



Our Bank.
Our People.

PACIFIC ECONOMIC AND MARKET INSIGHTS

June Quarter 2021

Key trends at a glance

GLOBAL ECONOMY TO RECOVER



- The global economy is recovering, and is expected to expand by 5.6% in 2021 and 4.3% in 2022. The strength of the near-term recovery is, to a large extent, attributable to a few major economies, such as the United States and China.

COMMODITY RECOVERY



- Commodities resumed their upward trend in the 2Q-2021 on the back of robust global demand, while supply remains tepid. Encouragingly, copper and oil, two of PNG's major exports are at multi-year highs.



- The gold price lost its upward momentum in the 2Q-21, as expectations of sooner-than-expected policy tightening by the U.S Federal Reserve (Fed) took hold of markets.



- Higher copper prices in 2021 have been attributed to a supply/demand gap that's widening as many of the world's largest economies begin to emerge from the COVID-19 pandemic.



- The price of Arabica coffee continues its upward trend, driven by an expected reduction in production for the 2021/22 season.

PNG ECONOMY TO REBOUND IN 2021



- PNG's economy is expected to grow by 3.5% in 2021, as it recovers from a pandemic-induced recession in 2020 ... growth is projected to accelerate to 4.2% in 2022.



- The framework agreement for the reopening of the Porgera Gold Mine was officially handed over, which now sets the path for all stakeholders.



- With a likely increase in the rate of global copper consumption in the years ahead, there is a renewed focus on the development of copper projects once considered marginal at best, such as the Panguna mine in the Autonomous Region of Bougainville.



- As of 27 June, there were a cumulative total of 17,192 COVID-19 cases and 174 COVID-19 deaths reported in PNG. From the period of 21 June to 27 June, there were 154 new cases and 1 additional death reported from Manus Province.



- A total of 137 vaccination sites are operational, out of 169 sites planned to provide vaccinations nationwide.



- As at the end of June, the kina had remained unchanged against the US\$ for over 6 months, while it strengthened over the quarter against the A\$ due to the movements of the A\$ against the US\$.

ECONOMIC GROWTH FOR THE SOUTH PACIFIC



- According to the World Bank, economic growth in the South Pacific Sub-Region is projected at 7.7% in 2021 in the face of continued pandemic-related headwinds and delayed recovery of tourism and travel. In 2022, 5% growth is expected as the economic recovery takes hold.



- Encouragingly vaccine rollouts are underway in the Pacific, thanks to international partner donations. As has been Cook Island's experience, there is hope that quarantine-free travel will be established in the near future.

REAL GDP GROWTH¹

	2021	2022
	+2.6%	+8.2%
	+2.0%	+4.5%
	-3.0%	+2.5%
	-7.7%	+5.6%
	-26.0%	+6.0%
	+4.0%	+3.9%

¹ ADB Apr-21 for Cook islands; World Bank Jun-21 for remainder

BSP's economic and market views



Robin Fleming

Group Chief Executive Officer

What shareholder benefits will BSP's admission to the ASX bring?

- 25th May 2021, was a very important day in the history of BSP Financial Group Limited (BSP). Our admission to the Australian Securities Exchange (ASX) will provide many benefits, these include:
 - Sourcing new forms of equity capital and this access to new sources of capital should allow BSP to explore future growth opportunities.
 - Increased liquidity for BSP's shareholders that should find it significantly easier to trade BSP shares.
 - Finally, joining the ASX should improve BSP's visibility ... providing the opportunity to better educate the international marketplace in relation to BSP and PNG.
- Existing shareholders can apply to move their shareholding from the PNGX to the ASX, provided they maintain an address in PNG for record purposes. Share migration applications should be presented to PNG Registries Limited.

How does BSP plan to source FX to pay dividends in AUD for overseas investors?

- BSP has given due consideration to the payment of AUD dividends for offshore investors in its strategic planning and is comfortable that it has

the mechanism in place to meet its obligations. This includes BSP's diversified offshore entities, which continue to provide a steady source of foreign currency profit repatriations to BSP Group.

Is BSP looking to further increasing its services as PNG's economy begins to stabilise on the back of recent government announcements?

- BSP is always looking for opportunities to increase and improve its service levels and customers convenience. For example, we are currently in the process of finalising the construction of a new branch in Eriku-Lae, Morobe Province which is expected to be completed later this year.
- We are also looking into opening a second branch in Mt Hagen, recognising its position as being the central point for the Highlands region. Discussions are in progress with potential landlords.
- In addition to the above, a much larger premises for a sub-branch is expected to be opened in Namatanai, New Ireland province in July this year.
- BSP has 200 registered agents in all 20 PNG provinces. Hence, our agency network is an essential part of BSP's commitment to the country and to the provision of banking services to the more remote communities in the country. This also represents the group's commitment to financial inclusion.

BSP's economic and market views



Peter Beswick

Group General Manager –
Corporate Bank

What COVID-19 related concerns are you hearing from your business customers?

- A number have expressed their concerns around vaccination hesitancy. Particularly, with international guidance flagging that nations need 70% vaccination coverage to slow the pandemic, reduce loss of life and drive economic recovery.
- Accordingly, it's important that government and businesses work on approaches to address vaccination hesitancy as a priority. Particularly, with the COVID-19 Delta variant lifting infection rates regionally, which has been the catalyst for domestic travel restrictions ... unless vaccinated limited to essential business and emergency travel. Further, PNG's international travel quarantine requirements were recently increased from 7 days of home quarantine to 21 days at an approved quarantine facility.

Despite ongoing COVID-19 concerns, where do businesses see opportunities?

- PNG businesses are looking to participate (both directly and indirectly) in some of the Government infrastructure initiatives, such as the Australian and PNG Governments actioning the Pacific Step-up initiative creating significant opportunities with a commitment of K582 million package.
- Other notable examples, include the Lombrum Naval Base with work scheduled to commence this quarter on the K146 million project; the K1.1 billion national port rehabilitation program; the PNG Electrification Partnership with Australia, Japan, the United States and New Zealand (70% coverage by 2030); and JICA & NAC Nadzab Airport Redevelopment costing K692 million, which is well progressed at 40% complete.



Rohan George

Group General Manager –
Treasury

How was foreign exchange liquidity and the Kina in the 2nd Quarter 2021?

- FX market liquidity improved in the 2nd Quarter 2021, with market turnover rising by 23.9% in June and 19.7% in the June Quarter 2021.
- FX inflows in the 1st Half 2021 rose 1.8% from one year ago due to increased BPNG intervention. 1st half 2021 FX market turnover was flat with 2020 when BPNG intervention was excluded. The loss of 1st Half FX market inflows from Barrick was offset by firmer copper and palm oil prices, combined with increased project specific and donor foreign currency inflows.
- The Kina is likely to remain stable against the U.S. dollar, while a steady Australian dollar will see improved stability in the Kina/Australian dollar cross rate.

What's the outlook for FX inflows for the upcoming quarter and how should Corporate and Retail customers manage volatility in foreign currency inflows?

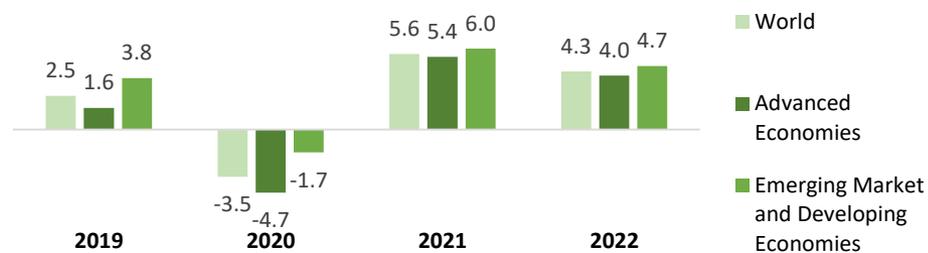
- FX market turnover may well fall in the September Quarter from the high levels seen mid year. Outstanding FX orders reduced by 60% over the June Quarter due to strong foreign currency inflows, however as FX inflows taper in July, August, outstanding FX orders will build up again.
- To manage reduced FX liquidity, businesses should place FX orders (with correct documentation), as soon as possible, ensure orders are cash backed whilst awaiting execution, tax clearance certificates are current and reflect the expected FX order execution time.

Global growth outlook

The global economy is recovering, and is expected to expand by 5.6% in 2021 and 4.3% in 2022. The strength of the near-term recovery is, to a large extent, attributable to a few major economies, such as the United States and China. However, many emerging market and developing economies continue to struggle with the COVID-19 pandemic and its aftermath, the World Bank says in its June 2021 Global Economic Prospects.

WORLD BANK ECONOMIC OUTLOOK – REAL GDP GROWTH						
Market	World Bank Prior Forecast (January- 2021)		World Bank Current Forecast (June- 2021)		World Bank - change	
	2021f	2022f	2021f	2022f	2020f	2021f
	US	3.5%	3.3%	6.8%	4.2%	3.3%
China	7.9%	5.2%	8.5%	5.4%	0.6%	0.2%
Australia	N/A	N/A	N/A	N/A	N/A	N/A
PNG	3.5%	4.2%	3.5%	4.2%	0.0%	0.0%
Fiji	2.6%	8.2%	2.6%	8.2%	0.0%	0.0%
Solomon Islands	3.2%	3.5%	2.0%	4.5%	-1.2%	1.0%
Samoa	-7.7%	5.6%	-7.7%	5.6%	0.0%	0.0%
Tonga	-3.0%	2.3%	-3.0%	2.3%	0.0%	0.0%
Vanuatu	4.0%	3.9%	4.0%	3.9%	0.0%	0.0%
Cook Islands	N/A	N/A	N/A	N/A	N/A	N/A
Cambodia	4.0%	5.2%	4.0%	5.2%	0.0%	0.0%
Lao	4.9%	4.8%	4.0%	4.6%	-0.9%	-0.2%

GLOBAL ECONOMIC GROWTH



Source: World Bank June 2021

- The Global economy is set to expand 5.6% in 2021—its strongest post-recession pace in 80 years. This recovery is uneven and largely reflects sharp rebounds in some major economies—most notably the United States, owing to substantial fiscal support—amid highly unequal vaccine access.
- In advanced economies, the rebound is expected to accelerate in 2021 as a broader set of economies pursue widespread vaccination and gradually reopen, with growth forecast to reach 5.4% in 2021. Growth is projected to moderate to 4% in 2022, partly as fiscal support in the United States begins to recede absent additional legislation.
- Emerging market and developing economies as a group are forecast to expand 6% in 2021, supported by higher demand and elevated commodity prices. However, the recovery in many countries is being held back by a resurgence of COVID-19 cases and lagging vaccination progress, as well as the withdrawal of policy support in some instances.

International reserves and FX markets

U.S central bankers signaled a potentially sooner-than-expected end to the ultra-easy monetary policy that has been in place since the onset of the COVID-19 pandemic, causing significant upward pressure on the US\$ at the end of June-21.



Source: Daily FX, CNBC, BPNG

FOREIGN EXCHANGE RESERVES (US\$'b)



Source: Daily FX, CNBC, BPNG

- **Market mover** – the U.S Federal Reserve signaled a sooner-than-expected end to its ultra-easy monetary policy which was implemented at the onset of the coronavirus pandemic last year – this has provided a tailwind for the US\$ as the 2Q-2021 came to a close.
- **PNG kina** – As at the end of June, the kina had remained unchanged against the US\$ for over 6 months, while it strengthened over the quarter against the A\$ due to the relative movements of the A\$ against the US\$.
- **Australian dollar** – Notwithstanding the impact of a bullish US\$, the A\$ has also come under pressure with China’s government trying to tackle elevated prices and speculation in financial markets. The risk-sensitive currency is also weighed down as concerns increase over the spread of COVID-19’s highly transmissible Delta variant.

- **FX Reserves** – Despite an 11% drop from US\$2.7b at the end of Dec-20 to US\$2.4b, as at 18th March 2021, reserves remained at elevated levels in the 1Q-21 when compared to average levels over 2020. As 2Q came to a close, further external funding of JPY30b (K1.0b) had been committed by Japan in relation to the electrification program. Furthermore, the World Bank had approved US\$100m (K352m) in relation to PNG’s COVID-19 response.

Commodity price trends

Commodities resumed their upward trend in the 2Q-2021 on the back of robust global demand, while supply remains tepid. Encouragingly, copper and oil, two of PNG's major exports are at multi-year highs.

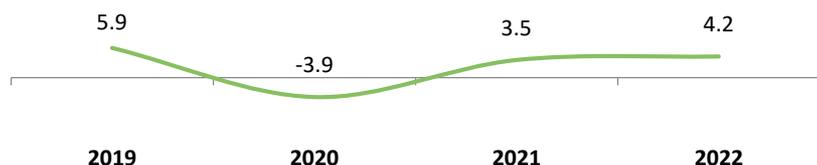
COMMODITY	Q1-2021 (Average price)	Q2-2021 (Average price)	CHANGE (%)	TREND	COMMENTS
Crude Oil, Brent [\$/bbl]	60.57	68.63	13.3%	↑	Oil's upward momentum received a boost as the 2Q came to a close with inventories in the U.S declining more than expected on the back of a pickup in travel. Adding support to the bull run are supply cuts led by OPEC and its allies and as easing coronavirus restrictions boost demand.
Gold [\$/troy oz]	1,798	1,815	0.9%	↑	The gold price lost its upward momentum in the 2Q, as expectations of sooner-than expected policy tightening by the U.S Federal Reserve (Fed) took hold of markets ... higher interest rates raise the opportunity cost of holding the non-yielding bullion.
Nickel [\$/mt]	17,618	17,359	-1.5%	↓	Though nickel fell from multi-year highs in the 1Q, nickel prices have largely recovered in the 2Q and are expected to continue on a gradual upward trend on the back of increased optimism in the market, a weakening dollar and bullish expectations about future nickel supply deficits.
Copper [\$/mt]	8,477	9,706	14.5%	↑	Higher copper prices in 2021 have been attributed to a supply/demand gap that's widening as many of the world's largest economies begin to emerge from the COVID-19 pandemic. Copper-mining and refining activities haven't been able to keep up with the rebound in economic activity.
Palm Oil [\$/mt]	1,014	1,084	6.9%	↑	Palm oil futures ended out the 2Q on a high note, on signs of improving demand and strength in rival edible oils.
Arabica Coffee [\$/kg]	3.63	4.02	10.8%	↑	The price of Arabica coffee continues its upward trend, driven by an expected reduction in production for the 2021/22 season. Adding momentum are the brighter prospects for demand as pandemic related lockdown measures are being removed and as vaccine rollouts progress.
Cocoa [\$/kg]	2.42	2.38	-1.5%	↓	Cocoa prices have recently weakened, due to concern about abundant global supplies. Notably, supplies from the Ivory Coast are robust as seen in the cumulative cocoa bean deliveries to Ivory Coast ports. Also contributing to price weakness are signs of a bumper crop in Ghana.

Source: World Bank June 2021

PNG's economic outlook

PNG's economy is expected to grow by 3.5% in 2021, as it recovers from a pandemic-induced recession in 2020 ... although a recent surge in COVID-19 cases threatens prospects for economic recovery. According to the World Bank, PNG's economic growth is projected to accelerate to 4.2% in 2022.

PNG'S GDP GROWTH OUTLOOK [%]



- PNG's economy is expected to grow at 3.5% in 2021, as it recovers from a pandemic-induced recession in 2020 ... although a recent surge in COVID-19 cases threatens prospects for economic recovery.
- Development partners are assisting with budgetary support and the delivery of COVID-19 vaccinations.
- According to World Bank, economic growth in PNG is projected to accelerate to 4.2% in 2022.

MOVING FORWARD WITH THE ATTRACTIVE PAPUA LNG PROJECT

- Favourable reservoir characteristics [well productivity ~30 kboe/d] and targeting FEED by 2021.
- Low shipping costs, close to Asian markets.



RESOURCE PROJECT UPDATES

- The framework agreement for the reopening of the Porgera Gold Mine was officially handed over, which now sets the path for all stakeholders. The state will partner with Barrick Niugini Limited (BNL) for the next 10 years.
- The framework agreement also provides, among other things, for:
 - PNG stakeholders and BNL to share the economic benefits generated over the life of mine on a 53%/47% basis;
 - BNL to finance the capital required to restart the mine;
 - An increase in the equity allocated to a broad group of landowners, who are the customary owners of the land where Porgera is located; and
 - The state to retain the right to acquire the remaining 49% of the mine from BNL at fair market value after 10 years.
- Care and maintenance of the mine alone has cost BNL US\$120m (K420m) and an additional US\$180m (K625m) is needed to restart mining operations. Reopening the mine sooner should subsequently reduce the cost of maintenance.

BOUGAINVILLE – PANGUNA MINE

- As the rate of global copper consumption increases in the years ahead, predominantly driven by the clean energy revolution, the prospects of a sustained period of buoyant pricing underwritten by growing global demand perhaps provides a new level of incentive for the development of copper projects once considered marginal at best, such as the Panguna mine in the Autonomous Region of Bougainville.

PNG's COVID-19 Niupla Pasin

A higher vaccination rate will support the economic recovery in the near term, but heightened vaccine hesitancy is a major hurdle.

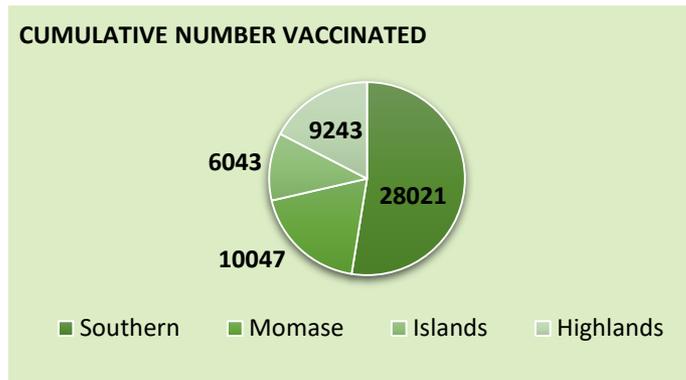
COVID-19 UPDATE

- As of 22 June 2021, there were a cumulative total of 17,079 COVID-19 cases and 173 COVID-19 deaths reported in PNG.

PNG PROVINCES	CONFIRMED CASES 28-JUN-21	COVID-19 PNG STATISTICS 22-JUN-21	
NCD	5,166	CUMULATIVE REPORT	
Western Province	2,393	Confirmed Cases	17,079
Morobe	1,191	New Cases	38
East New Britain	1,181	Active Cases	426
Western Highlands	1,031	Recovered	16,480
West New Britain	1,021	Deaths	173
Eastern Highlands	738	Test Conducted	131,146
New Ireland	545	Provinces	22 Provinces including NCD
West Sepik	449		
AROB	435		
Madang	430		
Central	271		
Enga	283		
East Sepik	252		
Manus	479		
Simbu	236		
SHP	214		
Northern	196		
Jiwaka	155		
Milne By	232		
Hela	168		
Gulf	131		
Total	17,197		

VACCINE ROLLOUT

- A total of 200,000 doses of the Sinopharm vaccine, donated by the Chinese Government, arrived in PNG on 23-Jun. 20,000 doses will be for Chinese nationals, with the remainder donated to PNG. The vaccine has been officially listed by the World Health Organisation for emergency use on 7-May.
- A total of 137 vaccination sites have started vaccinations, out of 169 sites planned to provide COVID-19 vaccinations nationwide.
- As of 25th June 2021, a total of 53,354 people have been vaccinated in PNG. This includes 7,519 health workers, 40,228 essential workers and 5,607 people over the ages of 18 including those with comorbidities.
 - 40% vaccination coverage of health care workers and other essential workers across PNG.
 - Only 700 people have received their 2nd dose of the AstraZeneca Vaccine.



Source: PNG Covid-19 Situational Report 2021

South Pacific economic outlook

According to the World Bank, economic growth in the South Pacific sub-region is projected to strengthen by 7.7% in 2021 in the face of continued pandemic-related headwinds and delayed recovery of tourism and travel. Likewise in 2022, growth is expected to further accelerate to 5% as the economic recovery takes hold.

REAL GDP GROWTH [%]					
		2020e	2021f	2022f	COMMENTARIES
	Fiji	-19.0	2.6	8.2	According to the World Bank's most recent East Asia and Pacific Economic Update, Fiji's economic growth is expected to increase by 2.6% in 2021 to 8.2% in 2022 after experiencing one of the worst growth downturns in the world, and the most severe in the country's history.
	Solomon Islands	-5.0	2.0	4.5	SI's economy to grow by 2.0% in 2021 and 4.5% in 2022, as fishing and construction rebound. The construction and related sectors are expecting a boost from public infrastructure projects, including the Tina River Hydropower Project, transport upgrades, the rehabilitation and expansion of water supply and sanitation systems, and 2023 Pacific Games.
	Samoa	-3.5	-7.7	5.6	Samoa's economy is forecast to contract by -7.7% in 2021 before recovering to 5.6% growth in 2022 ... on the back of the COVID-19 related decline in tourism.
	Tonga	-1.5	-3.0	2.3	In Tonga, the impact of the twin shocks of Tropical Cyclone Harold and the COVID-19 pandemic will continue to constrain the construction and tourism sectors, contributing to a -3.0% contraction in 2021. The World Bank projects the economy to return to positive growth by 2.5%, in 2022.
	Vanuatu	-10.0	4.0	3.9	Vanuatu's economy is estimated to have shrunk by -10.0% in 2020 from the effects of the trade and travel restrictions caused by COVID-19 and Cyclone Harold. However, its economy is expected to grow by 4.0% in 2021 as these restrictions are gradually lifted. Growth in 2022 will depend on a successful vaccination rollout and establishment of travel bubbles.
	Cook Islands	-5.9	-26.0	6.0	The Cook Islands economy is expected to contract by -26.0% in 2021 before returning to positive growth at 6.0% in 2022. The ADB anticipates a gradual recovery with the opening of a proposed travel bubble with New Zealand.

South Pacific COVID-19 new normal

Encouragingly vaccine rollouts are underway in the Pacific thanks to international partner donations. As has been Cook Island's experience, there is hope that quarantine-free travel will be established in the coming months with other Pacific Island countries that are either COVID-19 free or have brought the virus under control.

COVID-19 STATUS

- The closure of Pacific Island countries to the rest of the world has allowed several countries in the region to maintain a COVID-19 free status. As a result, however, the lack of movement of people and goods is causing economic hardship.
- Nations that are experiencing outbreaks, such as PNG and Fiji, are resisting nation-wide lockdowns, conscious of the economic and welfare impacts of such measures.
- In early July, Fiji's Prime Minister gave new teeth to the enforcement of health protection measures, announcing that all employers and employees in the private sector and statutory bodies receive a COVID-19 vaccination if they are to continue working. The announcement comes as the nation battles an outbreak of the highly-transmissible COVID-19 Delta variant.
- Encouragingly, vaccination rollouts are underway with health experts speculating that once vaccinated, the coronavirus may be treated as a simple cold.
- With the reopening of borders for quarantine-free leisure travel between NZ and the Cook Islands, experts are optimistic about similar agreements being in place with other Pacific Island nations in the coming months, given they have the virus under control.

PACIFIC VACCINE ROLLOUTS



- > Tonga's Ministry of Health confirmed in late May that 28,631 people, or an estimated 27.4% of the population, had received their first dose, making full use of the vaccination batch.



- > The Cook Islands' vaccine roll-out began on 18-May, the first day of the quarantine-free travel bubble with NZ. Authorities aim to complete vaccinations in Rarotonga on 20-Jun, before heading to the outer islands.



- > Fiji's target population for vaccination is 586,651 adults. By 1st November, the government expects to have at least 80 percent of that group fully vaccinated.



- > As at 18-Jun, 43,983 first doses of AstraZeneca had been administered with 1,195 people having been vaccinated with the second dose. Samoa, with an estimated population of around 200,000, started its vaccination rollout in April after receiving 24,000 doses through the World Health Organization.



- > Vanuatu's vaccination drive has commenced, with more than 5,100 doses administered as at mid-June. Prime Minister Bob Loughman received his first vaccination, notably receiving the Chinese-produced Sinopharm vaccine.



- > Authorities in the Solomon Islands commenced the vaccine rollout in late May with the deputy PM taking the lead in receiving the first dose of the Sinopharm vaccine.

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