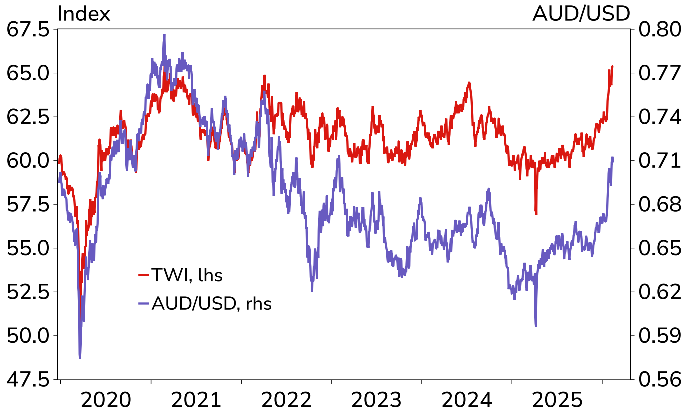
Another key uncertainty relates to the extremely gloomy outlook for output growth implied by the RBA's latest forecasts, below 2% both this year and next. The RBA currently assesses the Australian economy to be tighter than full employment; in the jargon, the 'output gap' is above zero. To credibly forecast the disinflation needed to return inflation to target, output growth 'needs' to be below growth in supply capacity to create some economic slack. The RBA's assessment of the trend growth rate of supply is just above 2%, so its forecast for growth needs to be below this rate to credibly achieve the disinflation, and monetary policy needs to be set to achieve this slower growth rate. We have previously discussed our view that this estimate of trend in Australia is too low, both because population growth and labour supply growth are likely to be somewhat higher, and because productivity growth is also likely to be at least a little higher even without a contribution from AI adoption. Developments in growth and inflation together will determine which view is closer to the truth.

RBA Cash Rate



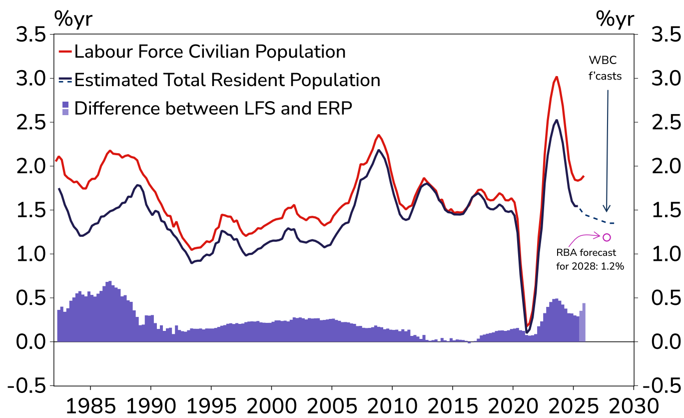
Source: RBA, Macrobond, Westpac Economics

Australian Dollar



Source: Bloomberg, Macrobond, Westpac Economics

Total and Working-age Civilian Population Growth



Source: ABS, Macrobond, Westpac Economics

Upside momentum …

Pat Bustamante
Senior Economist

The flow of data has surprised to the upside since our last update. The strength in consumer spending observed over the September quarter appears to have accelerated through the December quarter and into early 2026. Inflation has also surprised to the upside, with the underlying impulse gaining more momentum than we had anticipated. Against this backdrop, the RBA moved to hike rates 25bps at its February meeting and we now expect it to deliver another 25bp rate hike in May.

Since our last update, partial economic indicators point to a pick-up in momentum, with upside risks that were evident late last year now materialising. Household consumption has picked up more quickly than expected, supported by recovering real incomes and purchasing power. Household spending expected to have grown by 1.0% in the December quarter (up from the 0.5%qtr expected when the December Market Outlook was released, see here) and by 3.0%yr – equal to the strongest yearended outcome outside of the COVID period since the March quarter 2012.

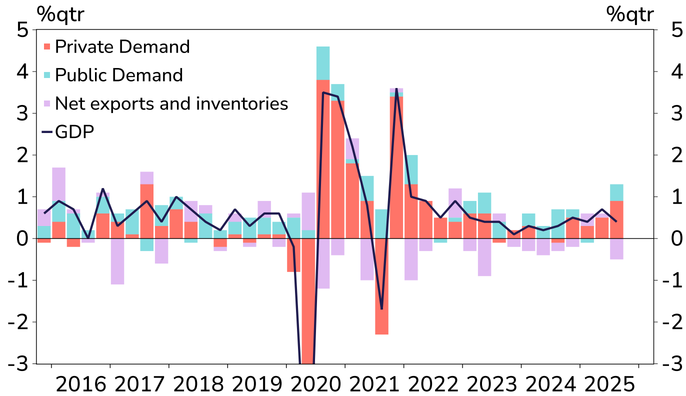
While higher interest rates are expected to lead to a slight moderation in the pace of consumption growth, spending will continue to be supported by wealth effects from higher dwelling prices and accumulated savings.

Over the 2026 and 2027 calendar years, we expect consumption growth to maintain a relatively healthy 2.5% year-ended pace. This will support investment in consumerfacing industries, complementing solid capital expenditure growth already coming through in structurally-driven industries such as energy generation and transmission, as well as AI and other emerging technologies. Housing construction is also set to expand with approvals tracking higher, state government initiatives starting to generate a bit more traction and still a significant backlog of existing work. Taken together, these dynamics are expected to see new private demand grow by a solid 3.4%yr in 2025, before moderating slightly to around 3¼% yr over 2026 and 2027.

The outlook for new public demand remains largely unchanged. We expect public infrastructure activity to have stabilised in the December quarter after declining over the first half of 2025. At the same time, demanddriven programs such as the NDIS, along with ongoing funding for education and health services to support population growth, will continue to underpin growth in new public demand, albeit at a slower pace.

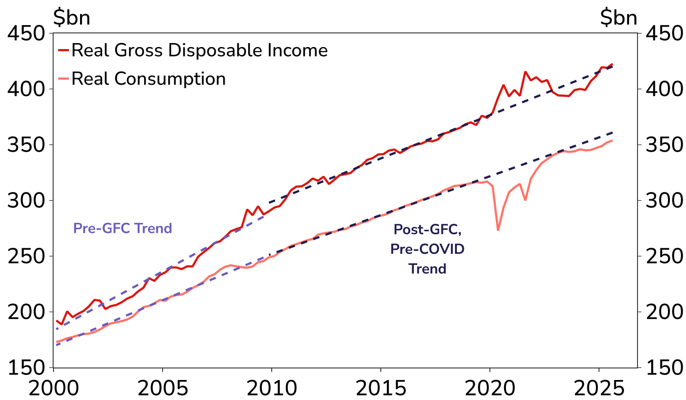
Overall, we expect new public demand to grow by around 1½% yr in 2025 and by 2½% yr in both 2026 and 2027.

Contributions to quarterly GDP growth



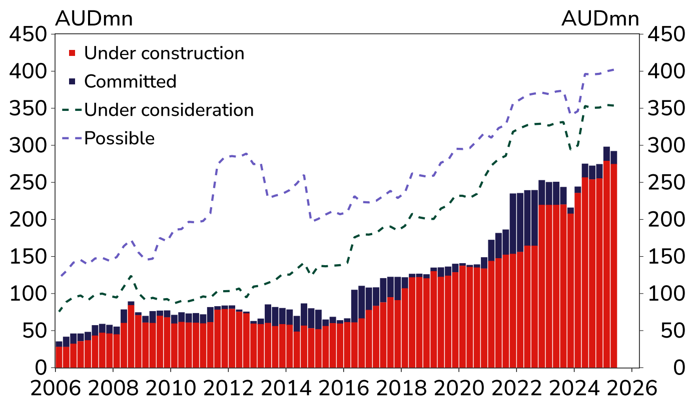
Source: ABS, Macrobond, Westpac Economics

Real income and consumption



Source: ABS, Macrobond, Westpac Economics

Transport project pipeline



Source: Deloitte Investment Monitor, Macrobond, Westpac Economics

… and higher for longer inflation

Inflation persistence reflects stronger demand and a larger public footprint

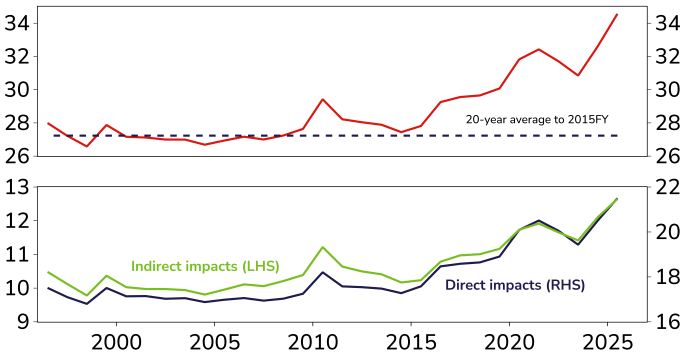
Inflation has again surprised to the upside, with the underlying impulse gaining more momentum than anticipated. We now expect inflation to remain slightly higher for longer. This persistence does not appear to be driven by renewed supply shocks, but rather by strength in domestic demand emerging ahead of capacity in key parts of the economy being able to respond.

Importantly, policyrelated or administered prices (such as water and council rates), volatile items (notably fresh food) and an unwind in discounting by homebuilders all boosted inflation in ways that do not imply binding capacity pressures. The last of these is particularly important because the construction cost of building a new home carries a high weight in the CPI basket and can therefore exert a meaningful influence on the trajectory of underlying inflation.

Recently published Westpac Economics research (see here) shows that the expansion in public spending has lifted output and employment across a broad swathe of the economy, not just the nonmarket sector. In turn, this has reduced the share of labour and capital available for privatesector activity. This likely added to capacity pressures and led to higher inflation in affected industries over a longer horizon, particularly construction and some services sectors, even though growth in public demand has moderated more recently.

Output driven by public spending

% share of total nominal GVA



Source: ABS, Macrobond, Westpac Economics

There is light at the end of the tunnel

We now expect inflation to be above the RBA's 2–3% target range for most of 2026 only moving back below 3.0%yr in 2027 and reaching the mid-point of 2.5%yr by the end of next year (2027) This gradual disinflation is expected to be driven by several factors.

Firstly, public investment now appears to be slowing as the major round of public transport 'mega-projects' is rolling off. This includes Sydney's WestConnex, Western Sydney Airport and the Metro (Southwest to open in 2026 with West completing by 2032). In Melbourne, the list includes the Metro Tunnel and the Airport Rail Link (2029), with longer, and more uncertain timelines for the Suburban Rail Loop and Geelong Fast Rail projects. In Brisbane and southeast Queensland, the list includes Cross River Rail (2025-26) and Gold Coast Light Rail (2026) but with a significant round of transport and other infrastructure projects that will be supporting activity through to the Brisbane Olympics in 2032.

This matters for two reasons: it reduces pressure on the already constrained construction sector, and it marks a shift from demand-dominated construction activity toward the utilisation of the capital stock. As new infrastructure comes online, the economy's supply capacity will expand and ease inflationary pressures over time.

Secondly, we expect a cyclical upturn in productivity. As large public (and some private) capital projects are completed and begin operating, measured productivity should improve. The transition from building assets and infrastructure to using them is particularly relevant in sectors such as transport and ITC. For example, once Western Sydney Airport becomes fully operational, it will boost supply with relatively modest additional labour input. Similar dynamics are expected across energy and IT.

Thirdly, the significant appreciation of the AUD is likely to weigh on imported inflation starting from later this year. Some of the additional inflation pressure from prices of consumer goods seen late last year could therefore go into reverse and help the RBA Board get inflation back down to target.

Finally, further tightening by the RBA is expected to "lean into the upturn." At 4.10%, the cash rate will be restrictive and will slow spending. However, given the strength of the underlying growth impulse, we do not think it will be contractionary enough to generate a material rise in unemployment. Instead, we continue to expect the economy to run relatively strongly through 2026 and 2027, with growth moderating only gradually as policy restraint gains traction.

There are risks on both sides

As we have previously noted, there are two-sided risks on the outlook for economic activity and inflation. On the one hand, higher than expected inflation coupled with rate hikes could weigh more heavily on consumer spending, giving rise to downside activity and inflation risks. Conversely, consumers, having already gained momentum and with some evidence that 'wealth effects' are at play, may continue to surprise to the upside. In addition, stronger than expected take-up of demand driven government programs, such as the NDIS, could see public spending add to capacity constraints, and at the margins, inflationary pressures. This uncertainty means the evolution of both productivity and inflation is set to be both slow and uncertain, which means the RBA will be on edge near-term and that reluctant to unwind any tightening until it is convinced inflation is no longer a threat.

Gold is not the only commodity shining ...

Justin Smirk
Senior Economist, Westpac Group

Commodities finished 2025 on a firm footing and momentum looks to have carried into early 2026. Since our previous publication on December 12, Westpac's broad commodities index has risen by almost 11%. While gold has dominated the headlines – up 19% since December and 73% over the past year – gains have been quite broad-based across the complex. Hard coking coal has risen 21% (34%yr), nickel is up 19% (13%yr), copper gained 12% (39%yr), and Brent crude is 12% higher (albeit off –5%yr). Iron ore is the only commodity we track that has recorded a meaningful decline over the period, falling by around 3% (–4%yr).

In response to this broad-based strength and an improving outlook, we have upgraded our end 2026 profiles for a number of commodities. Gold has been lifted to US$5,600/oz (from US$4,400/oz), copper to US$13,500/t (from US$11,500/t), nickel to US$18,100/t (from US$14,700/t), and Brent crude to US$62/bbl (from US$58/bbl). Overall, our broad commodities index forecast for end 2026 is now around 16% higher than in our December publication.

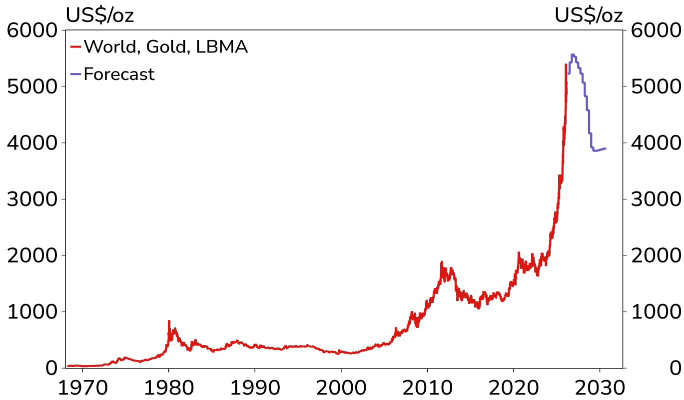
Gold to continue hitting record highs in 2026

Our bullish year-end gold price forecast of US$5,600/oz reflects a compelling macroeconomic case for sustained strength. Over the past fifty or so years, gold bear markets have coincided with stronger economic growth, falling inflation expectations, a strengthening USD, and declining risk premia.

Demand is currently being underpinned by a combination of structural and cyclical factors. Central bank purchases remain a key pillar of support, with buying expected to continue given elevated geopolitical risks and ongoing concerns around reserve diversification. Investor interest has broadened across both institutional and retail channels, with inflows proving resilient even as some long-term holders take profits. Physical demand has also been stronger than expected, including seasonal support from China ahead of the Lunar New Year.

More broadly, gold benefits from shifts in asset allocation away from US-centric exposures. Given the relative size of global capital markets compared to the gold market even modest reallocations can have a significant impact on price. While official sector buying is likely to gradually slow over time, there are upside risks should geopolitical tensions remain elevated or escalate further. Combined with expectations of weaker growth, persistent inflation risks, a softer USD and continued de-dollarisation dynamics, these should be sufficient to sustain strong gold prices.

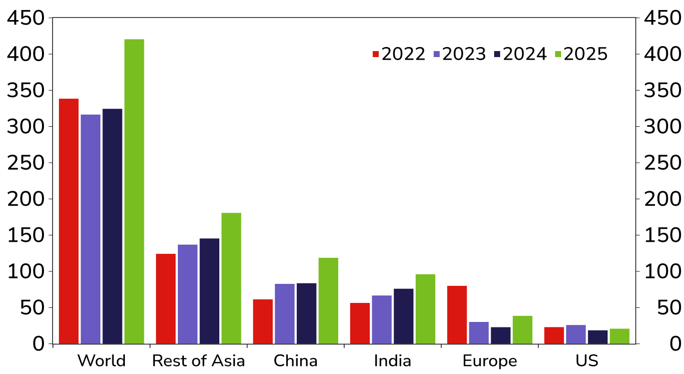
Gold continues the rally from 2024



Source: LBMA, FTSE Russell, Macrobond, Westpac Economics

Asian demand is driving global gold prices

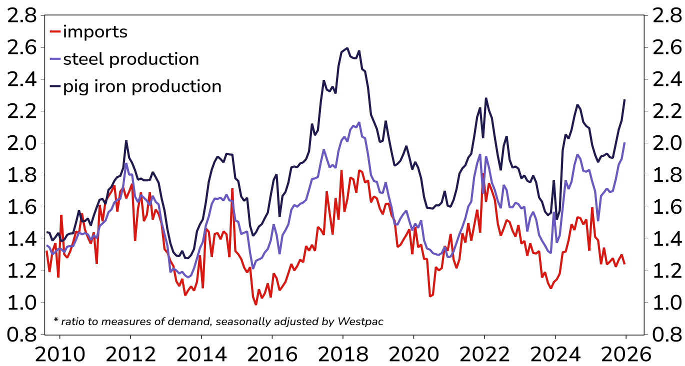
Holdings of bar and coin (tonnes)



Source: World Gold Council, Macrobond, Westpac Economics

China iron ore port inventories

Inventories rising rapidly compared to demand



Source: Bloomberg, Macrobond, Westpac Economics

… but iron is facing supply and demand pressure

Geopolitics buoy crude but supply forms a cap

Crude prices remain range-bound, with geopolitical risk continuing to provide intermittent support but diplomacy and improving supply limiting the upside. More recently, Brent was buoyed by reports of the US preparing a second aircraft carrier for deployment to the Middle East while American-flagged vessels have been urged to transit close to Oman's territorial waters when navigating the Strait of Hormuz. This has been offset by signs of engagement, including reports that Tehran is open to nuclear site verification despite its refusal to halt uranium enrichment.

On the supply side, OPEC+ reported January crude production fell to around 643kbpd below target, driven by sharp declines in Russian and Kazakh production. Russian output is reported to have slipped further to around 9.28mbpd, nearly 300kbpd below its OPEC+ target, while Ukraine continues to target Russian refining infrastructure. These disruptions have been partly offset by a sharp rebound in US crude production and a steady recovery in Venezuelan output with the EIA forecasting a return to pre-sanctions levels by mid year.

So far, US inventory data has been mixed, with crude and gasoline stocks rising while distillate inventories have declined. China's strategic petroleum reserve build is expected to continue before easing in 2027 and while this is a near-term support it also adds to medium-term uncertainty. Overall, geopolitical risk remains a key support but rising non-OPEC supply, particularly from North America, and mixed demand signals keep crude anchored to recent ranges.

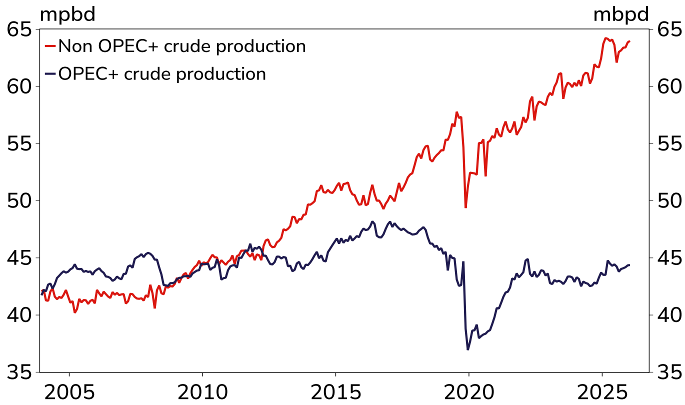
Iron ore faces weak seasonal demand, supply risks

Iron ore prices were weighed down by elevated Chinese port inventories, steel mill maintenance and cautious procurement ahead of the Lunar New Year holiday. Iron ore prices eased to just above US$100/t, briefly testing the lows seen last August. Fresh seasonal highs in port inventories reinforced demand concerns with activity slowing into the holiday period.

Supply-side risks briefly emerged following Tropical Cyclone Mitchell, which forced bulk carriers out to sea from major Pilbara ports. However, the system tracked southwest allowing ports to reopen and the Bureau of Meteorology to cancel its weather advisory with no reports of material damage, resulting in only a temporary impact on prices.

The medium-term outlook remains challenging. Rising supply and moderating demand point to a more surplus-prone market. However, fundamentals have held up better than expected, with prices above US$100/t through 2025. We expect prices to dip below $100/t in the first quarter as demand continues to soften combined with incremental growth in supply.

Non-OPEC remains the key driver



Source: EIA, Macrobond, Westpac Economics

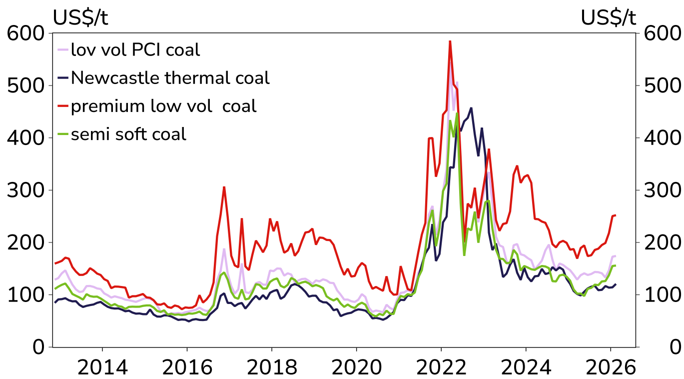
Further out, the market will move into surplus as supply lifts and demand eases. Chinese steel production peaked in 2020 and has been trending down since. Scrap displacement should also increase, partly offset by growth in demand from India and South-East Asia. With additional supply from Simandou and major producers outweighing depletion among marginal producers, prices should fall below US$85/t through 2027.

Seaborne coal sees near-term upside as met tightness and energy demand support prices

Seaborne coal markets remain firm, with met coal supported by supply disruptions, Qld weather risks and tight availability of premium coking coal, pushing prices above US$250/t. This strength is unlikely to persist into the second half as supply ramps up. Thermal coal prices remain near the cost curve, but upside risks stem from constrained Chinese supply, winter demand and potential cuts to Indonesia's 2026 production quota, alongside strong global power demand growth driven partly by the rapid development AI data processing centres.

Australian coal prices

Downside constrained by cost curve



Source: Bloomberg, Macrobond, Westpac Economics

The USD is set to test ...

Elliot Clarke
Head of International Economics

The US dollar initially rallied from 97.9 in late-December to 99.4 mid-January. However, it then lost its way, falling back to a near 4-year low of 96.2, now 96.9. At the current level, the US dollar is 15% below its mid-2022 peak and almost 2% under its 10-year average. Our baseline expectation is that the dollar will settle between its current level and the 20-year average over the coming 12-18 months, but risks are arguably skewed to the downside.

It is not as though we have a pessimistic view on the US economy, however. Indeed, quite the opposite. As detailed on page 16, our baseline expectation for 2026 is another year of above-trend growth, led by the consumer and tech infrastructure investment. Underlying this expectation is the view that the labour market will remain fully employed and wage growth ahead of inflation.

Along with the lagged effect of tariffs and evidence of capacity constraints across a number of key sectors such as housing, transport, energy and health, there is therefore good reason to believe that inflation will remain above the FOMC's 2.0%yr target and risks skewed to the upside. The above views on growth and inflation are why we hold the expectation of one more cut from the FOMC loosely against market pricing for at least two cuts this year.

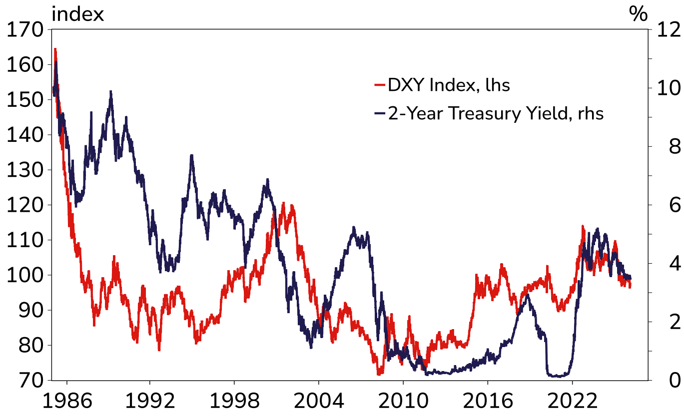
Why then do we expect the US dollar to fall further and risks to remain skewed to the downside? It is because of the opportunities elsewhere.

Regarding financial opportunities, the strong run for US equities limits the chance of further outperformance, the global dominance of US technology firms notwithstanding. Also, unlike the years immediately following the pandemic, the narratives around both Europe and Asia's economies are increasingly focused on growth and economic development rather than trade risks, and investors have been taking note of these themes.

As important as the trends themselves are their likely persistence, with economic growth in Europe and Asia to continue receiving support over the coming decade and potentially beyond. This is a striking contrast to the US' current situation where the upcycle in infrastructure spending is likely at or very near its peak, and the dividend from it likely to come in the form of distributed efficiency wins across the economy and for profits, more so than an outright surge in production and national income.

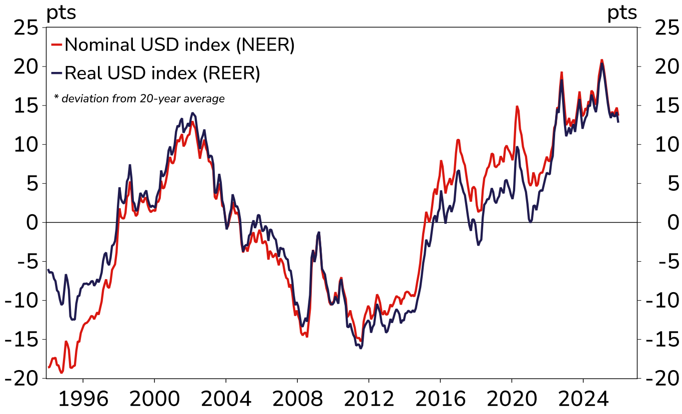
Considering recent developments by each bilateral exchange rate within the DXY group, euro and sterling have clearly been the big winners. Since mid-January, EUR/USD has risen from USD1.16 to USD1.19, which is materially above the average

US prime factor of global markets



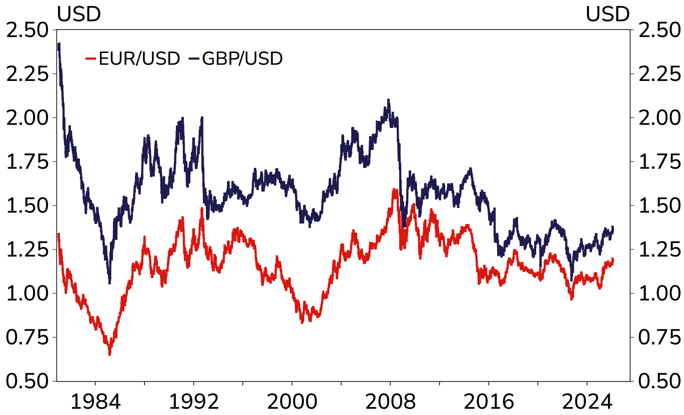
Source: Bloomberg, Macrobond, Westpac Economics

USD valuation experiencing a reset



Source: BIS, Macrobond, Westpac Economics

Euro and Sterling benefitting



Source: Bloomberg, Macrobond, Westpac Economics

... multi-decade levels

of the past decade, USD1.12. Sterling has followed suit, GBP/USD rising from USD1.30 in November (also its decade average) to USD1.36 today.

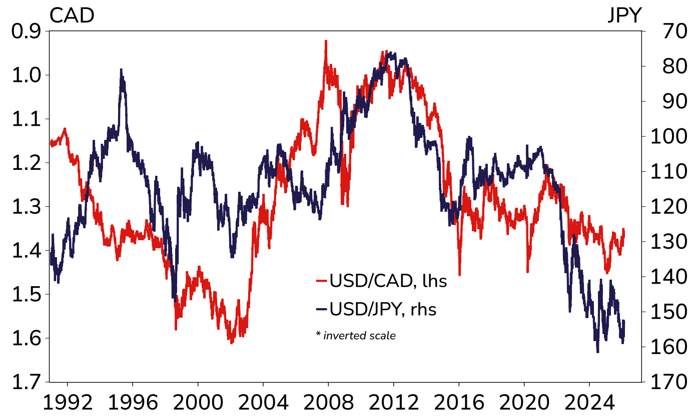
The Canadian dollar's recent gain has been more modest, USD/CAD only falling from CAD1.39 in mid-January to CAD1.36, above the decade average of CAD1.33 (i.e. the Canadian dollar is still below its 10-year average versus the US dollar). Meanwhile, Japan's yen has been little changed on net since mid-December, albeit with considerable volatility day-to-day amid a myriad of political and geopolitical developments.

Ahead, amongst the DXY pairs, relative changes are likely to follow a similar pattern, with euro and sterling most likely to show strength – we believe to respective peaks of USD1.22 and USD1.41 by mid-2027. The Canadian dollar is also expected to rally materially, but likely not until late-2027 and 2028 once growth has strengthened and trade uncertainties have been put to rest. At June 2027, we expect USD/CAD to only be marginally lower at CAD1.34. But by June 2028, we forecast USD/CAD to have fallen to CAD1.30. For each currency, there is clear upside against the US dollar, but likely only if downside US economic and / or policy risks assert.

A similar logic can be laid out for the yen. Prime Minister Sanae Takaichi and the LDP's historic win in February's lower house election will provide considerable scope for fiscal policy to aid growth and confidence amongst businesses and consumers – the latter group particularly if the suspension of the consumer tax on food goes ahead. Still, the stance of monetary policy is unlikely to change materially in the near term, and so yield support for the yen should hold at current levels, not increase. Yen appreciation is therefore only seen gaining momentum as growth sustains and persistent inflation gives the Bank of Japan cause to act. Global investment flows are also important for the yen's outlook. We continue to look for USD/JPY to slowly track down to JPY145 at end-2026, then JPY139 come mid-2028, still well above 2019's JPY109 level.

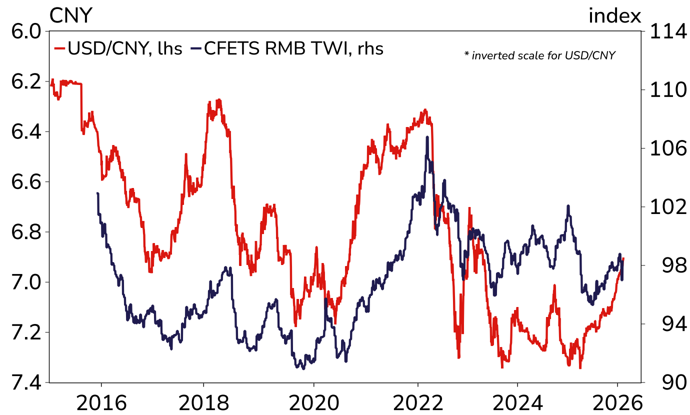
While not a constituent of the DXY index, China's renminbi is evidence of participants growing belief in Asia. From a peak of CNY7.35 last April, USD/CNY has declined to CNY6.90 at present, a 6% appreciation for the renminbi. Ahead, we expect a similar sized appreciation against the US dollar, albeit spread across the next 18 months to CNY6.35 at mid-2028. If China's Central Government can reset the domestic economy decisively, then additional strength could be seen over a short period. The investment China has undertaken across Asia and its underlying development prospects are likely to see gains in the renminbi spread to other regional currencies over time.

Concern over CAD to slowly abate



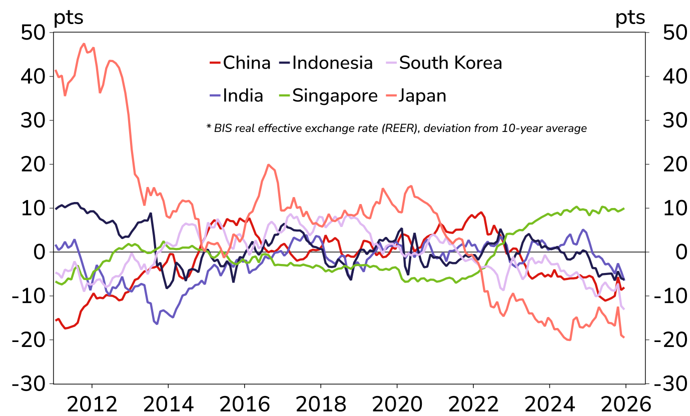
Source: Bloomberg, Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook is promising



Source: BIS, Macrobond, Westpac Economics

The economy is picking up speed ...

Kelly Eckhold
Chief Economist NZ

Financial conditions have tightened through December and January as market participants' confidence in the economic recovery has grown. Inflation remains uncomfortably high but there are decent prospects of a decline towards 2% over 2026. The RBNZ will remain on the sidelines for most of 2026 but move quickly to normalise the OCR over 2027. Risks remain two-sided with the November 2026 election a hurdle to clear.

Financial conditions have tightened noticeably since December. Interest rates have risen significantly as market participants have come to the view that the RBNZ's easing cycle is over and that interest rate rises are in prospect in the second half of 2026. At the same time the exchange rate has lifted noticeably, reflecting the better run of economic data associated with higher interest rate expectations, and a weaker US dollar.

A key driver of the improved sentiment around the economy was the release of strong September quarter 2025 GDP data which outstripped upwardly-revised economist forecasts by registering a 1.1% quarterly rise. This decidedly above-trend result was in stark contrast to the widespread concerns held by commentators through the July to October period that the New Zealand economy was very weak and was not responding to low interest rates and strong commodity returns. Indeed, the RBNZ took this sentiment to heart by cutting the OCR deep into stimulatory territory over the October and November period. If the factors driving the stronger GDP data in Q3 are sustained, this would suggest that the level of interest rates prevailing earlier in 2025 (around 3.5-4%) and strong commodity returns were in fact sufficient to spur demand.

Since December, the flow of stronger indicators has continued which suggests that the economic momentum delivered in Q3 has extended into the last quarter of 2025 and will continue into 2026.

Business and consumer confidence have lifted noticeably and have broadened to the extent that firms now report increased business activity in recent months to complement their long-standing optimism about future levels of activity. We see increased signs that economic activity has broadened beyond the external sector to encompass the services sector. Increased levels of consumer spending (activity across Westpac-issued cards rose 6% per annum on a per capita basis in January), strength in both the manufacturing and services sector Purchasing Managers Indices and further increases in consents issuance and concrete poured all point to a broadening participation in the economic recovery beyond the primary sector.

Meanwhile, the primary sector itself continues to contribute strongly to activity as stronger global growth has supported export returns, despite some speed wobbles in dairy markets through November and December. The tourism and broader export services sector has also been contributing positively, reflecting strength in global demand and the still supportive (i.e. weak) exchange rate.

The jobs market continues to lag the general economic trend at this point – as is standard in any cycle. The unemployment rate did tick up to a new cycle high of 5.4%. But importantly, the December quarter labour market reports show demand was not weak, the rise instead coming from a lift in supply. Monthly filled jobs data based on tax records, job vacancies data and the December quarter household survey indicate that businesses are starting to hire again for the first time in some time. The unemployment rate rose because strengthening demand attracted more people into the workforce. Business surveys indicate a stronger intention to employ in the period ahead.

Our revised view thus reflects a stronger outlook for growth in 2026. We now see 3.3% growth following on from the 1.8% lift in activity that we now estimate occurred in 2025. Both of these numbers compare favourably with New Zealand's weak potential growth rate which may have been as low as 1.5% last year given historically low migrant inflows. Potential growth might lift to around 2% in 2026 as population growth picks up a bit and as firms squeeze a bit more out of what was likely an underemployed workforce in 2024 and 2025. This implies that the output gap was not as large as thought back in November and is set to close by early 2027. The unemployment rate is accordingly expected to fall through 2026 and end the year at 4.7% and end 2027 at 4.4%.

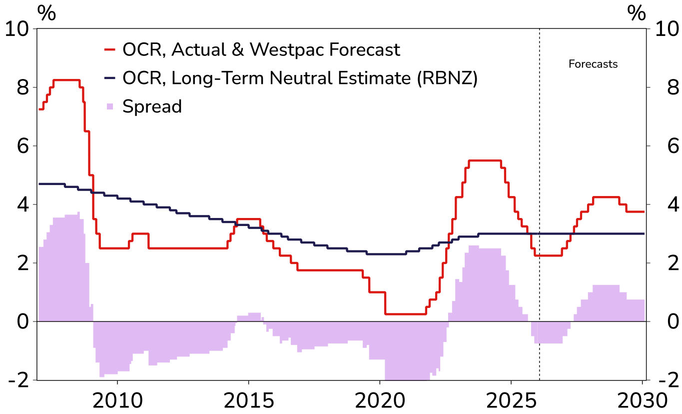
Inflation continues to be a fly in the ointment, for both households and the RBNZ. Inflation ended 2025 at 3.1%yr – outside the RBNZ's 1-3% target range and above the level the RBNZ forecast back in November. Core inflation measures remain clustered in the top quarter of the RBNZ's target range.

Inflation should fall back a bit over 2026 as food and fuel price growth slows. But with excess capacity dwindling and inflation remaining in the top half of the target range, the RBNZ will only have a finite level of patience for maintaining a stimulatory 2.25% OCR. Indeed markets may ponder if the 2.25% OCR if facing a shelf life as short as a Liz Truss lettuce.

Our view is that the RBNZ will take some time to assess before launching the next tightening cycle. While the outlook for 2026 looks promising, growth is not yet 'in the bag'. Significant excess capacity remains in the economy and headline inflation is likely to fall towards 2% over coming quarters. Hence the RBNZ still has a bit of room to manoeuvre to make sure that output does not sag in the middle of the year, as has been the

... implying a rise in the OCR later in 2026

RBNZ OCR and long term neutral rate estimates



Source: RBNZ, Macrobond, Westpac Economics

custom over the last couple of years.

We think the RBNZ will finally gain sufficient confidence to start lifting the OCR in December – with some risks of an earlier start should things go well. Once confident, we think the RBNZ will act quickly to firstly move the OCR into the 3-3.5% range their indicators suggest is neutral, and then on to 4.25% in early 2028 to forestall what would otherwise be a return of inflation towards 3%.

We continue to believe the neutral OCR is more like 3.75% and that interest rates will need to move modestly above that neutral estimate for a period to keep inflation close to 2% over subsequent years.

Risks are two-sided around this view.

The economy could push on more quickly than we currently forecast. This could occur if the Q3 2025 quarterly outcome were repeated in subsequent quarters as those final cuts in the OCR in the second half of 2025 hit the economy's bloodstream. Interest rate rises would become more urgent in that case.

But on the other side of the coin, a malaise could befall the economy mid-year as the election comes into view. The uncertainty created by the close nature of the political polls and the quite divergent policy options on offer could cause some businesses, consumers and housing market investors to delay decisions they may otherwise have made. And of course there's plenty of geopolitical risk out there. Should these risks materialise then that 2.25% OCR 'lettuce' might age quite well. Let's see.

Finally, the outlook for the New Zealand dollar looks a bit stronger than appeared back in December. Our view that the NZD/AUD would slip further has come to pass as the RBA has lifted rates ahead of the global pack this time around. But the better economic outlook and associated interest rate expectations argue for a stronger kiwi in the year ahead. So, we have marked up our forecasts on the crosses while the NZD/USD forecast has lifted in line with the House view of a weaker USD looking ahead.

	2025											2026
Monthly data	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**
REINZ house sales %mth	8.4	1.6	1.3	–2.4	–3.6	2.1	–2.8	–1.7	6.6	–0.5	–1.4	–
Residential building consents %mth	1.1	12.6	–15.9	10.9	–5.4	5.6	6.1	7.3	–0.8	2.7	–4.6	–
Electronic card transactions %mth	0.1	–1.4	0.0	–0.1	0.5	0.2	0.6	–0.5	0.2	1.2	–0.1	–
Private sector credit %yr	3.0	2.9	3.0	3.0	3.2	3.5	3.8	4.2	4.6	4.4	4.6	–
Commodity prices %mth	3.0	–0.4	0.0	1.9	–2.4	–1.8	0.7	–1.1	–0.3	–1.6	–2.1	2.0
Trade balance $m	–259	–179	8	–257	–521	–356	–84	302	–207	–320	–167	–

Quarterly data	Q3:23	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25
Westpac McDermott Miller Consumer Confidence	80.2	88.9	93.2	82.2	90.8	97.5	89.2	91.2	90.9	96.5
Quarterly Survey of Business Opinion	–13	9	–27	–25	–29	–27	–22	–21	–15	–3
Unemployment rate %	4.0	4.0	4.4	4.7	4.9	5.1	5.1	5.2	5.3	5.4
CPI %yr	5.6	4.7	4.0	3.3	2.2	2.2	2.5	2.7	3.0	3.1
Real GDP %yr	2.6	2.2	1.8	1.1	0.5	–0.3	–0.9	–1.2	–0.5	–
Current account balance % of GDP	–7.1	–6.3	–5.7	–5.5	–5.2	–4.7	–4.2	–3.7	–3.5	–

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

Decision time ...

Elliot Clarke
Head of International Economics

China's economy delivered to authorities' expectations in 2025, registering growth of 5.0% for the full year. The detailed data underlying this headline result highlight both the opportunities and risks for 2026 and beyond.

The most notable positive is that, over the past year, there has been no evidence of a material adverse effect on Chinese industry from US trade policy. Indeed, quite the opposite, with 'lost' opportunities in the US more than offset by rapid growth in Chinese exports to other markets. In 2025, the trade surplus with Asia expanded from $358bn to $497bn (+39%), while the surplus with Europe widened from $247bn to $292bn (+18%), and for Latin America from $36bn to $47bn (+29%).

Note, these gains do not take into consideration the returns from expanding Chinese-owned production facilities across Asia, Europe and elsewhere. Reduced production costs, increased scale and the marketing opportunities created by this wave of foreign investment are set to provide a sizeable, sustainable dividend for Chinese firms and their investors, with flow-on benefits for Government revenue and the rest of the domestic economy.

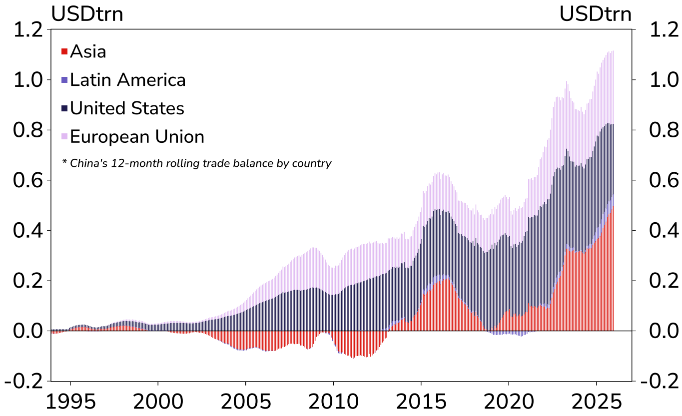
Chinese firms are also intent on continuing to expand capacity locally. Fixed asset investment contracted 3.8% in 2025 overall, but manufacturing investment still managed to eke out a 0.6% gain amid acute tariff uncertainty and despite Chinese authorities' strong stand against unprofitable production.

Key high-tech sub sectors (electronics and chemicals) have only partly unwound the rapid growth in investment during 2020-2024, keeping the level of new investment in these sub sectors at a high level. Meanwhile automobiles, the stand-out export success for China over the past decade, continues to lift new investment to meet surging global demand for Chinese EVs. And, in stark contrast to the West, China continues to scale its power generation and transmission infrastructure to meet the expected future needs of both industry and households.

The concern for the outlook is that, while net exports and associated investment are a much larger share of the economy than prior to the pandemic, they cannot continue to grow as they have – China's share of global production and exports are already at record levels. To sustain growth near the 5.0% rate achieved in 2025 will therefore require an abrupt shift in the underlying drivers towards the consumer and housing.

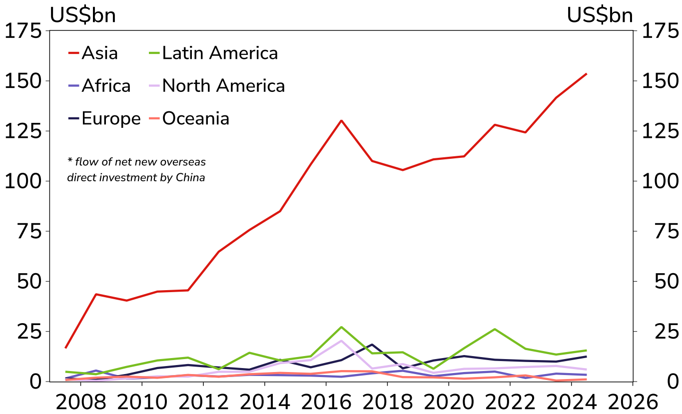
This need is certainly not new or difficult to quantify, yet authorities continue to hold back. The political rationale for doing so has run its course, particularly for housing after investment contracted another 17% in 2025. So the Central Government should quickly aid domestic demand following

Trade's success to limit future growth opportunities



Source: GAC, Macrobond, Westpac Economics

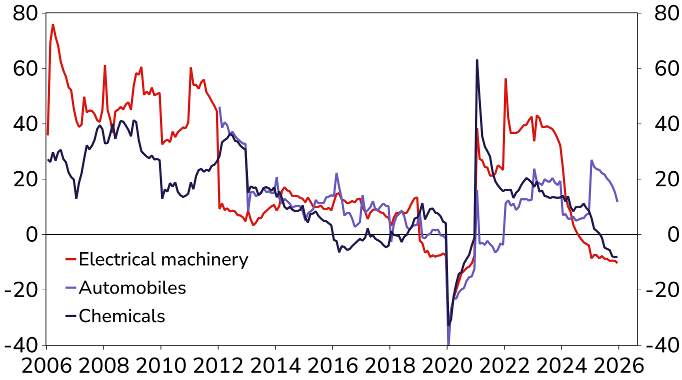
Offshore investment to deliver sustainable dividend



Source: MOFCOM, Macrobond, Westpac Economics

High-tech investment remains at historic level

Fixed Asset Investment by Sector (%ytd)



Source: NBS, Macrobond, Westpac Economics

... for the Politburo

the Lunar New Year holiday period. Yet there is a possibility that, emboldened by the export success, authorities persist with a wait-and-see approach, believing domestic demand will correct by itself, eventually.

In our view, this would be a mistake, creating a material chance of growth not only severely disappointing in the near term, but also a deteriorating trend becoming entrenched as confidence is structurally impaired. Authorities must recognise the power of sentiment amongst both households and businesses, and how fragile its absence can make aggregate growth and each sector's underlying finances.

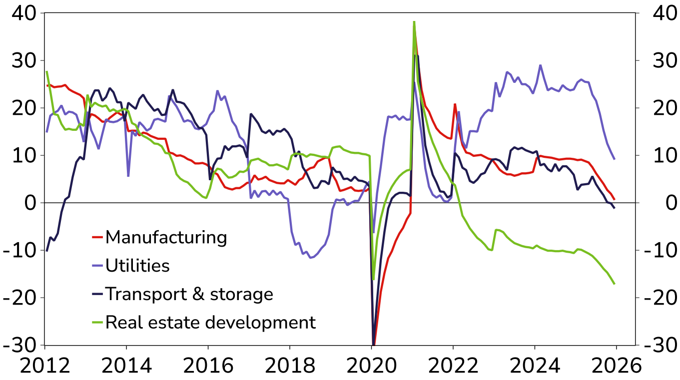
It is also important to highlight that, while investment by local governments can amplify an upturn in consumer demand and aid sentiment, in itself it cannot sustain an upswing. This is because local governments are dependent on land sales to property developers and bond sales which have to be backed by regional tax receipts. Without robust growth in consumption and related investment by local firms, these receipts will remain a distant hope and regional authorities hamstrung.

A positive final note, however. Chinese households have a high level of liquid savings thanks to entrenched high savings rates and a lengthy period of restrained property investment. House and land prices are meanwhile deeply depressed. As such, if Central Government stimulus triggers a marked shift in confidence, activity can rapidly respond and broaden, geographically and across sectors. Existing wealth and growth in real incomes should also give longevity to an upturn.

If the Central Government's promises for long-term economic development are to be attained, household demand and domestic industry must move ahead with those firms targeting global demand, not be left behind. The growth pulse and long-term economic development are in the hands of authorities.

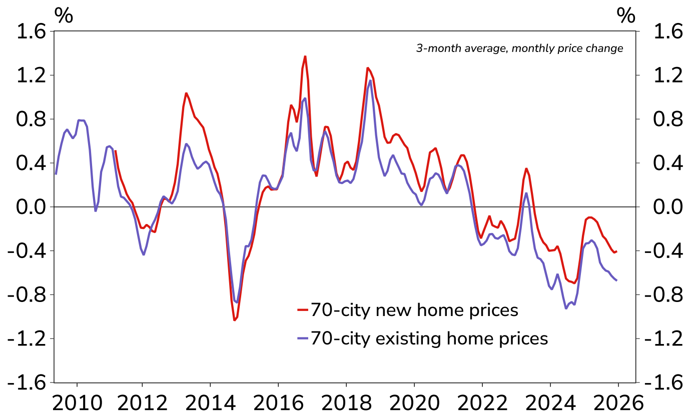
The property market has to turn to aid activity ...

Fixed Asset Investment by Industry (%ytd)



Source: NBS, Macrobond, Westpac Economics

... and put a floor under wealth



Source: Bloomberg, Macrobond, Westpac Economics

	2025											2026
Monthly data %yr	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Headline CPI %yr	–0.7	–0.1	–0.1	–0.1	0.1	0	–0.4	–0.3	0.2	0.7	0.8	0.2
M2 money supply %yr	7	7	8	7.9	8.3	8.8	8.8	8.4	8.2	8	8.5	–
Manufacturing PMI (official)	50.2	50.5	49.0	49.5	49.7	49.3	49.4	49.8	49.0	49.2	50.1	49.3
Fixed asset investment ytd %yr	4.1	4.2	4.0	3.7	2.8	1.6	0.5	–0.5	–1.7	–2.6	–3.8	–
Industrial production %yr	5.9	7.7	6.1	5.8	6.8	5.7	5.2	6.5	4.9	4.8	5.2	–
Exports %yr	–3.1	12.2	8.0	4.6	5.8	7.1	4.3	8.2	–1.2	5.9	6.6	–
Imports %yr	1.6	–4.3	–0.3	–3.3	1.2	4.2	1.4	7.4	0.9	1.9	5.7	–
Trade balance USDbn	31.2	101.9	95.9	102.7	114.2	97.5	101.6	90.2	89.9	111.6	114.1	–

Quarterly data	Sep–24	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25
Real GDP %yr	4.6	5.4	5.4	5.2	4.8	4.5
Nominal GDP %yr	4.0	4.6	4.6	3.9	3.7	3.9

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

Downside risks look to have abated …

Elliot Clarke
Head of International Economics

The US economy continued to perform strongly through the turn of the year despite acute uncertainty. According to the latest Atlanta Fed GDPnow nowcast, not even the longest Federal Government shutdown on record was enough to slow GDP growth to trend, let alone below it. For 2026, growth is likely to normalise towards trend after five years of outperformance, though the prospect of a sustained period of disappointing momentum currently seems remote. Despite the Administration's preference for lower rates, there is little cause for the FOMC to continue cut materially from here.

Now available to January, nonfarm payrolls growth looks to be forming a base, having edged backwards during the six months to October but averaging monthly gains of 73k since. The unemployment rate has oscillated between 4.2% to 4.4% since February 2025, evidence of stabilisation not an upward trend.

Other labour market indicators also point to a fully employed labour force and balance between new entrants and job listings. Most notably, the Employment Cost Index and hourly earnings from the establishment survey both continue to point to robust nominal income gains, and the ISM employment indexes have recently bounced back from depressed levels.

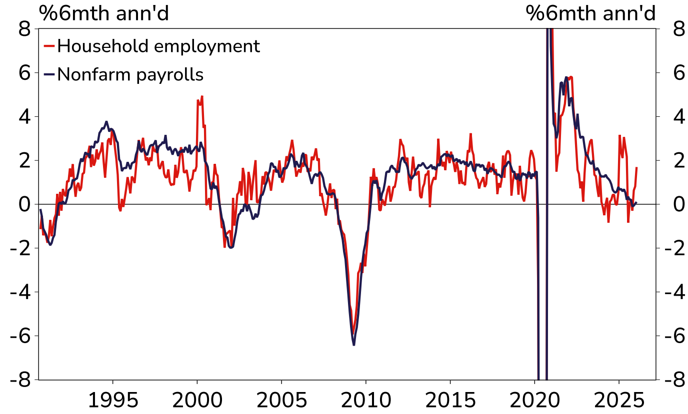
US household wealth is also at record highs and continuing to grow thanks to broad-based gains across equities and real estate, albeit with the latter tracking a modest pace. Established households are benefiting from comparatively low debt levels and the historically low interest rates locked in following the pandemic. Marginal borrowers are also beginning to see adjustable rates edge lower – a 5-year fixed rate which then converts to a variable rate versus the traditional standard 30-year fixed rate.

Household cash flows and wealth therefore stand ready to offer robust support to renovation activity, new home purchases and discretionary consumption in 2026 and beyond. Sentiment is the risk, however, with households still acutely aware of the cost to real incomes brought by sustained elevated inflation.

On that front, the latest readings are a concern, with the University of Michigan measure of sentiment 13% below its 5-year average and 32% below its full history average as at February. That is in large part due to backward-looking perceptions of household finances, despite the aforementioned nominal gains.

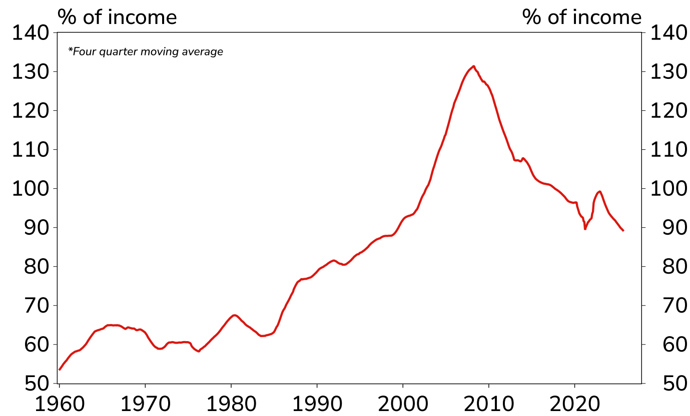
While there is less factual evidence, many businesses are arguably similarly placed to households, benefiting from robust conditions but concerned over what tomorrow may bring. For companies, the risk is two-sided, being exposed to supply

Labour market finding a base



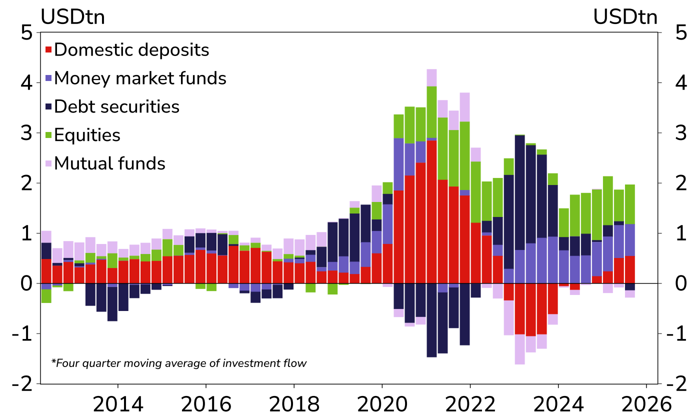
Source: BLS, Macrobond, Westpac Economics

US household debt historically low



Source: Fed, BEA, Macrobond, Westpac Economics

Wealth being accumulated not spent



Source: Fed, Macrobond, Westpac Economics

… but FOMC still looks constrained

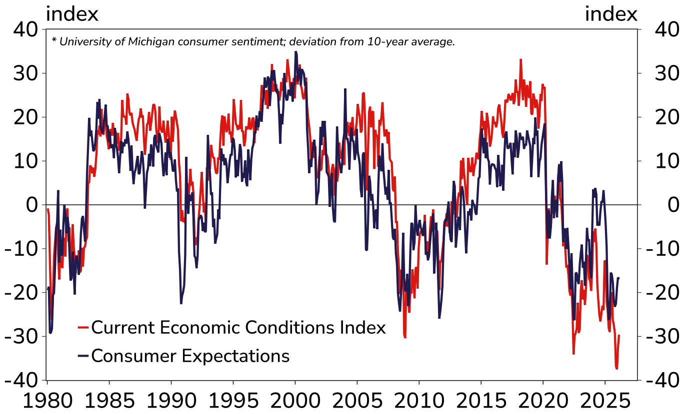
constraints related to tariffs and reduced labour supply on the one and with consumers' financial anxiety limiting their ability to reprice on the other. We therefore expect to see firms invest for efficiency and productivity through 2026 but, in aggregate, to eschew expanding capacity – the hyperscalers being an obvious exception.

This backdrop highlights a concern of ours for not only 2026 but also 2027 and into the medium term. Put simply: if consumption remains above trend, the labour market fully employed and businesses (in aggregate) capacity-constrained, it will be extremely difficult for the FOMC to bring inflation sustainably back to the 2.0%yr target from the 2.7%yr pace as at December. Indeed, given the persistent weakness seen in business investment since the GFC, an acceleration in inflation pressures is a distinct possibility.

In light of the above, we have pushed out the last cut forecast for the FOMC this cycle from March to June 2026. We also must make clear that we have low conviction in this call, believing the economy is more likely to outperform than disappoint on activity and/or prices, in which case the FOMC would be justified to remain on hold for the foreseeable future.

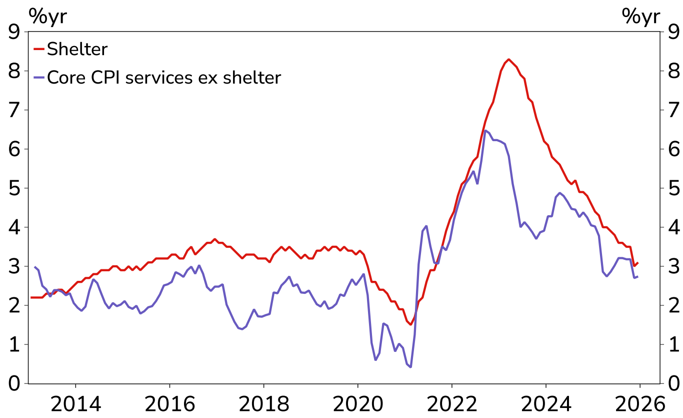
We recognise that this view deviates considerably from market pricing, which currently has two cuts by year-end and a chance of another by March 2027, much of this reflecting expectations of a shift in approach once Kevin Warsh takes over from Jerome Powell as FOMC Chair in May. But, for the data to warrant such a course by the FOMC, we would need to see a material deterioration in the labour market, or the rapid abating of inflation pressures and associated risks. These outcomes are possible but, at present, seem unlikely.

Uncertainty weighing



Source: University of Michigan, Macrobond, Westpac Economics

Services inflation a persistent concern



Source: BLS, Macrobond, Westpac Economics

	2025										2026	
Monthly data	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**
PCE deflator %yr	2.4	2.3	2.5	2.6	2.6	2.7	2.8	2.7	2.8	–	–	–
Unemployment rate %	4.2	4.2	4.3	4.1	4.3	4.3	4.4	4.4	4.5	4.4	4.3	–
Nonfarm payrolls chg '000	67	108	13	–20	64	–70	76	–140	41	48	130	–
House prices* %yr	4.1	3.4	2.8	2.1	1.8	1.6	1.4	1.3	1.4	–	–	–
Durables orders core 3mth %saar	6.5	–6.9	2.6	–0.9	8.4	4.0	10.9	9.8	7.7	–	–	–
ISM manufacturing composite	48.9	48.8	48.6	49.0	48.4	48.9	48.9	48.8	48.0	47.9	52.6	–
ISM non–manufacturing composite	50.8	51.6	50.2	50.8	50.5	51.9	50.4	52.0	52.4	53.8	53.8	–
Personal spending 3mth %saar	3.3	5.7	4.7	3.6	5.1	7.3	6.6	5.7	5.5	–	–	–
UoM Consumer Sentiment	57.0	52.2	52.2	60.7	61.7	58.2	55.1	53.6	51.0	52.9	56.4	57.3
Trade balance USDbn	–136.4	–60.6	–71.1	–58.2	–74.4	–55.6	–48.1	–29.2	–56.8	–	–	–

Quarterly data	Sep–24	Dec–24	Mar–25	Jun–25	Sep–25	Dec–25(f)
Real GDP % saar	3.3	1.9	–0.6	3.8	4.4	3.5
Current account USDbn	–326.2	–312.0	–439.8	–249.2	–226.4	–

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

Tech theme persists across ...

Illiana Jain
Economist

Investment into Asian equities is bifurcated along the tech divide. Producers of components related to the AI infrastructure build-out are seeing strong growth, while services-oriented economies are seeing smaller gains. Exports of electronics across Asia have far outpaced services. We expect this thematic will continue to play out through 2026 and influence broader investment decisions.

This thematic reflects both investments made in the past and present. Governments and businesses have invested heavily to increase capacity in high-tech manufacturing. Which in turn has met much of the equipment demand stemming from the AI infrastructure build out across the world.

One of the most prominent players in the field is China. China's role in the AI race is one of both innovator and investor. Firms have progressed from replicating US technology to being a tech leader, 60% of AI patent filings come from China. Innovation, already seen in DeepSeek's AI model which rivals frontier models from US firms, is only set to increase given authorities' support.

This includes a ¥100bn venture fund announced in December 2025 aimed at funding companies with valuations of less than ¥500mn. Unlike a typical 10-year fund, this 20-year fund allows for longer research and development cycles. China also has the skilled workforce to drive research and production. In 2022, China had more than 47,000 doctoral STEM graduates, almost 60% of total doctoral graduates.

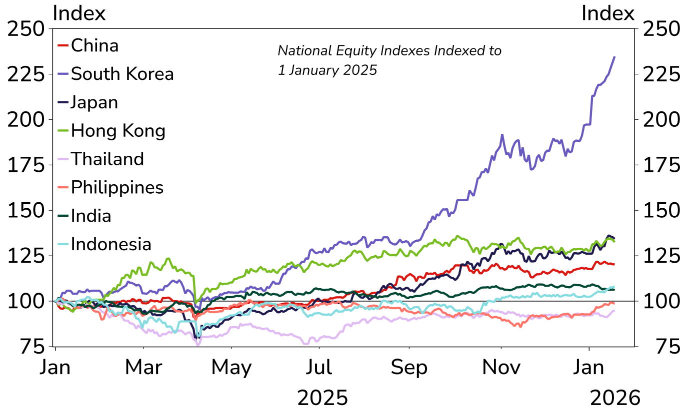
Chinese entities also continue to finance tech-related capital investment across Asia, particularly ASEAN. Much of the 'front end' manufacturing occurs in northeast Asia. However, increased collaboration between China, Taiwan, Japan and Korea (including information sharing and foreign direct investment) has seen ASEAN become more prominent in the latter 'back end' stages of production.

Today, over 80% of US imports of semiconductors come from Asia. This cycle of deep investment into producing new technology and financing production has laid the groundwork for persistent strength in investment across the region.

South Korea is perhaps the biggest prominent beneficiary of the windfall of AI-centric equipment investment. Demand from foreign buyers, who now account for 31% of the market, supported a 76% increase in the KOSPI through 2025.

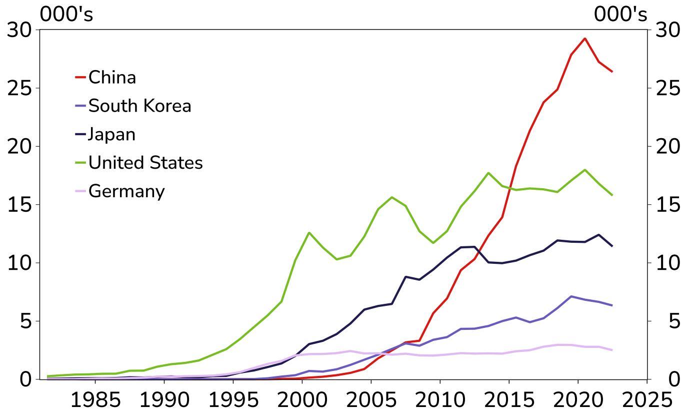
Korea's tech sector also has other tailwinds. In December 2025, President Lee Jae-myung announced a ₩105tril National Growth Fund (4% of Korea's annual GDP) to increase investment into advanced sectors.

Tech-divide sees bifurcated growth



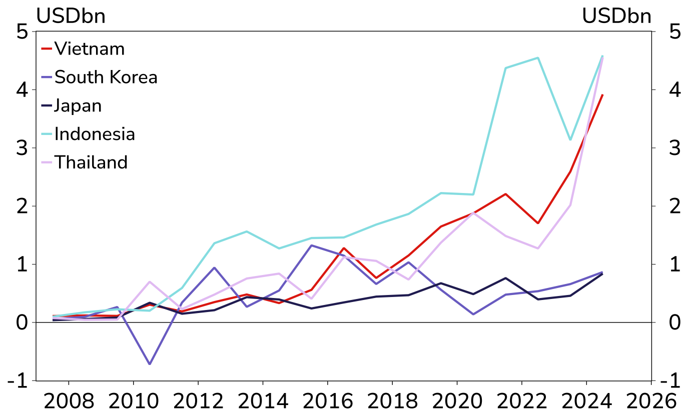
Source: BSE, IDX, Nikkei Inc., CSI, STOXX, HSI, KRX, SET, FTSE Russell, PSE, S&P Global, Macrobond, Westpac Economics

Patents filed in the ICT sector



Source: OECD, Macrobond, Westpac Economics

China continues to invest across Asia



Source: MOFCOM, Macrobond, Westpac Economics

... investments into Asia

Shortages of memory chips, production of which is dominated by Korea's Samsung and Hynix, alongside corporate governance reforms should create further demand for Korean tech-related equities. This should help reverse the impact of the 'Korean Discount' on equity valuations.

On the other side of the spectrum, countries less exposed to technology development haven't fared as well.

Foreign investors sold a net USD22.3bn of Indian equities in 2025, reversing a net gain of USD20.5bn in 2023 and 2024. The outflow came as investors increased their exposure to northeast Asia to capitalise on the AI boom. Other factors include unresolved tariff tensions with the US, and widening interest rate differentials as the RBI eased policy in response to low inflation.

Overvaluations and earnings growth expectations have also been said to play a role in these outflows, price-to-earning ratios for the NIFTY down from 23.5 in 2023 to 21.6 in 2025 compared to the S&P500 for which the ratio increased from 21.5 to 25.4. Pessimism around Indian securities has contributed to a weaker rupee. The INR was the weakest performing currency in Asia in 2025, having depreciated 5%.

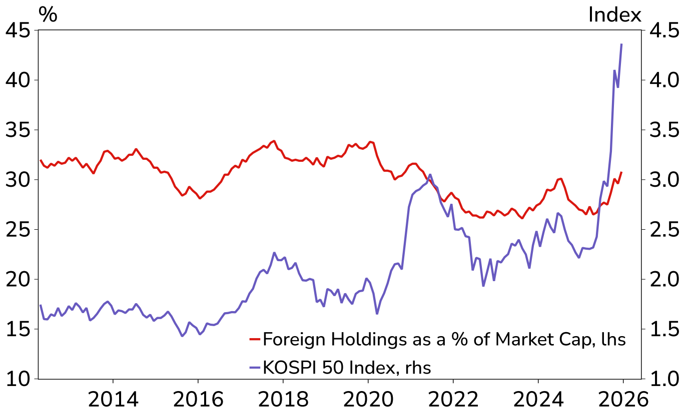
Even India's Union Budget for FY26 could not turn the ship. The budget focused on fiscal prudence and continued investment. The fiscal deficit target was set to 4.3% of GDP, while around INR17.1tril (4.4% of GDP) was set aside for capex, mostly focused on infrastructure. Investment was also aimed at improving capacity in electronics manufacturing, data centers, and pharmaceuticals. These segments are expected to support growth ahead. Investment should see capacity expand and allow the economy to hit 7.0% growth for 2026.

The Philippines' services-oriented economy also did not see the same strong foreign investment as its more tech-centric neighbours. Indeed, 2025 marked the second straight year of net foreign selling on the Philippine Stock Exchange.

Amidst this, the Peso has depreciated to a record PHP59.453 against the US dollar, depreciating almost 8% since May. In part this reflects corruption scandals. Bangko Sentral ng Pilipinas officials have also talked down expectations of intervention. With the BSP on an easing bias, rate differentials will also likely weigh on the currency.

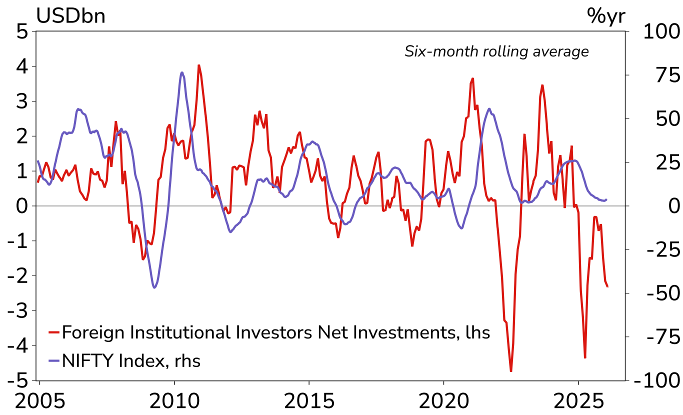
A weak peso isn't necessarily a bad thing. It will help boost remittance income which equates to 7% of GDP and helps support household consumption. It will also attract more tourists supporting an important pillar of their economy.

Foreign buyers undeterred



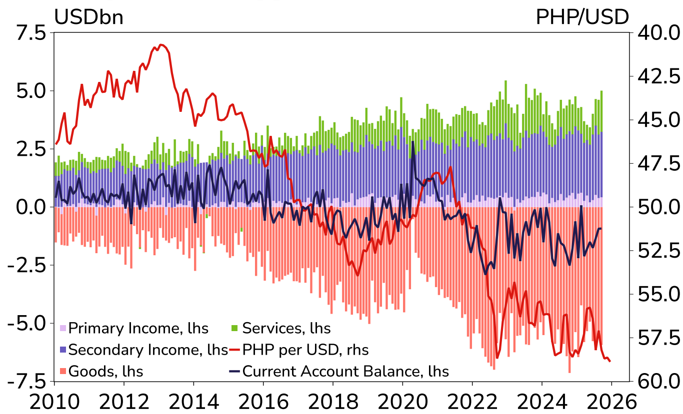
Source: FSS, KRX, Macrobond, Westpac Economics

Foreign investors sell out of Indian equities



Source: NSE, Macrobond, Westpac Economics

A weak peso will support remittances



Source: BSP, Macrobond, Macrobond, Westpac Economics

When change is good ...

Mantas Vanagas
Senior Economist

Last week, economists and investors across Australia watched closely as the RBA took a u-turn from its previous policy direction, voting to raise the cash rate just six months after the most recent interest rate cut. This move was particularly notable in the global context, where most other major central banks are either still loosening policy or maintaining their current stance. The contrast became even more apparent two days after the RBA's decision, when the ECB and BoE made their own policy announcements.

The ECB decision brought no surprises, with the Governing Council opting unanimously to leave policy rates unchanged for a fifth consecutive meeting. In the press conference, President Lagarde once again reiterated that the central bank remains in 'a good place' – a phrase that been used to signal content with the current monetary policy stance and express conviction that inflation is fully consistent with the 2% medium-term target.

The ECB's forecasts, published in December, indicated that headline inflation is expected to decline to 1.9% and 1.8% in 2026 and 2027 respectively, before returning to 2.0% in 2028. Developments since then have done little to alter the central bank's assessment, even though the headline rate fell to just 1.7%yr in January, leaving the Q4 forecast slightly below the ECB's expectations.

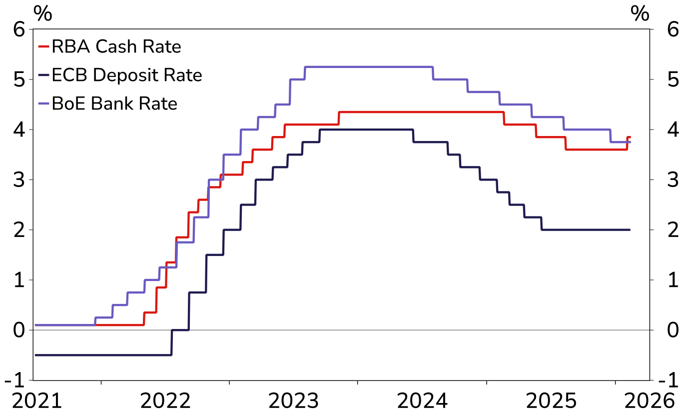
A key topic discussed during President Lagarde's press conference was the euro exchange rate, which strengthened against the US dollar to above USD1.20 in January before settling around USD1.19 more recently – roughly 3 cents higher than the ECB assumed for its December forecasts.

While the policy statement described this as one of the downside risks at present, President Lagarde seemingly tried to downplay the significance of recent exchange rate movements, noting that the euro appreciated much more substantially last year and that shift is already factored into the ECB's inflation assessment.

Our central view is that ECB policy rates will stay unchanged for the foreseeable future. However, unlike the Governing Council, who believe risks to inflation are broadly balanced, we see them skewed to the downside – not the least because we continue to expect the euro to appreciate further this year, driven by US dollar weakness, with the euro forecast to reach USD1.21 by year-end. For this reason, we would not be shocked to see the ECB ease policy further at some stage later this year.

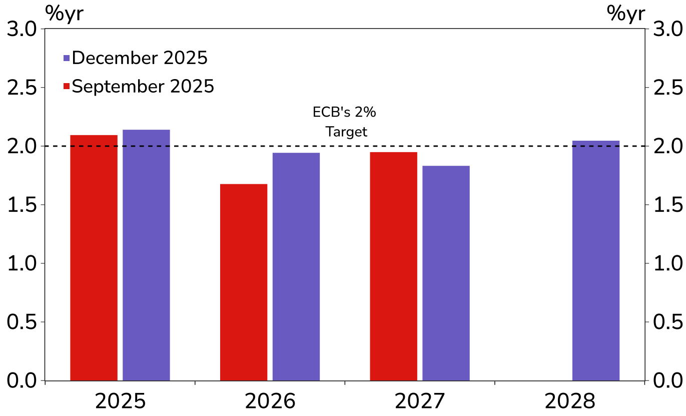
On the same day, the Bank of England also decided to keep policy on hold, although the Monetary Policy Committee's (MPC) dovish tone signalled a possible cut at the next

Central bank policy rates



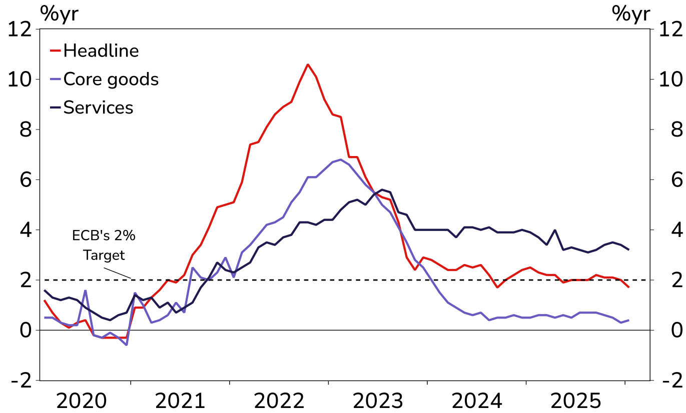
Source: RBA, ECB, BoE, Macrobond, Westpac Economics

ECB Inflation Forecasts



Source: ECB, Macrobond, Westpac Economics

Euro area HICP inflation



Source: Eurostat, Macrobond, Westpac Economics

… and stable even better

meeting in March. This means that the 25bp per quarter easing pace seen over the past six quarters can reasonably be expected to continue.

Back in the December MPC meeting, the vote was finely balanced in favour of a cut, at 5–4. This, alongside new forward guidance stating that further easing decisions will become "a closer call", had suggested that the pace of easing might slow this year.

Move forward to February, and the vote was once again on a knife-edge. This time, however, Governor Andrew Bailey switched sides to tip the majority in favour of keeping Bank Rate steady at 3.75%. The policy statement reinforced the dovish tone by omitting the word "gradual" when describing further Bank Rate reductions – a possible indication that back-to-back cuts might be on the cards if labour market conditions deteriorate more sharply.

Despite this, the "closer call" description was retained, although it is unclear how much closer these decisions can become given only a minimal majority was achieved in the last two votes.

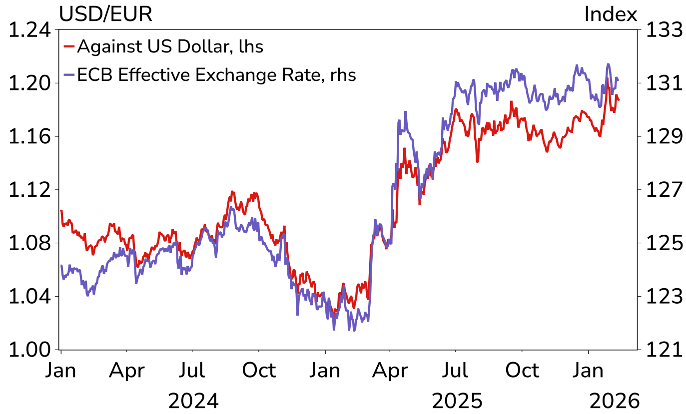
In the minutes, Governor Bailey – now seemingly the marginal voter on the committee, positioned between the more hawkish and dovish members – explained that he sees scope for further policy easing, though the timing remains uncertain.

Comments from external MPC member Catherine Mann also suggested she is moving closer to supporting a cut, bringing her nearer to Bailey, as one of the key voters likely to tip the balance hence.

The updated BoE forecasts support the case for further easing. Assuming close to two 25bp Bank Rate cuts this year, the inflation profile has been revised significantly lower, now projecting a return to 2%yr by Q3 2026 – three quarters earlier than the November forecasts. Meanwhile, GDP growth is expected to average just 0.9%yr this year, 0.3ppts below previous estimates and well below the BoE's supply growth estimate of 1.3%yr.

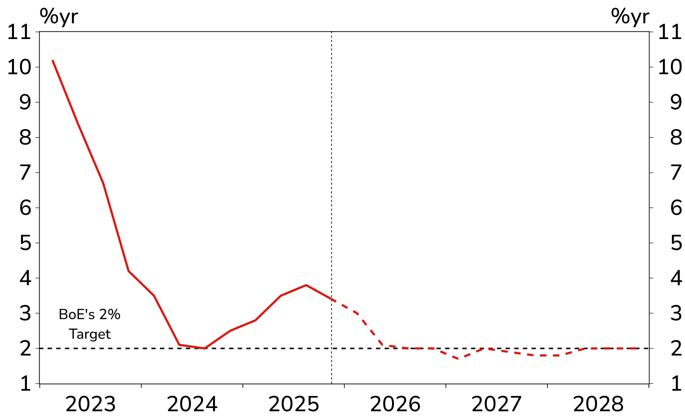
If the economy evolves broadly in line with BoE expectations, we anticipate another Bank Rate cut in March. Governor Bailey, in an interview following the policy announcement, suggested that 50–50 odds for this outcome were "not a bad place to be". After March, we expect Bank Rate to fall again in Q2 to a terminal rate of 3.25%, though the timing of the final cut is less certain.

Euro exchange rate



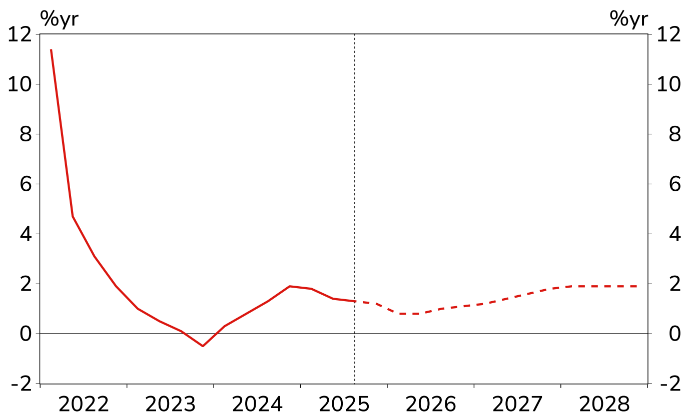
Source: Bloomberg, Macrobond, Westpac Economics

Bank of England inflation forecast



Source: ONS, BoE, Macrobond, Westpac Economics

Bank of England GDP forecast



Source: BoE, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (Feb 13)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
Cash	3.85	3.85	4.10	4.10	4.10	4.10	4.10	4.10	3.85	3.60	3.60
90 Day BBSW	3.96	4.05	4.15	4.15	4.15	4.20	4.20	4.05	3.80	3.70	3.70
3 Year Swap	4.25	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
3 Year Bond	4.25	4.25	4.20	4.10	4.00	3.90	3.80	3.70	3.60	3.55	3.50
10 Year Bond	4.72	4.75	4.80	4.80	4.80	4.75	4.70	4.65	4.60	4.60	4.60
10 Year Spread to US (bps)	63	55	50	45	40	30	20	10	0	–5	–10

Currency forecasts

	Latest (Feb 13)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
AUD vs											
USD	0.7088	0.70	0.71	0.72	0.72	0.73	0.73	0.74	0.74	0.73	0.73
JPY	108.27	106	106	106	104	105	104	105	104	102	101
EUR	0.5972	0.59	0.59	0.60	0.60	0.60	0.60	0.61	0.61	0.60	0.60
NZD	1.1748	1.16	1.16	1.15	1.13	1.12	1.10	1.09	1.09	1.08	1.09
CAD	0.9646	0.95	0.96	0.97	0.97	0.98	0.97	0.98	0.98	0.96	0.95
GBP	0.5204	0.51	0.51	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52
CHF	0.5453	0.54	0.55	0.55	0.54	0.55	0.54	0.55	0.55	0.55	0.55
DKK	4.4608	4.39	4.42	4.46	4.45	4.49	4.47	4.55	4.56	4.51	4.51
SEK	6.3279	6.23	6.27	6.33	6.31	6.37	6.34	6.45	6.47	6.39	6.39
NOK	6.7585	6.66	6.70	6.76	6.73	6.80	6.77	6.89	6.90	6.83	6.83
ZAR	11.32	11.4	11.5	11.5	11.5	11.6	11.6	11.7	11.7	11.8	11.8
SGD	0.8950	0.89	0.89	0.91	0.91	0.92	0.92	0.93	0.93	0.92	0.92
HKD	5.5401	5.45	5.52	5.59	5.59	5.66	5.66	5.74	5.74	5.66	5.66
PHP	41.38	40.7	40.8	40.9	40.3	40.2	39.4	39.2	38.9	38.3	38.3
THB	22.03	22.1	22.3	22.5	22.3	22.5	22.3	22.3	22.3	22.0	22.0
MYR	2.7800	2.87	2.90	2.92	2.88	2.88	2.85	2.85	2.81	2.77	2.77
CNY	4.8936	4.83	4.86	4.90	4.82	4.82	4.75	4.77	4.74	4.64	4.64
IDR	11927	11550	11573	11520	11304	11242	11023	10952	10804	10658	10658
TWD	22.26	21.3	21.2	21.2	20.9	21.0	21.0	21.2	21.1	20.8	20.8
KRW	1020	1008	1001	994	979	978	971	977	973	960	960
INR	64.56	63.7	64.6	64.8	64.8	65.0	65.0	65.1	65.1	63.5	63.5

Australia

Activity forecasts

	2025		2026				2027		Calendar years			
%qtr / %yr end	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2025f	2026f	2027f	2028f
Household consumption	0.5	1.0	0.8	0.5	0.6	0.7	0.6	0.6	3.0	2.5	2.5	3.1
Dwelling investment	1.8	1.2	1.3	1.6	1.7	1.7	1.7	1.5	5.9	6.6	5.5	3.9
Business investment *	3.4	0.6	0.9	0.9	1.1	1.1	1.1	1.1	3.9	4.1	4.6	4.6
Private demand *	1.2	0.9	0.9	0.7	0.8	0.9	0.8	0.8	3.4	3.3	3.2	3.5
Public demand *	1.1	0.7	0.8	0.7	0.5	0.6	0.6	0.6	1.5	2.6	2.5	2.6
Domestic demand	1.2	0.9	0.9	0.7	0.7	0.8	0.7	0.7	2.9	3.1	3.0	3.2
Stock contribution	–0.5	0.1	0.1	0.0	–0.0	0.0	–0.0	–0.1	–0.1	0.1	–0.1	0.1
GNE	0.6	1.0	1.0	0.7	0.7	0.8	0.7	0.7	2.8	3.2	2.9	3.3
Exports	1.0	0.3	0.4	0.4	0.4	0.5	0.6	0.7	3.4	1.7	2.5	2.4
Imports	1.5	0.8	1.3	1.3	1.3	1.3	1.2	1.2	4.8	5.3	4.9	4.5
Net exports contribution	–0.1	–0.1	–0.2	–0.2	–0.2	–0.2	–0.1	–0.1	–0.3	–0.8	–0.6	–0.5
Real GDP %qtr / %yr avg	**0.4**	**0.9**	**0.7**	**0.5**	**0.6**	**0.6**	**0.6**	**0.6**	**2.0**	**2.6**	**2.3**	**2.7**
%yr end	**2.1**	**2.4**	**2.8**	**2.6**	**2.7**	**2.5**	**2.3**	**2.3**	**2.4**	**2.5**	**2.3**	**2.8**
Nominal GDP %qtr / %yr avg	1.7	1.6	1.3	0.9	0.9	1.0	1.0	1.0	4.6	5.0	4.1	4.1
%yr end	5.4	5.4	5.5	5.7	4.9	4.2	3.9	3.9	5.4	4.2	4.4	4.4
Real household disp. income	0.9	0.5	0.6	0.1	0.8	–0.4	0.7	0.6	3.1	1.2	2.4	2.2

Other macroeconomic variables

	2025		2026				2027		Calendar years			
% change	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2025f	2026f	2027f	2028f
Employment %qtr **	0.1	0.3	0.6	0.3	0.3	0.3	0.5	0.4	–	–	–	–
%yr end **	1.4	1.2	1.6	1.3	1.5	1.5	1.4	1.5	1.2	1.5	1.7	1.9
Unemployment rate % **	4.3	4.2	4.2	4.3	4.4	4.5	4.5	4.5	4.2	4.5	4.5	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	3.4	3.0	3.1	3.3
Headline CPI %qtr	1.3	0.6	1.1	0.7	1.0	0.5	0.5	0.6	–	–	–	–
%yr end	3.2	3.6	3.8	3.7	3.4	3.3	2.7	2.5	3.6	3.3	2.5	2.5
Trimmed Mean CPI %qtr	1.0	0.9	0.8	0.7	0.8	0.7	0.7	0.6	–	–	–	–
%yr end	3.0	3.4	3.4	3.5	3.2	3.0	2.9	2.7	3.4	3.0	2.6	2.5
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	1.5	1.4	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

	2025										2026	
Monthly data	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Employment '000 chg	16.5	90.7	–11.8	–2.3	30.4	–13.4	12.3	37.3	–28.7	65.2	–	–
Unemployment rate %	4.1	4.1	4.1	4.3	4.3	4.3	4.4	4.3	4.3	4.1	–	–
Westpac–MI Consumer Sentiment	95.9	90.1	92.1	92.6	93.1	98.5	95.4	92.1	103.8	94.5	92.9	90.5
Household spending %mth	0.1	0.0	1.1	0.4	0.3	0.0	0.3	1.4	1.0	–0.4	–	–
Dwelling approvals %mth	–5.7	–5.0	3.3	14.5	–9.9	–3.9	11.0	–4.9	13.1	–14.9	–	–
Private sector credit %mth	0.5	0.7	0.6	0.6	0.7	0.6	0.6	0.7	0.7	0.8	–	–
Trade in goods balance AUDbn	6.3	4.5	1.7	4.6	6.4	1.1	3.6	4.4	2.6	3.4	–	–

New Zealand

Interest rate forecasts

	Latest (Feb 13)	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	3.25	3.75	4.00	4.25	4.25
90 Day Bill	2.51	2.35	2.35	2.40	2.70	3.20	3.65	3.90	4.20	4.35	4.35
2 Year Swap	3.08	3.25	3.50	3.75	4.00	4.20	4.30	4.30	4.30	4.25	4.20
10 Year Bond	4.46	4.70	4.75	4.80	4.85	4.95	5.00	5.00	5.00	5.00	5.00
10 Year Spread to US	36	50	45	45	45	50	50	45	40	35	30
10 Year Spread to Aust	–27	–5	–5	0	5	20	30	35	40	40	40

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (Feb 13)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
NZD vs											
USD	0.6034	0.60	0.61	0.63	0.64	0.65	0.67	0.68	0.68	0.68	0.67
JPY	92.15	91	91	92	93	94	95	97	96	95	93
EUR	0.5084	0.51	0.51	0.52	0.53	0.54	0.55	0.56	0.56	0.56	0.55
AUD	0.8512	0.86	0.86	0.87	0.89	0.89	0.91	0.92	0.92	0.92	0.92
CAD	0.8211	0.82	0.83	0.85	0.86	0.87	0.89	0.90	0.90	0.88	0.87
GBP	0.4430	0.44	0.44	0.45	0.46	0.47	0.48	0.48	0.48	0.48	0.48
CNY	4.1673	4.15	4.18	4.26	4.29	4.29	4.33	4.39	4.35	4.29	4.25

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2025		2026				2027		Calendar years			
% change	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**Q1f**	**Q2f**	**2025f**	**2026f**	**2027f**	**2028f**
Private consumption	0.1	0.3	0.7	0.9	1.0	1.0	1.0	0.8	1.6	2.5	3.7	3.3
Government consumption	1.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	1.9	1.5	1.4	2.2
Residential investment	3.8	0.5	1.5	3.0	3.0	3.0	3.0	1.8	–3.7	7.8	9.9	4.1
Business investment	3.6	–1.1	2.3	2.1	1.8	1.6	1.4	1.2	1.3	6.0	5.8	3.8
Stocks (ppt contribution)	–0.5	0.7	0.5	–0.2	0.0	0.1	0.2	–0.3	–0.2	0.8	0.0	–0.2
GNE	0.9	0.7	1.4	0.9	1.1	1.1	1.2	0.6	1.1	4.1	3.9	3.0
Exports	3.3	2.6	0.3	0.5	0.7	0.5	0.5	0.6	3.3	4.6	2.2	2.2
Imports	2.5	–0.1	1.8	1.7	1.4	1.5	1.2	1.0	3.1	5.7	5.1	3.4
GDP (production)	1.1	0.6	1.0	0.5	0.9	0.9	1.1	0.5	0.4	2.8	3.1	2.7
Employment annual %	–0.7	0.2	0.6	1.5	2.3	2.6	2.9	2.8	0.2	2.6	2.2	1.7
Unemployment rate % s.a.	5.3	5.4	5.3	5.1	4.9	4.7	4.6	4.5	5.4	4.7	4.4	4.2
LCI, all sect incl o/t, ann %	2.1	2.0	2.0	1.9	2.2	2.4	2.4	2.3	2.0	2.4	2.2	2.1
CPI annual %	3.0	3.1	2.6	2.6	2.5	2.3	2.3	2.2	3.1	2.3	2.5	2.2
Current account % of GDP	–3.5	–3.4	–3.2	–3.1	–3.0	–2.9	–2.8	–3.0	–3.4	–2.9	–3.3	–3.5
Terms of trade annual %	5.1	0.2	2.0	1.2	3.1	5.9	4.4	2.0	0.2	5.9	1.1	1.2

Sources: Statistics NZ, Westpac Economics.

Commodity prices

End of period	Latest (Feb 13)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Australian commodities index#	393	392	394	392	390	383	377	372	372	370	369
Bulk commodities index#	**392**	**390**	**370**	**350**	**350**	**350**	**350**	**350**	**350**	**350**	**360**
iron ore finesTSI @ 62% US$/t	101	97	90	86	83	84	85	85	86	86	87
Premium low vol met coal (US$/t)	250	250	235	220	200	201	203	204	205	207	208
Newcastle spot thermal coal (US$/t)	121	125	120	110	111	111	112	113	113	114	115
crude oil (US$/bbl) Brent ICE	68	70	67	65	62	60	57	60	62	65	70
LNG in Japan US$mmbtu	10.80	10.6	11.6	10.7	10.1	9.5	9.0	8.3	8.7	9.0	9.4
gold (US$/oz)	5,035	5,100	5,300	5,500	5,600	5,500	5,400	5,300	5,200	5,000	4,750
Base metals index#	**252**	**257**	**261**	**264**	**265**	**260**	**251**	**240**	**247**	**258**	**275**
copper (US$/t)	12,993	13,200	13,300	13,400	13,500	13,250	13,000	12,500	12,930	13,580	14,660
aluminium (US$/t)	3,090	3,150	3,250	3,350	3,450	3,450	3,300	3,100	3,180	3,300	3,500
nickel (US$/t)	17,382	17,900	18,150	18,300	18,100	17,500	16,500	15,500	15,850	16,370	17,230
zinc (US$/t)	3,375	3,400	3,400	3,400	3,300	3,200	3,000	2,900	2,960	3,060	3,210
lead (US$/t)	1,948	2,000	2,050	2,050	1,990	1,930	1,800	1,750	1,790	1,850	1,950
Rural commodities index#	**130**	**129**	**127**	**128**	**127**	**122**	**118**	**120**	**124**	**129**	**137**
NZ commodities index ##	**378**	**390**	**395**	**396**	**400**	**405**	**410**	**414**	**417**	**419**	**420**
dairy price index ##	308	327	332	334	340	346	354	360	364	366	368
whole milk powder USD/t	3,614	3,700	3,600	3,600	3,600	3,650	3,700	3,740	3,770	3,810	3,850
skim milk powder USD/t	2,874	2,900	2,800	2,750	2,700	2,720	2,750	2,780	2,810	2,830	2,860
lamb price index ##	657	657	658	653	650	648	647	643	643	640	632
beef price index ##	376	379	381	383	384	385	385	385	384	383	382
forestry price index ##	147	148	150	151	153	155	158	160	162	164	164

	levels				% change			
Annual averages	**2025**	**2026(f)**	**2027(f)**	**2028(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Australian commodities index#	**324**	**391**	**378**	**365**	**4.1**	**20.9**	**–3.4**	**–3.2**
Bulk commodities index#	**379**	**382**	**359**	**368**	**–12.5**	**0.8**	**–5.9**	**2.4**
iron ore fines @ 62% USD/t	102	91	85	87	–6.9	–10.5	–7.1	2.8
LNG in Japan $mmbtu	11.8	10.9	9.0	10	–9.7	–7.2	–17.9	6.9
ave coking coal price (US$/t)	166	202	194	199	–19.6	21.7	–3.8	2.6
ave thermal price (US$/t)	119	119	115	118	–12.1	0.0	–3.4	2.4
iron ore fines contracts (US¢ dltu)	143	133	121	123	–12.2	–6.7	–9.2	1.7
Premium low vol met coal (US$/t)	188	229	203	208	–21.7	21.5	–11.4	2.3
crude oil (US$/bbl) Brent ICE	67	66	60	68	–13.3	–1.8	–9.5	14.4
gold (US$/oz)	3,470	5,290	5,380	4,663	44.0	52.4	1.7	–13.3
Base metals index#	**208**	**260**	**250**	**268**	**3.1**	**24.8**	**–3.8**	**7.2**
copper (US$/t)	10,000	13,300	13,000	14,300	8.7	33.0	–2.3	10.0
aluminium (US$/t)	2,600	3,300	3,300	3,400	8.3	26.9	0.0	3.0
nickel (US$/t)	15,300	18,000	16,500	16,900	–9.5	17.6	–8.3	2.4
zinc (US$/t)	2,900	3,400	3,000	3,200	3.6	17.2	–11.8	6.7
lead (US$/t)	2,000	2,000	1,800	1,900	–4.8	0.0	–10.0	5.6
Rural commodities index#	**120**	**127**	**121**	**134**	**–5.0**	**5.7**	**–4.8**	**11.0**
NZ commodities index ##	**390**	**395**	**412**	**420**	**9.2**	**1.4**	**4.1**	**2.0**
dairy price index ##	348	333	356	368	9.7	–4.4	6.9	3.3
whole milk powder USD/t	3,902	3,606	3,697	3,854	13.5	–7.6	2.5	4.3
skim milk powder USD/t	2,702	2,780	2,753	2,865	0.6	2.9	–1.0	4.0
lamb price index ##	587	656	646	630	27.0	11.7	–1.5	–2.4
beef price index ##	337	381	385	382	19.1	12.9	1.0	–0.8
forestry price index ##	152	151	159	164	–4.9	–0.5	5.3	3.5

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

United States

Interest rate forecasts

	Latest (Feb 13)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Fed Funds*	3.625	3.625	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375	3.375
10 Year Bond	4.10	4.20	4.30	4.35	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 (Feb 13)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
USD vs											
DXY index	96.92	96.6	95.7	95.2	94.7	94.2	93.8	93.8	93.8	93.9	93.8
JPY	152.74	151	149	147	145	144	143	142	141	140	139
EUR	1.1870	1.19	1.20	1.20	1.21	1.21	1.22	1.22	1.21	1.21	1.21
AUD	0.7088	0.70	0.71	0.72	0.72	0.73	0.73	0.74	0.74	0.73	0.73
NZD	0.6034	0.60	0.61	0.63	0.64	0.65	0.67	0.68	0.68	0.68	0.67
CAD	1.3609	1.36	1.36	1.35	1.35	1.34	1.34	1.33	1.32	1.31	1.30
GBP	1.3621	1.37	1.38	1.38	1.39	1.39	1.40	1.41	1.41	1.40	1.40
CHF	0.7693	0.77	0.77	0.76	0.75	0.75	0.74	0.75	0.75	0.75	0.76
ZAR	15.96	16.3	16.2	16.0	16.0	15.9	15.9	15.8	15.8	16.1	16.1
SGD	1.2626	1.27	1.26	1.26	1.26	1.26	1.26	1.26	1.25	1.25	1.25
HKD	7.8162	7.79	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	58.11	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.5	52.5	52.5
THB	31.07	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1	30.1
MYR	3.9032	4.10	4.08	4.05	4.00	3.95	3.90	3.85	3.80	3.80	3.80
CNY	6.9013	6.90	6.85	6.80	6.70	6.60	6.50	6.45	6.40	6.35	6.35
IDR	16827	16500	16300	16000	15700	15400	15100	14800	14600	14600	14600
TWD	31.41	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5	28.5
KRW	1439	1440	1410	1380	1360	1340	1330	1320	1315	1315	1315
INR	90.60	91.0	91.0	90.0	90.0	89.0	89.0	88.0	88.0	87.0	87.0

Activity forecasts

	2025				2026				Calendar years			
% annualised, s/adj	**Q1**	**Q2**	**Q3**	**Q4f**	**Q1f**	**Q2f**	**Q3f**	**Q4f**	**2025f**	**2026f**	**2027f**	**2028f**
Private consumption	0.6	2.5	3.5	2.2	2.1	2.0	2.0	2.0	2.7	2.3	2.1	2.1
Dwelling investment	–1.0	–5.1	–7.1	0.0	0.8	1.2	1.6	1.6	–2.1	0.5	1.8	2.3
Business investment	9.5	7.3	3.2	3.0	3.4	3.5	3.8	3.8	4.2	3.3	3.5	3.3
Public demand	–1.0	–0.1	2.2	2.0	0.8	0.4	0.4	0.4	1.2	0.6	0.4	0.4
Domestic final demand	1.5	2.5	2.9	2.2	2.0	2.0	2.0	2.0	2.1	1.6	2.0	2.0
Inventories contribution ppt	0.7	–0.4	–0.4	0.1	–0.3	0.6	0.2	0.0	0.3	0.1	–0.2	–0.1
Net exports contribution ppt	–1.8	–0.1	0.5	0.5	1.6	0.2	–0.4	–0.3	–0.1	–0.4	–0.1	–0.2
GDP	–0.6	3.8	4.4	3.5	2.4	2.1	1.8	1.8	2.3	2.7	1.8	1.8
%yr annual chg	2.0	2.1	2.3	2.7	3.5	3.1	1.9	1.8	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	20	34	23	–17	70	60	60	70	15	65	90	120
Unemployment rate %	4.1	4.2	4.3	4.4	4.5	4.5	4.6	4.6	4.4	4.6	4.5	4.5
CPI headline %yr	2.7	2.4	2.9	2.7	2.7	2.8	2.7	2.6	2.7	2.6	2.5	2.4
PCE deflator, core %yr	2.6	2.4	2.7	2.8	2.7	2.7	2.6	2.5	2.7	2.5	2.4	2.3

Sources: Official agencies, Factset, Westpac Economics.

Europe & the United Kingdom

Interest rate forecasts

	Latest (Feb 13)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
Euro Area											
ECB Deposit Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
10 Year Bund	2.78	2.85	2.90	2.85	2.85	2.85	2.85	2.85	2.90	2.95	3.00
10 Year Spread to US	–132	–135	–140	–150	–155	–160	–165	–170	–170	–170	–170
United Kingdom											
BoE Bank Rate	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
10 Year Gilt	4.45	4.55	4.65	4.65	4.65	4.70	4.70	4.70	4.70	4.70	4.75
10 Year Spread to US	35	35	35	30	25	25	20	15	10	5	5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (Feb 13)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
euro vs											
USD	1.1870	1.19	1.20	1.20	1.21	1.21	1.22	1.22	1.21	1.21	1.21
JPY	181.30	180	179	177	175	175	174	173	171	169	168
GBP	0.8715	0.87	0.87	0.87	0.87	0.87	0.87	0.86	0.86	0.86	0.86
CHF	0.9131	0.92	0.92	0.92	0.91	0.91	0.91	0.91	0.91	0.91	0.91
DKK	7.4701	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	10.60	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
NOK	11.32	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
sterling vs											
USD	1.3621	1.37	1.38	1.38	1.39	1.39	1.40	1.41	1.41	1.40	1.40
JPY	208.04	207	206	204	202	201	200	200	199	197	195
CHF	1.0478	1.06	1.06	1.06	1.04	1.04	1.04	1.05	1.05	1.06	1.06
AUD	0.5204	0.51	0.51	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2022	2023	2024	2025f	2026f	2027f	2028f
Euro area GDP	3.7	0.5	0.8	1.5	1.3	1.5	1.6
private consumption	5.3	0.6	1.2	1.3	1.3	1.4	1.4
fixed investment	2.2	2.7	–2.1	2.7	2.0	2.4	2.5
government consumption	1.3	1.5	2.2	1.7	2.1	2.0	1.9
net exports contribution ppt	–0.1	0.3	0.3	–0.5	–0.1	–0.2	–0.1
Germany GDP	1.9	–0.7	–0.5	0.4	1.1	1.7	1.7
France GDP	2.8	1.6	1.1	0.9	1.0	1.2	1.3
Italy GDP	5.0	1.1	0.5	0.7	1.0	0.9	1.0
Spain GDP	6.4	2.5	3.5	2.8	2.3	2.1	2.1
Netherlands GDP	5.0	–0.6	1.1	1.9	1.5	1.4	1.6
United Kingdom GDP	5.1	0.3	1.1	1.3	0.9	1.4	1.6

Asia

China activity forecasts

Calendar years	2021	2022	2023	2024	2025	2026f	2027f	2028f
Real GDP	8.6	3.1	5.4	5.0	5.0	4.6	4.5	4.3
Consumer prices %yr	1.5	1.8	–0.3	0.1	0.1	0.9	1.3	1.7
Producer prices %yr	10.3	–0.7	–2.7	–2.3	–2.6	–0.9	1.0	1.5
Industrial production (IVA)	9.6	3.6	4.6	5.8	5.9	5.0	4.6	4.4
Retail sales	12.5	–0.2	7.2	3.5	4.1	4.4	4.6	4.8
Money supply M2 %yr	9.0	11.8	9.7	7.3	8.0	7.8	7.6	7.5
Fixed asset investment	4.9	5.1	3.0	3.2	–1.0	4.2	4.5	4.5
Exports %yr	20.9	–9.9	–2.3	10.7	5.1	2.7	2.5	2.0
Imports %yr	19.5	–7.5	0.2	0.9	0.0	1.0	1.5	1.2

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

Chinese interest rates & monetary policy

	Latest (Feb 13)	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 (Feb 13)	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Policy Rate	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	2.23	2.25	2.20	2.15	2.10	2.05	2.00	1.95	1.90	1.85	1.80

Currency forecasts

	Latest (Feb 13)	Mar–26	Jun–26	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28
JPY	152.74	151	149	147	145	144	143	142	141	140	139
SGD	1.2626	1.27	1.26	1.26	1.26	1.26	1.26	1.26	1.25	1.25	1.25
HKD	7.8162	7.79	7.78	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75
PHP	58.11	58.2	57.5	56.8	56.0	55.0	54.0	53.0	52.50	52.50	52.50
THB	31.07	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1	30.1
MYR	3.9032	4.10	4.08	4.05	4.00	3.95	3.90	3.85	3.80	3.80	3.80
CNY	6.9013	6.90	6.85	6.80	6.70	6.60	6.50	6.45	6.40	6.35	6.35
IDR	16827	16500	16300	16000	15700	15400	15100	14800	14600	14600	14600
TWD	31.41	30.4	29.9	29.4	29.0	28.8	28.7	28.6	28.5	28.5	28.5
KRW	1439	1440	1410	1380	1360	1340	1330	1320	1315	1315	1315
INR	90.60	91.0	91.0	90.0	90.0	89.0	89.0	88.0	88.0	87.0	87.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2021	2022	2023	2024	2025f	2026f	2027f	2028f
World	**6.6**	**3.8**	**3.5**	**3.3**	**3.4**	**3.4**	**3.3**	**3.3**
United States	6.2	2.5	2.9	2.8	2.3	2.7	1.8	1.7
Japan	2.7	1.0	1.2	0.1	1.2	0.9	0.9	0.8
Euro zone	6.4	3.7	0.6	0.8	1.5	1.3	1.5	1.6
Group of 3	**5.8**	**2.8**	**1.9**	**1.7**	**1.9**	**2.0**	**1.6**	**1.6**
United Kingdom	8.5	5.1	0.3	1.1	1.3	0.9	1.4	1.6
Canada	6.0	4.2	1.5	1.6	1.2	1.2	1.8	2.0
Australia	5.4	4.2	2.1	1.0	2.0	2.6	2.3	2.7
New Zealand	5.7	2.9	1.8	–0.6	0.4	2.8	3.1	2.7
OECD total	**6.1**	**3.2**	**1.9**	**1.8**	**1.7**	**1.9**	**1.6**	**1.6**
China	8.4	3.1	5.4	5.0	5.0	4.6	4.5	4.4
Korea	4.6	2.7	1.6	2.0	1.0	2.1	2.0	1.9
Taiwan	6.7	2.7	1.1	4.8	8.6	4.0	3.0	2.8
Hong Kong	6.5	–3.7	3.2	2.5	3.5	2.5	2.5	2.3
Singapore	9.8	4.1	1.8	4.4	4.7	2.5	2.5	2.4
Indonesia	3.7	5.3	5.0	5.0	5.0	5.1	5.2	5.2
Thailand	1.5	2.6	2.0	2.5	2.0	2.2	2.5	2.5
Malaysia	3.3	9.0	3.5	5.1	4.9	4.4	4.4	4.3
Philippines	5.7	7.6	5.5	5.7	4.4	5.0	5.5	5.7
Vietnam	2.6	8.5	5.1	7.1	8.0	7.4	7.2	7.0
East Asia	**7.1**	**3.6**	**4.7**	**4.8**	**4.9**	**4.5**	**4.4**	**4.3**
East Asia ex China	4.4	4.6	3.4	4.3	4.6	4.1	4.1	4.1
NIEs*	**6.0**	**2.3**	**1.6**	**3.2**	**4.0**	**2.8**	**2.4**	**2.3**
India	9.7	7.6	9.2	6.5	7.2	6.8	6.5	6.3
Russia	5.9	–1.4	4.1	4.3	0.6	1.2	1.2	1.1
Brazil	4.8	3.0	3.2	3.4	2.3	1.9	2.1	2.3
South Africa	4.9	2.1	0.8	0.5	1.1	1.2	1.5	1.7
Mexico	6.0	3.7	3.4	1.4	1.0	1.5	2.0	2.1
Argentina	10.4	6.0	–1.9	–1.3	4.5	4.0	4.0	3.8
Chile	11.3	2.2	0.5	2.6	2.5	2.0	2.3	2.3
Middle East	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9
C & E Europe	9.0	4.2	3.0	2.9	2.8	2.9	3.1	3.4
Africa	3.8	4.4	3.7	4.1	4.1	4.4	4.5	4.5
Emerging ex–East Asia	**6.7**	3.7	**4.3**	**4.5**	**4.2**	**4.2**	**4.2**	**4.1**
Other countries	**6.7**	**4.8**	**4.7**	**1.6**	**2.5**	**3.0**	**3.1**	**3.5**
World	**6.6**	**3.8**	**3.5**	**3.3**	**3.4**	**3.4**	**3.3**	**3.3**

#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.

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