



Pacific economic and market insights

JUNE QUARTER 2020



Key trends at a glance



GLOBAL ECONOMY TO ENTER A SHARP RECESSION

- According to the IMF, the global economy is experiencing one of the sharpest recessions on record. Growth in 2020 is expected to contract sharply by -4.9% and recover in 2021 by +5.4% ... assuming limited second wave COVID-19 outbreaks.
- Based on the various economic agency indicator reports, global trade is on track to fall more in 2020 and slowly recover to 5.3% in 2021.



COMMODITY PRICES FALL IN Q1-20

- According to IMF Reports, the COVID-19 pandemic has resulted in most global commodity prices falling sharply.
- Oil prices have fallen by as much as 75% since their January 2020 peak, as petroleum producers have been hit by weak demand and oversupply.
- The past two quarters (Q1-20 and Q2-20) have proven to be very challenging for natural gas and LNG producers. Consequently, LNG trade has been driven more by supply than demand.
- Coffee has been particularly hard hit, with cafés, restaurants, hotel closures across the world from COVID-19 lockdowns.



PNG ECONOMY TO ALSO ENTER A RECESSION

- PNG's already slowing economy is forecast to contract even further from +4.8% in 2019 to -1.5% in 2020 as a consequence of COVID-19 restrictions. However, growth is expected to recover to +2.9% in 2021, as the government works towards managing public debt and easing the restrictions imposed to contain COVID-19.
- To date, only 62 positive cases have been reported in PNG. According to the PNG COVID-19 website, while testing has increased, the number of tests may not be larger enough to accurately reflect current transmission levels.
- PNG's top 10 exports accounts for 99.2% of the overall value of its global shipments. According to the World Top Exports data (2019), PNG exported an estimated US\$11.7B across the globe in 2019, resulting in a positive cumulative trade balance of US\$31.8B (2012-2019).
- The country's shipments of mineral fuels, including oil, also posted an 8.6% improvement ... spearheaded by petroleum gases.
- 2020 forecast for trade shipments will most likely be negatively affected by the COVID-19 pandemic, as demand for the export products reduces, due to lower activity in the industrial and commercial sectors.



A CHALLENGING 2020 FOR THE SOUTH PACIFIC

- The South Pacific's economic growth is forecast to contract sharply to 4.3% in 2020, due to the COVID-19 pandemic. However, most regions economies are expected to recover in 2021, with regional growth + 1.6% ... as trade and travel restrictions are eased, led by Solomon Islands, and Vanuatu.
- The Cook Islands, Samoa and Tonga economies are forecast to contract further in 2021, due to travel restrictions imposed by governments to safeguard their limited healthcare systems from possible COVID-19 outbreaks.

	2020	2021
	-15.0%	+0.7%
	-6.5%	+2.5%
	-3.0%	-4.0%
	-9.0%	-15.4%
	-5.0%	-2.0%
	-9.8%	+2.0%

Source: ADB, June-20

BSP's economic and market views



Robin Fleming

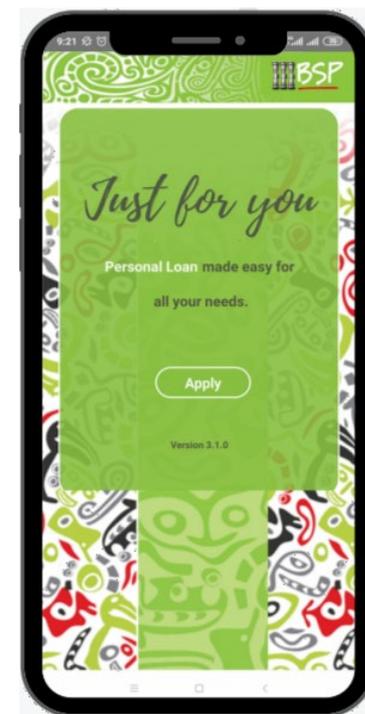
Group Chief Executive
Officer

In last quarter's publication, you provided some examples of the COVID-19 impacts BSP is seeing in the countries it operates in. So far, how is the bank responding to the COVID-19 challenges?

- *As mentioned last quarter, BSP has provided loan repayment deferral packages of between three and six months for business and individuals directly affected by Covid-19 [depending on country] and reduced lending rates have been employed to support customers ... these come at some cost to BSP.*
- *At present, BSP is providing loan repayment deferrals to over 8,400 COVID-19 impacted customers across the South Pacific ... and a number of these customers will be coming off their three month loan deferrals in coming weeks. We expect that the majority of BSP customers on loan deferrals will resume payments. However, should customers be unable to service their loans after the deferral period, BSP will work with these customers in assessing their future repayment capacity, to identify when they can resume normal repayments.*

Are there any new initiatives BSP is undertaking to address some of the COVID-19 related challenges customers are experiencing?

- *BSP is continually looking to innovate and improve customer experience through digital service enhancements. The COVID-19 pandemic has accelerated a number of our digital solutions. Some specific examples are presented below.*
 - *With many of our customers working from home during the lockdown or remotely [due to travel restrictions], BSP Corporate Banking tailored its relationship management model with the introduction of virtual meetings via online video conferencing facilities.*
 - *The continued expansion of our internet payments gateway to allow our business customers to expand their reach locally and internationally, by making products and services more accessible to their customers.*
 - *The launch of BSP's "Customer Self Service Application" (App). It is a smartphone app that facilitates the lodgement of BSP Personal Loan applications online.*



BSP's economic and market views



Peter Beswick

Group General Manager –
Corporate Bank

What impact is COVID-19 having on businesses?

- *The Corona Virus has delivered a significant economic shock globally. While, no significant spread has occurred within PNG and the South Pacific, business has been impacted by no international travel, tourism, delayed global supply chains, lower business and consumer demand, plus adverse mineral, petroleum and soft commodity pricing hitting exports.*
- *BSP Corporate will only be successful if our customers are successful. Accordingly, we will continue to take decisive action to support our customers through this period. PNG and the South Pacific will bounce back as borders reopen and foreign direct investment accelerates.*

How will BSP work with its business customers to navigate through COVID-19?

- *Our relationship managers and branches remain open for business and are contactable 24/7 ... directly, or through our call centres. We are ready to serve our customers with swift and pragmatic actions.*
- *BSP continues to extend support packages where required and restructure facilities longer term, to align repayments with COVID-19 affected cash flows.*
- *BSP's digital technology and our contactless financial solutions (BSP Digital Hub, VISA, EFTPOS, electronic Payroll, etc.) have never been more important for our business customers ... enabling business continuity and improving your staffs' safety.*



Rohan George

Group General Manager –
Treasury

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

- *PNG foreign exchange liquidity has been mixed. Q2-20 FX market turnover picked up 2.1% on Q1-20, but was still 10.5% below turnover seen in Q4-19 due to seasonal factors, price, production and logistics.*
- *Quarterly FX market turnover was bolstered by record end of half year FX inflows, from all sectors.*
- *Time to order execution for all customers improved over the June quarter, with outstanding FX orders concentrated amongst a few large importers.*

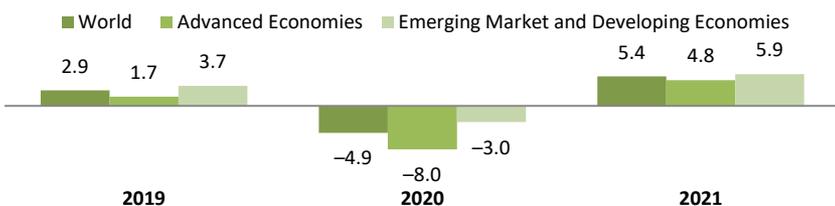
What is the outlook for FX liquidity and the Kina in the second half 2020.

- *Foreign currency from exporters is expected to decline in the 3rd Quarter, due to a 90% fall in foreign currency supplied from Barrick's Porgera Gold mine.*
- *Reduced exporter activity will be offset by softer demand from importers, in response to the contraction of the domestic economy and flow through effects of the global COVID-19 pandemic.*
- *The current slow gradual downward pressure on the Kina is likely to persist in 2020, with commodity prices expected to remain subdued for the remainder of the year, as the ongoing impact of COVID-19 is felt by the global economy.*
- *In the current global environment, a large devaluation of the Kina is unlikely, as it would push up the price of pharmaceuticals, medical equipment and foodstuffs, potentially leading to social unrest at a time when stability and certainty is required.*

Global growth outlook

Leading economic agencies have continued to downgrade the global economic outlook for 2020, as the impacts of COVID-19 become clearer. In June, the IMF revealed that the global economy is expected to contract sharply by -4.9% in 2020 ... the worst rate in post-war history, with most economies facing recessions. If this forecast materialises, the fall in global output would be more than double that of the 2009 global recession.

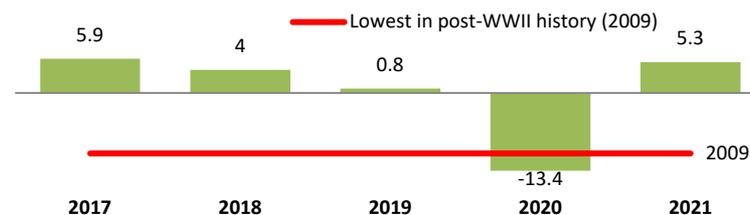
GLOBAL GROWTH OUTLOOK



Source: IMF, Jun-20

- According to the IMF, the global economy is experiencing one of the sharpest recessions on record. Growth in 2020 is expected to contract sharply by -4.9% however will recover gradually in 2021 by 5.4%

GLOBAL TRADE GROWTH OUTLOOK



Source: World Bank, Jun-20

- Based on the various economic agency indicator reports, global trade is on track to fall more in 2020 and slowly recover to 5.3% in 2021.

IMF AND ADB ECONOMIC OUTLOOK – REAL GDP GROWTH

Market	IMF Prior Forecast		IMF Current Forecast		IMF – change		ADB – current forecast		ADB Current Forecast		ADB - change	
	[Apr-20]		[Apr- 20]		2020f	2021f	[Apr-20]		(June- 20]		2020f	2021f
	2020f	2021f	2020f	2021f			2020f	2021f	2020f	2021f		
USA	2.1%	1.7%	-5.9%	4.7%	-8.0%	3.0%	2.3%	1.9%	-5.8%	4.1%	-8.1%	2.2%
China	5.8%	5.9%	1.2%	9.2%	-4.6%	3.3%	0.8%	7.3%	1.8%	7.4%	1.0%	0.1%
Australia	2.3%	2.6%	-6.7%	6.1%	-9.0%	3.5%	0.6%	3.8%	N/A	N/A	N/A	N/A
PNG	5.0%	2.6%	-1.0%	2.9%	-6.0%	0.3%	0.8%	2.8%	-1.5%	2.9%	-2.3%	0.1%
Fiji	2.7%	3.0%	-5.8%	7.0%	-8.5%	4.0%	4.9%	3.0%	-15.0%	-0.7%	-19.9%	-3.7%
Solomon Islands	2.7%	2.9%	-2.1%	3.8%	-4.8%	0.9%	2.6%	2.7%	-6.0%	2.5%	-8.6%	-0.2%
Samoa	3.4%	4.4%	-3.7%	0.5%	-7.1%	-3.9%	3.0%	0.8%	-5.0%	-2.0%	-8.0%	-2.8%
Tonga	3.5%	3.7%	-1.2%	1.2%	-4.7%	-2.5%	0.0%	2.5%	-3.0%	-4.0%	-3.0%	-6.5%
Vanuatu	3.8%	4.4%	-3.3%	4.9%	-7.1%	0.5%	-0.1%	2.5%	-9.8%	2.0%	-9.7%	-0.5%
Cook Islands	N/A	N/A	N/A	N/A	N/A	N/A	-2.2%	1.0%	-9.0%	-15.4%	-6.8%	-16.4%
Cambodia	6.8%	6.8%	-1.6%	6.1%	-8.4%	-0.7%	2.3%	5.7%	-5.5%	5.9%	-7.8%	0.2%
Lao	6.5%	6.5%	0.7%	5.6%	-5.8%	-0.9%	3.5%	6.0%	-50.0%	4.5%	-53.5%	-1.5%

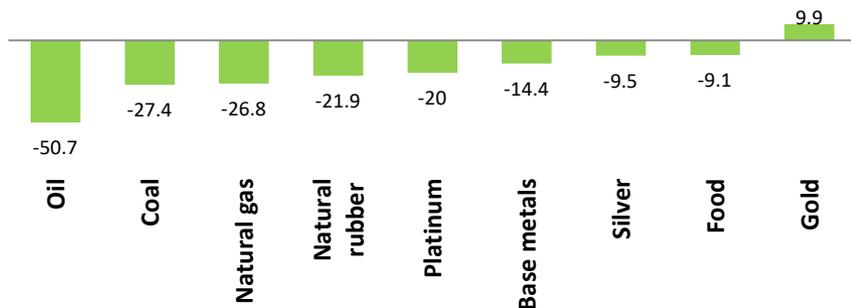


COVID-19 commodity price impacts

Commodity prices fell sharply in Q2-20 from the ensuing collapse in demand resulting from the COVID-19 pandemic. Oil prices experienced the greatest fall, partly reflecting weaker demand for transport and travel. A renewed OPEC+ agreement in April proved insufficient to boost prices, which have fallen more than in previous major events.

Gold has been one of the few commodities to benefit from the COVID-19 pandemic ... given its safe haven status.

COMMODITY PRICE CHANGES JUNE 2020¹



Source: World Bank, Jun-20

Note: ¹ Figure presents the change in monthly average commodity prices between January 2020 and the last observation [May 2020]. Price changes for "Base metals" and "Food" show World Bank Pink Sheet indexes. Oil price is unweighted average of Brent, WTI and Dubai prices.

LNG PRODUCTION

- The past two quarters (Q1-20 and Q2-20) has proven to be very challenging for natural gas and LNG producers. Consequently, LNG trade has been driven more by supply than demand.
- The current market environment lowers the expectations of seeing a recovery in prices in 2020 and 2021.

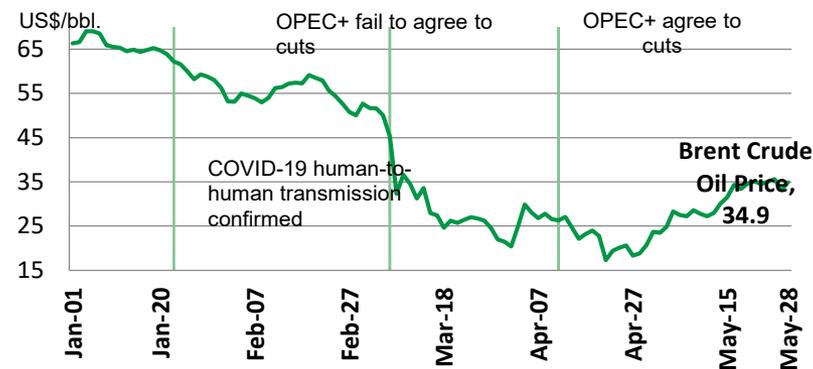
GLOBAL LNG MARKET

- Global LNG market is expected to decelerate sharply in 2020 amid supply and demand cuts.
- Several analysts anticipated, the LNG demand in 2020 to fall below the 2019 levels by 6.7 million mt, and this may create a potential loss of as much as 13.8 million mt due to risks of secondary waves of the pandemic and economic recessions.

Sources: GU-World LNG Report-2020 edition
World Bank, Jun-20

BRENT CRUDE OIL PRICES

- The impact of COVID-19 has been severe for the oil market. Crude oil prices have fallen by as much as 75% since their January 2020 peak, as petroleum producers have been hit by weak demand and oversupply.
- Despite OPEC+ reaching a new production agreement on 12 April, the agreed cuts failed to lift prices above their pre-COVID 19 levels.
- The Brent crude price forecast is maintained at \$35/barrel for 2020, but 2021 prices were revised down to \$45/barrel in June. In short, oil prices are still expected to rise in 2021, but less than previously forecast as global recovery is slower than anticipated.

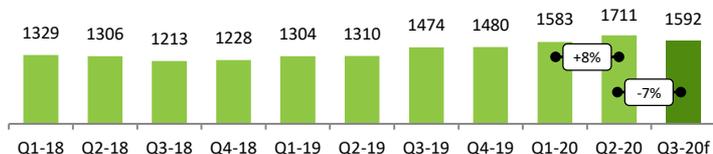


Source: World Bank, Jun-20

Commodity Price Forecast

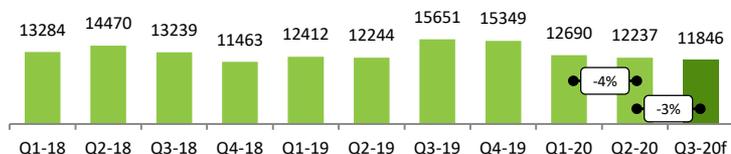
According to World Bank reports, the COVID-19 pandemic has resulted in most global commodity prices falling sharply, with Oil particularly affected.

GOLD – AVERAGE QTR PRICE [US\$/toz]



- Gold prices have increased to +8% in Q2-20. Gold's rally in the quarter has primarily been driven by the global uncertainty fueled by the COVID-19 pandemic. However, prices are forecast to return to Q1-20 levels in Q3-20.

NICKEL – AVERAGE QTR PRICE [US\$/mt]



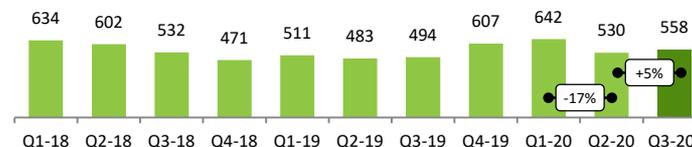
- Nickel prices experienced the fall in the Q2-20, dropping -4%, a stark contrast to the high prices in the Q3-19.

COPPER – AVERAGE QTR PRICE [US\$/mt]



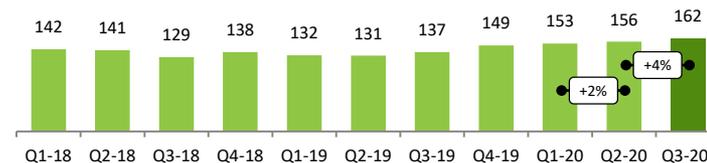
- Copper prices fell throughout 2019, however its price dipped to its 3-year low mark in Q2-20, as all industries and other economic activities were forced to shut across the world in order to contain the spread of coronavirus.

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



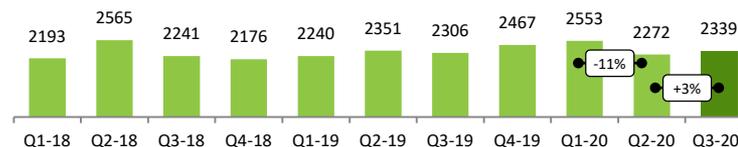
- The Palm oil prices have experienced a -17% fall in Q2-20, due to increasing output and a fall in demand. Analysts predict that prices for Q3-20 would largely depend on the oil price movement as it played a vital role in biodiesel demand as well as the prolonged impact of Covid-19, as slow economic recovery could drag palm oil demand.

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



- Weather disruptions and pandemic-related labor restrictions in Brazil [the world's largest coffee supplier and dominant Arabica producer] have put upward pressure on prices. Arabica coffee price is expected to rise further in 2020 before stabilizing at the end of 2021.

COCOA – AVERAGE QTR PRICE [US\$/kg]

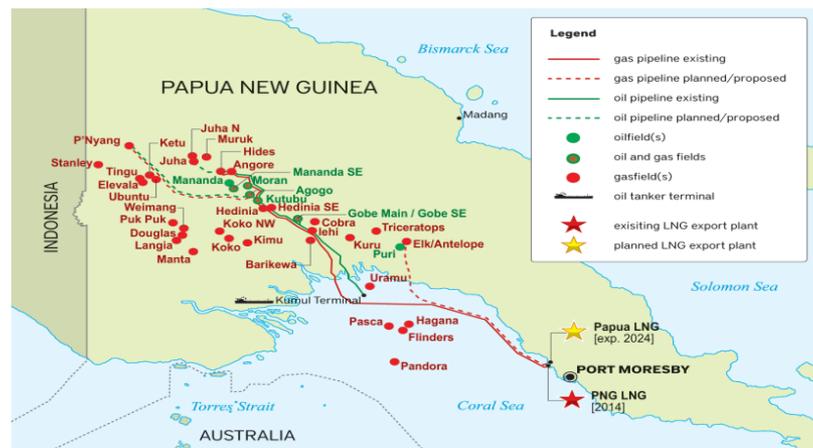


- Cocoa prices fell sharply[-11%] in Q2-20, but are expected to stabilise in Q3-20. Some analysts are reporting some modest gains in 2021.

PNG's economic outlook

PNG's already slowing economy is forecast to contract even further from +4.8% in 2019 to -1.5% in 2020, as a consequence of COVID-19 restrictions. However, growth is expected to recover to +2.9% in 2021, as the government work towards managing public debt and easing the restrictions imposed to contain COVID-19.

PNG LNG



- In Apr-19, Total and its partners ExxonMobil and Oil Search signed the Gas Agreement with the Independent State of Papua New Guinea, defining the fiscal framework for the Papua LNG Project, according to media reports.
- However, in Q2-2020, the partners have now indicated that the project will be delayed by 6 months to 1 year as negotiations have not concluded.
- This Gas Agreement allows the partners to enter the Front-End Engineering Design (FEED) phase of study that will lead to the Final Investment Decision in 2020.
- The expansion of the PNG LNG project is planned to be a three-train 8.1 MTPA expansion (each train 2.7 MTPA) on the existing PNG LNG site, sharing infrastructure with PNG LNG.
- According to the world LNG report - Key commercial agreements and pre-FEED activities for the three train integrated development are all largely complete and subject to the completion of the P'nyang Gas Agreement.

Source: IGU World LNG Report, Media Reports

PNG'S GDP GROWTH



Source: ADB- June 2020

- According to the ADB, PNG's already slowing economy is forecast to contract sharply from +4.8% in 2019 to -1.5% in 2020. The government faces challenges with managing public debt and imposing COVID-19 containment measures, restrictions on travel are seen to be driving down economic activity, in construction, transport, and hotels and restaurants.
- However, growth is expected to recover to +2.9% in 2021, as the government work towards managing public debt and starts easing the restrictions on movement imposed to contain COVID-19 ... with State of Emergency measures adding to PNG's economic challenges.

COVID-19 OUTBREAK

- To date, only 62 positive cases have been reported in PNG. According to the PNG COVID-19 website, on the 19th of June, a total of 5,637 samples were collected for COVID-19 PCR testing and to date the total number of confirmed cases has risen to 27, as at 21 July.
- Furthermore, the PNG Covid-19 website reports that while testing has increased, the number of samples collected may not be large enough to adequately reflect current transmission levels.

PNG PROVINCES	CONFIRM ED CASES
Western	3
Eastern Highlands	1
Morobe	1
East New Britain	2
NCD	55
TOTAL	62

COVID-19 SAMPLE COLLECTION AND PCR TESTING (@10-Jun)	
CUMULATIVE REPORT	
# of samples collected	5,637
# of samples tested with available test results	5,389 (96%)
# of samples with lab results pending	248 (4%)

Source: PNG COVID-19 Website

PNG's trade partners

PNG's Top 10 exports accounts for 99.2% of the overall value of its global shipments. According to the World Top Exports report data (2019), PNG exported an estimated US\$11.7b across the globe, contributing to a positive cumulative trade balance of US\$31.8b over the 2012 to 2019 period. PNG's shipments of mineral fuels, including oil, also posted an 8.6% improvement, spearheaded by petroleum gases. However, the 2020 forecast for trade shipments will most likely be negatively affected by the COVID-19 pandemic, as demand for the export products reduces, due to lower activity in the industrial and commercial sectors.

PNG TOP EXPORTS	2019
Mineral fuels including oil and gas	US\$5.4 billion (46.6% of total exports)
Gems, precious metals	\$2.6 billion (22.5%)
Ores, slag, ash	\$1 billion (8.7%)
Wood	\$754.6 million (6.5%)
Nickel	\$535.4 million (4.6%)
Animal/vegetable fats, oils, waxes	\$490.1 million (4.2%)
Fish	\$245.8 million (2.1%)
Meat/seafood preparations	\$219 million (1.9%)
Coffee, tea, spices	\$184.4 million (1.6%)
Cocoa	\$53.9 million (0.5%)

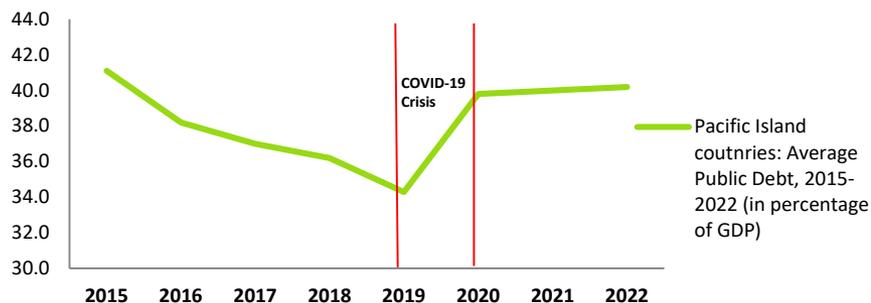


Source: OEC, WIT, WTE, Jun-20

South Pacific's economic outlook

The global battle against COVID-19, which has been underpinned by travel restrictions, has led to all South Pacific Economies experiencing a broad decline in tourism, employment, investment, and trade in 2020. Furthermore, the region's public debt levels are forecast to increase from 34.7% of GDP in 2019, to 39.9% in 2020.

COVID-19 IMPACTS ON PUBLIC DEBT



- Public debt among the Pacific islands, on average, has already risen since the end of the global financial crisis, although the most economies in the region were quick to react to the threat of the pandemic—through measures to prevent the arrival of COVID-19 on their shores.
- According to IMF, in order to safeguard financial stability, the South Pacific Economies should consider identifying financial sector risks, including exposures to tourism-related activities, and conduct stress testing that ensures financial institutions are prepared to withstand shocks.

TOURISM

- Many island economies in the region are already experiencing severe impacts from the sharp tourism collapse that resulted from the COVID-19 restrictions.
- Tourism receipts are estimated to account for up to 20% to 30% of economic activity in most economies such as FIJI, Samoa, Tonga, Vanuatu and Cook Islands.

Source: IMF, June-20

SOUTH PACIFIC GDP FORECAST



Source: IMF, Fiji and SI - June-20 projections
Tonga, Samoa, Cook Islands and Vanuatu - Apr-20 projections

Source: ADB, June-20

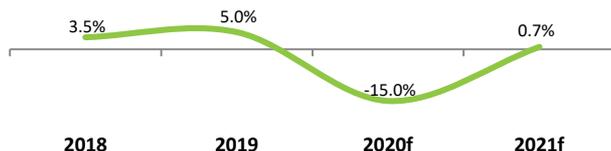
South Pacific's economic outlook

The South Pacific's economic growth is forecast to contract sharply to -4.3% in 2020, due to COVID-19, according to the ADB. However, a recovery is expected to begin in most economies, with +1.6% growth forecast in 2021 ... as trade and travel restrictions are eased, led by Solomon Islands, Fiji and Vanuatu. However, the Cook Islands, Samoa and Tonga economies are forecast to contract further under stricter travel restrictions imposed by their governments to safeguard their limited healthcare systems from a possible COVID-19 outbreak.

FIJI



Source: ADB-June 20

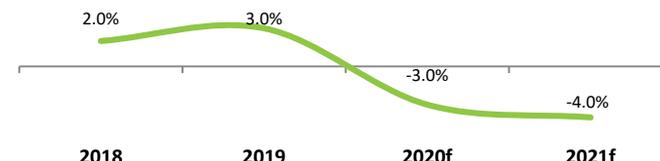


- Fiji's economy is projected to experience a sharp decline of -15.0% in 2020, due to its dependence on tourism. The tourism and air transport sectors are expected to be the worst hit, according to the ADB reports.

TONGA



Source: ADB, June-20

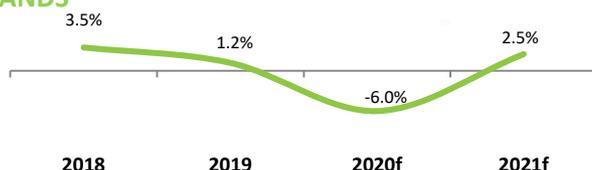


- Tonga's economic growth is expected to decline from +3.0% in 2019 to -3.0% in 2020, due partly to a plunge in visitor arrivals. Growth will likely continue to fall [-0.4%] in 2021, due to lower tourism and slow pace in governments implementation of rehabilitation and recovery from Cyclone Gita.

SOLOMON ISLANDS



Source: ADB-June 20

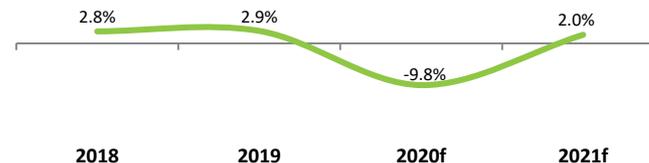


- Economic growth in Solomon Islands is expected decline to -6.0% in 2020, as exports fall because of COVID-19. Growth is expected to recover to +2.5% in 2021, as construction on large infrastructure projects offsets a continuing decline in logging.

VANUATU



Source: ADB, June-20

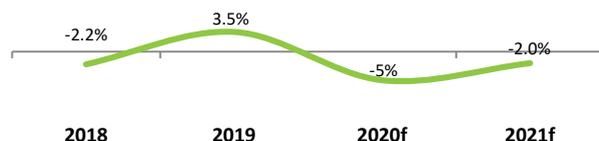


- Vanuatu's economic growth is forecast to contract sharply to -9.8% in 2020, as travel restrictions arising from COVID-19 undermine tourism. Growth should recover and reach +2.0% in 2021.

SAMOA



Source: ADB, June-20

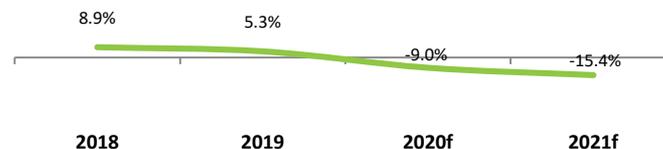


- Based on statistics from the ADB, Samoa's economy is expected to contract by -5.0% in 2020. Negative growth [-2.0%] is expected to continue in 2021.

COOK ISLANDS



Source: ADB, June-20



- The Cook Islands' economy is expected to contract sharply from -5.3% in 2019 to -9.0% in 2020 ... and decline further to -15.4% in 2021 due to a collapse in tourist arrivals.

Contacts



PNG BASED EXECUTIVES

- Robin Fleming - Group CEO
rfleming@bsp.com.pg
- Peter Beswick - Group GM Corporate
pbeswick@bsp.com.pg
- Rohan George - Group GM Treasury
rgeorge@bsp.com.pg
- Daniel Faunt - GM Offshore Branches
dfaunt@bsp.com.pg
- Christophe Michaud - GM BSP Finance
cmichaud@bsp.com.pg
- Paul Thornton - Group GM Retail
pthornton@bsp.com.pg
- Bertha Auwi - Senior Manager Paramount
bauwi1@bsp.com.pg
- Pochon Lili - Acting GM, BSP Finance [PNG]
plili@bsp.com.pg
- Gheno Minia - GM BSP Capital
gminia@bsp.com.pg
- Nilson Singh - CM, BSP Life [PNG]
nsingh2@bsp.com.pg

OFFSHORE BASED EXECUTIVES

- Haroon Ali - Fiji Country Manager
hali@bsp.com.fj
- David Street - Cook Islands Country
Manager
dstreet@bsp.com.pg
- Nik Regenvanu - Vanuatu Country Manager
nregenvanu@bsp.com.pg
- David Anderson - Solomon Islands Country
Manager
danderson@bsp.com.sb
- Marcellina Wolfgramm - Tonga Country
Manager
mwolfgrammhaapai@bsp.com.pg
- Maryann Lameko Vaai - Samoa Country
Manager
mlameko-vaai@bsp.com.pg

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