



Pacific economic and market insights

SEPTEMBER QUARTER 2020



Key trends at a glance



GLOBAL ECONOMY TO ENTER A SHARP RECESSION

- According to the IMF, the global economy is climbing out from the depths to which it dropped during the many COVID-19 lockdowns in April. Growth is projected at -4.4% in 2020, a less severe contraction than Q2 forecasts, while growth for 2021 is projected at +5.2%



COMMODITY PRICES FALL IN Q3-20

- According to World Bank reports, almost all commodity prices recovered in the Q3-20, following steep declines earlier in the year due to the COVID-19 pandemic



- Gold rose about +12% in the Q3-20, marking its eighth consecutive quarterly gain. Its status as a safe haven and continued monetary easing by major central banks are the driving factors behind the precious metal's appeal



- Copper prices shot up +22% to levels well above pre-COVID-19. Prices were driven higher on the back of surging Chinese imports and major pandemic-induced supply disruptions



- The price of Arabica coffee increased +7% in the Q3-20, with demand improving strongly after the decline seen in the first months of the coronavirus pandemic



PNG ECONOMY TO ALSO CONTRACT

- As global COVID-19 flow on effects disrupt transport and trade, output in Papua New Guinea, the sub region's largest economy, is now projected to shrink by -3.3% in 2020 and expand by just 1.2% in 2021



- As of 4 October, there has been 540 COVID-19 cases and seven (7) deaths reported in PNG. Thirteen out of 22 provinces have reported COVID-19 cases to date. Contact tracing is ongoing for all the cases confirmed



- Discussions over the future expansion of PNG's LNG project are continuing, as are the talks between the government and Barrick Gold regarding re-opening Porgera mine. The government supports the timely progression of the proposed Wafi-Golpu project though the proposal of deep-sea tailings placement remains a contentious issue. Nevertheless BSP remains optimistic, with PNG's pipeline of K133b in projects



- Oil Search reported that discussions on the future expansion of PNG's LNG project are continuing, with the objective of securing fair and balanced fiscal terms on the P'nyang Gas Agreement. As mentioned in Oil Search's Q3 report, these discussions coincide with a strengthening in demand and a potential improvement in the LNG price outlook, despite the COVID-19 impact



A CHALLENGING 2020 FOR THE SOUTH PACIFIC

- Underpinned by travel restrictions, the battle against COVID-19 has led Pacific Island economies to experience material declines in tourism, employment, investment, and trade
- While post-COVID-19 tourism recovery will depend primarily on virus containment and the strength of economic recovery, even optimistic scenarios see a full recovery only by 2023. Hence, Pacific nations and territories have been urged to diversify their tourism sectors to meet new market demands



REAL GDP GROWTH

	2020	2021
	-21.0%	+11.5%
	-5.0%	+4.5%
	-2.5%	-3.5%
	-7.0%	-15.4%
	-5.0%	-1.5%
	-8.3%	4.3%

Source: IMF OCTOBER-20, Cook Islands – ADB September 2020

BSP's economic and market views



Robin Fleming

Group Chief Executive Officer

What will be the key benefits for small and medium-sized enterprises [SMEs] participating in the recently announced PNG government K100m SME credit enhancement scheme?

- The SME credit enhancement scheme will provide PNG SMEs with a lower cost of borrowing [interest rate] and also a longer loan term in some instances, which will afford SMEs greater capacity to meet their loan repayments.
- The K100m that has been provided by the government is held in a “trust account” for the term of the agreement and provides BSP with the ability to offer a lower interest rate.
- It's important to note that one of the main objectives is that the government's SME scheme is sustainable in the long-term. Accordingly, the government and BSP have agreed that the SME loan applications assessed at BSP under the scheme, must meet BSP's normal equity and loan approval requirements.
- A vibrant SME sector is beneficial for all businesses as well as the broader economy and BSP will continue to support SMEs as we have done for many years.

What other initiatives is BSP undertaking to support businesses through these challenging times that may represent the new normal?

- BSP has always played a leadership role in the growth of PNG's emerging digital economy. However, COVID-19 and current economic conditions have led to the acceleration in our technology investment ... ensuring our digital channels are making banking convenient, safe and cheaper for our customers. We are also helping our SME and large business customers to trade “24 hours / seven days a week” to increase their incomes and reduce their costs.
- For example, BSP is experiencing rapid growth in merchant demand for its market leading e-commerce platform [IPG]. The number of PNG merchants using our platform is expected to triple this year and we expect this trend to continue with the launch of “BSP Pay”, a domestic online payment solution. This solution will open up the e-commerce market to the 1.0 million PNG customers with BSP bank accounts. This domestic internet payment solution enables ease of doing business for merchants and ease of payments for customers, with online registration available to both merchants and customers.



BSP's economic and market views



Peter Beswick

Group General Manager –
Corporate Bank

What sectors appear to be performing well despite COVID-19 impacts?

- *With strong gold and copper prices the mining sector is the standout performer at present ... now that they are fully operational post initial COVID-19 impacts from shutdown and/or travel restrictions.*
- *Technology & Telecommunications are also in a growth phase, with many companies investing in hardware and connectivity given COVID restrictions on movement and focused on staying connected with customers digitally.*
- *With the Government's recent announcement of several national road projects, we anticipate these infrastructure investments will make a significant contribution to the civil construction sector and ultimately contribute to the country's economic development.*

What should businesses be considering to safely navigate through COVID-19?

- *BSP Digital and Corporate Banking, in partnership, are focusing on leveraging the Bank's technology platforms to support our customers to create new value in their business models, improve productivity and reduce the cost of business, eliminate cash handling risks and ultimately enhancing customers' experience. "Going digital" will allow you to trade "24 hours / seven days a week" and increase income at reduced costs.*
- *Our digital solutions allow extensive online functionality, such as, payroll, supplier payments, cash management, periodic payments, foreign exchange, view transaction and statements, etc. All supported by state-of-the-art security – encryption, etokens and OTP.*



Rohan George

Group General Manager –
Treasury

What trends did you see in the foreign exchange market in the September Quarter 2020?

- *Market Turnover increased 2% from September Quarter 2019, and 3.7% from the June Quarter 2020, supported by strong gold and copper prices.*
- *Excluding Central Bank FX intervention, monthly FX market turnover has risen by 15% over the past 6 months.*
- *Stronger FX market turnover reflects stronger FX inflows from miners, mid year SOE conversions, Barrick mine closure flows and aid/development program payments.*
- *It's expected that the Barrick mine closure will reduce FX market turnover by 6% in the final quarter of 2020.*

What do you foresee as the key advantages and disadvantages from a Kina devaluation

- *With a Kina devaluation, exports become more competitive, potentially increasing tax revenue, and encouraging diversification of exports.*
- *The key disadvantages are a consequent rise in inflation, increased cost base, upwards pressure on interest rates, increased offshore debt servicing, increased fiscal deficit, increased funding challenges for the Government. Import substitution remains unlikely, until Government initiatives, such as Connect PNG, improve competitiveness and productivity.*



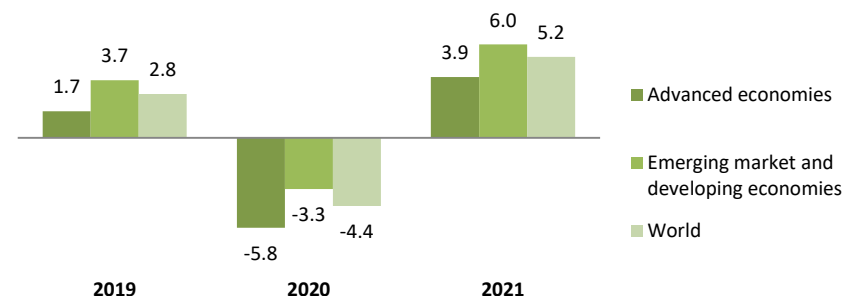
Global growth outlook

The IMF is projecting a somewhat less severe though still deep recession in 2020, relative to its June forecast. The upward revision was driven by second quarter GDP results of large advanced economies, which were not as negative as it had projected. Nevertheless, while the global economy is coming back, the ascent will likely be long, uneven, and uncertain ... particularly with a number of economies experiencing a second COVID-19 infection wave.

GLOBAL GROWTH OUTLOOK

- According to the IMF, the global economy is climbing out from the depths to which it dropped during the many C19 lockdowns in April. Growth is projected at -4.4% in 2020, a less severe contraction than Q2 forecast, while growth for 2021 is projected at +5.2% ... a little lower than in the IMF's June 2020 forecast. Further, the level of global GDP in 2021 is expected to be only 0.6% above that of 2019.
- The IMF reports, for many emerging market and developing economies, prospects continue to remain precarious ... reflecting a combination of factors: the continuing spread of the pandemic; the greater importance of severely affected sectors [e.g. tourism]; and the greater dependence on external finance, including remittances.

GLOBAL GROWTH OUTLOOK



Source: IMF, World Economic Outlook, Oct-20

IMF AND ADB ECONOMIC OUTLOOK – REAL GDP GROWTH

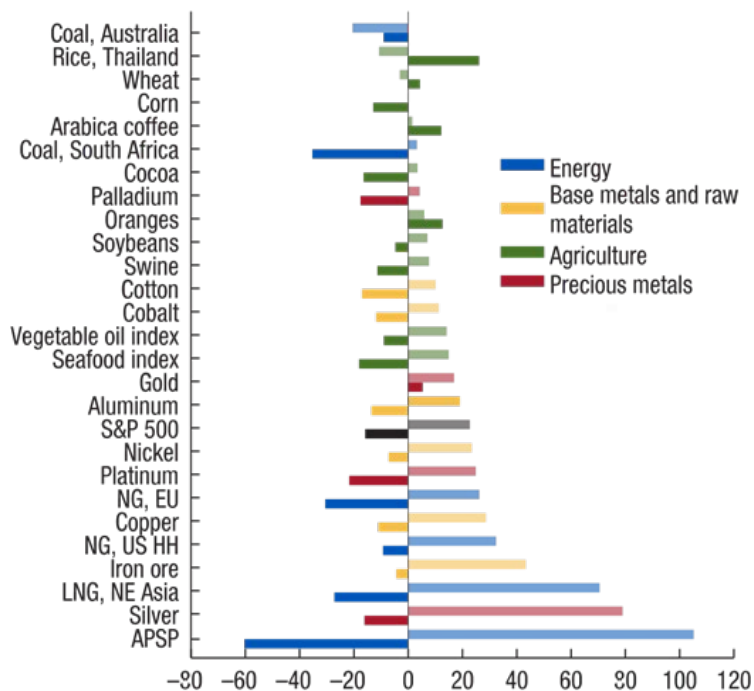
Market	IMF Prior Forecast [Apr-20]		IMF Current Forecast [Oct-20]		IMF – change		ADB – Prior forecast [Jun-20]		ADB Current Forecast (Sep-20)		ADB – change	
	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f
USA	-5.9%	4.7%	-4.3%	3.1%	1.6%	-1.6%	-5.8%	4.1%	N/A	N/A	5.8%	-4.1%
China	1.2%	9.2%	1.9%	8.2%	0.7%	-1.0%	1.8%	7.4%	1.8%	7.7%	0.0%	0.3%
Australia	-6.7%	6.1%	-4.2%	3.0%	2.5%	-3.1%	N/A	N/A	N/A	N/A	N/A	N/A
PNG	-1.0%	2.9%	-3.3%	1.2%	-2.3%	-1.7%	-1.5%	2.9%	-2.9%	2.5%	-1.4%	-0.4%
Fiji	-5.8%	7.0%	-21.0%	11.5%	-15.2%	4.5%	-15.0%	-0.7%	-19.8%	1.0%	-4.8%	1.7%
Solomon Islands	-2.1%	3.8%	-5.0%	4.5%	-2.9%	0.7%	-6.0%	2.5%	-6.0%	1.0%	0.0%	-1.5%
Samoa	-3.7%	0.5%	-5.0%	-1.5%	-1.3%	-2.0%	-5.0%	-2.0%	-5.0%	-9.7%	0.0%	-7.7%
Tonga	-1.2%	1.2%	-2.5%	-3.5%	-1.3%	-4.7%	-3.0%	-4.0%	-3.0%	-8.0%	0.0%	-4.0%
Vanuatu	-3.3%	4.9%	-8.3%	4.3%	-5.0%	-0.6%	-9.8%	2.0%	-9.8%	1.0%	0.0%	-1.0%
Cook Islands	N/A	N/A	N/A	N/A	N/A	N/A	-9.0%	-15.4%	-7.0%	-15.4%	2.0%	0.0%
Cambodia	-1.6%	6.1%	-2.8%	6.8%	-1.2%	0.7%	-5.5%	5.9%	-4.0%	5.9%	1.5%	0.0%
Lao	0.7%	5.6%	0.2%	4.8%	-0.5%	-0.8%	-50.0%	4.5%	-2.5%	4.5%	47.5%	0.0%

COVID-19 commodity price impacts

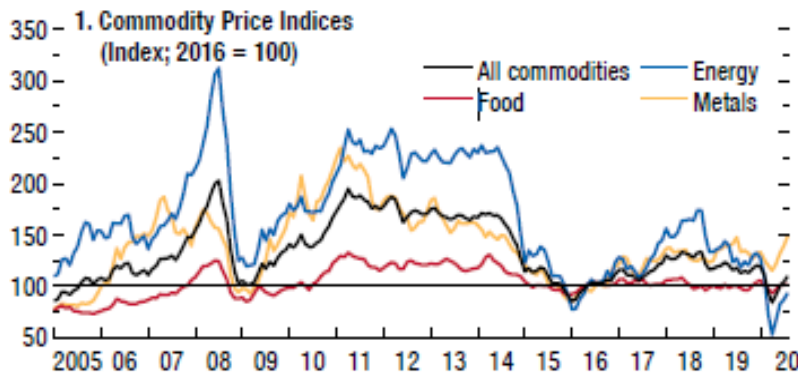
Almost all commodity prices recovered in the third quarter of 2020, following the steep declines earlier in the year. The main risk to the price forecasts is the duration of the pandemic, including the risk of an intensifying second wave in the Northern Hemisphere and the speed at which a vaccine is developed and distributed.

Figure 1.SF.4. Commodity Prices during the COVID-19 Pandemic

(Percent)



COMMODITY MARKET DEVELOPMENTS



- Between February and April the index fell by 24% as the COVID-19 pandemic intensified, whereas between April and August the index recovered by about 31%, as many countries eased lockdown measures and economic activity resumed. Relative to food and metals, energy prices experienced the greatest declines following the initial shock and remain subdued whereas metals have rebounded back to pre-pandemic levels.

Sources: Argus; Bloomberg L.P.; IMF, Primary Commodity Price System; Thomson Reuters Datastream; and IMF staff calculations.

Note: Dark fill sections represent the percent change in commodity prices for February–April 2020, while light fill sections represent the percent change for April–August 2020. APSP = Average petroleum spot price; AU = Australia; EU = Europe; HH = Henry Hub; LNG = liquefied natural gas; NE = northeast; SA = South Africa; US = United States.

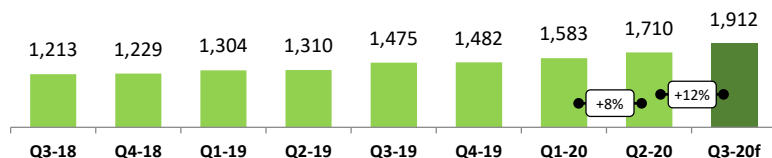
Source: IMF WORLD ECONOMIC OUTLOOK, Oct-20; CMO WB Report Oct 20.



Commodity price outlook

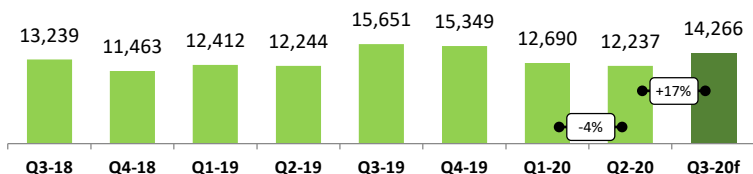
According to World Bank reports, almost all commodity prices recovered in the Q3-20, following steep declines earlier in the year due to the COVID-19 pandemic.

GOLD – AVERAGE QTR PRICE [US\$/toz]



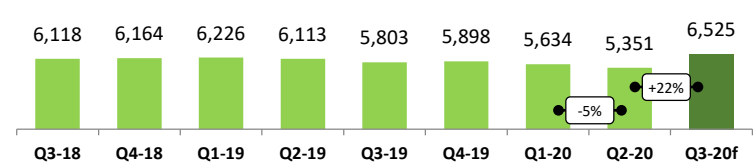
- Gold rose about +12% in the Q3-20, marking its eighth consecutive quarterly gain. Its status as a safe haven and continued monetary easing by major central banks are the driving factors behind the precious metal's appeal.

NICKEL – AVERAGE QTR PRICE [US\$/mt]



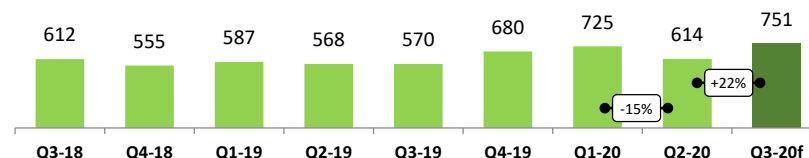
- Nickel prices increased by +17% in the Q3-20, bolstered by strong demand from China and concerns surrounding production shortages.

COPPER – AVERAGE QTR PRICE [US\$/mt]



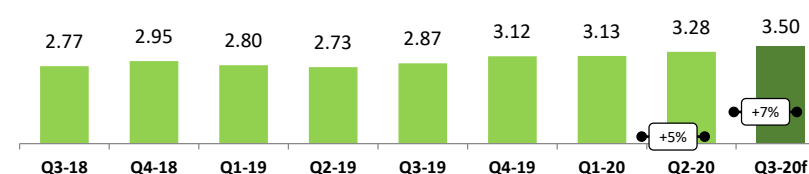
- Copper prices shot up +22% to levels well above pre-COVID-19. Prices were driven higher on the back of surging Chinese imports and major pandemic-induced supply disruptions.

PALM OIL – AVERAGE QTR PRICE [US\$/mt]



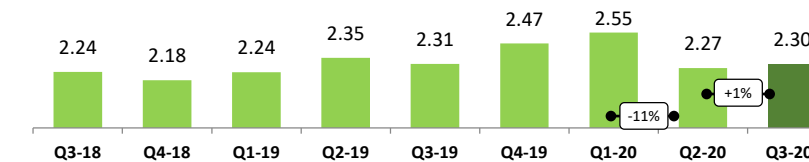
- Palm oil prices have increased by +22% in Q3-20. The higher price reflects last season's production shortfalls, augmented by China's feed demand, following the recovery from the African Swine Fever.

ARABICA COFFEE – AVERAGE QTR PRICE [US\$/kg]



- The price of Arabica coffee increased +7% in the Q3-20, with demand improving strongly after the decline seen in the first months of the coronavirus pandemic.

COCOA – AVERAGE QTR PRICE [US\$/kg]



- Cocoa prices have been broadly stable in the past six months, after tumbling -11% in march on concerns about the impact of COVID-19 on demand.

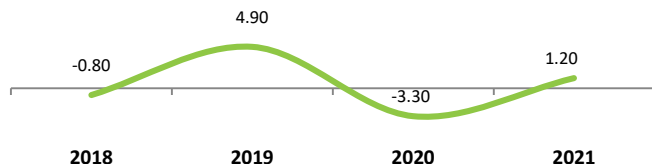
PNG's economic outlook

The ADB and IMF are forecasting economic growth in PNG to recover in Q3-20, following the easing of measures to contain the COVID-19 pandemic and the initial re-opening of businesses. Pleasingly, mining has largely been unaffected by the pandemic. However, the prolonged closure of a major gold mine may further dampen PNG growth prospects.

PNG'S GDP GROWTH OUTLOOK

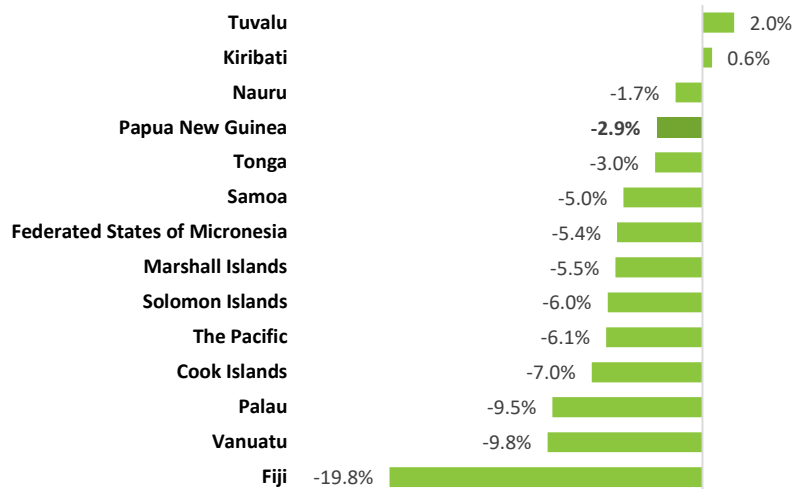


Source: IMF- October - 20



- As global COVID-19 flow on effects disrupt transport and trade, output in Papua New Guinea, the sub region's largest economy, is now projected to shrink by -3.3% in 2020 and expand by just 1.2% in 2021
- PNG's comparative economic outlook [illustrated below], is reasonably robust when compared to other Pacific countries according to ADB data. Particularly, when compared to tourism dependent economies.

ADB – GDP Growth forecast [2020]



Source: Asian Development Bank. Asian Development Outlook (ADO) 2020 Update (September 2020)

COVID-19 OUTBREAK

- As of 4 October, there have been 540 COVID-19 cases and seven (7) Covid-19 deaths reported in PNG. Thirteen out of 22 provinces have reported COVID-19 cases to date. Contact tracing is ongoing for all the cases confirmed
- Revised Pandemic National Measures were released for implementation starting 3 October with notable changes largely related to air travel.

PNG PROVINCES	CONFIRMED CASES
NCD	322
Western	191
Central	7
Morobe	5
East Sepik	3
West New Britain	3
East New Britain	2
Milne Bay	2
Eastern Highlands	1
West Sepik	1
Southern Highlands	1
New Ireland	1
ARoB	1
TOTAL	540

COVID-19 Cumulative Report Results (@20-September)	
CUMULATIVE REPORT	
Cumulative NAT Tests	25,905
Cumulative cases	540
Cumulative Deaths	7
Cumulative ICU Admissions	8

Source: PNG COVID-19 Website – Situation Report #41



PNG's resource projects update

Discussions about the future expansion of PNG's LNG project are continuing, as are the talks between the government and Barric Gold regarding re-opening Porgera mine. The government supports the timely progression of the proposed Wafi-Golpu project though the proposal of deep-sea tailings placement remains a contentious issue. Nevertheless BSP remains optimistic, with PNG's pipeline of K133b in projects.

RESOURCE PROJECT UPDATES:

- The Government is set to proceed with environmental approval for the proposed waste disposal system in order to steamroll ahead the progression of the US\$5.4b Wafu-Golpu gold-copper project. Despite pushback from the Morobe Provincial Government and landowners, the Environment Minister, Wera Mori, said he would sign an "approval in principle" for the environment permit to allow the project developers to use the deep sea tailings placement as the method of waste disposal.
- Talks continue between the PNG government and Barrick with regard to re-opening the Porgera gold mine. As noted in their Joint Media Statement mid-October, Prime Minister James Marape and Barrick CEO Mark Bristow held fruitful talks in Port Moresby. The Barrick-controlled Porgera Joint Venture stated that a number of agreed principles are guiding discussions. According to the Prime Minister, the Porgera mining lease will continue to be held by the government through its Kumul Minerals Holding company.
- Oil Search says discussions about the future expansion of PNG's LNG project are continuing with the objective of securing fair and balanced fiscal terms on the P'nyang Gas Agreement. As mentioned in Oil Search's Q3 report, these discussions coincide with a strengthening in demand and a potential improvement in the LNG price outlook, despite the COVID-19 impact.

Papua LNG	K45.0b
P'nyang	K39.2b
Frida River	K24.5b
Wafi Golpu	K18.2b
Pasca	K5.6b
TOTAL	K132b

Source: The National [9-Oct]

OIL SEARCH Q3 REPORT

	Q3-20	Q2-20	% CHANGE	Q3-19	% CHANGE
TOTAL PRODUCTION (MMBOE)	7.3	7.29	0.1%	6.81	-7.2%
TOTAL SALES (MMBOE)	7.55	6.79	-11.2%	6.47	16.7%
TOTAL REVENUE (MMBOE)	189	266.2	29.0%	361.1	-47.6%

- A pledge by Japan to target net-zero carbon emissions by 2050 should accelerate development of conventional LNG projects such as those in PNG, according to regional gas producer Santos. This pledge follows China's pledge in late September for net-zero carbon emission by 2060.

Source: Oil Search, Q3- Sept Results



South Pacific's COVID-19 response

Underpinned by travel restrictions, the battle against COVID-19 has led Pacific Island economies to experience large declines in tourism, employment, investment, and trade. As a result, the region's governments are facing much higher gross financing needs than in previous years and are also having to make necessary structural adjustments to navigate their economies through cross-country restrictions and safety concerns.

COVID-19 IMPACTS ON PUBLIC DEBT

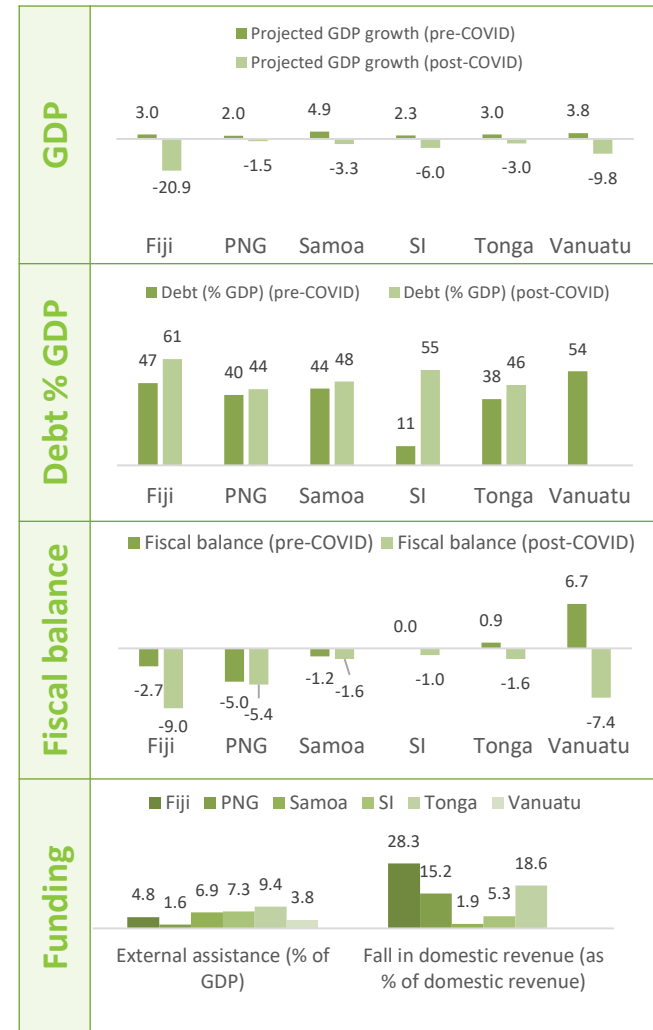
- As public expenditures increase and revenues decline in response to COVID-19, governments are facing widening fiscal deficits and much higher gross financing needs than in previous years. Being reliant upon foreign aid, it is no surprise that many countries in the region were already in high risk of public debt distress prior to COVID-19.
- Apart from self-funded Vanuatu which, on the back of budget surpluses for the last few years, paid for the COVID-19 spend out of government reserves, Samoa, Solomon Islands and Tonga have depended largely on aid-finance. PNG and Fiji on the other hand were constrained in that they had neither reserves or a significant level of foreign grants, and are suffering from a combination of limited borrowing capacity and a loss of revenue.

TOURISM

- While post-COVID-19 tourism recovery will depend primarily on virus containment and the strength of economic recovery, even optimistic scenarios see a full recovery only by 2023 (Mckinsey & Company). Hence, Pacific nations and territories have been urged to diversify their tourism sectors to meet new market demands.

How countries have financed their COVID-19 spend (% of GDP)						
	Constrained		Aid-funded			Self-funded
	PNG	Fiji	Samoa	SI	Tonga	Vanuatu
COVID-19 spend	0.8%	0.6%	1.6%	3.6%	6.0%	3.7%
revenue shortfall	7.6%	2.2%	0.5%	1.5%	5.7%	
Financed by:						
Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%
Grant & loan financing	5.2%	0.0%	2.0%	4.8%	7.6%	
External assistance			1.7%	3.6%	4.6%	
Domestic borrowing			0.3%	1.3%	3.0%	
Expenditure savings	3.1%	2.8%	0.1%	1.7%	4.0%	
Surplus	0.0%	0.0%	0.0%	1.4%	0.0%	0.0%

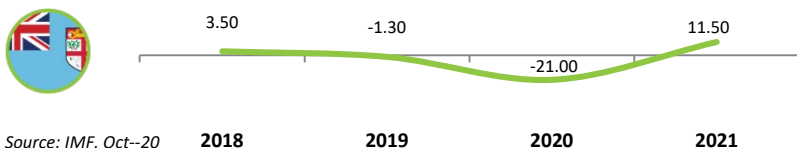
Source: ADB, Devpolicy



South Pacific's economic outlook

South Pacific economies are projected to contract by 7.1% in 2020, given pandemic related travel restrictions. The economic growth of Fiji, Solomon Islands, Samoa and Vanuatu are expected to recover in 2021 on the back of easier travel, while the impact on Tonga, Samoa and the Cook Islands are seen to linger into 2021.

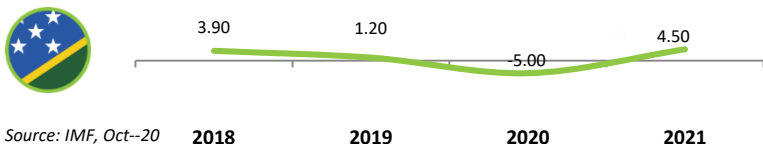
FIJI



Source: IMF, Oct--20

- Largely dependent on tourism, Fiji has been projected to suffer the steepest contraction of the Pacific Island nations, with tourist arrivals inhibited by pandemic related travel restrictions.

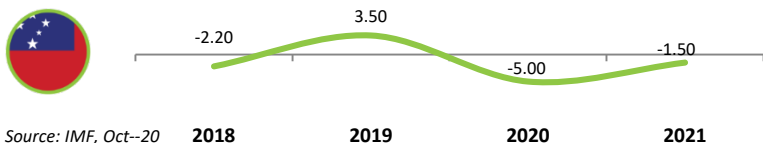
SOLOMON ISLANDS



Source: IMF, Oct--20

- SI's 2020 GDP growth forecast takes into account the dual impact of COVID-19 and Tropical Cyclone Harold in early April. Reforecasts also indicate a slower recovery in the face of lingering travel restrictions.

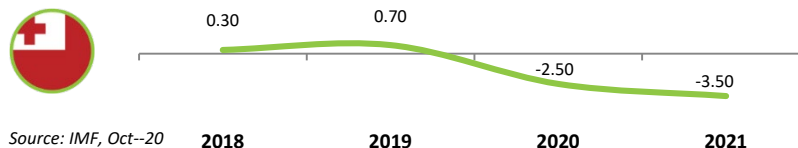
SAMOA



Source: IMF, Oct--20

- The Samoan economy is projected to contract by -5% with the fall of inbound tourism continuing to suppress economic performance.

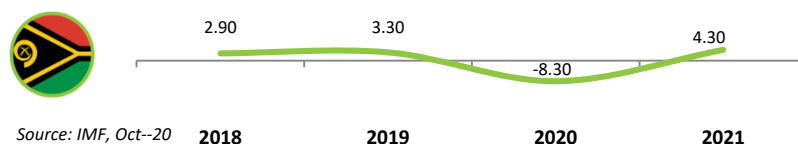
TONGA



Source: IMF, Oct--20

- Tonga's economy growth is forecast to contract by -2.5% in 2020 and a further -3.5% in 2021, as COVID-19 combined with the overlapping economic shocks caused by tropical cyclones slows recovery.

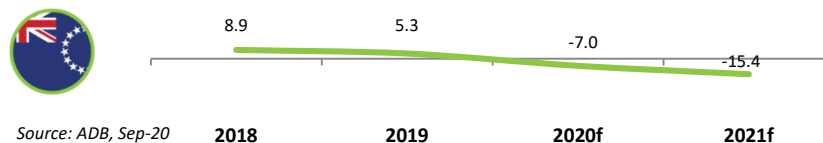
VANUATU



Source: IMF, Oct--20

- Economic contraction is expected to be much sharper than projected in April-20, in the wake of Tropical Cyclone Harold, and because the impact of COVID-19 on tourism is expected to persist longer than initially predicted.

COOK ISLANDS



Source: ADB, Sep-20

- The Cook Islands is forecast to experience a contraction of -7.0% in 2020. Followed by a deeper contraction of -15.4% in 2021, with the closure of the Cook Islands to all inbound non-residents.

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