July 2026

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK July 2026

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NB: Quarterly forecasts for commodities on page 26 are now reported on a quarter-average basis. Forecasts on an end-of-quarter basis will be made available the week after Market Outlook is published.

Vibe check

Shortly after our last *Market Outlook* went to print, the US and Iran signed a memorandum of understanding that set the terms for a formal ceasefire, gave the green light for shipping traffic to resume through the Strait of Hormuz and, among other concessions, established a framework for further negotiations on pricklier issues, including Iran's nuclear capability. Markets embraced the shift, taking crude oil futures all the way back to pre-conflict levels, bond market rallying and 'risk' assets picking up steam. It was unlikely to all be smooth sailing, however.

As we go to press, the situation is looking much more combustible – Iran attacking ships navigating the Strait of Hormuz along the Omani coast and the US responding with multiple rounds of strikes against Iranian military assets and revoking the sanction waiver that had allowed Iran to sell oil legally on the open market. Whether this marks yet another short-lived 'tit-for-tat' or the early stages of a complete unravelling remains to be seen. For now, these developments have served as a bit of a 'vibe check' for markets which have given back part of their early optimism but stopped short of pricing in the risk of a sustained re-escalation.

The Middle East remains the through-line for the global outlook, but underneath that layer of uncertainty are numerous local subplots that policymakers are having to grapple with. In China, the benefits from robust industry and trade are still showing a limited flow through to households, meaning more pro-active stimulus is likely later this year. In the US, the market's conviction over Fed rate hikes remains questionable given labour market weakness that is being masked by a volatile path for monthly payrolls. Meanwhile, the UK is set to usher in Andy Burnham as its seventh Prime Minister in ten years who will inherit the perennial task of trying to revive productivity growth and restore the uptrend in real incomes.

Closer to home, the RBNZ kicked off its tightening cycle with a 25bp rate hike in July, with more to come over this year and next as policymakers look to lean against inflation pressures. Recent communications from the RBA have increased our conviction for an August rate hike, though the need for a follow-up in September will depend crucially on how the inflation data and Middle East situation evolves over the coming weeks and months.

Australia: The full effects of the global energy shock will become more evident with the release of official June quarter data in coming weeks. Policymakers can usually 'look through' the price effects from small, short-lived supply shocks but with Australia coming into the shock with inflation already above the 2–3% target band, the RBA is much more alert to upside inflation risks. We expect the June quarter data to be troubling enough for the RBA deliver two additional rate hikes through 2026, with policy easing unlikely to begin until the second half of 2027, once it is clear that inflation is back on a sustainable path back towards target.

Commodities: Commodity prices fell sharply in June as markets responded to the US–Iran memorandum of understanding and the reopening of the Strait of Hormuz. Our broadest commodities index declined 3.2%mth, with oil leading the sell-off and coal the notable exception. Reflecting recent dynamics, we have revised our September quarter average Brent forecast lower to US$83/bbl.

Global FX Markets: The past month, participants have shown less concern over global oil supply while holding on to the belief that US economic risks are asymmetrically skewed towards inflation, warranting action from the FOMC.

New Zealand: An unexpectedly rapid decline in oil prices has improved both the near-term growth and inflation outlook in New Zealand. Weighing up these competing influences on the medium-term inflation outlook, the RBNZ decided to begin moving the OCR back to neutral levels this month. Further rate hikes seem likely over coming meetings, but the exact timing will be data and event dependent.

United States: With the three-month average of payrolls growth above estimates of current labour supply, participants are still wary of further policy tightening. But a holistic take of the labour market suggests this is unlikely.

China: The first half of 2026 has highlighted China's industrial strength, the trade surplus widening back to near record highs and investment in high-tech manufacturing and services continuing at pace. Ahead, China's greatest opportunity is also its biggest threat – a recovery in the Chinese consumer.

Asia: Despite a softer growth outlook, we expect the BoJ to raise rates to 1.5% by mid-2027. Inflation expectations have become more entrenched, nominal wage growth remains strong and productive capacity is improving. However, uncertainty around neutral should see policy normalisation proceed gradually.

Europe & UK: UK remains politically divided and its economic stagnation is fuelling political instability. Without stronger growth, higher living standards and improved public finances, the next government risks repeating the same cycle of public frustration and leadership turnover.

Fragile calm fractures ...

Luci Ellis
Chief Economist, Westpac Group

Consistent with a general tendency to fade geopolitical risk, markets leant into the positive signal of the US–Iran agreement struck in mid June. As negotiations proceeded and evidence of a recovery in traffic through the Strait of Hormuz emerged, oil prices returned to around pre-war levels. Market pricing also implies that this lowered near-term inflation expectations as well as those further out. This flowed through to bond yields, with 10-year benchmarks declining over the second half of June.

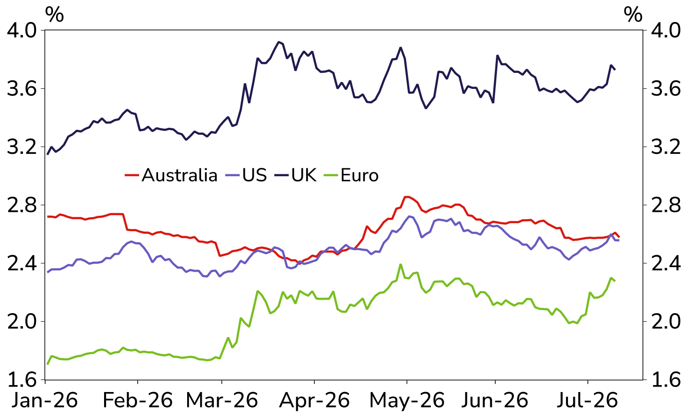
We have flagged for some time that even with a ceasefire agreement in place, the Middle East conflict could flare up periodically. This risk has crystallised in recent days, with both sides unleashing missile attacks and shipping being targeted. Oil prices have bounced back, up 6% over the past week as we go to press. Inflation expectations implied by financial market pricing have increased along the curve with nominal bond yields moving accordingly, up 20–30bps since end-June in the major markets. An interesting exception that probably relates more to the illiquidity of the market than an explicit view is that the near-term (1 year) inflation expectations implied by swaps for Australia has not risen, even though the equivalent measures for major markets have done, as have implied inflation for Australia further out (1-year, 1-year forwards and beyond).

The expected policy reaction to the latest flare-up has been somewhat muted by comparison. Market pricing for end-2026 policy rates is up only a little since end-June, around 5bps for major markets, compared with around double that for swaps-based measures of inflation expectations. It should be emphasised that the policy outlook reflects a broader context than inflation shocks emanating from energy prices alone.

In particular, the outlook for Fed policy had been re-rated already in mid-June following the FOMC meeting and publication of members' forecasts (other than new chair Kevin Warsh). We have long been of the view that the previously expected cuts to the Federal funds rate were overdone given the structural and policy-driven constraints on supply capacity in that economy, especially labour supply. Core inflation remains materially above target in the US and looks to remain so for some time yet. A slim majority of members now expect one rate increase this year; we expect the current uncertainty to stay the FOMC's hand for a bit longer. We also now expect the Bank of England to remain on hold for the remainder of the year, while the ECB is likely to deliver one more hike still.

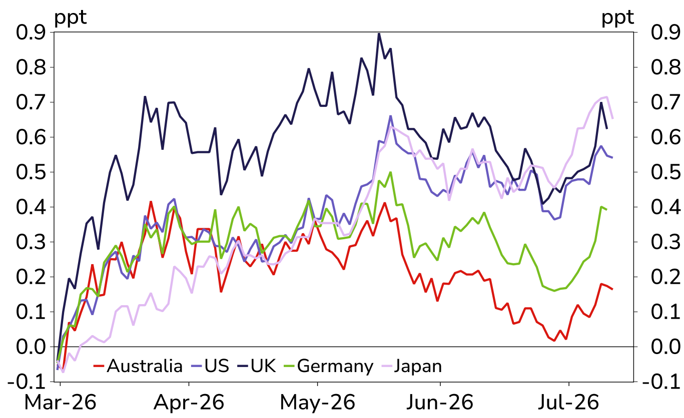
Currency markets have also responded to the recent flare-up in hostilities in the usual way, with the USD picking up a little and risk currencies such as AUD ticking down. Shifts in rates differentials have also played a role in these movements.

1-year-1-year fwd Inflation Expectations (Swaps)



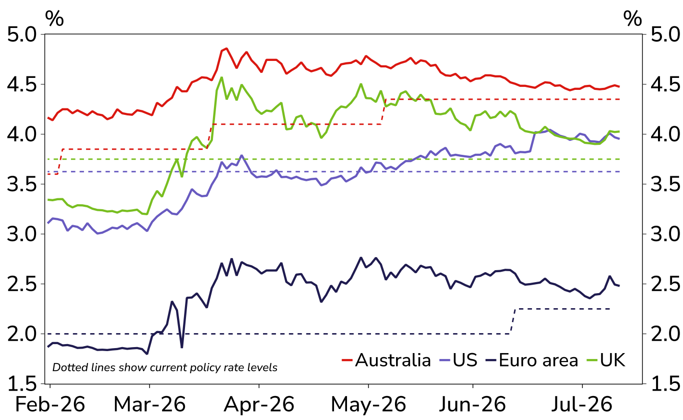
Source: Bloomberg, Macrobond, Westpac Economics

Change in 10-year bond yields since war started



Source: Bloomberg, Macrobond, Westpac Economics

Market-implied policy rates for December 2026



Source: Bloomberg, Macrobond, Westpac Economics

... while RBA finds reasons to be hawkish

The RBA kept the cash rate on hold at its June meeting as expected. Having already hiked three times in quick succession, it had space to assess how these were flowing through to the economy. The post-meeting communication noted that policy tightening was affecting the economy broadly as expected.

The recent flare-up in the Middle East still leaves energy prices well below their earlier peaks. The narrative of fuel and other transport costs driving other prices has faded; we have seen few announcements in this vein lately. The partial extension of the cut to fuel excise will also smooth the path of these costs and reduce the pulse to inflation from the unwind of this policy measure. While this episode of pass-through has been unusually strong – as we flagged some months ago – we now have more conviction that it is mostly a one-off level shift and not an ongoing lift in the inflation trend.

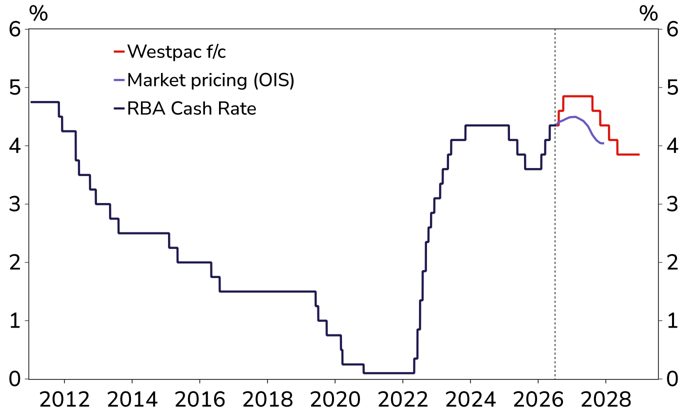
The near-term path for the RBA nonetheless remains on the hawkish side and our conviction around our expectation of an August hike has risen. The post-meeting communication added language stating that the Monetary Policy Board (MPB) stood ready to hike if needed. This drafting decision is unusual for an RBA statement, and was a stronger steer than previously. It suggests that the MPB wanted to hose down recent speculation that they are done hiking rates. Its assessment of the real economy in both the post-meeting communication and the minutes was sanguine, and it is clearly more worried about upside risks to inflation than downside risks.

Subsequent speeches by senior RBA officials have highlighted reasons to be hawkish, and specifically to front-load policy responses to inflation risks. As we noted back in May, it has long been known that inflation responds more to changes in economic slack when the economy is tight than when it is weak (that is, the Phillips Curve is nonlinear), and to larger shocks than smaller ones. The RBA staff have nonetheless chosen to highlight this relationship recently, especially in the context of the sequence of supply shocks seen in recent years. Both we and they assess that further (mostly policy-driven) shocks are possible in the period ahead.

By contrast, our conviction around the follow-up hike in September has declined. We are seeing some pull-back in inflation momentum, which suggest that underlying inflation will not exceed the RBA's May forecasts in H2 2026 by as much as earlier forecasts implied. While a September hike remains our base case – just – there are credible scenarios where the second cash rate increase occurs later or not at all.

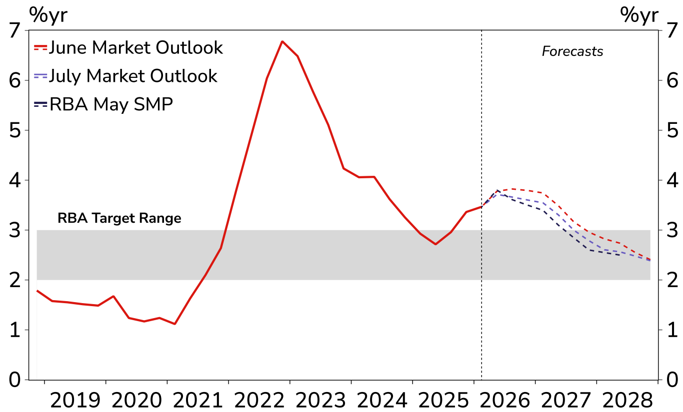
Further out, the outlook is less hawkish than before. Despite the recent flare-up in hostilities in the Middle East, the inflation outlook in 2027 looks a bit more benign than a couple of months ago. We have therefore brought forward the expected future cuts to start in August 2027, rather than 2028 as previously.

RBA Cash Rate



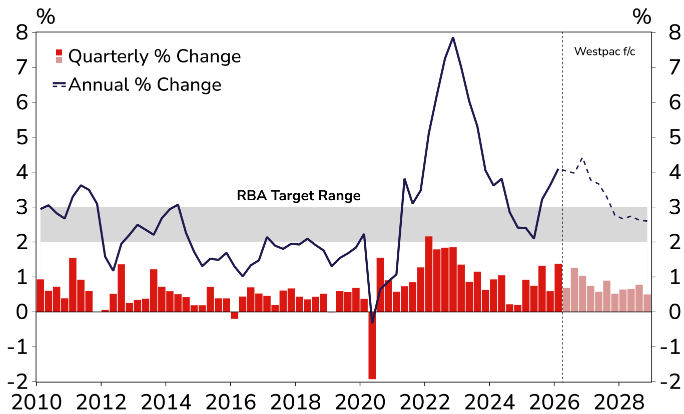
Source: RBA, Macrobond, Westpac Economics

Trimmed mean forecast revisions



Source: ABS, Macrobond, RBA, Westpac Economics

Headline CPI Inflation



Source: ABS, Macrobond, Westpac Economics

Rate hikes impacting interest-sensitive sectors …

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

The full effects of the global energy shock will become more evident with the release of official June quarter data in coming weeks. As a supply shock, it has reduced productive capacity, weighing on activity and pushing up costs. The size, duration and growth vs inflation mix of the shock all remain uncertain. Policymakers can usually 'look through' the price effects from small, short-lived supply shocks but with Australia coming into the shock with inflation already above the 2–3% target band, the RBA is much more alert to upside inflation risks. It will be particularly sensitive to any signs that energy price increases are flowing through more fully and rapidly to a broader range of prices. We expect the June quarter data to be troubling enough for the RBA deliver two additional rate hikes through 2026, with policy easing unlikely to begin until the second half of 2027, once it is clear that inflation is back on a sustainable path towards target.

This in turn points to a challenging near-term outlook for the economy. The significant cumulative tightening in financial conditions will weigh on demand and activity across interest-sensitive sectors. Growth is expected to be flat in Q2 (+1.6%yr) dropping to an annual pace of just 0.7%yr by year-end, before gradually lifting back to 1.5%yr over 2027. Underlying inflation is expected to rise to 0.9%qtr and 3.7%yr in Q2, remain elevated at 3.6%yr through 2026, and gradually ease to 2.8%yr by the second half of 2027.

Rate rises contributing to softer consumer

The tightening in financial conditions is already contributing to a slowdown in consumer spending. The shifting interest rate situation saw consumer sentiment fall sharply through the turn of the year. In line with this, the March quarter national accounts pointed to a moderation in consumption growth, particularly when electricity rebate effects are excluded. The June quarter looks weaker still, with sentiment dropping to historical lows and our **Westpac Card Tracker Index** suggesting consumption stalled flat in real terms. While much of that reflects the spike in fuel prices, the February, March and May rate rises have had a hand in the weakness as well.

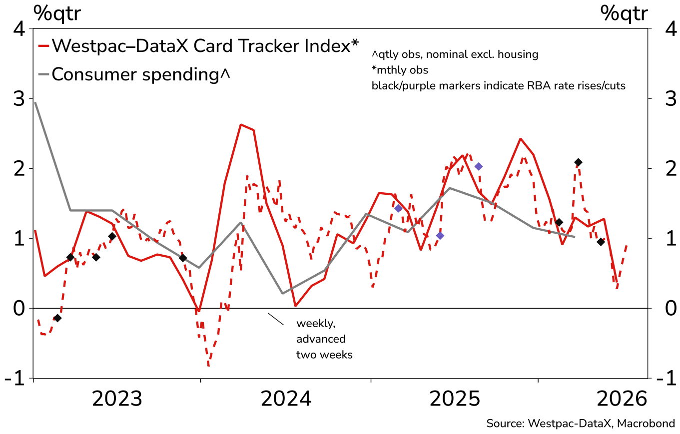
Housing slowdown also in play

As one of the most interest rate sensitive sectors of the economy, housing often sits at the centre of the monetary policy transmission mechanism. Purchases are typically debt financed through variable-rate loans, meaning demand is heavily impacted by interest rate changes. All else equal, higher interest rates reduce demand for housing, impacting turnover, dwelling prices and new construction.

Note that all else is often not equal. Housing turnover, price and construction cycles are affected by a range of other factors that can sometimes override even quite powerful interest rate effects. The most compelling recent example of this was in 2023, when housing markets posted a surprisingly solid rebound despite an aggressive tightening that saw a cumulative 4.25ppt rise in interest rates between mid-2022 and late 2023. The apparent driver at the time was a post-COVID surge in population growth.

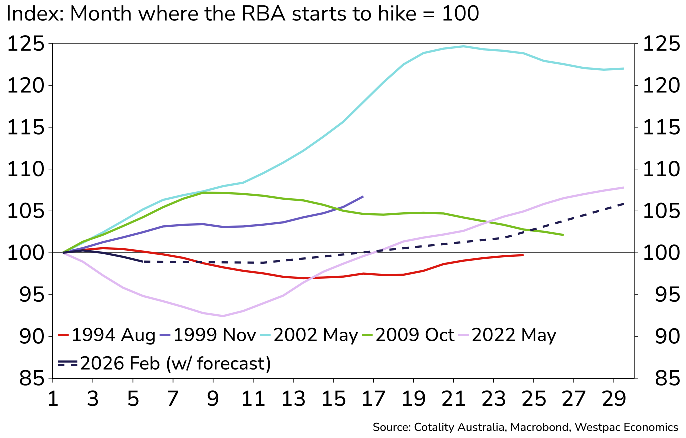
The main 'other factor' currently impacting housing is the investor housing tax policy overhaul announced in the Federal budget. As set out in our assessment, these changes are set to accentuate rate rise impacts with an investor-led pull-back expected to see total turnover decline by around 20% and a moderate price correction – a 2ppt decline nationally leaving annual price growth flat by year-end.

Westpac–DataX Card Tracker



Source: Westpac-DataX, Macrobond

Dwelling prices across different RBA hiking cycles



Source: Cotality Australia, Macrobond, Westpac Economics

... consumer, not housing, the main game for growth

Housing only a small drag for economic growth

What is the bottom line here for economic growth? While there are risks and uncertainties, at this stage the combined effect looks set to be quite marginal with the drop in turnover likely to be the most meaningful change.

The housing construction channel is particularly important because of its extensive linkages to the rest of the economy, including manufacturing, transport and professional services. Dollar for dollar, the wider economic impact from residential investment is about 1.5 times that of consumer spending.

However, several factors are expected to limit any slowdown. Firstly, the pipeline of work has been expanding, the number of dwellings under construction rising 10% over the year to March and likely to push higher near term even if new approvals pull back. Just over 40% of these builds are in high-rise projects that typically take over a year to complete.

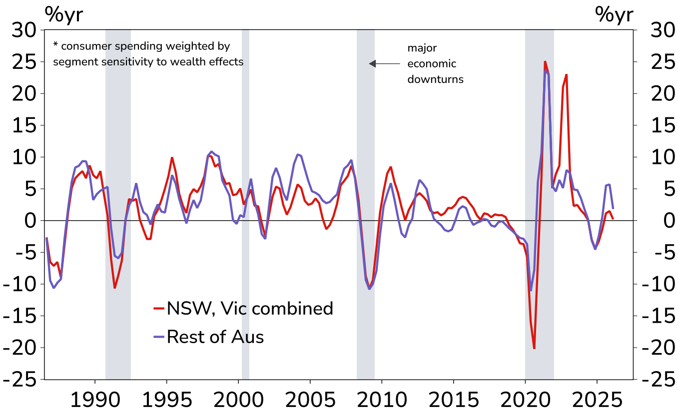
Secondly, governments – both Federal and state – have been actively trying to boost new housing construction for some time now using a variety of policy levers including zoning changes and fast-tracking suitable high-density developments. The Commonwealth's $2bn Housing Support Program, the $10bn Housing Australia Future Fund, and the NSW Government's $6.6bn housing package are all part of this effort. And lastly, new dwelling construction should also get some medium-term support from the Federal tax changes as investment in newly built dwellings will now see preferential negative gearing and capital gains tax treatments.

Overall, we forecast total dwelling investment (including renovations and alterations) to slow from 5.1%yr in 2025 to 4.0%yr in 2026 and 3.2%yr in 2027. While this represents a meaningful moderation, it is less severe than some official forecasts. The RBA, for example, is forecasting dwelling investment growth of just 2.0% in 2026 and a decline of 0.3% in 2027. Our firmer outlook reflects the substantial increase in housing-related spending being pursued by state and federal governments.

Housing can also affect activity indirectly through wealth effects. The wealth gains or losses associated with house price moves can have a significant bearing on discretionary spending – with those benefiting from gains tending to spend more and those impacted by losses tending to spend less. RBA research estimates that on average a 1ppt change in house prices leads to a 0.16ppt change in the long-run level of consumption with about half of that effect coming in the first six months.

Currently, that would amount to a positive tailwind worth 0.5–0.7ppts on annual spending growth, given the recent history of price rises. While this is hard to discern nationally, the detail does suggest some support, with somewhat

Consumption: 'wealth effect' indicator



Source: ABS, RBA, Macrobond, Westpac Economics

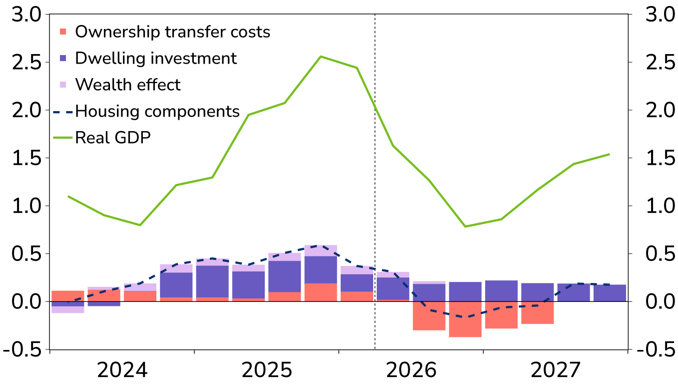
stronger spending in categories that are more sensitive to wealth effects in the states that have seen the largest house price gains in recent years (see chart above). That said, the aggregate effect looks to be more muted than the 0.5–0.7ppt guidance and was already subsiding in early 2026.

Our post-Budget revised price forecasts suggest the wealth effect could become a slight drag by early 2027, reflecting a combination of moderating gains in states that had been seeing strong price growth (Queensland, South Australia and Western Australia) and a drag in states seeing more material price declines (New South Wales and Victoria). Overall, we expect this effect to be worth 0.1–0.15ppts on annual GDP growth, with this likely to show through in late 2026 and early 2027.

There is a more direct impact on activity through swings in housing market turnover as well. The drop in sales volumes will be a significant dampener for real estate agents and a range of associated service providers including legal, accounting, financial services and removalists. Reduced 'churn' may also have some spillover effects on spending on furniture, household goods and small renovations, although these

Housing-related drivers of GDP

Contributions to year-ended GDP growth



Source: ABS, RBA, Macrobond, Westpac Economics are difficult to estimate (partly because they are difficult to separate from similar spillovers coming via construction-related activity and wealth effects). However, the direct impact alone, which is captured by the 'ownership transfer cost' expenditure component of the national accounts, is a large –0.4ppt drag on headline GDP over the second half of 2026.

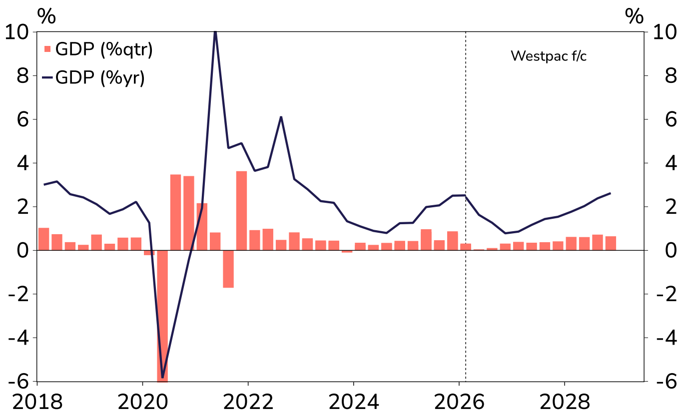
Bottom line

The key takeaway here is that while housing is facing into a material downturn with many of the effects still uncertain, the growth impacts do not look likely to be large. Where drags are set to come through, around turnover and wealth effects, these look to be in the order of around 0.5ppt of GDP on a combined basis. And there are good reasons to expect dwelling investment to be resilient with gains still adding around 0.2ppts to GDP growth in 2026.

And of course, there are other drivers impacting. Two themes that we have been highlighting for some time are the slowing in public demand and a strong lift in investment in data centres and electricity. The last month has seen some important updates on state government budgets (covered in our latest Coast-to-Coast) and the data centre investment boom (see here).

However, the housing, public demand and data centre investment stories are mostly peripheral with the dominant driver of the challenging growth environment in 2026 still the squeeze on household incomes coming from high inflation, higher interest rates and rising tax payments. How this squeeze evolves remains the key question for the growth profile in the back end of 2026 and 2027.

GDP forecasts



Source: ABS, Macrobond, Westpac Economics

The MoU sees commodity prices tumble …

Luka Belobrajdic
Economist

Most commodities fell in June following the signing of the US and Iran memorandum of understanding on 17 June, which established a 60 day ceasefire and critically, reopened the Strait of Hormuz. Our broadest commodities index fell –3.2%mth over the month. Oil led the falls, with Brent down –16.3%mth, while Japanese LNG was down –2.5%mth. Iron ore too fell sharply, down –7.2%mth as transient sources of price support faded, while gold slid –7.4%mth and aluminium –5.1%mth. Copper was broadly unchanged. Coal was the exception with the Shanxi mining disaster lifting both coking (2.6%mth), and thermal coal (10.4%mth). Reflecting recent developments we have revised our crude oil forecast lower, with a September quarter average Brent price of US$83/bbl, US$4 below our previous update.

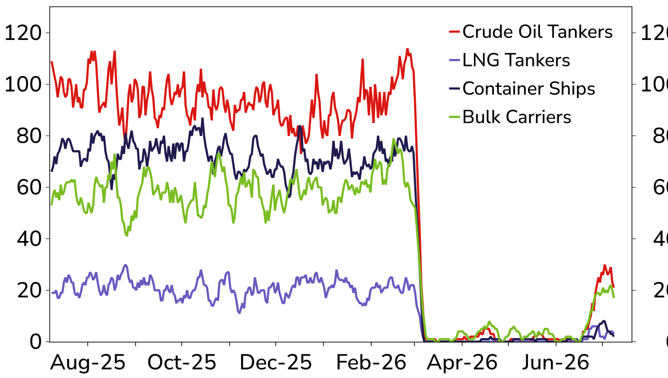
Oil prices slide but volatility likely ahead

Brent prices have fallen over the past month to just above US$70/bbl in early July, fully unwinding the war premium. The initial slide was in line with our view as vessels trapped inside the Strait have exited and empty tankers waiting outside have moved in. That said, supply has come back a touch faster than we expected. UAE and Saudi exports have normalised rapidly, helped by the absence of well shut-ins, ample storage and continued pipeline flows through the conflict. However, as we have previously highlighted, the MoU would always be an uneasy truce. This was evident with flare-ups over the last week pushing prices back up to around US$80/bbl. While hostilities should be short-lived and optimism will re-emerge between flare-ups, we expect demand and supply fundamentals to reassert as the primary driver of prices over the coming months.

Notably, inventories remain very low. OECD government stocks fell 163mb in May to their lowest since December 1990, and a rebuild in government reserves will support demand. Adding to this, Chinese imports have been a key buffer against the global supply shock and is one that will fade as demand returns. In June, China accounted for just 13% of seaborne crude imports, down from 20% a year earlier, and independent refinery operating rates have fallen to a nine-year low of 46%. We look for some return in demand ahead, particularly in Q4 as refiners restock ahead of Chinese New Year. Meanwhile, although supply will continue to recover, inbound vessel traffic through the Strait remains well below pre-conflict levels, with recent Iranian strikes on transiting vessels holding back the recovery. Overall, we expect Brent to average US$83/bbl in Q3, $4 below our June forecast, and US$85/bbl in Q4. Volatility will remain a feature, with much depending on the ceasefire holding and the pace of normalisation in shipping through the Strait, as captured in the two scenarios we published in June.

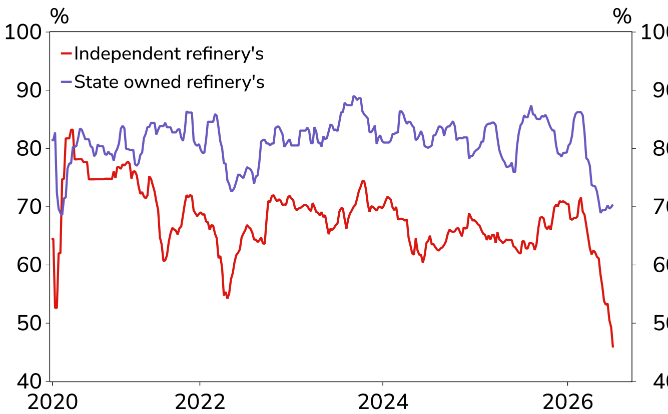
Strait of Hormuz, Inbound Vessels

7-Day Rolling Total, East to West



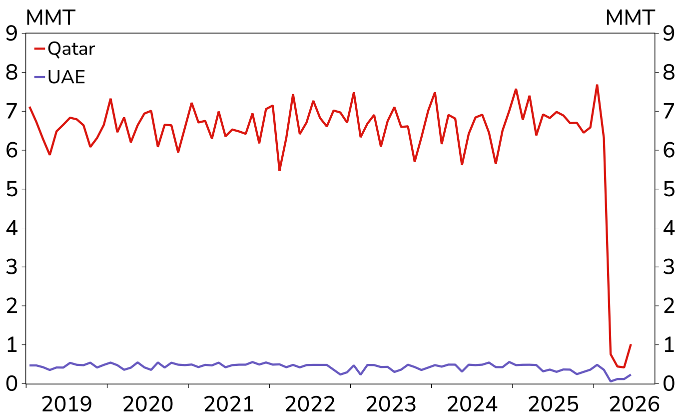
Source: Bloomberg, Macrobond, Westpac Economics

Chinese refinery weekly operating rates



Source: JLC International, Macrobond, Westpac Economics

Monthly LNG Exports



Source: Bloomberg, Macrobond, Westpac Economics

… but physical markets are yet to fully recover

LNG markets remain tight

LNG markets, unlike oil, remain relatively tight. Damage to the world's largest LNG export complex at Ras Laffan in Qatar, limited LNG vessel availability and constrained spare liquefaction capacity continues to weigh on supply. As a result, Japanese LNG prices have not fallen as much since the signing of the MOU. At around US$16-17/mmbtu in early July, prices remain at circa 50% above pre conflict levels.

While we have revised lower our expected peak in Japanese LNG prices to average US$18.6/mmbtu in the September quarter, we expect the recovery in supply to the region to remain constrained, with prices unlikely to return to pre conflict levels until 2028. Domestically, however, the Australian gas market remains relatively insulated, supported by the FY2027 Federal Budget's domestic gas reservation scheme, which requires exporters to supply the equivalent of 20% of gas exports to the Australian market.

Aluminium market tighter than prices imply

Aluminium prices have retraced sharply from their conflict highs, falling to below US$3,100/t by early July. Markets appear to have largely priced in a rapid return of Gulf supply with the region accounting for circa 9% of global smelting capacity, and a considerably larger share of global trade. The price decline has occurred despite the IAI reporting that GCC aluminium production remained 38% below pre conflict levels in April.

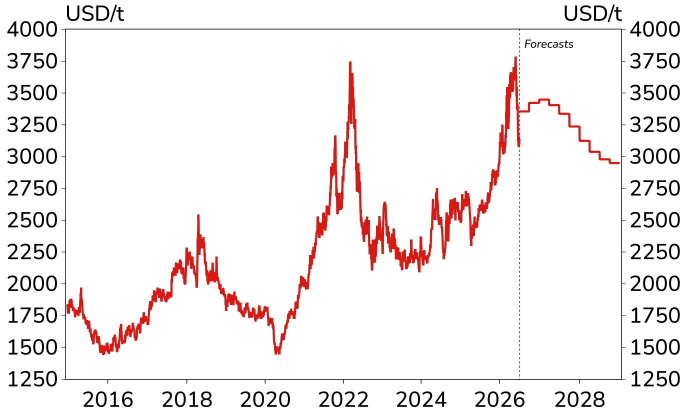
Given the time and capital intensive nature of restarting Gulf smelting capacity, combined with the ongoing loss of African supply from Mozal, current prices appear inconsistent with underlying market tightness. Further price support is likely to come from China which has only marginally increased output, while Guinean bauxite export controls present an additional source of risk. Although a full return of the conflict premium appears unlikely, we expect aluminium prices to strengthen through the remainder of the September quarter, averaging US$3,360/t, around 10% below our previous update. Tight market conditions are expected to persist into the March quarter of 2027 before easing as supply stabilises and new Indonesian capacity comes online. Longer term support is expected to come from EV, grid infrastructure and data centre investment, while growing competition with datacentres for power may constrain future smelting capacity expansion.

Iron ore breaks below US$100/t

Iron ore prices fell below US$100/t at end June amid the broader commodities sell off. While prices have since oscillated either side of the psychological threshold, downward pressure is building as several sources of temporary support begin to fade. Higher freight costs linked to the energy shock have started to unwind. Global ore supply is also ample, supported by improved weather conditions in Australia and Brazil that has lifted shipments, and The Shanxi mining disaster has driven coking coal prices higher, further compressing steelmaker margins. While recent CMRG restrictions on some Fortescue inventories may provide modest support, the impact is likely to be limited given abundant existing stockpiles. We continue to expect the 62% Fe index to average US$97/t in the December quarter.

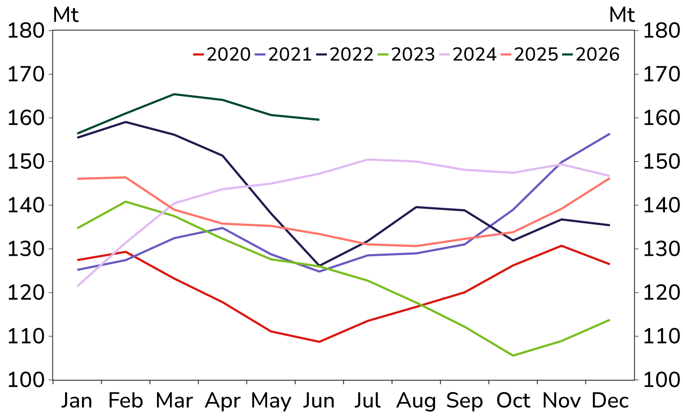
The medium term outlook is becoming increasingly challenging, with surplus conditions expected to emerge. Supply side pressures are building as new low cost output from Simandou enters the market. Persistently high inventories in China and softer global steel demand, as major economies contend with the effects of recently elevated energy costs, are expected to add further downside pressure. The ongoing structural decline in Chinese steel production is also eroding underlying demand, with growth in India and South East Asia providing only a partial offset. We therefore expect iron ore prices to soften further, averaging around US$83/t in the December quarter of 2027.

Aluminium set to see a partial recovery



Source: LME, Macrobond, Westpac Economics

China Iron Ore Total Ports Inventory



Source: Steelhome, Macrobond, Westpac Economics

Conviction is a challenge …

Elliot Clarke
Head of International Economics

The past month, participants have shown less concern over global oil supply while holding on to the belief that US economic risks are asymmetrically skewed towards inflation, warranting action from the FOMC. The consequence has been a tight 2pt range for the DXY index.

The trend decline in the price of Brent crude from USD87 to USD76 currently, via a low of USD70, despite several US/Iran confrontations in the Strait of Hormuz is providing greater confidence in the US and global growth outlook. Nonfarm payrolls growth in recent months consistent with excess demand has also been beneficial for the dollar, so too the promise of AI to US industry and wealth.

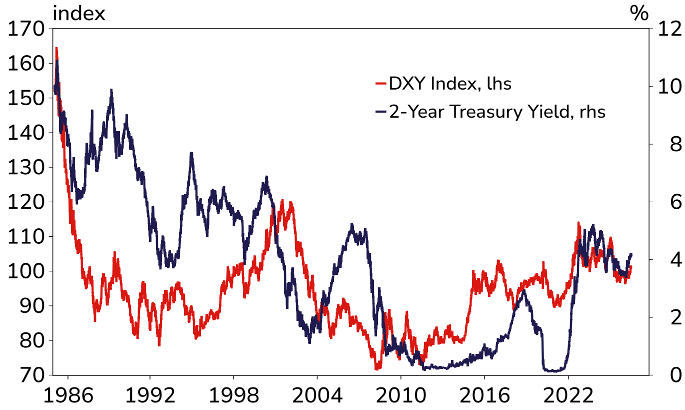
Market participants have therefore largely held to the view that the FOMC will need to tighten over the coming year, with two hikes by March 2027 currently regarded more than an 80% chance. This is despite expectations for higher rates in other developed economies having wavered.

As detailed on page 17, we believe the chances of a US hike(s) are exaggerated, a holistic view of the labour market and demand instead arguing for a steady hand from the FOMC. Still, participants are unlikely to give up entirely on their bias while annual core inflation remains above target. Yield differentials are also likely to remain in the US' favour.

As such, we continue to expect only a modest depreciation in the US dollar index over the forecast period, from 100.9 today to 98.9 at year end, then 95.5 and 94.7 in late-2027 and 2028. That end point for DXY is still above the index's 20-year average, highlighting that the forecast decline is a consequence of burgeoning growth opportunities outside the US slowly attracting capital away, not a marked deterioration in the US economy or financial markets. However, it is worth remaining aware of the potential downside risks evident in household survey employment, consumer sentiment at multi-decade lows and persistent weakness in business investment outside of tech – all risks that could jolt the currency lower.

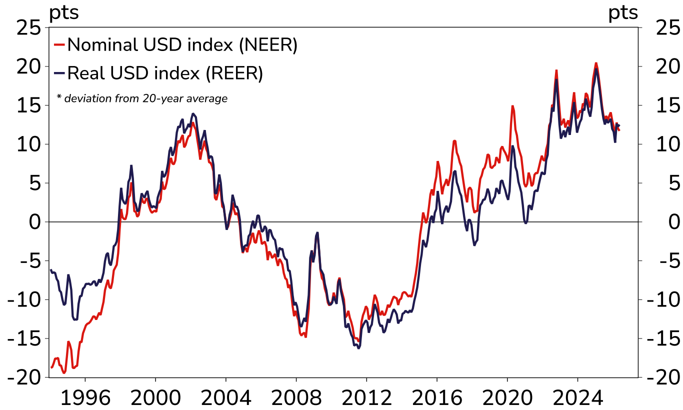
The high weight of the euro will see it contribute the most to this downtrend through end-2028. Over the period, euro is forecast to gain around 7%, EUR/USD rising from USD1.14 today to USD1.17 at end-2026, then USD1.22 by early-2028. The justification for euro appreciation from Europe's perspective rests on improving growth opportunities, not higher rates. Of the major developed economies, the euro area has arguably been most successful at containing inflation in the recent past, allowing policy to remain broadly neutral and the labour market strong.

USD demand is holding up …



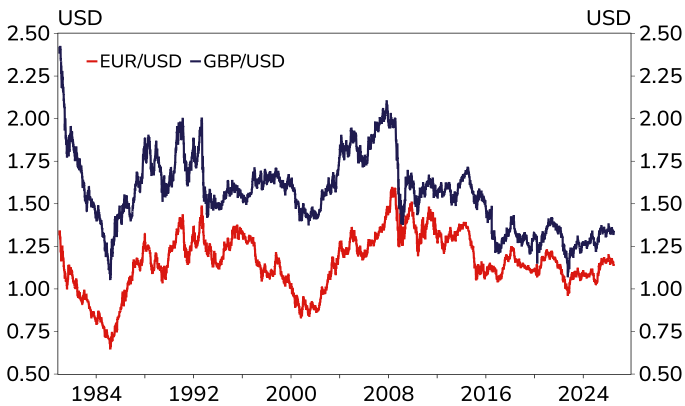
Source: Bloomberg, Macrobond, Westpac Economics

… at elevated levels



Source: BIS, Macrobond, Westpac Economics

Euro and UK risks to recede



Source: Bloomberg, Macrobond, Westpac Economics

... amid a myriad of risks

Sterling is also expected to appreciate sustainably, roughly in line with euro's trend, GBP/USD forecast to reach USD1.41 in mid-2028 from USD1.34 today. However, as discussed on page 21, this out-turn is arguably more susceptible to disappointment, with both political and economic risks against the UK economy, and highly likely to remain that way.

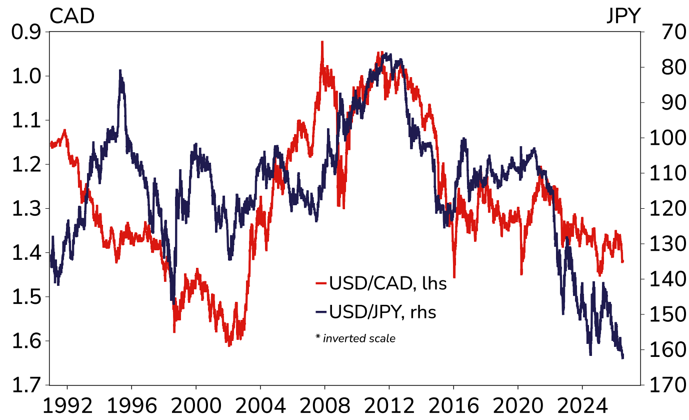
Over the past month, the Canadian dollar has been hit by the declining oil price and weakness in the domestic economy. But, if we are right in anticipating an improving global growth backdrop and the need to refill energy inventories, Canada's dollar should recover well, particularly if the domestic economy begins to benefit from a return to neutral policy. By the end of the forecast horizon, we forecast USD/CAD to fall to CAD1.32 from CAD1.42 today. Though, like the UK, we have less conviction in this call versus the euro given known risks, particularly over the coming year.

Turning to Asia, market participants are intent on continuing to test the Bank of Japan's resolve on defending JPY160 against the US dollar. Indeed, the past fortnight has seen USD/JPY hold above this mark and, at times, threaten JPY162.50–163.00. Being a significant importer of energy, the decline in the oil price should have been a favourable development. Instead, participants are basing their valuation judgements on yield differentials, including using the yen as a funding source, and the comparatively weak growth of Japan versus the US and other (similarly) developed economies in Asia.

A moderation in US policy expectations, paired with further gradual moves towards normalisation in Japan, is expected to bring USD/JPY back below JPY160 in early-2027. Thereafter, we look for improving growth and a historic differential to the long-run average to justify a slow, partial reversal of the historic weakness the yen has suffered since the start of the pandemic. Note though, circa JPY150 is our target for end-2028, a rate still 40% above the average of 2019. Capital and investment outflows also threaten to make this a stretch target.

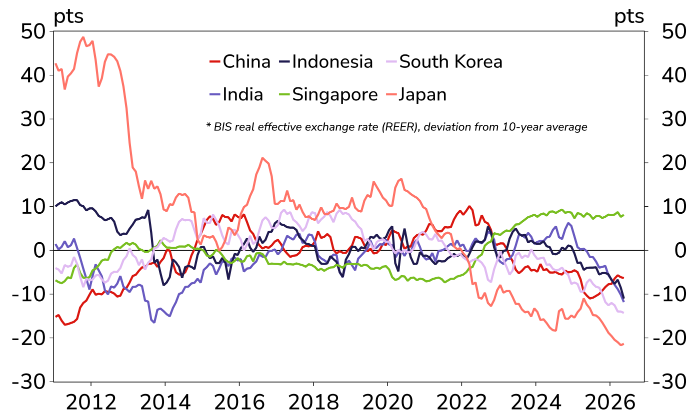
In stark contrast to the yen, China's Renminbi is forecast to sustainably appreciate back to 2022 and 2018's, then short-lived, highs against the US dollar, circa USD6.30. Indeed, a break of that level is entirely possible, albeit more likely outside our current forecast window once the Renminbi's growing share of global trade and financial flows are more widely accepted. For China's competitiveness and the long-term trajectory of the currency, it is important to emphasise that the nation's economic and financial development are not occurring in a vacuum but rather in concert with the rest of Asia. On a trade-weighted basis then, the anticipated currency gains will be limited, and likely offset by continued productivity wins, providing scope for an extended uptrend over many years.

JPY challenged short and long-term



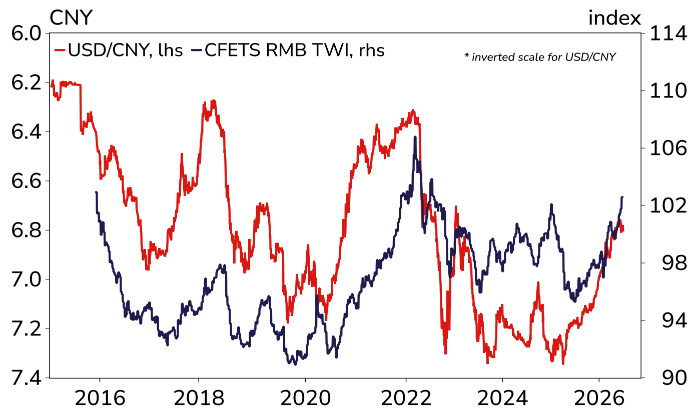
Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook still promising



Source: BIS, Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

The inflation outlook has improved ...

Darren Gibbs
Senior Economist

A great deal has changed since the last Market Outlook, leading to a significant revision to our forecasts for the New Zealand economy. The key driver has been the much faster-than-expected easing in Middle East tensions and the resulting sharp decline in prices for energy and related commodities. The implications for New Zealand are significant. Lower fuel and transport costs have reduced inflationary pressures directly while also easing cost pressures on businesses and households. The improved outlook has also lessened concerns about the impact of high energy costs on global growth and domestic activity. While it remains too early to conclude that geopolitical risks have disappeared entirely, recognising these developments, we have recently incorporated a less severe energy shock into our economic forecasts.

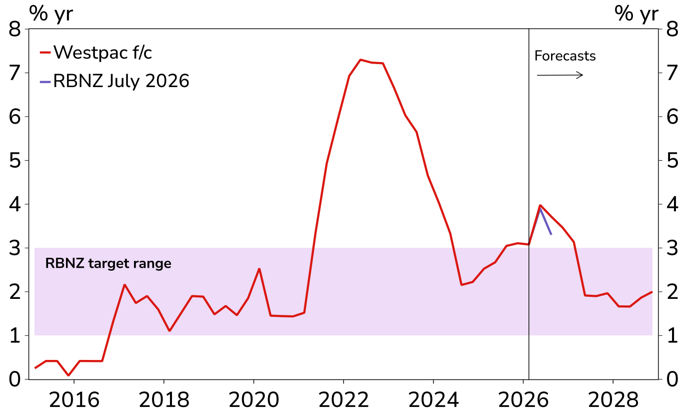
We now forecast GDP to have declined by just 0.1% in the June quarter, compared with our earlier expectation of a 0.3% contraction. Growth is forecast to resume at around a 0.6% pace in the current quarter and strengthen to 0.7% in the December quarter. As a result, we now expect economic growth of 2.0% in 2026, up from our previous forecast of around 1.5%. The economy is forecast to grow 2.9% in 2027. In essence, we now expect that it will regain its pre-conflict momentum sooner than seemed likely a month ago – henceforth following a path closer to that expected at the beginning of the year – as lower fuel prices contribute to a rebound in household spending, business confidence and economic activity.

The labour market outlook has also improved modestly. Employment growth is likely to remain subdued in the near-term as ongoing uncertainty continues to weigh on hiring for a period, but the stronger activity outlook has reduced the risk of a significant deterioration in labour market conditions. We now expect the unemployment rate to rise only slightly from its current 5.3% to peak at 5.4% in the June quarter. This compares with our previous expectation that a more prolonged period of sluggish employment growth would see it peak at 5.6% during the second half of the year. Thereafter, unemployment is expected to trend gradually lower, falling below 5% by late 2027.

While housing market conditions remain relatively soft, they have been more resilient than expected. We now expect house prices to rise modestly by around 0.3% in 2026, rather than falling slightly as previously forecast, with an annual gain of around 2% expected in 2027.

The largest revisions have been to the outlook for inflation. Reflecting the unexpectedly rapid decline in fuel prices, annual CPI inflation is now expected to peak at around 4.0% in the June quarter, down from our previous forecast of 4.5%. Thereafter, inflation is expected to ease further to around 3.5% by the end of the year. Lower petrol and diesel prices are directly reducing inflation and are also limiting the broader pass-through of transport and energy costs into other goods and services. The shortened duration of the energy price shock also makes it less likely that it will generate second-round inflation pressures across a broader range of goods and services.

CPI inflation forecasts



Source: Stats NZ, Macrobond, RBNZ, Westpac Economics

Turning to the outlook for monetary policy, the RBNZ lifted the Official Cash Rate (OCR) by 25bps at its July meeting to 2.50% (in contrast to our expectations for a hold). The decision was reached by consensus, meaning a formal vote was not required. While the RBNZ acknowledged that inflation and global risks have eased since its May Monetary Policy Statement, it nevertheless concluded that policy tightening was warranted.

A key feature of the decision was the RBNZ's updated assessment of inflation. Falling oil prices and a reduction in some inflation risks have led the Bank to revise down its near-term inflation forecasts. Annual inflation is now projected to reach 3.9% in the June quarter and 3.3% in the September quarter. Although lower than the forecasts published in May – and lower than our own forecasts – these inflation outcomes are still considered sufficiently elevated to justify additional OCR increases.

The RBNZ also sees a more balanced global outlook than it did in May. At that time, elevated energy prices and geopolitical concerns posed material upside risks to inflation. Since then, lower oil prices and improving global conditions have reduced those risks, although uncertainty remains substantial. The RBNZ's policy rhetoric has also evolved slightly. In May, policymakers emphasised second-round inflation

...but not enough for the RBNZ's taste

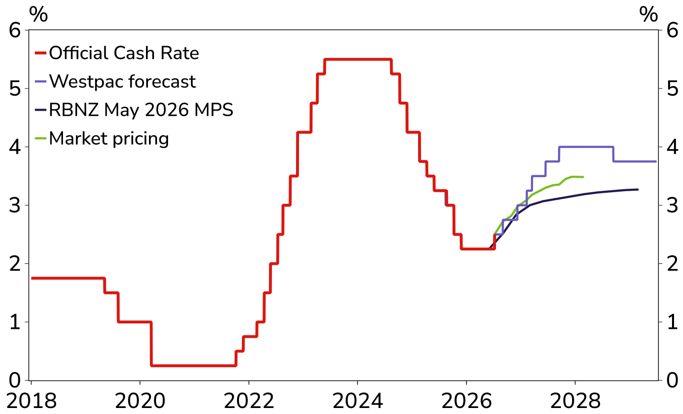
pressures, inflation expectations and wage growth as key indicators for future OCR decisions. These remain important, but the Bank is now placing greater emphasis on signs of strengthening domestic and global economic growth, as well as developments in financial conditions and the exchange rate.

Despite the improved inflation outlook, which has contributed to an easing of financial conditions, the RBNZ was concerned that leaving the OCR unchanged could have resulted in a further unintended easing of financial conditions. Policymakers noted that a hold decision may have encouraged expectations of a lower OCR path and contributed to a weaker New Zealand dollar. Such developments could have stimulated demand and added to inflationary pressures. The Bank therefore appears comfortable with market expectations for an OCR peak in the vicinity of 2.75-3.00% by the end of 2026.

Looking ahead, we continue to expect 25bp increases in the OCR at the September and December meetings, although these will now leave the OCR 25bps higher at year end (at 3.0%) than we had previously forecast. Thereafter, we continue to forecast a peak OCR of 4.0% next year, although our central expectation is that this will now be reached three months earlier at the September 2027 MPS meeting.

In the current uncertain environment, it goes without saying that the evolution of monetary policy will depend on how both global events and key data, including the upcoming June quarter inflation report (out on 21 July). Therefore, as the RBNZ noted, the exact timing of the tightening profile is highly uncertain and even the tightening we forecast at the September 2026 meeting should not be regarded as a "done deal".

RBNZ Official Cash Rate



Source: RBNZ, Macrobond, Westpac Economics

	2025							2026				
Monthly data	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
REINZ house sales %mth	–2.7	1.0	–2.8	–1.9	6.3	0.3	0.7	–5.3	4.2	–2.4	–1.7	–5.8
Residential building consents %mth	–5.3	5.4	6.4	7.6	–0.7	3.1	–4.2	2.5	2.8	–0.8	11.1	–4.0
Electronic card transactions %mth	0.6	0.2	0.6	–0.4	0.3	1.2	–0.1	–1.1	1.4	0.7	–1.2	1.7
Private sector credit %yr	3.2	3.5	3.8	4.2	4.6	4.4	4.6	4.6	4.7	4.9	4.7	4.8
Commodity prices %mth	–2.4	–1.8	0.7	–1.1	–0.3	–1.6	–2.1	2.0	4.2	4.2	–0.8	0.7
Trade balance $mn	–535	–376	–105	266	–245	–332	–159	–296	–828	–328	158	–1111

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	94.7
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	0.3	0.8
Current account balance % of GDP	–6.3	–5.7	–5.5	–5.2	–4.7	–4.2	–3.7	–3.5	–3.6	–3.6

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

China's greatest opportunity …

Elliot Clarke
Head of International Economics

The first half of 2026 has highlighted China's industrial strength, the trade surplus widening back to near record highs and investment in high-tech manufacturing and services continuing at pace while authorities' strategic reserves and pro-active decision making offered robust protection against an extended loss of oil supply. Ahead, China's greatest opportunity is also its biggest threat – a recovery in the Chinese consumer.

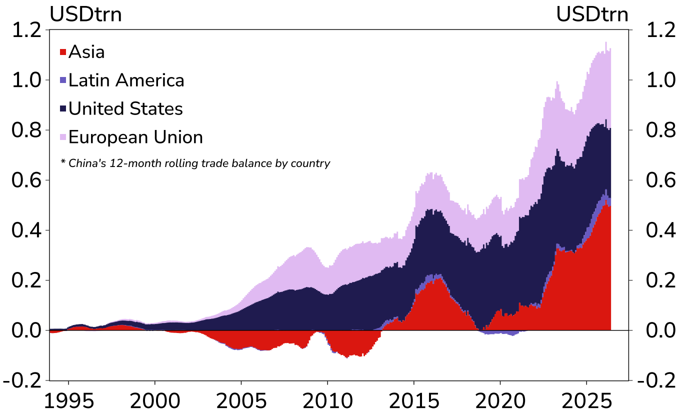
Before we delve into the detail of the consumer outlook, it is important to dig deeper into recent industrial developments. Having narrowed sharply in March to USD51bn, China's monthly trade surplus snapped back to USD85bn in April and US105bn in May. The average for the year-to-date is now USD91bn, just inside 2025's USD99bn and roughly triple 2019's USD35bn. May's 19% annual export growth is arguably outsized, but high single-digit gains are probable on a recurring basis. It isn't just export demand that is buoying the surplus. Chinese production is also increasingly outcompeting imports when it comes to domestic demand.

Total fixed asset investment has disappointed of late, year-to-date growth contracting 4.1% in May. While a loss of momentum in utilities and transport and mixed results within manufacturing allowed the headline contraction to occur, it was education, health and property that drove the decline. With respect to trade income generation, it is important to recognise that investment has only plateaued after years of rapid growth. Each year that new investment holds at this level, a wave of additional capacity and efficiency is unleashed. Strengthening relationships with neighbouring nations also hold considerable promise. Indonesia and Vietnam are prime examples, having large youthful and driven populations and Governments open to large-scale foreign investment.

The compounding income returns China has received through trade post pandemic should have resulted in a strong and confident household sector with burgeoning wealth. Yet, highlighted by annual nominal retail sales growth of –0.6%yr and entrenched weakness in property, this is not the case. In part this is due to the hyper-competitive behaviour of Chinese firms which has suppressed profitability – an issue authorities are now seeking to redress. But the primary cause of consumer hardship is instead the disconnect that has emerged between aggregate household income and industry's growth.

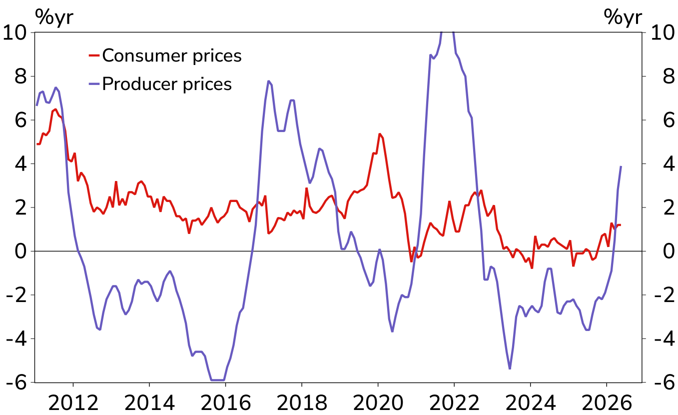
We expect this to occur but as a multi-stage, likely multi-year, structural process beginning with pro-active stimulus later this year. Initial steps are likely to focus on additional support for the housing sector and renewed subsidies for discretionary

Trade surplus riding high



Source: GAC, Macrobond, Westpac Economics

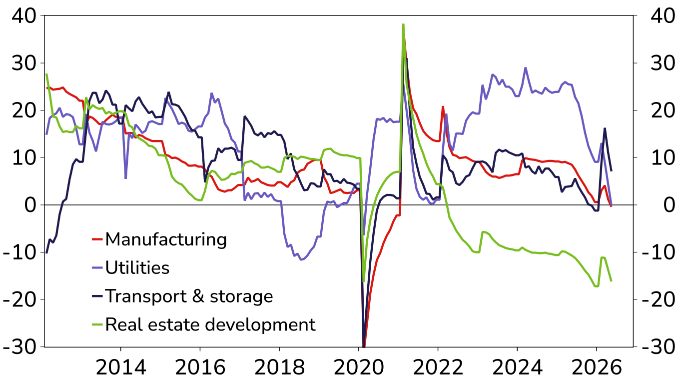
Energy price shock limited for consumers



Source: NBS, Macrobond, Westpac Economics

Property remains in a terrible state

Fixed Asset Investment by Industry (%ytd)



Source: NBS, Macrobond, Westpac Economics

... and biggest threat

consumption. These steps are critical not only to incentivise current demand but also to promote employment in related sectors. Hiring by high-tech manufacturing and service firms is, in contrast, unlikely to accelerate given these sectors' long-standing preferences for capital over labour as well as the efficiency benefits of automation and AI.

To receive direct benefits from China's industrial development, the average household will arguably need to wait until the equity valuations of these titans of industry reflect their future promise. Households will also need to have the confidence to put their wealth 'at risk'. Authorities could accelerate the development, but we suspect this is unlikely near term.

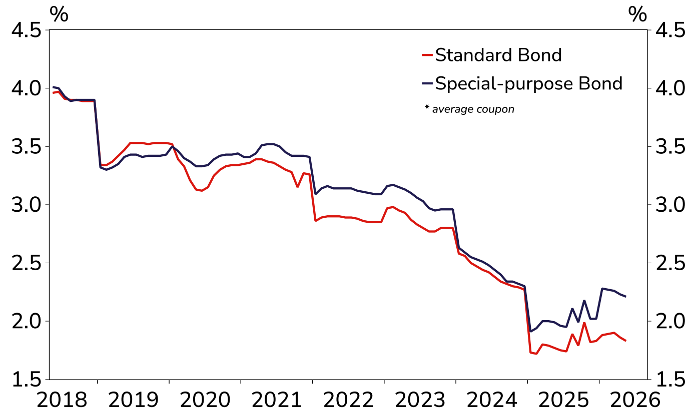
If authorities take the initiative in coming months and reset the consumer story, GDP growth can be sustained at or above 4.5%, even as the impetus from trade fades. But, if the Government only guards against the downside, growth is likely to slow to 4.0% and become increasingly fragile.

With respect to currency markets, success with the consumer through 2028 should be enough for the Renminbi to sustainably appreciate back to 2022 and 2018's, then short-lived, highs against the US dollar around CNY6.30.

Breaking through that level is entirely possible, albeit more likely outside our current forecast window once the Renminbi's growing share of global trade and financial flows are more widely accepted.

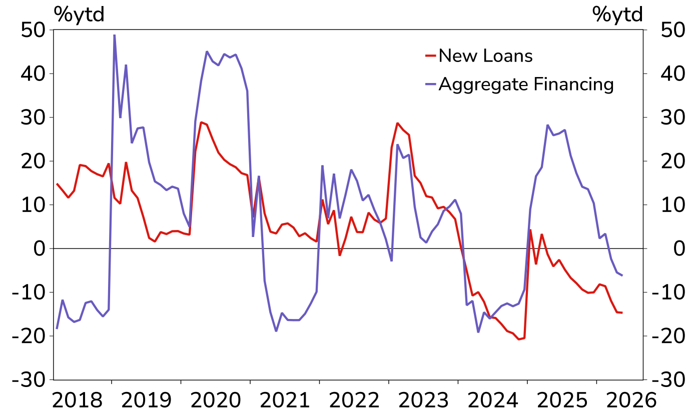
For China's competitiveness and the long-term trajectory of the currency, it is important to emphasise that the nation's economic and financial development are not occurring in a vacuum but rather in concert with the rest of Asia. On a trade-weighted basis, the anticipated currency gains will be limited and most likely offset by continued productivity wins.

Cost of funds attractive



Source: MOF, Macrobond, Westpac Economics

Credit impulse negative



Source: Bloomberg, Macrobond, Westpac Economics

	2025						2026					
Monthly data %yr	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Headline CPI %yr	0.0	–0.4	–0.3	0.2	0.7	0.8	0.2	1.3	1.0	1.2	1.2	1.0
M2 money supply %yr	8.8	8.8	8.4	8.2	8.0	8.5	9.0	9.0	8.5	8.6	8.6	–
Manufacturing PMI (official)	49.3	49.4	49.8	49.0	49.2	50.1	49.3	49.0	50.4	50.3	50.0	50.3
Fixed asset investment ytd %yr	1.6	0.5	–0.5	–1.7	–2.6	–3.8	–3.8	1.8	1.7	–1.6	–4.1	–
Industrial production %yr	5.7	5.2	6.5	4.9	4.8	5.2	5.2	6.3	5.7	4.1	4.5	–
Exports %yr	7.0	4.2	8.2	–1.3	5.8	6.5	10.0	39.6	2.5	14.0	19.4	–
Imports %yr	4.2	1.6	8.0	1.7	2.5	6.3	26.3	14.1	28.3	25.2	27.4	–
Trade balance USDbn	97.4	101.1	88.8	88.1	110.0	112.4	121.2	90.2	50.2	84.7	105.4	–

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

US payrolls offers ...

Elliot Clarke
Head of International Economics

May's employment report jolted markets in early June, the monthly gain of 172k twice the consensus estimate and the prior two months revised up 93k. A month on, the situation reversed, with June's 57k gain half the market's estimate and the prior two months revised down by –74k. With the three-month average still above estimates of current supply, participants remain wary of further policy tightening. But a holistic take of the labour market suggests this is unlikely.

While largely ignored by the market month-to-month, the household survey paints a very different picture of current momentum and labour market slack. Whereas nonfarm payrolls have averaged 111k over the three months to June, the household survey reports an average loss of 195k jobs per month. Annual revisions and population adjustments included each January make it difficult to look further back and compare conditions over the turn of the year. But, if we assess the year to January 2026 to compensate, the household survey implies the labour market has been outright weak for an extended period, the month-average for the year to January coming in at –61k against nonfarm payrolls' +27k.

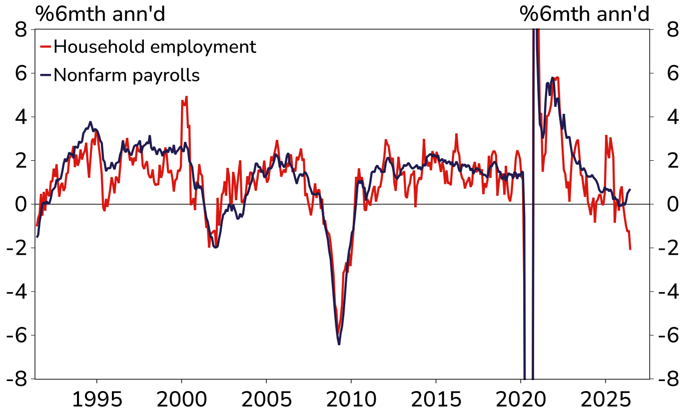
The retort to this analysis is the observation that, compared to January 2025, the unemployment rate is unchanged at 4.2%. However, the participation rate has declined 1ppt over the period. On a constant participation basis then, today the unemployment rate would be in excess of 5.0%, having mirrored the 0.9ppt decline in the employment-to-population ratio. While the trend is slow moving and skills mismatches are still present, the moderation in wage and total compensation growth which began in early-2022 is continuing, consistent with burgeoning spare capacity.

This broad view of the labour market and recognition of the cumulative effect of years of above-target inflation on discretionary incomes, points to an extended period of sub-par US household consumption growth, which the BEA and Atlanta Fed Nowcast data corroborate.

Since Q1 2025, annual growth in household consumption has slowed from an above-trend 3.4%yr to 2.3%yr. And in Q1 2026, the annualised pace was less than half the decade average at 1.4%. With data available to May, the Atlanta Fed GDPNow nowcast is pointing to a similar result in Q2. The risks skew to the downside too given University of Michigan consumer sentiment is at record lows, and with house prices flat to down across the nation.

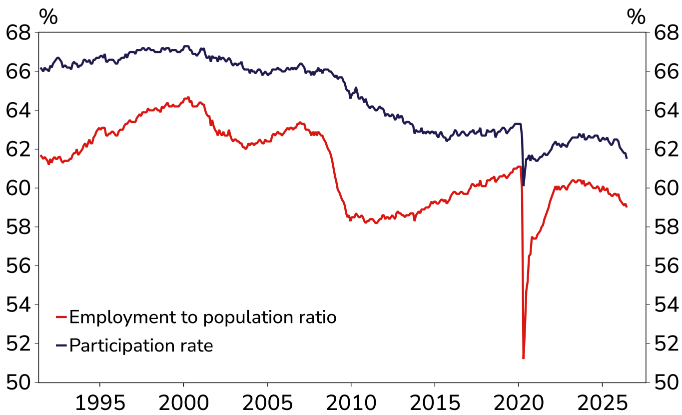
We regard these trends as significant not because we fear an abrupt deterioration in current momentum, but because they are consistent with consumer inflation trending towards the FOMC's 2.0%yr target, removing the need to tighten further. ▸

Jobs measures differ markedly



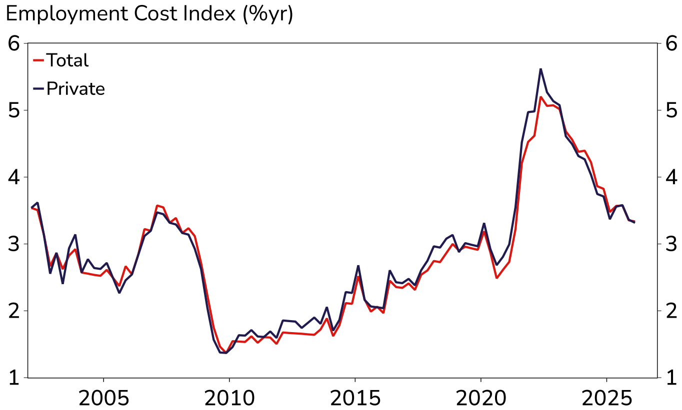
Source: BLS, Macrobond, Westpac Economics

Participation masking emerging slack



Source: BLS, Macrobond, Westpac Economics

Wages disinflation broadbased



Source: BLS, Macrobond, Westpac Economics

... more noise than signal

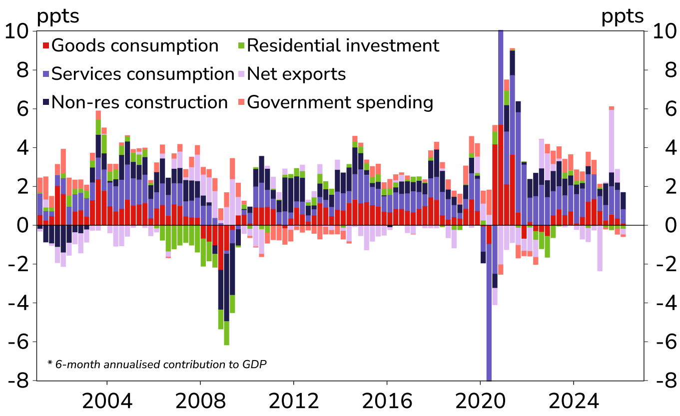
Available consumer and producer price detail is also constructive, with little-to-no evidence of secondary effects of 2026's oil price spike. Indeed, core consumer goods prices were flat March through May, as were transportation services. The impetus for core inflation over the period instead came from shelter (i.e. rents) and medical care services, both largely unrelated to contemporaneous energy price dynamics.

It is not surprising then that, at the ECB's Sintra Forum on Central Banking, FOMC Chair Warsh stated that inflation expectations and risks "have come down" in the weeks since June's FOMC meeting. At that time, by a one-vote margin, the median fed funds rate expectation of the Committee for end-2026 was a single hike. Current circumstances arguably now point to the FOMC remaining on hold through year-end and thereafter. This is a stark contrast to current market pricing, however, which points to a near 80% chance of two hikes over the coming year.

As energy pass-through remains limited and business pricing power constrained more broadly, market participants hawkish take is likely to wane. Still, participants are unlikely to fully give up on price risks being dominant, particularly if GDP growth holds around trend as we expect.

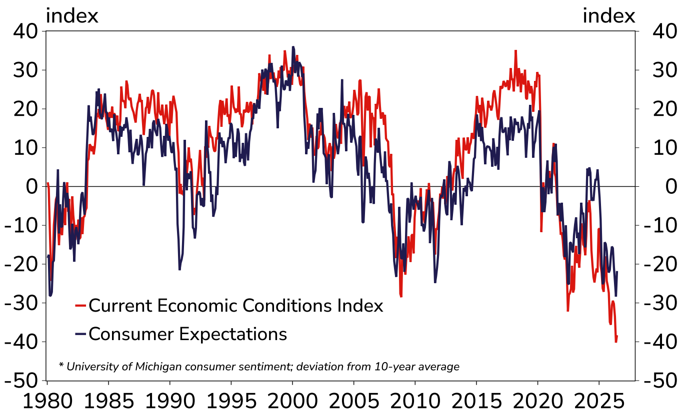
This is likely to manifest in only a slow descent for the US dollar, as discussed on page 11, and an elevated level of term interest rates. On yields, we continue to see risks to the upside given the uncertainty over US fiscal and trade policy, and with clear evidence of global investors diversifying out of US debt while the US dollar remains above average. This dynamic creates two additional economic risks that are worthy of close monitoring hence: the dwindling capacity of the US Government to stabilise the economy if it is hit by a negative shock; and the long-term capacity of the US housing market, which has implications for both activity growth and long-term inflation.

Consumer demand brittle



Source: BEA, Macrobond, Westpac Economics

Households are deeply concerned



Source: University of Michigan, Macrobond, Westpac Economics

	2025						2026					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
PCE deflator %yr	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	4.1	–
Unemployment rate %	4.3	4.3	4.4	4.4	4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2
Nonfarm payrolls chg '000	64	–70	76	–140	41	–17	160	–156	214	148	129	57
House prices* %yr	1.8	1.6	1.4	1.4	1.5	1.5	1.3	0.9	0.9	1.1	–	–
Durables orders core 3mth %saar	8.4	4.0	10.9	9.8	9.8	8.9	5.5	8.5	22.0	20.6	19.9	–
ISM manufacturing composite	48.4	48.9	48.9	48.8	48.0	47.9	52.6	52.4	52.7	52.7	54.0	53.3
ISM non–manufacturing composite	50.5	51.9	50.4	52.0	52.4	53.8	53.8	56.1	54.0	53.6	54.5	54.0
Personal spending 3mth %saar	5.1	7.3	6.6	5.5	4.5	4.7	3.6	4.9	7.1	8.2	8.6	–
UoM Consumer Sentiment	61.7	58.2	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8	44.8	49.5
Trade balance USDbn	–75.1	–59.6	–59.4	–37.4	–63.9	–76.1	–54.2	–55.0	–56.6	–54.6	–77.6	–

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	2.1	1.7
Current account USDbn	–438.2	–254.9	–262.9	–221.1	–226.8	–

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

Slow and steady wins ...

Illiana Jain
Economist

The debate around Japanese monetary policy has increasingly shifted from how far the Bank of Japan can raise rates to whether it can raise them at all. Weak domestic demand, softer business sentiment and a slowing global backdrop have all reinforced market expectations that the hiking cycle is nearly complete. We disagree. While growth is likely to remain subdued, persistence in inflation and signs of a gradual improvement in the economy's productive capacity should allow the BoJ to continue normalising policy. We expect the policy rate to reach 1.50% by mid-2027.

On the surface, the case for further tightening appears limited. The Q2 Tankan survey showed that the outlook for profitability, which ties into wage outcomes, has deteriorated materially and that investment expectations have followed suit.

Real household consumption also remains weak, held back by declining real wages. Export growth has meanwhile been held up by tariff front-running and surging tech demand; however, these are likely temporary, or at least diminishing, contributors to aggregate growth.

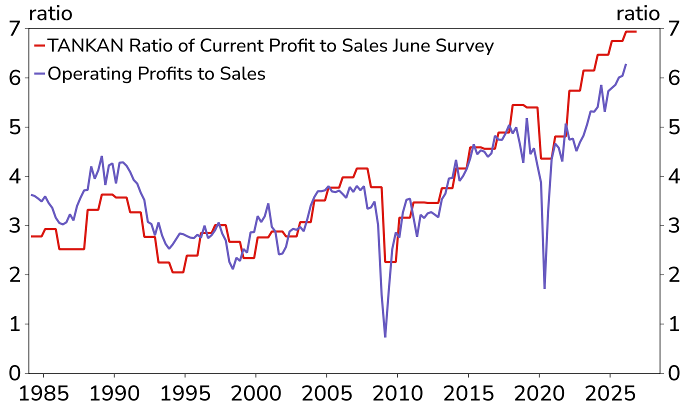
Taken together, these results suggest risks for Japanese activity growth and domestically-driven inflationary pressures are to the downside. Though, this state of affairs does not mean the Bank of Japan cannot progress normalisation further, only that they should do so at a measured pace with caution.

In our view, the Japanese economy remains much more capable of sustaining higher interest rates than prior to the pandemic. Rising participation, a higher level of business investment and improvements in capital allocation are all helping to lift the economy's productive capacity.

Digging deeper, while Japan cannot rely on consistent positive population growth to drive aggregate activity, the participation rate has recently lifted to 64.3%, a high back to 1992. Structural demand for work from seniors and women have been behind this uplift, and the Bank of Japan believe the gains will prove lasting.

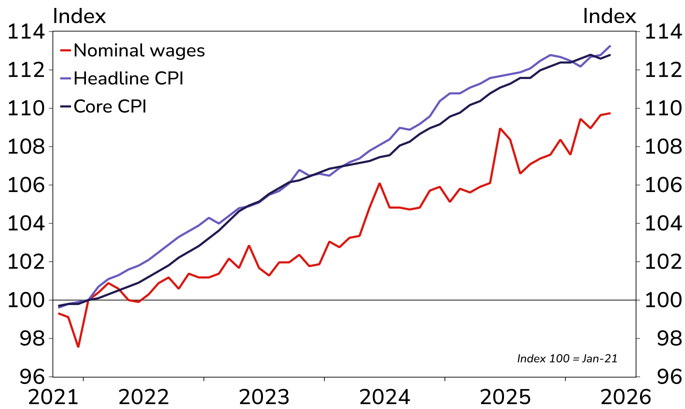
Ahead, continued investment by corporates should also aid productivity. Japan's firms are investing for two reasons: large companies are recognising the global opportunities before them; and smaller companies increasingly have little choice than to invest in new capital, with rising participation unable to fully satiate labour demand. Investment in capacity by the business community also has flow-on benefits for R&D, which is clearly in an uptrend.

Stronger profit to support wage growth



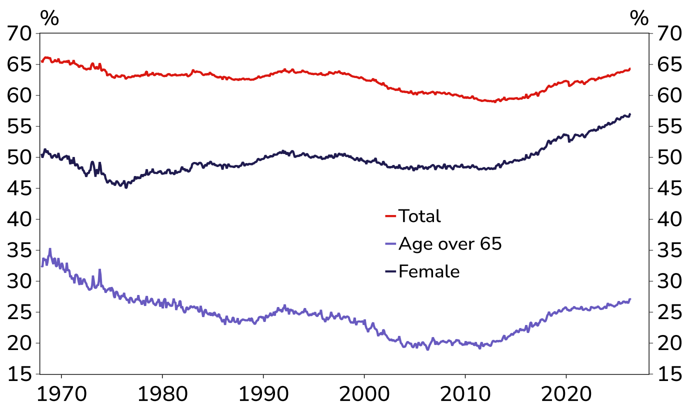
Source: BOJ, MOF, Macrobond, Westpac Economics

Wages still have some way to go to catch up



Source: MHLW, SBJ, Macrobond, Westpac Economics

Lift in participation rate to sustain



Source: SBJ, Macrobond, Westpac Economics

... the Japanese rate race

If investment is well timed and achieves productivity and capacity, it need not be inflationary. But it should lift nominal revenue and, in time, employee compensation, allowing the economy to withstand a higher level of interest rates, all else equal. With tight capacity, there is also a need to manage inflation risks and expectations pre-emptively as price growth is likely to respond more quickly to an economy's strengthening.

Inflation momentum currently appears considerably more entrenched than before the pandemic. The Q2 Tankan shows inflation expectations are holding above 2%. 2026 is also the fourth consecutive year in which firms expect prices to grow near the inflation target after three decades of an entrenched disinflationary/deflationary mindset. Arguably, firms will increasingly become comfortable regularly increasing prices, and consumers accustomed to the process.

The persistence of inflation is clearly evident in underlying inflation. Services inflation, arguably the clearest measure of domestically-generated inflation, has remained above 1.0% for almost four years, a marked departure from the 0.3% average recorded between 2011 and 2021.

Nominal wage growth also remains strong by Japanese standards. Combined with a structurally tight labour market, if repeated, this sequence should recursively entrench wage growth and support for near-target consumer inflation.

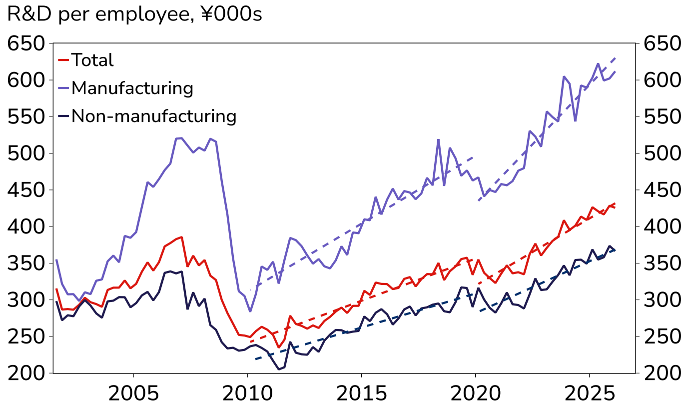
Even at 1.50%, our forecast peak for the benchmark rate, policy would sit near the lower end of the BoJ's estimated neutral range which stretches from 1.00% to 2.50%. This modelling should give the BoJ comfort in taking the next few steps, particularly while the global policy discourse speaks primarily to inflation risks amid robust growth outcomes.

Time between each policy adjustment will allow scope to re-assess the robustness of growth and the labour market as well as inflation's persistence, limiting the chances of an adverse response to policy's recalibration.

In our view, the key question for the BoJ is no longer whether inflation can reach 2.0%yr, but how much accommodation is still required in an economy that continues to steadily move away from the conditions that characterised the lost decades.

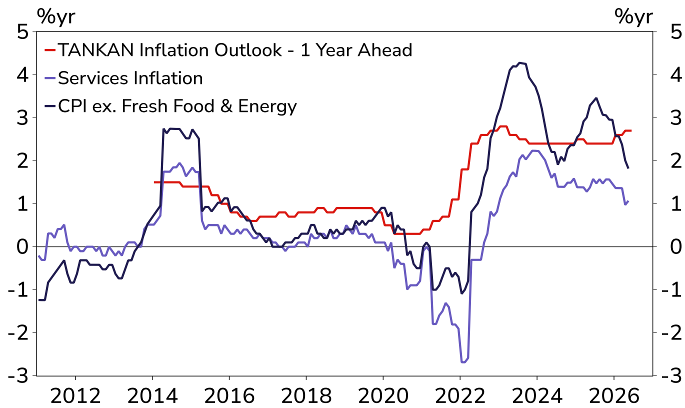
While policymakers will remain cautious, near-target inflation expectations, sustained wage growth and improving productive capacity imply rates can move higher without becoming restrictive. Taking those steps now will also offer greater protection should conditions sour in coming years and monetary policy support become warranted.

Labour saving investment is accelerating



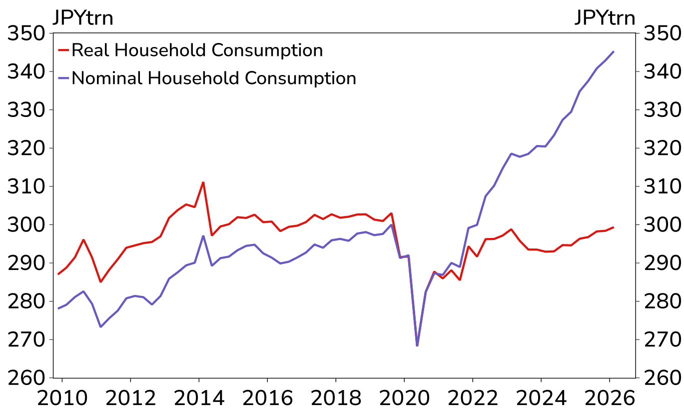
Source: MOF, Macrobond, Westpac Economics

Japan's inflation expectations anchored



Source: SBJ, BOJ, Macrobond, Westpac Economics

Real consumption lags behind nominal



Source: CAO, Macrobond, Westpac Economics

UK's economic stagnation …

Mantas Vanagas
Senior Economist

Two years after leading the Labour Party to a landslide victory in the general election, UK Prime Minister Keir Starmer resigned. The UK have now had six governments in the past ten years, the high turnover raising questions if its political institutions are still fit for purpose in addressing the country's challenges and providing effective leadership.

The Brexit referendum ten years ago exposed sharp political divisions and added a new dimension to the UK's two-party political system. Legally, Brexit was done and dusted some time ago; politically, however, the question is far from closed. Recent polls suggest that well over half of the electorate, including almost a quarter of those who voted to leave, now think the UK was wrong to leave the EU. While estimates of Brexit's economic impact vary, all reliable studies confirm that the economic costs far outweigh its benefits. Nevertheless, the country remains deeply divided, with little common ground between leavers and remainers on what is best for the country.

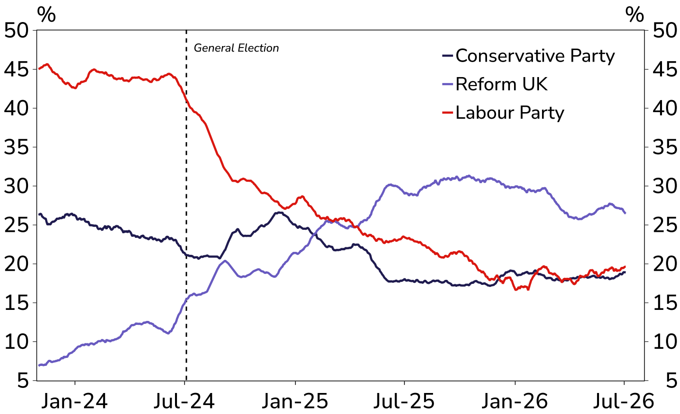
Against that backdrop, Reform UK, the right-wing populist party, has been flourishing, moving sharply into the lead in opinion polls. May's local elections were also disastrous for both Labour and the Conservatives, with Reform UK winning by a comfortable margin.

The central issue pushed by Reform UK is immigration, which is now competing with the economy as one of the electorate's major concerns. Interestingly, public perceptions on this issue do not fully align with what the immigration statistics are telling us. After the Brexit referendum, net immigration from the EU fell significantly, turning negative. Non-EU immigration surged after the pandemic, but has since plummeted as the government sharply reduced the number of work visas issued and also significantly tightened rules around immigrants bringing family members with them.

Starmer has struggled to find answers to rising political pressure and, in turn, growing disagreement within his own ranks. While political analysts point to his own missteps, the sense that the UK continues to struggle economically, with little progress in alleviating the key pressure points, was also arguably an important reason for his loss of support. The economy continues to rank among the top concerns for the British public.

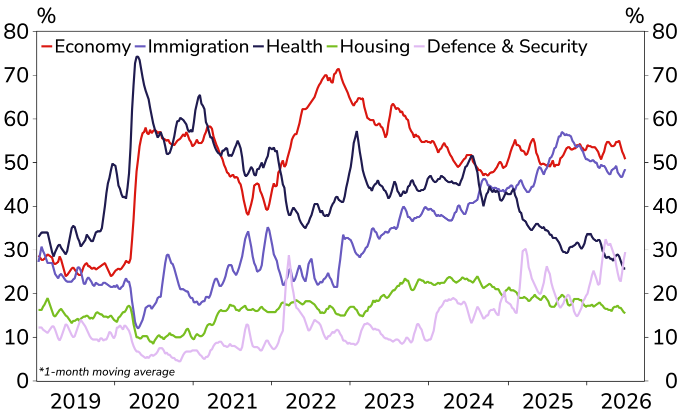
This view finds support in the economic data. Real UK disposable income per capita – a measure of how much purchasing power an average person has – is no higher than it was before the pandemic and has increased by only 3% over the past ten years. Productivity growth – the major force that makes economies richer over time – has been abysmal,

Political support of major UK parties



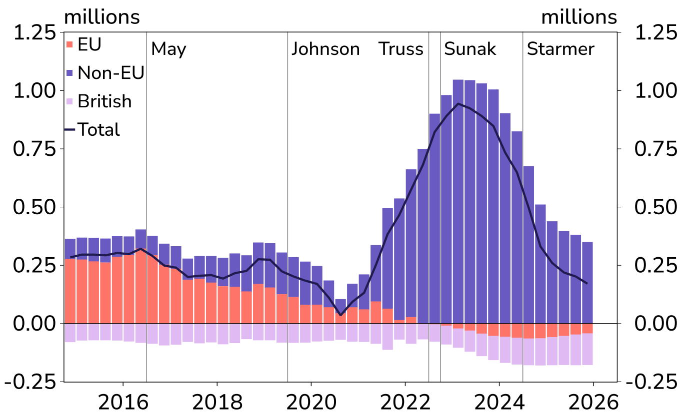
Source: Europe Elects, Macrobond, Westpac Economics

Most important issue facing the UK*



Source: YouGov, Macrobond, Westpac Economics

Net immigration



Source: ONS, Macrobond, Westpac Economics

... is feeding its political divisions

explaining why the UK has failed to raise living standards. Indeed, the UK's productivity growth shifted significantly lower after the GFC in 2007, and the trend has weakened further since the start of the pandemic.

Long-term economic stagnation has also stretched the UK's public finances. When the economic pie is not growing, it becomes harder to direct resources to one area without taking them from somewhere else. While this appears to be feeding political divisions, the alternatives look even worse.

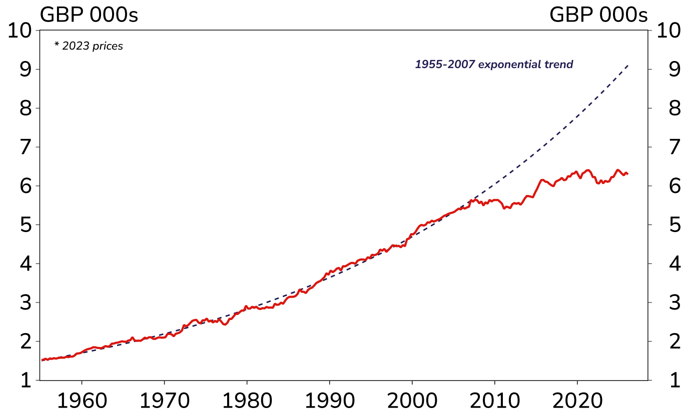
The tax burden is already on track to be the highest on record. Relying on higher borrowing to finance an increase in spending is also no longer a viable policy option for any UK government, especially since disastrous tenure of Liz Truss. Long-term gilt yields continue to underperform peers, suggesting that markets stand ready to punish any policy missteps.

With nobody from the Labour Party ranks willing to go head-to-head against Andy Burnham, currently the most popular politician in the country, he appears to be the Prime Minister in waiting. His political plans so far rely heavily on his experience as Mayor of Manchester. Full details of his economic vision for the country will probably be confirmed once he become the Prime Minister. From what he has announced so far, greater devolution of powers and the establishment of "Number 10 North" appear to be flagship policies, alongside more social housing, new priorities to rebalance the education system towards technical courses, and greater public control of essential services. Although important politically, they hardly suggest that a Burnham government will pursue as a priority the robust and broad-based economic growth the country so desperately needs.

Making poorer regions in the north richer would be a sensible strategy for lifting average living standards, and, politically, it is likely to be the main focus of Burnham's left-wing government. But it will need to be weighed against the economic reality that the UK's economic power lies in financial and professional services, high-end manufacturing, creative industries, life sciences and pharmaceuticals – all of which are located in, or at least closely linked to, London and the South East of England. The UK economy is unlikely to find its fortunes without a thriving capital and surrounding regions.

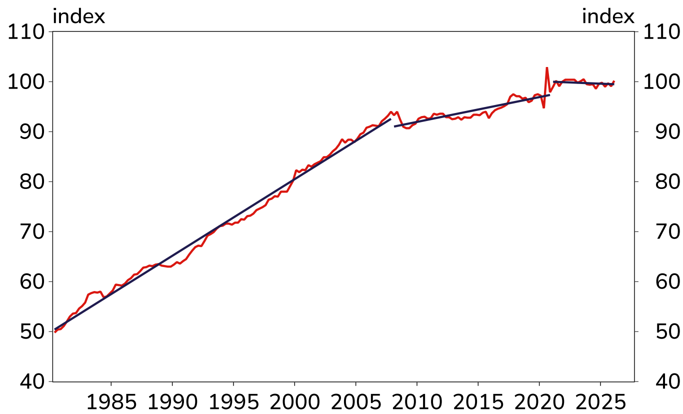
Ultimately, economic growth cannot guarantee the UK's political stability, but its likely required if the next government is to have durability. A convincing lift in productivity, real incomes and fiscal capacity is desperately needed to help to heal political divisions, but this is only possible in time with political and financial stability. Without it, the next prime minister is likely to experience a similar fate as his recent predecessors.

UK real household disposable income per head



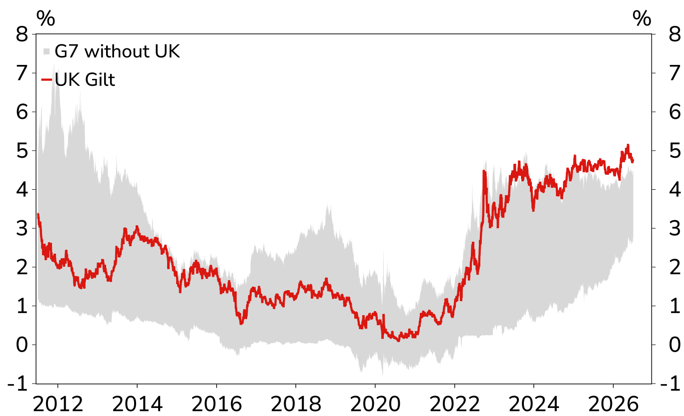
Source: ONS, Macrobond, Westpac Economics

UK output per hour



Source: ONS, Macrobond, Westpac Economics

10-Year government bond yields



Source: , Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec-28
Cash	4.35	4.85	4.85	4.85	4.85	4.60	4.35	4.10	3.85	3.85	3.85
90 Day BBSW	4.47	4.90	4.90	4.95	4.80	4.55	4.30	4.05	3.95	3.95	3.95
3 Year Swap	4.43	4.60	4.60	4.50	4.40	4.30	4.20	4.10	4.00	3.95	3.90
3 Year Bond	4.47	4.60	4.60	4.50	4.40	4.30	4.20	4.10	4.00	3.95	3.90
10 Year Bond	4.89	4.90	4.90	4.90	4.85	4.85	4.85	4.85	4.85	4.85	4.85
10 Year Spread to US (bps)	33	40	40	35	30	25	20	15	10	5	0

Currency forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep-28	Dec-28
AUD vs											
USD	0.6942	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
JPY	112.72	115	115	114	115	114	112	110	109	107	106
EUR	0.6072	0.61	0.61	0.61	0.61	0.61	0.60	0.60	0.60	0.60	0.60
NZD	1.2053	1.20	1.19	1.16	1.14	1.12	1.11	1.10	1.10	1.10	1.10
CAD	0.9836	0.99	0.99	0.99	0.99	0.99	0.98	0.97	0.96	0.96	0.96
GBP	0.5176	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52	0.52
CHF	0.5600	0.57	0.57	0.56	0.56	0.55	0.55	0.54	0.54	0.54	0.54
DKK	4.5390	4.58	4.58	4.56	4.59	4.55	4.51	4.47	4.46	4.47	4.48
SEK	6.7083	6.81	6.84	6.85	6.91	6.89	6.86	6.81	6.79	6.81	6.84
NOK	6.7478	6.85	6.88	6.89	6.95	6.93	6.90	6.84	6.83	6.85	6.88
ZAR	11.33	11.5	11.5	11.5	11.6	11.6	11.6	11.6	11.7	11.7	11.7
SGD	0.8972	0.91	0.91	0.91	0.92	0.92	0.92	0.91	0.91	0.91	0.91
HKD	5.4402	5.56	5.60	5.62	5.69	5.69	5.68	5.64	5.62	5.61	5.61
PHP	42.75	43.0	43.0	42.5	42.3	41.6	40.9	39.9	39.1	39.1	39.1
THB	23.17	22.9	22.6	22.5	22.6	22.4	22.2	21.9	21.7	21.7	21.7
MYR	2.8286	2.84	2.83	2.81	2.85	2.81	2.81	2.80	2.75	2.75	2.75
CNY	4.7159	4.79	4.80	4.75	4.75	4.71	4.67	4.61	4.60	4.56	4.56
IDR	12585	12425	12172	12096	12118	11972	11899	11761	11656	11636	11636
TWD	22.35	22.2	22.0	21.7	21.7	21.3	21.0	20.6	20.4	20.4	20.4
KRW	1047	1044	1045	1037	1037	1022	1007	987	970	967	967
INR	66.18	67.5	67.7	67.7	67.9	67.2	66.4	65.3	64.4	63.7	63.0

Australia

Activity forecasts

	2026				2027				Calendar years			
%qtr / %yr end	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Household consumption	0.5	0.0	0.2	0.4	0.4	0.5	0.5	0.6	2.5	1.1	2.0	3.3
Dwelling investment	0.7	1.3	1.0	0.9	0.8	0.8	0.9	0.7	5.1	4.0	3.2	5.5
Business investment *	5.7	0.3	3.8	1.5	3.7	1.1	1.3	1.1	4.5	11.7	7.3	4.5
Private demand *	1.3	0.1	0.6	0.6	1.1	0.6	0.7	0.7	3.2	2.7	3.1	3.7
Public demand *	0.1	0.8	0.6	0.6	0.6	0.6	0.6	0.6	2.1	2.1	2.4	2.6
Domestic demand	1.0	0.3	0.6	0.6	0.9	0.6	0.7	0.6	2.9	2.5	2.9	3.4
Stock contribution	0.0	–0.1	–0.1	0.0	0.0	–0.1	0.0	0.0	0.1	–0.2	–0.1	0.1
GNE	0.9	0.2	0.5	0.6	0.9	0.6	0.6	0.7	3.0	2.3	2.8	3.4
Exports	–1.1	0.7	0.4	0.4	0.6	0.7	0.6	0.6	5.2	0.4	2.5	2.4
Imports	2.1	1.2	2.2	1.9	2.6	1.7	1.6	1.5	6.7	7.6	7.6	5.5
Net exports contribution	–0.8	–0.1	–0.4	–0.4	–0.5	–0.3	–0.3	–0.2	–0.3	–1.7	–1.3	–0.9
Real GDP %qtr / %yr avg	**0.3**	**0.0**	**0.1**	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**2.0**	**1.5**	**1.3**	**2.2**
%yr end	**2.5**	**1.6**	**1.3**	**0.7**	**0.9**	**1.2**	**1.4**	**1.5**	**2.5**	**0.7**	**1.5**	**2.6**
Nominal GDP %qtr / %yr avg	0.6	0.2	1.3	0.6	0.5	0.7	1.0	0.8	4.7	4.2	2.8	4.5
%yr end	5.3	4.7	4.1	2.7	2.6	3.0	2.8	3.0	6.1	2.7	3.0	5.1
Real household disp. income	–0.2	–0.2	1.3	–2.0	0.3	0.9	1.6	–0.4	3.8	–1.1	2.5	3.3

Other macroeconomic variables

	2026				2027				Calendar years			
% change	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Employment %qtr **	0.6	0.1	0.5	0.3	0.4	0.5	0.5	0.4	–	–	–	–
%yr end **	1.5	1.0	1.3	1.4	1.2	1.6	1.7	1.8	1.1	1.4	1.8	2.3
Unemployment rate % **	4.2	4.4	4.6	4.9	5.0	4.9	4.9	4.9	4.3	4.9	4.9	4.5
Wages (WPI) (sa) %qtr	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	3.3	3.2	3.4	3.4	3.4	3.4	3.2	3.2	3.4	3.4	3.2	3.4
Headline CPI %qtr	1.4	0.7	1.3	1.0	0.7	0.6	0.9	0.5	–	–	–	–
%yr end	4.1	4.0	4.0	4.4	3.8	3.7	3.3	2.8	3.6	4.4	2.8	2.6
Trimmed Mean CPI %qtr	0.8	0.9	1.0	0.8	0.8	0.7	0.7	0.7	–	–	–	–
%yr end	3.5	3.7	3.7	3.6	3.5	3.3	3.0	2.8	3.4	3.6	2.8	2.4
Current account $bn, qtr	–27.1	–30.9	–29.2	–35.2	–40.0	–42.8	–44.7	–44.7	–	–	–	–
% of GDP	–3.7	–4.2	–3.9	–4.7	–5.3	–5.6	–5.8	–5.8	–3.1	–4.7	–5.8	–5.4
Terms of trade %yr avg	–1.2	–0.6	–0.5	–0.6	–2.1	–3.2	–5.0	–5.7	–2.5	–0.6	–5.7	–1.2
Population %yr end	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.5	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

	2025						2026					
Monthly data	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
CPI %yr	3.0	3.2	3.6	3.8	3.4	3.8	3.8	3.7	4.6	4.2	4.0	–
Employment '000 chg	32.3	–13.2	9.8	33.8	–38.7	57.2	34.7	22.9	19.4	–40.7	40.3	–
Unemployment rate %	4.3	4.3	4.5	4.3	4.3	4.1	4.1	4.3	4.3	4.5	4.4	–
Westpac–MI Consumer Sentiment	93.1	98.5	95.4	92.1	103.8	94.5	92.9	90.5	91.6	80.2	83.0	80.6
Household spending %mth	0.4	–0.1	0.3	1.4	0.9	–0.5	0.2	0.3	1.7	–1.1	1.3	–
Dwelling approvals %mth	–5.2	–4.3	19.3	–11.0	16.3	–15.5	–14.1	44.4	–13.0	–0.2	–1.1	–
Private sector credit %mth	0.7	0.6	0.6	0.7	0.7	0.8	0.5	0.6	0.7	0.7	0.7	–
Trade in goods balance AUDbn	6.2	0.8	3.4	4.4	2.2	3.4	2.4	5.0	–1.7	1.4	–3.0	–

New Zealand

Interest rate forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	2.50	2.75	3.00	3.50	3.75	4.00	4.00	4.00	4.00	3.75	3.75
90 Day Bill	2.83	3.00	3.40	3.75	4.00	4.20	4.20	4.20	4.15	3.95	3.95
2 Year Swap	3.52	3.70	3.95	4.10	4.25	4.20	4.20	4.15	4.15	4.10	4.10
10 Year Bond	4.59	4.55	4.65	4.80	5.00	5.05	5.05	5.05	5.05	5.05	5.05
10 Year Spread to US	3	5	15	25	45	45	40	35	30	25	20
10 Year Spread to Aust	–30	–35	–25	–10	15	20	20	20	20	20	20

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
NZD vs											
USD	0.5760	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
JPY	93.52	96	96	99	101	101	102	100	99	98	96
EUR	0.5038	0.51	0.51	0.53	0.54	0.54	0.55	0.54	0.54	0.54	0.55
AUD	0.8297	0.83	0.84	0.86	0.88	0.89	0.90	0.91	0.91	0.91	0.91
CAD	0.8161	0.83	0.83	0.85	0.87	0.88	0.88	0.88	0.87	0.87	0.87
GBP	0.4294	0.44	0.44	0.46	0.47	0.47	0.47	0.47	0.47	0.47	0.47
CNY	3.9090	3.98	4.02	4.09	4.16	4.19	4.22	4.19	4.19	4.16	4.16

Sources: Bloomberg, Westpac Economics.

Activity forecasts

	2026				2027				Calendar years			
% change	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Private consumption	0.5	0.0	0.6	0.8	0.9	1.0	1.0	1.0	1.4	1.0	3.3	4.0
Government consumption	1.5	0.2	0.3	0.3	0.3	0.3	0.6	0.5	2.5	4.3	1.4	2.2
Residential investment	–3.1	3.0	3.0	1.0	1.3	1.8	2.3	2.5	–5.4	1.5	7.5	9.2
Business investment	3.7	1.0	0.8	1.5	1.6	1.4	1.1	0.9	0.5	4.5	5.3	4.0
Stocks (ppt contribution)	0.0	0.0	0.0	–0.1	0.2	0.0	0.1	–0.1	–0.1	0.5	0.1	–0.1
GNE	0.9	0.3	0.7	0.7	1.1	0.9	1.0	0.9	0.9	2.9	3.6	3.8
Exports	3.1	–0.5	–0.4	0.5	1.0	1.1	0.9	0.8	2.8	4.0	2.5	3.1
Imports	4.2	–0.4	0.2	0.7	1.3	2.3	2.1	1.4	3.3	5.2	4.8	4.9
GDP (production)	0.8	–0.1	0.6	0.7	1.0	0.5	0.6	0.7	0.3	1.9	2.6	3.2
Employment annual %	0.4	0.7	1.1	1.2	1.7	2.2	2.5	2.5	0.2	1.2	2.5	2.4
Unemployment rate % s.a.	5.3	5.4	5.4	5.3	5.2	5.1	5.0	4.9	5.4	5.3	4.9	4.4
LCI, all sect incl o/t, ann %	2.0	1.9	2.2	2.4	2.4	2.4	2.4	2.4	2.0	2.4	2.4	2.3
CPI annual %	3.1	4.0	3.7	3.5	3.1	1.9	1.9	2.0	3.1	3.5	2.0	2.0
Current account % of GDP	–3.6	–3.7	–3.9	–3.9	–3.8	–3.9	–3.9	–3.9	–3.6	–3.9	–3.9	–3.6
Terms of trade annual %	2.0	–0.5	1.1	0.6	3.3	2.4	2.6	3.9	3.4	0.6	3.9	2.5

Sources: Statistics NZ, Westpac Economics.

Commodity prices

Quarter average	Latest (3 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Australian commodities index#	375	401	390	377	365	359	354	351	348	347	347
Bulk commodities index#	**391**	**400**	**377**	**352**	**337**	**337**	**338**	**340**	**343**	**345**	**347**
iron ore finesTSI @ 62% US$/t	100	102	97	89	84	83	83	84	85	85	86
Premium low vol met coal (US$/t)	242	241	221	206	202	204	205	207	208	209	211
Newcastle spot thermal coal (US$/t)	129	136	129	124	123	123	123	123	124	124	125
crude oil (US$/bbl) Brent	73	83	85	84	77	74	69	65	62	60	59
LNG in Japan US$mmbtu	16.1	18.6	17.9	17.7	16.5	15.0	13.0	12.4	11.6	10.8	10.5
gold (US$/oz)	4,071	4,560	4,640	4,590	4,550	4,580	4,610	4,640	4,670	4,700	4,730
Base metals index#	**256**	**262**	**259**	**255**	**251**	**248**	**245**	**240**	**237**	**234**	**233**
copper (US$/t)	13,309	13,290	12,950	12,630	12,380	12,250	12,190	12,120	12,070	12,030	12,010
aluminium (US$/t)	3,083	3,360	3,420	3,450	3,410	3,340	3,240	3,120	3,040	2,980	2,950
nickel (US$/t)	16,150	17,980	17,850	17,760	17,670	17,630	17,710	17,800	17,890	17,980	18,070
zinc (US$/t)	3,529	3,470	3,400	3,350	3,280	3,200	3,110	2,930	2,810	2,720	2,680
lead (US$/t)	1,847	1,960	1,950	1,950	1,950	1,960	1,970	1,930	1,890	1,870	1,860
Rural commodities index#	**138**	**144**	**147**	**146**	**141**	**136**	**130**	**124**	**119**	**115**	**114**
NZ commodities index ##	**406**	**403**	**405**	**406**	**407**	**409**	**412**	**414**	**415**	**416**	**417**
dairy price index ##	333	316	320	326	331	337	344	347	349	351	353
whole milk powder USD/t	3,425	3,440	3,480	3,530	3,580	3,640	3,720	3,770	3,810	3,850	3,890
skim milk powder USD/t	3,135	3,130	3,110	3,110	3,140	3,180	3,230	3,270	3,300	3,330	3,370
lamb price index ##	667	671	664	637	625	622	620	618	614	606	599
beef price index ##	394	422	417	406	398	398	397	396	395	394	393
forestry price index ##	163	163	164	164	164	165	165	166	166	167	168

	levels				% change			
Annual averages	**2025**	**2026(f)**	**2027(f)**	**2028(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Australian commodities index#	**324**	**397**	**364**	**348**	**4.2**	**22.8**	**–8.4**	**–4.3**
Bulk commodities index#	**378**	**396**	**341**	**344**	**–12.6**	**4.7**	**–13.9**	**0.8**
iron ore finesTSI @ 62% US$/t	102	103	85	85	–6.6	0.9	–17.4	0.0
Premium low vol met coal (US$/t)	189	233	204	209	–22.2	23.5	–12.4	2.3
Newcastle spot thermal coal (US$/t)	106	131	123	124	–21.5	22.8	–6.0	0.8
crude oil (US$/bbl) Brent	68	85	76	62	–14.6	24.5	–10.7	–19.1
LNG in Japan US$mmbtu	12.3	16.9	15.5	11.3	3.2	37.5	–7.9	–27.2
gold (US$/oz)	3,440	4,650	4,580	4,690	43.9	35.2	–1.5	2.4
Base metals index#	**208**	**260**	**250**	**236**	**3.1**	**24.9**	**–3.9**	**–5.6**
copper (US$/t)	9,960	13,110	12,360	12,060	8.7	31.6	–5.7	–2.4
aluminium (US$/t)	2,630	3,390	3,360	3,020	8.2	28.9	–0.9	–10.1
nickel (US$/t)	15,220	17,850	17,690	17,940	–9.7	17.3	–0.9	1.4
zinc (US$/t)	2,860	3,400	3,240	2,780	2.9	18.9	–4.7	–14.2
lead (US$/t)	1,970	1,950	1,960	1,890	–5.3	–1.0	0.5	–3.6
Rural commodities index#	**120**	**142**	**138**	**118**	**–4.8**	**18.7**	**–3.0**	**–14.6**
NZ commodities index ##	**390**	**403**	**408**	**415**	**9.2**	**3.2**	**1.5**	**1.7**
dairy price index ##	348	326	335	350	9.7	–6.5	2.7	4.6
whole milk powder USD/t	3902	3561	3617	3829	13.5	–8.7	1.6	5.9
skim milk powder USD/t	2702	3160	3165	3319	0.7	16.9	0.2	4.8
lamb price index ##	587	660	626	609	27.0	12.5	–5.2	–2.7
beef price index ##	337	406	400	394	19.1	20.4	–1.5	–1.4
forestry price index ##	152	160	164	167	–4.9	5.8	2.5	1.4

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

United States

Interest rate forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Fed Funds*	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625	3.625
10 Year Bond	4.55	4.50	4.50	4.55	4.55	4.60	4.65	4.70	4.75	4.80	4.85

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

Currency forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
USD vs											
DXY index	100.90	99.8	98.9	98.1	97.3	96.4	95.5	94.9	94.7	94.6	94.7
JPY	162.36	162	160	159	158	156	154	152	150	148	146
EUR	1.1433	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
AUD	0.6942	0.71	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
NZD	0.5760	0.59	0.60	0.62	0.64	0.65	0.66	0.66	0.66	0.66	0.66
CAD	1.4168	1.40	1.38	1.37	1.36	1.35	1.34	1.33	1.32	1.32	1.32
GBP	1.3413	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
CHF	0.8066	0.80	0.79	0.78	0.77	0.76	0.75	0.75	0.75	0.75	0.75
ZAR	16.32	16.1	16.1	16.0	15.9	15.9	15.9	16.0	16.1	16.1	16.1
SGD	1.2923	1.28	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8364	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75	7.75
PHP	61.61	60.5	60.0	59.0	58.0	57.0	56.0	55.0	54.0	54.0	54.0
THB	33.38	32.2	31.6	31.3	31.0	30.7	30.4	30.2	30.0	30.0	30.0
MYR	4.0766	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80	3.80
CNY	6.7921	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	18128	17500	17000	16800	16600	16400	16300	16200	16100	16072	16072
TWD	32.19	31.2	30.7	30.2	29.7	29.2	28.7	28.4	28.2	28.2	28.2
KRW	1507	1470	1460	1440	1420	1400	1380	1360	1340	1336	1336
INR	95.38	95.0	94.5	94.0	93.0	92.0	91.0	90.0	89.0	88.0	87.0

Activity forecasts

	2026				2027				Calendar years			
% annualised, s/adj	**Q1**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Private consumption	0.5	1.2	1.2	1.3	1.9	2.0	2.1	2.1	2.6	1.5	1.7	2.1
Dwelling investment	-7.8	–2.0	0.0	0.8	0.8	1.2	1.6	2.0	–2.2	–3.9	0.8	2.0
Business investment	10.6	8.1	6.5	5.6	5.3	4.8	4.7	4.7	4.1	6.6	5.5	4.7
Public demand	4.4	1.2	0.4	0.4	0.4	0.4	0.4	0.4	1.1	0.6	0.5	0.4
Domestic final demand	2.3	2.1	1.8	1.8	2.2	2.2	2.2	2.2	2.4	2.0	2.1	2.2
Inventories contribution ppt	–0.8	0.0	0.1	0.1	0.1	0.1	0.0	0.0	–0.1	0.1	0.0	0.1
Net exports contribution ppt	1.6	0.1	–0.5	–0.5	–0.5	-0.5	–0.4	–0.4	0.4	-0.5	–0.5	–0.5
GDP	2.1	1.7	1.6	1.5	1.9	1.9	1.8	1.8	2.1	2.0	1.8	1.9
%yr annual chg	2.6	2.3	1.6	1.8	1.9	1.6	1.8	1.8	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	43	115	100	100	105	105	110	110	26	98	108	120
Unemployment rate %	4.3	4.3	4.4	4.4	4.5	4.5	4.5	4.5	4.3	4.4	4.5	4.5
CPI headline %yr	2.7	4.0	3.5	3.2	2.9	2.3	2.3	2.2	2.7	3.4	2.4	2.2
PCE deflator, core %yr	3.1	3.3	3.1	3.0	2.7	2.4	2.3	2.2	2.8	3.1	2.4	2.2

Sources: Official agencies, Factset, Westpac Economics.

Europe & the United Kingdom

Interest rate forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Euro Area											
ECB Deposit Rate	2.25	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
10 Year Bund	3.08	3.00	3.00	3.00	2.95	2.95	2.95	2.95	2.95	2.95	2.95
10 Year Spread to US	–147	–150	–150	–155	–160	–165	–170	–175	–180	–185	–190
United Kingdom											
BoE Bank Rate	3.75	3.75	3.75	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
10 Year Gilt	4.90	4.85	4.85	4.85	4.80	4.80	4.80	4.80	4.80	4.80	4.80
10 Year Spread to US	35	35	35	30	25	20	15	10	5	0	–5

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
euro vs											
USD	1.1433	1.16	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
JPY	185.64	188	187	188	188	187	186	185	182	179	177
GBP	0.8524	0.86	0.87	0.87	0.87	0.87	0.87	0.87	0.86	0.86	0.86
CHF	0.9222	0.92	0.92	0.92	0.92	0.91	0.91	0.91	0.91	0.91	0.91
DKK	7.4752	7.48	7.48	7.48	7.48	7.48	7.48	7.48	7.48	7.48	7.48
SEK	11.05	11.1	11.2	11.2	11.3	11.3	11.4	11.4	11.4	11.4	11.4
NOK	11.11	11.2	11.2	11.3	11.3	11.4	11.4	11.5	11.5	11.5	11.5
sterling vs											
USD	1.3413	1.35	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
JPY	217.78	218	216	216	216	215	214	213	211	208	204
CHF	1.0819	1.07	1.07	1.06	1.05	1.05	1.04	1.04	1.05	1.05	1.05
AUD	0.5176	0.53	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52	0.52

Sources: Bloomberg, Westpac Economics.

Activity forecasts

Annual average % chg	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
Euro area GDP	3.7	0.6	0.9	1.5	0.3	1.1	1.5
private consumption	5.3	0.6	1.3	1.5	0.9	1.0	1.4
fixed investment	2.2	2.8	–2.6	3.1	0.6	1.3	2.1
government consumption	1.3	1.5	2.3	1.4	2.3	2.1	2.0
net exports contribution ppt	–0.1	0.3	0.3	–0.5	–0.6	–0.1	–0.3
Germany GDP	1.9	–0.7	–0.5	0.3	0.7	1.1	1.7
France GDP	2.8	1.9	1.4	0.9	0.5	0.8	1.2
Italy GDP	5.0	1.0	0.6	0.7	0.7	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	1.6	1.1	1.2	1.6
United Kingdom GDP	5.1	0.3	1.0	1.3	1.0	1.1	1.5

Asia

China activity forecasts

Calendar years	2021	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
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	1.2	1.3	1.6
Producer prices %yr	10.3	–0.7	–2.7	–2.3	–2.6	2.0	1.2	1.5
Industrial production (IVA)	9.6	3.6	4.6	5.8	5.9	5.5	5.0	4.8
Retail sales	12.5	–0.2	7.2	3.5	3.7	2.3	4.2	4.4
Money supply M2 %yr	9.0	11.8	9.7	7.3	8.0	7.8	7.6	7.4
Fixed asset investment	4.9	5.1	3.0	3.2	–1.4	1.5	4.0	4.5
Exports %yr	20.9	–9.9	–2.3	10.7	5.2	8.0	4.0	3.5
Imports %yr	19.5	–7.5	0.2	0.9	–0.1	9.0	3.0	2.5

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

Chinese interest rates & monetary policy

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Required reserve ratio %*	9.00	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Loan Prime Rate, 1–year	3.00	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Japanese interest rates & monetary policy

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Policy Rate	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50
10 Year Bond Yield	2.88	2.85	2.90	2.95	2.70	2.60	2.50	2.45	2.40	2.35	2.30

Currency forecasts

	Latest (10 Jul)	Sep–26	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
JPY	162.36	162	160	159	158	156	154	152	150	148	146
SGD	1.2923	1.28	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8364	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75	7.75
PHP	61.61	60.5	60.0	59.0	58.0	57.0	56.00	55.00	54.00	53.95	53.95
THB	33.38	32.2	31.6	31.3	31.0	30.7	30.4	30.2	30.0	30.0	30.0
MYR	4.0766	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80	3.80
CNY	6.7921	6.75	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	18128	17500	17000	16800	16600	16400	16300	16200	16100	16072	16072
TWD	32.19	31.2	30.7	30.2	29.7	29.2	28.7	28.4	28.2	28.2	28.2
KRW	1507	1470	1460	1440	1420	1400	1380	1360	1340	1336	1336
INR	95.38	95.0	94.5	94.0	93.0	92.0	91.0	90.0	89.0	88.0	87.0

Source: Bloomberg, Westpac Economics.

Worldwide

Economic growth forecasts (year average)

Real GDP %ann	2021	2022	2023	2024	2025	2026(f)	2027(f)	2028(f)
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	1.1	0.6	0.8	0.9
Euro zone	6.4	3.7	0.5	0.9	1.5	0.2	1.1	1.5
Group of 3	**5.9**	**2.8**	**1.8**	**1.7**	**1.8**	**1.2**	**1.4**	**1.6**
United Kingdom	8.5	5.1	0.3	1.0	1.4	1.1	1.1	1.5
Canada	6.0	4.7	2.0	2.0	1.9	0.9	1.6	1.8
Australia	5.4	4.2	2.1	1.0	2.0	1.5	1.3	2.2
New Zealand	5.5	2.6	2.2	–0.3	0.2	1.9	2.6	3.2
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	2.6	2.3	2.2
Taiwan	6.7	2.7	1.1	5.3	8.8	9.2	5.0	4.0
Hong Kong	6.5	–3.7	3.2	2.6	3.6	3.5	2.7	2.5
Singapore	10.1	4.0	1.5	5.3	5.0	3.5	2.7	2.5
Indonesia	3.7	5.3	5.0	5.0	5.1	5.0	5.1	5.2
Thailand	1.6	2.7	2.2	2.9	2.4	1.8	2.0	2.4
Malaysia	3.3	9.0	3.5	5.1	5.2	4.4	4.5	4.5
Philippines	5.7	7.6	5.5	5.7	4.4	4.0	4.8	5.5
Vietnam	2.6	8.5	5.1	7.0	8.0	7.4	7.0	7.0
East Asia	**7.1**	**3.6**	**4.7**	**4.8**	**4.9**	**4.7**	**4.5**	**4.3**
East Asia ex China	4.4	4.6	3.4	4.5	4.7	4.8	4.2	4.2
NIEs*	**6.1**	**2.3**	**1.6**	**3.4**	**4.1**	**4.8**	**3.2**	**2.8**
India	9.7	7.6	7.2	7.1	7.6	6.7	6.7	6.6
Russia	5.9	–1.4	4.1	4.9	1.0	0.9	1.1	1.3
Brazil	4.8	3.0	3.2	3.4	2.3	1.8	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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