September 2026

WESTPAC MARKET OUTLOOK

Your monthly report on Australia and the global economy.

WESTPAC MARKET OUTLOOK
September 2026

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NB: Quarterly forecasts for commodities on page 27 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.

Heating up

The most significant development this month has been the broad rise in global bond yields. This is occurring amid a longer-run uptrend in real yields, inflation expectations and term premia since the low-rate pre-pandemic era. The latest move comes on the back of renewed conflict in the Middle East, oil prices pushing back above US$100/bbl and central banks actively contemplating more rate rises. With mid-term elections adding another layer of political disruption in the US and bond markets defying direct attempts by the US administration to lower yields, it's safe to say the situation is 'heating up'.

Inflation remains materially above target across all of the G7 bar Japan, US 10-year yields are closing in on 5%, and fiscal conditions remain unsettling, most notably in the US where gross debt levels recently surpassed US$40 trillion while federal deficits continue to run at 6% of GDP.

These developments made for a provocative backdrop at Fed Chair Warsh's Jackson Hole debut, where he emphasised that inflation remains the Committee's priority. Markets are now pricing three to four hikes into 2027, though we believe only two will be needed to lean against any deterioration in expectations and the run higher in long-term yields. Europe faces similar concerns, but in our view, restrictive credit conditions argue against an aggressive follow-through – one more hike in Q4 should suffice. China's challenge is near the complete opposite: policy is already highly accommodative and households are not short of cash, but confidence remains too fragile for precautionary saving to give way to stronger consumption and investment. Concerted action by authorities is required if they want to minimise the risk of a prolonged low-growth scenario.

Closer to home, the RBA narrative has also shifted. A stronger-than-expected July CPI, a relatively resilient consumer and a larger data-centre investment pipeline has prompted us to reinstate a November rate hike into our base case. September remains a close call, but we expect the Board will prefer to wait for the quarterly CPI before moving.

Australia: The Q2 National Accounts showed Australia's economy expanded 0.4% in Q2 and 2.1% in year-ended terms. It was the first full quarter that households and businesses had to deal with the global energy shock flowing from the Middle East conflict alongside and higher domestic interest rates. With a strong ramp up in data centre investment also coming off a massive surge in Q1, the result was a messy and noisy quarter. Looking through this, growth appears to be stabilising at a slow pace rather than stalling.

Commodities: Most commodities rose in August as the geopolitical risk premium reasserted itself, lifting our broadest commodities index 4.5%mth, with steelmaking commodities the notable exception. Reflecting ongoing disruption to global oil markets, we have revised our Brent forecast higher, with prices now expected to average US$90/bbl over the remainder of 2026.

Global FX Markets: Market participants remain acutely aware of risk. At the same time, confidence in US economic growth remains resolute. Nonetheless, the US dollar has edged lower over the past month.

New Zealand: The economy appears to be shaking off the disruption caused by the Middle East conflict and continuing the recovery that began last year. At the same time, the conflict has driven headline inflation well above the top of the RBNZ's target range, leading it to begin removing policy stimulus six months earlier than it had previously projected. We expect the OCR to reach 3% by year-end and move higher in 2027.

United States: A lack of confidence in the guidance given by Chair Warsh and open-ended Middle East conflict has led participants to almost price four rate hikes. We instead see two as necessary to calm concerns and give disinflation time.

China: Assessed in isolation, the domestic demand trend could be interpreted as suggesting policy is restrictive. This is not the case. Rather, confidence is holding China back.

Asia: Economic fundamentals across Asia have strengthened, yet currencies have struggled to keep pace. The explanation lies less in growth and more in capital allocation. Policymakers are shifting their focus from attracting to retaining capital.

Europe & UK: Current data and financial conditions argue for only one more hike then a steady hand from the ECB in contrast to the almost four hikes the market has recently priced.

Global bond yields rise ...

Luci Ellis
Chief Economist, Westpac Group

The key development in global markets this month has been the sharp rise in bond yields. Major economy (ex. Japan) 10yr yields have lifted 30–40bps since the previous *Market Outlook*, with most of the move occurring in recent days. UK and Australian sovereign 10yr yields have both risen above 5% and US 10yr Treasuries are almost at that mark.

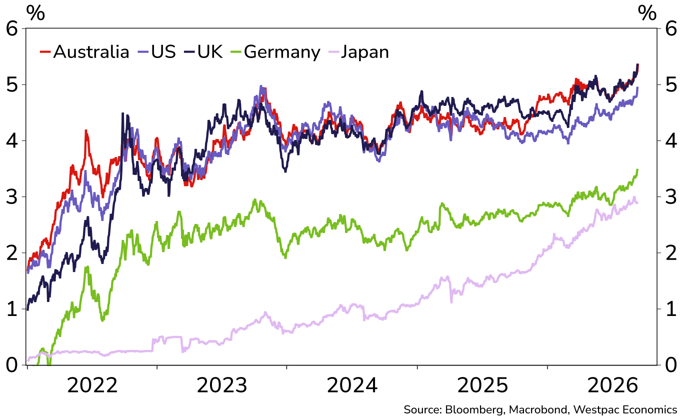
The background to the latest increase is that yields have been trending up for most of the post-pandemic period, especially outside the US, as economies exited the previous low-inflation, negative-yield regimes. Both real yields and implied inflation expectations increased during this longer-run transition, as did estimated term premia.

The increase in recent days is partly a reflection of shifting views about the near-term monetary policy outlook. The shorter ends of yield curves have typically lifted more than long ends, narrowing 2–10yr spreads. Longer-term market inflation expectations implied by both bond and swap markets have increased in recent days but remain well below the levels reached in the early months of the US–Iran conflict. The increase in real long yields in recent days has been particularly marked for Australia, where markets have repriced the chance of a near-term rate hike following higher-than-expected inflation in July (see below). This week's ECB hike and hawkish rhetoric has also influenced euro area pricing.

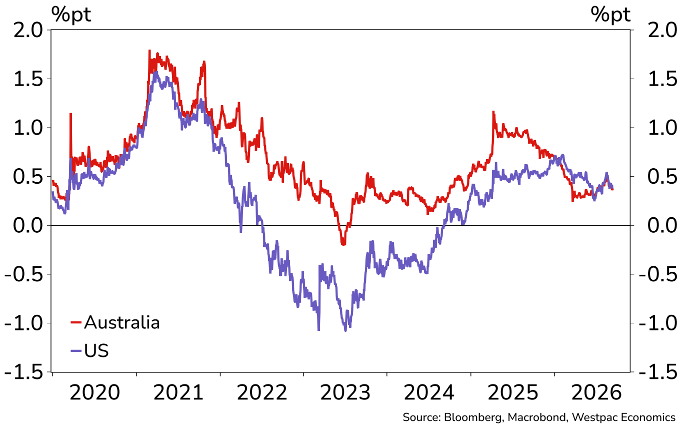
Several underlying drivers have been at play in the recalibration of views about central bank action. Markets have been unnerved by the unusual manoeuvrings of the US Treasury in support of the US bond market, which have drawn attention to the US fiscal incontinence that was already evident a few years ago and has worsened under the current administration. More broadly, the US government is making an exceptional call on global savings, and higher defence spending by other countries is adding to this. We expect more manoeuvres by the US authorities in an effort to contain bond yields and so the government's debt-servicing burden, but these will not be a lasting solution.

An additional factor that has grown over the past couple of years and come to a head recently is the demand for debt finance coming from the 'hyperscaler' tech firms – Amazon, Google, Microsoft, Meta and other majors at the epicentre of the AI boom. By way of example, Alphabet (Google's parent) issued the largest-ever deal into the $A corporate bond market in recent weeks, and others are likely to follow. These deals have attracted strong demand but have done so at very wide spreads to sovereign yields given the issuer ratings. While yields on the bonds of other corporates have so far not repriced, the demand for finance represents a digestion issue for global investors, with implications for sovereign yields as well.

Global 10-Year Bond Yields

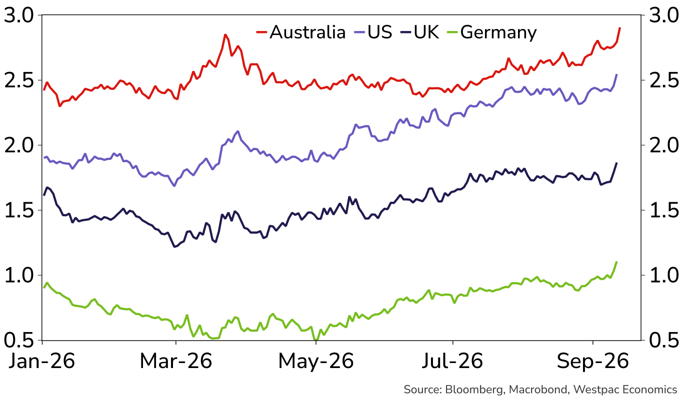


Yield Curve Slope (10yr – 2yr)



Global Real Interest Rates

10-Year Inflation-Linked Bond Yields (%)



... while RBA outlook pivots back to hikes

Both the atmospherics and the substance around the RBA policy decision have shifted considerably since the August *Market Outlook* was published. The RBA's August inflation forecasts implied a base case of rates remaining on hold. However, subsequent communication made clear that the Monetary Policy Board (MPB) would raise rates again if upside risks to inflation emerged, and we advised that a November rate hike should not be ruled out entirely.

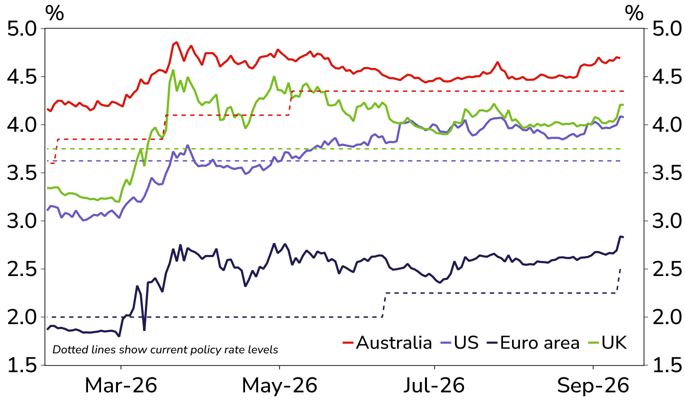
Since then, wages data undershot RBA expectations and consumer confidence and business conditions have relapsed to weakness. Markets have instead focused on the stronger-than-expected July CPI data and signs that the consumer has been more resilient than expected. A rate hike in November is now fully priced in, with a significant chance it occurs in September, as well as some probability of a follow-up hike in the new year.

We have also revised our RBA view, bringing a November hike back into the base case, rather than being a risk, as previously expected. The main reasons for the shift are the growing evidence of a more resilient household sector, and a larger-than-expected impetus from the data centre boom. National accounts and internal data have pointed to stronger household incomes in Q2 and onwards, which means spending will be more resilient over the near term even with sentiment stuck at historically weak levels. While the housing market is looking weaker than our previously published forecasts, its impact on consumer spending is more than offset by the wider boost to growth coming from a globally-driven surge in tech-related spending. An unprecedented pipeline of investment in data centres and associated renewable electricity generation and distribution is expected to drive business investment and so GDP growth – but also limit the pace of disinflation.

Tactically, we believe the RBA leadership would strongly favour a November hike over September. Overreacting to a noisy monthly print is something they have previously said they would not do. That said, if the internal members felt the situation was more urgent and wanted to get the hike done in September, we believe they could muster a majority of Monetary MPB votes in favour. Either way, the September decision may see a split vote, with some members coming into the meeting with different views about supply capacity and the state of the labour market, and more concerned about developments in global bond markets. The probability of a September hike is not zero, but we do not think it is the most likely outcome. We expect the MPB to prefer to wait for the full quarterly inflation data and revised forecasts to confirm the need for a rate increase.

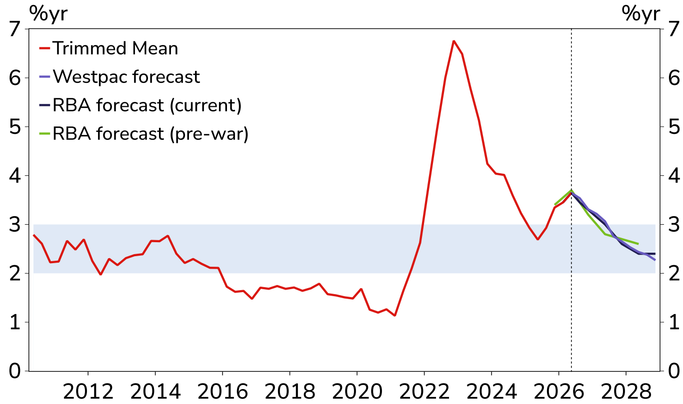
We have not changed our assessment of the timing or number of cuts to the cash rate, pencilling in three 25bp cuts starting August 2027. This leaves the whole path for the cash rate 25bps higher than our earlier expectations, consistent with the emerging impetus from business investment.

Market-implied policy rates for December 2026



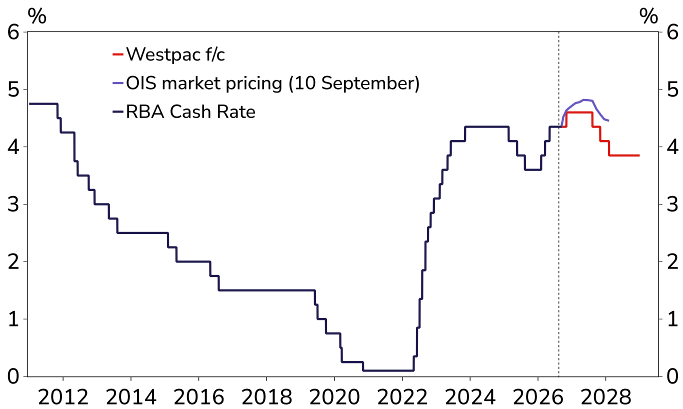
Source: RBA, BoE, Fed, ECB, BoC, Bloomberg, Macrobond, Westpac Economics

Trimmed Mean Inflation



Source: ABS, RBA, Macrobond, Westpac Economics

RBA Cash Rate



Source: RBA, Macrobond, Westpac Economics

Growth holds up despite headwinds …

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

The June quarter National Accounts showed Australia's economy expanded 0.4% in Q2 and 2.1% in year-ended terms. It was the first full quarter that households and businesses had to deal with the global energy shock flowing from the conflict in the Middle East, and higher domestic interest rates following the February, March and May rate hikes. With a strong ramp up in data centre investment also coming off a massive surge in Q1, the result was a messy and noisy quarter. Nevertheless, looking through this, the Accounts point to growth stabilising at a slow pace rather than stalling. The household sector has been resilient with solid income growth providing support. Meanwhile the private investment upswing clearly has further to run.

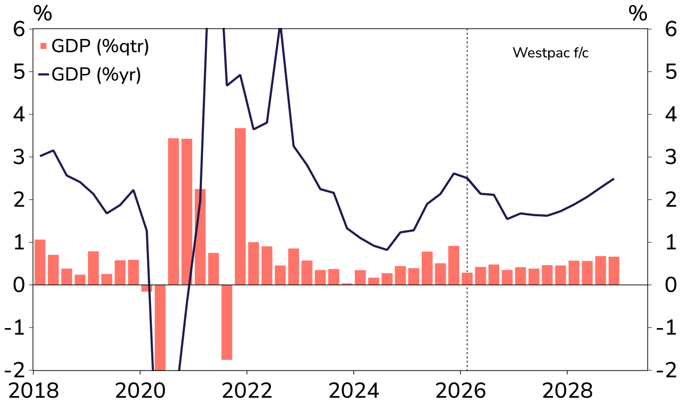
Given the firmer starting position, we have revised higher our near-term forecasts for economic growth and inflation, with labour market conditions also expected to remain slightly firmer through 2026 (see here). For 2027, the impacts of the sharper-than-expected downturn in established house prices is expected to only partly offset strength elsewhere. Importantly, we now expect the RBA Board to hike in November 2026, with the cash rate peaking at 4.6% before policy is cautiously eased in the second half of 2027.

Business takes the growth baton

The business investment upswing continues to gather momentum and now appears to be generating larger positive spillovers to related industries including construction, professional services, wholesale trade, logistics and manufacturing. The core drivers continue to be a major ramp up in investment in data centres and renewable energy. New business investment is growing at 10.5%yr, the fastest pace since the December quarter of 2012 (excluding the pandemic). Consistent with the upward revision to surveyed capex intentions, we now expect new business investment to grow by almost 13% in 2026 (up from 11.7%yr previously) and a further 10% in 2027 (up from 7.5%yr). The cumulative rise of almost 25% is set to be the sharpest two-year gain since the March quarter of 2013.

And the near-term risks remain skewed to the upside. The catalyst would be a second wave of renewable energy investment, sparked by the rapid expansion of data centres and the emergence of a large, ongoing source of electricity demand. In this scenario, year-ended growth in business investment could be stronger in 2027 than in 2026, providing a further boost to GDP growth and labour market conditions.

GDP forecasts

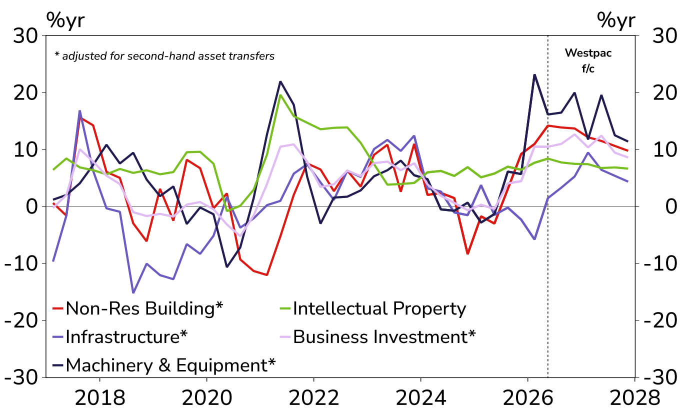


Source: ABS, Macrobond, Westpac Economics

This investment surge, which is largely unrelated to the domestic economic cycle and interest rates, is large enough for the business sector to become the dominant driver of growth. Of course, a significant portion of this investment will be met by imports rather than domestic production. Both data centres and renewables investment are highly import-intensive. However, even with these 'leakages' the investment upturn still generates substantial domestic activity, much like the LNG investment boom did in the late 2010s (see Box, page 9).

Our modelling (see here) suggests that around half of total investment in data centres translates into domestic value added, with much of that occurring in the early stages of the investment cycle when the structures housing high-tech equipment are being built. Notably, the industries that stand to benefit the most, including professional services,

New business investment components



Source: ABS, Macrobond, Westpac Economics

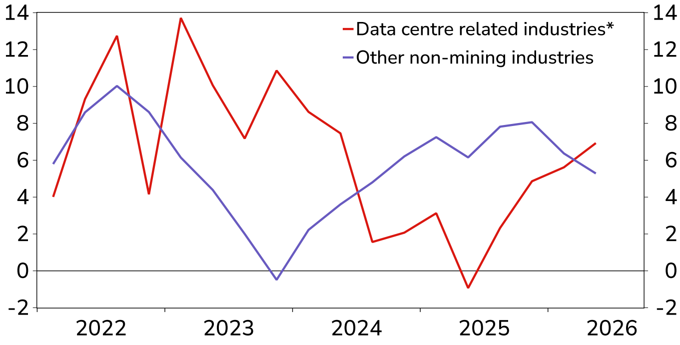
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

… business takes the growth baton …

manufacturing, construction and wholesale trade, are already showing a turnaround in employment, wages and profitability (see chart below). This suggests that some of these interlinkages have emerged more quickly, and on a larger scale, than previously thought, and are likely contributing to the stronger-than-expected growth in labour income.

Profits by industry

Year-ended % change



Source: ABS, Macrobond, Westpac Economics

*Includes industries with the largest combined direct and indirect exposure to investment in data centres, notably construction, professional services, manufacturing, wholesale and logistics.

With growth in profit subdued – total (including mining) profits have basically tracked sideways over the last 3½ years – how are businesses funding this investment?

Following a period of balance sheet strengthening associated with pandemic support, businesses are increasingly drawing on debt to expand operations and fund capital expenditure, with leverage ratios moving back towards more normal levels. This is evident in the continued strength of business credit growth, which has sustained even as higher interest rates have weighed on more interest-sensitive parts of the economy.

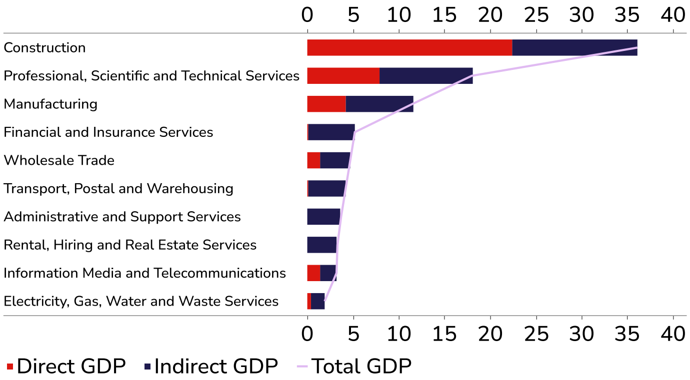
For the global hyperscalers at the epicentre of the boom – the likes of Amazon, Google, Meta and Oracle – revenue growth has been strong rather than weak. This, and surging equity valuations, have improved access to capital markets. Australia has benefited from this trend, with major players such as Alphabet (Google's parent company) issuing in the local market, with further issuance likely as the data centre build-out continues.

Construction activity holds firm despite softer house prices

Australia's construction sector is an important bellwether for how various investment cycles are netting out domestically. Both the current pulse and outlook remain positive. Aside from the data centre and renewable energy build-out, non-residential building is being supported by the need to cater for a growing population, while residential building is also being supported by a range of state and Federal government initiatives. This is more than offsetting the predicted gradual wind-down in public infrastructure spending.

Domestic activity from by data centre investment

% share of total activity



Source: ABS, Macrobond, Westpac Economics

Dwelling construction surprised on the upside in Q2, with the pipeline continuing to expand despite headwinds from higher interest rates, cost increases associated with the conflict in the Middle East, rising labour costs and falling established house prices. Although those headwinds remain an issue, we continue to expect housing construction to remain relatively resilient near term, supported by a range of state and federal government policy initiatives, including changes to zoning regulations and fast-track approvals.

Note that we have revised our house price forecasts lower – to reflect both recent weakness and our updated interest rate profile. We now expect house prices to fall by around 6% in 2026, resulting in a peak-to-trough decline of just over 7%. The adjustment is expected to be somewhat larger in Sydney and Melbourne, where prices are projected to decline by closer to 10%. We continue to expect lower on-market supply and a persistently tight housing market to limit further price declines. As the RBA begins easing policy in the second half of 2027, housing demand is expected to recover, supporting a gradual lift in house prices through 2028 (see Table 1, page 8).

Despite this, we have left our dwelling construction forecasts unchanged. As we noted in previous reports, the downturn in established markets does have broader implications beyond new dwelling construction. In particular, the spillover effects on wealth are set to be more of a dampening effect on consumer demand, particularly we move into 2027–28.

… firmer economy delays return to neutral

Putting it all together: from headwinds to tailwinds

Aggregate economic conditions have firmed despite significant headwinds. Business-led activity, which appears insensitive to interest rates, is providing the economy with a tailwind strong enough to support broader areas of the economy that are not directly tied to the data centre/renewables build-out.

As a result, we have upgraded our near-term outlook to 1.5%yr in 2026, up from the 1.0%yr pace we anticipated prior to the Q2 National Accounts. The outlook beyond 2026 is largely unchanged, although the risks are tilted to the upside given the size of the potential increase in renewable energy investment. We expect growth to accelerate to 1.7%yr in 2027 and 2.5%yr in 2028 as the RBA eases rates in the second half of 2027 in response to emerging spare capacity.

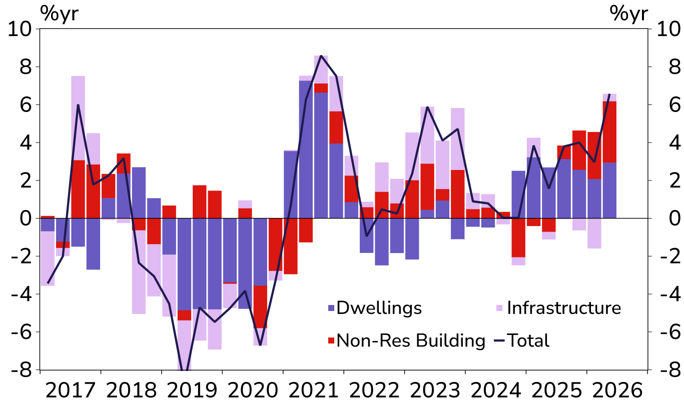
Reflecting the firmer near-term outlook, we have revised our forecast peak in the unemployment rate down from 4.9% (in Q1 2027) to 4.8% (in Q2 2027), where it is expected to hold around this level throughout 2027. The slightly tighter labour market, combined with stronger global inflationary pressures associated with the AI investment boom, points to a firm near-term inflation pulse of 3.3%yr in 2026, with quarterly trimmed mean inflation expected to come in at 0.9%qtr in Q3 2026. Trimmed mean inflation is expected to ease to 2.7%yr in 2027 and 2.3%yr in 2028 as spare capacity emerges and productivity gradually improves.

Firmer economic and labour market conditions are supporting household incomes and spending. We expect household spending to grow by 2.0%yr in 2026, up from 1.7%yr previously. The **Westpac–DataX Card Tracker** suggests spending momentum strengthened through Q2 and into Q3. A rebound in tourism-related spending and income boosts from award-related wage increases and the Federal Government's tax cuts should see household consumption rise by a significant 0.8%qtr in Q3.

We expect consumption growth to remain at 2.0%yr in 2027, supported by lower interest rates in the second half of the year. We expect this momentum to carry into 2028, with consumption growth accelerating to 2.9% in 2028.

By 2028, we expect to see signs of AI-driven productivity gains emerge. Initially this is likely to be in where tasks are augmented or automated by AI adoption. The fuller impacts will occur when AI adoption allows for the creation of entirely new goods and services, but this will take time. In addition, we expect productivity growth to gradually improve as non-market sector expansion peaks, the benefits of recent public and private investment begin to materialise, and the labour market gradually eases.

Private construction activity by type



Source: ABS, Macrobond, Westpac Economics

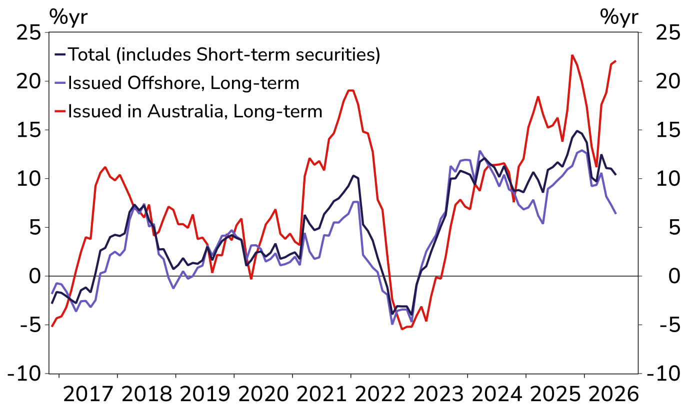
Table 1: Dwelling price forecasts

	avg^	2023	2024	2025	2026f	2027f	2028f
Sydney	3.7	11.3	2.8	6.5	–10	2	6
Melbourne	2.4	4.2	–2	5.2	–8	5	10
Brisbane	7.8	13.5	11.4	14.9	2	3	5
Perth	7.3	16.2	18.4	17.6	3	5	7
Adelaide	7.6	8.8	13.6	8.6	3	4	6
Australia	4.6	10.1	5.1	8.9	–6	3	8

^ avg last 10yrs

Source: Cotality, Westpac Economics

Non-financial corporations – debt securities issued



Source: RBA, Macrobond, Westpac Economics

Box: LNG delivered an export dividend, data centres have the potential to deliver a productivity dividend

The current data centre boom and the LNG investment boom of the 2010s share many similarities. Both are of a comparable scale, at around $200b (including associated energy infrastructure), are highly import-intensive, feature significant foreign ownership, and place heavy demands on Australia's resources and energy systems. The differences, however, are important. Data centres typically become operational within three years, compared with around eight years for LNG projects, meaning the domestic benefits are more front-loaded. They are also triggering a second wave of investment in electricity generation and transmission infrastructure.

The long-term payoff differs as well. LNG delivered an export dividend, while data centres have the potential to deliver a productivity dividend. Data centres generate compute capacity, with the benefits ultimately determined by the extent of AI and cloud adoption across a broad range of industries. There is also scope for Australia to export compute services over time.

LNG vs Data Centres: Similar foundations, different payoffs

	LNG Boom (2010-18)	Data Centre Boom (2025-30)
Import Intensity	Highly import-intensive (60–75%), with entire "structures" (including floating LNG facilities) imported and "installed" in Australia.	Highly import-intensive (60–75%), with most servers, chips and cooling equipment imported
Ownership	Foreign capital and large mining conglomerates	A mix of Australian data centre developers and operators, with underlying demand driven by hyperscalers
Resource Demands	Heavy demand for Australian natural resources and associated infrastructure, including ports, rail and road	Heavy demand for electricity, transmission infrastructure, water and digital connectivity
Project Timeframe	Typically around 8 years to become operational	Typically around 3 years to become operational
Secondary Investment Effects	Limited follow-on infrastructure requirements once projects were approved	Triggering a second wave of investment in generation, storage and transmission infrastructure
Benefits during construction phase	Benefits accrued over a longer construction period	Benefits are more front-loaded, arriving sooner through construction and energy investment
Employment intensity	High demand for labour during construction but relatively few once production begins	Large facilities require substantial construction work but minimal ongoing staffing once operational.
Benefits during production phase	Export dividend through LNG exports. Benefits concentrated in the resource sector	Productivity dividend through compute capacity and AI adoption. Gains spread across a wide range of industries
Export Potential	Exported LNG	Potential to export compute services and reduce reliance on imported compute

The geopolitical risk premium returns …

Justin Smirk, Senior Economist
Luka Belobrajdic, Economist

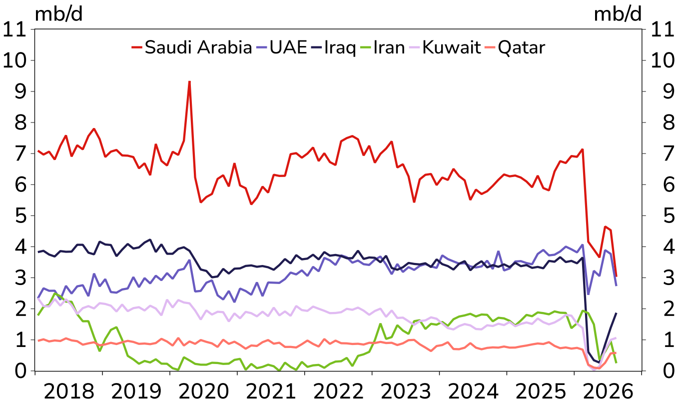
Most commodities rose in August as the geopolitical risk premium reasserted itself. Our broadest commodities index increased 4.5%mth, led by LNG, which rose 15.9%mth on ongoing market tightness and renewed Middle East tensions. Gold gained 8.4%mth, supported by more favourable US economic data and US Treasury intervention in the long end of the bond market, while copper rose 5.5%mth as COMEX inventories continued to build. Brent gained 5.0%mth amid renewed hostilities in the Middle East, aluminium increased 3.1% and Newcastle thermal coal rose 0.8%mth. In contrast, steelmaking commodities weighed on the headline index, with iron ore and Queensland premium low-vol coking coal falling 2.0%mth and 3.3%mth respectively, while lithium (spodumene) declined 4.7%mth.

Oil prices rebound as tensions build

The price of Brent averaged US$87.1/bbl in August – the highest monthly average since May. The increase came as hopes of a lasting agreement between the US and Iran faded, with tensions building throughout the month and periodic flare-ups continuing. Ongoing Houthi targeting of Saudi loading ports in the Red Sea saw Saudi crude exports falling to their lowest level since the conflict began, while Ukraine's successful targeting of Russian production and refining capacity has further disrupted supply. These attacks have had a particularly pronounced impact on already tight refined product markets, and in April Singapore Gasoil margins rose to their highest level since April at around US$70/bbl, up from roughly US$15/bbl prior to the conflict. The continued disruption has prompted us to revise our Q4 Brent forecast to US$90/bbl, a roughly 11% increase on our previous baseline.

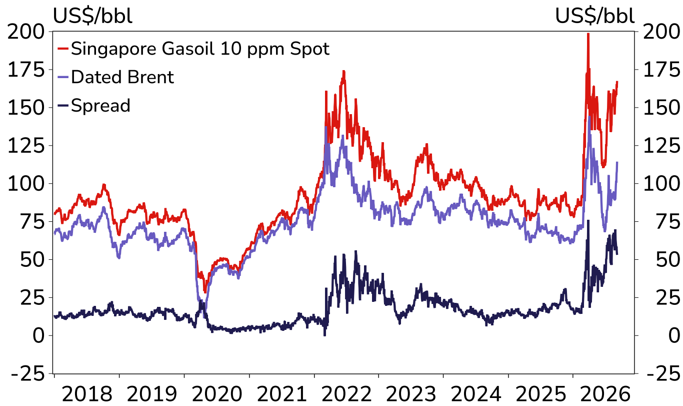
We continue to expect volatility, with key differences between the US and Iran remaining unresolved while supply and demand fundamentals will increasingly reassert themselves as key drivers of prices over coming months. Notably, inventories remain very low. EIA statistics suggest total OECD inventories in August are 121mb below levels recorded prior to the start of the conflict in February. The need to rebuild these depleted reserves will support demand going forward. China will also be an important source of demand. In August, it accounted for just under 14% of global seaborne crude imports, down from just below 21% a year earlier, with imports expected to recover through Q4 as refiners restock ahead of Chinese New Year. Overall, we expect Brent to average US$90/bbl for the remainder of 2026 due to unresolved Middle East tensions and are a recovery in Chinese demand. Volatility remains a feature, with much depending on the durability of any ceasefire and the pace of normalisation in shipping through the Strait, as captured in the two scenarios we published in June.

Monthly Oil Exports



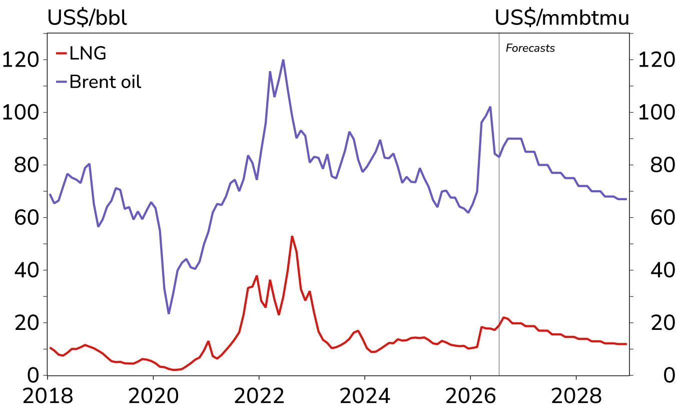
Source: , Macrobond, Westpac Economics

Singapore gasoil crack remains elevated



Source: , Macrobond, Westpac Economics

Oil and LNG Forecasts



Source: , Macrobond, Westpac Economics

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... lifting most commodities higher in August

LNG markets remain tight

LNG prices continued to climb through August. Damage to the world's largest LNG export complex at Ras Laffan in Qatar and the inability to divert flows around the Strait of Hormuz continue to weigh on supply. Strong summer cooling demand across Northeast Asia has further tightened LNG markets. Competition with Europe for flexible Atlantic Basin cargoes has also increased as maintenance at Freeport LNG in the US reduced available supply. As a result, Japanese LNG prices rose 15.9%mth in August, with average prices reaching US$22.0/mmbtu, more than double pre conflict levels.

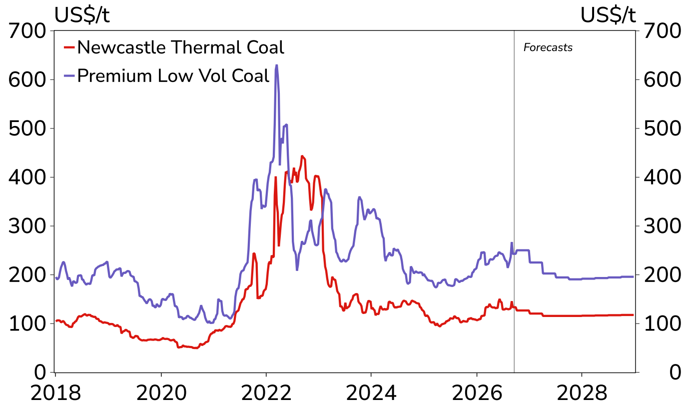
We have raised our expected peak in Japanese LNG prices to US$21.5/mmbtu in the September quarter. Supply recovery is expected to remain constrained, with prices unlikely to return to pre-conflict levels until 2028. Domestically, however, the Australian gas market remains relatively insulated, supported 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.

Shanxi disruption supports seaborne coal prices

Newcastle thermal coal prices were little changed in August, averaging US$131/t over the month. LNG markets continue to support the relative cost competitiveness of thermal coal, while tighter Chinese supply following the Shanxi mining disaster has lifted demand for seaborne cargoes. Prices have since risen sharply in early September, approaching US$150/t, supported by still elevated LNG prices and diesel shortages in Russia, which have constrained exports, while India's return as a buyer in the seaborne market ahead of winter restocking should also support. Against this backdrop, we now expect Newcastle thermal coal to average US$127/t in the December quarter before easing towards US$116/t through 2027 as global energy prices recede.

Queensland premium low-vol coking coal prices fell 3.3%mth in August, reflecting ample seaborne supply, while Chinese and Indian demand remained relatively weak. Since then, however, prices have reversed sharply, with Queensland premium low-vol coking coal rising above US$270/t in early September, its highest level since March 2024. The move higher largely reflects ongoing supply disruption from the late-May gas explosion at a Shanxi coking coal mine, with resulting production suspensions and safety inspections proving more persistent than expected. While the resulting supply loss was initially expected to be offset by increased Mongolian imports, diesel shortages in Mongolia have constrained supply there as well. This has prompted China to return to the seaborne market, with Australia emerging as a major beneficiary. Indian demand is also gradually returning as the country emerges from the monsoon season and steel production lifts. As a result, we forecast premium low-vol coking coal prices to maintain strength into the December quarter to average US$250/t as diesel shortages in Mongolia continue to constrain supply.

Australian Coal Prices



Source: , Macrobond, Westpac Economics

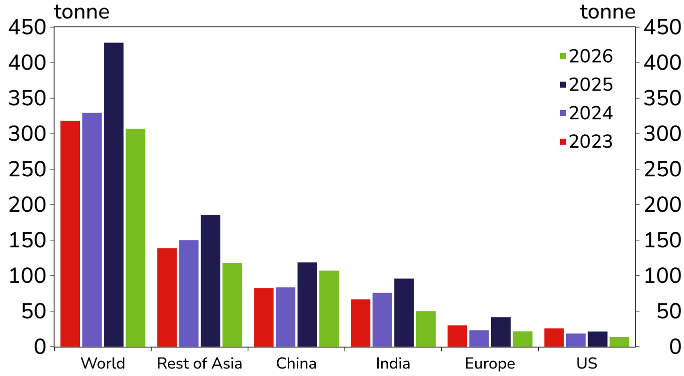
Gold finds support as rate fears moderate

Gold re-established a monthly average above US$4,400/oz in August. As a non-yielding asset, gold has faced a notable rotation throughout the conflict as markets weighed inflationary implications and the prospect that central banks may need to accelerate rate hiking cycles. However, dip-buying, together with a benign US core CPI print in July and a surprise US Treasury announcement to at least double long-end bond buyback operations, helped ease Fed hike expectations and lower yields, supporting gold prices.

While the flow of US economic data remains critical in determining the outlook for gold, further support is likely to emerge should progress towards a more durable resolution of the conflict materialise. Additional support may also arise around the US midterm elections given safe-haven demand. We therefore expect a modest gain through the December quarter to average US$4,500/oz, followed by a period of consolidation in early 2027. Over the longer term, structural support is expected to persist, underpinned by ongoing Asian demand, continued central bank buying and reserve diversification.

Asian demand is influencing global gold prices

Holdings of bar and coin



Source: World Gold Council, Macrobond, Westpac Economics

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

Expectations begin to shift ...

Elliot Clarke
Head of International Economics

Market participants remain acutely aware of the risks facing the world, particularly due to energy costs, with the price of Brent oil having risen from around USD88 to USD108 over the past month. At the same time, confidence in US economic growth remains resolute. Nonetheless, the US dollar has edged lower over the past month from 99.96 to 99.0. This follows stability through late-July and early-August.

Over the past month, the most significant move in the bilateral exchange rates that determine the DXY US dollar index has been in the yen cross. While August's joint intervention by the US and Japan had little net effect, reports of Japanese authorities requesting major domestic institutional investors adjust their portfolios and currency management to favour the yen, paired with a strengthening in Bank of Japan policy expectations, have since proven effective.

In August, USD/JPY's initial decline from JPY164 to JPY155 reversed quickly back to near JPY160. But in September, USD/JPY has broken through JPY155 and tested JPY154.

The current move certainly remains contingent on the Bank of Japan delivering on policy, the market having priced a 25bp hike in September followed by another in January 2027 then June 2027. But, if authorities also prove successful in resetting capital flows related to the yen, the move to JPY154 can not only be sustained but also extended, in time.

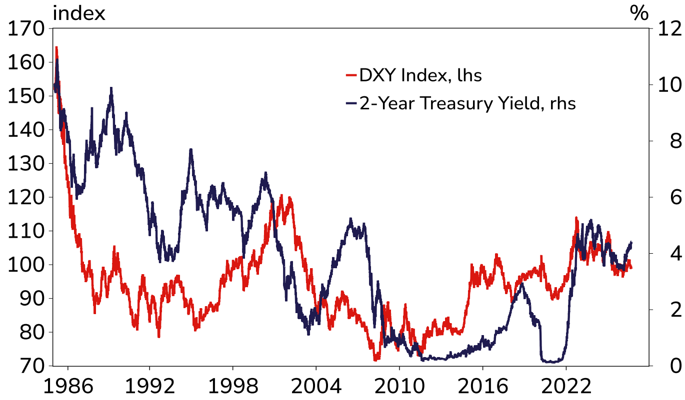
For now we retain a cautious view, forecasting a slow descent to JPY146 at end-2028. However, as that level is 32% above the pair's long-term pre-pandemic average (1990-2019), there is clearly plenty of scope for a material upside surprise for the yen. Though, the timing and scale will largely be up to the actions of Japan's authorities and the long-term opportunities investors perceive in Japanese industry and real assets.

The other major determinants of the DXY index, euro and sterling, have only ground higher over the past month. Data has generally been positive for the Euro Area and UK; although growth is, at best, converging to trend while the US continues to outperform.

Rate expectations are similarly priced for the Euro Area, UK and US – all arguably overstate the degree of tightening necessary. As such, a period of relative currency stability is likely into year-end before a softer US economy and continued uptrend in European and UK growth bear fruit in 2027.

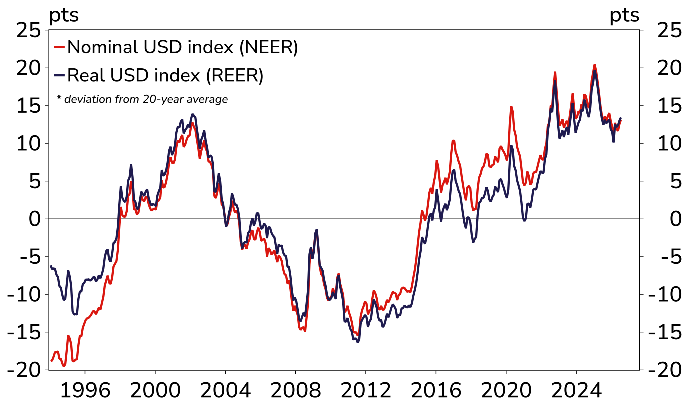
From USD1.16 today, we see euro edging higher to USD1.17 at year end, before a steady appreciation through 2027 to USD1.21, then USD1.22 in the first half of 2028. Sterling

USD demand at limit?



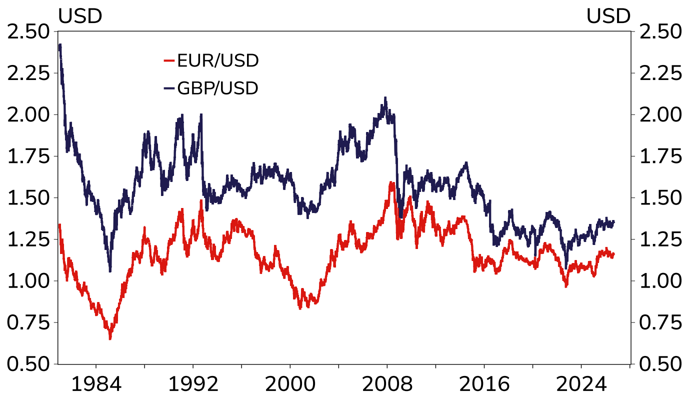
Source: Bloomberg, Macrobond, Westpac Economics

Valuation remains stretched



Source: BIS, Macrobond, Westpac Economics

Euro and UK risks to recede



Source: Bloomberg, Macrobond, Westpac Economics

... against the US dollar

is expected to hold at its current rate until this December, USD1.35, and then appreciate to USD1.39 through 2027 and to USD1.41 by mid-2028.

From their respective starting points, euro and sterling also likely have upside potential against the US dollar. Though it will take time to show, and only if downside risks crystallise for the US economy. The yen outperforming would arguably also benefit euro and sterling against the US dollar, pushing the DXY index away from its 10-year average at 98.7 and focusing participants attention on the 20-year average of 90.8, 8% below today's spot rate.

The rest of Asia is also expected to strengthen against the US dollar as developed-world inflation risks abate and future growth opportunities are focused on.

Closely tied to global growth and development, and with no concerns over inflation or its fiscal position, Singapore's dollar has already appreciated back near its 5-year high versus the US dollar, currently SGD1.2676. A run towards its all-time high is certainly on the cards, albeit not our base expectation, with USD/SGD forecast to trade at SGD1.25 in late-2028 compared to 2012's (brief) low of SGD1.22.

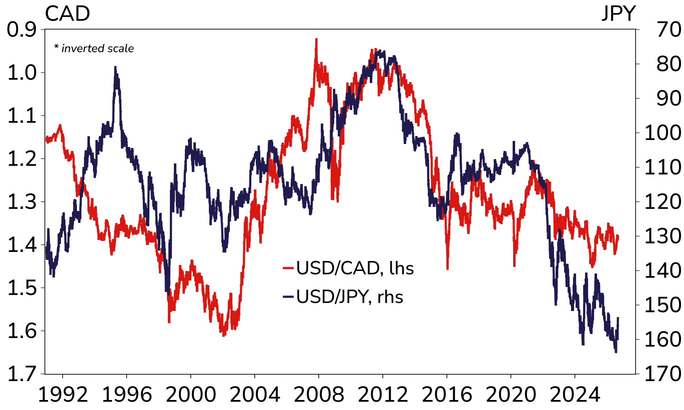
China's renminbi has appreciated at a slower rate than Singapore's dollar to date in 2026, USD/CNY falling from CNY6.99 to CNY6.71. But we expect there are significant gains to come, with the pair forecast to trade down to CNY6.30 in late-2028 on our baseline view, with the risks favouring a stronger renminbi.

For the renminbi to surprise to the upside, arguably China's authorities will need to show initiative with policy and remove some, or all, of the downside risks for domestic demand. Although, an easing of geopolitical tensions which the market has confidence in would also likely provide material benefit to China's valuation.

Asia more broadly has experienced mixed trading this year given weak starting levels and a mix of global and domestic risks. Still, if uncertainty recedes over the forecast horizon, and key nations such as Singapore, China, South Korea and Japan post economic wins, the rest of the region should experience a gradual appreciation in the months that follow.

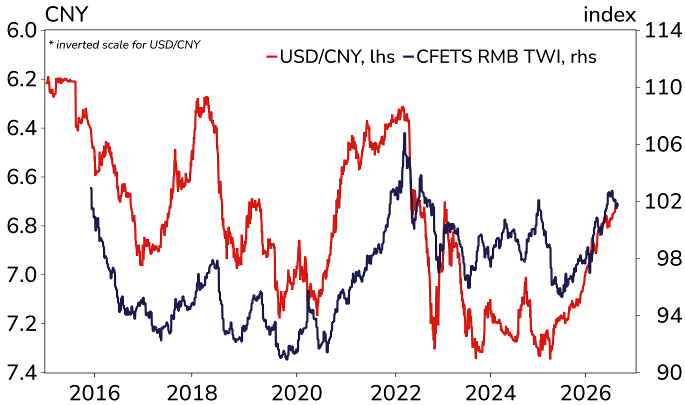
Given the development opportunities before them, in time this could transition into a lasting structural uptrend. This would benefit the region's purchasing power and inflation management, albeit not at the expense of competitiveness, with productivity gains expected to outpace currency appreciation.

JPY may finally get a bid



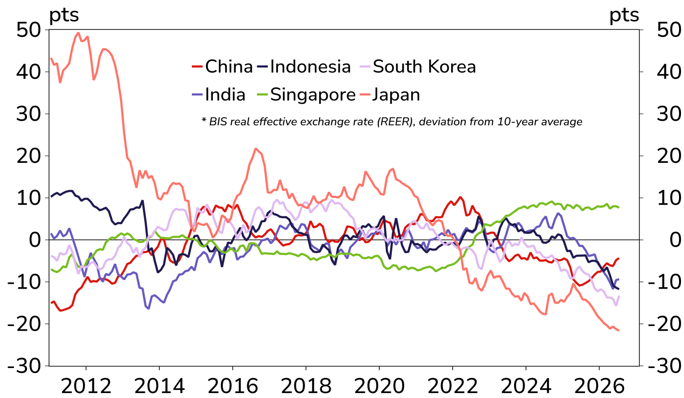
Source: , Macrobond, Westpac Economics

Renminbi to sustain rally



Source: Bloomberg, Macrobond, Westpac Economics

Asia's outlook promising



Source: BIS, Macrobond, Westpac Economics

NZ is shaking off the Middle East conflict …

Darren Gibbs
Senior Economist

Since last month's Market Outlook we have released our flagship quarterly Economic Overview, fully updating our forecasts for the New Zealand economy and monetary policy. With recent data printing close to expectations, revisions to our forecasts were incremental. Importantly, we continue to see welcome signs that the economy is shaking off the disruption caused by the Middle East conflict. And as previously forecast, growth is expected to gradually strengthen and broaden beyond the external sector, which has thus far borne most of the burden of carrying the economy forward.

For now, domestic demand remains patchy. This is particularly so for households, who face higher living costs and a labour market where hiring rates remain low. Growth in consumer spending remains constrained by a lack of growth in real labour incomes – indeed, real wages have fallen over the last year – while declining house prices mean that wealth effects are also absent as a potential growth driver. However, we have seen a notable lift in business investment in plant and equipment over the past year. And while non-residential building activity currently remains subdued, housing construction has begun to turn higher in response to the lower interest rates seen over the past year.

The situation in the export sector remains unequivocally positive. Strong commodity export prices across almost all of New Zealand's key primary products are supporting incomes, especially in regions with significant exposure to the rural economy. This year the dairy sector has also received an additional cash injection from the sale of Fonterra's consumer goods business, which returned $3.2bn to the cooperative's farmers. In addition, despite upward pressure on airfares and other disruptions caused by the Middle East conflict, tourist inflows have continued to track well ahead of last year, helped by growth in arrivals from Australia and China. Moreover, industry anecdotes point to positive forward bookings ahead of the important summer tourism season. Tourist spending also accounts for the relative strength seen in the South Island, compared with the weaker conditions seen in the major North Island metropolitan centres.

In aggregate, we estimate that GDP grew modestly in the June quarter even as the Middle East conflict pushed up prices and weighed on confidence and spending. In addition, indicators of growth have strengthened in the current quarter. As a result, we forecast the economy to grow just over 2% this year. We see growth strengthening further to 3% in 2027. Over time we expect increased levels of activity to generate greater demand for labour, so while the unemployment rate is likely to remain elevated in the near term, it should gradually decline from its present 5.6% – an 11-year high – to below 5% by the end of next year.

Despite the current level of excess capacity in the economy, headline inflation lifted to 4.1%yr in the June quarter – well outside the RBNZ's 1-3% target range. This reflects the sharp lift in prices for energy and associated products, together with the impact of ongoing large increases in administered prices (especially local authority rates and electricity prices). A weaker exchange rate has also contributed to a rise in prices for imported products. While most measures of core inflation remain inside the target range, they lie in the top half of the range. However, growth in unit labour costs, as represented by the Labour Cost Index, is presently consistent with core inflation settling near the target midpoint – assuming no acceleration in wage growth.

The current high level of headline inflation poses risks to the medium-term inflation outlook. Coming so soon after the pandemic inflation shock, it is possible that households and businesses might regard high inflation as the new normal, with those expectations feeding through to wage and price setting behaviour. And measures of inflation expectations – especially at short tenors – did move higher in the June quarter, before easing in the September quarter as retail fuel prices receded from their earlier highs. Longer-term inflation expectations have not moved higher since early 2026. This might provide a degree of reassurance for the RBNZ's policy makers, although some of those measures are relatively high.

So what does this mean for monetary policy? The RBNZ has made clear that it seeks to balance the upside risks to the medium-term inflation outlook associated with the current high level of inflation with the downside risks that might flow if the recovery were to falter, leaving the economy with prolonged excess capacity. Reflecting that careful balancing act, the RBNZ has elected to begin gradually moving monetary policy back towards more neutral settings, raising the OCR by 25bps at both the July and September meetings. The timing of the first hike was around six months earlier than the RBNZ had projected prior to the conflict.

With the OCR now at 2.75%, it is still below the RBNZ's long-run neutral rate estimate and below the range of shorter-run neutral rates that the RBNZ monitors. However, this month the MPC signalled that it would most likely pause at its next meeting in October to allow it to assess the impact of the tightening to date. This was in line with our expectations ahead of the meeting. That said, the MPC has made clear that policy is not on a predetermined path, and the flow of data and news over the coming weeks will dictate the outcome of

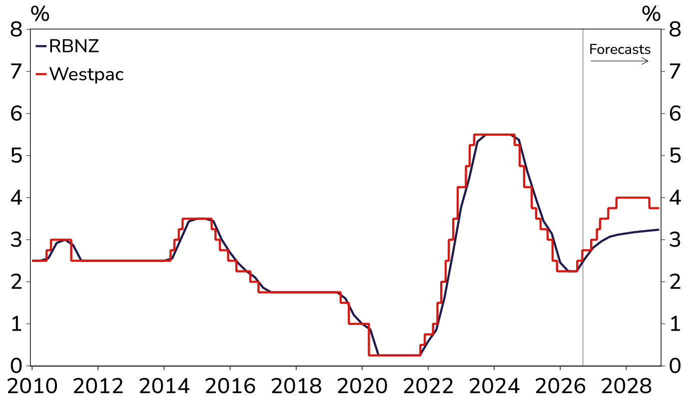
... as the RBNZ removes policy stimulus

that meeting. Given our expectations for the key data releases – notably the September quarter CPI report – we also think that the next rate hike will most likely occur at the December meeting, when the RBNZ will also publish updated economic forecasts.

Looking beyond this year, the RBNZ's current forecasts envisage just one further 25bp hike in the OCR to a peak of 3.25% and that CPI inflation will end next year near the 2% target midpoint. At this stage, the RBNZ does so not expect that restrictive interest rates will be required to bring core inflation down. However, we are less sanguine that inflation will return all the way to 2% without additional policy tightening. As a result, we continue to anticipate that the RBNZ will ultimately lift the OCR to 4%. Conditional on that forecast, we expect inflation to end next year at 1.7%, with the headline measure temporarily depressed by base effects as the current oil price shock is assumed to unwind. Excluding the impact of fuel prices, we expected that CPI inflation will continue to track above 2% next year. The lift in the OCR will maintain upward pressure on longer-term interest rates, which are also being influenced by higher global interest rates.

The New Zealand dollar has struggled this year despite buoyant export commodity prices, weighed down by an OCR at cyclically low levels, weak growth and high levels of conflict-related uncertainty. But with the economic outlook looking more constructive and domestic interest rates moving higher, a stronger NZD may now be in prospect. The NZD should rise versus a still-overvalued US dollar that is expected to weaken somewhat over the next couple of years. Our forecast is for NZD/USD to finish 2026 around 0.59 but then rise to approximately 0.65 by the end of 2027.

Official Cash Rate



Source: RBNZ, Macrobond, Westpac Economics

The interest rate story is particularly important when considering prospects for the relative performance of New Zealand and Australian dollars. NZD/AUD fell to a 15-year low in May as the expected paths for RBNZ and RBA policy diverged. After rebounding somewhat, the cross has since fallen back as the RBNZ has chosen a more sedate pace higher and as markets have priced in interest rate increases in Australia. As the RBNZ continues raising rates in 2027 and the RBA's tightening cycle matures, yield differentials should become more supportive of the New Zealand dollar.

For exporters, a stronger currency will eventually act as a modest headwind. Nevertheless, strong commodity prices, resilient global growth and improving domestic confidence should continue to provide support. For importers and inflation-sensitive sectors, a firmer currency would help reduce imported inflation and assist the RBNZ in bringing inflation back towards target.

	2025				2026							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
REINZ house sales %mth	–2.1	6.4	0.0	0.6	–5.2	4.0	–2.3	–1.0	–3.8	–0.8	–4.6	–
Residential building consents %mth	7.7	–0.9	2.6	–4.3	2.1	2.7	–0.8	12.5	–5.1	–3.7	–4.3	–
Electronic card transactions %mth	–0.4	0.2	1.2	–0.1	–1.1	1.4	0.7	–1.3	1.6	–1.3	1.3	–
Private sector credit %yr	4.2	4.6	4.4	4.6	4.6	4.7	4.9	4.7	4.8	4.9	4.9	–
Commodity prices %mth	–1.1	–0.3	–1.6	–2.1	2.0	4.2	4.2	–0.8	0.8	–1.1	–4.0	–0.4
Trade balance $m	267	–253	–355	–199	–345	–920	–398	147	–1163	–821	–1279	–

Quarterly data	**Q1:24**	**Q2:24**	**Q3:24**	**Q4:24**	**Q1:25**	**Q2:25**	**Q3:25**	**Q4:25**	**Q1:26**	**Q2:26**
Westpac McDermott Miller Consumer Confidence	93.2	82.2	90.8	97.5	89.2	91.2	90.9	96.5	94.7	80.4
Quarterly Survey of Business Opinion	–27	–26	–29	–27	–22	–21	–15	–3	0	1
Unemployment rate %	4.4	4.7	4.9	5.1	5.2	5.2	5.3	5.4	5.4	5.6
CPI %yr	4.0	3.3	2.2	2.2	2.5	2.7	3.0	3.1	3.1	4.1
Real GDP %yr	1.8	1.1	0.5	–0.3	–0.9	–1.1	–0.6	0.3	0.8	–
Current account balance % of GDP	–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

Financial capacity is not a constraint ...

Elliot Clarke
Head of International Economics

Two areas of focus in our analysis of China throughout 2026 has been the absence of momentum in consumption and declining investment, particularly related to property. At July, annual nominal growth in retail sales stood at just 0.6% while total fixed asset investment was 6.7% lower year-to-date, with property investment down 19.2%ytd for a third successive year of double-digit declines.

Assessed in isolation, it would be easy to conclude from these outcomes that policy is restrictive. But this is not the case. Since the end of 2021, the weighted average mortgage rate has fallen more than 250bps to a record low circa 3.0%. Over a similar time period, the reserve requirement ratio for major banks has also been reduced by 350bps to a record-low of 9.0%. Capacity to lend has been further scaled up by repeated capital injections into the banking sector – the most recent occurring this month – and strong deposit growth.

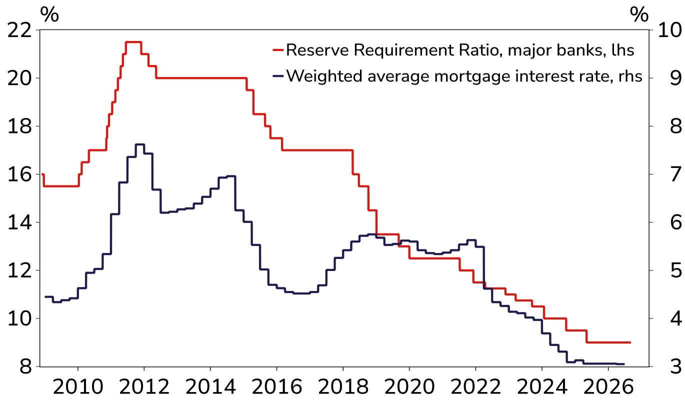
The trend for deposit growth highlights another home truth for China's economy: households are not short of cash. To the contrary, the stock of time deposits has compounded at 15% per annum since end-2019, on top of 6% average annual growth for demand (at call) deposits. Clearly, not investing in property and eschewing discretionary consumption has been a choice households have made of their own volition, not because they lacked available capital.

The PBoC's Urban Depositor Survey also highlights how entrenched households' pre-disposition to save has become, with 'more saving' at record highs (back to 2003) and still trending up. At the same time, 'more investment' is near its record low. Behind these outcomes is incredibly low confidence in the labour market and household income. While consumers fear for their finances, they are unlikely to spend freely, particularly with social safety nets absent and consumer inflation limited.

It is not just households that feel this way. Businesses and local governments are also circumspect on growth opportunities outside of tech-related export industries and associated infrastructure. Loan issuance remains weak and brittle, with businesses instead limiting investment to improve capacity and improve efficiency to free cash flows. Equity and bond issuance is also an option for large firms; though, as in the west, for many of these firms, the scale and growth of recurring earnings remain sufficient to cover new investment.

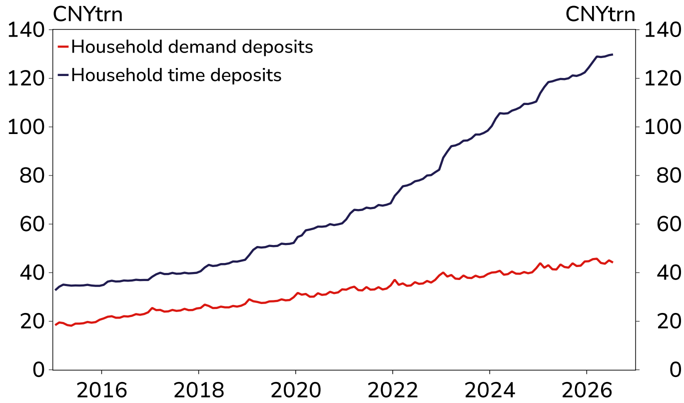
With the help of the Central Government, local authorities have, over a number of years, sought to refinance existing debt to longer maturities at cheaper interest rates. For both standard and special purpose bonds, yields are now at

Policy is highly accommodative



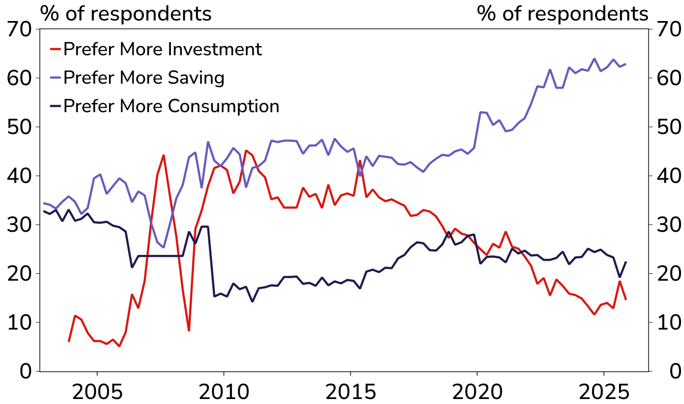
Source: Bloomberg, Macrobond, Westpac Economics

Households have plenty of savings



Source: PBoC, Macrobond, Westpac Economics

Household financial preferences entrenched



Source: PBoC, Macrobond, Westpac Economics

… but confidence is

record lows. Despite this strong setup, there is little-to-no evidence of a growing interest in investment amongst these entities. Instead, they continue to hold back, waiting for a pick-up in end demand for housing and investment by private business before committing to new infrastructure projects.

Are there then any areas where Chinese domestic demand is breaking out? High-tech investment is certainly continuing at a historically-elevated level, but growth has dwindled. While the official data on foreign investment is dated, press reports imply China's private sector and state-owned enterprises continue to scale offshore investment.

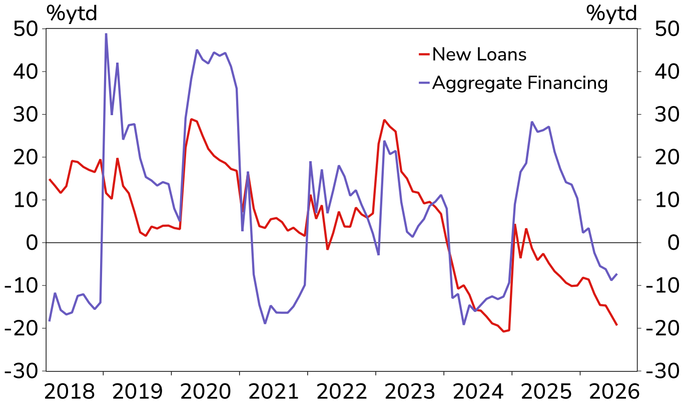
Chinese authorities' priorities for their foreign assets are clearly evident. Their holdings of US Treasury securities have now been in steady decline for over a decade, and the pace of roll-off accelerated through the pandemic. Some of this capital has been invested in gold and other commodities, strengthening China's financial resilience, with the remainder committed to real assets that benefit China economically and politically, based on anecdotes and market reports.

The patterns and priorities outlined above point to China having significant financial and economic capacity. Policy is also highly accommodative and, given inflation, there is no reason for a change of approach.

Instead, there is cause for authorities to set the nation apart in a time of global economic stress and deliver, or beat, their growth objectives. What is needed is a clear and decisive trigger to catalyse momentum. In doing so, there need be no concern of largesse or the risk of financial instability.

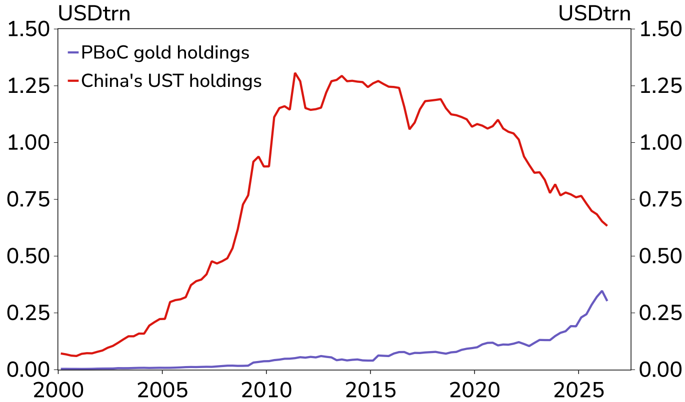
To the contrary, what should be feared is the potential loss of residual momentum and a further narrowing of the growth opportunities available. Without concerted action, China is at risk of ending up in a fragile, low-growth environment, to the detriment of its population and the world at large.

Credit impulse negative



Source: Bloomberg, Macrobond, Westpac Economics

Authorities favour metals and real assets



Source: U.S. Treasury, World Gold Council, Macrobond, Macrobond, Westpac Economics

	2025				2026							
Monthly data %yr	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Headline CPI %yr	–0.3	0.2	0.7	0.8	0.2	1.3	1.0	1.2	1.2	1.0	0.5	0.8
M2 money supply %yr	8.4	8.2	8.0	8.5	9.0	9.0	8.5	8.6	8.6	8.0	7.7	–
Manufacturing PMI (official)	49.8	49.0	49.2	50.1	49.3	49.0	50.4	50.3	50.0	50.3	49.2	49.8
Fixed asset investment ytd %yr	–0.5	–1.7	–2.6	–3.8	–3.8	1.8	1.7	–1.6	–4.1	–5.7	–6.7	–
Industrial production %yr	6.5	4.9	4.8	5.2	5.2	6.3	5.7	4.1	4.5	5.3	4.5	–
Exports %yr	8.2	–1.3	5.8	6.4	10.0	39.6	2.5	14.0	19.2	26.9	23.9	25.0
Imports %yr	8.0	1.8	2.6	6.4	26.9	14.6	28.3	25.3	27.3	35.8	27.6	28.2
Trade balance USDbn	88.7	88.0	109.9	111.9	120.2	89.5	50.0	84.5	105.2	125.5	112.3	119.1

Quarterly data	Mar–25	Jun–25	Sep–25	Dec–25	Mar–26	Jun–26
Real GDP %yr	5.4	5.2	4.8	4.5	5.0	4.3
Nominal GDP %yr	4.6	3.9	3.7	3.9	4.9	5.9

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

Reflections on Chair Warsh ...

Elliot Clarke
Head of International Economics

FOMC Chair Warsh's first Jackson Hole address stretched across several major themes, including the AI infrastructure build-out, productivity and monetary policy forward guidance. But it was his 'Key Principles' for policy and take on 'The Economy Today' that were focused on.

From the Jackson Hole discussion on principles, "Nor should we rely on isolated data points" and "Trends matter most" speak to determining policy based on an all-encompassing view of the economy. It was also notable that Chair Warsh outlined that the "Federal Reserve's actions are intended to ensure... aggregate demand... is broadly consistent with aggregate supply"; but, with supply-side developments only inferred, real-time analysis and policy has to focus on demand.

In terms of gauging success. "The Fed's price-stability objective of 2 percent, as measured by the personal consumption expenditures (PCE) price index, is a firm, fixed target... [that] is not self-executing [or] necessarily mean-reverting". Achieving "maximum employment" is also required, but only in the medium term.

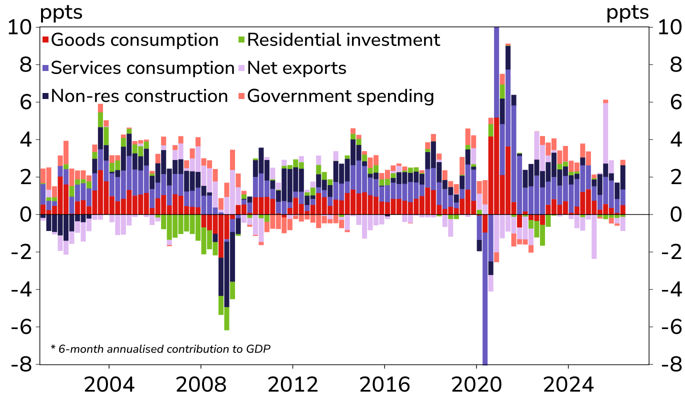
Having outlined these core tenets for policy, Chair Warsh went on to assess the current state of the economy. The first call out was that capital expenditure by businesses is "rising rapidly", with "More than half of the cap-ex growth this year... ascribed to the buildout related to AI". Chair Warsh recognised a need to monitor for any change in expectations for real investment and earnings. But, for now, as business borrowing costs and terms are favourable, the outlook for real investment is viewed constructively.

On the labour market, it is notable that the circa 1ppt decline in the participation rate since January 2025 was not cited as a factor behind the unemployment rate holding near 4.1%. Over this period, the employment-to-population ratio has instead declined 1ppt. In effect, reduced available supply has kept the labour market tight, to the detriment of household income.

That then leaves the 'hot topic' of inflation. Chair Warsh's views were delivered top down, with the 12 and 6-month annualised change in headline PCE the benchmark references – respectively 3.7%yr and 4.1% annualised at July. The breadth of inflation was also called out, with "54 percent of goods and services in the PCE basket show[ing] price increases above 3 percent" over the year, "well below the post-pandemic highs of about 77 percent, but... well above the level of 32 percent in the two decades that preceded the pandemic".

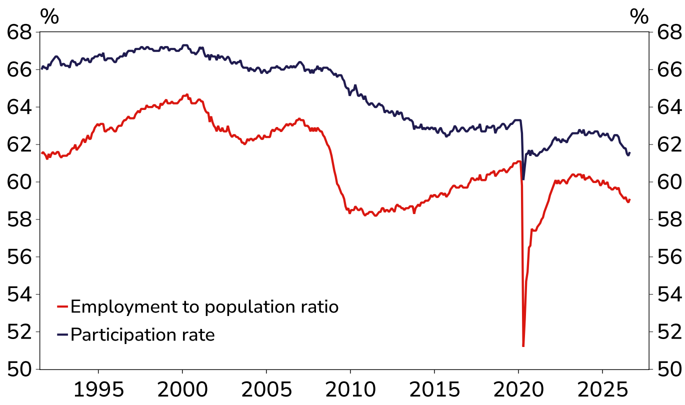
As important as the measures chosen by Chair Warsh are the statistics excluded. Broadly, the metrics omitted instead suggest policy is well on its way to achieving the FOMC's

Investment driving GDP



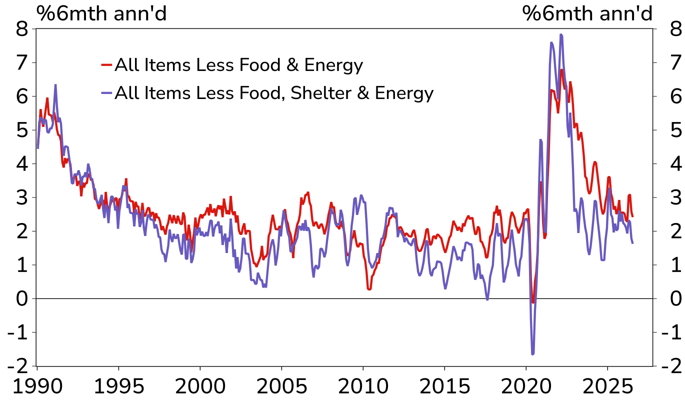
Source: BEA, Macrobond, Westpac Economics

Participation masks emerging slack



Source: BLS, Macrobond, Westpac Economics

Ex shelter, core inflation below target



Source: BLS, Macrobond, Westpac Economics

... at Jackson Hole

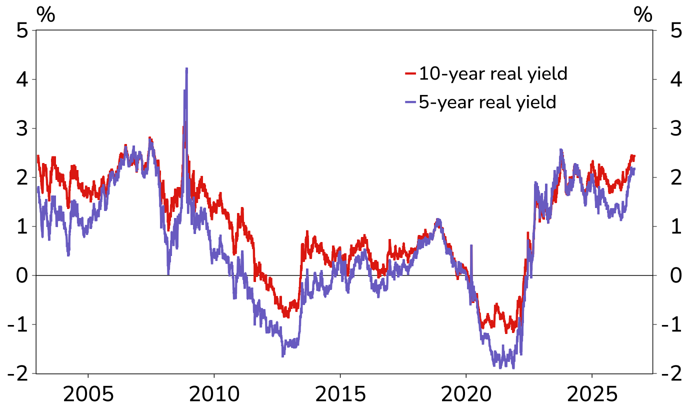
medium-term objective with the current stance of policy, particularly if expectations remain benign and stable.

Over the year, the CPI ex food, energy, and shelter has risen 3.5%yr; but for the 6 months to July, the annualised gain was just 1.6%. The PCE equivalent (ex-food, energy and housing) has held up more given compositional differences, but has still shown progress of late, coming in at 3.4% for the past 6 months but only 2.9% annualised in the past 4 months. Note as well that the Dallas Fed's trimmed mean measure is between 2.2% and 2.4% annualised on a 1-month, 6-month and 12-month basis at July. And the Cleveland Fed's median and trimmed mean measures are 2.7%yr and 2.6%yr.

In concluding his speech, Chair Warsh made clear that the Committee "must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed". "Otherwise, we have work to do." Characterising the policy task in this manner given the above context makes clear inflation risks are the FOMC's priority.

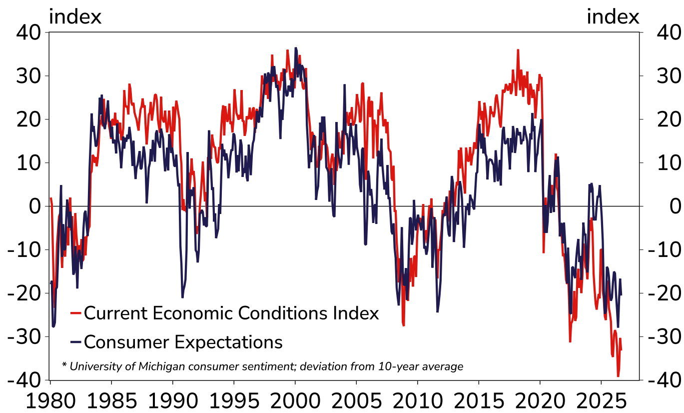
Prior to recent developments, we believed the FOMC could have achieved their inflation aim by remaining on hold with a hawkish bias. But the limited confidence market participants took from Chair Warsh's address and the immense volatility apparent in markets since necessitates a course correction. A hike in September and another in Q4 should allow time for the underlying disinflation evident above to be reflected in other measures. Acting now will also lean against any deterioration in expectations and the run higher in long-term yields. At present though, we do not believe the additional one-to-two hikes that the market has priced for 2027 are justified. A further sustained escalation of global conflict and evidence of secondary inflation effects are necessary to warrant such a course. At this stage, this is only a risk. If we are correct, a reversal of the two forecast hikes will be possible in 2028.

Real yields up on growth



Source: Bloomberg, Macrobond, Westpac Economics

Households are deeply concerned



Source: University of Michigan, Macrobond, Westpac Economics

	2025				2026							
Monthly data	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
PCE deflator %yr	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	4.1	3.7	3.7	–
Unemployment rate %	4.4	4.5	4.5	4.4	4.3	4.4	4.3	4.3	4.3	4.2	4.1	4.1
Nonfarm payrolls chg '000	76	–140	41	–17	160	–156	214	148	63	31	21	162
House prices* %yr	1.4	1.3	1.5	1.5	1.3	1.0	1.0	1.2	1.6	2.1	–	–
Durables orders core 3mth %saar	10.9	9.8	9.8	8.9	5.5	8.5	22.0	20.6	22.2	12.4	15.0	–
ISM manufacturing composite	48.9	48.8	48.0	47.9	52.6	52.4	52.7	52.7	54.0	53.3	55.6	54.6
ISM non–manufacturing composite	50.4	52.0	52.4	53.8	53.8	56.1	54.0	53.6	54.5	54.0	54.1	55.4
Personal spending 3mth %saar	6.6	5.5	4.5	4.7	3.6	4.9	7.1	9.1	10.1	7.5	5.6	–
UoM Consumer Sentiment	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8	44.8	49.5	55.2	51.7
Trade balance USDbn	–59.4	–37.4	–63.9	–76.1	–52.7	–52.5	–53.7	–52.9	–75.8	–71.2	–88.6	–

Quarterly data	**Jun–25**	**Sep–25**	**Dec–25**	**Mar–26**	**Jun–26**	**Sep–26(f)**
Real GDP % saar	3.8	4.4	0.5	2.1	1.5	2.8
Current account USDbn	–254.9	–262.9	–221.1	–226.8	–	–

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

The evolving determinants …

Illiana Jain
Economist

Across much of Asia, growth forecasts have generally been revised higher over the past year, while corporate profitability remained robust and the AI investment cycle continued to support activity and confidence in the outlook. Yet exchange rates have largely failed to respond. Over the past year, the INR has depreciated 7.1% against the USD and the JPY 4.1%, while the KRW's 3.7% appreciation is nascent.

The disconnect reflects a structural shift in how capital is allocated. Historically, stronger growth and rising corporate profits attracted capital, benefitting exchange rates. Increasingly, though, domestic savings are being invested abroad, leading policymakers to focus less on attracting foreign investment and more on encouraging domestic capital to remain at home. The financial decisions of individuals and entities are therefore becoming as, or more, important for currencies than each nation's domestic economic performance.

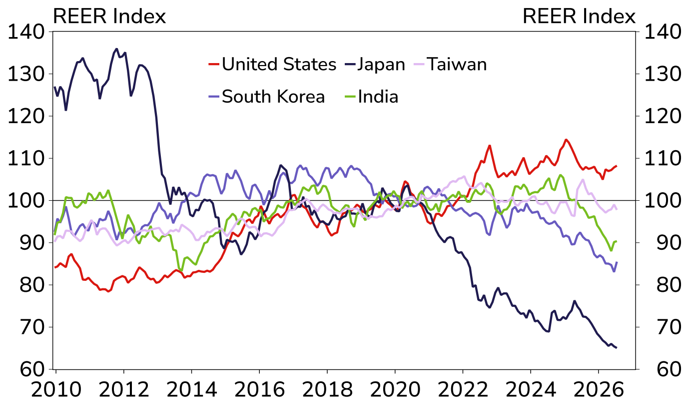
India has responded directly to this challenge. In June, the Reserve Bank of India introduced a concessional FX swap facility and removed the interest-rate ceiling on 3-5 year Foreign Currency Non-Resident (Bank) [FCNR(B)] deposits. By subsidising hedging costs, banks were able to offer deposit rates approaching 7%, encouraging their diaspora to place savings back in the Indian financial system.

Demand was so strong that the scheme closed a month earlier than anticipated in August 2026, with deposits accumulating to US$127.2bn. The inflows have helped support the INR and reduced pressure on the RBI to intervene in FX markets, while still maintaining a relatively hawkish policy stance.

The issue is that these deposits mature over the next three to five years. Following a similar episode in 2013, when around US$34bn of funds were raised, come 2016 when the scheme matured, sizeable outflows occurred. Then, adequate reserve accumulation and careful preparation were required to prevent a disorderly adjustment in INR. More generally, the scheme highlights a broad shift in India's external financing model, with remittances sourced from higher-income migrants in advanced economies increasingly being deployed as investment capital versus household transfers to fund domestic consumption. As domestic financial markets deepen, maturing FCNR(B) deposits may increasingly be rolled into local assets, transforming future maturity walls into refinancing events rather than outright capital flight.

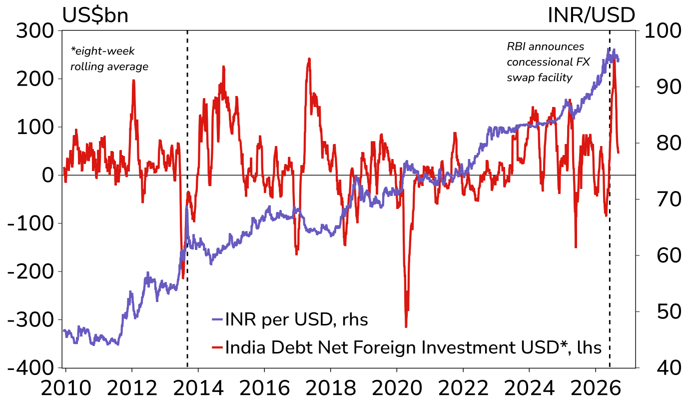
South Korea illustrates how strong fundamentals no longer guarantee currency appreciation. Despite robust exports and record profitability among major technology firms, the KRW

Asia FX remains weak despite fundamentals



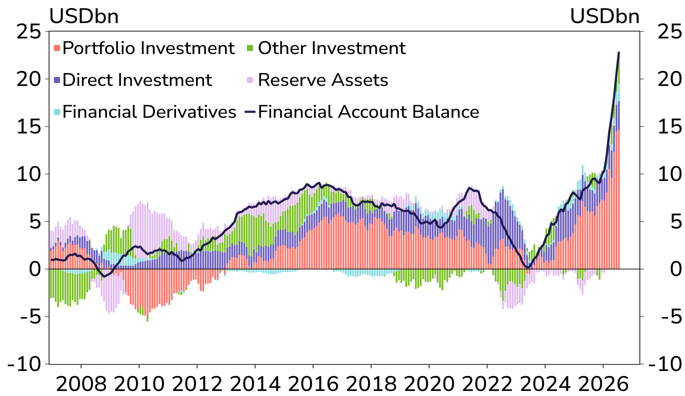
Source: BIS, Macrobond, Westpac Economics

India uses its diaspora to court foreign inflows



Source: Macrobond, Westpac Economics

Korean savings are flowing offshore



Source: BOK, Macrobond, Westpac Economics

... of Asia's FX story

has remained weak. The reason is increasingly visible in the balance of payments data.

The economy recorded a financial account surplus of US$46.7bn over the past year, including a US$29.9bn surplus in portfolio investment, reflecting continued purchases of foreign assets by residents. At the same time, South Korean holdings of US securities have climbed to almost US$1tn. Rather than repatriating export earnings, households and institutions are increasingly recycling savings into offshore assets, particularly US equity markets.

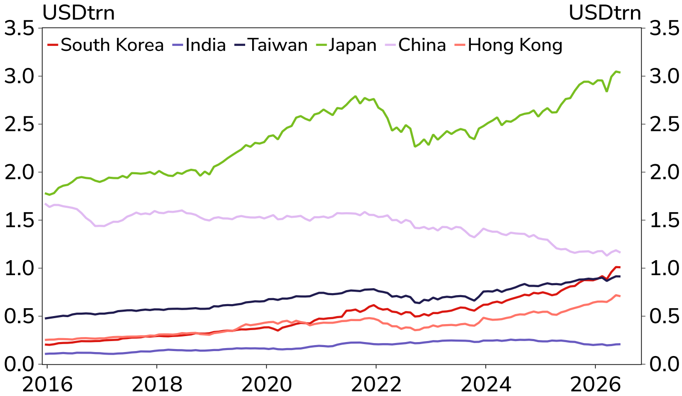
This behaviour weakens the traditional relationship between economic performance and the exchange rate. The challenge for South Korea is not a shortage of savings or investment capital. It is that a growing share of those savings is being invested abroad.

Japan's current account surplus is meanwhile less supportive for the yen than it appears because a growing share reflects reinvested earnings that never return to Japan. While the country earns substantial income from its overseas assets, much of that income remains offshore, meaning the current account overstates the amount of foreign currency being converted back into yen. The current account surplus came in at JPY8.7trn in Q2 2026, but the "cashflow" measure which strips out reinvested earnings sat at JPY5.4trn. In other words, Japan's external accounts have been generating foreign assets without generating commensurate demand for the yen.

Weakness in the JPY since 2022 has largely reflected widening interest-rate differentials between Japan and the rest of the developed world. These differentials encouraged households, pension funds, insurers and corporates to allocate savings abroad, reinforcing capital outflows at the same time a growing share of Japan's overseas earnings remain offshore. However, rising JGB yields and elevated FX hedging costs are beginning to reduce the relative attractiveness of foreign debt assets. Most recently, higher JGB yields and a push from Japan's Ministry of Finance have seen the world's largest pension fund, GPIF, increase allocations to domestic assets while purchases of foreign bonds have slowed. To have an ongoing positive effect on the yen, this one-off change would need to repeat and scale up over time. Still, the shift in market psychology could moderate a structural headwind for the yen even if domestic investors only maintain this initial change.

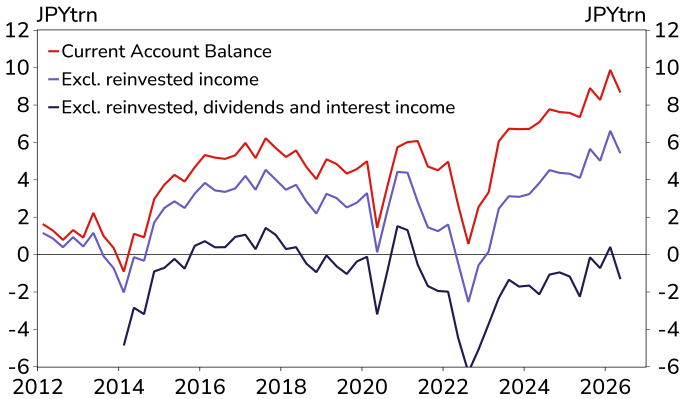
Asian economies are increasingly characterised by abundant domestic savings, growing international investment capabilities and deeper financial integration with global markets. In that environment, currency outcomes are becoming less of a reflection of economic growth alone and instead a blend of real economy and financial market developments.

Foreign Holders of US Securities



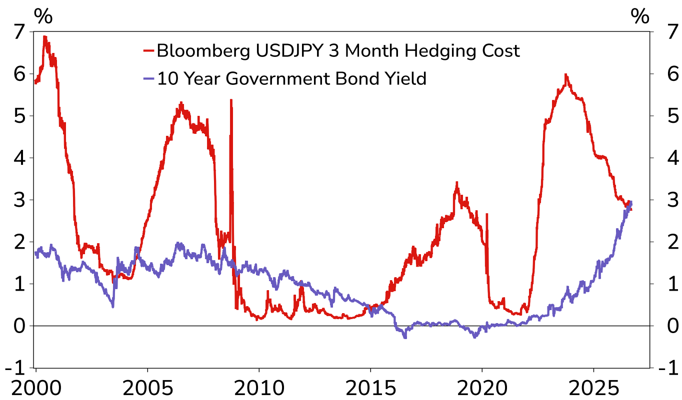
Source: U.S. Treasury, Macrobond, Westpac Economics

Japan's current account surplus hides outflows



Source: BOJ, Macrobond, Westpac Economics

Japanese assets now look attractive



Source: Macrobond, Macrobond, Westpac Economics

Rate hikes beyond December …

Elliot Clarke
Head of International Economics

Market participants have ratcheted up policy expectations for the ECB over the past month. As we publish, almost 100bps of hikes on top of September's 25bp decision are priced by July 2027, up more than 50bps since mid-August.

Against this pricing, Westpac's own view is for one more 25bp hike in Q4 which we believe will allow the Council to achieve their medium-term 2.0%yr target, based on current data.

The ECB's justification to hike in September rested on annual inflation remaining meaningfully above the Governing Council's medium-term target and a clear skew in the risks.

Having troughed at 1.7%yr in January 2026, headline inflation has since risen to 3.3%yr, in large part due to the surge in energy prices related to the Middle East conflict and Russia-Ukraine war. More significantly, excluding food and energy, annual inflation only fell to 2.2%yr at the beginning of the year and has since lifted to 2.4%yr. This is a meaningful but not alarming deviation from target which a mildly contractionary stance from Q4 (a deposit rate circa 2.75%) should be able to resolve within a year or two. The ECB's latest forecasts are consistent with this assessment, seeing headline inflation back at 2.1%yr in 2028 after the September hike to 2.50%.

The additional three hikes market participants have priced from Q4 to mid-2027, more than 50bps of which has been added since mid-August, arguably rests on the recent escalation of tensions getting materially worse, spurring the price of Brent crude and European gas higher still.

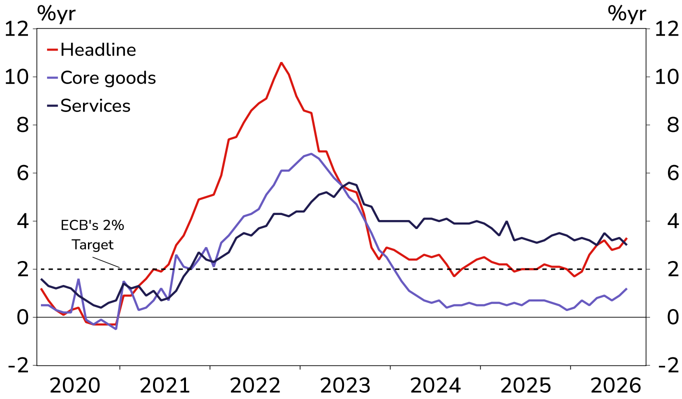
A second-round of commodity inflation will, all else equal, at least hold up the annual rate of headline inflation, and it materially raises the risk of secondary price pressures permeating through the rest of the consumer price basket.

While we recognise the presence of these pressures, at this stage we believe persistence is best regarded as a risk rather than being incorporated into the baseline view. Justifying this perspective are several factors.

Currently, demand and supply in the Euro Area economy remain broadly balanced. Over the past two and a half years, annual GDP growth has averaged 1.2%yr, in line with potential. Within the detail, household spending has been resilient but the pace of growth has been solid rather than strong. While volatile, the investment data has meanwhile point to a sustained expansion of capacity across the economy with a replenishing pipeline.

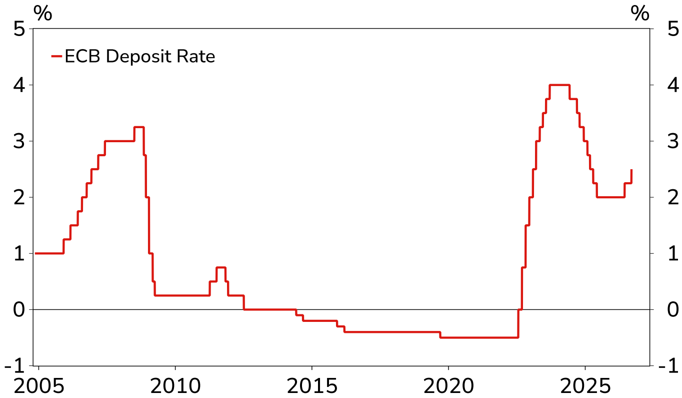
A similar situation is evident in the labour market. The unemployment rate has now been broadly stable near its

Inflation to tend to target …



Source: Eurostat, Macrobond, Westpac Economics

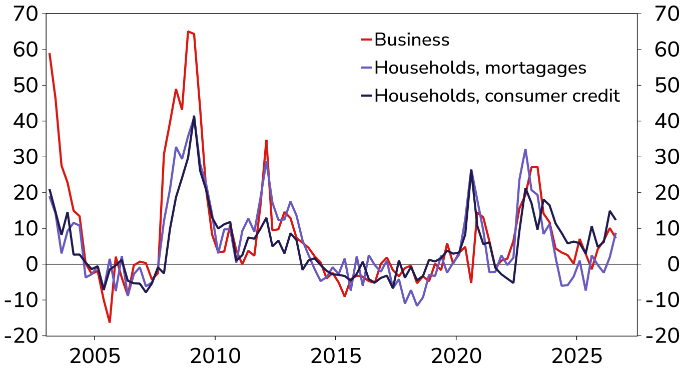
… with mildly restrictive policy



Source: ECB, Macrobond, Westpac Economics

Credit standards have been tightened

Net % of banks reporting a tightening of credit standards



Source: ECB, Macrobond, Westpac Economics

... to prove unnecessary

record low of 6.2% for several years as employment growth maintained a modest pace of gain, 0.5%yr in Q2 2026. Annual growth in negotiated wages was also in line with core inflation in Q2 at 2.4%yr.

Given these developments, it is not surprising that inflation expectations are well behaved and relatively stable, only marginally above the historic average on a 1-year and 3-year view. With policy makers rhetoric focused on doing what is necessary to manage inflation risks, a blow out in expectations amongst households and businesses seems highly unlikely.

It is also important to consider the impact of financial conditions on credit demand and its availability. At August, there was clear evidence from the ECB's Bank Lending Survey that lending conditions were a restrictive influence on the economy over and above the stance of monetary policy.

For households, Q2 saw a second consecutive quarter of credit standard tightening for mortgages across the Continent, principally due to heightened risk perceptions and reduced risk tolerance amongst the banks. Demand for mortgages unsurprisingly fell for a second quarter in a row, and respondents foresee a further reduction in Q3.

A more broad-based tightening of standards was evident for consumer credit. This looks to be partly related to current risks, but also a consequence of structural change, with standards having consistently been tightened quarter-on-quarter over the past two years. Demand for consumer credit contracted in the first half of 2026 after a lacklustre 2025.

A moderate tightening of credit standards is also apparent for businesses. Though, new business investment grew through 2024–26 while credit standards were tightened quarter-on-quarter, implying the impact on business investment of current decision making will likely be modest.

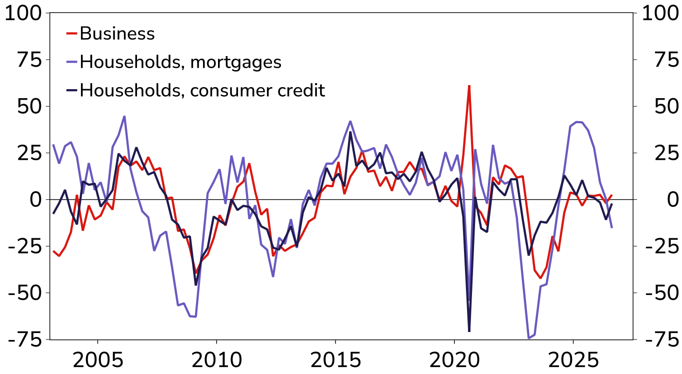
Continued credit growth amongst business while the consumer holds back should improve the Euro Area's ability to grow sustainably in the medium term and to control inflation pressures. Government support for the economy will also aid the region's health.

Indeed, Euro Area governments have capacity to do more on this front, particularly in Germany. This is because Euro Area yields are materially lower than in the US, and their fiscal calculus is more manageable. Highlighting the scale of difference, the 10-year German yield is currently at 3.5% while the US 10-year trades near 5.0%. Since June, the German yield has risen around 30bps compared to circa 60bps in the US.

All told, current data and financial conditions argue for one more hike then a steady hand from the ECB, allowing robust growth and full employment to persist across the region.

Loan demand mixed

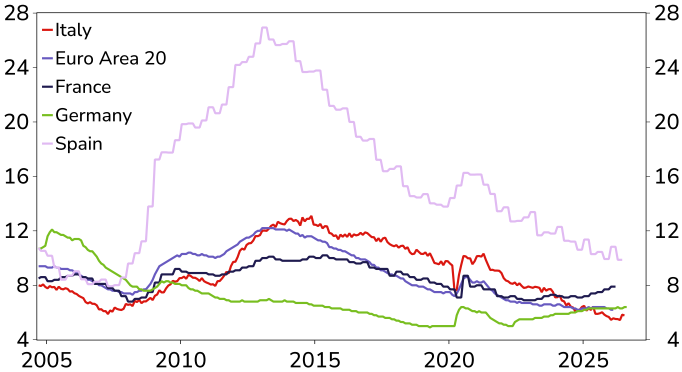
Net % of banks reporting an increase in demand



Source: ECB, Macrobond, Westpac Economics

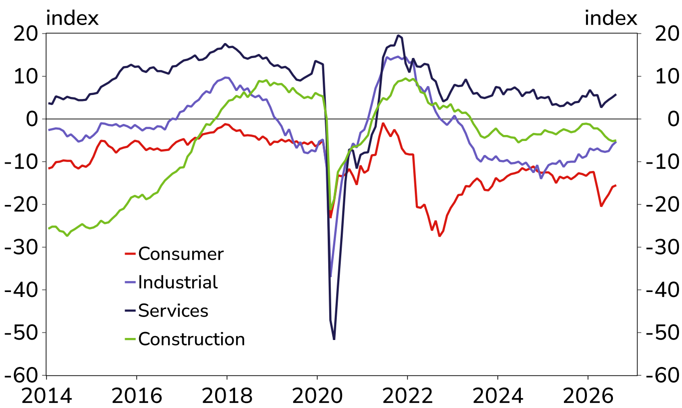
Labour markets fully employed

Unemployment rate (%)



Source: Istat, Eurostat, INSEE, German Federal Employment Agency (Bundesagentur fuer Arbeit), INE, Macrobond, Westpac

Confidence showing resilience



Source: DG ECFIN, Macrobond, Westpac Economics

Australia

Interest rate forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	4.35	4.60	4.60	4.60	4.35	4.10	3.85	3.85	3.85	3.85
90 Day BBSW	4.67	4.70	4.70	4.55	4.30	4.05	3.85	3.95	3.95	3.95
3 Year Swap	5.01	4.65	4.60	4.50	4.40	4.30	4.25	4.20	4.15	4.10
3 Year Bond	5.03	4.65	4.60	4.50	4.40	4.30	4.25	4.20	4.15	4.10
10 Year Bond	5.38	5.20	5.10	5.00	4.90	4.85	4.80	4.80	4.80	4.80
10 Year Spread to US (bps)	42	40	35	30	25	15	5	0	–5	–10

Currency forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
AUD vs										
USD	0.7162	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
JPY	110.52	111	111	112	111	110	109	108	107	106
EUR	0.6165	0.61	0.61	0.61	0.61	0.60	0.60	0.60	0.60	0.60
NZD	1.2314	1.22	1.19	1.16	1.14	1.12	1.12	1.11	1.11	1.11
CAD	0.9909	0.99	0.99	0.99	0.99	0.98	0.97	0.96	0.96	0.96
GBP	0.5300	0.53	0.53	0.53	0.53	0.53	0.52	0.52	0.52	0.52
CHF	0.5821	0.57	0.56	0.56	0.55	0.55	0.54	0.54	0.54	0.54
DKK	4.6087	4.57	4.56	4.59	4.55	4.51	4.47	4.45	4.46	4.48
SEK	6.9349	6.91	6.92	6.98	6.95	6.93	6.87	6.85	6.88	6.91
NOK	6.6466	6.62	6.63	6.70	6.67	6.64	6.59	6.57	6.60	6.62
ZAR	11.59	11.6	11.6	11.7	11.7	11.7	11.7	11.8	11.8	11.8
SGD	0.9078	0.91	0.91	0.92	0.92	0.92	0.91	0.91	0.91	0.91
HKD	5.6157	5.61	5.63	5.70	5.69	5.69	5.65	5.63	5.62	5.61
PHP	44.94	44.4	44.3	44.5	44.2	43.8	42.8	42.0	41.3	41.3
THB	23.73	23.3	23.0	23.0	22.6	22.4	22.1	21.9	21.7	21.7
MYR	2.9169	2.86	2.84	2.85	2.85	2.81	2.80	2.79	2.75	2.75
CNY	4.8064	4.80	4.75	4.75	4.71	4.67	4.61	4.60	4.56	4.56
IDR	12567	12458	12384	12410	12191	11972	11834	11729	11656	11656
TWD	22.66	22.6	22.3	22.3	21.9	21.5	21.1	20.6	20.4	20.4
KRW	965	967	968	978	975	971	962	956	952	952
INR	68.83	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	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Household consumption	0.4	0.4	0.8	0.4	0.4	0.5	0.5	0.6	2.5	2.0	2.0	2.9
Dwelling investment	1.5	1.6	1.2	0.9	0.8	0.8	0.9	0.7	5.2	5.3	3.2	5.5
Business investment *	6.2	–0.5	4.4	2.1	4.0	1.4	1.6	1.3	4.5	12.7	8.6	5.0
Private demand *	1.4	0.3	1.1	0.8	1.1	0.7	0.7	0.7	3.2	3.6	3.3	3.5
Public demand *	–0.5	0.2	0.7	0.7	0.6	0.6	0.6	0.6	2.4	1.1	2.5	2.6
Domestic demand	0.9	0.3	1.0	0.7	1.0	0.7	0.7	0.7	3.0	2.9	3.1	3.2
Stock contribution	–0.1	–0.1	–0.0	–0.1	0.0	0.0	–0.1	0.0	0.1	–0.2	–0.1	0.1
GNE	0.8	0.2	1.0	0.7	1.0	0.7	0.6	0.7	3.1	2.7	3.0	3.3
Exports	–1.1	0.8	0.5	0.8	0.4	0.7	0.7	0.6	5.2	1.1	2.4	2.4
Imports	2.0	0.5	2.6	2.1	2.7	1.8	1.3	1.5	6.8	7.3	7.5	5.5
Net exports contribution	–0.7	0.1	–0.5	–0.3	–0.6	–0.3	–0.2	–0.2	–0.3	–1.5	–1.3	–0.8
Real GDP %qtr / %yr avg	**0.3**	**0.4**	**0.5**	**0.4**	**0.4**	**0.4**	**0.5**	**0.5**	**2.0**	**2.1**	**1.7**	**2.2**
%yr end	**2.5**	**2.1**	**2.1**	**1.5**	**1.7**	**1.6**	**1.6**	**1.7**	**2.6**	**1.5**	**1.7**	**2.5**
Nominal GDP %qtr / %yr avg	0.6	0.8	1.5	0.9	0.6	0.8	0.7	0.9	4.8	4.8	3.5	4.3
%yr end	5.4	5.3	4.9	3.8	3.8	3.9	3.1	3.1	6.2	3.8	3.1	5.0
Real household disp. income	–0.3	0.6	1.4	–0.3	0.5	0.8	1.4	–0.1	4.0	1.3	2.6	3.0

Other macroeconomic variables

	2026				2027				Calendar years			
% change	Q1	Q2	Q3(f)	Q4(f)	Q1(f)	Q2(f)	Q3(f)	Q4(f)	2025	2026(f)	2027(f)	2028(f)
Employment %qtr **	0.6	0.3	0.5	0.4	0.5	0.4	0.5	0.5	–	–	–	–
%yr end **	1.5	1.1	1.6	1.8	1.8	1.9	2.0	2.0	1.1	1.8	2.0	2.5
Unemployment rate % **	4.2	4.4	4.5	4.7	4.7	4.8	4.8	4.7	4.3	4.7	4.7	4.5
Wages (WPI) %qtr	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	–	–	–	–
%yr end	3.2	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	0.6	1.3	0.5	0.7	0.6	0.7	0.4	–	–	–	–
%yr end	4.1	3.9	3.9	3.7	3.0	3.0	2.5	2.4	3.6	3.7	2.4	2.3
Trimmed Mean CPI %qtr	0.8	0.8	0.9	0.7	0.8	0.7	0.6	0.6	–	–	–	–
%yr end	3.5	3.6	3.5	3.3	3.2	3.1	2.8	2.7	3.3	3.3	2.7	2.3
Current account $bn, qtr	–25.4	–27.2	–22.0	–25.9	–30.2	–32.2	–35.7	–35.9	–	–	–	–
% of GDP	–3.5	–3.7	–2.9	–3.4	–3.9	–4.2	–4.6	–4.6	–3.1	–3.4	–4.6	–4.3
Terms of trade %yr avg	–1.2	–0.6	0.1	0.8	0.2	0.1	–1.9	–3.6	–2.5	0.8	–3.6	–2.0
Population growth %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	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CPI %yr	3.8	3.4	3.8	3.8	3.7	4.6	4.2	4.0	3.8	3.5	–	–
Employment '000 chg	33.2	–39.2	57.3	36.1	22.1	20.0	–34.9	38.2	80.2	–15.8	–	–
Unemployment rate %	4.3	4.3	4.1	4.1	4.3	4.3	4.5	4.4	4.4	4.5	–	–
Westpac–MI Consumer Sentiment	92.1	103.8	94.5	92.9	90.5	91.6	80.2	83.0	80.6	83.9	89.0	84.4
Household spending %mth	1.3	1.0	–0.4	0.3	0.3	1.7	–1.0	1.2	1.0	1.1	–	–
Dwelling approvals %mth	–9.5	15.5	–15.6	–13.5	44.0	–13.5	1.2	–1.5	6.9	–3.6	–	–
Private sector credit %mth	0.7	0.7	0.8	0.5	0.7	0.8	0.7	0.8	0.8	0.6	–	–
Trade in goods balance AUDbn	4.3	2.3	3.3	2.5	5.1	–1.7	1.2	–2.4	2.3	1.9	–	–

New Zealand

Interest rate forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Cash	2.75	3.00	3.50	3.75	4.00	4.00	4.00	4.00	3.75	3.75
90 Day Bill	3.09	3.40	3.75	4.00	4.20	4.20	4.20	4.15	3.95	3.95
2 Year Swap	4.05	3.95	4.10	4.25	4.20	4.20	4.15	4.15	4.10	4.10
10 Year Bond	5.02	4.75	4.90	5.00	5.05	5.05	5.05	5.05	5.05	5.05
10 Year Spread to US	6	–5	15	30	40	35	30	25	20	15
10 Year Spread to Aust	–36	–45	–20	0	15	20	25	25	25	25

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
NZD vs										
USD	0.5816	0.59	0.61	0.63	0.64	0.65	0.65	0.65	0.65	0.65
JPY	89.75	91	93	96	98	98	98	97	96	95
EUR	0.5007	0.50	0.51	0.53	0.54	0.54	0.53	0.53	0.54	0.54
AUD	0.8121	0.82	0.84	0.86	0.88	0.89	0.90	0.90	0.90	0.90
CAD	0.8047	0.81	0.83	0.85	0.87	0.87	0.86	0.86	0.86	0.86
GBP	0.4304	0.43	0.44	0.46	0.47	0.47	0.46	0.46	0.46	0.46
CNY	3.9038	3.92	3.99	4.08	4.14	4.16	4.13	4.13	4.10	4.10

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	0.1	0.5	0.8	0.8	1.0	1.0	1.0	1.4	1.1	3.2	4.0
Government consumption	1.5	–0.2	0.3	0.3	0.3	0.3	0.6	0.5	2.5	4.0	1.3	2.2
Residential investment	–3.1	3.0	3.0	4.0	4.0	3.0	2.5	2.0	–5.4	2.3	13.9	6.0
Business investment	3.7	0.7	0.8	1.5	1.6	1.4	1.1	0.9	0.5	4.2	5.2	4.0
Stocks (ppt contribution)	0.0	–0.7	0.5	0.0	0.2	0.0	0.1	–0.1	–0.1	0.2	0.3	–0.1
GNE	0.9	–0.4	1.1	1.0	1.2	1.0	1.1	0.9	0.9	2.6	4.0	3.7
Exports	3.1	1.6	–1.9	–0.2	0.9	0.9	0.8	0.8	2.8	4.6	1.5	3.1
Imports	4.2	0.5	0.4	0.6	1.4	2.3	2.1	1.4	3.3	6.0	5.1	4.8
GDP (production)	**0.8**	**0.2**	**0.6**	**0.8**	**1.1**	**0.5**	**0.6**	**0.7**	**0.3**	**2.1**	**2.7**	**3.1**
Employment annual %	0.5	1.2	1.7	1.8	2.3	2.5	2.6	2.6	0.2	1.8	2.6	2.3
Unemployment rate % s.a.	5.4	5.6	5.5	5.4	5.3	5.2	5.1	4.9	5.4	5.4	4.9	4.4
LCI, all sect incl o/t, ann %	2.0	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.0	2.3	2.3	2.3
CPI annual %	**3.1**	**4.1**	**3.7**	**3.7**	**3.2**	**2.1**	**2.0**	**1.7**	**3.1**	**3.7**	**1.7**	**2.1**
Current account % of GDP	–3.6	–3.7	–4.1	–4.4	–4.5	–4.7	–4.6	–4.4	–3.6	–4.4	–4.4	–4.2
Terms of trade annual %	2.0	–3.6	–3.1	–1.4	2.6	6.3	7.4	5.7	3.4	–1.4	5.7	1.6

Sources: Statistics NZ, Westpac Economics.

Commodity prices

Quarter average	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Australian commodities index#	438	415	395	377	368	363	360	358	356	356
Bulk commodities index#	**416**	**388**	**358**	**333**	**328**	**327**	**329**	**331**	**334**	**336**
iron ore finesTSI @ 62% US$/t	101	97	89	83	83	83	84	84	85	86
Premium low vol met coal (US$/t)	267	250	225	203	195	191	192	193	195	196
Newcastle spot thermal coal (US$/t)	146	127	121	116	116	116	116	117	117	118
crude oil (US$/bbl) Brent	94	90	85	80	77	75	72	70	68	67
LNG in Japan US$mmbtu	23.9	19.8	18.7	17.0	15.6	14.6	13.9	13.0	12.2	11.9
gold (US$/oz)	4,414	4,500	4,410	4,390	4,370	4,350	4,370	4,400	4,430	4,460
Base metals index#	**277**	**278**	**267**	**258**	**254**	**250**	**247**	**245**	**242**	**241**
copper (US$/t)	14,416	14,810	13,780	13,090	12,960	12,890	12,840	12,810	12,770	12,750
aluminium (US$/t)	3,299	3,300	3,330	3,290	3,230	3,130	3,050	3,000	2,950	2,930
nickel (US$/t)	16,661	16,570	16,740	16,860	16,950	17,030	17,120	17,200	17,290	17,380
zinc (US$/t)	4,008	4,060	3,860	3,670	3,480	3,340	3,220	3,130	3,050	3,000
lead (US$/t)	1,878	1,870	1,880	1,890	1,910	1,920	1,890	1,870	1,850	1,840
Rural commodities index#	**155**	**152**	**149**	**146**	**141**	**137**	**136**	**134**	**132**	**131**
NZ commodities index ##	**388**	**397**	**400**	**403**	**406**	**409**	**411**	**412**	**412**	**413**
dairy price index ##	316	318	322	329	335	341	345	346	348	350
whole milk powder USD/t	3,585	3,530	3,530	3,580	3,640	3,720	3,770	3,810	3,850	3,890
skim milk powder USD/t	3,695	3,300	3,110	3,140	3,180	3,230	3,270	3,300	3,330	3,370
lamb price index ##	725	716	714	709	705	701	694	686	677	669
beef price index ##	376	408	407	408	408	408	407	405	402	400
forestry price index ##	165	159	160	160	160	161	161	162	163	164

	levels				% change			
Annual averages	**2025**	**2026(f)**	**2027(f)**	**2028(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Australian commodities index#	**324**	**410**	**376**	**357**	**4.1**	**26.8**	**–8.5**	**–4.9**
Bulk commodities index#	**378**	**397**	**337**	**333**	**–12.7**	**5.1**	**–15.2**	**–1.2**
iron ore finesTSI @ 62% US$/t	102	102	85	85	–6.8	0.5	–17.1	0.0
Premium low vol met coal (US$/t)	189	241	203	194	–22.5	27.8	–15.6	–4.6
Newcastle spot thermal coal (US$/t)	106	129	117	117	–21.6	21.7	–9.5	0.0
crude oil (US$/bbl) Brent	68	88	79	69	–14.6	28.7	–10.0	–12.6
LNG in Japan US$mmbtu	12.3	18.0	16.5	12.7	3.1	47.0	–8.6	–22.8
gold (US$/oz)	3,440	4,550	4,380	4,420	43.9	32.3	–3.7	0.9
Base metals index#	**208**	**266**	**257**	**244**	**3.0**	**27.9**	**–3.4**	**–5.2**
copper (US$/t)	9,960	13,780	13,180	12,790	8.6	38.4	–4.4	–3.0
aluminium (US$/t)	2,630	3,330	3,250	2,980	8.2	26.6	–2.4	–8.3
nickel (US$/t)	15,200	17,210	16,900	17,250	–9.9	13.2	–1.8	2.1
zinc (US$/t)	2,860	3,660	3,590	3,100	2.5	28.0	–1.9	–13.6
lead (US$/t)	1,970	1,910	1,900	1,860	–5.3	–3.0	–0.5	–2.1
Rural commodities index#	**120**	**144**	**144**	**127**	**–4.9**	**20.1**	**–0.3**	**–11.3**
NZ commodities index ##	**390**	**398**	**405**	**412**	**9.2**	**2.0**	**1.7**	**1.8**
dairy price index ##	348	326	332	347	9.7	-6.5	1.9	4.7
whole milk powder USD/t	3902	3593	3617	3829	13.5	-7.9	0.7	5.9
skim milk powder USD/t	2702	3278	3165	3319	0.7	21.3	-3.4	4.8
lamb price index ##	587	685	707	681	27.0	16.7	3.2	-3.6
beef price index ##	337	393	408	403	19.1	16.4	3.8	-1.1
forestry price index ##	152	159	160	162	-4.9	5.0	0.5	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. *** Latest figures are weekly averages. ^ AWEX market prices. Sources for all tables: Westpac Economics, Bloomberg ##ANZ NZ commodity price index ^^ GlobalDairyTrade

United States

Interest rate forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Fed Funds*	3.625	4.125	4.125	4.125	4.125	4.125	3.875	3.625	3.625	3.625
10 Year Bond	4.96	4.80	4.75	4.70	4.65	4.70	4.75	4.80	4.85	4.90

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

Currency forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
USD vs										
DXY index	99.05	98.5	97.8	97.0	96.2	95.4	94.9	94.7	94.8	94.8
JPY	154.32	155	154	153	152	151	150	149	148	146
EUR	1.1615	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
AUD	0.7162	0.72	0.72	0.73	0.73	0.73	0.73	0.72	0.72	0.72
NZD	0.5816	0.59	0.61	0.63	0.64	0.65	0.65	0.65	0.65	0.65
CAD	1.3837	1.38	1.37	1.36	1.35	1.34	1.33	1.32	1.32	1.32
GBP	1.3513	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
CHF	0.8127	0.79	0.78	0.77	0.76	0.75	0.75	0.75	0.75	0.75
ZAR	16.19	16.2	16.1	16.0	16.0	16.0	16.2	16.2	16.2	16.2
SGD	1.2676	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8413	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75
PHP	62.76	62.0	61.5	61.0	60.5	60.0	59.0	58.0	57.0	57.0
THB	33.13	32.5	32.0	31.5	31.0	30.7	30.4	30.2	30.0	30.0
MYR	4.0733	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80
CNY	6.7114	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	17547	17400	17200	17000	16700	16400	16300	16200	16100	16100
TWD	31.64	31.5	31.0	30.5	30.0	29.5	29.0	28.5	28.2	28.2
KRW	1348	1350	1345	1340	1335	1330	1325	1320	1315	1315
INR	95.45	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**	**Q3(f)**	**Q4(f)**	**Q1(f)**	**Q2(f)**	**Q3(f)**	**Q4(f)**	**2025**	**2026(f)**	**2027(f)**	**2028(f)**
Private consumption	0.5	3.4	1.8	1.6	1.7	1.7	2.1	2.1	2.6	2.0	1.9	2.0
Dwelling investment	–7.8	1.3	0.0	0.8	0.8	1.2	1.6	2.0	–2.2	–3.3	1.0	2.0
Business investment	10.6	8.5	6.9	6.5	5.0	4.6	4.7	4.7	4.1	6.8	5.6	4.7
Public demand	4.4	–1.0	0.4	0.4	0.4	0.4	0.4	0.4	1.1	0.2	0.3	0.4
Domestic final demand	2.3	3.4	2,3	2.1	1.9	2.0	2.2	2.2	2.4	2.3	2.2	2.2
Inventories contribution ppt	–0.8	–0.1	0.1	0.1	0.1	0.2	0.0	0.0	–0.1	0.1	0.0	0.1
Net exports contribution ppt	1.6	–0.1	–0.6	–0.7	–0.7	–0.5	–0.4	–0.5	0.4	–0.7	–0.5	–0.5
GDP	2.1	1.5	2.8	1.9	1.6	1.7	1.8	1.8	2.1	2.1	1.8	1.9
%yr annual chg	2.7	2.1	1.7	2.0	1.9	2.0	1.7	1.7	–	–	–	–

Other macroeconomic variables

Non–farm payrolls mth avg	43	96	90	80	90	100	105	110	26	98	108	120
Unemployment rate %	4.3	4.3	4.4	4.4	4.5	4.5	4.6	4.6	4.3	4.4	4.6	4.5
CPI headline %yr	2.7	3.9	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 (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Euro Area										
ECB Deposit Rate	2.50	2.75	2.75	2.75	2.75	2.75	2.50	2.25	2.25	2.25
10 Year Bund	3.50	3.30	3.20	3.10	3.00	3.00	3.00	3.00	3.00	3.00
10 Year Spread to US	–146	–150	–155	–160	–165	–170	–175	–180	–185	–190
United Kingdom										
BoE Bank Rate	3.75	4.00	4.00	4.00	4.00	3.75	3.50	3.25	3.25	3.25
10 Year Gilt	5.37	5.20	5.10	5.00	4.90	4.85	4.80	4.75	4.75	4.75
10 Year Spread to US	41	40	35	30	25	15	5	–5	–10	–15

Sources: Bloomberg, Westpac Economics.

Currency forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
euro vs										
USD	1.1615	1.17	1.18	1.19	1.20	1.21	1.22	1.22	1.21	1.21
JPY	179.24	181	182	182	182	183	182	181	179	177
GBP	0.8596	0.86	0.87	0.87	0.87	0.87	0.87	0.86	0.86	0.86
CHF	0.9441	0.92	0.92	0.92	0.91	0.91	0.91	0.91	0.91	0.91
DKK	7.4748	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47	7.47
SEK	11.25	11.3	11.3	11.4	11.4	11.5	11.5	11.5	11.5	11.5
NOK	10.78	10.8	10.9	10.9	11.0	11.0	11.0	11.0	11.0	11.1
sterling vs										
USD	1.3513	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.41	1.40
JPY	208.53	210	209	210	210	210	210	209	208	204
CHF	1.0983	1.07	1.06	1.05	1.05	1.04	1.04	1.05	1.05	1.05
AUD	0.5300	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	0.5	1.1	1.3	0.9	1.2	1.5
private consumption	5.3	0.7	1.5	1.4	1.0	1.1	1.4
fixed investment	2.4	2.8	–2.0	2.9	0.7	1.7	2.3
government consumption	1.2	1.2	2.7	1.5	2.0	2.0	2.0
net exports contribution ppt	–0.1	0.3	0.3	–0.6	0.1	0.1	–0.3
Germany GDP	2.0	–0.8	0.0	0.3	1.0	1.2	1.7
France GDP	2.8	1.8	1.4	0.9	0.4	0.8	1.2
Italy GDP	5.0	1.0	0.6	0.7	0.9	0.7	1.0
Spain GDP	6.4	2.5	3.5	2.8	2.5	2.0	2.1
Netherlands GDP	5.0	–0.6	1.1	1.6	1.3	1.2	1.6
United Kingdom GDP	5.1	0.3	1.0	1.4	1.2	1.0	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	2.2	1.2	1.5
Industrial production (IVA)	9.6	3.6	4.6	5.8	5.9	5.3	5.0	4.8
Retail sales	12.5	–0.2	7.2	3.5	3.7	2.0	3.8	4.2
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	-2.0	4.0	4.5
Exports %yr	20.9	–9.9	–2.3	10.7	5.2	14.0	5.0	3.5
Imports %yr	19.5	–7.5	0.2	0.9	–0.1	17.0	4.0	3.0

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

Chinese interest rates & monetary policy

	Latest (11 Sep)	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
Loan Prime Rate, 1–year	3.00	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80	2.80

* For major banks.

Japanese interest rates & monetary policy

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
Policy Rate	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.50	1.50
10 Year Bond Yield	2.92	2.75	2.70	2.65	2.60	2.58	2.56	2.54	2.53	2.52

Currency forecasts

	Latest (11 Sep)	Dec–26	Mar–27	Jun–27	Sep–27	Dec–27	Mar–28	Jun–28	Sep–28	Dec–28
JPY	154.32	155	154	153	152	151	150	149	148	146
SGD	1.2676	1.27	1.27	1.26	1.26	1.25	1.25	1.25	1.25	1.25
HKD	7.8413	7.83	7.82	7.81	7.80	7.79	7.78	7.77	7.76	7.75
PHP	62.76	62.0	61.5	61.0	60.5	60.0	59.00	58.00	57.00	57.00
THB	33.13	32.5	32.0	31.5	31.0	30.7	30.4	30.2	30.0	30.0
MYR	4.0733	4.00	3.95	3.90	3.90	3.85	3.85	3.85	3.80	3.80
CNY	6.7114	6.70	6.60	6.50	6.45	6.40	6.35	6.35	6.30	6.30
IDR	17547	17400	17200	17000	16700	16400	16300	16200	16100	16100
TWD	31.64	31.5	31.0	30.5	30.0	29.5	29.0	28.5	28.2	28.2
KRW	1348	1350	1345	1340	1335	1330	1325	1320	1315	1315
INR	95.45	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**	**3.3**	**3.3**	**3.3**
United States	6.2	2.5	2.9	2.8	2.1	2.1	1.8	1.9
Japan	3.6	1.3	0.7	–0.2	1.1	0.7	0.8	0.9
Euro zone	6.4	3.7	0.5	0.9	1.3	0.9	1.2	1.5
Group of 3	**5.9**	**2.8**	**1.8**	**1.7**	**1.7**	**1.5**	**1.5**	**1.6**
United Kingdom	8.5	5.1	0.3	1.0	1.3	1.2	1.0	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	2.1	1.7	2.2
New Zealand	5.5	2.6	2.2	–0.3	0.3	2.1	2.7	3.1
OECD total	**6.2**	**3.2**	**1.9**	**1.8**	**1.7**	**1.6**	**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	3.5	2.5	2.2
Taiwan	6.7	2.7	1.1	5.3	8.8	10.0	5.0	4.0
Hong Kong	6.5	–3.7	3.2	2.6	3.6	4.0	3.0	2.6
Singapore	10.1	4.0	1.5	5.3	5.0	5.0	3.0	2.5
Indonesia	3.7	5.3	5.0	5.0	5.1	5.2	5.2	5.2
Thailand	1.6	2.7	2.2	2.9	2.4	2.0	2.0	2.2
Malaysia	3.3	9.0	3.5	5.1	5.2	5.0	4.8	4.6
Philippines	5.7	7.6	5.5	5.7	4.4	3.6	4.0	4.5
Vietnam	2.6	8.5	5.1	7.0	8.0	8.0	7.5	7.2
East Asia	**7.1**	**3.6**	**4.7**	**4.8**	**4.9**	**4.9**	**4.5**	**4.3**
East Asia ex China	4.4	4.6	3.4	4.5	4.7	5.2	4.3	4.2
NIEs*	**6.1**	**2.3**	**1.6**	**3.4**	**4.1**	**5.8**	**3.4**	**2.8**
India	9.7	7.6	7.2	7.1	7.6	7.1	7.0	6.6
Russia	5.9	–1.4	4.1	4.9	1.0	0.6	0.9	1.1
Brazil	4.8	3.0	3.2	3.4	2.3	1.9	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**	**4.2**	**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**	**3.3**	**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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