

ASIA PACIFIC RESEARCH PACIFIC MONTHLY

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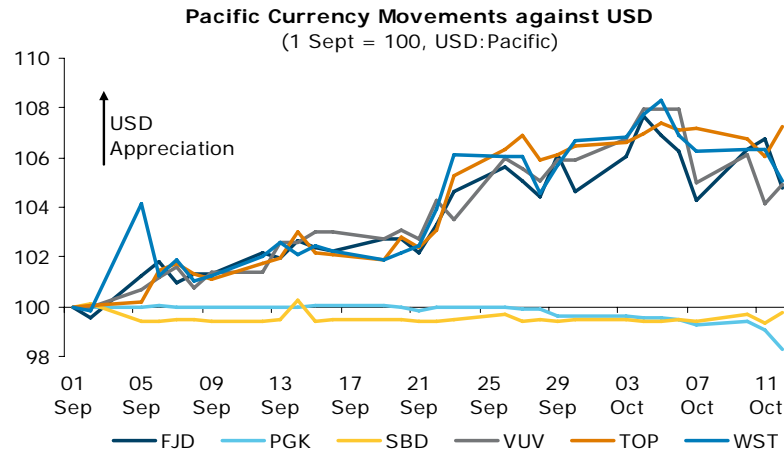
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HIGHLIGHTS

- **The Pacific remains reasonably well insulated from the ongoing financial market turbulence centred on the EU debt crisis.**
- **Inflation remains elevated** in most Pacific economies, with headline CPI for Fiji and Timor-Leste in double digits. Among central banks, Bank of Papua New Guinea chose to remain on hold at its meeting this month after a rate hike in July.
- **External indicators were mixed, but remain vulnerable.** Trade data exhibited a downward bias; while remittances and tourism data showed signs of weakness, despite being broadly positive.
- **Pacific currencies were broadly weaker against the USD in September**, although the peggers/heavily-managed regimes (PGK, SBD) bucked the trend. In contrast, the region's currencies strengthened against AUD. These trends are reversing this month.

CHART OF THE MONTH

SBD AND PGK HELD THEIR OWN AGAINST USD IN SEPTEMBER



Sources: Bloomberg, ANZ Research

PACIFIC NEWS

FIJI

- **Fiji-Shanghai direct flights are being put forward in China** in a move to bolster China-Pacific tourism, in addition to trade linkages. "We will be talking to see that we try to have direct flights", Pudong's deputy general director Jiang Huguang said.
- **Fiji will host a world surfing competition during 2012-2015.** US-based clothing manufacturer Volcom will sponsor the pro tournament to be held in the surfing sites around the island of Tavarua. The competition will boost the tourism industry and the local economy, tourism minister Aiyaz Sayed-Khaiyum said. Volcom will spend around \$6m over the next three years.
- **The Reserve Bank of Fiji has introduced a new one dollar coin.** The coin joins the 5, 10, 20 and 50 cent coins which were unveiled in February 2010. Vending machines will be gradually calibrated to accept the new ones.
- **Tonga will receive high speed internet** via Fiji and an undersea cable. Tonga, the ADB, and the World Bank signed a deal in September worth USD33.7m to fund the project. Fiji International Telecommunications Limited will install the cable. The project is expected to be completed by 2013, and the cable will span 827km in length.
- **New motor vehicle registration fell 4.7% y/y** in Q2 2011, against positive growth of 8.9% in Q1.

SOLOMON ISLANDS

- **Solomon Islands will receive US\$37.0m** of development aid from Papua New Guinea over the next five years. According to the government, the aid will be mostly spent on rural economic development, with the focus on establishing economic growth centres. The funding support was agreed upon during bilateral talks between the prime ministers of both nations.
- **The current account deficit in Q2 eased** to SBD128.2m from Q1's SBD424.7m. The capital account surplus rose to SBD101.4m (from Q1's SBD35.6m) while the financial account posted a surplus of SBD91.8m (versus a SBD146.0mn deficit in Q1).

PAPUA NEW GUINEA

- **The balance of payments surplus in Q2 narrowed** to PGK357.0m from PGK1412.0m in Q1. The current account posted a surplus of PGK847.0mn (versus Q1's PGK14566.0m deficit), while the financial account recorded a deficit of PGK569.0m (versus Q1's PGK15902.0m surplus).
- **The government recorded a fiscal deficit of PGK15.8m in Jan-Jul**, compared with a surplus of PGK207.4m in the same period a year ago.
- **The private sector employment index rose 7.1% y/y** in Q2 from a 5.3% gain in Q1. Employment growth was led by the retail, wholesale, transportation and agriculture sectors, while the LNG project also contributed.
- **World Bank: PNG could face a health crisis with its ageing workforce.** In its report, the bank said that it expects 50% of the health sector workforce to retire in less than ten years, with replacements hard to find due to declining budgets and resources.

SAMOA

- **Samoa played well during the Rugby World Cup, but failed to qualify for the knockout stage.** The team ended the pool stage 2-2, with wins over Fiji and Namibia.
- **China Southern Airline could set up a connection to Samoa.** Samoa's Deputy Prime Minister held talks in Guangzhou Province with the airline's Vice President with the aim of boosting tourism to the Island nation.
- **Samoa's accession to the World Trade Organization (WTO) is in the final stages**, the assistant CEO of the Ministry of Foreign Affairs and Trade commented in September. He expects the WTO to endorse Samoa in December.
- **Samoa Shipping Corporation will be providing a cargo vessel to service the northern Cook Island community.** This service will begin in November, with visits to each of the northern group islands every six to eight weeks.
- **Samoa's USD58m hotel project is making progress.** PNG's Lamana Development Group, which plans to build the hotel on Taumeasina Island, has submitted the required documents and has undergone background checks by a local assessment committee.

TONGA

- **Tonga played well during the Rugby World Cup, but failed to qualify for the knockout stage.** The highlight was the team's win over France in a close 19-14 battle. The country ended the tournament 2-2 and lifted their world ranking to an all-time high of 10th.

PACIFIC NEWS

TIMOR-LESTE

- **Commercial banks' interest rates for loans increased** by 3bps to 10.95% in August, while demand and savings deposits remained unchanged at 0.57% and 0.75%, respectively.
- **Prime Minister Xanana Gusmao visited Vanuatu** in mid-September as part of the country's efforts to strengthen relations in the Pacific. During the official visit, a donation of USD500,000 was made to the Melanesian Spearhead Group secretariat by Timor-Leste.

VANUATU

- **Vanuatu will host the Pacific Mini Games in 2017**, beating Nauru and the Commonwealth of the Northern Marianas for the bid, the Pacific Games Council announced in September.
- **Vanuatu Department of Lands (DOL) is now owed more than USD6.4m** from about half of the 10,000 registered land leases. This has climbed from USD5.3m only three months ago. The majority of these leases are in the country's urban centre, 5300 in Port Vila, with 2744 with outstanding payments: over 85% of these payments in arrears are valued at under USD1100.

PACIFIC REGION

- **UNICEF released the 2011 report on child mortality.** Vast improvements have been made across the Pacific over the past 20 years, with the highlight being Vanuatu's 5.1% annual reduction in deaths to achieve the lowest level in the region.

UNICEF: Under-five Mortality Rate Improvements (deaths per 1000 live births)

	1990	2010	Ave. Annual Reduction (%)
Vanuatu	39	14	5.1
Tonga	25	16	2.2
Fiji	30	17	2.8
Samoa	27	20	1.5
Solomon	45	27	2.6
Timor Leste	169	55	5.6
PNG	90	61	1.9

- **Pacific forum leaders declare a 'Non-Communicable Disease' (NCD) crisis in the Pacific.** These are also referred to as "lifestyle" diseases such as obesity, diabetes, or heart failure. The World Health Organisation reported that three out of every four deaths in the region are attributed to NCDs, one of the highest rates in the world. The leaders acknowledged this is placing burdens on the health systems and drains economic potential in the region.
- **Australia has extended its Seasonal Worker Pilot Scheme to another four Pacific Island nations.** Workers from Nauru, Samoa, Solomon Islands, and Tuvalu will join those from PNG, Kiribati, Tonga and Vanuatu to work on farms in need of seasonal labour.

KEY DATA RELEASES AND COMMENTARY

Inflation across the region remains elevated, barring Vanuatu. Among the new data releases, Samoa's August inflation rose to 5.1% y/y (from July's 4.8%) on account of higher clothing and footwear prices. Tonga's CPI also rose by 6.9% (vs. 6.6% previously) due to higher transportation costs. Timor's August inflation, meanwhile, was unchanged from the previous month, remaining elevated at 13.1%.

			LATEST	PREV
Fiji	CPI (y/y)	Aug-11	10.4%	10.1%
PNG	CPI (y/y)	Q2 2011	9.6%	9.0%
Samoa	CPI (y/y)	Aug-11	5.1%	4.8%
Solomon Is	CPI (y/y)	Jul-11	7.9%	7.3%
Timor-Leste	CPI (y/y)	Aug-11	13.1%	13.1%
Tonga	CPI (y/y)	Aug-11	6.9%	6.6%
Vanuatu	CPI (y/y)	Q2 2011	0.6%	0.7%

Trade flows were mixed, though with a downward bias. Fiji's May export growth inched up by 0.4ppt to 2.5% (ytd, y/y), while imports contracted further by 6.6%, from April's 5.0% drop. Samoa's exports also contracted in July, down 11.4% y/y as poor exports of nonu juices and taro more than offset the growth in beer exports. Imports, on the other hand, rose 27.3% following a contraction of 12.8% in June. Meanwhile in Timor-Leste, base effects led to a large gain in August exports and imports, which gained 60.4% and 237.5%, respectively.

			LATEST	PREV
Fiji	Exports (ytd, y/y)	May-11	2.5%	2.1%
Fiji	Imports (ytd, y/y)	May-11	-6.6%	-5.0%
PNG	Exports (y/y)	Q1 2011	18.3%	20.1%
PNG	Imports (y/y)	Q1 2011	3.3%	18.0%
Samoa	Exports (y/y)	Jul-11	-11.4%	-17.4%
Samoa	Imports (y/y)	Jul-11	27.3%	-12.8%
Timor-Leste	Exports (y/y)	Aug-11	60.4%	-28.1%
Timor-Leste	Imports (y/y)	Aug-11	237.5%	32.6%
Tonga	Exports (y/y)	Jul-11	-4.5%	-1.4%
Tonga	Imports (y/y)	Jul-11	9.7%	11.9%
Vanuatu	Exports (y/y)	Jul-11	-7.5%	-1.3%
Vanuatu	Imports (y/y)	Jul-11	-11.3%	1.3%

Tourism and remittance growth was broadly in positive territory, but showed signs of weakness. Among new data releases, Samoa's August tourist arrivals disappointed, rising by a mere 0.5% y/y after July's strong 13.3% gain. The July gain is reflected in tourist earnings for the same month which rose by 14.0%. Remittances to Samoa in July were soft, growing by 3.0% versus June's 23.0%.

			LATEST	PREV
Fiji	Tourist Arrivals (y/y)	Jun-11	5.6%	15.5%
Samoa	Tourist Arrivals (y/y)	Aug-11	0.5%	13.3%
Samoa	Tourist Receipts (y/y)	Jul-11	14.0%	-2.0%
Samoa	Remittances (y/y)	Jul-11	3.0%	23.0%
Tonga	Tourist Receipts (y/y)	Jul-11	18.9%	21.4%
Tonga	Remittances (y/y)	Jul-11	-5.9%	-7.0%
Vanuatu	Tourist Arrivals (y/y)	Jul-11	1.3%	3.5%

Data in bold indicates new releases since the last issue

KEY DATA RELEASES AND COMMENTARY

Credit growth remains robust, with the exception of Fiji, Solomon Islands and Tonga. Fiji's domestic credit improved slightly, contracting 1.3% y/y from June's 2.4% drop. Loans to government and official entities were behind the decline. Solomon Islands' September credit to the private sector fared similarly, contracting by 3.8% (versus -6.4% previously). Meanwhile, regional credit growth was strong: Private sector credit rose 9.7% y/y (August) in PNG, 20.9% (August) in Timor-Leste and 7.8% (July) in Vanuatu. Measures of broad money growth remained solid throughout the region.

			LATEST	PREV
Fiji	M2 - Money Supply (y/y)	Jul-11	34.4%	26.4%
Fiji	Domestic Credit	Jul-11	-1.3%	-2.4%
PNG	Private Sector Credit (y/y)	Aug-11	9.7%	13.1%
PNG	M3 - Money Supply (y/y)	Aug-11	10.6%	7.7%
Samoa	M2 - Money Supply (y/y)	Jun-11	-0.8%	1.1%
Samoa	Private & Public Sector Credit (y/y)	Jun-11	6.0%	4.9%
Solomon Is	Private Sector Credit, y/y	Sep-11	-3.8%	-6.4%
Solomon Is	M3 - Money Supply (y/y)	Sep-11	19.6%	18.9%
Timor-Leste	M3 - Money Supply (y/y)	Aug-11	14.7%	18.6%
Timor-Leste	Private Sector Credit (y/y)	Aug-11	20.9%	20.6%
Tonga	Private Sector Credit (y/y)	Jul-11	-7.4%	-7.6%
Tonga	M3 - Money Supply (y/y)	Jul-11	6.4%	3.9%
Vanuatu	Private Sector Credit (y/y)	Jul-11	7.8%	8.1%
Vanuatu	M2 - Money Supply (y/y)	Jul-11	0.5%	-0.4%

Foreign reserve data were a slightly mixed. PNG's reserves rose by US\$119m to US\$3.8bn in Q3, while Solomon Islands' September reserves were unchanged from August at US\$366m. On the other hand, Tonga's September reserves fell by TOP4mn to TOP208mn.

			LATEST	PREV
Fiji	Foreign Reserves (F\$m)	Aug-11	1,629	1,574
PNG	Foreign Reserves (US\$m)	Q3 2011	3,816	3,697
Samoa	Foreign Reserves (WSTm)	Jun-11	357	379
Solomon Is	Foreign Reserves (US\$m)	Sep-11	366	366
Timor-Leste	Foreign Reserves (US\$m)	Aug-11	206	123
Tonga	Foreign Reserves (TOPm)	Sep-11	208	212
Vanuatu	Foreign Reserves (US\$m)	Jun-11	175	174

Papua New Guinea's central bank left its policy rate unchanged at 7.75% at its end-September meeting.

			LATEST	PREV
Fiji	Overnight Policy Rate	Sep-11	1.50%	1.50%
PNG	Kina Facility Rate	Sep-11	7.75%	7.75%
Samoa	Official Interest Rate	Jun-11	0.15%	0.18%
Vanuatu	Rediscount Rate	Jul-11	6.00%	6.00%

Data in bold indicates new releases since the last issue

FX FORECASTS

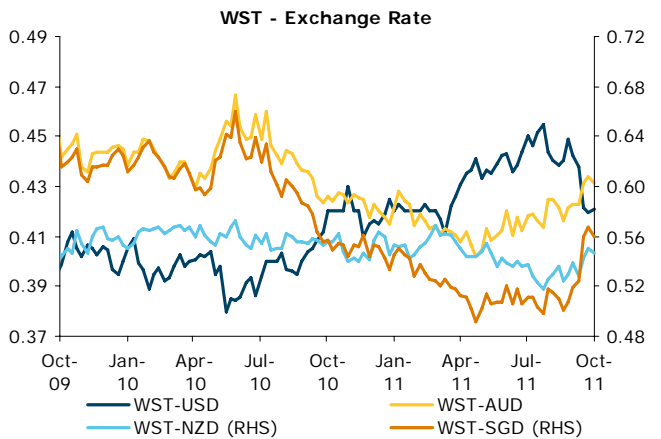
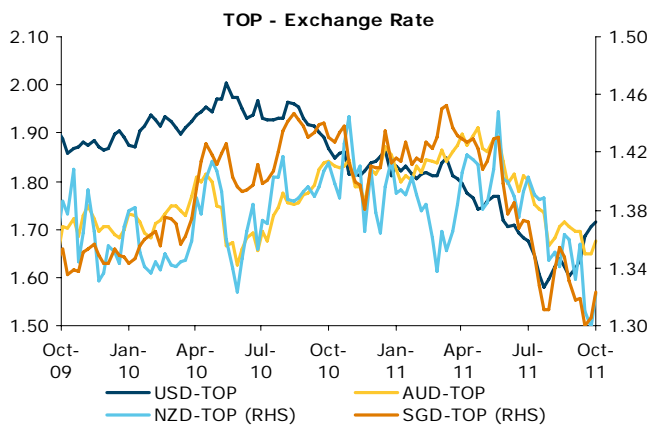
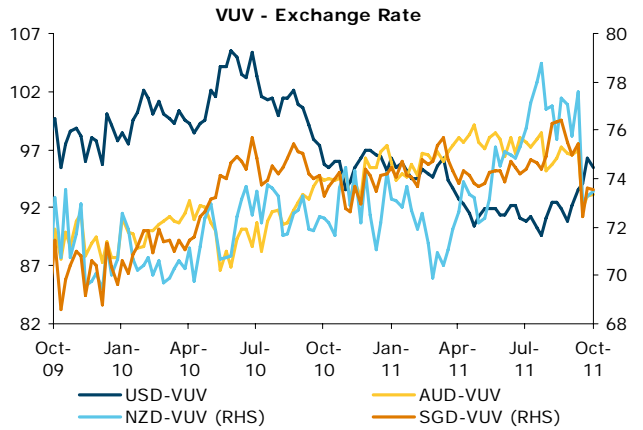
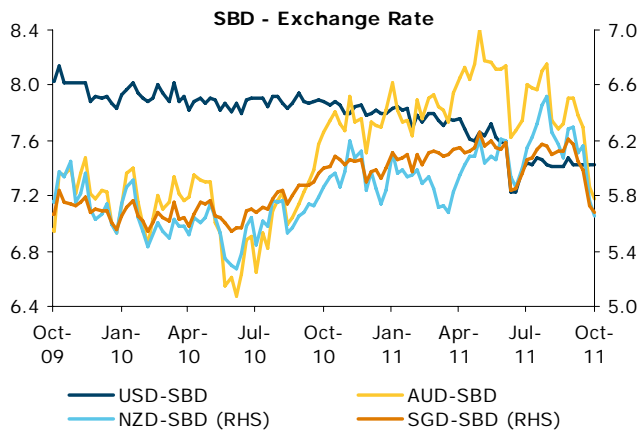
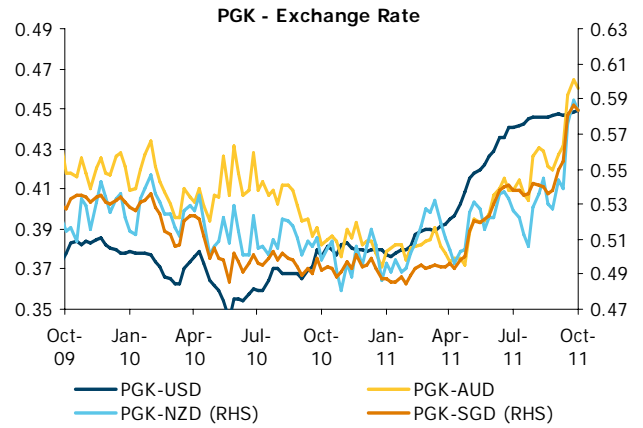
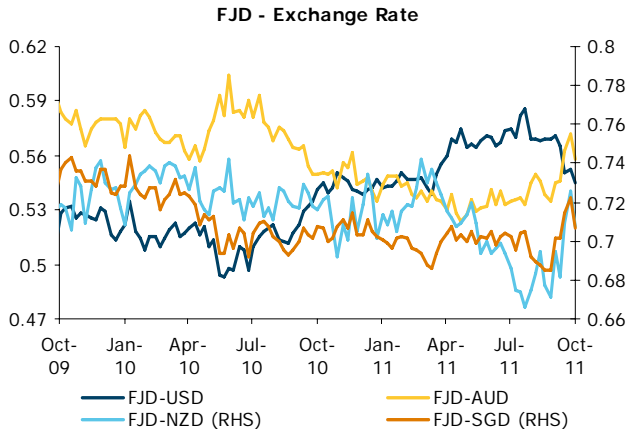
FX FORECASTS

		NOV-11	DEC-11	JAN-12	FEB-12	MAR-12	APR-12	MAY-12
FIJI	FJDUSD	0.558	0.562	0.566	0.566	0.566	0.569	0.569
	FJDAUD	0.545	0.556	0.583	0.577	0.571	0.569	0.560
PAPUA NEW GUINEA	PGKUSD	0.457	0.461	0.465	0.465	0.469	0.469	0.469
	PGKAUD	0.446	0.456	0.479	0.474	0.474	0.469	0.461
SAMOA	WSTUSD	0.430	0.434	0.437	0.440	0.443	0.447	0.450
	WSTAUD	0.420	0.429	0.450	0.449	0.448	0.447	0.443
SOLOMON ISLANDS	USDSBD	7.428	7.415	7.415	7.402	7.402	7.402	7.402
	AUDSBD	7.613	7.489	7.192	7.254	7.328	7.402	7.525
TONGA	USDTOP	1.702	1.703	1.705	1.706	1.707	1.709	1.710
	AUDTOP	1.744	1.720	1.653	1.672	1.690	1.709	1.739
VANUATU	USDVUV	94.25	93.88	93.50	93.13	92.75	92.38	92.00
	AUDVUV	96.61	94.81	90.70	91.26	91.82	92.38	93.53

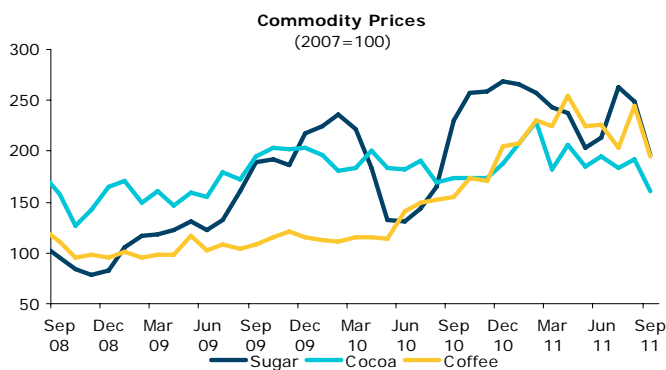
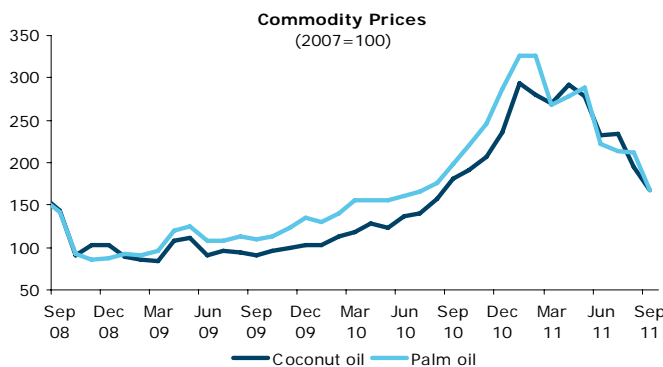
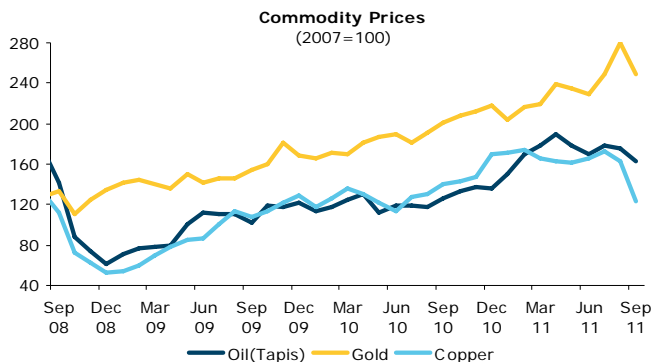
Note: The source of FX data is Bloomberg. As the currencies are illiquid with wide bid/offer spreads, the rate published is only indicative.

FX MARKET DEVELOPMENTS

Greenback strength was the dominant theme in global FX markets over the last month. Pacific currencies generally traded weaker against the USD, with the TOP (-6.0%), WST (-4.8%) and FJD (-4.6%) the worst performers. However, the peggers/highly managed currencies (SBD and PGK) bucked the trend, strengthening against the USD. This group also recorded large gains against AUD and NZD (around 7-10%), as the commodity bloc suffered in the 'risk-off' environment. Most Pacific currencies were also strong against the SGD, which traded weaker during the month despite being Asia's safe haven.



COMMODITY MARKET DEVELOPMENTS



Commodity prices experienced a sharp selloff in volatile trading in September as the European debt crisis fuelled global growth concerns. Copper led declines, falling -24.4% m/m, while agricultural commodities, bar rice, fell an average of -18.7%. Oil's move down was less pronounced at -7.7%, but was the largest one-month decline since May 2010. Even gold came off from recent peaks, as end of quarter profits were taken to offset losses and margin calls.

- Oil prices ended the month down on choppy trading. Multiple events led to the 'risk-off' movement. Weak labour data and confidence numbers from the US; the banking crisis and soft manufacturing data from Europe; and a sub-50 flash PMI in China fuelled fears of a sharp global growth slowdown, tempering demand for oil. Disappointment over US Fed Chairman Bernanke's speech and pessimistic assessment of US growth did not help global sentiment; the 'twist' by the Fed also sparked a large selloff. Positive price action was based on optimistic headlines regarding European debt and coordinated efforts by central banks to prop up liquidity.
- Gold prices lost 11.1% in September, after gaining a total of 20.7% in July and August. Spooked investors saw USD and treasuries as a more popular safe haven as global sentiment deteriorated and the CHF was pegged to the Euro. Increased margin requirements led to further liquidation. Also, there was speculation that gold was sold at the end of Q3 to cover losses, as it was one of the few profitable assets during the quarter.
- Agricultural prices were down double digits, bar rice. Sugar led the decline, while palm oil and coffee were not far behind. Strong palm crop yields in Malaysia and Indonesia were adding supply side deflation to prices on top of commodity risk off selling. Rice was the sole gainer, as Thailand has announced higher government procurement prices, and floods now threaten key harvesting time in Q4.
- Copper prices saw a large sell-off as growth concerns hit the market hard. Near the end of the month there was a 7.5% down move in a single day. Strikes at mines across the globe were not enough to reverse declines, but added to volatility. Copper and tin had their margin requirements increased to reflect this development.

Daniel Wilson

COMMODITY PRICE CHANGES	OIL (TAPIS)	GOLD	COPPER	COC. OIL	PALM OIL	SUGAR	COFFEE	COCOA	RICE
M/M % (nsa)	-7.1%	-11.1%	-24.4%	-14.6%	-20.5%	-21.4%	-20.6%	-16.2%	5.2%
Q/Q % (nsa)	-4.2%	8.2%	-25.7%	-27.9%	-24.5%	-8.2%	-13.8%	-17.2%	17.7%
Y/Y %	30.0%	24.1%	-12.6%	-7.9%	-15.5%	-14.9%	25.0%	-7.3%	22.7%

Source: Bloomberg

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