



# Pacific economic and market insights

March Quarter 2019



# Key trends at a glance



## GLOBAL ECONOMY SLOWS

- Global growth for 2019 was downgraded to 3.3% in Apr-19 ... down 20 basis points from Jan-19 [3.5%]
- US-China trade war continues, but two more rounds of face-to-face trade talks scheduled ... with a goal of signing the trade deal in late May
- Brexit remains in limbo, with last-minute extension of negotiations to 31-Oct-19 ... UK betting markets 50% chance of no Brexit in 2019



## COMMODITY PRICES IMPROVE IN Q1-19

- Crude oil prices [Q1-19 average] were up to US\$64/bbl, compared to US\$54/bbl at the end of Dec-18
- Natural gas [LNG] prices increased by 1% to US\$11.81/mmbtu in Q1-19
- Gold made slight gains during Q1-19, climbing just under 1%. Some industry insiders believe that gold is prime to rise and sustain US\$1,300 and above ... given economic uncertainty
- Coffee prices seen rising nearly 25% 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 US\$5.3b Wafi-Golpu project's JV partners signed a MoU with PNG government in Dec-18. Special Mining Lease application has been made ... targeting 30-Jun-19 agreement decision



## 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 LNG production
- Headline Inflation was lowered to 4.3% in the 2018, compared to 4.7% in the 2017
- PGK continues to depreciate against the USD. FX order fulfilment improves materially ... down to two [2] weeks
- Fiscal challenges still remain ... particularly debt reduction



## PACIFIC REGION TO STRENGTHEN

- Pacific region's economy is expected to grow by 3.5% in 2019 ... well above 2018 estimate of 1.1%
- Positive demand fundamentals ... particularly tourism
- Given the above, BSP remains optimistic about its future growth prospects



## 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



# 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.

Most Pacific countries have superior 2019 growth forecasts than both the USA and AUS. 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 both agency's forecasts are now more closely aligned

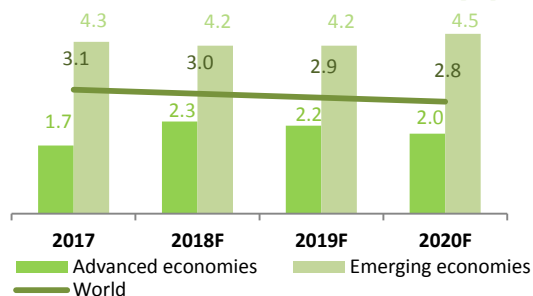
## ECONOMIC OUTLOOK – REAL GDP GROWTH

Market	Actual		IMF – prior forecast [Apr-18]		IMF – current forecast [Jan-19]		IMF – change		ADB – prior forecast [Apr-18]		ADB – current forecast [Apr-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	2.7%	2.3%	2.9%	2.5%	+0.2	+0.2
China	6.7%	6.9%	6.6%	6.4%	6.6%	6.2%	Unchanged	-0.2	6.1%	5.9%	6.6%	6.3%	+0.5	+0.4
Australia [AUS]	2.5%	2.2%	3.0%	3.1%	2.8%	2.1%	-0.2	-1.0	3.0	3.0	2.9%	2.8%	-0.1	-1.2
Pacific region	2.2%	2.7%							2.2%	3.0%	1.1%	3.5%	-1.1	+0.5
PNG	1.7%	2.4%	-1.1%	3.8%	0.0%	3.8%	+1.1%	Unchanged	1.8%	2.7%	0.5%	3.0%	-1.3%	+0.3%
Fiji	0.4%	3.0%	3.2%	3.4%	3.5%	3.4%	+0.3	Unchanged	3.6%	3.3%	3.0%	3.2%	-0.5	-0.1
Solomon Islands	3.4%	3.7%	3.4%	2.9%	3.0%	2.8%	-0.4	-0.1	3.0%	3.0%	3.0%	2.4%	Unchanged	-0.6
Samoa	7.1%	2.5%	1.8%	3.1%	0.9%	1.8%	-0.9	-1.3	0.5%	2.0%	0.9%	2.0%	+0.4	Unchanged
Tonga	5.0%	3.1%	2.9%	5.5%	3.2%	2.9%	+0.3	-2.6	-3.0%	0.5%	0.4%	2.1%	+2.6	+1.6
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%							3.5%	3.0%	7.0%	6.0%	+3.5	+3.0

# Global indicators

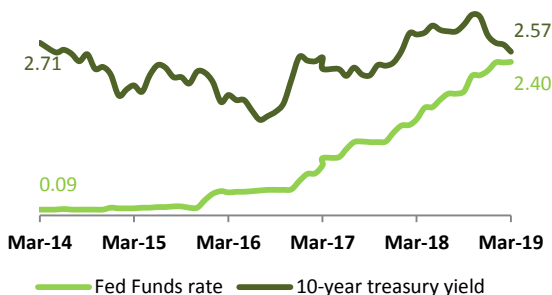
The global growth outlook was recently downgraded, given the uncertainty surrounding the US-China trade war and Brexit ... this has impacted on the outlook for some commodities, particularly energy, where price forecasts were revised downward

## GLOBAL GDP GROWTH PROJECTIONS [%]



- Global growth for 2019 had been downgraded to 3.3% in Apr-19, compared to 3.5% earlier.

## 10-YEAR & FED FUNDS RATE [%]



- The inverted 10-year yield curve in Mar-19 has spurred market volatility, with some analysts suggesting that it's a sign of an imminent recession ... not all economists agree.

## WORLD BANK COMMODITY INDICES

- Energy commodity prices rebounded in more than 3% in Mar-19.
- Non-energy prices declined marginally in Mar-19, with losses in beverages and food balanced by gains in raw material and metals.
- Metals prices gained 1.2%, led by increases in zinc [+5.3%] and copper [+2.2%].
- Precious metals prices declined nearly 2% in response to declines in silver [-3.3%] and gold [-1.5%].
- Outlook:
  - Crude oil prices are expected to average US\$66 a barrel in 2019 and US\$65 a barrel in 2020 ... a downward revision.
  - Metal prices are expected to continue a recovery in 2019.

## WORLD BANK - COMMODITY FORECASTS

Commodity	Units	2018a	Mar-19a	2019f	Δ 18 vs 19f
<b>Agriculture</b>					
Palm oil	\$/mt	639	573	600	-6.1%
Coffee, Arabica	\$/kg	2.93	2.73	2.85	-2.7%
Sugar	\$/kg	0.28	0.28	0.28	0.0%
Cocoa	\$/kg	2.29	2.20	2.30	0.4%
<b>Resources and Minerals</b>					
Crude oil, average	\$/bbl	68.3	63.8	66.0	-3.4%
Gold	\$/toz	1,269	1,301	1,310	3.2%
Copper	\$/mt	6,530	6,439	6,680	2.3%
Nickel	\$/mt	13,144	13,026	12,880	-2.0%
Natural gas, Japan [LNG]	\$/mmbtu	10.7	11.81	7.4	-30.8%

## US-CHINA TRADE WAR



- The US-China trade war poses significant risks to global growth. The 90-days "grace period", which lapsed on 1-Mar-19, was extended for another four [4] weeks, with no agreement reached at the time. Two more rounds of face-to-face trade talks are scheduled ... with a goal of signing the trade deal in late May.
- There are still difficult points to agree on, however both parties remain optimistic. The US has already imposed tariffs on US\$250bn worth of Chinese goods, and China has retaliated with duties on US\$110bn of US products.

## BREXIT LIMBO

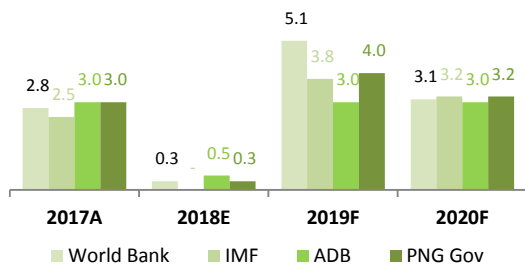


- UK PM, Theresa May has successfully gained agreement to extend Brexit negotiations with the EU to 31-Oct-19.
- A trade 14-Mar-19 continuity agreement will see British businesses and consumers benefitting from continued trading arrangements with Fiji and Papua New Guinea after the UK leaves the EU. The agreement eliminates all tariffs on all goods imported from Fiji and Papua New Guinea into the UK and will gradually remove around 80% of tariffs on British exports to these countries.

# 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.
- There are some domestic issues that may pose downside risks to growth, notably the foreign exchange and fiscal challenges.

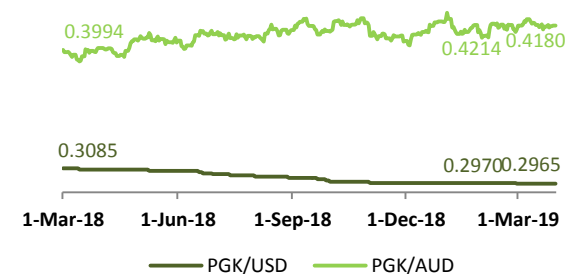
PNG FISCAL POSITION [Kb]			
	2017 Actual	2018 Budget	2018 Actual
Total Revenue	11.5	12.7	14.1
Expenditure	13.3	14.7	16.1
<b>Budget Balance</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-2.0</b>
% of GDP	-2.4%	-2.5%	-2.5%

- Actual 2018 revenue and expenditure was more than projected. Extractive industry contributed significantly to revenue growth in 2018.

## PAPUA LNG SIGNED

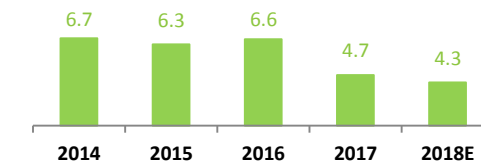
- The Papua LNG project investment is estimated to be between US\$13bn and US\$14bn. The JV partners will now proceed with FEED [front end engineering design], with construction expected to start in 2021 with first gas due in 2024.
- The Deputy Prime Minister and Treasurer Hon. Charles Abel stated ... "Compared to the first gas project [PNG LNG] this agreement provides earlier, less risky flows to the State, reduces the State's financing burden to buy its share and provides some gas for domestic use at a discounted and fixed price. There are strong provisions for third party access to infrastructure and national content". Key terms of the agreement include:
  - Company tax rate – 30%
  - Production levy to the State – 2%
  - Landowner royalty – 2%
  - Development levy to the provincial governments and LLG's – 2%
  - Commercial carry financing for 75% of the State's equity
  - Domestic market obligations of 5% of the gas at a fixed price of US\$4.50 per MMBTU
  - Shareholding: Total [31.1%], Exxon Mobile [28.3%], KPHL [20.5%], OSH [17.7%], LOs [2.0%], minor parties [0.4%]

## PNG EXCHANGE RATE



- Over Q1-19, the PGK depreciated against the USD [0.2%] and AUD [0.7%] to 0.2965 and 0.4180 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 [12] to fourteen [14] weeks in Mar-18, to between one [1] to three [3] weeks in Mar-19.

## PNG INFLATION



- Headline inflation is estimated to have declined from 4.7% in 2017 to 4.3% in 2018.

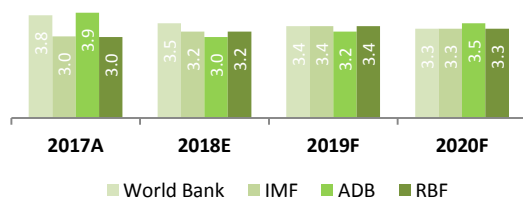
# Fiji's, Vanuatu's and SI's economies

Fiji's economy is expected to strengthen in 2019, whereas Vanuatu's and SI's economies may soften slightly this year ... but maintain relatively strong growth levels in the order of 3.0%



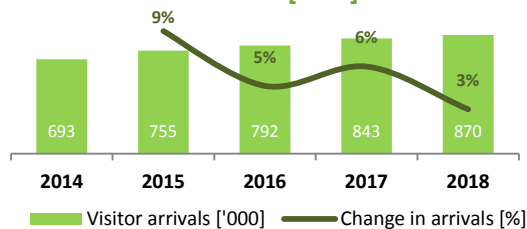
FIJI

## FIJI GDP GROWTH PROJECTIONS [%]



- Fiji experienced its ninth consecutive year of expansion, with GDP growth estimated at 3.2% in 2018. Fiji's growth levels are forecast to remain largely unchanged over the short term.

## FIJI VISITOR ARRIVALS ['000]

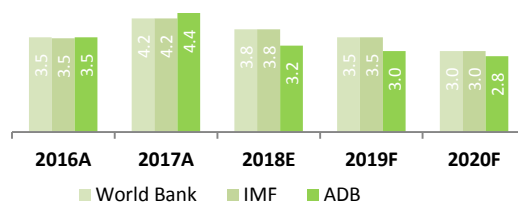


- Record visitor arrivals for Fiji ... with 870,000 arrivals last year [2018]. Further, this represents five [5] consecutive years of visitor growth.



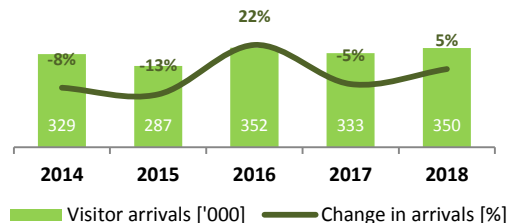
VANUATU

## VANUATU GDP GROWTH PROJECTIONS [%]



- Vanuatu's economy is estimated to have grown by between 3.2% and 3.8% in 2018 ... however its growth is expected to soften slightly in 2019, given natural disaster reconstruction work concluding. Growth is expected to remain stable in 2019 as tourism benefits from the completion of major infrastructure projects.

## VANUATU VISITOR ARRIVALS ['000]

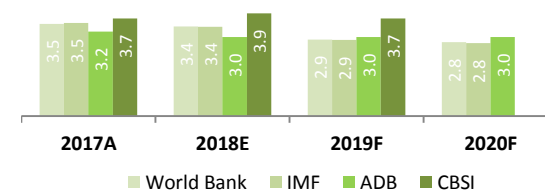


- Strong visitor arrivals in 2018 that approached 2016 industry high.
- Four [4] consecutive years of visitor arrivals growth via air.



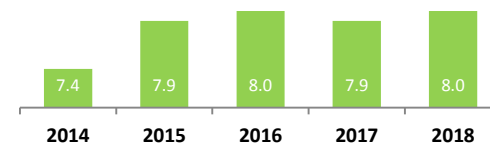
SOLOMON ISLANDS

## 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].

## SBD AGAINST USD [ANNUAL AVERAGE]



- The Solomon Islands dollar [SBD] has remained relatively stable over the past four [4] years.



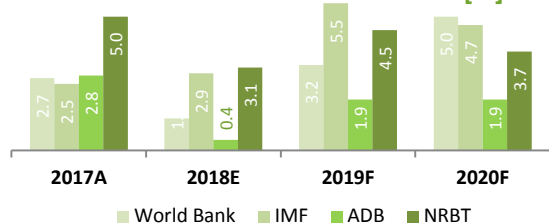
# Tonga's, Samoa's and CI's economies

Both Tonga's and Samoa's economies are expected to strengthen in 2019, whereas the Cook Island's [CI] economy may soften slightly this year ... but maintain relatively strong levels, with growth of between 2.3% and 6.0%



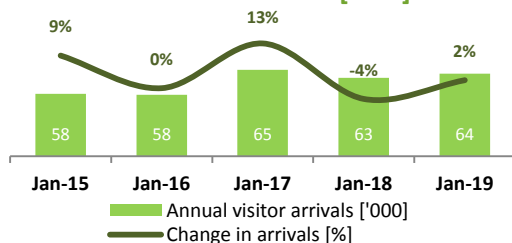
## TONGA

### 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 VISITOR ARRIVALS ['000]

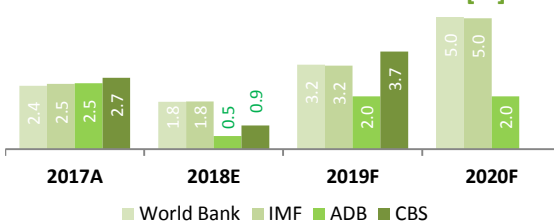


- Modest growth [~ 2%] in visitor arrivals in the 12 months to Jan-19 ... reaching 64,000 arrivals.
- Note the above figure excludes cruise ship day trip visitors ... that represented ~ 25,000 additional visitors in the 2016 and 2017 calendar years.



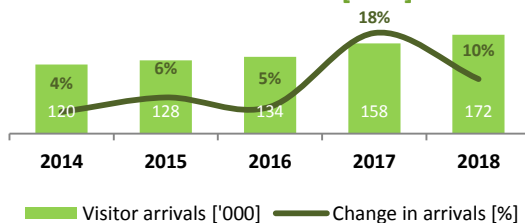
## SAMOA

### 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 VISITOR ARRIVALS ['000]

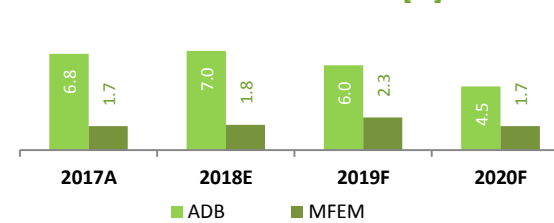


- Record visitor arrivals for Samoa ... with 172,000 arrivals last year [2018]. Like Fiji and CI, this represents five [5] consecutive years of visitor growth.



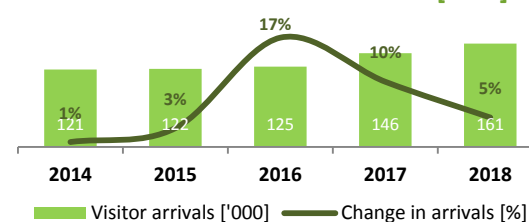
## COOK ISLANDS

### CI GDP GROWTH PROJECTIONS [%]



- The Cook Islands economy is projected to grow by between 2.3% and 6.0% 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.

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