6 October 2020

Australian Federal Budget 2020.
A budget like no other.
2020/21: $213.7bn deficit, 11.0% of GDP.

The Australian Federal government's budget deficit has ballooned as the impacts of the covid pandemic are felt. The associated severe recession and the necessary aggressive policy response have had a major impact on the budget position. The broad aim of new policy and the general budget strategy is aimed at supporting the balance sheets of households and businesses and at boosting domestic demand in an effort to grow the economy at a robust pace and see progress in reducing unemployment from the unacceptably high levels triggered by the severe downturn.

The budget has deteriorated from a balanced position for 2018/19, to a deficit of $85.3bn (4.3% of GDP) for 2019/20, then jumping to a revised budget deficit of $213.7bn (11% of GDP) for 2020/21. The figure for 2020/21 compares with the July 23 Budget update estimate of $184.5bn, with new policy unveiled since then.

The budget deficit is then expected to narrow over the following three years as the economy reopens and a recovery unfolds. The deficit profile is: $112bn (5.6% of GDP) for 2021/22; $87.9bn for 2022/23; and then $66.9bn (3% of GDP) for 2023/24.

Budget reconciliation: new spending and economic hit from recession
The budget deficit for 2020/21 represents a $219.7bn deterioration from the $6.1bn surplus anticipated back in the December 2019 Mid-Year Economic and Fiscal Update (MYEFO). New policy came at a cost of $159.8bn (8.2% of GDP) while the budget hit from the economic downturn is some $59.9bn. Much of the new spending was announced prior to July 23, as part of the covid response package, the centre piece of which was the JobKeeper wage subsidy. Since July 23, new policy measures cost $41.4bn, dominated by new payments valued at $34.2bn, of which $15.6bn is the extension of the JobKeeper payment - a measure announced prior to Budget night.

For 2021/22, the budget position has deteriorated by $120.4bn relative to MYEFO. The impact of the economic downturn is estimated at $66.5bn, up from the $59.9bn impact in 2020/21. Policy measures add $53.9bn (2.7% of GDP) to the budget deficit, well down from the $159.8bn cost the year prior. The government's initial response to covid was to introduce measures that were "timely, targeted, and proportionate". Since July 23, measures cost $46.4bn and the mix shifts, with a greater focus on tax cuts, valued at $28.7bn, while spending measures cost $17.7bn. Revenue measures include the bring forward of personal income tax cuts and incentives for new business investment and employment.

In the following two years, the economic impact of the downturn increases further in dollar terms, to $69.7bn in 2022/23 and then $84.5bn for 2023/24. Policy measures have a more modest impact in 2022/23, moderating to $22.2bn (1.1% of GDP) in 2022/23 and then swing to a boost to the budget position of $2.6bn in 2023/24. See below for a more detailed discussion of key budget measures.

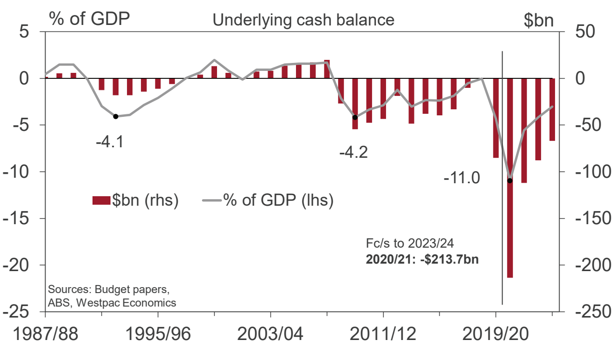
Revenues and expenses profile
The narrowing of the budget deficit over the forecast period anticipates that revenue as a share of GDP begins to rebound as the recovery continues, increasing from a low of 22.5% of GDP in 2021/22 to 23.9% of GDP in 2023/24, still down from the 24.9% in 2018/19. Expenses as a share of the economy spike to 34.8% of GDP in 2020/21 then drop back to 28% in 2021/22 and ease further to 26.9% by 2023/24. That is still above the 24.5% share in 2018/19 ahead of covid.

Net debt jumps but debt servicing costs flat-line
Debt levels move sharply higher on the back of large budget deficits. Net debt increases from 19.2% of GDP in 2018/19, pre-covid, to 36.1% of GDP by June 2021 and then begins to level out at around 43.8% of GDP by June 2024. Despite that jump in debt, the debt position remains manageable aided by super low interest rates. Indeed, the debt servicing cost flat-lines at around 0.7% of GDP, inching down to 0.6% of GDP by June 2024.

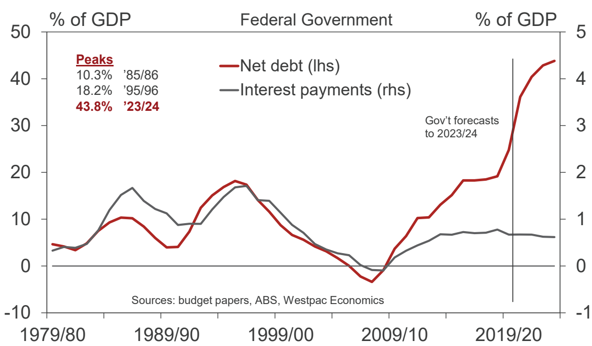
Risks
Risks to the economic and fiscal forecasts abound, as is always the case. The budget outlook is vulnerable to risks around the economic recovery - both the initial bounce and the durability of any upswing. The profile for real GDP, output, is a strong 4.75% increase in 2021/22 representing a rebound from the -1.50% covid driven recession in 2020/21. After this, back-to-back robust gains in output are expected, a 2.75% increase in 2022/23 lifting to a 3% pace in 2023/24, helping to absorb spare capacity in the economy and progressively close the output gap. Fragilities in the economy pre-covid (weak wages growth) and legacies from the covid recession could see the growth path fall short of this profile.

Around the fiscal parameters, following a severe recession there is the risk that expenditures will tend to surprise to the upside, while revenues may tend to surprise to the downside - the "jaws of death". On the expenditure front, it may be that there is the need for additional fiscal support over the recovery period, requiring new spending initiatives. On the revenue front, substantial businesses losses incurred during the severe downturn can cast a long shadow, meaning that revenues are sticky and any upturn as a share of the economy takes longer to emerge.

Federal budget: hit by covid recession



Australia: public net debt



6 October 2020

Budget 2020: key numbers

	2018/19(a)	2019/20(a)	2020/21	2021/22	2022/23	2023/24
GDP, real	2.0	–0.2	–1.50	4.75	2.75	3.00
GDP, nominal	5.3	1.7	–1.75	3.25	4.50	5.00
Underlying cash balance*, $bn	–0.7	–85.3	–213.7	–112.0	–87.9	–66.9
% of GDP	0.0	–4.3	–11.0	–5.6	–4.2	–3.0
Revenue, % GDP	24.9	23.7	23.8	22.5	23.0	23.9
Expenses, % GDP	24.5	27.7	34.8	28.0	27.2	26.9
Headline cash balance, $bn	–7.2	–93.9	–230.0	–123.8	–100.8	–56.2
% of GDP	–0.4	–4.7	–11.8	–6.2	–4.8	–2.5
Net debt, $bn	373.6	491.2	703.2	812.1	899.8	966.2
% of GDP	19.2	24.8	36.1	40.4	42.8	43.8

* Underlying cash balance = Revenue less Expenses less Net Future Fund earnings; # deflated by CPI

Sources: ABS, Budget papers, Westpac Economics

Major policy initiatives in Budget 2020

AUDbn	'20/21	4 yrs	Comment
Spending measures – Expenses			
JobKeeper Payment extension	15.6	15.6	Announced in August, modified and extended to end March 2021.
Infrastructure Investment - states and territories	0.7	6.7	'Use it or lose it' funding for state and local governments.
Infrastructure Investment - road and safety upgrades	1.0	2.0	Small scale road safety projects to provide short-term stimulus.
Infrastructure Investment - local roads and community	0.5	1.0	Supporting local councils in maintaining social infrastructure.
Infrastructure Investment - National Water Grid	0.0	1.0	Grant funding for priority water investments that support output.
JobMaker - Hiring Credit	0.9	4.0	Incentivising businesses to hire young job seekers aged 16-35.
JobMaker - Boosting Apprenticeships wage subsidy	0.4	1.2	50% wage subsidy for commencing apprentices and trainees.
JobMaker - Research Package	1.0	1.1	Support investment in nationally significant research projects.
JobMaker - Modern Manufacturing Strategy	0.0	1.5	Aiming to achieve scale, competitiveness in manuf'g sector.
Further economic payments	2.5	2.6	Two $250 economic support payments to welfare recipients.
Ageing and Aged Care	0.7	2.0	23,000 additional home care packages, improving transparency.
Access to COVID-19 vaccines and consumables	1.2	1.9	Committing to supply and production agreements.
Healthcare - hospitals and Medicare access	2.1	2.1	Tele-health and mental health services.
Total *(including other)*	**34.2**	**71.3**	
Spending measures – Revenue (i.e. tax relief)			
Temporary full expensing to support investment and jobs	1.5	26.7	Accelerated depreciation for 99% of businesses.
Bringing forward Personal Income Tax Plan, retaining LMITO	6.9	17.8	Stage 2 plan brought forward to July 2020.
Temporary loss carry-back to support cash flow	0.0	4.9	Tax relief generating refund for profits back to 2018-19.
Migration Program - 2020-21 planning levels	0.0	0.4	Increasing Family Stream places in 2020-21, reducing receipts.
R&D Tax Incentive - supporting Australia's economic recovery	0.3	2.0	Offset for small and large businesses applying July 2021.
Total *(including other)*	**8.7**	**51.9**	

6 October 2020

Budget 2020: Key themes & key measures

The central theme of Budget 2020 is job creation. The key measures look to boost demand and business investment while moving away from the blanket temporary income supports deployed when the initial COVID shock hit, to more targeted policies aimed specifically at encouraging new hiring.

Tax relief - personal income tax plan brought forward, LMITO extended
Stage 2 of the personal income tax plan brought forward and applied retrospectively from July 2020. The stage raises the 32.5¢ threshold from $37k pa to $45k pa and the 37¢ threshold from $90k pa to $120k pa. Stage 3 of the tax plan remains scheduled to come through from July 2024.

The Low and Middle Income Tax Offset (LMITO) available to those earning up to $90k pa was also extended - up to $1k for singles, $2k for dual income families. The measures are estimated to reduce receipts by $17.8bn by 2024, with no ongoing budget impact outside this period.

A further boost to incomes with two additional $250 payments in December and March for pensioners and other eligible recipients at a total cost of $2.6bn.

Business incentives to kick start investment
Temporary instant asset write-offs for businesses with turnover up to $5bn. The measure applies to the full cost of eligible depreciable assets purchased up until June 2022. Around 99% of businesses are expected to be eligible covering an expected $200bn of investment. Total cost to Budget is $12.9bn in 2020/21 and 2021/22 and a further $18.1bn in 2022/23. Note that most of this unwinds in subsequent years as assets are no longer eligible for depreciation – i.e. the main effect is a pull forward of depreciation write-offs.

Businesses with turnover up to $5bn are also eligible for temporary loss carry-backs. Losses incurred in 2021/22 can be carried back against profits made since 2018/19. Businesses can elect to receive this as a tax refund. Total cost of the policy is $3.1bn over 2020-21 and 2021-22.

Treasury estimates that these two measures will create around 50k jobs by the end of June 2022, and boost GDP by around $12.5bn.

R&D tax offsets reinstated
For SMEs, the refundable R&D tax offset cap on annual cash refunds has been removed. For larger firms, the intensity test has been streamlined and non-refundable R&D tax offset increased from July 2021.

JobMaker hiring credit to help younger workers back into jobs
A new JobMaker hiring credit available to employers who hire those on JobSeeker aged 16-35 – $200/week for new hires aged under 30, and $100/week for those aged 30-35 (new hires must work at least 20 hours a week). Treasury estimates that this will support around 450k jobs.

JobTrainer to aid upskilling and reskilling
Measures include a 50% wage subsidy available to businesses that employ new apprentices and trainees, expected to cost $1.2bn and support 100k places. The package also provides a $1bn fund to provide an additional 340k training places on free or low-cost courses to boost skills.

No changes to expiring JobKeeper and JobSeeker supplements
The October 6 Budget made no changes to JobKeeper measure, which remains set to expire at the end of March. There were also no changes to the JobSeeker supplement, which has already been reduced from $550 to $250 and is set to phase out after December 31.

Infrastructure – $5.7bn for new & accelerated projects
Includes $2.5bn for major projects across states and territories and a $2bn investment in road safety upgrades – funded on a 'use it or lose it' basis – and an additional $1bn for the Local Roads and Community Infrastructure program. The Budget also had significant measures around water including $2bn in funding for a 'National Water Grid' (although most of this is set to be spent beyond 2022).

Modern Manufacturing Strategy for six designated sectors
The strategy includes $1.3bn for initiatives focussed on six priority sectors: defence, space, food and beverages, recycling and clean energy, medical products, resource technologies and critical minerals processing industries. The government is looking to co-invest in areas that improve collaboration between businesses, researchers and investors, support the commercialisation of products, and help our local manufacturers connect to global value chains.

Research funding
The Budget also provides funds for research including $0.5bn in additional funding for the CSIRO, $1bn for university research and $1.9bn as part of an energy plan to support low emissions and renewable technologies. The Budget also provides $250mn to accelerate three electricity transmission projects.

Health
$4.9bn has been allocated to a range of healthcare initiatives designed to prevent, detect and treat COVID. This includes $1.7bn allocated to securing access to potential vaccines, $750mn for testing and $746mn to support senior Australians. Telehealth and mental health services will receive an additional $1.1bn as part of the Government's COVID-19 Response Package.

Housing
The HomeBuilder scheme, which provides eligible owner-occupiers with a grant of $25k to build or substantially renovate a home, is set to phase out in December - as announced previously. The First Home Loan Deposit Scheme has been extended to June 2021, with an additional 10k places to support the purchase of a new home.

6 October 2020

Economic outlook

The containment measures associated with the COVID-19 pandemic are having a profound impact on the Australian economy resulting in the first recession in almost 30 years. Assuming the virus is effectively contained, economic activity is expected to pick up from late 2020 and into early 2021. The Government is now forecasting the economy to contract –1½% (was forecast to be –2½% in the July update) in the coming year before turning around and growing 4¾% in 2021-22. It will be the strong turnaround in private final demand, both household and business, that will drive the recovery while the pace of growth in public demand is set to ease. The Government has provided an unprecedented $257 billion support package since the onset of COVID-19 helping to boost incomes and confidence thus driving the expectation for a strong private sector recovery.

Global growth set to recover through the second half of 2020 but commodity prices set ease as we move to 2021
Governments have responded to the COVID-19 pandemic by closing borders, or at least restricting international movements, while they locked down and sharply contained movement and activities within their economies. These actions have weighed heavily on activity with some economies recording historical contractions of more than 20%. These sharp contractions in activity, and resulting rise in unemployment in the first half of 2020 are to be followed by strong growth in economic activity plus an improvement in labour markets as we move through the second half of the year. Health outcomes will be a critical determinant of the strength of the economic recovery. So far economies that have contained the spread of the virus, such as China and Korea, have experienced stronger growth. Countries that struggled to contain the virus, such as the UK, the US, much of the euro area and India, suffered a greater contraction in activity and are expected to recover more slowly.

This bifurcation of the global economy has had an impact on commodity markets. Commodities that depend on industrial production and Chinese demand (such as iron ore and base metals) are doing relatively better than those linked to the broader global economic cycle (such as oil, gas and coal). Iron ore prices were held up by strong Chinese demand but with Brazilian supply improving iron ore prices are now assumed to decline to US$55/t by the end of June 2021, two quarters later than in the July update. Coal prices are expected to remain subdued due to low global demand with metallurgical coal holding around US$108/t and thermal coal holding around US$51/t. The combined effect of these forecasts is a –1½% contraction in the terms of trade in 2020-21 with an even larger decline of –10½% in 2021-22 as most of the correction in iron ore prices is set to occur through 2021.

Private demand behind Australia's contraction and the prospective recovery in growth
There were some positive signs in the second half of the June quarter that the staged easing of containment measures had seen a rebound in economic activity. However, the re-introduction of severe restrictions in Victoria provided a major set back even with activity and employment continuing to improve elsewhere in the Australian economy. Assuming the virus is effectively contained, economic activity is forecast to pick up from late 2020. GNE - domestic demand - is expected to contact –1% in 2020-21 before lifting 6% in 2021-22. It will be strong pick up in household consumption, dwelling investment and non-mining investment that will make up for the moderation in mining investment and public spending.

Consumer spending is forecast to contract –1½%, as the high savings rate seen in 2020 plus the turn around in employment helps to offset the continued moderation in wages growth and the removal of government financial assistance. Consumer spending is forecast to jump 7% in 2021-22 but just how high the savings rate remains through the year is a key risk. Dwelling investment is expected to contract –11% in 2020-21 following an –8.8% contraction in 2019-20. However, it does appear that low interest rates and housing policies have pulled forward demand providing support into 2021 with dwelling investment forecast to rise 7% in 2021-22.

Non-mining investment was hit hard by a decline in machinery and equipment investment as well as the gradual run-off in non-dwelling construction leading to a sharp –14½% decline in non-mining investment while mining investment lifts 5½% in 2020-21. In 2021-22 it is the 7½% rise in non-mining investment that is driving the 6% rise in business investment. Mining investment is forecast to lift just 1½%.

For the labour market, employment growth is forecast to lift 2¾% in 2020-21 but with the participation rate lifting to 65¼% the unemployment rate is set to lift to 7¼%. With the participation rate lifted just a ¼% to 65½% the unemployment rate can edge down to 6½% in 2021-22 even with employment growth slowing to 1¾%.

Westpac view - risks to the Budget forecasts
The government growth forecasts are more upbeat than Westpac's driving a now more optimistic view on the labour market. They have a more constructive view on consumption, dwelling and business investment which is driving a stronger gain in employment in 2020-21 and thus a lower unemployment rate leading to a more upbeat assessment on wages. A key risk is uncertainty around the COVID-19 pandemic and its effect on communities and economies. These risks are both to the downside (additional outbreaks) and to the upside (an early vaccine). Westpac gives greater prominence to potential headwinds: the fragilities pre-covid (weak wages growth) and the legacies from the pandemic and the severe recession (high unemployment and fragile confidence).

Key forecasts		'19/20	'20/21	'21/22	'22/23	'23/24
Real GDP	July 23	–0.25	–2½	~	~	~
(% chg)	Budget	–0.2	–1½	4¾	2¾	3
Unemployment	July 23	7.0	8¾	~	~	~
(% chg)	Budget	7.0	7¼	6½	6	5½
Employment	July 23	–4.4	1.00	~	~	~
(% chg)	Budget	–4.3	2¾	1¾	1	1¾

Sources: Budget papers

Government & Westpac forecasts: 2020/21

	Government	Westpac
World GDP (2020)	–4½	–3.8
Australia: real GDP	**–1½**	**–1.5**
Consumption	–1½	–1.2
Housing	–11	–10.8
Investment	–9½	–9.6
Exports	–9	–5.4
Net exports, ppt contr'n	–¼	–0.7
Unemployment, Jun qtr	7¼	7.9
Nominal GDP	–1¾	0.0
Terms of trade	–1½	2.0

Sources: Budget papers, ABS, Westpac Economics.

6 October 2020

Economic forecasts: Australia

	Actual	Government (yr avg)			Westpac (yr avg)		
	2018/19(a)	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
Private consumption	2.0	-2.6	-1½	4¾	-2.6	-1.2	4.2
Dwelling investment	0.0	-8.8	-11	7	-8.8	-10.8	3.4
Business investment*	-0.9	-1.8	-9½	6	-1.8	-9.6	1.3
Mining investment	-9.4	4.8	5½	1½	4.8	10.0	5.0
Non-mining investment	1.8	-3.7	-14½	7½	-3.7	-15.5	0.0
Private final demand*	1.0	-2.9	-3½	7	-2.9	-3.3	3.7
Public final demand*	4.4	5.6	5¾	2½	5.9	4.8	2.7
Domestic final demand	1.8	–	–	–	-0.8	-1.2	3.5
Inventories, contribution ppts	-0.2	-0.4	0	¼	-0.3	0.5	0.0
GNE	1.6	-1.2	-1	6	-1.1	-0.7	3.4
Exports	4.0	-1.6	-9	2	-1.6	-5.4	4.7
Imports	0.3	-7.1	-9½	8½	-7.1	-2.6	7.6
Net exports, contribution ppts	0.8	1.1	-¼	-1	1.1	-0.7	-0.5
Statistical discrepancy	-0.4	–	–	–	-0.2	-0.2	0.0
Real GDP	**2.0**	**-0.2**	**-1½**	**4¾**	**-0.2**	**-1.5**	**2.9**
Nominal GDP	**5.3**	**1.7**	**-1¾**	**3¼**	**1.7**	**0.0**	**2.8**
GDP deflator	3.3	1.9	-¼	-1½	1.8	1.6	-0.1
Terms of trade	5.6	1.0	-1½	-10¾	1.0	2.0	-7.0
Employment (Jun qtr)	2.5	-4.3	2¾	1¾	-4.3	1.7	2.2
Unemployment rate (Jun qtr)	5.2	7.0	7¼	6½	7.0	7.9	7.0
Participation rate (Jun qtr)	66.0	63.4	65¼	65½	63.4	64.8	65.1
CPI (Jun qtr)	1.6	-0.3	1¾	1½	-0.3	2.7	2.1
Wage price index (Jun qtr)	2.3	1.8	1¼	1½	1.8	0.9	1.2
Current account, % of GDP	-0.7	1.8	2	-1½	1.9	1.6	-0.9

* business investment and government spending excluding the effect of private sector purchases of public sector assets.

	2019(a)	2020	2021	2022	2020	2021	2022
World growth	2.9	-4½	5	3½	-3.8	5.8	3.7

Macroeconomic variables – recent history

	2019		2020								
Monthly data	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Employment '000	30.4	32.0	11.7	19.7	-3.0	-607	-264	228	119	111	–
Unemployment rate %	5.1	5.1	5.3	5.1	5.2	6.4	7.1	7.4	7.5	6.8	–
Westpac-MI Consumer Sentiment	97.0	95.1	93.4	95.5	91.9	75.6	88.1	93.7	87.9	79.5	93.8
Retail trade %mth	1.2	-0.8	-0.4	0.6	8.5	-17.7	16.9	2.7	3.2	-4.0	–
Dwelling approvals %mth	8.8	4.8	-14.6	20.3	-2.6	-2.1	-15.3	-4.8	12.2	-1.6	–
Private sector credit %ann	2.4	2.3	2.5	2.7	3.7	3.5	3.2	2.8	2.4	2.2	–
Trade balance AUDbn	5.7	4.9	4.8	3.7	10.5	7.7	7.1	7.6	4.7	2.6	–

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. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement at www.westpac.co.nz.

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 Shanghai and Beijing 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;
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.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. 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.