



Pacific economic and market insights

September Quarter 2019



Key trends at a glance

GLOBAL ECONOMY SLOWS



- In Sep-19, the WB reported that global growth had declined to 2.4% YoY in Q2-19 ... and stated that the “global economy has continued to falter”



- US-China trade tensions continue to escalate, with new rounds of tit-for-tat tariffs threats being made ... this uncertainty is contributing to weaker global growth



- New British PM Boris Johnson will present the latest Brexit proposal to the EU on 3-Oct-19 ... if the EU doesn't engage with this offer, he'll head straight for a no-deal Brexit at the month's end [31-Oct-19]

COMMODITY PRICES IMPROVE IN Q2-19



- Sep-19 YTD crude oil prices were on average 11% lower than the corresponding period in 2018



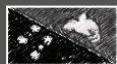
- Average Sep-19 YTD LNG [Japan] prices [US\$10.82/mmbtu] increased by 5% between over the prior corresponding period



- Average gold prices have increased by 6% between Sep-18 YTD and Sep-19 YTD ... given economic uncertainty



- Sep-19 YTD Arabica coffee prices were on average 4% lower than the corresponding period in 2018



PNG ECONOMY TO REBOUND IN 2019



- The PNG government has introduced deep spending cuts in its 2019 supplementary budget ... but the overall budget increased from K16.13b to K16.53b to address a K1.9b gap in unbudgeted expenditure



- The ADB reports that PNG's 2019 growth is expected to rebound from an average estimate of -0.2% in 2018, to ~4.6% in 2019. This will be driven primarily by a rebound in mineral production, LNG, oil, condensate, and gold



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



- Between Aug-19 and Sep-19, PGK depreciated against the USD by 0.35% and appreciated against the AUD by 1.11%



- Fiscal challenges still remain ... particularly revenue collection



EAST ASIA & PACIFIC REGION SOFTENS



- Asia GDP growth, though still strong, is projected to slow from 5.9% in 2018 to 5.4% in 2019 by the ADB, then edge back up to 5.5% in 2020



- Higher growth is projected for the Pacific sub-region in 2019, with improved prospects for PNG, Samoa, and Solomon Islands

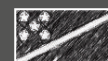
MODEST GROWTH IN THE PACIFIC



- Fiji's GDP growth is forecast to ease in 2019 and 2020, as cyclone reconstruction efforts near completion



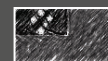
- Vanuatu's economy is expected to slow in 2019. While reconstruction activity is set to continue in 2019 and beyond, it will be at a slower pace than in 2018



- Solomon Islands growth is expected to decelerate over the forecast horizon ... while infrastructure projects are expected to sustain SI's economy, weaker logging output and crop production will weigh on growth



- ADB downgraded Tonga's 2019 economic forecast to 1.6%, due to major cyclone reconstruction projects idled by delays



- ADB has recently upgraded Samoa's 2019 economic growth forecast from 2.0% to 2.5% ... with growth exceeding initial expectations in trade, transport, accommodation, and restaurants



- 2019 GDP forecast for Cook Islands dropped from 6.0% to 4.2%, however in 2020 it is expected to rise due to increased tourism growth

BSP's economic and market views



Robin Fleming
Group Chief Executive
Officer

Last quarter, your PNG economic outlook assessment was positive ... has your position changed?

- *The outlook remains positive, although growth is more likely to be felt over the medium-term, rather than the short-term. In short, we recognise that PNG's 2019 forecast economic growth of ~ 4.5% is largely due to a sharp rebound in extractives production post the 2018 earthquake ... that masks underlying conditions to some extent.*
- *Despite some expected short-term investment decision delays, by 2021-22 we anticipate new LNG projects [Papua LNG and P'nyang] will be underway ... bringing considerable foreign investment and FX inflows to the PNG economy. This investment will in-turn stimulate the expansion of many other sectors within PNG's economy.*
- *We also remain optimistic that constructive dialogue between various levels of government will result in Wafi-Golpu progressing, in 2020 which will also provide many flow-on benefits to PNG ... particularly long-term employment opportunities for Papua New Guineans.*



Peter Beswick
Group General Manager –
Corporate Bank

How are current global economic trends affecting PNG's economic outlook?

- *Softening global growth and US-China trade tensions will see a tapering of soft and hard commodities prices, excluding gold. This combined with Budget cuts [K1.5b] and resource project delays will result in lower FX inflows, investment and cash across the economy ... impacting consumer and business confidence over the short-term.*

What are key opportunities and challenges facing PNG's businesses over the next 6 to 12 months?

- *The key opportunities are to focus on outstanding service and support to existing customers ... and reset for the next resource super cycle.*



Rohan George
Group General Manager –
Treasury

What trends are you seeing in PNG's FX market?

- *The Kina was very stable in the Sep-Qtr2019, falling by only 5 basis points. Sep-Qtr's FX market turnover contracted 9.8% from the Jun-Qtr. Despite the contraction, FX volumes rose 8.3% from the Sep-Qtr2018.*
- *The Sep-Qtr contraction was driven by reduced exporter volumes from PNG's agricultural sector and a subdued domestic economy.*
- *Subdued FX volumes have seen FX liquidity tighten into year's end, a period of seasonal strong demand for foreign currency.*

Given the above, where do you see PNG's FX market in the next 6 months?

- *End of year FX inflows will improve FX liquidity, with light early new year FX inflows expected to challenge FX liquidity in early 2020.*

Economic growth outlook summary

The ADB reports that after near stagnation [0.4%] in 2018 the growth forecast for the Pacific sub-region was revised up to 4.2% in 2019 ... largely because gas production in PNG has outpaced projections, plus construction expenditure in Solomon Islands and Samoa was higher than expected.

However, the ADB revised downwards the economic growth outlook for Fiji, Tonga and the Cook Islands in its September forecasts.

ECONOMIC OUTLOOK – REAL GDP GROWTH

Market	Actual		IMF – prior forecast [Jan-19]		IMF Current Forecast (Apr-19)		IMF – change		ADB – prior forecast [Apr-19]		ADB – current forecast [Sep-19]		ADB - change	
	2016a	2017a	2018f	2019f	2018f	2019f	2018f	2019f	2018f	2019f	2018f	2019f	2018f	2019f
USA	1.6%	2.2%	2.9%	2.5%	2.9%	1.6%	Unchanged	-0.9%	2.9%	2.5%	2.9%	2.3%	Unchanged	-0.2%
China	6.7%	6.9%	6.6%	6.2%	6.9%	6.7%	0.3%	0.5%	6.6%	6.3%	6.6%	6.2%	Unchanged	-0.1%
Australia [AUS]	2.5%	2.2%	2.8%	2.1%	2.5%	2.8%	-0.3%	0.7%	2.9%	2.8%	2.9%	1.9%	Unchanged	-0.9%
Pacific region	2.2%	2.7%	N/A	N/A	0.9%	3.6%	N/A	N/A	1.1%	3.5%	0.4%	4.2%	-0.7%	0.7%
PNG	1.7%	2.4%	0.0%	3.8%	0.0%	3.8%	Unchanged	Unchanged	0.5%	3.0%	-0.6%	4.8%	-1.1%	1.8%
Fiji	0.4%	3.0%	3.5%	3.4%	3.2%	3.4%	-0.3%	Unchanged	3.0%	3.2%	4.2%	2.9%	1.2%	-0.3%
Solomon Islands	3.4%	3.7%	3.0%	2.8%	3.4%	2.9%	0.4%	0.1%	3.0%	2.4%	3.0%	2.8%	Unchanged	0.4%
Samoa	7.1%	2.5%	0.9%	1.8%	0.7%	3.3%	-0.2%	1.5%	0.9%	2.0%	-2.2%	2.5%	-3.1%	0.5%
Tonga	5.0%	3.1%	3.2%	2.9%	1.8%	4.6%	-1.4%	1.7%	0.4%	2.1%	0.4%	1.6%	Unchanged	-0.5%
Vanuatu	3.5%	4.4%	4.0%	3.5%	3.2%	3.0%	-0.8%	-0.5%	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 [Japan] prices are currently in-line with 2018 averages and much higher than forecast ... potentially due to delays in Japanese nuclear power plants restarting. Conversely, average gold prices improved in the Sep-19 YTD period, 6.2% above corresponding Sep-18 YTD levels.

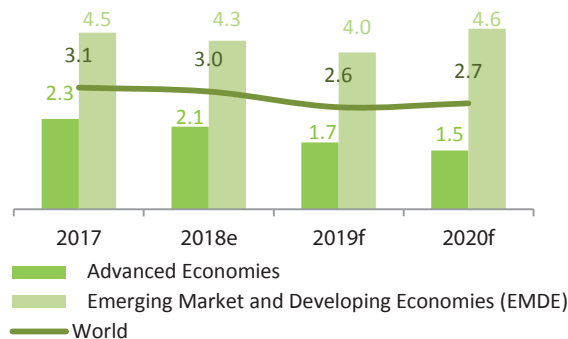
Palm oil prices remain subdued, ~ 14% down on Sep-18 YTD levels.

WORLD BANK – COMMODITY FORECASTS						
Commodity	Units	2018a	Sep-19 YTD Avg	2019f	Δ 18 vs 19f	
Agriculture						
Palm oil	\$/mt	639	575	600	-6.1%	Benchmark palm oil prices may rise to US\$597 a tonne by March 2020, according to analysts, as dry weather across Southeast Asia limits output of the edible oil
Coffee, Arabica	\$/kg	2.93	2.80	2.85	-2.7%	Arabica coffee prices have fallen in recent months. Colombia, the world's top supplier of washed arabica, is creating a special fund to subsidise coffee farmers when international prices fall below production costs
Sugar	\$/kg	0.28	0.28	0.28	0.0%	The International Sugar Organization on Monday forecast a global sugar deficit of 4.76 million tonnes in the 2019/20 season, driven partly by lower production. The fundamentals provide some grounds for cautious optimism concerning future dynamics in world prices
Cocoa	\$/kg	2.29	2.30	2.30	0.4%	The Aug-19 YTD average Cocoa price was \$2.30, which is in-line with the World Bank 2019 forecast of \$2.30/kg. The YTD price average represents a small decline [1.5%] when compared to the corresponding 2018 period
Resources and Minerals						
Crude oil, Brent	\$/bbl	71.1	64.5	66.0	-7.1%	EIA forecasts Brent spot prices to average \$60 in the Q4-2019 and \$62 in 2020
Gold	\$/toz	1,269	1,363	1,310	3.2%	In Sep-19, UBS increased its forecast for the price of gold for the second time in less than two months. UBS believes that the price could reach as high as \$1,730 next year. A risk to the increase is the U.S.-China trade war resolving, interest rates could rise, and the global economy could improve
Copper	\$/mt	6,530	6,047	6,680	2.3%	Prices are forecast to improve, with the gap between committed mine output and copper demand opening up almost immediately and grows rapidly during the 2020s
Nickel	\$/mt	13,144	13,435	12,880	-2.0%	Analysts at Fitch Solutions are revising up their nickel price forecast for 2019 to \$13,550 from an average of \$13,250 previously
Natural gas, Japan [LNG]	\$/mmbtu	10.7	10.8	7.4	-30.8%	According to analysts, Japan the world's largest LNG importer, is likely to lose its top buyer status to the current number-two [China] as early as 2022.

Global indicators

The trade conflict between the US and China has the potential to escalate further or even spread beyond trade and the two economies. This coupled with Brexit and a number of European economies nearing recession, there is a risk of deeper disquiet in the global economy.

GLOBAL GDP GROWTH PROJECTIONS [%]



- Global growth for 2019 was downgraded by the World Bank [WB] to 2.6% in Jun-19, compared to 3.3% in Apr-19.
- In Sep-19, the WB reported that global growth had declined to 2.4% YoY in Q2-19 ... and stated that the “global economy has continued to falter” and “it’s not clear that the current cycle has bottomed out”.

ASIA & PACIFIC GROWTH

- Asia GDP growth, though still strong, is projected to slow from 5.9% in 2018 to 5.4% in 2019 by the ADB, then edge back up to 5.5% in 2020.
- Higher growth is projected for the Pacific sub-region in 2019, with improved prospects for PNG, Samoa, and Solomon Islands ... whereas the outlook for the Cook Islands, Fiji and Tonga was lowered.
- ADB’s 2020 Pacific projection was downgraded in expectation of delayed mining projects in PNG and fiscal consolidation in Fiji.

US-CHINA TRADE WAR

Average Tariffs on US / China Trade [%]



- On 1-Sep-19, the US imposed a new 15% tariff on the first tranche of almost US\$300b worth of Chinese imports. Tariffs on the remainder will take effect on 15-Dec-19.
- Further, the existing tariffs [pre 1-Sep-19] on US\$250b worth of Chinese imports will rise from 25% to 30% on 15-Oct-19.
- China has imposed tariffs of between 5% and 10% on the first tranche of US\$75b of US imports ... with the remainder to come into affect in mid-December.

BREXIT LIMBO

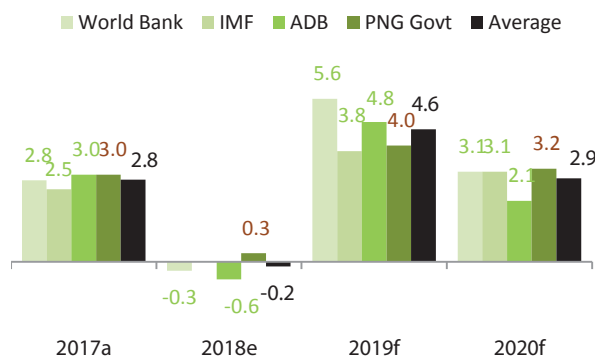


- New British PM Boris Johnson will present the latest Brexit proposal to the EU on 3-Oct-19 ... if the EU doesn't engage with this offer, he'll head straight for a no-deal Brexit at the month's end [31-Oct-19].
- Assuming the EU accepts the proposal, there is a possibility that the PM has a chance of pulling off a relatively smooth Brexit on 31-Oct-19 as promised.
- If the EU rejects the proposed, the PM will be forced into a period of domestic political chaos that may further test the fabric of Britain's constitution and democracy.
- Further, the economic implications of a no-deal Brexit will be significant. For example, it could choke off up to £1.0b of cross-Channel goods trade every week in the disrupted early months, according to the CEO of Dover Port [a crucial goods gateway ... known as “Britain’s conveyer belt”].

Papua New Guinea's economy

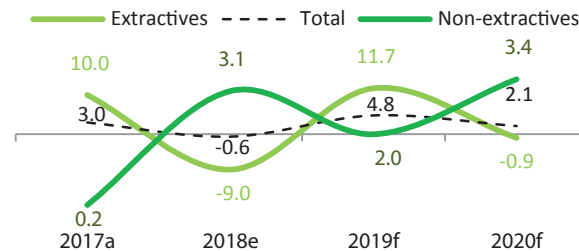
The ADB reports that PNG's 2019 growth is driven primarily by a rebound in mineral production, LNG, oil, condensate, and gold. The increase in LNG production is greater than earlier forecast, partly because 2018 production was less than initially estimated.

PNG GDP GROWTH PROJECTIONS [%]



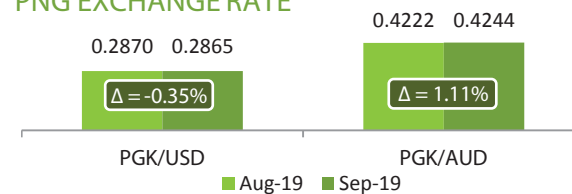
- PNG's economic growth is expected to rebound from an average estimate of -0.2% in 2018, to ~4.6% in 2019.
- The ADB reports that 2019 growth is driven primarily by a rebound in mineral production, LNG, oil, condensate, and gold. The increase in LNG production is greater than earlier forecast, partly because 2018 production was less than initially estimated, lowering the base for growth in 2019, but also because production levels are now expected to be higher than earlier projected.
- The ADB revised down its 2020 growth estimates, as oil production is projected to decline and with delays experienced to the start of two large projects [Papua LNG and the Wafi-Golpu gold and copper mine].

ADB GDP GROWTH PROJECTIONS BY INDUSTRY CLASS [%]



- THE ADB also reported that growth in the non-mineral / extractives industries was weaker than expected in 1H-19 ... and this was reflected in credit to the private sector growing by only 3.7% YoY to May 2019, and by lower than expected government tax revenue.

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.
- The above trends continued, with the PGK depreciating against the USD by 0.35% and appreciating against the AUD by 1.11% between Aug-19 and Sep-19.

2019 SUPPLEMENTARY BUDGET

- The PNG government has introduced deep spending cuts in a supplementary budget handed down on 11-Oct-19.
- The Treasurer, Ian Ling-Stuckey, told parliament the country's books were in a K31.9b deficit, as he announced ~K1.5b worth of capital expenditure cuts.
- Despite the above, the overall 2019 budget has increased from K16.13b to K16.53 ... an increase of ~K0.4b.
- The PNG Government reported that an additional ~K1.6b in financing is required that will be sourced from existing Asian Development Bank and World Bank budget support loans.
- PNG's debt to GDP ratio was also announced at 39.8%, well above the 35% limit. Consequently, Parliament voted to increase this cap to 45%.
- With the supplementary budget approved, the Government intends to work with its international partners to finance the remaining K3.5b deficit with more affordable debt.

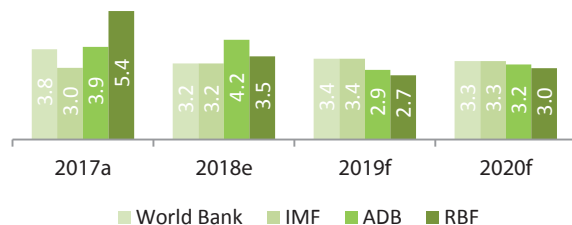
Fiji, Vanuatu and Solomon Island economies

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%.



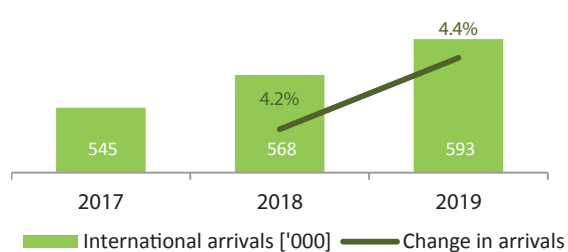
FIJI

FIJI GDP GROWTH PROJECTIONS [%]



- Fiji experienced its ninth consecutive year of expansion, with GDP growth estimated at 3.5% in 2018. Growth is forecast to ease in 2019 and 2020, as cyclone reconstruction efforts near completion.

FIJI VISITOR ARRIVALS – YTD AUG ['000]

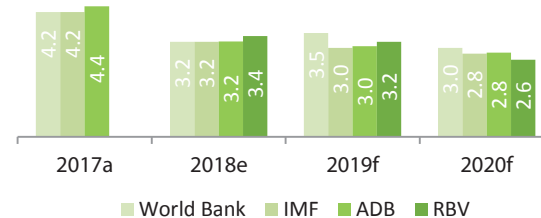


- Record visitor arrivals for Fiji ... with 870,000 arrivals last year [2018]. Momentum continues, with visitor arrivals to Fiji up 4.4% YTD Aug-19 [year-on-year] ... totaling 593,000.



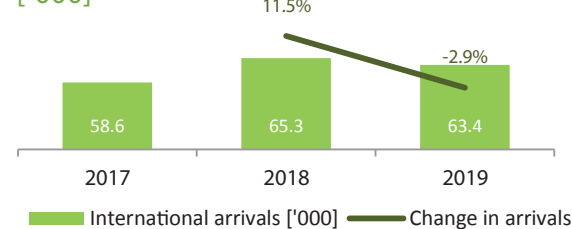
VANUATU

VANUATU GDP GROWTH PROJECTIONS [%]



- The ADB expects Vanuatu's economy to slow in 2019, with growth declining to 3.0%. While reconstruction activity is set to continue in 2019 and beyond, it will be at a slower pace than in 2018.

VANUATU VISITOR ARRIVALS – YTD JUL ['000]

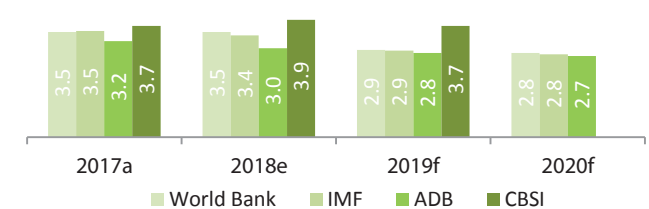


- Visitor arrivals were lower than expected in early 2019. Air arrivals were down by 2.9% YoY in Jul-19 YTD.



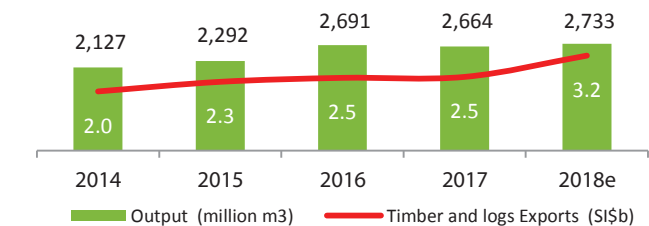
SOLOMON ISLANDS

SI GDP GROWTH PROJECTIONS [%]



- SI's growth is expected to decelerate over the forecast horizon ... while infrastructure projects are expected to sustain SI's economy, weaker logging output and crop production will weigh on growth.

SI LOGGING OUTPUT AND EXPORTS



- While logging output increased in 2018, SI has experienced a decline in 2019. For example, Jul-19 round logs production declined by 38% to 152,000m³.

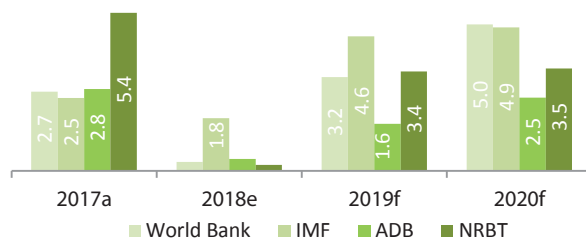
Tonga, Samoa and Cook Island economies

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



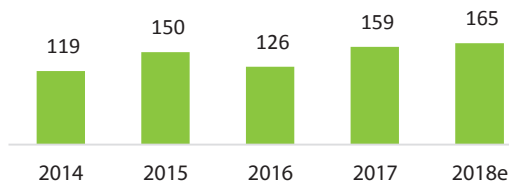
TONGA

TONGA GDP GROWTH PROJECTIONS [%]



- In Sep-19, the ADB downgraded Tonga's 2019 economic forecast to 1.6%, due to major cyclone reconstruction projects idled by delays. Consequently, 2020 growth forecasts were upgraded to reflect reconstruction stimulus delayed into the new fiscal year.

TONGA REMITTANCE INFLOWS [US\$m]

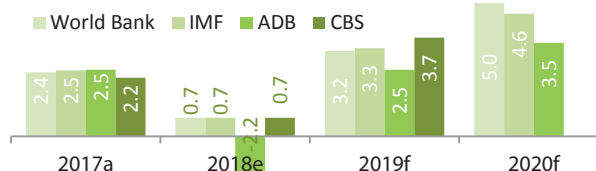


- Tonga remittance inflows have increased steadily since 2016 ... and represented 35.2% of GDP in 2018. Remittance growth continues, with Apr-19 YTD remittance receipts 3.1% higher than the previous year.



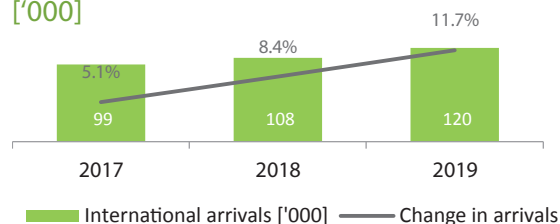
SAMOA

SAMOA GDP GROWTH PROJECTIONS [%]



- The ADB recently upgraded its 2019 forecast from 2.0% to 2.5% ... with growth exceeding initial expectations in trade, transport, accommodation and restaurants.

SAMOA VISITOR ARRIVALS – YTD AUG ['000]

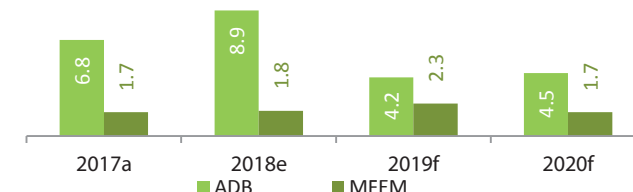


- A 11.7% increase YoY in visitor arrivals in YTD Aug-19 suggests that growth in tourism-related businesses continued to exceed expectations.



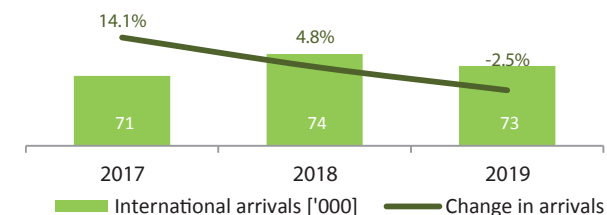
COOK ISLANDS

CI GDP GROWTH PROJECTIONS [%]



- In Sep-19, the ADB downgraded Cook Island's 2019 GDP forecast from 6.0% to 4.2%. The ADB's outlook for 2020 is unchanged and will continue to be driven by tourism growth.

CI VISITOR ARRIVALS – YTD JUN ['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, Jun-19 YTD arrivals are 2.5% lower than the prior corresponding period.

BSP supporting its communities

Our commitment to the community is evident in a variety of ways. We take pride in supporting our communities, professional groups, organisations and worthy causes that are important to our customers, employees and people throughout PNG and the Pacific. BSP is making an impact and moving forward we will maintain our focus on helping create communities where people and business can thrive. We will continue to deliver community projects, sponsor worthy organisations and initiatives, donate to causes that make a difference, teach children to “Go Green” and help solve societal challenges in our communities.

Invested over **K8.0 million** in PNG

K6.5 million was through BSP corporate social responsibility activities

K2.7 million each was delivered through donations and sponsorships

K1.16 million was delivered to community projects

45 community projects delivered through BSPs 35 Branches and Strategic Business Units across PNG

24,123 participated in the BSP financial literacy and banking education and **48%** were females

137 became qualified financial literacy trainers

Over **120,000** people had the opportunity to participate in the financial literacy and banking education since 2004



Lae Corporate and Lae BSP Finance team installing solar panels at Markham Valley Secondary School.

BSP Capital going from strength to strength

BSP Capital, a wholly owned BSP subsidiary, has adopted a new corporate structure focusing its efforts on two service lines..investment management and corporate advisory. A decision was made to divest its stockbroking operations, with the sale scheduled to be completed later this year.

BSP Capital is also now supported by Australian and Global relationships. The re-focusing of our efforts resulted in BSP Capital's funds under management now exceeding K7.0b.

The logo for BSP Capital, featuring the word 'bsp' in a green box followed by 'Capital' in a grey serif font with a red underline.

Investment Management ...

manages cash, fixed interest, custodial services, government securities, corporate debt, PNGX-listed equities, ASX-listed equities, LSE-listed equities, unlisted equities and property assets



Corporate Advisory ... strategic and tactical advice in relation to M&As, divestments and restructurings, management of IPO's, convertible bonds, hybrids and secondary capital raisings, and arranging of senior and subordinated debt facilities

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