Week beginning 29 March 2021

- RBA to extend $100 billion QE in October.
- Australia: dwelling approvals, housing finance, home prices, trade balance, credit.
- NZ: building permits.
- China: Caixin PMI, non-manufacturing PMI.
- Europe: Markit manufacturing PMI.
- US: payrolls, ISM manufacturing, housing updates.
- Key economic & financial forecasts.

Information contained in this report current as at 26 March 2021.
RBA to extend $100 billion QE in October

Westpac has revised up its profile for the RBA’s Quantitative Easing Program. We now expect the new program which starts in April to be followed by a further $100 billion (up from our earlier forecast of $50 billion).

On December 14 last year we surprised markets by forecasting that once the Bank’s current $100 billion QE program was completed in 2021 it would be replaced by a further program of $100 billion to be followed by two consecutive $50 billion programs.

Those programs would extend the QE facility out to around October 2022.

On February 2 this year the RBA Governor announced that the program, which was scheduled to be completed around mid-April 2021, would be extended by a further $100 billion on the same terms as the current program.

We now expect that the program that is scheduled to begin in mid-April and extend into mid-October will be replaced by another $100 billion program rather than the $50 billion which we forecast back in December.

We maintain the call that the final “leg” of the program will be tapered to $50 billion from April next year.

The FED’s QE policy will be a very important sign post for the RBA.

It is unlikely that the FED will have made sufficient progress towards its goals by October this year to warrant scaling back its asset purchases.

Were the RBA to taper it will expose the AUD and signal to the market that it has begun tightening.

Such a signal could expose the recovery to unnecessary pressure and cast doubt on the credibility of any forward guidance the RBA may be offering.

Recall that when the RBA Governor announced the extension of the first QE tranche of $100 billion he nominated three criteria (February 3, National Press Club).

1. The effectiveness of the bond purchases;
2. The decisions of other central banks; and
3. Most importantly, the outlook for inflation and jobs.

“With three months experience now, it is clear that the bond purchase program has helped to lower interest rates and has meant that the Australian dollar is lower than it otherwise would have been. So, it has worked.

Australia’s government bond markets also continue to function well and the available evidence is that further purchases would not be a source of market dysfunction.

In terms of other central banks, most have recently announced extensions of their bond purchase programs, many running until at least the end of this year. Given this, if the RBA were to cease bond purchases in April, it is likely that there would be unwelcome upward pressure on the exchange rate.

And, third, in terms of the most important consideration – the outlooks for inflation and jobs – we remain well short of our goals, as I have already discussed.

Given these considerations and the fact that the cash rate is at its effective lower bound, the Board decided to purchase an additional $100 billion of government bonds at the completion of the current program in mid-April.”

Backing up these views, Chris Kent, Assistant Governor, Financial Markets, stated “While history only provides a rough guide, ...the Bank’s policy measures have contributed to the Australian dollar being as much as 5% below otherwise”. (February 17; Australian Corporate Treasury Round Table).

The Bank also has a reasonable case to argue that QE has lowered Australian long bond rates by around 30 basis points. Before the market detected the RBA’s interest in QE back in early September AUD long bond yields were 30 basis points above US while on November 3 when the QE policy was announced the rates had become aligned.

The Governor also referred to market disfunction related to QE detracting from liquidity in the bond market.

In the December Mid-Year Economic and Fiscal Outlook (MYEFO) the federal government forecast that the budget deficit would be $197.7 billion in 2020/21 to be followed by $108.5 billion in 2021/22.

Both those numbers are likely to be revised down significantly as the recovery in the economy lowers the expected deficits. (media coverage today pointing to an official downward estimate for 2020/21 to $150.6 billion).

The MYEFO estimate for the deficit in 2021/22 is likely to be similarly revised downward.

These revised estimates will have a significant impact on forecast new issuance in 2021/22.

But MYEFO is a “no policy change” document.

We can expect the federal government to adopt a range of stimulatory policies aimed at assisting those sectors which are still being impacted by foreign border closures. The government is also likely to take advantage of the fiscal flexibility which comes with not being constrained to produce a surplus – the “discipline” faced by all Australian governments in the years before the pandemic.

Westpac expects a wide range of policy stimulus in the May Budget while the government is likely to be conservative in its estimates of the deficit improvement in 2021/22.

While RBA purchases will dominate the flow of new issues there is ample existing stock to accommodate the RBA’s activities.

The RBA currently holds around 16% of bonds on issue.

It is true that RBNZ ran into supply problems although the RBNZ holds 35% of bonds in New Zealand. The capacity problems faced by the RBNZ should not be seen as constraints on the RBA.

There is also adequate “room” on the RBA’s balance sheet to accommodate further QE.

Firstly, the $200 billion Term Funding Facility is unlikely to be increased or extended beyond June.

Secondly, by the time the RBA has to make the decision on extending its QE program (September 2021) its balance sheet is estimated to be around 30% of GDP compared to the FED’s balance sheet that will be 40% of GDP.

Finally consider the economic backdrop which we expect by October this year.
RBA’s current forecasts for end 2021 are an unemployment rate of 6%; wages growth of 1.5%; and trimmed mean inflation of 1.25%. Those “actuals” are assessed as consistent with a 5.5% unemployment rate by end 2022; 1.25% wages growth; and 1.5% trimmed mean inflation.

The RBA is certain to reduce its forecast for the unemployment rate by end 2021, probably to around 5.7%.

But it seems unlikely that, with a 4–4.5% NAIRU in their thinking there will be sufficient improvement in the labour market to encourage a marked lift in the forecast for wages growth and inflation.

Note that the RBA Deputy Governor further raised the bar at a Senate Hearing yesterday, referring to a preferred NAIRU of “high 3’s – low 4’s”.

It seems highly unlikely that the RBA will see the justification for tapering QE as early as October when the achievement of its objectives is so far into the future.

The AUD is expected to continue to pose a challenge for the RBA.

Westpac forecasts that the AUD is likely to be on the rise in the second half of 2021. As economies reopen and global growth accelerates “risk on” currencies like the AUD are expected to be supported.

We already see the AUD as undervalued relative to our fair value estimates (possibly partly due to QE) and expect it to be moving through to USD0.82 in the second half of 2021.

QE will continue to be seen by the RBA as an important source of restraint on the AUD during that period.

**One potential complication to the forecast.**

While not our central call it should not be dismissed out of hand that the RBA would revert to a more flexible program from October by committing to an open ended monthly target of, say, $20 billion, (in line with the current purchase pace).

We understand that the first stage of QE needed to be a finite program as markets adjusted to the new policy and an open ended policy might have generated destabilising uncertainty.

But now that the policy is working smoothly and markets have adjusted the uncertainty risks of adopting an open ended policy have passed.

**Bill Evans. Chief Economist**
The week that was

This week, the ABS provided a valuable snapshot of firms' intentions when JobKeeper concludes on 28 March. The March "Business Conditions and Sentiments" survey revealed that 21% of responding firms were accessing a government wage subsidy (including JobKeeper). For those businesses accessing some form of support measure (wage subsidies, loan deferrals, lease renegotiations etc), 9% expect to reduce staff numbers when the support measure ends. In terms of employment, the Commonwealth Treasury now expects 100-150k jobs could be lost as support from JobKeeper unwinds. In the absence of hard data around the impact of JobKeeper's conclusion, this month's "Business Conditions" survey is an important leading indicator for the aftermath of the program.

With little else by way of domestic data, markets were focussed on developments offshore.

A testament to the pace of the US recovery, initial jobless claims fell sharply in the week ended March 20, breaking below 700k to be at their lowest level in the post-pandemic period. Although the series can be volatile, this strong outcome bodes well for nonfarm payrolls (with the March update scheduled for release next week). We anticipate moderate to strong gains in payrolls throughout 2021 as stimulus takes effect and the COVID-19 case count continues to decline. This robust trend is expected to see the unemployment rate tend towards 5% even as the 2ppt deficiency in participation compared to pre-pandemic levels is made up. Of course, in any given month, a jolt to participation could temporarily lift the unemployment rate.

The strength of the recovery was discussed by Federal Reserve Board members, who were out in numbers this week. The headline event was a two-day testimony from Fed Chair Powell and Treasury Secretary Yellen in front of House and Senate panels. Whilst the topic was the CARES Act, the latest stimulus package also received considerable attention, particularly as it relates to the economic recovery and the outlook for monetary policy. Chair Powell was adamant that although inflation is set to lift higher in coming months, this is expected to be transitory and will be treated accordingly. Powell restated that the Fed is not yet ready to begin talking about tapering asset purchases, meaning this is unlikely until the second half of 2022. Moreover, any such decision will come with a considerable lead-in.

But the strength of recent data has prompted some Fed members, including Atlanta Fed president Bostic, to anticipate a fed funds rate hike in 2023. But as the Dots of the March meeting reveal, this view is away from consensus, with only 7 of 18 Members expecting that the policy rate will be off the floor by 2023. An even smaller proportion (4 members) are looking for a move in 2022. In a speech that quickly followed Bostic’s, Chicago Fed President Evans stated his belief that the conditions for a rate increase will not be met until 2024. UST yields moderated over the week, but the recent lift in the "real" component of the yield (from around -106bps in mid-February to -69bps currently) suggests that markets share the Fed’s optimism around the outlook for the real economy.

In New Zealand, the government has unveiled a suite of policies that represent the most significant changes to the residential property market in over thirty years. Our NZ team discuss the implications in their recent Economic Bulletin. 
New Zealand: week ahead & data wrap

The suite of policies unveiled by the New Zealand Government this week herald the most significant changes to the residential property market in over thirty years. The proposed policies will erode the financial incentives for property investors and tilt housing market conditions more in favour of owner occupiers. These changes follow rapid house price increases in recent years, which has resulted in housing affordability becoming an increasing challenge for many New Zealand families.

The major changes introduced by the Government this week include:

• **Removing the ability to offset mortgage costs on residential investment properties against the income earned on those properties.** This change will take effect from 1 October 2021 for properties purchased after 27 March 2021 and will be gradually phased in over the next four years for existing property owners. The Government is also looking at exceptions for new builds.

• **The holding period for taxing capital gains on residential investment properties (otherwise known as the ‘Bright-line test’) has been extended from 5 to 10 years. The holding period remains at 5 years for investors who buy new builds.**

• **A $3.8bn Housing Acceleration Fund is being established to assist with the development of infrastructure (such as pipes and roads) to support new housing.**

• **There will be additional financial assistance for first home buyers with changes in First Home Loans and Grants settings. Those changes include increases in income caps, as well as changes to regional price caps.**

The above policy announcements are likely to reshape the residential property market over the coming years. We have frequently highlighted that financial considerations (such as rental yields, mortgage rates and tax) have played a larger role in determining what prospective purchasers are willing to pay for housing than physical factors such as housing supply.

Up until now, the tax treatment of mortgage interest costs has given leveraged property investors somewhat of an edge over owner-occupiers. That’s meant that investor demand has been a major driver of the prevailing level of house prices. In the current low interest rate environment, investors search for yield and the potential returns on rental properties (both rental yields and capital gains) has underpinned rapid increases in house prices

Removing the ability to offset interest rate costs will significantly reduce the prices that investors are willing to pay, and that will be reinforced by the extension to the Bright-line test. For leveraged investors, removing the deductibility of interest costs will dramatically lower the yield on rental properties.

These changes to the tax system will dramatically tilt financial conditions in favour of owner-occupiers (and cashed up investors), who will now be the ones who determine the market price of houses. A rough calculation indicates that occupiers’ average willingness to pay is about 10% below current prices, which suggests that house prices could eventually fall by that much in the long term. While that would be a large decline, it would still only bring prices back to where they were four months ago.

However, there could be a much sharper fall while the housing market realigns itself. Without interest deductibility, property investors will need to see a higher rate of return to justify their investments. That could mean higher rents, although that will be constrained by tenants’ ability to pay. The more likely way is that highly-leveraged investors will sell out – at a reduced price – to owner-occupiers or less-leveraged investors. We saw similar outcomes in the UK, which began to phase out interest deductibility from 2017.

For the RBNZ, these policy changes will make hitting the inflation target more difficult. The housing market plays a key role in shaping economic conditions in New Zealand more generally, with rising house prices typically associated with increases in household confidence and spending. Economic activity is already below trend as a result of the Covid outbreak. And now with a material softening in housing market looking likely, the recovery in demand is likely to be even more gradual.

This reinforces our expectations that OCR hikes will remain off the cards for the foreseeable future. Indeed, more monetary easing might be needed to support the economy through the transition phase – a negative OCR is still on the cards. That’s important as continued low interest rates will help to limit the downside for house prices, at least in the near term.

Weaker house prices will also have a dampening impact on home building activity. However, this drag may be modest. New builds remain exempt from the extension to the Bright-line test and are likely to have some tax advantages over purchasing an existing property (for instance, the Government may consider allowing interest costs on new builds to be tax deductible for a limited period, though this is yet to be confirmed). Furthermore, the weaker outlook for house prices also signals downward pressure on land prices, which are a key hurdle for many housing developments. We still expect high levels of home building over the coming years, with a large number of projects already in the pipeline and many regions still struggling with shortages of affordable homes.

Satish Ranchhad, Senior Economist

---

**Round-up of local data released over the last week**

<table>
<thead>
<tr>
<th>Date</th>
<th>Release</th>
<th>Previous</th>
<th>Actual</th>
<th>Mkt f/c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mon 22</td>
<td>Q1 WBC-MM Consumer Confidence</td>
<td>106.0</td>
<td>105.2</td>
<td>-</td>
</tr>
<tr>
<td>Wed 24</td>
<td>Feb trade balance $m</td>
<td>-626</td>
<td>181</td>
<td>181</td>
</tr>
<tr>
<td>Fri 26</td>
<td>Q1 WBC-MM Employment Confidence</td>
<td>97.6</td>
<td>99.5</td>
<td>-</td>
</tr>
</tbody>
</table>

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.
Data previews

Aus Feb dwelling approvals

Mar 31, Last: -19.4%, WBC f/c: -3.0%
Mkt f/c: 5.0%, Range: -12.0% to +15.0%

- Dwelling approvals retraced sharply in Jan, dropping a whopping 19.4%. However, that was after a big 43% surge in the last four months of 2020 as reopening rebounds combined with a large pull-forward in activity associated with the Federal Government’s HomeBuilder scheme. Much of the Jan decline looks to be related to that scheme, which saw grants pared back from $25k to $15k at the start of 2021. The detail suggests volatility was also a factor with a steep decline in high rise units that was unlikely to be HomeBuilder related.

- The picture heading into Feb is uncertain. The HomeBuilder pull-back likely has further to run for non high rise approvals. Pinpointing the size of monthly moves is difficult but the unwind is likely to be larger than any reversal in high rise volatility or wider uplift from the surging housing market. On balance we expect approvals to decline a further 3% but there are significant risks on either side.

Aus Feb private credit

Mar 31, Last: 0.2%, 1.7%yr WBC f/c: 0.3%, 1.7%yr
Mkt f/c: 0.3%, Range: 0.1% to 0.5%

- Credit to the private sector is at a turning point, led by the housing upswing in response to cheap credit and government incentives to build new homes. This is coming off a weak base - as is to be expected associated with the covid recession.

- Credit expanded by 0.2% in January after a 0.3% gain in December. We anticipate a 0.3% lift in February. This is an improvement on the 7 months April to October, when credit was either flat or fell - with a cumulative fall of 0.4%.

- Housing credit grew by 4.7% annualised over the past three months, up from a mid-2020 low of 2.7% annualised. New lending is surging, with considerable momentum in 2021.

- Business credit has been contracting - declining in 8 of the past 9 months (a 0.3% rise in December being the exception) - for a cumulative fall of 3.2%. Looking forward, prospects are for an emerging improvement over coming months against the backdrop of a rapidly rebounding economy.

Aus Mar CoreLogic home value index

Apr 1, Last: 2.0%, WBC f/c: 2.5%

- Feb marked a significant shift in Australia’s housing upturn with price gains accelerating sharply, particularly across the previously softer Sydney and Melbourne markets. The CoreLogic home value index, covering the eight major capital cities, surged 2.0% in the month, the biggest monthly gain in over 17yrs, taking prices comfortably above their pre-COVID levels and 0.7% above their previous all time high in Sep 2017.

- March looks set to go one better with the CoreLogic daily index pointing to a 2.5% increase, a 32yr high in terms of monthly gains. Sydney prices look to be up a thumping 3.3%. The latest upturn is also notably broad with all major capitals and regional areas posting strong gains - a price upswing this strong and synchronised has not been seen in many years.

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.
Westpac weekly
Data previews

Aus Feb retail trade

Apr 1, Last: 0.5%, WBC f/c: -1.1%
Mkt f/c: -1.1%, Range: -1.1% to -0.4%

- It has been a softer start to the year for retail sales, albeit coming off a strong finish to 2020. Sales surged 2.5% in the three months to Dec to be up 9.7%yr, the gain coming despite more COVID-related disruptions late in the Dec month.
- So far, 2021 has seen a 0.3% in Jan with preliminary estimates showing a 1.1% decline in Feb. The final Feb release will include more granular detail that is likely to highlight the impact of ‘mini-lockdowns’ during the month in Vic and WA – sales up marginally across other states.
- Our Westpac Card Tracker shows March has seen a rebound from these disruptions but there are hints that the underlying trend in retail may be starting to soften as ‘catch-up’ activity wanes and reopening sees consumers shift spending back to non-retail categories.

Aus Feb housing finance approvals

Apr 1, Last: 10.5%, WBC f/c: 2.0%

- Housing finance approvals continued to surge strongly in Jan, up 10.5%mth to be up 44%yr. We had expected to see a meaningful drag from construction-related approvals as a pull-forward associated with the Federal government’s HomeBuilder scheme unwound. Instead, construction-related approvals posted another big gain with other approvals also lifting.
- Pinpointing the timing is clearly difficult but a meaningful HomeBuilder-related drag still looks very likely near term. That said, the wider market upturn is going from strength to strength in 2021, with turnover and prices both sustaining strong gains early in the year. How these two forces resolve in the Feb month is uncertain - we suspect housing finance approvals will still post a small 2% gain overall but there are significant risks to either side.

Aus Feb trade balance, $Bn

Apr 1, Last: 10.1, WBC f/c: 9.9
Mkt f/c: 9.5, Range: 7.1 to 10.8

- Australia’s trade account has been in surplus for 37 consecutive months, from the start of 2018. The surplus lifted from $23Bn for 2018, to $70Bn in 2019 and $73Bn in 2020.
- In January, the surplus hit a record high of $101Bn and we expect it to hold around this level in February, at $9.9Bn.
- Export earnings are forecast to rise by 2.1% in the month, much of which is price - with commodity prices up by over 3% in the month.
- Imports are up an expected 3.6%, representing a resumption of the upward trend / recovery - reversing the temporary dip over the past two months.
- The dominant force currently is the sharp lift in commodity prices, notably for iron ore, which is boosting export earnings. On our figuring, export earnings in February will be up 26% on a year ago, well in excess of the 7% rise in imports. Commodity prices are up over the year, +30% in USD and +12% in AUD.

Monthly retail sales

Source: ABS, Westpac Economics

New finance approvals*

Source: ABS, Westpac Economics
*excl. refinance of existing loans

Australia’s trade balance

Source: ABS, 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.
Data previews

NZ Feb employment indicators
Mar 29, Last: 0%

- The monthly employment indicator is a relatively new release, based on data from income tax filings. It provides a less detailed but more timely snapshot of employment trends compared to the quarterly surveys.
- The number of filled jobs held up surprisingly well in January, on top of a strong 0.7% rise (seasonally adjusted) in December. Jobs were up 0.1% on the same time last year.
- We don’t have a clear sense of how the February results will turn out - the weekly snapshots haven’t been available recently. However, the absence of international tourists will have had a more noticeable impact on activity over summer, and we expect this to show through in the employment figures over the coming months.

NZ Feb residential building consents
Mar 30, Last: +2.1%, Westpac f/c: -5.0%

- Consent issuance started the year on firm footing, rising by 2.1% in January. That followed strong gains over the past year, with annual residential consent numbers at their highest level since 1974.
- We expect that consent numbers will fall by 5% in February. That’s due to an expected easing in the lumpy apartment consents category, which rose strongly in January. That would still leave issuance at very elevated levels.
- Despite recent changes in housing market policy, we expect strong home building activity over the coming year with a large amount of work already in the pipeline.

NZ Mar ANZBO business confidence (final)
Mar 31, Last: 0.0

- Overall business confidence dipped in March, as did businesses’ expectations for activity in their own firms. That was largely as expected given the dialling up of Covid related health and activity restrictions in weeks before the survey.
- We don’t expect much change in the headline figures when the final results of the March survey are released. However, the sectoral breakdown of the results will be of interest. While sectors like construction are booming, the services sector is being weighed down by the lack of international tourist dollars.
- It will also be worth watching the gauges of pricing intentions which have spiked higher in recent months.
### Key data & event risk for the week ahead

<table>
<thead>
<tr>
<th>Day</th>
<th>Event</th>
<th>Last</th>
<th>Market median</th>
<th>Westpac forecast</th>
<th>Risk/Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mon 29</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZ</td>
<td>Feb employment indicators</td>
<td>0.0%</td>
<td>-</td>
<td>-</td>
<td>Hit to summer tourism is expected to weigh on jobs.</td>
</tr>
<tr>
<td>UK</td>
<td>Feb net mortgage lending £bn</td>
<td>5.2</td>
<td>-</td>
<td>-</td>
<td>Pushed above pre-Covid levels on stronger housing turnover.</td>
</tr>
<tr>
<td>US</td>
<td>Mar Dallas Fed index</td>
<td>17.2</td>
<td>-</td>
<td>-</td>
<td>Should improve in line with other regional mfg surveys.</td>
</tr>
<tr>
<td></td>
<td>Fedspeak</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>FOMC’s Waller to speak on Fed independence.</td>
</tr>
<tr>
<td><strong>Tue 30</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>Weekly Payroll Jobs and Wages</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>For the week ending 13 March.</td>
</tr>
<tr>
<td>NZ</td>
<td>Feb building permits</td>
<td>2.1%</td>
<td>-</td>
<td>-5.0%</td>
<td>Easing after strong Jan result, annual rate still elevated.</td>
</tr>
<tr>
<td>Eur</td>
<td>Mar economic confidence</td>
<td>93.4</td>
<td>95.0</td>
<td>-</td>
<td>Will be crimped by extended lockdowns.</td>
</tr>
<tr>
<td>US</td>
<td>Jan FHFA house prices</td>
<td>1.1%</td>
<td>1.3%</td>
<td>-</td>
<td>House price growth remains robust but softer home sales...</td>
</tr>
<tr>
<td></td>
<td>Jan S&amp;P/CS home price index</td>
<td>1.3%</td>
<td>1.2%</td>
<td>-</td>
<td>...point to potential for a moderation.</td>
</tr>
<tr>
<td></td>
<td>Mar consumer confidence index</td>
<td>91.3</td>
<td>96</td>
<td>-</td>
<td>Will continue to be supported by rollout and reopening.</td>
</tr>
<tr>
<td></td>
<td>Fedspeak</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>FOMC’s Quarles and Williams to speak.</td>
</tr>
<tr>
<td><strong>Wed 31</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>Feb dwelling approvals</td>
<td>-19.4%</td>
<td>5.0%</td>
<td>-3.0%</td>
<td>Approvals still unwinding 40% HomeBuilder pull-forward.</td>
</tr>
<tr>
<td></td>
<td>Feb private credit</td>
<td>0.2%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>Emerging improvement – led by housing upturn.</td>
</tr>
<tr>
<td>NZ</td>
<td>Mar ANZ business confidence</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Back around average levels, pricing pressures elevated.</td>
</tr>
<tr>
<td>Chn</td>
<td>Mar non-manufacturing PMI</td>
<td>51.4</td>
<td>52.0</td>
<td>-</td>
<td>Official PMIs should continue to improve...</td>
</tr>
<tr>
<td></td>
<td>Mar manufacturing PMI</td>
<td>50.6</td>
<td>51.2</td>
<td>-</td>
<td>... as China’s outperformance continues.</td>
</tr>
<tr>
<td>Eur</td>
<td>Mar CPI %yr</td>
<td>0.9%</td>
<td>1.4%</td>
<td>-</td>
<td>Anticipating a transitory increase on base effects.</td>
</tr>
<tr>
<td>UK</td>
<td>Q4 GDP</td>
<td>1.0%</td>
<td>-</td>
<td>-</td>
<td>Final estimate; expected to remain unchanged.</td>
</tr>
<tr>
<td>US</td>
<td>Mar ADP employment change</td>
<td>117k</td>
<td>500k</td>
<td>-</td>
<td>Initial claims point to ongoing labour market recovery.</td>
</tr>
<tr>
<td></td>
<td>Mar Chicago PMI</td>
<td>59.5</td>
<td>60.0</td>
<td>-</td>
<td>Business barometer sitting around a two year high.</td>
</tr>
<tr>
<td></td>
<td>Feb pending home sales</td>
<td>-2.8%</td>
<td>-2.7%</td>
<td>-</td>
<td>Follows a softer print in new home sales.</td>
</tr>
<tr>
<td><strong>Thu 01</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus</td>
<td>Mar CoreLogic home value index</td>
<td>2.0%</td>
<td>-</td>
<td>2.5%</td>
<td>Shaping as strongest monthly gain in 32yrs.</td>
</tr>
<tr>
<td></td>
<td>Feb retail sales</td>
<td>0.5%</td>
<td>-1.1%</td>
<td>-1.1%</td>
<td>COVID mini-lockdowns hit Vic and WA. Rest up slightly.</td>
</tr>
<tr>
<td></td>
<td>Feb housing finance</td>
<td>10.5%</td>
<td>-</td>
<td>2.0%</td>
<td>HomeBuilder unwind to moderate strength in other segments.</td>
</tr>
<tr>
<td></td>
<td>Feb trade balance $bn</td>
<td>10.1</td>
<td>9.5</td>
<td>9.9</td>
<td>To hold near record high – rising commodity prices supportive.</td>
</tr>
<tr>
<td></td>
<td>Mar AIG PMI</td>
<td>58.8</td>
<td>-</td>
<td>-</td>
<td>Manuf’g sector brisk expansion on sharp economic rebound.</td>
</tr>
<tr>
<td>NZ</td>
<td>Apr ANZ consumer confidence</td>
<td>113.1</td>
<td>-</td>
<td>-</td>
<td>Confidence remains low, but has been rising.</td>
</tr>
<tr>
<td>Chn</td>
<td>Mar Caixin China PMI</td>
<td>50.9</td>
<td>51.3</td>
<td>-</td>
<td>To reflect China’s growth outperformance.</td>
</tr>
<tr>
<td>Asia</td>
<td>Mar Nikkei manufacturing PMI</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>For South Korea, Taiwan, Malaysia, Indonesia.</td>
</tr>
<tr>
<td>US</td>
<td>Initial jobless claims</td>
<td>684k</td>
<td>-</td>
<td>-</td>
<td>Fell sharply last week; looking for downtrend to continue.</td>
</tr>
<tr>
<td></td>
<td>Feb construction spending</td>
<td>1.7%</td>
<td>-0.8%</td>
<td>-</td>
<td>Led by strength in residential construction.</td>
</tr>
<tr>
<td></td>
<td>Mar ISM manufacturing</td>
<td>60.8</td>
<td>60.5</td>
<td>-</td>
<td>Mfg surveys have seen strong prices paid/new orders growth.</td>
</tr>
<tr>
<td></td>
<td>Fedspeak</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>FOMC’s Harker to discuss Community Banks and Fintech</td>
</tr>
<tr>
<td><strong>Fri 02</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aus &amp; NZ</td>
<td>Good Friday</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Public holiday, markets closed.</td>
</tr>
<tr>
<td>US</td>
<td>Mar non-farm payrolls, ’000</td>
<td>379</td>
<td>600</td>
<td>-</td>
<td>Moderate to strong gains in payrolls throughout 2021...</td>
</tr>
<tr>
<td></td>
<td>Mar unemployment rate</td>
<td>6.2%</td>
<td>6.0%</td>
<td>-</td>
<td>... to see u/e tend down towards 5% over the year.</td>
</tr>
<tr>
<td></td>
<td>Mar average hourly earnings %mth</td>
<td>0.2%</td>
<td>0.2%</td>
<td>-</td>
<td>Labour market slack to suppress earnings growth.</td>
</tr>
</tbody>
</table>

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.
**Economic & financial forecasts**

### Interest rate forecasts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
</tr>
<tr>
<td>90 Day BBSW</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.04</td>
<td>0.06</td>
<td>0.08</td>
<td>0.10</td>
</tr>
<tr>
<td>3 Year Bond</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.10</td>
<td>0.15</td>
<td>0.20</td>
<td>0.25</td>
<td>0.30</td>
</tr>
<tr>
<td>3 Year Swap</td>
<td>0.28</td>
<td>0.30</td>
<td>0.25</td>
<td>0.30</td>
<td>0.50</td>
<td>0.55</td>
<td>0.60</td>
<td>0.65</td>
</tr>
<tr>
<td>10 Year Bond</td>
<td>1.66</td>
<td>1.85</td>
<td>1.85</td>
<td>1.90</td>
<td>2.05</td>
<td>2.20</td>
<td>2.35</td>
<td>2.50</td>
</tr>
<tr>
<td>10 Year Spread to US (bps)</td>
<td>3</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

#### US

- **Fed Funds**: 0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125
- **US 10 Year Bond**: 1.63, 1.65, 1.70, 1.80, 1.95, 2.10, 2.25, 2.40

#### New Zealand

- **Cash**: 0.25, 0.25, 0.25, 0.25, 0.25, 0.25, 0.25, 0.25
- **90 day bill**: 0.34, 0.30, 0.30, 0.30, 0.30, 0.30, 0.30, 0.30
- **2 year swap**: 0.42, 0.40, 0.40, 0.40, 0.45, 0.50, 0.55, 0.60
- **10 Year Bond**: 1.63, 1.65, 1.70, 1.75, 1.80, 1.90, 2.00, 2.10
- **10 Year spread to US**: 0, 0, 0, -5, -15, -20, -25, -30

### Exchange rate forecasts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AUD/USD</td>
<td>0.7613</td>
<td>0.79</td>
<td>0.80</td>
<td>0.82</td>
<td>0.85</td>
<td>0.85</td>
<td>0.84</td>
</tr>
<tr>
<td>NZD/USD</td>
<td>0.6971</td>
<td>0.72</td>
<td>0.73</td>
<td>0.74</td>
<td>0.76</td>
<td>0.76</td>
<td>0.75</td>
</tr>
<tr>
<td>USD/JPY</td>
<td>109.26</td>
<td>109</td>
<td>110</td>
<td>111</td>
<td>112</td>
<td>111</td>
<td>111</td>
</tr>
<tr>
<td>EUR/USD</td>
<td>1.1780</td>
<td>1.20</td>
<td>1.21</td>
<td>1.23</td>
<td>1.25</td>
<td>1.26</td>
<td>1.27</td>
</tr>
<tr>
<td>GBP/USD</td>
<td>1.3762</td>
<td>1.40</td>
<td>1.40</td>
<td>1.41</td>
<td>1.41</td>
<td>1.41</td>
<td>1.42</td>
</tr>
<tr>
<td>USD/CNY</td>
<td>6.5429</td>
<td>6.40</td>
<td>6.30</td>
<td>6.20</td>
<td>6.15</td>
<td>6.10</td>
<td>6.05</td>
</tr>
<tr>
<td>AUD/NZD</td>
<td>1.0922</td>
<td>1.10</td>
<td>1.10</td>
<td>1.11</td>
<td>1.12</td>
<td>1.12</td>
<td>1.12</td>
</tr>
</tbody>
</table>

### Australian economic growth forecasts

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
<th>Calendar years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>GDP % qtr</td>
<td>-7.0</td>
<td>3.4</td>
</tr>
<tr>
<td>% yr end</td>
<td>-6.3</td>
<td>-3.7</td>
</tr>
<tr>
<td>Unemployment rate %</td>
<td>6.9</td>
<td>7.1</td>
</tr>
<tr>
<td>CPI % qtr</td>
<td>-1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Annual change</td>
<td>-0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>CPI trimmed mean: %qtr</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>% yr end</td>
<td>1.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

### New Zealand economic growth forecasts

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
<th>Calendar years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>GDP % qtr</td>
<td>-11.0</td>
<td>13.9</td>
</tr>
<tr>
<td>Annual avg change</td>
<td>-1.7</td>
<td>-2.3</td>
</tr>
<tr>
<td>Unemployment rate %</td>
<td>4.0</td>
<td>5.3</td>
</tr>
<tr>
<td>CPI % qtr</td>
<td>-0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Annual change</td>
<td>1.5</td>
<td>1.4</td>
</tr>
</tbody>
</table>

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.
**Disclaimer**

© Copyright 2021 Westpac Banking Corporation

**Things you should know.**

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 (‘Westpac’).

**Disclaimer**

This material contains general commentary only and is not intended to constitute or be relied upon as personal financial advice. To the extent that this material contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs, and because of this, you should, before acting on it, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, and, the disclosure documents (including any product disclosure statement) of any financial product you may consider. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. 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 ultimate outcomes may differ substantially from these forecasts.

**Country disclosures**

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

**New Zealand:** In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited (“WNZL”). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

**China, Hong Kong, Singapore and India:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Singapore and Hong Kong Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

**UK:** The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).
Disclaimer continued

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been
taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments
covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot
Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this Investment Recommendation at the time of publication. Westpac has no obligation
to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information,
including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal
and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives
in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately,
and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment
recommendations.

i. Chinese Wall/Cell arrangements;
ii. physical separation of various Business/Support Units;
iii. Strict and well defined wall/cell crossing procedures;
iv. a “need to know” policy;
vi. documented and well defined procedures for dealing with conflicts of interest;

The following arrangements have been adopted for the avoidance and prevention of conflicts in interests associated with the provision of investment
recommendations.

i. Chinese Wall/Cell arrangements;
ii. physical separation of various Business/Support Units;
iii. Strict and well defined wall/cell crossing procedures;
iv. a “need to know” policy;
v. documented and well defined procedures for dealing with conflicts of interest;
vi. reasonable steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are
adequately monitored.

Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated
with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac,
is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (“the Exchange Act”) and member of the Financial Industry Regulatory
Authority (“FINRA”). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration
provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research
reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the
contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone
regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to
WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of
non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities
or related financial instruments may be limited. Non-U.S. companies may not subject to audit and reporting standards and regulatory requirements
comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments
denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value
of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated
person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise
specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by
Westpac and/or its affiliates.