



# Pacific economic and market insights

June Quarter 2019



# Understanding our clients' needs

BSP directors and executives spend time with our customers when travelling in PNG and visiting our offshore branches ... we are genuinely interested in their success and how BSP can do more to help them achieve their goals.

Directors and management meeting with Mount Hagen coffee manufacturer and exporter, Banz Kofi.



# Key trends at a glance



## GLOBAL ECONOMY SLOWS

- Global economic growth is forecast to ease to a weaker-than-expected 2.6% in 2019, before inching up to 2.7% in 2020
- US-China trade tensions continue, with a new round of proposed tit-for-tat tariffs remaining on hold for the foreseeable future
- New British PM Boris Johnson has pledged to take Britain out of the European Union by 31-Oct-19 ... despite the above, UK betting markets indicate there is a 62% chance of no Brexit in 2019



## COMMODITY PRICES IMPROVE IN Q2-19

- Crude oil spot prices were on average higher in Q2-19 than in Q1-19, peaking at US\$68/bbl in Apr-19, but remain below the 2018 price average
- Average LNG prices declined by 14% between Q1-19 and Q2-19 ... falling to US\$9.91/mmbtu in Jun-19
- Gold made slight gains between Q1-19 and Q2-19 and remains well above 2018 levels ... given economic uncertainty
- While Arabica coffee prices declined by 2.5% in Q2-19, they are expected to rise by 14% by year-end [Reuters poll of nine traders]



## STRONG PNG INVESTMENT PIPELINE

- PNG set for US\$14b gas expansion, with 7-Apr-19 agreement signed by development partners and the Independent State of PNG ... the agreement was recently reviewed and the NEC is backing the agreement in principal
- The US\$5.3b Wafi-Golpu project's JV partners signed a MoU with the PNG government in Dec-18. Special Mining Lease application has been made and the agreement decision remains pending



## PNG ECONOMY TO REBOUND IN 2019

- PNG economy is expected to rally in 2019 after a soft 2018 ... ~4.0% GDP growth forecast in 2019 on the back of full year of LNG production
- Headline Inflation is forecast at 4.2% in 2019, compared to 4.5% in 2018
- PGK continues to slowly depreciate against the USD. FX order fulfilment improves materially
- Fiscal challenges still remain ... particularly revenue collection



## EAST ASIA & PACIFIC REGION SOFTENS

- East Asia and Pacific region growth is projected to slow from 6.3% in 2018 to 5.9% in 2019 and 2020 ... but remains relatively strong
- If the above forecasts prove correct, this is the first time since the 1997-1998 Asian financial crisis that growth in the region has dropped below 6%
- China's growth is expected to slow from 6.6% in 2018 to 6.2% in 2019



## MODEST GROWTH IN THE PACIFIC

- Fiji's, Samoa's and Tonga's economies are expected to strengthen in 2019 ... whereas Solomon Islands, Vanuatu and Cook Islands will grow modestly in 2019
- Record visitor arrivals for Fiji and Cook Islands ... 870,000 [up 3.3%] and 168,760 [up 4.4%] respectively in 2018
- Tourism and remittance continues to support growth in the region
- Given the above, BSP remains optimistic about its future growth prospects



# BSP's economic and market views



**Robin Fleming**

Group Chief Executive  
Officer

## Looking forward three-to-five years, where do you see PNG's economy sitting?

- *By 2023-24, we will have a new LNG project, Papua LNG, requiring US\$12-14 billion over a five-to-seven year period ... back-ended by an extension to the existing PNG LNG. This will converge with a wind-down of the accelerated depreciation and some of the debt obligations associated with PNG LNG. So, the prospects for strong fiscal underpinning appear to be very, very sound.*

## What are the prospects for the remaining Pacific markets BSP operates in?

- *They appear reasonably good. While Fiji's, Vanuatu's, Cook Island's and Solomon Island's economies may soften slightly this year ... they are maintaining relatively strong growth levels, in the order of 3.0%.*
- *Pleasingly, both Tonga's and Samoa's economies are expected to strengthen in 2019.*
- *Given the above, we believe that the growth prospects are relatively good across the Pacific.*



**Peter Beswick**

Group General Manager –  
Corporate Bank

## How would you characterise current business sentiment ... and what's driving the latter?

- *Current business sentiment is one of medium term optimism with a strong pipeline of world class resource projects, including Papua LNG, P'nyang, Wafi-Golpu, and Ramu Nico expansion.*

## Which PNG sectors are performing well ... and where do you see future economic growth opportunities?

- *The Manufacturing and Agriculture sectors are currently the best performing.*
- *When the large resource projects commence, we anticipate that Transport, Hotels & Accommodation and Retail sectors will benefit materially.*
- *Outside the resources sector a key to business growth and productivity will be "CONNECTIVITY" delivered in Q4 by PNG's Coral Sea Cable and our National Transmission Network (NTN).*



**Rohan George**

Group General Manager –  
Treasury

## What is the current availability of foreign exchange?

- *Outstanding foreign exchange orders have stabilized, with order volumes 75% lower than 12 months ago.*
- *Strong foreign currency inflows in June quarter has improved liquidity.*

## Do you expect foreign exchange availability to improve over the next six months?

- *A second USD sovereign debt issue, an offshore commercial loan to the Government for budgetary support and expected inflows from mining, oil, agriculture and fisheries sectors in the second half should see a further reduction in outstanding FX orders and provide a stable backdrop for market normalisation in 2020/21.*

## The PGK has softened against the USD by 0.5% during 1H-2019 ... do you see this trend continuing in 2H-2019?

- *The USD dollar index is at years' highs and the Kina is expected to weaken marginally against the firm U.S. dollar.*

# Economic growth outlook summary

According to the ADB, growth in the Pacific region is expected to rebound from 1.1% in 2018 to 3.5% in 2019.

All Pacific countries have superior 2019 growth forecasts than the USA [1.7%], and over half are higher than AUS [2.7%]. The ADB revised most of its Pacific country 2019 growth forecasts upwards, conversely a number of the IMF's 2019 forecasts were revised downwards ... as a consequence their forecasts are now more closely aligned.

## ECONOMIC OUTLOOK – REAL GDP GROWTH

| Market          | Actual |       | IMF – prior forecast [Apr-18] |       | IMF – current forecast [Jan-19] |       | IMF – change |           | ADB – prior forecast [Apr-19] |       | ADB – current forecast [Jul-19] |       | ADB - change |           |
|-----------------|--------|-------|-------------------------------|-------|---------------------------------|-------|--------------|-----------|-------------------------------|-------|---------------------------------|-------|--------------|-----------|
|                 | 2016a  | 2017a | 2018f                         | 2019f | 2018f                           | 2019f | 2018f        | 2019f     | 2018f                         | 2019f | 2018f                           | 2019f | 2018f        | 2019f     |
| USA             | 1.6%   | 2.2%  | 2.9%                          | 2.7%  | 2.9%                            | 2.5%  | Unchanged    | -0.2%     | 2.9%                          | 2.5%  | 2.5%                            | 1.7%  | -0.4%        | -0.8%     |
| China           | 6.7%   | 6.9%  | 6.6%                          | 6.4%  | 6.6%                            | 6.2%  | Unchanged    | -0.2%     | 6.6%                          | 6.3%  | 6.2%                            | 6.1%  | -0.4%        | -0.2%     |
| Australia [AUS] | 2.5%   | 2.2%  | 3.2%                          | 2.8%  | 2.8%                            | 2.1%  | -0.4%        | -0.7%     | 2.9%                          | 2.8%  | 2.3%                            | 2.7%  | -0.6%        | -0.1%     |
| Pacific region  | 2.2%   | 2.7%  | N/A                           | N/A   | N/A                             | N/A   | N/A          | N/A       | 1.1%                          | 3.5%  | 2.5%                            | 3.6%  | +1.4%        | Unchanged |
| PNG             | 1.7%   | 2.4%  | -1.1%                         | 3.8%  | 0.0%                            | 3.8%  | +1.1%        | Unchanged | 0.5%                          | 3.0%  | 0.2%                            | 3.7%  | -0.3%        | +0.7%     |
| Fiji            | 0.4%   | 3.0%  | 3.2%                          | 3.4%  | 3.5%                            | 3.4%  | +0.3%        | Unchanged | 3.0%                          | 3.2%  | 4.2%                            | 2.9%  | +1.2%        | -0.3%     |
| Solomon Islands | 3.4%   | 3.7%  | 3.4%                          | 2.9%  | 3.0%                            | 2.8%  | -0.4%        | -0.1%     | 3.0%                          | 2.4%  | 3.0%                            | 2.4%  | Unchanged    | Unchanged |
| Samoa           | 7.1%   | 2.5%  | 1.8%                          | 3.1%  | 0.9%                            | 1.8%  | -0.9%        | -1.3%     | 0.9%                          | 2.0%  | -2.2%                           | 2.0%  | -3.1%        | Unchanged |
| Tonga           | 5.0%   | 3.1%  | 2.9%                          | 5.5%  | 3.2%                            | 2.9%  | +0.3%        | -2.6%     | 0.4%                          | 2.1%  | 0.4%                            | 2.1%  | Unchanged    | Unchanged |
| Vanuatu         | 3.5%   | 4.4%  | 3.8%                          | 3.5%  | 4.0%                            | 3.5%  | +0.2%        | Unchanged | 3.2%                          | 3.0%  | 3.2%                            | 3.0%  | Unchanged    | Unchanged |
| Cook Islands    | 4.9%   | 4.4%  | N/A                           | N/A   | N/A                             | N/A   | N/A          | N/A       | 7.0%                          | 6.0%  | 8.9%                            | 4.2%  | +1.9%        | -1.8%     |

# World Bank commodity indices

LNG prices are expected to remain below 2018 averages, given increases in LNG capacity [potentially breaking the price link to oil]. Consequently, long-term forecasts for natural gas prices have been revised down.

Conversely, precious metal prices improved in recent months, with gold prices making slight gains between Q1-19 and Q2-19 and remains well above 2018 levels.

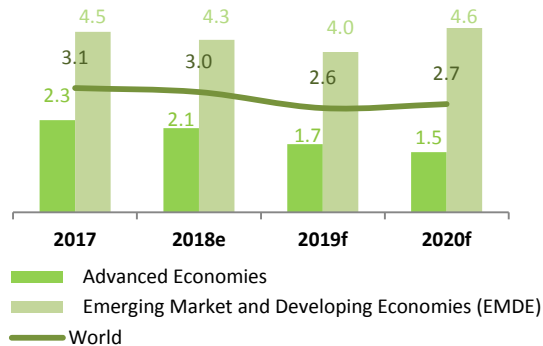
## WORLD BANK - COMMODITY FORECASTS

| Commodity                     | Units    | 2018a  | Jun-19a | 2019f  | Δ 18 vs 19f | Comments   |
|-------------------------------|----------|--------|---------|--------|-------------|--|
| <b>Agriculture</b>            |          |        |         |        |             |  |
| Palm oil                      | \$/mt    | 639    | 552     | 600    | -6.1%       | Despite the decline since late 2018, analysts believe benchmark prices are set to climb in 2019 amid declining growth in global output and higher drawdowns in reserves as biodiesel consumption rises.  |
| Coffee, Arabica               | \$/kg    | 2.93   | 2.86    | 2.85   | -2.7%       | Arabica coffee prices will rise 14%, bolstered by strong global demand. Reuters poll participants expect prices to reach \$2.54/kg by the end of 2019, compared to the 25-Jul close of \$2.22 ... but lower than respondents' Feb-19 year-end forecast of \$2.76.  |
| Sugar                         | \$/kg    | 0.28   | 0.28    | 0.28   | 0.0%        | World sugar prices jumped by 23.7% between Aug-18 and Feb-19, in part due to expectations of lower output in 2019 from top producers Brazil and India. Prices appear to have now stabilised.   |
| Cocoa                         | \$/kg    | 2.29   | 2.41    | 2.30   | 0.4%        | Cocoa prices improved by 5.0% between Q1-19 and Q2-19 ... and remain above the World Bank 2019 forecast of \$2.30/kg.  |
| <b>Resources and Minerals</b> |          |        |         |        |             |  |
| Crude oil, average            | \$/bbl   | 68.3   | 59.8    | 66.0   | -3.4%       | Crude oil prices remain below the recent \$83/bbl peak in Oct-18. Since then, oil prices have improved due to production cuts by OPEC. Crude oil prices grew by 7.5% between Q1-19 and Q2-19 ... but remain well below 2018 levels.  |
| Gold                          | \$/toz   | 1,269  | 1,359   | 1,310  | 3.2%        | Gold prices increased 6.1% in the Q1-19 and 0.4% in Q2-19. Prices have been supported by strong demand and a fall in long-term real interest rates.  |
| Copper                        | \$/mt    | 6,530  | 5,882   | 6,680  | 2.3%        | Copper prices rose 1.0% in the Q1-19 after a sharp fall in the 2H-18. Prices have been supported by strong import demand in China, which accounts for ~50% of global copper consumption. A recent Jun-19 drop, resulted in an average price decline of 1.8% between Q1-19 and Q2-19.   |
| Nickel                        | \$/mt    | 13,144 | 11,944  | 12,880 | -2.0%       | Nickel prices gained 8.3% in the Q1-19 after a sharp fall in Q4-18. The price increase is due to concerns about Vale's [13% of global nickel supply] production following its tailings dam accident in Brazil. Rapidly growing demand for electric vehicles also supported prices. A recent Jun-19 drop, resulted in an average price decline of 1.3% between Q1-19 and Q2-19. |
| Natural gas, Japan [LNG]      | \$/mmbtu | 10.7   | 9.91    | 7.40   | -30.8%      | Prices of Asian LNG imports have plunged on weaker demand and surging US exports. Average LNG prices declined by 14% between Q1-19 and Q2-19 ... falling to US\$9.91/mmbtu in Jun-19.  |

# Global indicators

The global growth outlook was recently downgraded, given the uncertainty surrounding the US-China trade war and Brexit. The East Asia and Pacific region's growth is forecast to fall below 6% for the first time since the Asian financial crisis.

## GLOBAL GDP GROWTH PROJECTIONS [%]

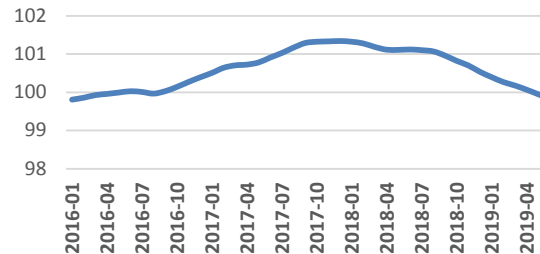


- Global growth for 2019 had been downgraded to 2.6% in Jun-19, compared to 3.3% in Apr-19.

## EAST ASIA & PACIFIC GROWTH

- East Asia and Pacific region growth is projected to slow from 6.3% in 2018 to 5.9% in 2019 and 2020.
- If the above forecasts prove correct, this is the first time since the 1997-1998 Asian financial crisis that growth in the region has dropped below 6%.
- China's growth is expected to slow from 6.6% in 2018 to 6.2% in 2019.
- In the rest of the region growth is also expected to decline to 5.1% in 2019.

## GLOBAL BUSINESS CONFIDENCE



- The business confidence index provides information on future developments, based upon opinion surveys ... recent survey results indicate pessimism towards future performance.
- Confidence is thought to be impacted by a sudden rise in policy uncertainty ... triggered by substantial new trade barriers between major economies [US-China trade war and Brexit] resulting in cascading trade costs and a lack of clarity about future trading rules.

## US-CHINA TRADE WAR



- US President has intensified pressure on China to reach a trade deal by stating he will impose 10% tariffs on 1-Sep-19 on the remaining \$US300b in Chinese imports not already taxed. Stock prices immediately fell as a consequence.
- Trade talks broke down in May after the US accused the Chinese of renegeing on earlier commitments.
- China's expected counter-retaliation is likely to take a heavy toll on US consumers, workers, farmers and businesses. The US-China trade war poses significant risks to global growth.



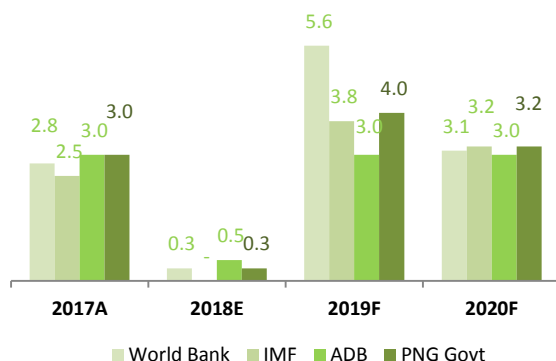
## BREXIT LIMBO

- New Prime Minister Boris Johnson vows to leave the EU on 31-Oct-19, whether or not a transition deal can be agreed with Brussels.
- Pound plummets to 30-month low after Bank of England [BoE], falling below US\$1.21, pressured by a stronger dollar, renewed worries about a no-deal Brexit and the BoE cutting its growth forecasts to 1.3% [down from 1.5%] in the face of above and a slowing global economy.
- BoE forecasts also showed a relatively high 30% chance of a negative year-on-year growth in the first three [3] months of next year.

# Papua New Guinea's economy

The February earthquake had a material impact on PNG's economic growth in 2018. However, PNG's economy is forecast to rebound in 2019 with ~ 4.0% growth ... driven by a return to full annual production in the extractives sector. In the years after, growth will be driven by investment in the resources sector, e.g. Papua LNG.

## PNG GDP GROWTH PROJECTIONS [%]



- PNG'S economic growth is expected to rebound from a modest 0.3% in 2018, to ~4.0% in 2019, driven by a return to full annual production in the extractives sector.
- The World Bank recently upgraded its 2019 growth forecast from 5.1% to 5.6%, largely on the back of expected Papua LNG project investment.
- There are some domestic issues that may pose downside risks to growth, notably the fiscal challenges.

## FUTURE FOREIGN INVESTMENT

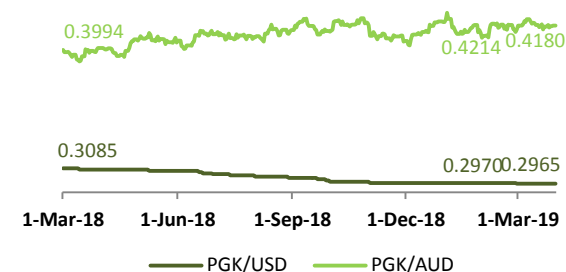
### Papua LNG

- The Papua LNG project agreement was signed by development partners and the Independent State of PNG on 7-Apr-19.
- Investment is estimated to be between US\$13bn and US\$14bn.
- The JV partners will likely proceed with FEED [front end engineering design] in coming months ... with the agreement review completed, and the NEC in principal decision to back the agreement.

### Wafi-Golpu

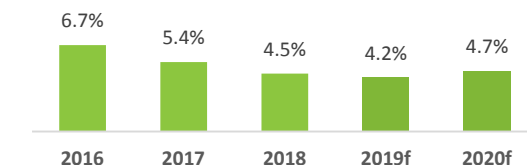
- The US\$5.3b Wafi-Golpu project's JV partners signed a MoU with the PNG government in Dec-18.
- The Special Mining Lease application has been made.
- Newcrest has been redeploying staff in the expectation the Wafi-Golpu project special mining lease agreement decision will be delayed.
- Newcrest has advised that construction would take 4.75 years beyond the awarding of a special mining lease.
- The delay is associated with the legal proceedings between the national government and the Morobe provincial government, regarding the internal distribution of PNG's economic interests in the project.

## PNG EXCHANGE RATE



- Over 1H-19, the PGK depreciated against the USD [0.5%] and appreciated against the AUD [0.5%] to 0.2955 and 0.4218 respectively ... boosting the PNG resource economy's competitiveness.
- BSP reports that the average time taken for the FX orders to be executed has declined from twelve to fourteen weeks in Jun-18, to between one and four weeks in Jun-19.

## PNG INFLATION



- Headline inflation is forecast to decline from 4.5% in 2018 to 4.2% in 2019.



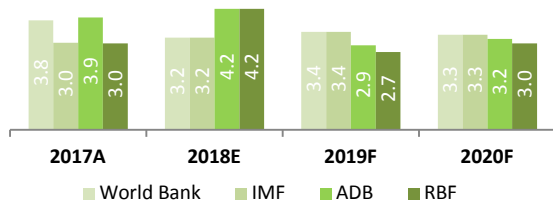
# Fiji's, Vanuatu's and Solomon Island's economies

Fiji's, Vanuatu's and SI's economies may soften slightly this year ... but maintain relatively strong growth levels in the order of 3.0%.



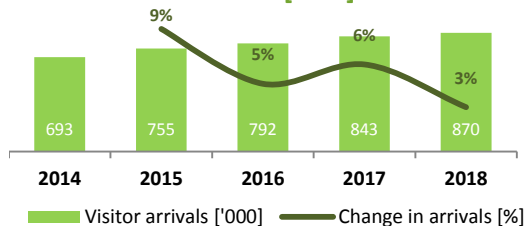
## FIJI

### FIJI GDP GROWTH PROJECTIONS [%]



- Fiji experienced its ninth consecutive year of expansion, with GDP growth estimated at 3.2% in 2018. A number of agencies are forecasting Fiji's growth levels to decline slightly over the short term.

### FIJI VISITOR ARRIVALS ['000]

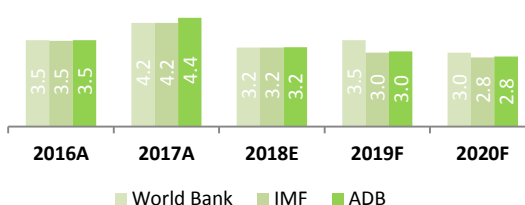


- Record visitor arrivals for Fiji ... with 870,000 arrivals last year [2018]. Momentum continues, with visitor arrivals to Fiji up 21% in Apr-19 [year-on-year].



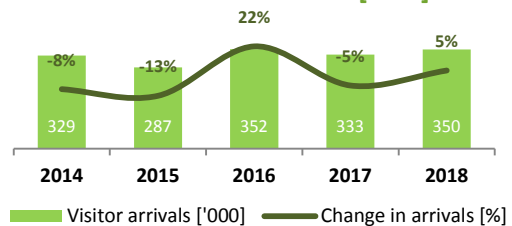
## VANUATU

### VANUATU GDP GROWTH PROJECTIONS [%]



- Vanuatu's economy is estimated to have grown by 3.2% in 2018 ... however the World Bank expects growth to improve in 2019. Growth is expected to be maintained in 2020 as tourism benefits from the completion of major infrastructure projects.

### VANUATU VISITOR ARRIVALS ['000]

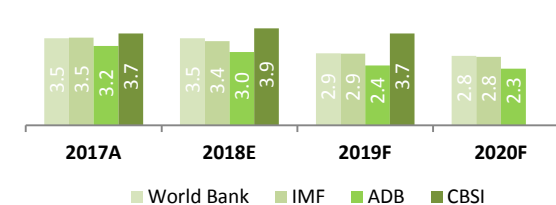


- Strong visitor arrivals in 2018 that approached 2016 industry high.
- Total visitor arrivals were down marginally [1.3%] over the combined Apr-19 / May-19 period, when compared to 2018.



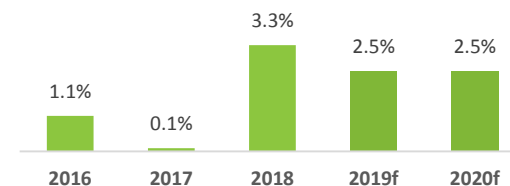
## SOLOMON ISLANDS

### SI GDP GROWTH PROJECTIONS [%]



- SI's economy is expected to grow at ~3.0% in 2019, down slightly on 2018 ... as new construction only partly offsets lower logging output, given government policy introducing log export caps.

### SOLOMON ISLANDS INFLATION OUTLOOK



- Headline inflation is forecast to decline from 3.3% in 2018 to 2.5% in 2019.

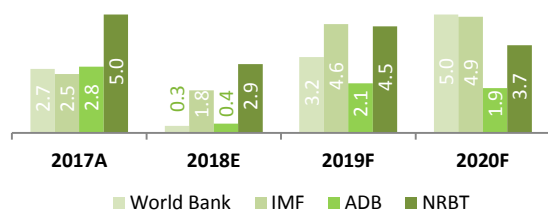
# Tonga's, Samoa's and Cook Island's economies

Both Tonga's and Samoa's economies are expected to strengthen in 2019, whereas the Cook Island's economy may soften slightly this year ... but maintain relatively strong levels, with growth of between 2.3% and 4.2%.



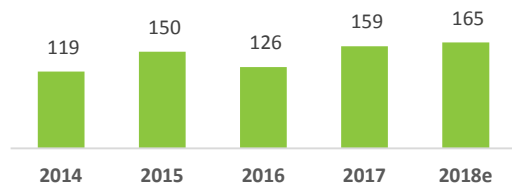
## TONGA

### TONGA GDP GROWTH PROJECTIONS [%]



- Tonga's economic growth is projected to improve materially in 2019, due mainly to Cyclone Gita [Feb-18] reconstruction activities and infrastructure projects in the pipeline.

### TONGA REMITTANCE INFLOWS [US\$m]

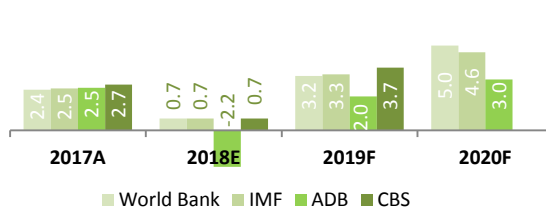


- Tonga remittance inflows have increased steadily since 2016 ... and represented 35.2% of GDP in 2018.



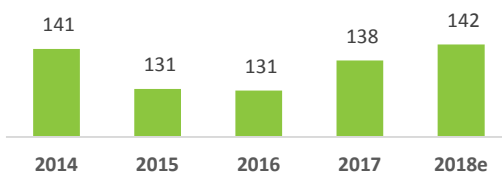
## SAMOA

### SAMOA GDP GROWTH PROJECTIONS [%]



- While Samoa's economy softened in 2018, it's expected to rebound strongly in 2019 ... with economic agencies forecasting growth in the order of 3.0%, driven by improving visitor arrivals and its flow on impacts [retail, hotels, transport, etc.].

### SAMOA REMITTANCE INFLOWS [US\$m]

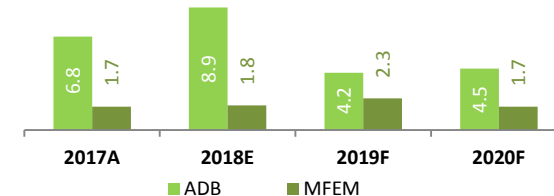


- Samoa remittance inflows have increased steadily since 2016, however they have only recently exceeded 2014 levels. Remittance represented 16.1% of Samoa's GDP in 2018.



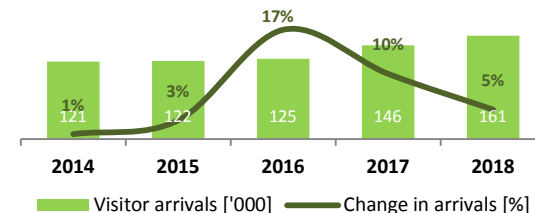
## COOK ISLANDS

### CI GDP GROWTH PROJECTIONS [%]



- The Cook Islands economy is projected to grow by between 2.3% and 4.2% in 2019. Tourism and large infrastructure projects are expected to contribute significantly to economic expansion.

### COOK ISLANDS VISITOR ARRIVALS ['000]



- The Cook Islands attracted record visitor arrivals of 161,000 in 2018 ... and in so doing, delivered five [5] consecutive years of visitor growth. However, May-19 YTD arrivals are 3.0% lower than the prior corresponding period.

# BSP Life covering PNG businesses

BSP Life entered the PNG market on 2 January 2018 offering consumer protection insurance to Retail Bank customers. In late 2018, it began offering group term life insurance to PNG businesses.

Below, BSP Life “Wantok Group Term Life” product presentation meeting with Marsh Limited representatives on 11 July 2019.



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