

ASIA PACIFIC RESEARCH PACIFIC MONTHLY

18 JULY 2011

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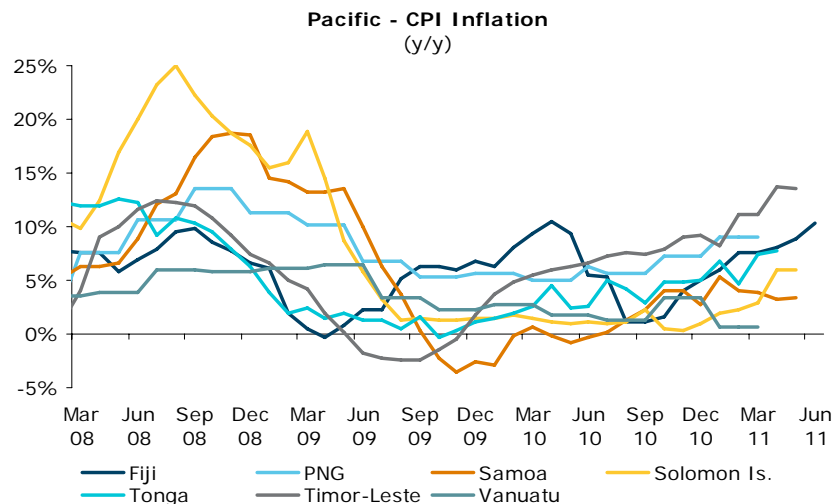
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HIGHLIGHTS

- Inflation increased in most of the Pacific countries we cover with double-digit readings for Fiji and Timor-Leste.
- Credit declined in Fiji, Tonga and Solomon Islands, was sluggish in Samoa and strong in Vanuatu, PNG, and Timor-Leste.
- Inflation concerns saw the Central Bank of Papua New Guinea hike their policy rate while other central banks in the Pacific kept rates on hold.
- Most Pacific currencies benefited against the majors in June as ongoing concerns in Europe weighed on the majors.

CHART OF THE MONTH

INFLATIONARY PRESSURES CONTINUE TO RISE IN THE PACIFIC



KEY DATA RELEASES AND COMMENTARY

Inflation continued trending up in most of the Pacific countries we cover. The average (unweighted) inflation reading rose to 7.2%, from 7.1% one-period earlier. The steepest increase was in Fiji. No new data have been released for PNG and Vanuatu since our last issue.

			LATEST	PREV
Fiji	CPI (y/y)	Jun-11	10.3%	8.8%
PNG	CPI (y/y)	Q1 2011*	9.0%	7.2%
Samoa	CPI (y/y)	May-11	3.4%	3.3%
Solomon Is	CPI (y/y)	May-11	6.0%	5.9%
Timor-Leste	CPI (y/y)	May-11	13.5%	13.7%
Tonga	CPI (y/y)	Apr-11	7.7%	7.5%
Vanuatu	CPI (y/y)	Q1 2011*	0.7%	3.4%

Trade continued to be mixed across the region. Exports in Samoa contracted 9.0% y/y in May from a 31% decline in April. Tonga's exports also fell, contracting 32% in April from a decline of 17.6% in March. Imports improved in Samoa and Tonga, growing 10.0% and 10.3%, respectively. No new data have been released in Fiji, Papua New Guinea, Timor-Leste and Vanuatu since our last issue.

			LATEST	PREV
Fiji	Exports (ytd, y/y)	Q4 2010*	13.3%	7.2%
Fiji	Imports (ytd, y/y)	Q4 2010*	4.1%	-6.3%
PNG	Exports (y/y)	Q4 2010*	13.7%	22.5%
PNG	Imports (y/y)	Q4 2010*	7.3%	23.8%
Samoa	Exports (y/y)	May-11	-9.0%	-31.0%
Samoa	Imports (y/y)	May-11	10.0%	-3.0%
Timor-Leste	Exports (y/y)	Dec-10*	-15.1%	146.4%
Timor-Leste	Imports (y/y)	Dec-10*	23.6%	12.7%
Tonga	Exports (y/y)	Apr-11	-32.0%	-17.6%
Tonga	Imports (y/y)	Apr-11	10.3%	8.6%
Vanuatu	Exports (y/y)	Mar-11*	144.3%	38.4%
Vanuatu	Imports (y/y)	Mar-11*	-0.7%	45.0%

Tourism growth and remittances were mixed in the region. Tourist arrivals in Vanuatu increased 12.1% y/y in April from an 18% y/y contraction in March, conversely arrivals in Samoa contracted 6.0% in May from growth of 9.0% in April. Tourist receipts in Tonga grew by 19.6% in April, but declined in Samoa by 3.0% in May. However, remittances in Samoa rose 14.0% y/y in May.

			LATEST	PREV
Fiji	Tourist Arrivals (y/y)	Feb-11	9.5%	8.3%
Samoa	Tourist Arrivals (y/y)	May-11	-6.0%	9.0%
Samoa	Tourist Receipts (y/y)	May-11	-3.0%	13.0%
Samoa	Remittances (y/y)	May-11	14.0%	23.0%
Tonga	Tourist Receipts (y/y)	Apr-11	19.6%	20.0%
Tonga	Remittances (y/y)	Apr-11	-0.1%	0.9%
Vanuatu	Tourist Arrivals (y/y)	Apr-11	12.1%	-18.0%

* Indicates no new data have been released since the last issue.

KEY DATA RELEASES AND COMMENTARY

Money supply growth was positive in the region, bar Vanuatu, while credit growth had mixed results. Money supply growth was strong in Timor-Leste. Papua New Guinea and Timor-Leste experienced double-digit growth in credit, while Samoa's was sluggish and Fiji's and Tonga's declined. No new data have been released for the Solomon Islands and Vanuatu since our last issue.

			LATEST	PREV
Fiji	M2 - Money Supply (y/y)	Apr-11	4.9%	4.4%
Fiji	Domestic Credit	Apr-11	-2.8%	-1.8%
PNG	Private Sector Credit (y/y)	Feb-11	15.2%	17.9%
PNG	M3 - Money Supply (y/y)	Feb-11	5.8%	9.4%
Samoa	M2 - Money Supply (y/y)	May-11	1.3%	3.4%
Samoa	Private & Public Sector Credit (y/y)	May-11	5.0%	4.6%
Solomon Is	Private Sector Credit, y/y	May-11*	-9.1%	-14.7%
Solomon Is	M3 - Money Supply (y/y)	May-11*	17.7%	17.2%
Timor-Leste	M3 - Money Supply (y/y)	May-11	29.3%	9.7%
Timor-Leste	Private Sector Credit (y/y)	May-11	17.1%	18.0%
Tonga	Private Sector Credit (y/y)	Mar-11	-7.1%	-9.4%
Tonga	M3 - Money Supply (y/y)	Apr-11	5.1%	1.4%
Vanuatu	Private Sector Credit (y/y)	Feb-11*	10.6%	11.8%
Vanuatu	M2 - Money Supply (y/y)	Feb-11*	-5.0%	-4.8%

Foreign reserves grew in all but one country in the region. Reserves in Papua New Guinea grew to US\$3,697m in Q2 from US\$3,190m in Q1 on high commodity prices and related inflows from the LNG project. Official foreign aid into Tonga supported their reserves. In Timor-Leste, foreign reserves experienced a 10% decline.

			LATEST	PREV
Fiji	Foreign Reserves (F\$m)	Jun-11	1,513	1,470
PNG	Foreign Reserves (US\$m)	Q2 2011	3,697	3,190
Samoa	Foreign Reserves (WSTm)	May-11	379	384
Solomon Is	Foreign Reserves (US\$m)	May-11	319	306
Timor-Leste	Foreign Reserves (US\$m)	May-11	330	368
Tonga	Foreign Reserves (TOPm)	May-11	170	160
Vanuatu	Foreign Reserves (US\$m)	Feb-11	156	153

Policy rates were mostly kept on hold. The Bank of Papua New Guinea hiked its policy rate another 0.25ppt to 7.50% in July, its second consecutive rate hike. Fiji kept its rate on hold after a 0.50ppt cut in May. Rates in Samoa and Vanuatu were also steady.

			LATEST	PREV
Fiji	Overnight Policy Rate	Jul-11	1.50%	1.50%
PNG	Kina Facility Rate	Jul-11	7.50%	7.25%
Samoa	Official Interest Rate	May-11	0.18%	0.18%
Vanuatu	Rediscount Rate	Jul-11	6.00%	6.00%

PACIFIC NEWS

FIJI

- **Net VAT collections increased 30.1% y/y** in Q1 2011, due to rise in the VAT rate from 12.5% to 15.0%, and increased consumer spending driven by visitor arrivals.
- **The Reserve Bank of Fiji has approved** the Initial Public Offering (IPO) of Future Forest (Fiji) Ltd, the country's first private commercial teak plantation company, with 130,000 teak trees planted. The exposure period for the prospectus will end on 20 July 2011 and the offer period will open from 21 July to 19 August 2011.

PAPUA NEW GUINEA

- **Average level of bank deposits** for the fortnight ended March 2011 was K13.36bn, up 9.8% y/y.
- **Total liquid assets for the fortnight** ended March 2011 was K6.87bn, up 8.5% and represents a liquid asset ratio of 49.6%.
- **Asian Development Bank will provide aid worth US\$480m** over the next eight years to the civil aviation sector to upgrade infrastructure at the international airport.
- **The National Executive Council has approved a submission to establish a sovereign wealth fund (SWF)** and an amendment to the constitution to ensure the SWF is safeguarded and regulated. A bill will be tabled in August. The SWF was the preferred option of the government to manage government proceeds expected from the multi-billion LNG project as large foreign currency inflows materialize from project commencement in 2014.
- **Bank liquidity remained high in June due to strong foreign currency inflows** and high government spending. The central bank continued to issue short-term papers to manage liquidity. The 28-day bill rate declined by 0.28ppt to 2.85% in June, from 3.13% at the end of May. The bill rate dropped further to 2.82% as at 8 July 2011.

SAMOA

- **The average lending rate fell 10bps** to 9.97% in May. Commercial bank liquidity contracted 25.0% y/y in May, compared to 18.0% the previous month. However, on a month-on-month basis, liquidity expanded 1.4%.
- **The import price index rose 8.7% y/y** in Q1 for animal products, and gained 0.7% on vegetable products. Mineral products advanced the most, climbing 17.6%.
- **The Royal Australian Mint will produce new Samoan coins.** The Australian Mint is hoping this is the first of many contracts from neighbouring Pacific islands.

SOLOMON ISLANDS

- **The government's total debt stock** was at SBD1.29bn in May, down 3.3% m/m from the previous month due to declines in(?) external and domestic debt stocks, of 3.9% and 1.6%, respectively.
- **The IMF completed a second review of the country's economic performance** as part of the 18-month Standby Credit Facility (SCF). This resulted in the disbursement of about US\$4.98m, bringing total disbursement to about US\$14.95m. The US\$19.93m SCF was approved in June 2010 to support an economic reform program.

TIMOR-LESTE

- **Commercial bank loan interest rates were 12.76% in May**, against 12.75% in April. Demand deposits were at 0.545%, and the savings rate remained unchanged at 0.752%.
- **East Timor's Petroleum Fund will reduce holdings of US treasuries**, after revisions to the Petroleum Fund Law were recently approved by East Timor's Council of Ministers. However, the law still needs to be approved by the National Parliament. Currently, about 90% of the \$7.7bn fund is invested in US treasuries with 10% in other assets. Under the new law, 50% of the oil money will be invested in a range of assets, currencies and regions. There are also talks of reducing the required credit rating for investment from the current AA+.

TONGA

- **The weighted average lending rate and deposit rate** remained flat in April at 11.41% and 3.94%, respectively
- **Tonga passed the 2011 budget (\$98m) at the end of June.** The government hopes that foreign aid donors will provide up to \$20m to the overall financing requirement, Radio New Zealand reported.
- **Parliament was officially opened in early June** after the country held its first democratic elections last November.

VANUATU

- **Vanuatu has one of the fastest growing Pacific populations**, according to the Secretariat of Pacific Community. They also estimated the total population of the Pacific at 10 million people.
- **Vanuatu strengthened regional trade ties with Solomon Islands in late June**, signing a deal to send its first ever shipment of cattle to Solomon Islands in September. This deal materialized from the recent trip undertaken by the Solomon Island's Minister of Agriculture, to Vanuatu, where the delegation held discussions on agriculture and fisheries.

FX FORECASTS

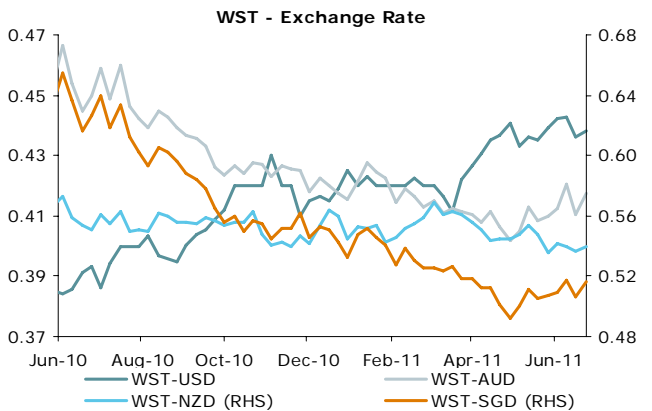
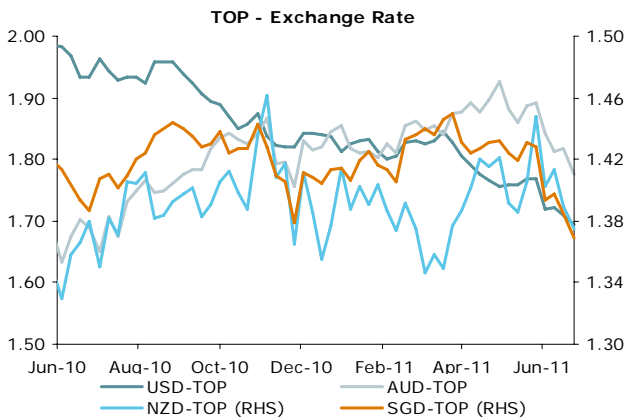
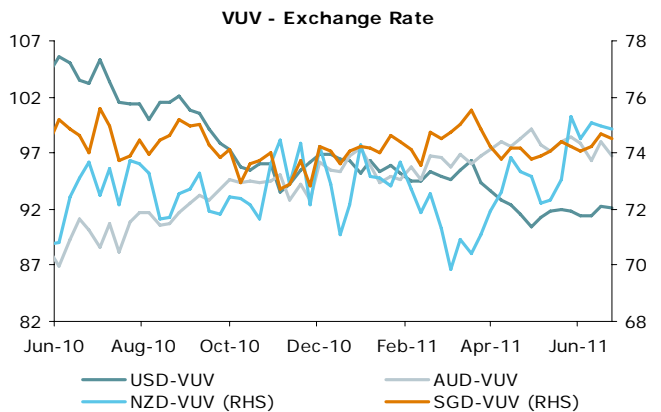
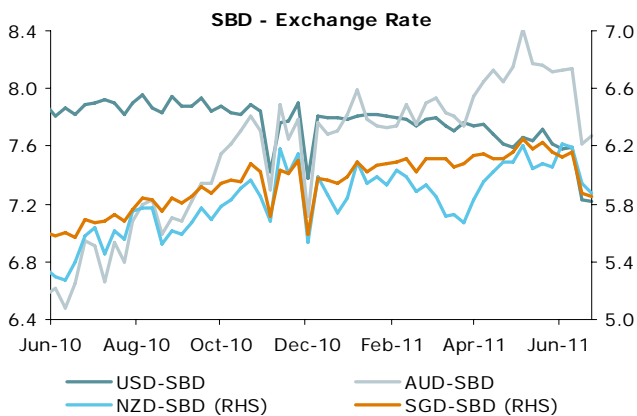
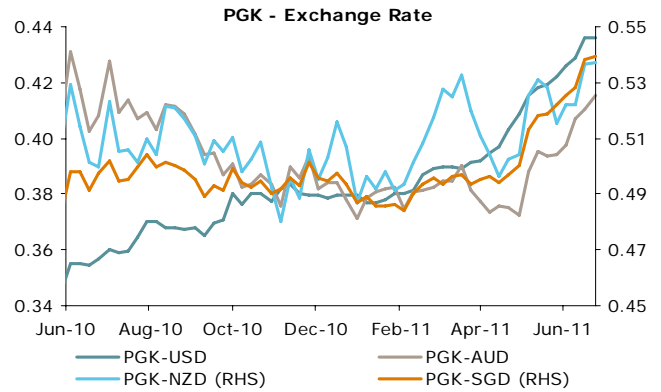
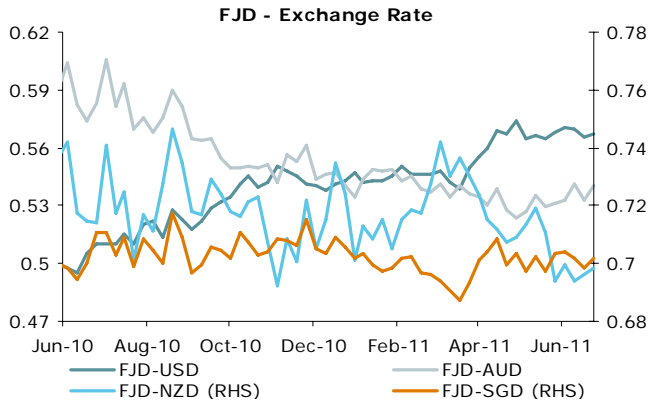
FX FORECASTS

		CURRENT	AUG-11	SEP-11	OCT-11	NOV-11	DEC-11	JAN-12
FIJI	FJDUSD	0.569	0.560	0.560	0.555	0.551	0.546	0.544
	FJDAUD	0.529	0.520	0.519	0.514	0.510	0.506	0.507
PAPUA NEW GUINEA	PGKUSD	0.437	0.433	0.433	0.436	0.438	0.434	0.433
	PGKAUD	0.407	0.402	0.401	0.404	0.406	0.402	0.403
SAMOA	WSTUSD	0.444	0.439	0.440	0.436	0.432	0.428	0.426
	WSTAUD	0.413	0.408	0.407	0.404	0.400	0.396	0.397
SOLOMON ISLANDS	USDSBD	7.424	7.573	7.573	7.573	7.573	7.573	7.573
	AUDSBD	7.979	8.159	8.179	8.179	8.179	8.179	8.128
TONGA	USDTOP	1.664	1.761	1.766	1.746	1.725	1.704	1.694
	AUDTOP	1.788	1.897	1.907	1.886	1.863	1.840	1.818
VANUATU	USDVUV	90.78	91.39	90.95	91.84	92.76	93.69	94.16
	AUDVUV	97.57	98.46	98.23	99.19	100.18	101.19	101.06

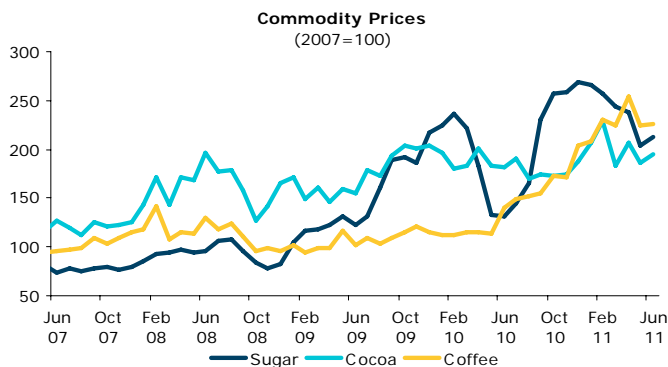
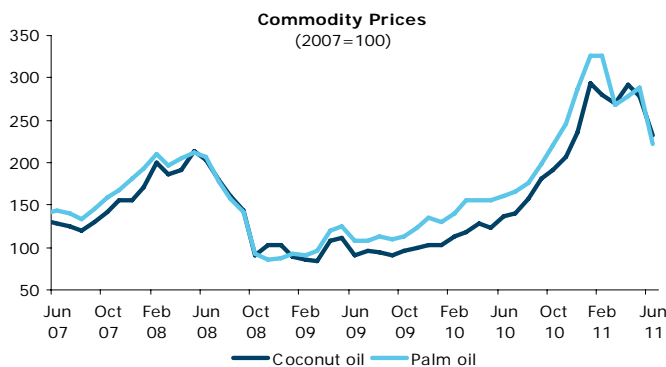
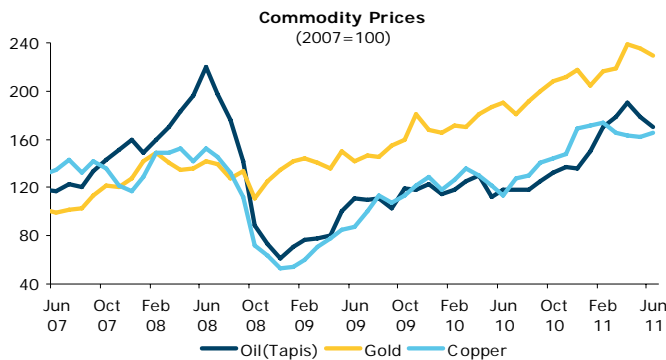
Note: The source of FX data is Bloomberg. As the currencies are illiquid with wide bid/offer spreads, the rate published is only indicative.

FX MARKET DEVELOPMENTS

Greek sovereign debt woes, the main focus of the currency market, weighed on the majors in June. Most of the six Pacific currencies we cover benefited against the majors. SBD and TOP gained 3.30% and 3.0%, respectively against USD in June; while PGK/USD increased 3.4%. The Pacific currencies also outperformed AUD and SGD, while mixed results were seen on NZD pairing.



COMMODITY MARKET DEVELOPMENTS



Commodity prices were fairly volatile in June and ended mixed. Oil prices finished the month lower largely due to the International Energy Agency (IEA) announcing the release of 60 million barrels of oil over the next two months. Gold received safe haven flows, but ended the month lower on a temporary Greek debt resolution. Palm and coconut oil dropped considerably, however other agricultural commodities recorded mild gains.

- Oil prices fell on supply and demand factors in June. Weak employment data from the US, overall global growth concerns, and China hiking the RRR weighed on demand. There were some mid-month technical rallies, however the IEA releasing 60mbbls of oil at the end of June saw Brent down 6.1% and WTI losing 4.6% in one day. Oil recovered mildly, but ended down 4.3% on the month.
- Gold traded fairly narrowly in June. Prices yo-yoed as problems and solutions on Greek debt woes dominated international headlines. Safe haven purchases were made through the month, and a large sell off occurred to cover losses on oil and equities after the IEA announcement.
- Agriculture commodity price action was highlighted by a sharp decline in palm and coconut oil prices. Rising output and high levels of inventories have depressed prices from their recent peaks. Removal of restriction by the Sri Lankan government on exports of coconut oil has also contributed to the easing. Elsewhere, agricultural commodities moderately gained from a sharp correction the previous month.
- Base metals were largely down through the month, but ended on a positive tone. Weak global PMI data, slower than expected US employment growth and European debt woes weighed on prices. The end of the month rally was led by stronger than expected US pending home sales and mild global optimism.

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COMMODITY PRICE CHANGES	OIL (TAPIS)	GOLD	COPPER	COC. OIL	PALM OIL	SUGAR	COFFEE	COCOA	RICE
M/M % (nsa)	-4.3%	-2.3%	2.3%	-16.8%	-23.1%	4.8%	0.4%	5.1%	5.1%
Q/Q % (nsa)	-4.4%	4.8%	0.0%	-14.1%	-17.1%	-12.4%	0.5%	6.7%	-4.9%
Y/Y %	43.8%	20.8%	45.2%	68.6%	38.5%	63.1%	60.1%	7.0%	8.6%

Source: Bloomberg

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