



**May 2026**

# **WESTPAC MARKET OUTLOOK**

Your monthly report on Australia and the global economy.

# WESTPAC MARKET OUTLOOK

## May 2026

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Westpac Market Outlook is a monthly publication produced by Westpac Economics.

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This issue was finalised on 8 May 2026.

# No man's land



Developments coming out of the Middle East have largely been touch-and-go over recent weeks, with brief stints of optimism over progress towards a resolution punctuated by breakdowns and occasional skirmishes. That continues to produce sharp swings and contrasts across core asset markets: US and Asian equities pushing above pre-conflict levels despite Brent oil hitting a new cycle high and while yields remaining elevated but range bound. We have again refreshed our baseline scenario to incorporate recent developments but this time with minimal changes to our key economic forecasts.

With less scope to 'look through' the shock, policymaker assessments have started to shift. Both monetary and fiscal arms are moving to incorporate higher inflation, lower growth, and weaker labour markets into their 'baseline' forecasts, while flagging that more adverse scenarios could make it even tougher for policies to balance inflation and growth risks.

But with so much uncertainty hanging over the course of the conflict, policy is effectively in 'no man's land'. Central banks are left having to navigate with extreme caution – the Fed, ECB, BoE, BoJ and BoC all opting to keep policy on hold for now and the RBA raising rates but looking for some breathing room to pause as well. Different starting points and exposures to the shock will likely necessitate distinct paths over time. For the record, we still expect another two rate hikes from the RBA this year, but with a slightly later timing – August and September. In contrast, the US is in a better position to weather inflation risks and unlikely to see the Fed alter its policy stance for some time.

The upcoming 2026/27 Federal Budget faces a similar balancing act. As our preview sets out, the government will have some windfall gains to work with but support measures will need to be carefully calibrated given the backdrop of inflation risks. Wilfred Owen – the quintessential wartime poet – once described no man's land as "like the face of the moon, chaotic, crater-ridden, uninhabitable, awful, the abode of madness." Ideally policymakers will navigate this threatening terrain in a coordinated rather than haphazard way.

**Australia:** The RBA hiked the cash rate this month, and while it seeks some breathing space, we expect further hikes later, in August and September. The more hawkish policy environment here is evident in both bond and FX market developments. The real economy is heading for an abrupt slowdown, with higher unemployment but also higher inflation in the near term.

**Middle East:** The normalisation of shipping traffic through the Strait of Hormuz will be more drawn out than we previously assumed. Our revised baseline assumptions point to a more persistent energy price shock, with tighter demand and supply balances extending into 2027 and beyond, and Brent crude oil prices remaining elevated for longer.

**Commodities:** April was a mixed month with our broadest commodities index down 1% since our last update. We have revised up our forecasts for crude (US\$110/bbl for Q2 2026, US\$87/bbl for Q4 2026) and lifted the profile by around 20% to 30% through 2027, finishing at a quarter-average of US\$67/bbl.

**Global FX Markets:** When we released the April edition of Market Outlook, the DXY index sat at 98.2. Today it is also at 98.2 and, in the intervening period, the index traded a 1 point range – the definition of marking time.

**New Zealand:** Surveys point to a large fall in optimism as firms and households grapple with the impact of higher fuel prices on profitability and disposable income. Over coming months, higher fuel prices will lead to a sharp lift in CPI inflation and the RBNZ will need to be vigilant for signs of second-round price increases that cause inflation to persist over the medium term. We continue to expect the OCR to rise in September.

**United States:** Earnings beats have seen equities rebound to record levels. At the same time, though, consumption growth has fallen below trend and housing investment is contracting. In many respects, the economic outlook is highly uncertain.

**China:** Presidents Xi and Trump are due to meet to discuss China/US relations in May. Data point to a stark difference in perspectives which will shape risks and opportunities.

**Japan:** Japan's domestic fundamentals make a compelling case for the BoJ to continue normalising policy, even as the Middle East conflict and a weakening yen threaten to turn demand-pull inflation into cost-push.

**Europe & UK:** Major central banks in Europe maintained a balanced stance this month. But with a definitive end to the Middle East conflict out of sight, the ECB and Bank of England looking increasingly likely to hike sooner than later.

# Global markets navigate ongoing conflict ...

**Luci Ellis**

Chief Economist, Westpac Group

Until this week, the US–Iran ceasefire had held remarkably well. In particular, there had been no further destruction of oil and gas infrastructure in other Gulf nations. The effects of the latest attacks are unclear, but it remains the case that the main issue for the global economy is how long the Strait of Hormuz remains effectively shut. While some ships are able to exit the Gulf, few are entering. Our previous assumption of eight weeks of full closure and a recovery in May to around 20% of normal traffic has had to be revised, and the ultimate recovery is slower. There is nonetheless a potential upside scenario to our baseline as well as a downside.

Markets have continued to look through the downside risk to global growth and have instead tended to price in rate hikes for a number of central banks, and price out the earlier expected cuts by the Federal Reserve. We had already factored in this less dovish path for the Fed funds rate, given the underlying capacity pressures in the US economy.

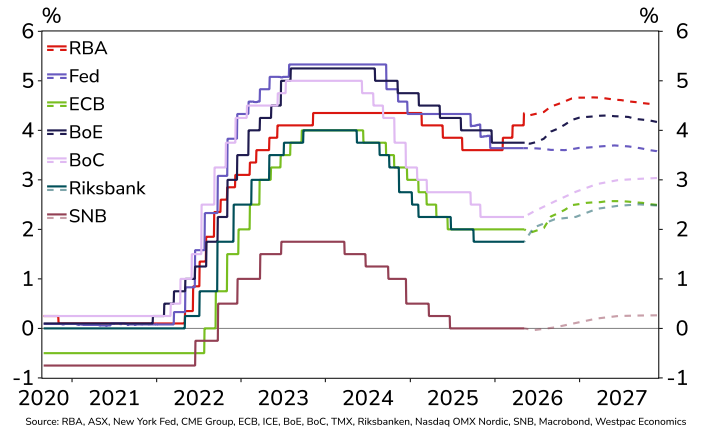
Senior central bank officials from the Bank of England, ECB and Bank of Canada have tended to push back on the more hawkish pricing, preferring a more wait-and-see approach. Accordingly, these central banks all kept policy rates on hold in recent weeks, though they have contemplated possible responses to a more protracted conflict.

Meanwhile, bond markets have mostly been in a holding pattern in recent weeks. At both ends of the curve, sovereign yields are little changed since late March. There has been a bit more amplitude in yield movements for US Treasuries and UK gilts than other comparable markets. Since the last Market Outlook was published, 3-year yields in these two markets have lifted around 15bps from what turned out to be a brief trough, and 10-year yields have lifted a little less than this.

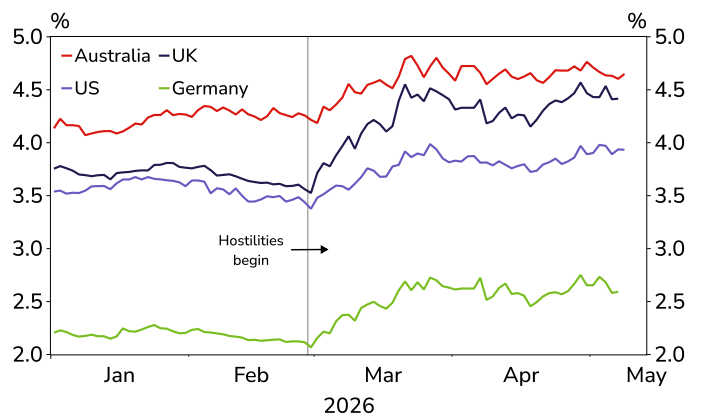
Exchange rates have also been in something of a holding pattern since the last Market Outlook, in contrast to the large moves in the first few weeks of the conflict. DXY has been little changed, with the USD also largely unchanged against the euro and RMB over this period, though it has depreciated against several currencies in the Asia–Pacific region, including AUD, NZD and yen. The AUD now looks richly priced on a real effective basis, reflecting the higher rates outlook. Less certain is whether there has been any additional role for the earlier sell-off in the USD. On a real effective basis, though, the USD is only about 1½% lower since the end of last year.

As expected, the RBA Monetary Policy Board (MPB) raised the cash rate 25bps to 4.35% following its May 2026 meeting. The vote was again split, this time 8–1, after the 5–4 vote in March. In explaining the decision, the MPB cited the higher inflation stemming from the Middle East conflict, including second-round effects, with risks tilted to the upside. These

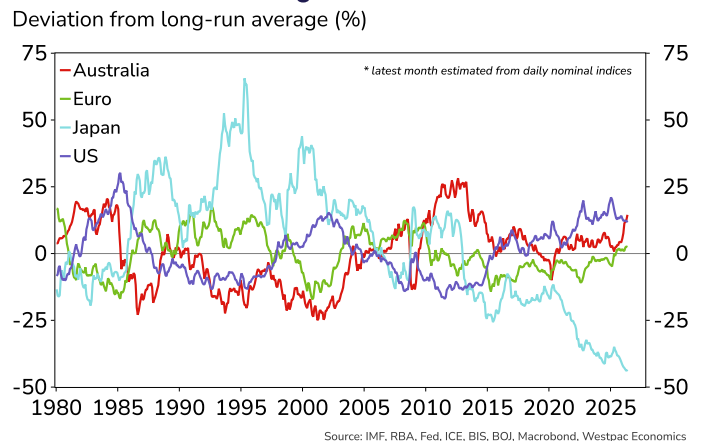
## Central Bank Policy Rates (Market Expectations)



## Global 3-Year Bond Yields



## Real Effective Exchange Rates



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# ... while RBA tries to make space in inflation fight

added to the inflationary pressures already arising from what it sees as capacity pressures. It also noted indications that “higher fuel prices are likely to have second-round effects on prices for goods and services more broadly”.

We still expect two more RBA rate hikes after the one this week. However, we now think that the MPB will want to pause in June. In the post-meeting media conference, Governor Bullock characterised the three rate hikes so far as dealing with the high inflation issue that already existed before the conflict in the Middle East started, and that this “gives space” for the MPB to see how the conflict plays out. Together with the dissenting vote, we read this as saying that another back-to-back hike in June is no longer a better-than-50% chance. It is not a zero chance, either, but it should not be the base case.

The MPB will not have much time to catch breath, though. Our assessment is that second-round pass-through will be stronger, and oil prices higher, than the RBA’s forecasts imply. Our forecasts for trimmed mean inflation are therefore higher than the RBA’s in the near term. Once it peaks, though, we expect a faster unwind. Extending our forecast to end-2028 shows a material risk that trimmed mean inflation will undershoot the 2½% midpoint of the RBA’s 2–3% target range.

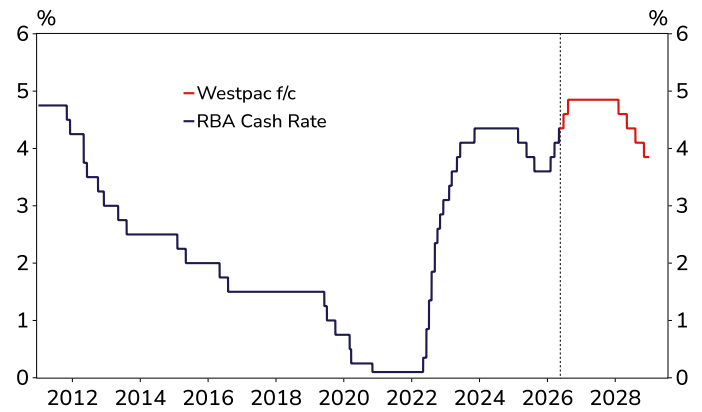
Our rates view is, as always, based on our assessment of what the RBA will do if things turn out as we expect, in line with our own forecasts. We therefore retain our view that two further hikes are more likely than one. It will take some time before the need for the additional hikes becomes apparent in the data and spurs a MPB decision, though.

We therefore push the timing of these two hikes out to August and September. We think the Q2 and Q3 inflation data will be something of a ‘wake-up call’ on the willingness of firms to pass on increases in non-labour costs into their own prices.

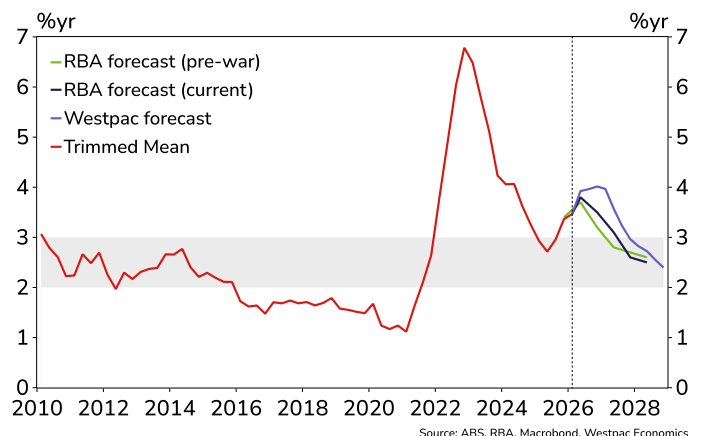
Five rate hikes in less than nine months will bring monetary policy to an explicitly restrictive stance. One perspective on the RBA’s approach can be inferred from real bond yields, which widened significantly relative to US equivalents late last year, and briefly again when the Middle East conflict began. While a spread of this size was also seen in the depths of the pandemic and was normal in the early 2010s in the wake of financial crisis, the divergence in direction has been striking recently.

Once it becomes clear that inflation is on a better trajectory, the MPB will be in a position to withdraw some of that restrictiveness. We expect it will do so cautiously, however, given the experience of 2025, where inflation rebounded almost immediately after it started cutting the cash rate. While the lag was too short and the upside surprise to activity was too focused on business investment to be attributable to monetary policy, the experience is likely to make the MPB a little gun-shy.

## RBA Cash Rate

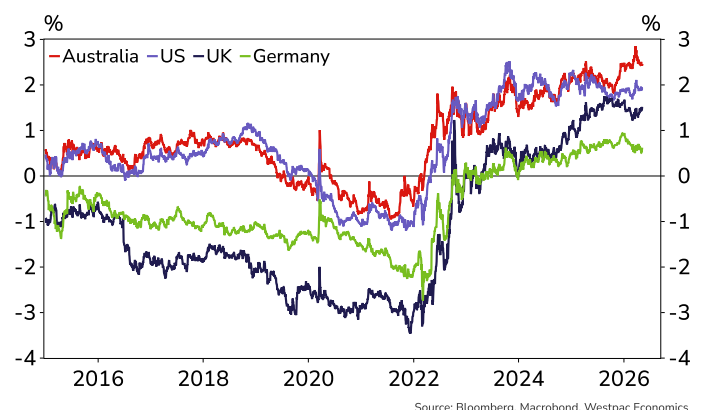


## Trimmed Mean Inflation



## Global Real Interest Rates

### 10-Year Inflation-Linked Bonds



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# Energy shock slows growth, lifts inflation ...

**Pat Bustamante**  
Senior Economist

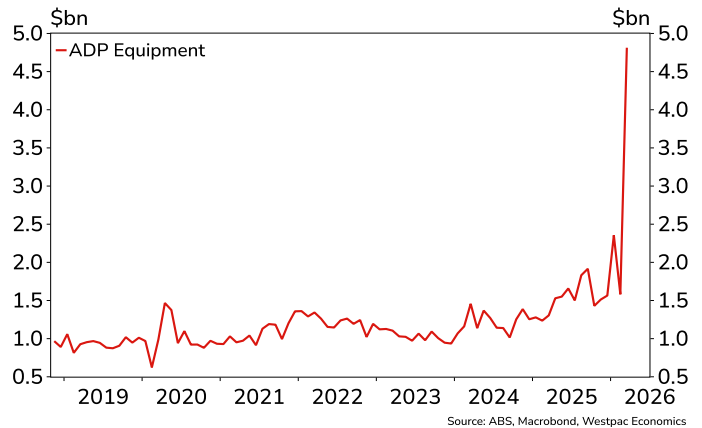
After a relatively strong finish to 2025, the Australian economy is heading for an abrupt slowdown in 2026 and into 2027. Much of this is already in train – the re-tightening in monetary conditions in the first few months is now combining with a large global supply shock centred on energy that is set to see some combination of higher inflation and weaker growth. Key assumptions on the conflict remain broadly unchanged: we continue to assume a very gradual normalisation process for global energy supply. That points to a more persistent and problematic rise in inflation locally with the RBA expected to respond with two more 25bp rate hikes, aimed at preventing a sustained rise in inflation expectations. The bottom line is a very difficult year for the economy: trimmed mean inflation lifting to 4% by year-end, GDP growth stalling to just 1%yr and the unemployment rate rising towards 5%.

Since our update last month, the flow of data and events has largely evolved largely as expected. Domestically, partial economic indicators have been mixed. The Q1 figures suggest there was some ongoing residual strength in the economy from the cyclical upturn that formed in the second half of 2025. The ABS household spending indicator recorded a clear boost from fuel in the March month, the 0.7%qtr gain in total real spend in Q1 coming in stronger than expected, down only slightly from the 1%qtr gain in Q4. However, there may be some technical issues around how fuel price rises have been incorporated.

Additionally, year-ended growth in private credit rose a solid 8.1%yr in March 2026, exceeding 8.0%yr for the first time since late 2022. Imports of capital also surprised on the upside with imports of automated data processing machines (i.e. computers and associated products, including NVIDIA's high-end AI chips) recording a remarkable four-fold increase in the month of March, suggesting the data centre investment boom has accelerated materially. And finally, monthly financial accounts shows that the Federal government budget is running around \$17bn ahead of profile because growth in income-based tax revenues (coming from wages and profits) has been stronger than expected back in the December 2025 MYEFO.

However, the tail-end of Q1 and early Q2 figures are looking materially softer. The income squeeze from higher fuel prices and interest rates looks to be impacting the consumer more heavily. Our Westpac-DataX Card Tracker suggests growth in non-fuel spending is stalling with outright weakness starting to emerge in discretionary services categories. Meanwhile our Westpac Consumer Panel shows a similar story for the month of March, with a clear moderation in the pace of savings accumulation and a more pronounced shift across customers with high energy spend relatively to total consumption.

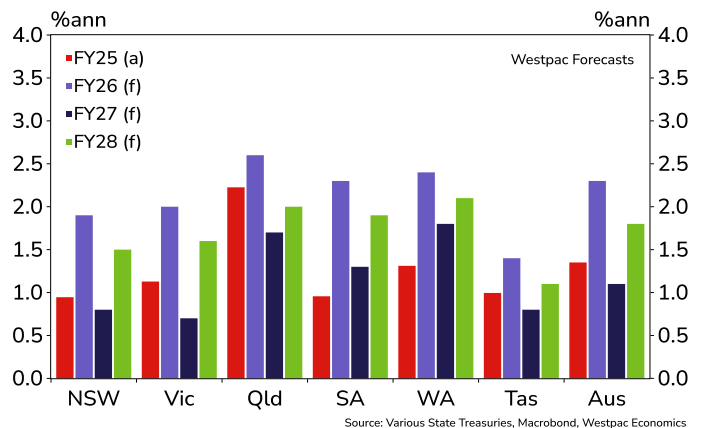
## ADP equipment imports



There have also been some notable shifts in the housing market. Price growth nationally remained positive in April but the pace is slowing with preliminary estimates pointing to a decline in turnover as well. The turn is more pronounced in the Sydney and Melbourne markets which are now in a correction phase, prices down 0.9%qtr and 1.5%qtr in April, respectively.

Note that we have published updated state-based economic and employment forecasts that are consistent with our national forecasts. These point to a renewed divergence in state performances as national growth slows. The consumer-led states of NSW and Victoria are set to experience the sharpest weakening, while the mining-based economies of Queensland and WA are set to outperform, supported by elevated energy prices and associated income windfalls. South Australia also appears relatively well positioned, underpinned by strength across both public and private sector activity (see [here](#)).

## Gross State Product

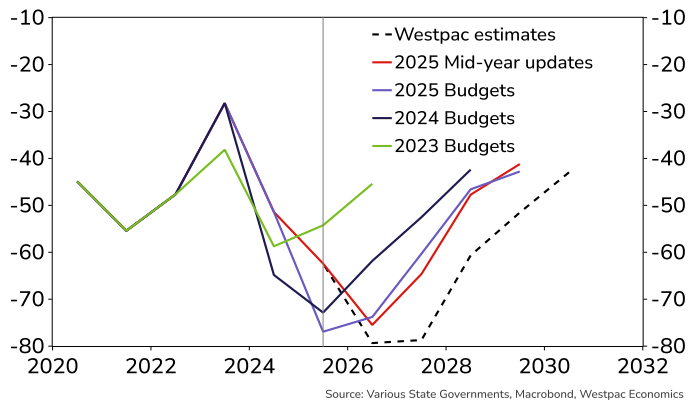


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# ... and narrows fiscal path

## Budget outlook across the states

Non-Financial Public Sector, Cash Balance, \$bn



With another budget season underway, government finances are back in the spotlight.

For state governments, the Middle East conflict has come at a particularly bad time. Rather than a recovery in private sector activity, we now expect a sharp slowdown as monetary conditions re-tighten. This shift has material implications for the states' key tax bases, including payroll tax, stamp duty and gambling taxes. Based on Westpac Economics' outlook, and our mapping from macro parameters to fiscal outcomes, we estimate the combined state cash deficit will deteriorate by around \$50bn over the five years to FY2030 (see [here](#)).

The backdrop differs materially at the Federal level. As a net energy exporter, Australia is benefiting from a surge in commodity prices, particularly LNG and coal, lifting national income. As we outlined back in March (see [here](#)), stronger commodity prices and elevated inflation are expected to generate a sizeable revenue windfall for the Commonwealth, with around \$20bn attributable to the Middle East conflict in the near term. This should see the underlying cash balance

improve by around \$13bn in 2025-26 relative to MYEFO, as outlined in our final Budget preview ([here](#)).

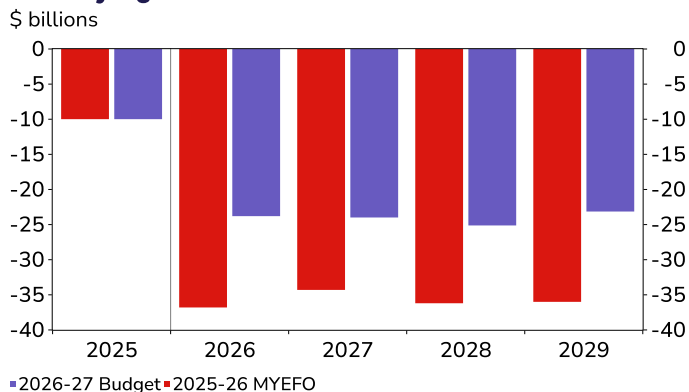
These upfront windfalls complicate the policy environment heading into the May/June budget cycle. As we showed in our April preview (see [here](#)), discretionary fiscal policy in Australia has tended to be somewhat pro-cyclical, becoming more activist as labour market risks rise but with peak support landing well after it is most needed. From a cyclical perspective, there is limited case for a large net fiscal expansion. The fiscal impulse is already expansionary, with a cumulative lift of around 3.5ppts of GDP over the three years to FY2026, comparable to that seen during the GFC. Notably, states have driven a disproportionate share of this expansion, particularly early on in the cycle.

While the impulse is moderating, it remains slightly expansionary into FY2027 even before incorporating additional measures expected in upcoming budgets. Against this backdrop, there is limited scope, or need, for a further material increase. A more appropriate approach is targeted redistribution within the existing fiscal envelope, supporting households and businesses without amplifying the cycle.

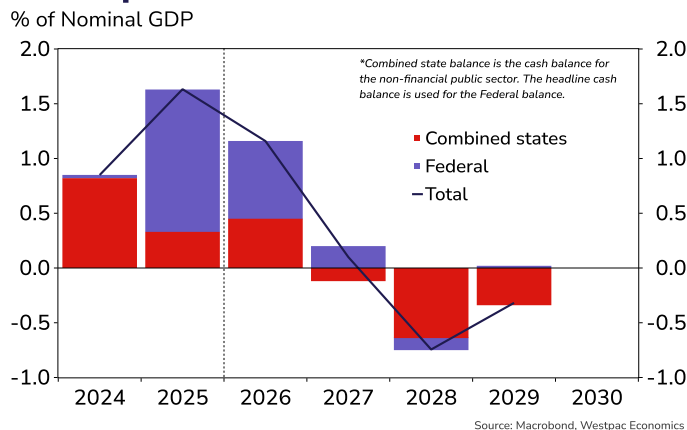
In the near term, however, the risk is policy becomes too expansionary. Recent budget announcements, particularly from WA and Victoria, point to sizeable discretionary measures at the state level, on top of some already announced Federal cost-of-living support. While supportive for activity, they risk leaving aggregate demand stronger than is consistent with the RBA's inflation target.

The broader lesson from past cycles is that fiscal policy tends to be pro-cyclical and slow to unwind, with peak effects often arriving after the economy has already turned. That risk is heightened in the current environment, where a negative real shock is coinciding with a positive nominal shock.

## Underlying cash balance estimates\*



## Fiscal impulse



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# A slower normalisation in shipping flows ...

**Sian Fenner**

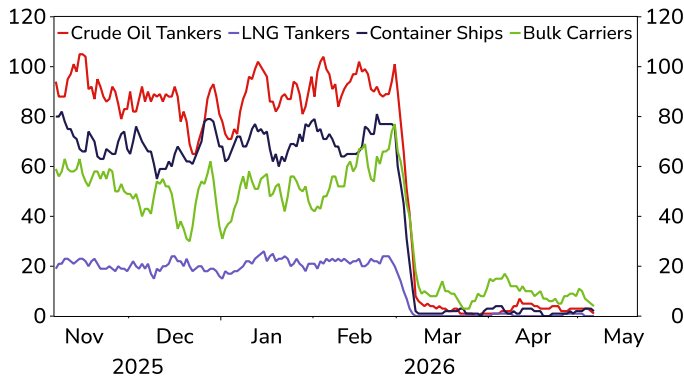
Head of Business & Industry Economics

It has become increasingly clear that the normalisation of shipping traffic through the Strait of Hormuz will be more drawn out than we previously assumed. We now expect flows to take until mid-2027 to fully normalise. Given the sustained disruption to both energy production in the Middle East and shipping through the Strait of Hormuz, we have raised our Q4 2026 Brent crude oil forecast to US\$95/bbl from US\$75 previously. Prices are also expected to remain higher in 2027, averaging US\$68/bbl in Q4.

The ceasefire between the US and Iran announced on 8 April has held, with no significant additional damage to energy or port infrastructure since then. However, as expected it has not led to a meaningful reopening of the Strait of Hormuz. The US is maintaining pressure on Iran through a blockade on shipping to and from Iranian ports, while Iran continues to use control of the Strait as leverage. As such, flows through the Strait remain minimal.

## Strait of Hormuz, Outbound Vessels

Vessel Crossings, 7-Day Rolling Total, West to East



Source: Bloomberg, Macrobond, Westpac Economics

In recent days the US has tabled a one page memorandum of understanding aimed at breaking the shipping impasse. Reportedly it includes Iran easing its grip on the Strait and the US gradually lifting the naval blockade over a defined period. However, even if agreed to this is not a permanent resolution and the risk of ongoing episodes of tactical escalations leading to short disruptions over the coming months remains high.

Moreover, as we have previously highlighted, even if the Strait was to fully reopen tomorrow, a return to normal traffic flow will take time, reflecting vessel repositioning, contract realignment and elevated insurance costs. Against this backdrop, we have revised our assumptions for the timing of normalisation of flows through the Strait.

We now assume a more modest lift in traffic from current lows, reaching around 10–15% of pre-conflict levels through June, with a return to normal flows not expected until mid-2027. This compares with our previous assumption (published 30 March) of flows of around 20% in May and June with a gradual recovery to normal by end-2026. We continue to assume no additional damage to regional energy infrastructure. We also assume that Saudi Arabia and the UAE continue to divert around 7mb/d of crude and refined products through pipelines to Yanbu on Saudi Arabia's Red Sea coast and to Fujairah in the UAE.

## Global energy buffers falling sharply

Our assumption of a more sustained period of disruption to shipping through the Strait means it will take longer for smaller Gulf producers, including Kuwait, that have faced some production 'shut ins' due to storage capacity constraints, to return to normal. Given the depletion in global energy buffers, we also expect a more modest offset from other sources over the rest of 2026 than in recent months.

Indeed, while global oil stocks were ample at around 8.2bn barrels heading into the conflict, the release of IEA strategic reserves, estimated at around 400 million barrels, alongside stronger Russian and US exports, has already led to a sharp deterioration in global inventories, with these flows drawing on floating storage as well as commercial and strategic reserves. The IEA estimates that observed oil stocks fell by 85mb in March with private estimates pointing to a much larger decline in April. Indeed, the US Strategic Petroleum Reserves is on track to fall to the lowest level since 1992.

The drawdown in global oil inventories has helped cushion the global supply shock in Q2, leaving a net supply shortfall of around 6mb/d. But this is still around 8mbd lower than our pre-conflict estimates.

There is, however, a critical level which provides a floor to how much inventories can continue to be drawn down. As a result, global supply is expected to fall by around 2.5% this year, with the scope to offset the underlying shortfall through inventories now limited despite a partial resumption in flows. In 2027, we expect a more significant recovery in supply as Middle East oil production and flows return to normal with the UAE expected to boost production above pre-conflict projections given it is no longer constrained by OPEC quotas.

On the demand side, meanwhile, we continue to estimate some demand destruction due to the surge in prices. However, the conflict has also highlighted the vulnerability of a number of countries, particularly across Asia, given their greater dependency on Middle East oil imports and more limited

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# ... will keep energy prices higher for longer

strategic reserves. This reinforces the case for building resilience against future oil supply shocks.

While the timing of any response remains uncertain and is unlikely to be even, we include a more decisive, policy driven push to rebuild reserves from mid-2027, lifting demand across most advanced and Asian economies by around 0.5%. This is materially above the historical average pace of reserve builds and provides some price support in the medium term.

Overall, the revised assumptions point to a more persistent energy price shock than previously assumed with tighter demand and supply balances extending into 2027 and beyond.

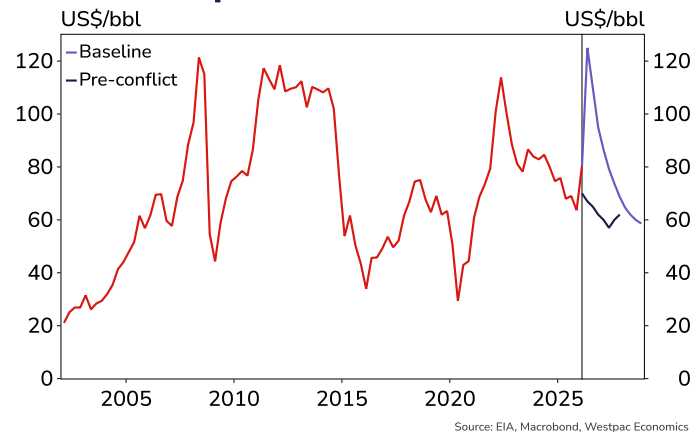
## Energy prices elevated for longer ...

Consequently, we now expect Brent crude oil prices to remain elevated for longer. Under our revised baseline scenario, we calibrate our baseline to dated Brent. Dated Brent has been trading at a premium to spot Brent prices for much of the conflict. This premium reflects the cost of securing physical barrels and is expected to unwind only gradually as flows normalise and inventories stabilise.

Consistent with this, we now expect dated Brent to average around US\$125/bbl in Q2, compared with spot Brent at around US\$110/bbl, implying an average premium of around \$15/bbl, before narrowing over the coming quarters.

Under our revised base case, prices are expected to decline more slowly than previously. By end-2026, Brent is forecast at \$95/bbl, \$20 above our previous baseline. A wedge persists into 2027, with Brent averaging around US\$68/bbl in Q4 2027.

## Brent Crude Oil price



We have also made allowance for refinery margins to remain higher for longer. Australian diesel and petrol prices continue to ease over 2027 but not only remain above pre conflict levels but are slightly higher at \$2.10/L and \$1.82/L by the end of the year than previously expected.

We have made only modest revisions to our Japanese LNG price projections despite global gas supply being highly exposed to an extended disruption. This largely reflects a recalibration to recent gas price outcomes, which have not risen as much as we had expected to date. However, with no viable route that bypasses the Strait, and damage to Qatar's Ras Laffan LNG plant potentially taking up to five years to fully repair, prices are still expected to remain above pre-conflict levels through to the end of 2027, with prices averaging US\$13/mmbtu, around US\$2 above pre-conflict levels in Q4 2027.

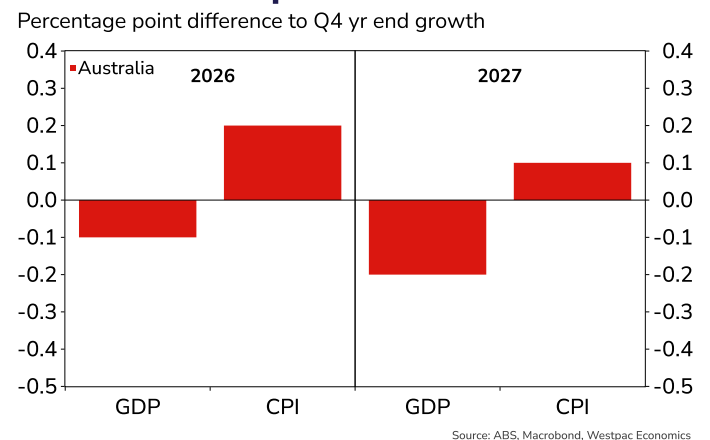
## ... with upstream impacts on other prices

Given the prolonged closure, we also expect some further supply chain pressures, particularly for fertilisers, chemicals, polymers and metals. However, higher fuel costs are expected to push freight rates up modestly in the near term. The impact is still expected to be limited relative to previous shipping disruptions and is unlikely to constrain supply, leaving freight as a secondary contributor to supply-side cost pressures, with energy costs remaining the dominant channel.

## Modest impact on economic outlook

Based on our modelling the impact of a more persistent constraint on energy supplies points to some modest downward pressure on economic growth in Australia and New Zealand, alongside higher inflation. However, these estimates reflect the modelled impact of higher energy and commodity prices in isolation. Final forecasts incorporate a broader set of interacting forces, which may offset these effects.

## Middle East Cease updated baseline



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# Oil prices remain bounded by headlines ...

**Justin Smirk**  
Senior Economist  
**Luka Belobrajdic**  
Economist

April was a mixed month with our broadest commodities index down 1% since our last update. Of course, with the Strait of Hormuz still effectively closed, crude oil grabbed the headlines rallying close to 14%. Iron ore also firmed lifting a bit more than 3%, while lithium gained on renewed electrification momentum. Copper and aluminium softened and gold is down more than 3%. With the conflict in the Middle East continuing, we have revised up our forecasts for crude (US\$110/bbl for the June quarter, US\$87/bbl for Dec 2026) and lifted the profile by around 20% to 30% through 2027 to post a December quarter average of US\$67/bbl. With iron ore continuing to be supported, our December 2026 forecast is now US\$97/t, 15% higher than our April estimate.

Note all prices in the following text are quarter averages.

## Oil prices steady but risks skewed to upside

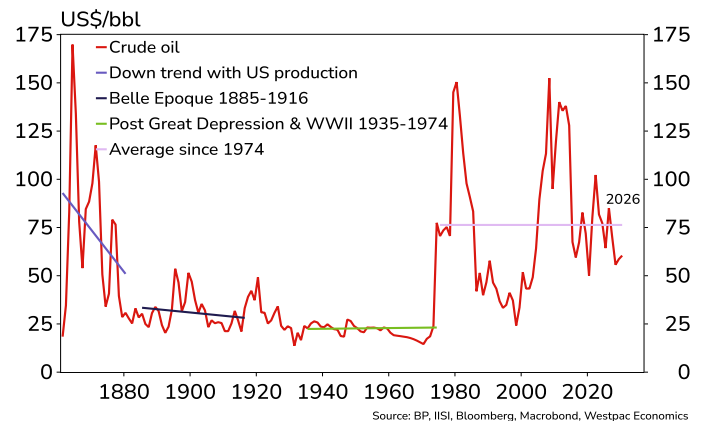
A fragile ceasefire in the Middle East continues, with a combination of restricted shipping flows and limited kinetic escalation capping both oil supply and further price gains. As a result, Brent futures have held steady in the US\$100-120/bbl range, with dated Brent continuing to trade at a meaningful premium. Note our analysis places greater weight on these physical crude prices, reflecting the ongoing tightness in underlying market conditions. Supply remains constrained by production shut ins, infrastructure damage and persistent shipping dislocation, with many vessels continuing to avoid the Strait of Hormuz. This has resulted in sustained logistical bottlenecks, with an estimated ~20mb/d of crude flows through the Strait disrupted. While global inventories provide some buffer, they represent a finite source of supply, implying that competition for available barrels is likely to remain elevated, placing upward pressure on prices.

Our baseline assumes traffic through the Strait of Hormuz returns to around 10-15% of pre-conflict levels through June, with a full normalisation of flows not expected until mid-2027, reflecting ongoing security and insurance constraints. Accordingly, we now expect Brent prices to average US\$110/bbl in Q2 2026, around 5% above our April forecast, before easing as geopolitical risks unwind and higher prices induce demand destruction. Brent is forecast to moderate to an average around US\$87/bbl by Q4 2026, with further easing through 2028 as supply and shipping conditions normalise.

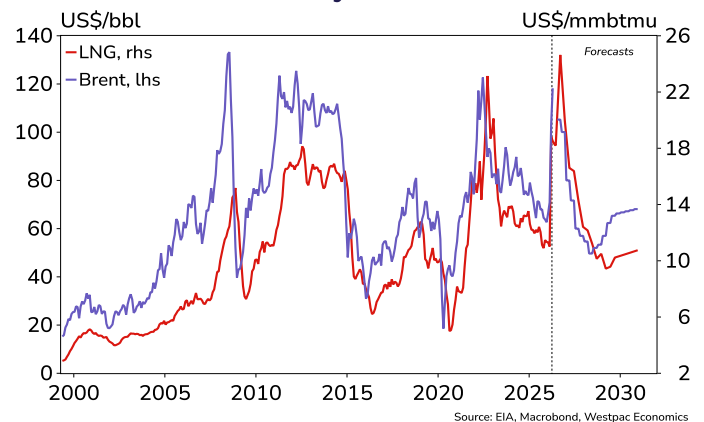
## New US and African supply temper Asian prices

LNG markets remain acutely exposed to the conflict, with an estimated 300mcm/day – around one fifth of global supply – disrupted from Qatar and the UAE. Ras Laffan in Qatar, the

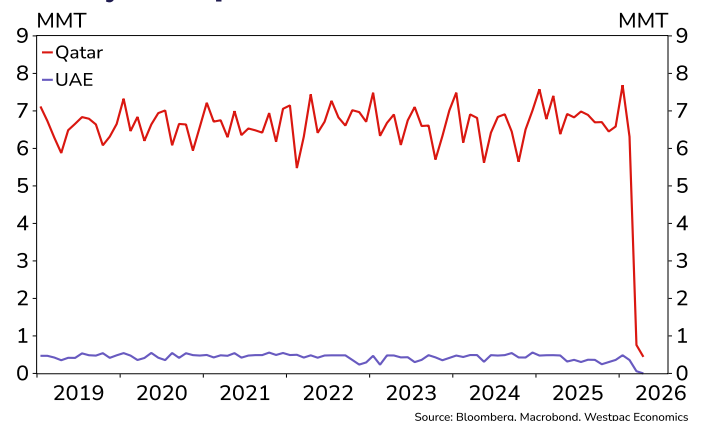
## Crude oil in 2026 US dollars



## Both crude and LNG hit by Strait closure



## Monthly LNG Exports



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# ... with electrification driving lithium demand

world's largest LNG export complex, has remained offline since early March, while global storage levels were already depleted exiting the Northern Hemisphere heating season. Asia remains particularly exposed, with an estimated 80–90% of LNG volumes transiting the Strait of Hormuz destined for Asian markets, driving a sharp rise in Japanese LNG prices. However, gains have been tempered by a combination of ceasefire optimism, demand side adjustments including fuel switching across asia, and crucially, new supply from North America and Africa.

Reflecting these offsetting forces, we have revised lower our expected peak in Japanese LNG prices to an average of US\$22.5/mmbtu in the September quarter, with prices expected to average above US\$20/mmbtu through year end. Given the scale of infrastructure disruption and the absence of viable alternative export routes, LNG markets are expected to remain tight, with prices unlikely to return to pre conflict levels until 2028

This does not mean we have seen the same impact on local Australian gas prices. This year the market has remained reasonably well supplied with prices remaining under the Government's proposed \$12 gigajoule cap. Additionally, the government is also proposing the 20% of the uncontracted export gas should be reserved for the local market. With the ongoing political pressure to tax gas exports we would expect to see the Australian gas market not repeat the pattern of the Russian gas crisis with local prices held down due to ample supply.

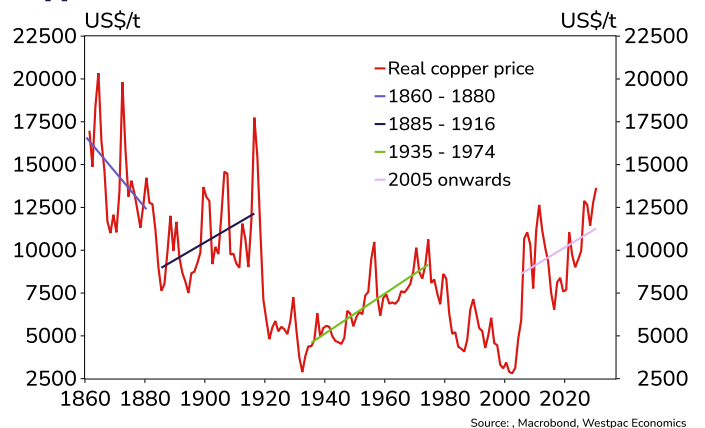
## A softer global outlook caps copper gains

Copper prices have eased modestly into May but remain elevated, finding a footing above US\$13,000/t with concerns around demand destruction, driven by higher energy costs and a softer global growth outlook, capping further gains. Despite this, underlying fundamentals remain supportive. Inventory drawdowns through late March and into April, reflected in Shanghai Futures Exchange data, point to a recent stabilisation in demand, supported by renewed focus on electrification amid rising energy costs. At the same time, shortages of sulphuric acid, critical to copper production, is emerging as a constraint, with around one third of global sulphur supply sourced from the Gulf. Against this backdrop, we expect copper prices to test higher levels, with a local peak expected in the March quarter of 2027 at an average of \$13,350/t, before consolidating. Further growth is expected later in the forecast period as net zero targets approach, accelerating EV and renewable deployment, and data centre build outs intensifies.

## EV uptake to support lithium

The lithium market has transitioned toward a more balanced position. Spodumene (6% FOB Australia) prices have stabilised around the US\$2,00–2,500/t range, with recent gains reflecting a drawdown in inventories. In the near term,

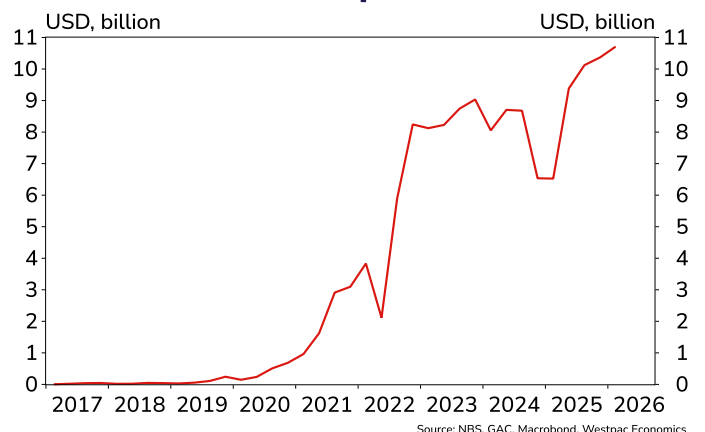
## Copper in 2026 dollars



this trend is expected to persist as downstream users maintain lean inventory positions amid price volatility. Additional support will come from accelerating EV adoption, particularly as higher fuel prices and supply insecurity, improve relative economics. Unlike previously, the EV market is now sufficiently mature for fuel dynamics to meaningfully influence purchasing decisions as lower cost Chinese EVs gain market share.

Over the medium to long term, lithium demand will continue to be underpinned by structural electrification trends. EVs remain the primary demand driver, while growth in battery energy storage systems is expected to accelerate alongside expanding renewable generation. The growing role of data centres is also likely to support demand for storage solutions, as systems are deployed to relieve transmission constraints and enable peak shaving. On the supply side, expanding production, particularly from Australia, is expected to place a cap on price upside.

## Chinese Electric Vehicle Exports



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# FX markets waiting for clear ...

**Elliot Clarke**  
Head of International Economics

When we released the last edition of Market Outlook in mid-April, the US dollar DXY index sat at 98.2. Today it is also at 98.2 and, in the intervening period, the index traded a 1 point range – the definition of marking time. Participants have not been short of headlines, rumours and data to assess. Instead, the sum of available information has been heightened uncertainty over the immediate and medium-term outlook, leading participants to refrain from trading.

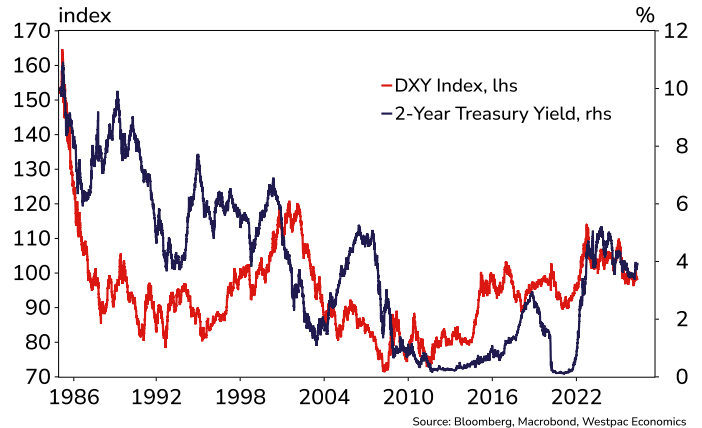
Assessing the market moves that have occurred and the information which inspired them, there is evidence to suggest most participants are waiting for the current crisis to end so they can pursue opportunities outside the US dollar. Supporting this view, risk-off moments have resulted in very limited upside for the US dollar – Project Freedom’s announcement and the ensuing skirmishes between Iran and the US in the Strait of Hormuz are a good example of this. Meanwhile, signs of stability and reports of dialogue have buoyed equities globally and seen pro-risk currencies test the upper end of recent ranges against the US dollar – the Australian dollar is a prime example, having traded up through USD0.72 in recent days.

Of the DXY constituents, Japan’s yen has led the way. Authorities’ concern over the cross breaking above JPY160 was followed by multiple rounds of intervention from late-April, a decision not taken since 2024; along with global developments, these actions have resulted in a sustained recovery from an intra-day high of JPY160.7 to near JPY157 (a near 2.5% appreciation for the yen).

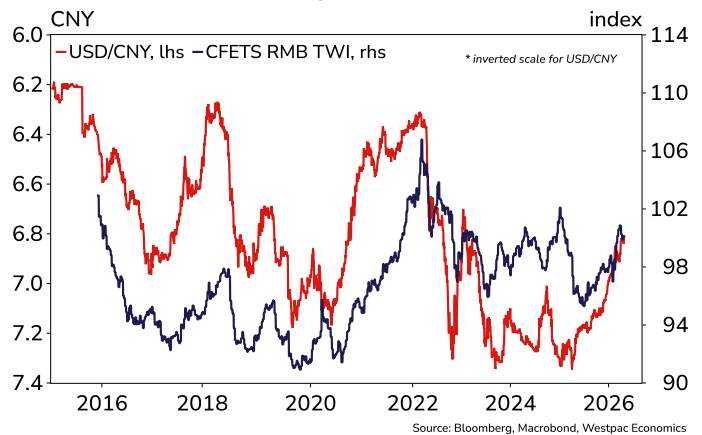
An immense degree of pressure remains on the yen – it is currently more than 40% below the average of 2018 and 2019, prior to the pandemic. That said, with the Bank of Japan expected to raise rates in June while the FOMC holds still, and if concerns over conflict in the Middle East and related energy supply begin to subside, a sustained appreciation for the yen against the US dollar and, to a lesser degree, other major trading partners is probable.

Based on our expectation for a protracted recovery in energy markets, we look for the yen to slowly appreciate through 2026-2028, USD/JPY declining from JPY157 today to JPY150 at mid-2027 and JPY142 come mid-2028. A stronger appreciation is possible if Japanese growth outperforms and/or the Bank of Japan takes a more hawkish stance. However, the reality is that Japan is more exposed to imported energy inflation, affecting real incomes and spending, and arguably lags major neighbours with respect to technological progress and efficiency – China, Taiwan and South Korea are all in a stronger position.

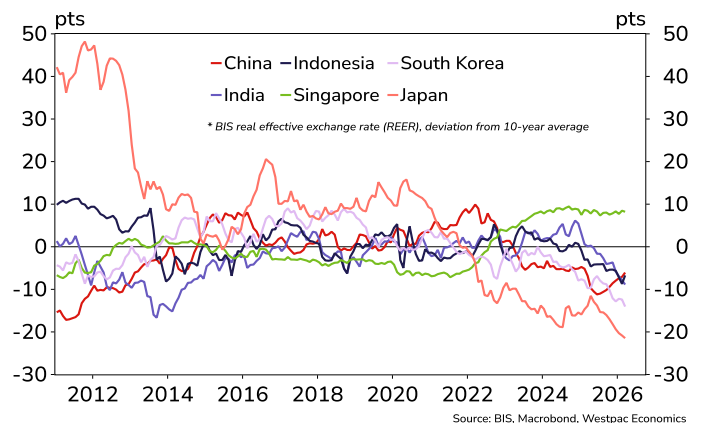
## USD demand wavering



## Renminbi to sustain rally



## Asia's outlook still promising



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# ... air to position for growth

Moreover, investors are increasingly recognising the growth potential of south-east Asia, in part due to foreign investment by the aforementioned north-Asian nations. Investment flows should follow the activity undertaken more than the country of residence of the main investor, and so support for Asia FX against the US dollar is likely to spread out across the region.

Of the countries mentioned, we look for China's Renminbi and Taiwan's dollar to show the most persistent strength. USD/CNY is expected to continue trading down from CNY6.80 to CNY6.50 in mid-2027, then CNY6.35 by mid-2028. USD/TWD meanwhile is forecast to fall from TWD31.4 to TWD29.2 in a year's time, then TWD28.2 come mid-2028. Opportunity is also apparent for South Korea's won and Singapore's dollar, although at SGD1.27 the latter cross is already at the lower end of the historic range versus the US dollar.

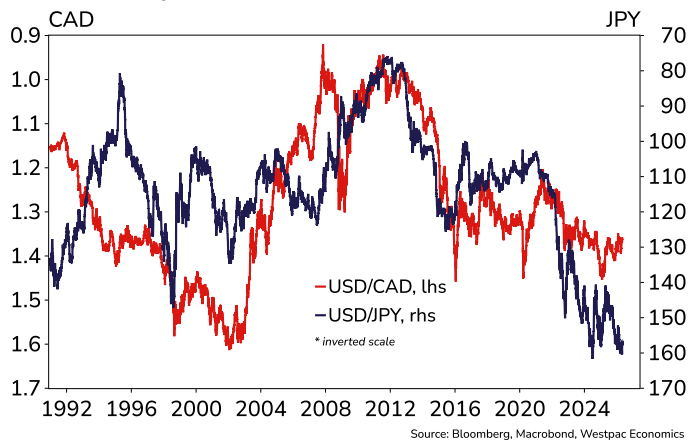
For the rest of Asia, economic and industrial development is expected to win out in time; however, the shadow cast over energy security by recent developments in the Middle East and the impact of higher prices on household and businesses' finances will likely see investors remain focused on risks to the outlook for the foreseeable future. Countries such as the Philippines and Indonesia are most exposed, while Vietnam is arguably best positioned to receive aid from China given its importance to China's manufacturing and logistics networks, and as Chinese firms are already working at scale on infrastructure projects across Vietnam, with more to come.

Coming back to Europe and the UK, the state of play against the US dollar is little changed over the past month. Our views on the region's outlook are also largely unrevised. As discussed on page 22, recent communications from the ECB and Bank of England point to a modest policy tightening in coming months to guard against inflation risks. However, both central banks are also keeping a close eye on downside risks for activity – a greater risk for the UK given labour market slack was already building ahead of the current conflict.

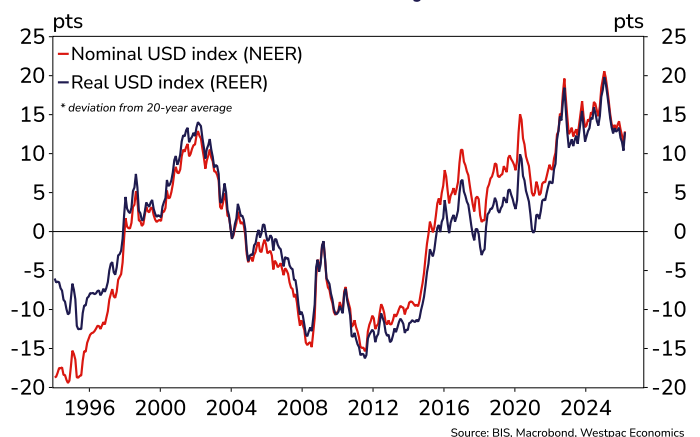
Participants are likely to take confidence from policy makers direction and will also expect that, as the drag on discretionary incomes lifts, activity growth in each jurisdiction should strengthen. Hence, we look for EUR/USD to appreciate from USD1.17 today to USD1.21 in mid-2027 and USD1.22 come mid-2028. Sterling is seen appreciating from USD1.36 to USD1.39 then USD1.41 over the two-year forecast horizon.

In closing, it is worth noting that, at least initially, euro, sterling and yen are most likely to benefit if downside risks for the US crystallise. In time though, investors are likely to see greater opportunity in Asia, and capital will be repositioned to take advantage.

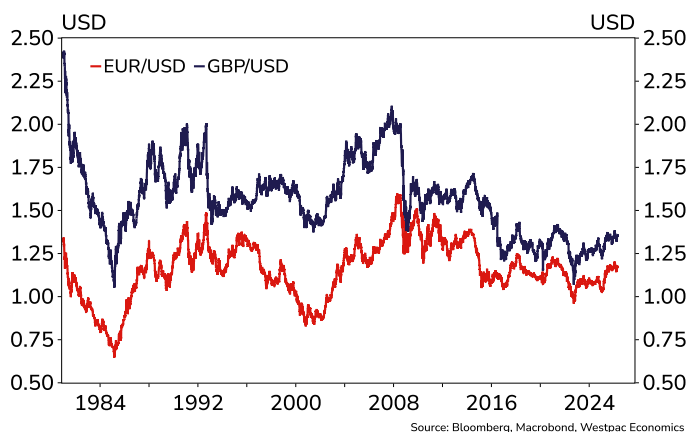
## JPY aided by authorities



## USD still elevated versus history



## Euro and UK risks to recede



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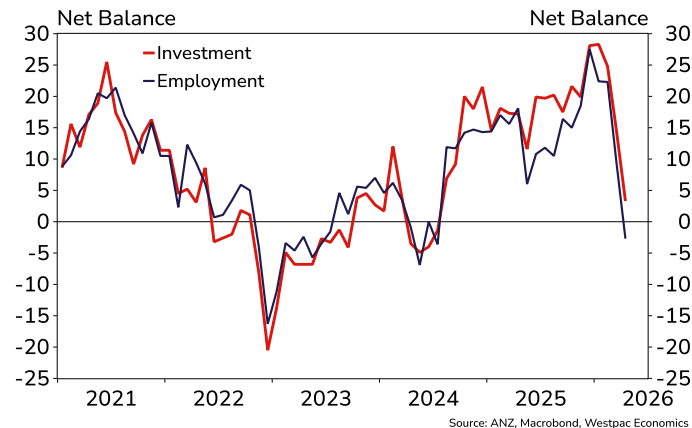
# Early impacts of Iran war as expected ...

**Darren Gibbs**  
Senior Economist

The domestic focus since our last Market Outlook has remained on gathering up-to-date information on how the New Zealand economy is being impacted by the Middle East conflict and assessing the RBNZ’s likely response. To date the main impact continues to be felt through higher prices for refined oil products. The supply of fuel has continued uninterrupted, and the Government has taken steps to modestly boost resilience by funding a roughly one-third increase in in-country diesel storage. This resilience will be tested if the Middle East conflict continues.

Unsurprisingly, both business and consumer confidence have taken a significant hit with surveys for April confirming the decline in optimism that had been evident in late responses back in March. For example, the ANZ’s headline business confidence index slumped to –10.6 in April from 32.5 in March – the first negative reading since 2023. Encouragingly, firms remain more optimistic about their own situation. Even so, the net proportion of firms expecting their own trading activity to rise over the next year halved to 19.6% in April. Uncertainty is curbing firms’ willingness to expand, with net hiring intentions turning modestly negative in April and net investment intentions sliding to barely positive levels. This is consistent with the picture we expected to see when we downgraded our near-term outlook for growth in late March. However, we are reviewing our forecasts considering prospects for a slower resolution of the Middle East conflict than previously assumed.

## Investment and hiring intentions



Meanwhile, the first-round impact of high energy prices is beginning to pass through the economy. A small portion of the direct impact of the Middle East conflict came through in the March quarter CPI, with a 3.5% lift in petrol prices helping to leave annual headline inflation stable at a higher-than-

expected 3.1%yr. Measures of core inflation generally nudged lower, with the RBNZ’s sectoral factor model estimate edging down to 2.7%yr, the 30% trimmed mean falling to 2.3%yr and the weighted median edging down to 1.6%yr. But the full brunt of the energy shock will begin to be felt in the current quarter. Sharply higher fuel prices are leaving many firms operating in the transport industry with little choice but to raise prices, mainly through surcharges, to help defray their increased costs. We currently expect annual headline inflation will rise to around 4.5%. How long it remains at such elevated levels – or indeed whether this is even the peak – will depend mostly on the path that the Middle East conflict takes.

Appropriately, the RBNZ remains vigilant for any signs that a higher near-term trajectory for inflation will raise the outlook for inflation over the medium term. Recently, Governor Breman participated in a regional engagement event in which she largely reiterated the key messages conveyed at the RBNZ’s 8 April OCR Review. But she also commented on the recent release of the Q1 CPI report. While noting that headline inflation was slightly higher than expected, she added that “... measures of core inflation, which look through this volatility, have remained stable within the target band.”

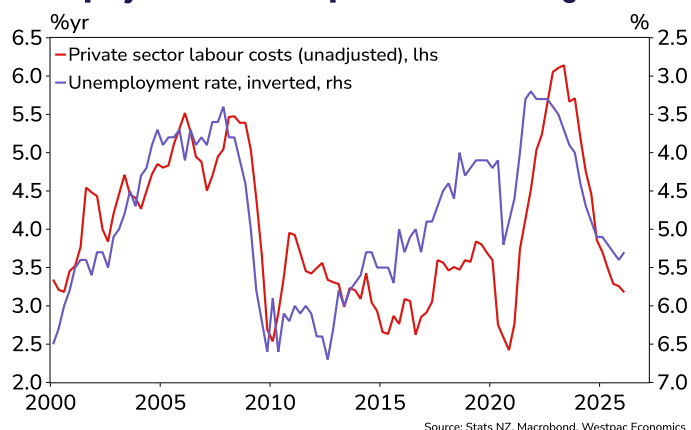
Looking ahead, Breman said “...the Reserve Bank remains focused on balancing inflation control with supporting economic recovery.” But she also reiterated that “...monetary policy can and should ensure that a temporary increase in inflation does not turn into enduring inflationary pressures.” In particular, she emphasised that the Bank was focused on the prospect of second-round inflation effects, specifically transmitted through the labour market, rather than the first-round impact of higher fuel prices. She also emphasised that the Bank will pay close attention to measures of medium-term inflation expectations. Next week the RBNZ will release the first of three different measures of inflation expectations, which mostly covers the views of professional economists and a small number of people from the business sector.

At present, the market is pricing just under a 30% chance of a 25bp rate hike at the RBNZ’s 27 May meeting. Westpac continues to forecast a first lift in the OCR at the 2 September Monetary Policy Statement meeting, but we do not rule out the possibility that the RBNZ acts sooner. In this environment, we expect the NZ dollar to remain stable in the near-term. Thereafter, as the RBNZ tightening cycle begins and the US dollar continues its weakening trend, the NZ dollar is expected to gradually appreciate (including regaining some of the ground lost this year against the Australian dollar).

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# ... with confidence down and prices up

## Unemployment rate and private sector wages



Source: Stats NZ, Macrobond, Westpac Economics

While it is too early for the Middle East conflict to have impacted the labour market, data released this week provided an important update on conditions as New Zealand faced into this shock. According to the household survey, employment rose 0.2% during the quarter to be 0.4% higher than a year earlier. Measures of hours worked from both the household and employer surveys grew slightly more quickly, consistent with our view that the economy grew solidly in during the quarter (we currently estimate GDP growth of 0.8%qtr). Somewhat unusually, the labour force participation rate nudged lower despite the rise in employment. As a result, the unemployment rate edged down to 5.3% despite slightly firmer growth in the working age population. Labour cost growth was subdued as expected, with annual growth in private sector wages slowing to 3.2% (2.0% once

productivity-related increases are excluded, as published in the headline index). These results were much as the RBNZ had forecast in the February Monetary Policy Statement (employment growth was just slightly weaker) and so are unlikely to have much impact on the RBNZ's deliberations.

Finally, the Middle East conflict is also set to impact the Government's financial accounts. Prior to the war, the Government was on course to announce an upgrade to the fiscal outlook at Budget 2026 (released on 28 May). But higher than previously forecast inflation and interest rates are set to raise the cost of welfare spending and debt financing, and weaker economic growth will undermine previous forecasts of tax revenue. Therefore, it now seems likely that Budget 2026 will reveal a modest lift in the Government's borrowing requirement, even though higher inflation will help lift some types of tax revenue given the lack of indexation of the tax system. We will publish our Budget preview following next week's release of government spending and tax data for March.

Reflecting the weaker fiscal outlook, last month Moody's joined Fitch in attaching a negative outlook to New Zealand's sovereign credit rating. Moody's model assigns a rating one notch lower than the current final Aaa rating, with the final rating reflecting a discretionary uplift based on an assessment that the recent weakening of fiscal metrics would improve over time (an uplift based on New Zealand's past success in correcting fiscal imbalances). The move to a negative outlook clearly indicates that Moody's are considering removing that uplift due to the ongoing delay in returning to books back to surplus. Avoiding a downgrade sometime next year will require the Government to demonstrate its commitment to fiscal consolidation.

Monthly data	2025							2026				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
REINZ house sales %mth	-2.1	-3.9	2.6	-2.7	-1.5	6.3	0.4	1.0	-5.2	5.2	-4.4	-
Residential building consents %mth	10.8	-5.2	6.3	5.2	7.5	-0.7	2.7	-4.4	1.8	2.7	-1.2	-
Electronic card transactions %mth	-0.1	0.5	0.2	0.6	-0.4	0.3	1.3	-0.1	-1.0	1.4	0.7	-
Private sector credit %yr	3.0	3.2	3.5	3.8	4.2	4.6	4.4	4.6	4.6	4.7	4.9	-
Commodity prices %mth	1.9	-2.4	-1.8	0.7	-1.1	-0.3	-1.6	-2.1	2.0	4.2	4.2	-0.8
Trade balance \$mn	-256	-527	-371	-110	269	-248	-352	-183	-299	-863	-200	-

Quarterly data	Q4:23	Q1:24	Q2:24	Q3:24	Q4:24	Q1:25	Q2:25	Q3:25	Q4:25	Q1:26
	Westpac McDermott Miller Consumer Confidence	88.9	93.2	82.2	90.8	97.5	89.2	91.2	90.9	96.5
Quarterly Survey of Business Opinion	9	-27	-25	-29	-27	-22	-21	-15	-3	0
Unemployment rate %	4.0	4.4	4.7	4.9	5.1	5.1	5.2	5.3	5.4	5.3
CPI %yr	4.7	4.0	3.3	2.2	2.2	2.5	2.7	3.0	3.1	3.1
Real GDP %yr	2.2	1.8	1.1	0.5	-0.3	-0.9	-1.1	-0.6	0.2	-
Current account balance % of GDP	-6.3	-5.7	-5.5	-5.2	-4.7	-4.2	-3.7	-3.5	-3.7	-

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

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# Playing comparative ...

**Elliot Clarke**  
Head of International Economics

This month, President Xi and President Trump are due to meet to discuss China/US relations, developments in the global economy and, barring a resolution before, likely the conflict in the Middle East. This meeting will not materially change the status quo, being one of a number of in-person meetings planned for this year, but it will guide on the opportunities and risks ahead. Available data points to a stark difference in perspective and outlooks.

As the US continues to focus on controlling trade across its borders in pursuit of greater domestic investment and production, China has instead enticed investment at home by encouraging foreign trade. To date in 2026, China's trade surplus has averaged US\$88bn per month after holding around US\$99bn in 2025, both outcomes roughly three times the 2018-19 average of US\$32bn.

The US trade position has, in contrast, deteriorated from an average deficit of US\$47bn per month in 2018-19 to US\$73bn in 2025-26. Admittedly, this US data pre-dates the surge in energy exports seen through April and May, but China has also temporarily pulled back on their supply of energy goods to other nations, reducing export revenue.

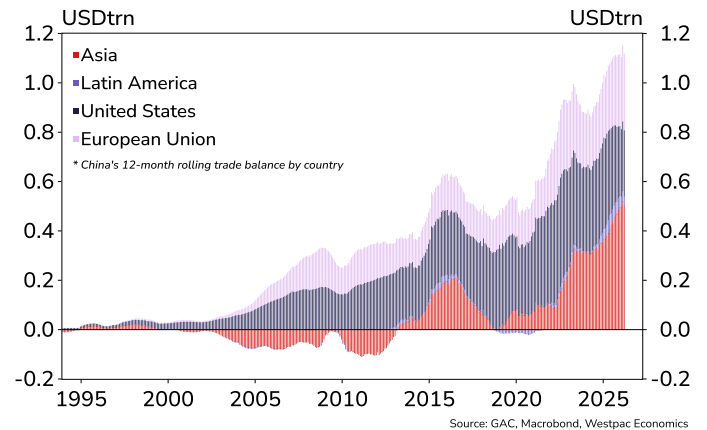
With future export opportunities remaining the focus, Chinese fixed asset investment continues to grow after rapidly scaling through 2020-2025. Of particular note, transport and storage-related infrastructure spending surged in early-2026, and utilities investment has continued to compound around 9%ytd.

Within the manufacturing sector, stronger demand for green technology goods and refined energy products is likely to elicit a sustained upturn in capital expenditure through 2026, with the key investment sub-categories of electrical machinery, automobiles (EVs) and chemicals all showing evidence of stabilisation in Q1 and global demand receiving strong support from elevated energy prices and open-ended uncertainty over Middle East supply.

In contrast, in the US, investment remains highly concentrated in AI-related infrastructure and conversely is weak in areas related to trade and the domestic real economy. Lingering uncertainty related to tariffs and elevated long-term yields are also at play, in addition to businesses' focus on technology – US for-profit entities need greater surety over expected returns than China's state-owned and state-linked entities.

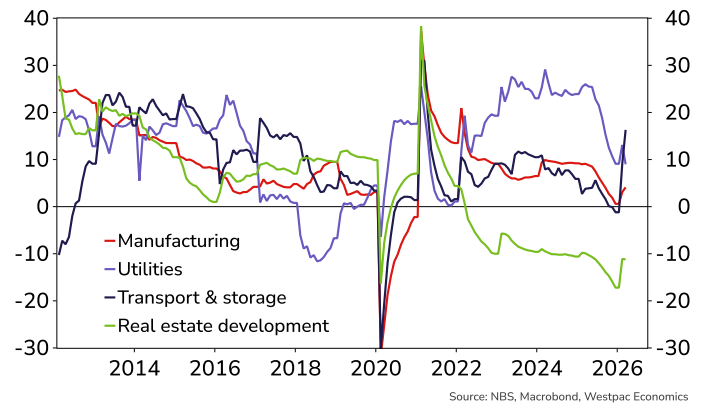
An additional element to consider is the benefit China may receive from the US' souring relationship with the world, particularly Europe. This month, President Trump has continued to spar with European leaders, threatening to pull US troops from Germany and other major nations in the region.

## Trade surplus a boon for ...



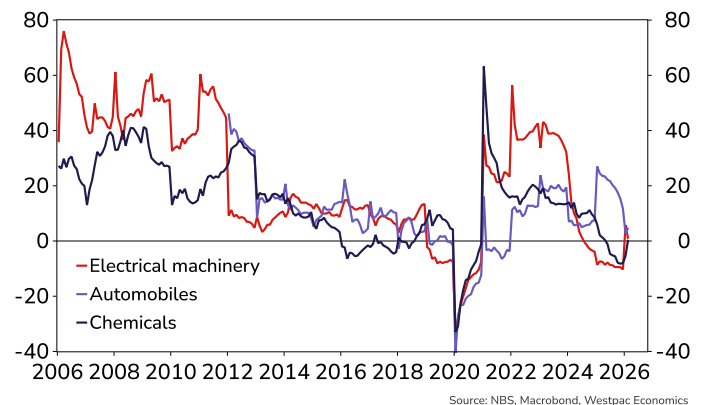
## ... for investment ...

Fixed Asset Investment by Industry (%ytd)



## ... particularly in high-tech sectors

Fixed Asset Investment by Sector (%ytd)



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# ... advantage

He then announced a 10 percentage point increase in the US tariff rate for European cars and trucks, purportedly because the EU had failed to live up to their side of the agreed trade deal – without providing specific evidence.

The EU labelled the US as an “unreliable” trading partner and vowed to respond. Ahead of this development, Chinese authorities were acting to strengthen ties with European leaders, publically via a number of high-profile visits from European leaders, and behind the scenes by encouraging Chinese firms to invest in Europe and vice versa. There is strong evidence of a high-integrated, mutually-beneficial trade relationship taking shape between China and Europe.

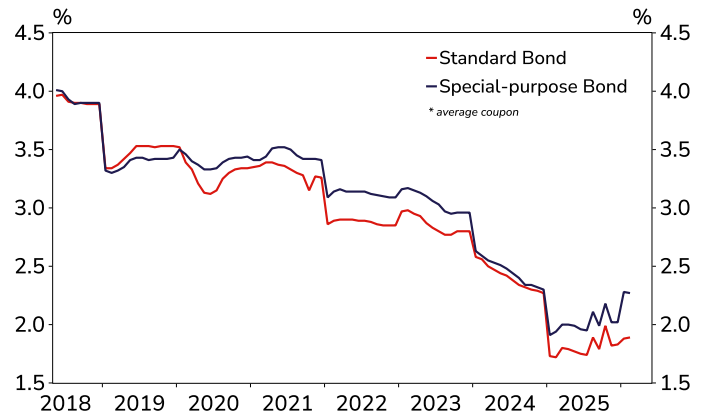
As we have highlighted frequently, Chinese investment is not concentrated in one jurisdiction, however. Instead, it has spread widely across Asia, Latin America and Africa (in addition to Europe), targeting not only the production of finished goods, but also the production of supply inputs – from raw materials to high-tech components.

While not their initial intent, over time this project will justify a material increase in the use of the Renminbi in trade, and will also strengthen demand for real and financial investment within China.

This will see greater depth and liquidity for China’s onshore financial markets, as well as scope to offer global investments to Chinese investors through the issuance of Renminbi denominated debt and equity instruments. The larger these flows become, the greater the opportunity for Chinese banks and financial entities to facilitate flows, provide capital and manage risk, both on and, more importantly, offshore.

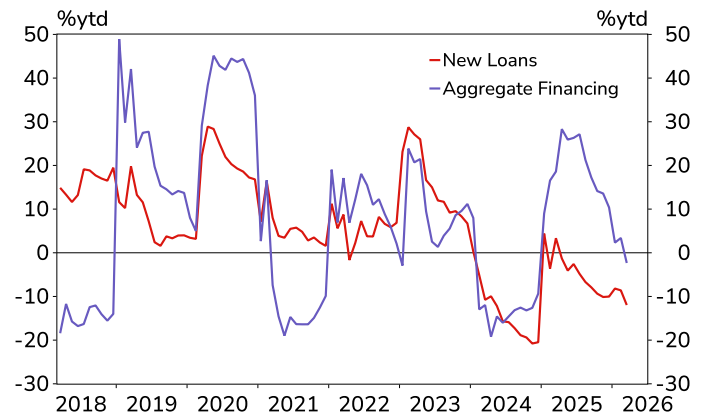
Overall then, in trade, investment and, with time, financial flows, China has a considerable long-term competitive advantage that is set to benefit their real economy and national wealth.

## Cost of funds attractive ...



Source: MOF, Macrobond, Westpac Economics

## ... for a turn in credit



Source: Bloomberg, Macrobond, Westpac Economics

	2025						2026					
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Monthly data %yr												
Headline CPI %yr	-0.1	0.1	0.0	-0.4	-0.3	0.2	0.7	0.8	0.2	1.3	1.0	-
M2 money supply %yr	7.9	8.3	8.8	8.8	8.4	8.2	8.0	8.5	9.0	9.0	8.5	-
Manufacturing PMI (official)	49.5	49.7	49.3	49.4	49.8	49.0	49.2	50.1	49.3	49.0	50.4	50.3
Fixed asset investment ytd %yr	3.7	2.8	1.6	0.5	-0.5	-1.7	-2.6	-3.8	-3.8	1.8	1.7	-
Industrial production %yr	5.8	6.8	5.7	5.2	6.5	4.9	4.8	5.2	5.2	6.3	5.7	-
Exports %yr	4.6	5.7	7.0	4.2	8.2	-1.3	5.8	6.5	10.0	39.6	2.5	-
Imports %yr	-3.3	1.3	4.2	1.6	7.8	1.4	2.0	5.7	25.7	13.9	27.8	-
Trade balance USDbn	102.7	113.9	97.4	101.2	89.2	88.9	111.1	113.7	122.4	90.8	51.1	-
Quarterly data		Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26					
Real GDP %yr		5.4	5.4	5.2	4.8	4.5	5.0					
Nominal GDP %yr		4.6	4.6	3.9	3.7	3.9	4.9					

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

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# Economic opportunity ...

**Elliot Clarke**  
Head of International Economics

The US has exhibited both strength and frailty over the past month. Backed by earnings beats and despite a new cycle high for Brent oil, its equity markets have rebounded strongly to record levels. At the same time though, growth in consumer demand has fallen below trend and housing investment is contracting. In many respects, the outlook is highly uncertain.

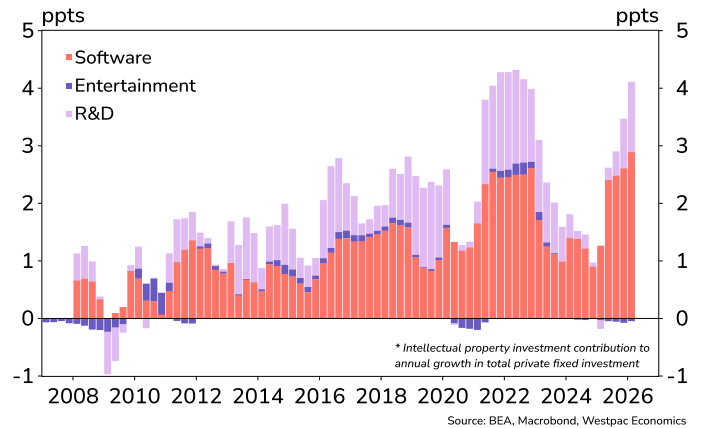
Beginning with the positives. The confidence financial markets have shown amid open-ended uncertainty for energy supply, the pass-through to consumer inflation and elevated yields is jarring. Participants' responses to recent earnings results and news of the build out of AI infrastructure helps to make sense of these outcomes, however.

Simply, there is a dominant belief that the US' real economy can be protected from the worst of the supply disruptions by its domestic energy production and refining capacity. And, both now and in the long run, is at the forefront of productivity and profitability enhancement through technology. The surge in energy exports as well as intangibles and equipment investment supports both notions. The strength of these investment sub-types arguably also warrants expectations of sustainable income gains and an ability to, in time, contain inflationary pressures, providing scope for persistent, robust returns.

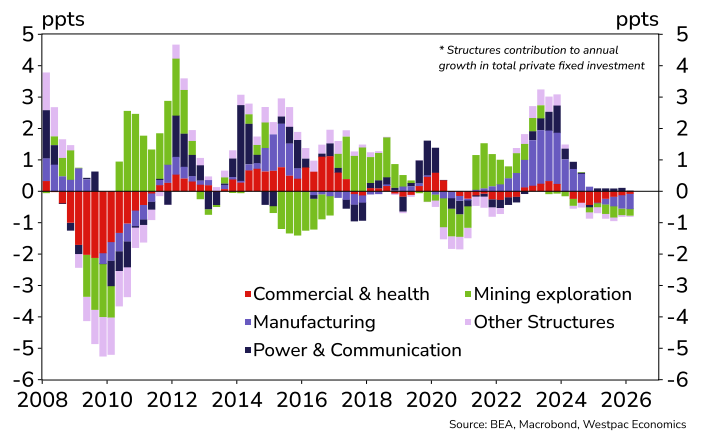
We do not doubt the strength of tech-related investment or the capacity it is creating. But we see a need to caution on the sustainability of its contribution to GDP growth because momentum tends to moderate as an industry matures, and owing to the concern being shown by investors over the financing terms and lifecycle of assets within the sector. We also believe it is important to recognise that, outside of AI infrastructure and related equipment investment, business investment is soft. Indeed, at circa 6%yr, annual growth in total business investment is broadly in line with the historic depreciation rate for the capital stock, implying no net increase in functional capacity. In the public sector, while activity rebounded in Q1 2026 following Q4's shutdown, the level of spending is unchanged over the year.

At the same time, the pulse of consumer demand has continued to soften, from an above-trend annualised pace of 3.2% through 2023 and 2024 to a sub-par 2.1% annualised in 2025, and now 1.6% in Q1 2026. This is despite the unemployment rate remaining consistent with full employment, the drag on real discretionary income fading and as real wealth accrues. Also affected by elevated term interest rates, housing construction continues to contract to now be down more than 18% since early 2021, even with solid population growth.

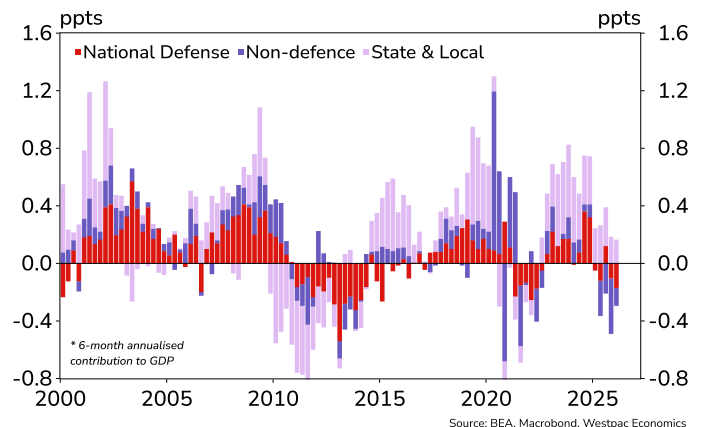
## Tech driving US growth



## Other US firms holding back



## State & local government spend turning



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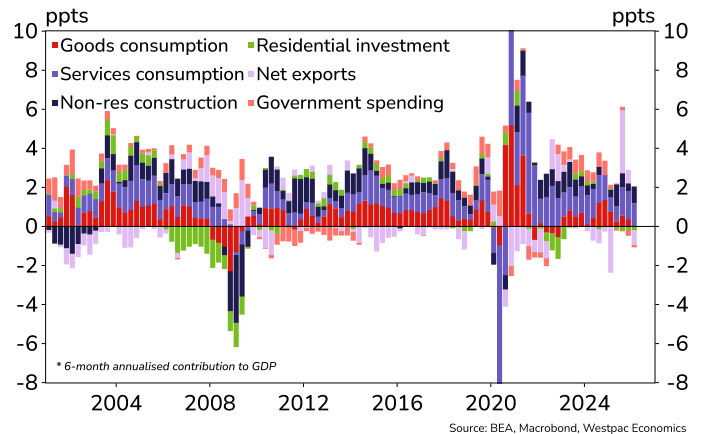
# ... narrow and brittle

It is extremely difficult, if not impossible, for an economy to grow at or above trend when sectors representing 72% of total activity are experiencing a sub-par performance, or contracting outright. The import component of the above activity is an additional headwind for GDP growth which is unlikely to subside, even if President Trump finds a way to permanently impose tariffs and entice new investment.

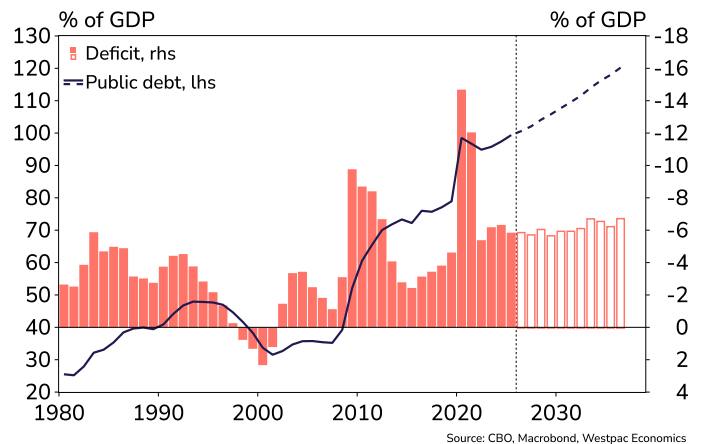
Our take on the above positives and negatives is that the US economy finds itself with the capacity to grow at or near trend through 2026-2028, but momentum is likely to be concentrated amongst businesses and higher-income households, with volatile outcomes around a broadly flat trend anticipated in other sectors. Meanwhile, limits on capacity outside of technology is, all else equal, likely to hold inflation consistently above target. As we have emphasised repeatedly, the adoption of AI and related technology offers the opportunity for greater productivity from labour. But limits on migration are likely to create offsetting wage pressures and frictions in production.

For US monetary policy, known risks are therefore set to remain skewed towards misses on inflation versus a material increase in labour market slack. The market is likely to price in at least a chance of a rate hike over the forecast period, and term interest rates a lasting hawkish tilt. For the long end of the yield curve, the effect of higher inflation expectations will be magnified by the implications for Government servicing costs – a higher share of expenditure going to interest payments, increasing the stock of debt and reducing the Government's capacity to invest for growth. In our view, this uptrend for interest rates is unlikely to boost the US dollar, being paired with modest US economic growth and comparably favourable opportunities in other parts of the world, for businesses and investors alike.

## Consumer demand brittle



## Debt and deficit a constraint



	2025					2026										
Monthly data	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May				
PCE deflator %yr	2.5	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.8	3.5	-				
Unemployment rate %	4.3	4.1	4.3	4.3	4.4	4.4	4.5	4.4	4.3	4.4	4.3	-				
Nonfarm payrolls chg '000	13	-20	64	-70	76	-140	41	-17	160	-133	178	-				
House prices* %yr	2.8	2.1	1.8	1.6	1.4	1.3	1.5	1.5	1.2	0.9	-	-				
Durables orders core 3mth %saar	2.6	-0.9	8.4	4.0	10.9	9.8	9.8	8.9	5.5	8.5	20.0	-				
ISM manufacturing composite	48.6	49.0	48.4	48.9	48.9	48.8	48.0	47.9	52.6	52.4	52.7	52.7				
ISM non-manufacturing composite	50.2	50.8	50.5	51.9	50.4	52.0	52.4	53.8	53.8	56.1	54.0	53.6				
Personal spending 3mth %saar	4.7	3.6	5.1	7.3	6.6	5.5	4.5	4.7	4.5	5.9	8.0	-				
UoM Consumer Sentiment	52.2	60.7	61.7	58.2	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8				
Trade balance USDbn	-70.6	-57.6	-74.2	-56.0	-49.2	-31.1	-56.0	-72.9	-54.7	-57.8	-60.3	-				
Quarterly data	Mar-25			Jun-25			Sep-25			Dec-25			Mar-26		Jun-26(f)	
Real GDP % saar	-0.6			3.8			4.4			0.5			2.0		1.6	
Current account USDbn	-438.3			-247.8			-239.1			-190.7			-		-	

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

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# A coordinated policy response needed to ...

**Illiana Jain**  
Economist

At the heart of it, the Bank of Japan's (BoJ) policy board has one objective: to restore the effectiveness of the policy rate lever while continuing to support demand-pull inflation. If these two are in opposition to one another, the BoJ will choose to halt the hiking cycle to support domestic demand. The cost of not doing so was laid bare in 2014, when a consumption tax hike from 5% to 8% saw private consumption contract by nearly 19% annualised in Q2, breaking the reflationary momentum Abenomics had built.

Today, domestic data warrants another hike. Three consecutive years of 5%+ Shunto wage results, corporate profit margins at 60-year highs, and a broadening of wage increases to SMEs all point to a virtuous cycle taking hold. The Middle East conflict is a complication, however, threatening to turn demand-pull inflation into cost-push, squeezing the demand growth the BoJ is trying to nurture.

Domestically driven inflation starts with healthy wage growth. FY2026's (ending March 2027) Rengo wage outcome came in at 5.08%, just below last year's 5.25%. Major companies like Toyota and Suzuki reportedly met union demands in full. The unions were also successful in encouraging SMEs to increase wages by 4.84%. The SMEs wage commitment in particular reflects the difficulty of finding labour and Japan's limited spare capacity. In their press conference, Rengo affirmed that recent results suggest robust wage rises are becoming entrenched across the economy. Structural factors like an ageing population and the expansion of the services sector have also helped maintain upward pressure on wage growth. Strong corporate profitability has also been important, offering scope for business to deliver.

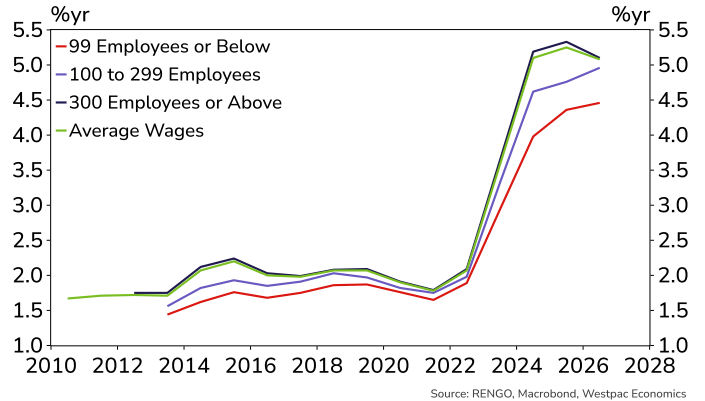
While the BoJ's most recent Outlook highlighted risks to corporate profitability, it is worth noting that this measure remains near historic highs. The operating profits-to-sales ratio is currently 6.01%, a high back to the 1960s. In contrast to the 1960's, the strength has also been broad-based across manufacturers and service providers.

Primary risks to Japan's economy are instead found offshore. In particular, cost-push inflation from energy and a weak yen risks a squeeze in real incomes and consequently demand.

Authorities showed their concern this month, USD/JPY's rise above JPY160 in late April triggering the first intervention since mid-2024. Several instances of intervention through early-May has helped USD/JPY remain below JPY160. Although, it is worth noting that, per IMF rules, the MoF can only intervene in the FX markets twice more over the next six months for the yen to be considered a free-floating currency. This highlights the predicament facing Japanese officials. The yen is

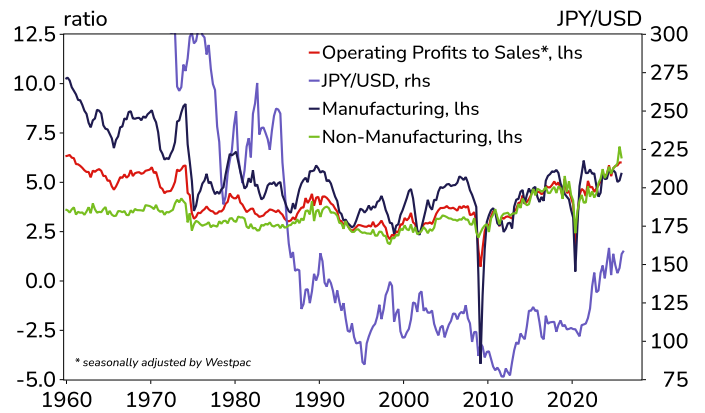
## Gap between SMEs and large firms is closing

RENGO Spring Wage Negotiations by Business Size



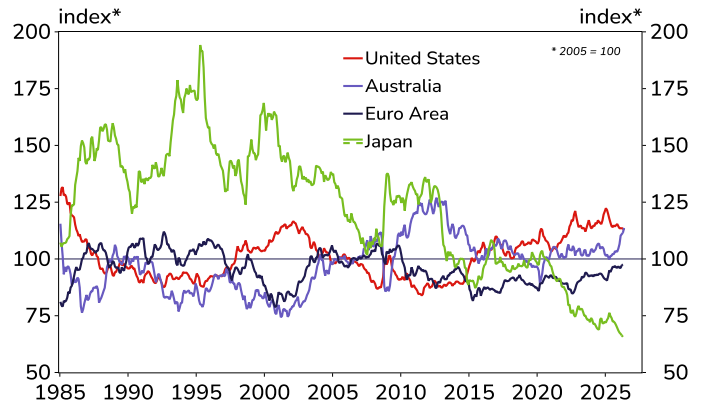
Source: RENGO, Macrobond, Westpac Economics

## Profitability remains strong



Source: MOF, Macrobond, Macrobond, Westpac Economics

## Yen continues to underperform



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

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# ... ensure the policy lever is returned to the BoJ

weak due to structural factors like offshore investment by Japanese manufacturers and adverse rate differentials with other developed markets. Intervention can only be effective temporarily and at the margin. Policy makers must therefore continue to deliver on rates and economic growth.

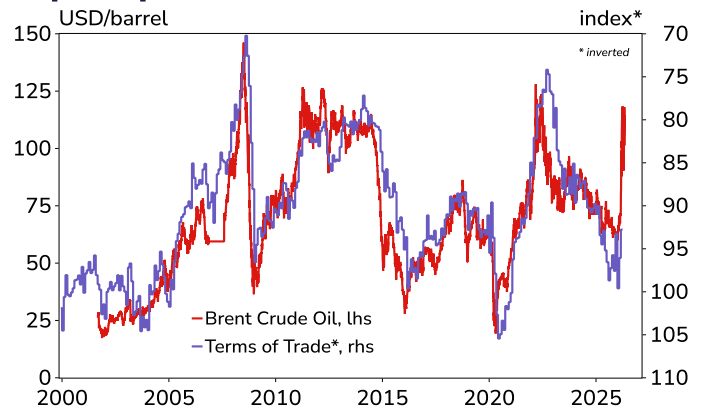
At its April meeting, the policy board decided to keep rates steady in a 6-3 vote, with the three dissenters (Tamura, Nakagawa and Takata) voting to hike. The accompanying statement put the Middle East conflict front and centre. In their central scenario, they downgraded the GDP forecast to below 1.0% for the projection period and lifted the inflation profile. Higher oil prices are now more than offsetting the deceleration in food prices – core inflation for FY26 was revised up from 1.9% to 2.8%. While domestic conditions still indicate the economy can sustain another step up in rates, the BoJ remains cautious about the impact of external risks on domestic demand. Highlighting this, Governor Ueda placed a condition on the Board's hawkish forward guidance, noting rates could only rise if downside risks remain limited.

On the fiscal side, Prime Minister Takaichi's budget for FY26 should deliver near-term support for growth. The budget passed in early April with a 6.2% increase in spending versus FY25. Key items included spending on defence and investment into high value sectors such as semiconductors to aid economic growth over the medium term. Higher social spending and cost-of-living relief measures should also help cushion the impact of higher energy prices and second-round pass-through. More importantly, the shift from targeting the primary balance surplus – which constrains annual spending regardless of the cycle – to a medium-term debt-to-GDP ratio target allows greater flexibility to front-load spending when necessary while maintaining fiscal discipline.

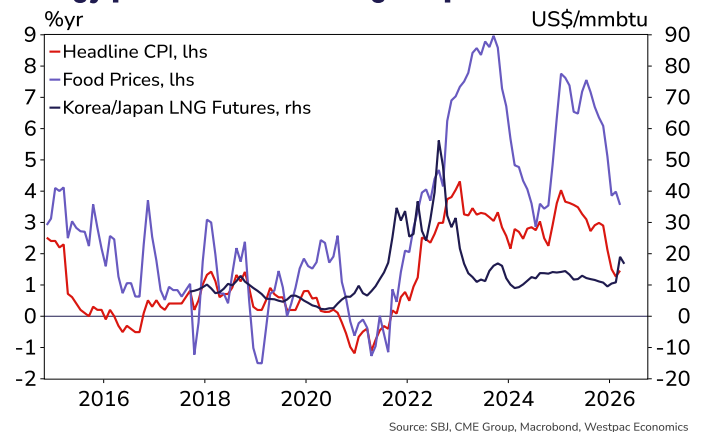
All told, enduring strength in the domestic economy thanks to wage increases, a vibrant corporate sector, and a supportive fiscal backdrop should give the BoJ sufficient confidence to move again in June. The 6-3 vote split and Governor Ueda's conditional guidance suggests the Board is already leaning in that direction.

To confirm the appropriateness of the decision between now and then, greater clarity is necessary on two fronts: the trajectory of the Middle East conflict and, more concretely, the Financial Statements data due in early June, with the latter to show how firms are absorbing higher input costs and whether margins are holding up. If profitability shows resilience and downside risks to growth remain contained, the case for a 25bp hike to 1.0% is straightforward. Beyond June, however, an extended pause is likely while the lagged impact of global developments and the significant change in the stance of policy over the past year is assessed.

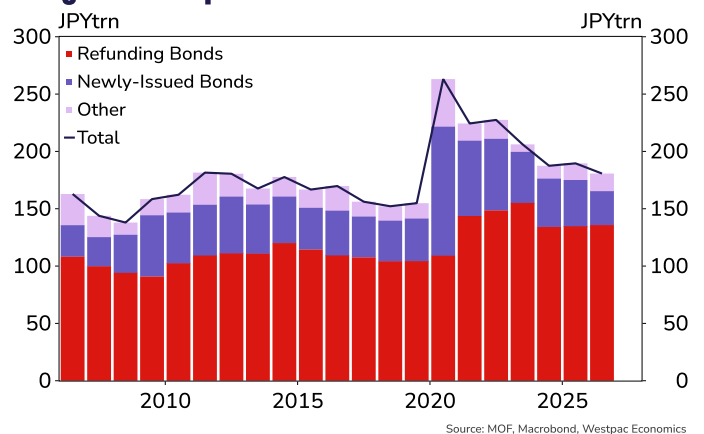
## Oil prices pose a terms of trade shock



## Energy price inflation taking the place of food



## Budget still keeps new issuance to a minimum



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# Keep calm ...

**Mantas Vanagas**  
Senior Economist

While the RBA continued tightening monetary policy this month, major central banks in Europe maintained a more balanced stance. But with a definitive end to the Middle East conflict still out of sight, both the European Central Bank and the Bank of England are looking increasingly likely to hike sooner than later.

At the end-of-April meeting, the ECB Governing Council opted to maintain its current policy stance and largely met expectations with their tone. The uncertainty stemming from the Middle East conflict remains the primary concern, the monetary policy statement reiterating that the implications for the euro area economy and, consequently, monetary policy will depend on both the intensity and duration of the war.

Indeed, the ECB believe “upside risks to inflation and downside risks to growth have [both] intensified”. Arguably, the lack of a clear tilt in the distribution of risks warranted policymakers wait-and-see approach, with the decision to hold unanimous.

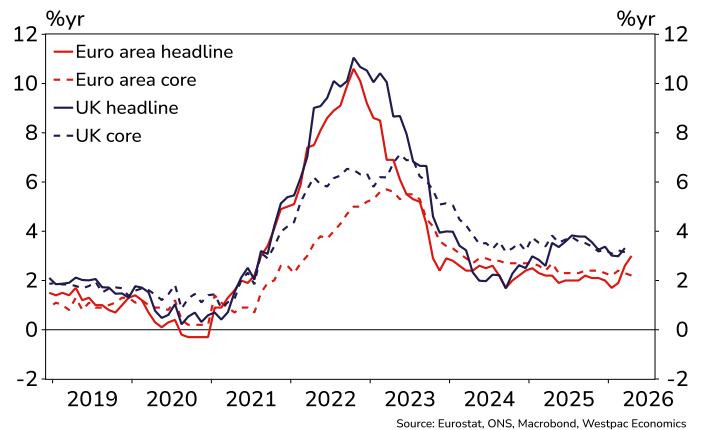
The coming months will provide evidence of second-round effects, allowing for a clearer assessment. The next meeting in June will also incorporate a refreshed set of forecasts and scenarios to provide perspective.

In its previous meeting in March, the ECB presented two downside scenarios alongside its baseline. In her speech in Berlin two weeks before the April meeting, President Lagarde implied the conflict’s dynamics and energy prices had deteriorated relative to their baseline view, but were not yet aligned with the adverse scenario.

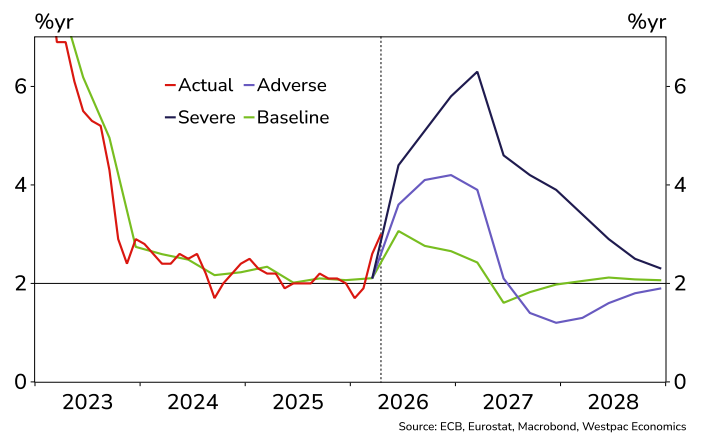
Following the ECB’s April meeting, President Lagarde seemed reluctant to discuss the details of the adverse scenarios, but again stressed that conditions have diverged from March’s baseline. She noted that the upcoming six weeks “will be the right time” to assess the economy “in order to make an informed decision” in June. Her comments appeared carefully chosen to signal an openness to a rate increase at the next meeting, if data and assessed risks warrant it. Notably, a rate hike was discussed by the Governing Council as a policy option for the April decision. Therefore, barring any major changes in the dynamics of the Middle East conflict, we continue to believe that a 25bp policy rate hike is the most probable outcome at the June meeting.

In the UK meanwhile, with BoE Governor Bailey having recently pushed back against market expectations for aggressive policy tightening, participants anticipated the April meeting would conclude without drama.

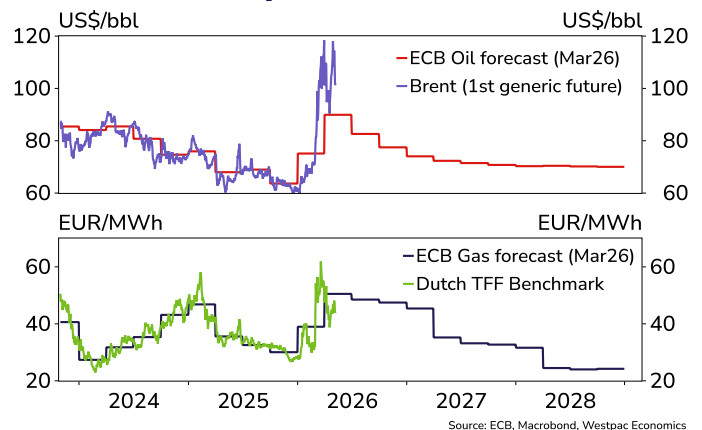
## Euro area and UK inflation



## ECB HICP inflation scenarios



## ECB forecast assumptions



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# ... and trust in guidance's effect

That proved to be the case, with the majority of the eight committee members voting to keep the policy rate at 3.75%. Chief Economist Huw Pill was the sole dissenter, voting for a hike to 4.00%, preferring “a prompt but modest hike in Bank Rate” to contain the risk of second-round inflationary effects.

The policy statement maintained a hawkish bias, emphasising the impact of the energy price shock – both its scale and duration – on UK inflation as well as the Committee’s readiness to act to ensure inflation returns sustainably to the 2% target in the medium term. Committee members also showed considerable concern over activity growth, however. If it remains sub-par, underlying inflationary pressures may ease over time. Loose conditions in the labour market were also called out given slack was building before the conflict began.

Risks to inflation were illustrated using three scenarios, differentiated primarily by oil and gas price assumptions and the persistence of second-round effects.

In the first two scenarios, the Brent oil price averages US\$108 in Q2 2026 and then decreases at different speeds. The aggregate result is headline inflation above 3.5%yr this year, but it abates through 2027. Importantly, the Governor emphasised that, if the economy evolves in line with these scenarios, further policy tightening may not be required as financial conditions have already been affected by the removal of circa 50bps of easing priced before tensions flared.

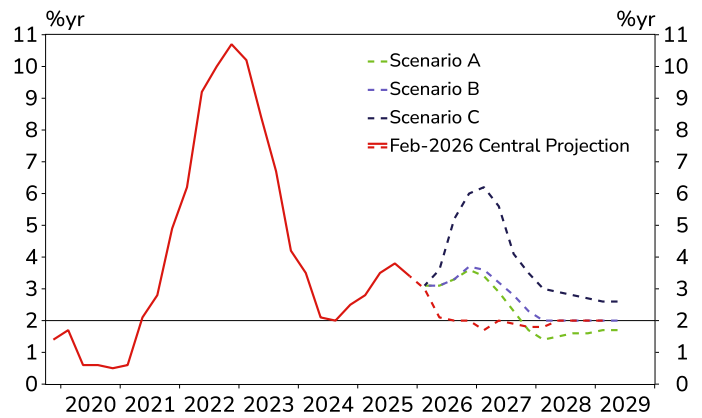
The committee judged that the most severe scenario – where Brent averages US\$127 this quarter and remains above US\$100 well into 2028 leaving inflation as high as 6.2%yr in 2027 – would instead require “a forceful tightening in monetary policy”. The BoE published policy rules suggest that Bank Rate might need to go as high as 5.0% in these circumstances.

Overall, the MPC communication suggest Bank Rate hikes this year are far from guaranteed, with the current “active hold” approach potentially sufficient to bring inflation to target.

Though, with Brent oil peaking at US\$126 on the day the MPC met, and holding above US\$100 since, conditions are clearly volatile and inflation risks acute. The persistence of inflation and slowly eroding stockpiles of energy products globally may be too great a risk for the MPC to ignore.

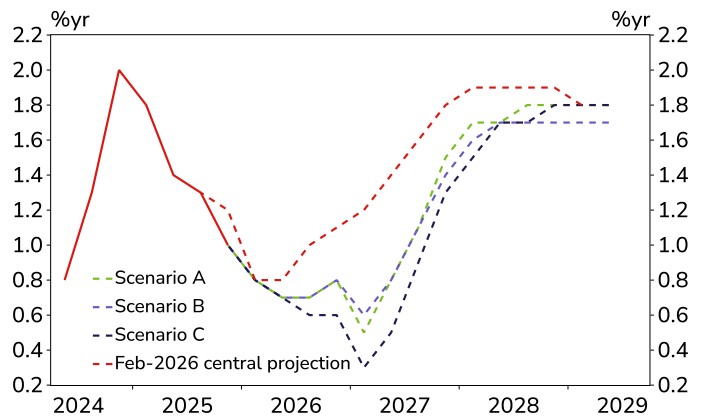
As such, we maintain our base case for a Bank Rate hike at the next policy meeting in June, with further tightening possible in Q3 if price uncertainty intensifies. Note though, downside risks to the labour market and economic activity are unlikely to improve, and so the Bank of England may instead attempt to look through current price dynamics, holding fire on rates. Any rate hikes in 2026 are also likely to be reversed in 2027.

## BoE Inflation scenarios



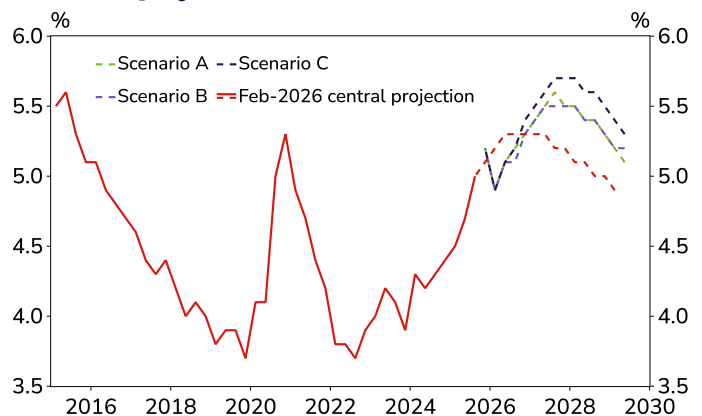
Source: BoE, Macrobond, Westpac Economics

## BoE GDP growth scenarios



Source: BoE, Macrobond, Westpac Economics

## BoE Unemployment rate scenarios



Source: BoE, Macrobond, Westpac Economics

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# Australia

## Interest rate forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Cash	4.35	4.35	4.85	4.85	4.85	4.85	4.85	4.85	4.60	4.35
90 Day BBSW	4.44	4.55	4.90	4.90	4.95	4.95	4.95	4.80	4.55	4.30
3 Year Swap	4.64	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
3 Year Bond	4.63	4.75	4.75	4.70	4.65	4.60	4.50	4.40	4.30	4.20
10 Year Bond	4.96	5.00	5.05	5.05	5.05	5.05	5.00	4.95	4.90	4.90
10 Year Spread to US (bps)	57	65	65	60	55	50	40	30	20	15

## Currency forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>AUD vs</b>										
USD	0.7203	0.72	0.72	0.73	0.73	0.74	0.74	0.74	0.73	0.73
JPY	113.02	113	112	112	111	111	110	108	105	104
EUR	0.6141	0.61	0.61	0.61	0.61	0.61	0.61	0.61	0.60	0.60
NZD	1.2139	1.22	1.22	1.18	1.14	1.12	1.11	1.10	1.10	1.10
CAD	0.9840	0.99	0.98	0.98	0.98	0.99	0.98	0.98	0.96	0.95
GBP	0.5315	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52
CHF	0.5623	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
DKK	4.5890	4.56	4.56	4.58	4.55	4.57	4.53	4.53	4.49	4.49
SEK	6.6854	6.64	6.64	6.68	6.62	6.66	6.60	6.60	6.54	6.54
NOK	6.7018	6.66	6.66	6.69	6.64	6.67	6.62	6.62	6.56	6.56
ZAR	11.86	11.9	11.9	11.9	11.9	12.0	12.0	12.0	12.1	12.1
SGD	0.9144	0.91	0.91	0.92	0.92	0.93	0.93	0.93	0.92	0.92
HKD	5.6424	5.62	5.61	5.68	5.66	5.74	5.74	5.74	5.66	5.66
PHP	43.87	42.5	42.1	42.3	42.0	42.2	41.4	40.7	39.4	39.4
THB	23.27	22.8	22.6	22.8	22.6	22.8	22.6	22.3	22.0	22.0
MYR	2.8213	2.84	2.84	2.85	2.85	2.85	2.85	2.85	2.77	2.77
CNY	4.9193	4.90	4.86	4.89	4.82	4.81	4.77	4.74	4.64	4.64
IDR	12485	12240	12096	12118	12045	12136	12062	11988	11680	11680
TWD	22.62	22.5	22.1	22.0	21.7	21.6	21.2	21.0	20.6	20.6
KRW	1053	1058	1051	1051	1037	1036	1021	1006	978	978
INR	68.41	67.0	65.5	65.7	65.0	65.9	65.1	65.1	63.5	63.5

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# Australia

## Activity forecasts

%qtr / %yr end	2025		2026		2027				Calendar years			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2025	2026f	2027f	2028f
Household consumption	0.5	0.3	0.6	0.0	0.2	0.4	0.5	0.5	2.4	1.2	2.1	3.3
Dwelling investment	2.0	0.6	1.4	1.3	1.0	0.9	0.8	0.8	5.5	4.7	3.2	5.5
Business investment *	3.8	0.5	0.9	0.3	0.4	0.3	0.3	0.4	4.4	1.8	2.0	3.5
Private demand *	1.3	0.4	0.7	0.2	0.3	0.4	0.5	0.5	3.2	1.7	2.2	3.5
Public demand *	1.3	0.8	0.8	0.7	0.5	0.5	0.6	0.6	2.1	2.5	2.4	2.6
Domestic demand	1.3	0.5	0.8	0.3	0.4	0.4	0.5	0.5	2.9	1.9	2.3	3.3
Stock contribution	-0.5	0.4	-0.2	0.0	0.0	0.0	0.0	-0.1	0.1	-0.2	-0.1	0.1
GNE	0.8	0.9	0.6	0.4	0.3	0.4	0.5	0.5	3.0	1.8	2.2	3.3
Exports	1.4	1.4	0.4	0.4	0.4	0.4	0.6	0.7	5.2	1.6	2.5	2.4
Imports	2.0	1.8	1.0	1.2	1.3	1.4	1.2	1.2	6.7	4.9	5.1	4.5
Net exports contribution	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.8	-0.6	-0.5
<b>Real GDP %qtr / %yr avg</b>	<b>0.5</b>	<b>0.8</b>	<b>0.5</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>2.0</b>	<b>1.8</b>	<b>1.2</b>	<b>2.4</b>
<b>%yr end</b>	<b>2.1</b>	<b>2.6</b>	<b>2.6</b>	<b>1.9</b>	<b>1.6</b>	<b>1.0</b>	<b>0.9</b>	<b>1.1</b>	<b>2.6</b>	<b>1.0</b>	<b>1.6</b>	<b>2.8</b>
Nominal GDP %qtr / %yr avg	1.9	1.8	3.0	1.5	1.6	0.5	0.6	0.7	4.7	7.8	3.4	0.0
%yr end	5.4	6.0	7.7	8.5	8.2	6.8	4.3	3.5	6.0	6.8	3.1	0.0
Real household disp. income	0.8	1.0	-0.6	-0.8	0.0	0.2	0.4	1.0	3.7	-1.2	2.3	3.4

## Other macroeconomic variables

% change	2025		2026		2027				Calendar years			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2025	2026f	2027f	2028f
Employment %qtr **	0.2	0.2	0.7	0.3	0.2	0.2	0.4	0.5	-	-	-	-
%yr end **	1.4	1.1	1.5	1.4	1.4	1.3	1.1	1.2	1.1	1.3	1.7	2.2
Unemployment rate % **	4.3	4.3	4.2	4.4	4.6	4.9	5.0	4.9	4.3	4.9	4.9	4.5
Wages (WPI) (sa) %qtr	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	-	-	-	-
%yr end	3.3	3.4	3.3	3.2	3.2	3.2	3.2	3.2	3.4	3.2	3.0	3.4
Headline CPI %qtr	1.3	0.6	1.4	1.5	1.4	0.5	0.6	0.6	-	-	-	-
%yr end	3.2	3.6	4.1	4.9	5.0	4.9	4.1	3.2	3.6	4.9	2.5	2.2
Trimmed Mean CPI %qtr	1.0	0.9	0.8	1.1	1.1	1.0	0.8	0.7	-	-	-	-
%yr end	3.0	3.4	3.5	3.9	4.0	4.0	4.0	3.6	3.4	4.0	3.0	2.4
Current account \$bn, qtr	-18.3	-21.1	-18.9	-20.5	-23.3	-27.1	-29.7	-31.1	-	-	-	-
% of GDP	-2.6	-2.9	-2.5	-2.7	-3.0	-3.5	-3.9	-4.0	-2.6	-3.5	-4.2	-4.0
Terms of trade %yr avg	-3.3	-2.3	0.0	2.0	3.1	4.0	1.8	-0.4	-2.3	4.0	-4.0	-2.5
Population %yr end	1.6	1.6	1.5	1.5	1.5	1.5	1.4	1.4	1.6	1.5	1.4	1.4

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

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

## Macroeconomic variables – recent history

Monthly data	2025				2026							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
CPI %yr	2.1	1.9	3.0	3.2	3.6	3.8	3.4	3.8	3.8	3.7	4.6	-
Employment '000 chg	-5.9	-5.0	35.2	-13.7	11.2	34.2	-34.6	64.3	25.6	49.7	17.9	-
Unemployment rate %	4.1	4.3	4.3	4.3	4.5	4.3	4.3	4.1	4.1	4.3	4.3	-
Westpac-MI Consumer Sentiment	92.1	92.6	93.1	98.5	95.4	92.1	103.8	94.5	92.9	90.5	91.6	80.2
Household spending %mth	1.1	0.3	0.4	0.0	0.3	1.4	1.0	-0.5	0.2	0.3	1.6	-
Dwelling approvals %mth	3.4	13.1	-8.1	-4.3	11.7	-6.8	15.2	-14.1	-6.9	31.0	-10.5	-
Private sector credit %mth	0.6	0.6	0.7	0.6	0.6	0.7	0.7	0.8	0.5	0.6	0.7	-
Trade in goods balance AUDbn	1.7	4.7	6.3	0.9	3.4	4.5	2.2	3.2	2.1	5.0	-1.8	-

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

# New Zealand

## Interest rate forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Cash	2.25	2.25	2.50	3.00	3.50	3.75	4.00	4.25	4.25	4.25
90 Day Bill	2.63	2.50	2.95	3.40	3.75	4.00	4.25	4.45	4.45	4.45
2 Year Swap	3.55	3.75	4.05	4.30	4.40	4.40	4.40	4.35	4.30	4.25
10 Year Bond	4.67	4.85	4.95	5.00	5.05	5.10	5.10	5.10	5.10	5.10
10 Year Spread to US	28	50	55	55	55	55	50	45	40	35
10 Year Spread to Aust	-29	-15	-10	-5	0	5	10	15	20	20

Sources: Bloomberg, Westpac Economics.

## Currency forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
NZD vs										
USD	0.5934	0.59	0.59	0.62	0.64	0.66	0.67	0.67	0.67	0.67
JPY	93.11	93	92	95	97	99	99	98	96	95
EUR	0.5059	0.50	0.50	0.52	0.53	0.55	0.55	0.55	0.55	0.55
AUD	0.8238	0.82	0.82	0.85	0.87	0.89	0.90	0.91	0.91	0.91
CAD	0.8107	0.81	0.80	0.83	0.85	0.88	0.89	0.88	0.87	0.87
GBP	0.4379	0.44	0.43	0.45	0.46	0.47	0.48	0.48	0.47	0.47
CNY	4.0413	4.01	3.98	4.15	4.21	4.29	4.31	4.29	4.23	4.23

Sources: Bloomberg, Westpac Economics.

## Activity forecasts

% change	2025		2026		2027				Calendar years			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	2025	2026f	2027f	2028f
Private consumption	0.1	-0.1	0.5	-0.6	0.3	1.5	1.4	1.4	1.4	0.6	4.7	4.3
Government consumption	1.4	2.2	-1.1	0.2	0.3	0.3	0.3	0.3	2.4	1.7	1.4	2.2
Residential investment	1.1	-0.1	1.5	1.0	1.0	1.0	2.0	3.0	-6.0	2.7	8.3	10.5
Business investment	2.9	-3.1	3.7	-0.3	1.6	2.2	2.5	2.0	0.4	3.6	7.3	4.0
Stocks (ppt contribution)	-0.5	0.8	0.3	-0.3	0.0	-0.1	0.2	0.0	-0.1	0.6	0.0	-0.1
GNE	0.6	0.5	1.1	-0.6	0.6	1.2	1.6	1.3	0.8	2.1	4.7	4.0
Exports	3.0	0.1	0.5	-0.3	-0.4	0.2	1.0	1.1	2.7	2.4	2.1	2.7
Imports	2.3	1.0	2.1	-1.1	0.1	1.2	1.8	2.7	3.4	2.8	6.3	5.2
GDP (production)	0.9	0.2	0.8	-0.4	0.5	1.9	2.5	3.7	0.2	1.5	3.5	3.3
Employment annual %	-0.7	0.2	0.4	0.6	1.0	1.2	1.9	2.8	0.2	1.2	3.1	2.0
Unemployment rate % s.a.	5.3	5.4	5.3	5.6	5.6	5.4	5.1	4.9	5.4	5.4	4.6	4.2
LCI, all sect incl o/t, ann %	2.1	2.0	2.0	1.9	2.2	2.3	2.3	2.2	2.0	2.3	2.2	2.3
CPI annual %	3.0	3.1	3.1	4.5	4.4	4.1	3.4	1.5	3.1	4.1	1.7	2.6
Current account % of GDP	-3.5	-3.7	-3.9	-4.1	-4.3	-4.3	-4.1	-4.0	-3.7	-4.3	-4.0	-4.2
Terms of trade annual %	5.2	3.5	0.8	-3.3	0.0	1.2	5.3	6.3	3.5	1.2	5.0	0.4

Sources: Statistics NZ, Westpac Economics.

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

# Commodity prices

End of period	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Australian commodities index#	411	415	426	417	399	388	380	370	362	351
<b>Bulk commodities index#</b>	<b>402</b>	<b>410</b>	<b>380</b>	<b>360</b>	<b>350</b>	<b>340</b>	<b>340</b>	<b>340</b>	<b>350</b>	<b>350</b>
iron ore fines TSI @ 62% US\$/t	112	104	101	95	87	83	83	84	84	85
Premium low vol met coal (US\$/t)	231	230	220	200	201	203	204	205	207	208
Newcastle spot thermal coal (US\$/t)	141	150	135	120	121	121	122	123	124	124
crude oil (US\$/bbl) Brent	104	112	95	83	84	74	73	64	63	60
LNG in Japan US\$mmbtu	17.01	18.2	24.6	20.0	16.6	16.4	14.2	12.4	12.2	11.2
gold (US\$/oz)	4,682	4,800	4,930	5,000	5,000	4,950	4,900	4,850	4,700	4,400
<b>Base metals index#</b>	<b>267</b>	<b>265</b>	<b>270</b>	<b>274</b>	<b>274</b>	<b>269</b>	<b>264</b>	<b>247</b>	<b>241</b>	<b>235</b>
copper (US\$/t)	13,236	13,100	13,250	13,350	13,350	13,250	13,150	12,340	12,240	11,950
aluminium (US\$/t)	3,560	3,600	3,800	4,000	4,000	3,850	3,650	3,500	3,350	3,300
nickel (US\$/t)	19,179	18,750	18,500	18,250	17,950	17,850	17,550	17,000	16,000	15,750
zinc (US\$/t)	3,408	3,370	3,380	3,390	3,390	3,380	3,360	2,960	2,920	2,790
lead (US\$/t)	1,974	1,950	1,950	1,940	1,940	1,900	1,800	1,530	1,500	1,420
<b>Rural commodities index#</b>	<b>148</b>	<b>149</b>	<b>148</b>	<b>149</b>	<b>147</b>	<b>142</b>	<b>137</b>	<b>130</b>	<b>128</b>	<b>123</b>
<b>NZ commodities index ##</b>	<b>407</b>	<b>409</b>	<b>415</b>	<b>415</b>	<b>413</b>	<b>414</b>	<b>415</b>	<b>416</b>	<b>417</b>	<b>418</b>
dairy price index ##	338	340	342	342	345	349	353	357	359	361
whole milk powder USD/t	3,687	3,500	3,450	3,400	3,500	3,600	3,670	3,750	3,790	3,830
skim milk powder USD/t	3,381	3,150	3,050	2,950	3,000	3,050	3,100	3,150	3,180	3,210
lamb price index ##	640	655	677	650	632	622	621	620	617	612
beef price index ##	400	407	427	413	404	398	398	397	396	395
forestry price index ##	165	160	158	159	159	159	160	160	160	161

	levels				%change			
Annual averages	2025	2026(f)	2027(f)	2028(f)	2025	2026(f)	2027(f)	2028(f)
<b>Australian commodities index#</b>	<b>324</b>	<b>414</b>	<b>384</b>	<b>350</b>	<b>4.2</b>	<b>27.7</b>	<b>-7.1</b>	<b>-8.9</b>
<b>Bulk commodities index#</b>	<b>378</b>	<b>397</b>	<b>350</b>	<b>353</b>	<b>-12.7</b>	<b>5.0</b>	<b>-11.8</b>	<b>0.9</b>
iron ore fines @ 62% USD/t	102	103	85	85	-6.9	0.8	-17.2	-0.2
LNG in Japan \$mmbtu	11.9	19.0	15.5	11	-8.8	60.2	-18.3	-28.2
ave coking coal price (US\$/t)	166	180	174	179	-19.6	8.7	-3.6	2.9
ave thermal price (US\$/t)	119	130	119	121	-12.1	9.1	-9.0	2.4
iron ore fines contracts (US¢ dltu)	143	142	125	121	-12.2	-0.5	-12.1	-2.7
Premium low vol met coal (US\$/t)	188	224	203	184	-21.7	19.0	-9.5	-9.5
crude oil (US\$/bbl) Brent ICE	67	93	75	60	-13.1	38.7	-19.1	-19.8
gold (US\$/oz)	3,470	4,870	4,940	4,492	44.0	40.3	1.4	-9.1
<b>Base metals index#</b>	<b>208</b>	<b>264</b>	<b>264</b>	<b>235</b>	<b>3.1</b>	<b>26.5</b>	<b>0.1</b>	<b>-11.1</b>
copper (US\$/t)	10,000	13,100	13,100	12,000	8.7	31.0	0.0	-8.4
aluminium (US\$/t)	2,600	3,600	3,800	3,300	8.3	38.5	5.6	-13.2
nickel (US\$/t)	15,300	18,200	17,700	15,900	-9.5	19.0	-2.7	-10.2
zinc (US\$/t)	2,900	3,400	3,300	2,800	3.6	17.2	-2.9	-15.2
lead (US\$/t)	2,000	1,900	1,800	1,400	-4.8	-5.0	-5.3	-22.2
<b>Rural commodities index#</b>	<b>120</b>	<b>143</b>	<b>139</b>	<b>121</b>	<b>-5.0</b>	<b>19.4</b>	<b>-3.3</b>	<b>-12.5</b>
<b>NZ commodities index ##</b>	<b>390</b>	<b>409</b>	<b>414</b>	<b>418</b>	<b>9.2</b>	<b>4.7</b>	<b>1.4</b>	<b>0.9</b>
dairy price index ##	348	409	351	361	9.7	17.3	-14.0	2.9
whole milk powder USD/t	3,902	3,529	3,594	3,829	13.5	-9.6	1.8	6.5
skim milk powder USD/t	2,702	3,085	3,054	3,216	0.6	14.1	-1.0	5.3
lamb price index ##	587	656	626	609	27.0	11.7	-4.5	-2.7
beef price index ##	337	408	400	394	19.1	21.0	-2.0	-1.4
forestry price index ##	152	157	159	161	-4.9	3.4	1.7	1.2

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

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# United States

## Interest rate forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Fed Funds*	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
10 Year Bond	4.39	4.35	4.40	4.45	4.50	4.55	4.60	4.65	4.70	4.75

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

## Currency forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>USD vs</b>										
DXY index	98.20	97.8	97.6	96.7	95.9	95.0	94.2	93.9	94.0	93.8
JPY	156.89	157	156	154	152	150	148	146	144	142
EUR	1.1730	1.18	1.18	1.19	1.20	1.21	1.22	1.22	1.22	1.22
AUD	0.7203	0.72	0.72	0.73	0.73	0.74	0.74	0.74	0.73	0.73
NZD	0.5934	0.59	0.59	0.62	0.64	0.66	0.67	0.67	0.67	0.67
CAD	1.3661	1.37	1.36	1.35	1.34	1.34	1.33	1.32	1.31	1.30
GBP	1.3552	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.41
CHF	0.7806	0.77	0.76	0.75	0.75	0.74	0.74	0.74	0.75	0.75
ZAR	16.46	16.5	16.5	16.4	16.4	16.2	16.2	16.2	16.6	16.6
SGD	1.2695	1.27	1.26	1.26	1.26	1.26	1.26	1.25	1.25	1.25
HKD	7.8327	7.80	7.79	7.78	7.76	7.75	7.75	7.75	7.75	7.75
PHP	60.41	59.0	58.5	58.0	57.5	57.0	56.0	55.0	54.0	54.0
THB	32.31	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1
MYR	3.9170	3.95	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80
CNY	6.8023	6.80	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35
IDR	17333	17000	16800	16600	16500	16400	16300	16200	16000	16000
TWD	31.40	31.2	30.7	30.2	29.7	29.2	28.7	28.4	28.2	28.2
KRW	1462	1470	1460	1440	1420	1400	1380	1360	1340	1340
INR	94.25	93.0	91.0	90.0	89.0	89.0	88.0	88.0	87.0	87.0

## Activity forecasts

	2025				2026				Calendar years			
	Q1	Q2	Q3	Q4	Q1f	Q2f	Q3f	Q4f	2025	2026f	2027f	2028f
% annualised, s/adj												
Private consumption	0.6	2.5	3.5	1.9	1.6	1.6	1.7	1.7	2.6	1.9	1.9	2.1
Dwelling investment	-1.0	-5.1	-7.1	-1.7	-8.0	0.0	0.0	0.8	-2.2	-3.5	0.9	2.0
Business investment	9.5	7.3	3.2	2.4	10.4	4.4	5.6	5.6	4.1	5.7	5.1	4.7
Public demand	-1.0	-0.1	2.2	-5.6	4.4	2.0	0.4	0.4	1.1	0.7	0.5	0.4
Domestic final demand	1.5	2.5	2.9	0.6	3.0	2.0	2.0	2.1	2.4	2.1	2.1	2.2
Inventories contribution ppt	0.7	-0.4	-0.4	-0.1	-0.8	0.1	0.1	0.1	-0.1	0.1	0.0	0.1
Net exports contribution ppt	-1.8	-0.1	0.5	0.4	1.3	-0.2	-0.8	-0.8	0.4	-0.8	-0.5	-0.5
GDP	-0.6	3.8	4.4	0.5	2.0	1.6	1.6	1.7	2.1	2.0	1.8	1.9
%yr annual chg	2.0	2.1	2.3	2.0	2.7	2.1	1.4	1.7	-	-	-	-

## Other macroeconomic variables

Non-farm payrolls mth avg	68	56	11	-30	44	80	80	90	26	74	103	120
Unemployment rate %	4.1	4.2	4.3	4.4	4.3	4.5	4.5	4.6	4.4	4.7	4.8	4.7
CPI headline %yr	2.7	2.4	2.9	2.7	2.7	3.2	3.1	2.9	2.7	2.9	2.4	2.3
PCE deflator, core %yr	2.8	2.7	2.9	2.9	2.9	2.9	2.7	2.5	2.8	2.5	2.3	2.2

Sources: Official agencies, Factset, Westpac Economics.

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# Europe & the United Kingdom

## Interest rate forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>Euro Area</b>										
ECB Deposit Rate	2.00	2.25	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00
10 Year Bund	3.00	3.00	3.05	3.05	3.05	3.00	2.95	2.90	2.90	2.90
10 Year Spread to US	-138	-135	-135	-140	-145	-155	-165	-175	-180	-185
<b>United Kingdom</b>										
BoE Bank Rate	3.75	4.00	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50
10 Year Gilt	4.95	4.90	4.95	4.95	4.95	4.90	4.85	4.80	4.75	4.75
10 Year Spread to US	56	55	55	50	45	35	25	15	5	0

Sources: Bloomberg, Westpac Economics.

## Currency forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
<b>euro vs</b>										
USD	1.1730	1.18	1.18	1.19	1.20	1.21	1.22	1.22	1.22	1.22
JPY	184.04	185	184	183	182	182	181	178	175	173
GBP	0.8655	0.87	0.87	0.87	0.87	0.87	0.87	0.87	0.86	0.86
CHF	0.9156	0.91	0.90	0.90	0.90	0.90	0.91	0.91	0.91	0.91
DKK	7.4726	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	10.89	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
NOK	10.91	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
<b>sterling vs</b>										
USD	1.3552	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.41
JPY	212.64	213	212	211	210	209	207	206	202	200
CHF	1.0579	1.04	1.03	1.03	1.03	1.03	1.04	1.05	1.05	1.06
AUD	0.5315	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

## Activity forecasts

Annual average % chg	2022	2023	2024	2025	2026f	2027f	2028f
Euro area GDP	3.7	0.5	0.9	1.5	0.7	1.1	1.5
<i>private consumption</i>	5.3	0.6	1.3	1.5	0.9	1.2	1.4
<i>fixed investment</i>	2.2	2.7	-2.6	3.1	1.1	1.3	2.1
<i>government consumption</i>	1.3	1.5	2.3	1.6	2.3	2.1	1.9
<i>net exports contribution ppt</i>	-0.1	0.3	0.3	-0.5	-0.3	-0.2	-0.3
Germany GDP	1.9	-0.7	-0.5	0.3	0.6	1.1	1.7
France GDP	2.8	1.6	1.1	0.9	0.7	0.8	1.2
Italy GDP	5.0	1.0	0.6	0.7	0.6	0.7	1.0
Spain GDP	6.4	2.5	3.5	2.8	2.2	1.9	2.1
Netherlands GDP	5.0	-0.6	1.1	1.8	0.8	1.1	1.6
United Kingdom GDP	5.1	0.3	1.1	1.4	0.8	1.1	1.5

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# 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	4.7	4.6	4.4
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	0.3	0.8	1.5
Industrial production (IVA)	9.6	3.6	4.6	5.8	5.9	5.0	4.8	4.6
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	3.6	4.0	4.5
Exports %yr	20.9	-9.9	-2.3	10.7	5.1	3.0	2.8	2.5
Imports %yr	19.5	-7.5	0.2	0.9	0.0	1.5	1.5	1.2

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

## Chinese interest rates & monetary policy

	Latest (May 8)	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
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

\* For major banks.

## Japanese interest rates & monetary policy

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
Policy Rate	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10 Year Bond Yield	2.49	2.20	2.15	2.10	2.05	2.00	1.95	1.90	1.85	1.80

## Currency forecasts

	Latest (May 8)	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28	Jun-28
JPY	156.89	157	156	154	152	150	148	146	144	142
SGD	1.2695	1.27	1.26	1.26	1.26	1.26	1.26	1.25	1.25	1.25
HKD	7.8327	7.80	7.79	7.78	7.76	7.75	7.75	7.75	7.75	7.75
PHP	60.41	59.0	58.5	58.0	57.5	57.0	56.0	55.0	54.00	54.00
THB	32.31	31.6	31.4	31.2	31.0	30.8	30.6	30.2	30.1	30.1
MYR	3.9170	3.95	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80
CNY	6.8023	6.80	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35
IDR	17333	17000	16800	16600	16500	16400	16300	16200	16000	16000
TWD	31.40	31.2	30.7	30.2	29.7	29.2	28.7	28.4	28.2	28.2
KRW	1462	1470	1460	1440	1420	1400	1380	1360	1340	1340
INR	94.25	93.0	91.0	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	6.7	3.8	3.3	3.4	3.4	3.2	3.3	3.3
United States	6.2	2.5	2.9	2.8	2.1	2.0	1.8	1.9
Japan	3.6	1.3	0.7	-0.2	1.2	0.6	0.8	0.9
Euro zone	6.4	3.7	0.5	0.9	1.5	0.7	1.1	1.5
Group of 3	5.9	2.8	1.8	1.7	1.8	1.4	1.4	1.6
United Kingdom	8.5	5.1	0.3	1.1	1.4	0.8	1.1	1.5
Canada	6.0	4.7	2.0	2.0	1.7	1.2	1.8	2.0
Australia	5.4	4.2	2.1	1.0	2.0	1.8	1.2	2.4
New Zealand	5.5	2.6	2.2	-0.3	0.2	1.5	3.5	3.3
OECD total	6.2	3.2	1.9	1.8	1.7	1.5	1.5	1.7
China	8.4	3.1	5.4	5.0	5.0	4.7	4.6	4.4
Korea	4.6	2.7	1.6	2.0	1.0	2.0	2.0	1.9
Taiwan	6.7	2.7	1.1	5.3	8.7	6.5	4.0	3.0
Hong Kong	6.5	-3.7	3.2	2.6	3.5	2.9	2.5	2.3
Singapore	10.1	4.0	1.5	5.3	5.0	3.3	2.6	2.5
Indonesia	3.7	5.3	5.0	5.0	5.1	5.0	5.2	5.2
Thailand	1.6	2.7	2.2	2.9	2.4	1.6	2.3	2.6
Malaysia	3.3	9.0	3.5	5.1	5.2	4.4	4.4	4.3
Philippines	5.7	7.6	5.5	5.7	4.4	4.7	5.5	5.9
Vietnam	2.6	8.5	5.1	7.0	8.0	7.0	7.0	6.9
East Asia	7.1	3.6	4.7	4.8	4.9	4.6	4.5	4.3
East Asia ex China	4.4	4.6	3.4	4.5	4.7	4.3	4.2	4.1
NIEs*	6.1	2.3	1.6	3.4	4.0	3.6	2.7	2.3
India	9.7	7.6	7.2	7.1	7.6	6.5	6.7	6.6
Russia	5.9	-1.4	4.1	4.9	1.0	1.1	1.3	1.5
Brazil	4.8	3.0	3.2	3.4	2.3	1.7	1.9	2.1
South Africa	4.9	2.1	0.8	0.5	1.1	1.0	1.3	1.5
Mexico	6.0	3.7	3.1	1.4	0.6	1.6	2.2	2.1
Argentina	10.4	6.0	-1.9	-1.3	4.4	3.5	4.0	3.8
Chile	11.3	2.2	0.5	2.6	2.3	2.4	2.6	2.3
Middle East	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9
C & E Europe	9.1	4.3	3.0	3.2	3.0	3.1	3.5	3.7
Africa	3.9	4.4	3.8	4.2	4.5	4.3	4.4	4.5
Emerging ex-East Asia	6.8	3.7	3.7	4.7	4.4	4.1	4.3	4.3
Other countries	6.7	5.2	4.9	2.0	2.3	2.8	3.0	3.1
World	6.7	3.8	3.3	3.4	3.4	3.2	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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