

ASIA PACIFIC RESEARCH PACIFIC MONTHLY

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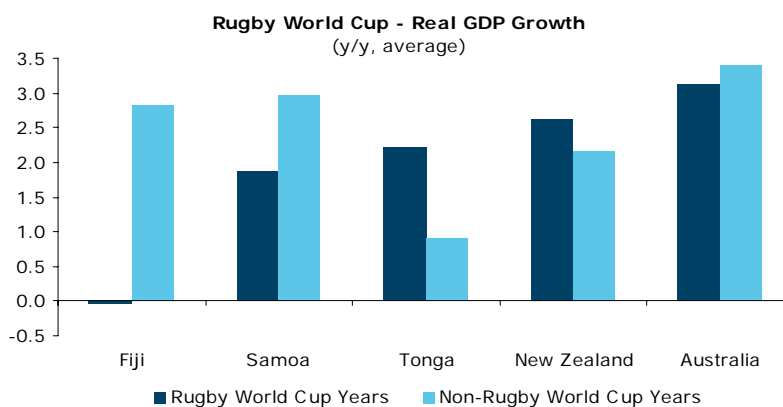
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HIGHLIGHTS

- Our Special Edition Feature Note explores the links between Rugby World Cup participation and GDP growth in the Pacific. Some countries should be careful what they wish for!
- Inflation is still high and rising in most Pacific countries we cover. On the monetary policy front, Papua New Guinea hiked interest rates, whilst central banks in Fiji and Vanuatu opted to stay on hold.
- Export performance deteriorated. Fiji and Papua New Guinea recorded positive, but lower, growth whilst shipments contracted elsewhere.
- Tourism continued to record positive growth in Fiji, whilst Vanuatu's rebounded. Samoa's tourism growth remained sluggish but its remittance growth almost doubled.
- All Pacific currencies gained against AUD in August; however, some gains were reversed in early September.

CHART OF THE MONTH

PACIFIC GDP AND THE RUGBY EFFECT



Sources: IMF, International Rugby Board, ANZ Research

RUGBY WORLD CUP – PACIFIC GROWTH EFFECTS

In this special edition mini-feature note we look at the growth effects of the Rugby World Cup on Pacific economies. Undeterred by a lack of statistical robustness in the data, we report our findings that whilst Tonga has seen a boost to growth in its Rugby World Cup appearances (as did New Zealand), this has been negative for Fiji and Samoa.

With World Cup euphoria at fever-pitch levels, ANZ Research examined any macroeconomic effects of the Big Event. To that end, we have looked at annual GDP growth rates for the Pacific World Cup participants, Australia and New Zealand since the World Rugby Cup tournament began in 1987. At issue: Does an appearance help or hinder growth?

Mixing in some bad sociology and psychology with economics, what might these growth effects be? We postulate the following:

- **Positive effects.** The 'feel good factor' dominates, with national pride translating into an increase in spending: a new, large flat screen television; refreshments at home or at the pub watching the game; etc. (The host nation would likely see a separate boost akin to the Olympics.)
- **Negative effects.** The 'time stands still during the tournament factor' dominates, with a near single-minded focus on the event leading to lower productivity and lower output, which outweigh the feel good benefits above.

So how did we come out? As our Chart of the Month on page 1 shows, the effects vary across the region. The news is good for Tonga, which saw growth rise by 1.3ppts on average during its Cup appearances relative to its trend growth. New Zealand's growth also rose by ½ppt on average. However, growth disappeared altogether during Rugby World Cup years for Fiji, whilst Samoa saw growth drop on average by 1.1ppts. The Rugby World Cup effect was marginally negative for Australia.

How robust are our findings? Well, not very. To be more precise, none of our 'dummy variables' for the Rugby World Cup years were significant in our statistical model, meaning that the power of the event to explain growth outcomes was relatively weak. The only possible exception was Fiji, where the Rugby World Cup dummy variable was only marginally insignificant in years where they advanced beyond the pool stage (be careful what you wish for!).

Bottom line? Enjoy the chart (and the tournament) but don't necessarily revise your growth numbers!

Rugby World Cup Appearances - Position Finished							
	1987	1991	1995	1999	2003	2007	2011
Samoa	-	Quarters	Quarters	Pool Stage	Pool Stage	Pool Stage	?
Tonga	Pool Stage	-	Pool Stage	Pool Stage	Pool Stage	Pool Stage	?
Fiji	Quarters	Pool Stage	-	Pool Stage	Pool Stage	Quarters	?
New Zealand	Champion*	Third	Second	Semi-finals	Third	Quarters	?
Australia	Fourth*	Champion	Quarters	Champion	Second*	Quarters	?

* hosted the tournament

Paul Gruenwald, Dan Wilson, Vince Conti

KEY DATA RELEASES AND COMMENTARY

Inflation remains high and rising in most of the Pacific countries we cover, but declined in Tonga and Vanuatu. Both Timor-Leste's and Fiji's inflation readings remained above 10%. Papua New Guinea's approached double-digits driven by food and fuel prices combined with strong domestic demand, while the Solomon Islands' and Tonga's tracked above 6.5%. Inflation in Samoa moved closer to 5.0% in July and was led by food and non-alcoholic beverages prices. Vanuatu alone continued to enjoy low inflation.

			LATEST	PREV
Fiji	CPI (y/y)	Aug-11	10.5%	10.1%
PNG	CPI (y/y)	Q2 2011	9.6%	9.0%
Samoa	CPI (y/y)	Jul-11	4.8%	2.9%
Solomon Is	CPI (y/y)	Jul-11	7.9%	7.3%
Timor-Leste	CPI (y/y)	Jun-11	13.7%	13.5%
Tonga	CPI (y/y)	Jul-11	6.6%	7.9%
Vanuatu	CPI (y/y)	Q2 2011	0.6%	0.7%

Papua New Guinea hiked its policy interest rate; Fiji and Vanuatu held their rates steady. Inflation concerns saw PNG authorities hike interest rates to 7.75% in September, up 0.75ppt so far this year, while Fiji and Vanuatu held their rates at 1.50% and 6.00%, respectively. Samoa's rates fell slightly to 0.15% in June from 0.18%, previously.

			LATEST	PREV
Fiji	Overnight Policy Rate	Sep-11	1.50%	1.50%
PNG	Kina Facility Rate	Sep-11	7.75%	7.50%
Samoa	Official Interest Rate	Jun-11	0.15%	0.18%
Vanuatu	Rediscount Rate	Jul-11	6.00%	6.00%

Trade flows generally deteriorated in the region. Fiji and Papua New Guinea recorded export growth of 6.2% y/y and 18.3% in Q1 2011, respectively, both lower than the previous period. Exports in the remaining economies contracted. Exports in Samoa declined 18% in June due to lower shipments of miscellaneous items and nonu fruit. Timor-Leste's exports declined 60% due to base effects. Import growth in Papua New Guinea and Tonga were positive at 3.3% in Q1 2011 and 9.7% in July 2011, respectively. A fall in non-petroleum imports saw total imports in Samoa decline 13.0% in June, while Vanuatu's imports declined 11.3% led by machinery and transport equipment.

			LATEST	PREV
Fiji	Exports (ytd, y/y)	Q1 2011	6.2%	23.6%
Fiji	Imports (ytd, y/y)	Q1 2011	-1.0%	32.7%
PNG	Exports (y/y)	Q1 2011	18.3%	20.1%
PNG	Imports (y/y)	Q1 2011	3.3%	18.0%
Samoa	Exports (y/y)	Jun-11	-18.0%	-9.0%
Samoa	Imports (y/y)	Jun-11	-13.0%	10.0%
Timor-Leste	Exports (y/y)	Jun-11	-60.0%	0.0%
Timor-Leste	Imports (y/y)	Jun-11	24.9%	-94.9%
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%

KEY DATA RELEASES AND COMMENTARY

Tourism and remittances recorded mixed results. Australia, New Zealand and the US continued to be the main source of overall tourist arrivals in Fiji, though arrivals gained only 5.6% y/y in June compared with a 15.5% rise in May, while Vanuatu's rebounded to 3.5% in June from a 6.2% contraction in the previous month. Samoa's tourist arrivals continued to contract, falling 4.0% in June from a 5.0% decline in the previous month. Remittances in Samoa expanded 23% in June compared with a 14.0% gain in May, while Tonga's continued fall, contacting 5.9% in July from a 7.0% decline, previously.

			LATEST	PREV
Fiji	Tourist Arrivals (y/y)	Jun-11	5.6%	15.5%
Samoa	Tourist Arrivals (y/y)	Jun-11	-4.0%	-5.0%
Samoa	Tourist Receipts (y/y)	Jun-11	-2.0%	-2.0%
Samoa	Remittances (y/y)	Jun-11	23.0%	14.0%
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)	Jun-11	3.5%	-6.2%

Credit growth remained sluggish across parts of the region and money supply growth was generally buoyant, bar Samoa and Vanuatu. Timor-Leste recorded the strongest credit growth of 20.6% y/y in July 2011; while Papua New Guinea's eased to 13.1% in May; and Vanuatu's eased further to 8.1% in June from 11.7%. Credit growth in Solomon Islands rebound to 3.1% in June from a 9.1% decline previously; Fiji declined 2.4% in June, an improvement the 3.6% decline in May. Money supply declined in Samoa and Vanuatu by 0.8% and 0.4%, respectively, but remained flat in the Solomon Islands. Money supply gained 26.4% in Fiji, followed by 18.6% in Timor-Leste, 7.7% in Papua New Guinea and 6.4% in Tonga.

			LATEST	PREV
Fiji	M2 - Money Supply (y/y)	Jun-11	26.4%	26.9%
Fiji	Domestic Credit	Jun-11	-2.4%	-3.6%
PNG	Private Sector Credit (y/y)	May-11	13.1%	14.0%
PNG	M3 - Money Supply (y/y)	May-11	7.7%	11.1%
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	Jun-11	3.1%	-9.1%
Solomon Is	M3 - Money Supply (y/y)	Jun-11	0.0%	17.7%
Timor-Leste	M3 - Money Supply (y/y)	Jul-11	18.6%	12.1%
Timor-Leste	Private Sector Credit (y/y)	Jul-11	20.6%	21.7%
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)	Jun-11	8.1%	11.7%
Vanuatu	M2 - Money Supply (y/y)	Jun-11	-0.4%	-3.4%

Foreign reserves remain ample in the region: Papua New Guinea's were significantly high. Foreign reserves in Fiji and Papua New Guinea increased to FJD1.6bn and USD3.7bn, respectively, while Timor-Leste was at USD123m in Jul 2011 from USD194m the previous print. Vanuatu's reserves held relatively steady.

			LATEST	PREV
Fiji	Foreign Reserves (F\$m)	Aug-11	1,629	1,574
PNG	Foreign Reserves (US\$m)	Q2 2011	3,697	3,190
Samoa	Foreign Reserves (WSTm)	Jun-11	357	379
Solomon Is	Foreign Reserves (US\$m)	Aug-11	366	363
Timor-Leste	Foreign Reserves (US\$m)	Jul-11	123	194
Tonga	Foreign Reserves (TOPm)	Jul	198	204
Vanuatu	Foreign Reserves (US\$m)	Jun-11	175	174

PACIFIC NEWS

FIJI

- **The sugar industry has received a boost of support.** Five chiefs in the Western Division have supported the revival of the industry through the renewal of land leases for caning. At this point, 74% of expired leases have been renewed. The sugar industry, which has been stagnant for more than a decade, contributes about 40% to the value of total agricultural production.
- **A Canadian investor delegation visited Fiji** to explore business opportunities in agriculture, tuna, mahogany, beach-de-mer (sea cucumber) and mineral water.
- **The average outstanding lending rate decreased** 2bps to 7.48% in June from May. Also in June, savings and time deposit rates declined 6bps and 26bps to 1.15% and 3.77%, respectively. The minimum lending rate remained unchanged at 2.0% compared with the previous month.
- **The Building Material Price Index declined** 1.9% y/y in Q2 2011 against a 2.5% growth in Q1 on lower prices of door and window frames (-4.1%) and electrical products (-2.9%) which more than offset a rise in the price of floor and wall tiles (13.9%).

PAPUA NEW GUINEA

- **A food security policy conference was held in early September to address high food costs.** The conference aimed to share information and knowledge, and develop policies, strategies and programs. Hosted by The National Research Institute, the conference attracted producers, manufacturers, farmers and consumers.
- **The LNG Project workforce grew by 30% in Q2 2011** to more than 9,000, according to a statement issued by ExxonMobil. The project has invested more than USD1.3bn in PNG to date. About 75% of the workforce was recruited through Landowner companies (Lancos) to work in catering, linen services, equipment hire, camp management, security and truck driving.
- **Average bank deposits have increased 10.3% y/y.** Deposits totalled PGK13,736.1m for the fortnight ended 3 June, up 0.3% from the previous fortnight.
- **Total liquid assets stood at PGK7,638.8m** for the fortnight ended 3 Jun, up 15.7% y/y, and represent a liquid asset ratio of 53.2% and cash reserve requirement of 4.0%. The cash reserve requirement was increased by 200bps to 6.0% between July and August.

SOLOMON ISLANDS

- **The interest rate on deposits of other depositary corporations advanced** to 3.81% in Q2 2011 from 2.42% in Q1. For loans and advances, the lending rate stood at 13.99% in Q2 2011, lower than the 14.28% rate in Q1. The interest rate margin decreased to 10.49% from 11.86% at March-end.
- **The government's outstanding debt fell for the second consecutive month**, albeit at a slower rate than in July, declining 0.6% (m/m) to \$1,232.2m. This result was due to a decrease in external and domestic debt stocks by 0.1% and 2.1%, respectively.

SAMOA

- **Commercial bank liquidity contracted in June**, declining 37.8% y/y against a 25.4% decline in May. On a m/m basis, liquidity dropped 19.3%.
- **The import price index rose** 24.6% y/y in Q1 for live animals and animal products; mineral products gained 32.6%; food and beverages advanced 4.4%. The only category to see a decline was vegetable products which contracted 2.6%.
- **The official weighted average interest rate declined** to 0.15% in June, from 0.18% the previous month. The average lending rate fell 5bps to 9.92%.
- **Japan has provided funding of \$108,000 to upgrade a Samoan hospital.**
- **A \$51.8m resort has been proposed for a vacant Samoan Island.** The four-to-five star resort includes plans for 100 rooms and over 100 luxury villa suites, according to the PNG developer, the Lamana Group. No official paper or contracts have been signed as yet.

TIMOR-LESTE

- **Timor-Leste's Petroleum Fund capital jumped** to \$8.3bn at the end of Q2, against \$7.7bn in Q1. Gross capital inflows during the quarter were \$754m, with \$304m in taxes and \$450m from royalty contributions from the National Petroleum Authority. The fund matched its benchmark return at 1.38% for the quarter.
- **Commercial banks' interest rates for loans increased** by 9bps to 10.83% in June, while demand and savings deposits remained unchanged at 0.57% and 0.75%, respectively.

PACIFIC NEWS

- **The Asian Development Bank has released a report on road conditions in Timor-Leste.** The report predicts that if road maintenance expenditure continues at the current pace (\$10m a year) there will be substantial deterioration of roads over the next 10 years with only 4-wheel drive vehicles able to operate safely. The report also suggests that a budget increase to \$300m for maintenance and building of roads over 2012-27 would generate about \$900m in benefits.
- **Timor-Leste officially disbanded the military wing of the pro-independence party.** This was a symbolic event as the country recently signed a memorandum of understanding with Indonesia to strengthen defence ties, including setting up a joint defence committee.

TONGA

- **Tonga has called for increased financial assistance from Australia.** The two country's respective Prime Ministers met for the first time in Australia, where it was reported that Tonga requested more aid, on top of the AUD31.1m budgeted through AusAID for 2011-12. Tonga's debt is now at around 30% of GDP, and the country runs a budget deficit. With the looming repayment of its Chinese loans, highlighted by the USD71m loan from China to repair damages caused by rioting in 2006, Tonga is keen to increase grant-based funding.
- **The Tongan economy is in its third year of economic doldrums,** according to an August report released by the Ministry of Information. The economy is expected to contract by 0.5% in the financial year 2010/11, after a 1.4% contraction in 2009/10, and 0.4% drop in 2008/09. The global financial crisis has resulted in lower inflows of remittances, fewer tourists, and weak export earnings, particularly of agricultural products. However, the government remains optimistic that it will be able to deliver core services during these difficult times.

VANUATU

- **Private motor vehicle registrations increased** by 17.3% y/y in Q2, against 1/1% in Q1.
- **The government posted a budget surplus** of VUV495.9m in Q1 2011, against a deficit of VUV1,530m the previous quarter. A 7.8% q/q jump in tax revenue brought the budget into surplus.
- **The country recorded a balance of payments surplus** of VUV187.0m in Q1. The current account deficit expanded to VUV2.3bn from VUV1.0bn; the capital account surplus increased to VUV882.0m from VUV165.0m; and the financial account surplus rose VUV0.6bn to VUV1.9bn
- **The National Provident Fund's Board of Directors has asserted its independence** against political interference as it aggressively pursues an 8% dividend target by the end of the current Board's term, up from the 4% quoted in 2006. The Fund is likely to have capital exceeding \$150m by year-end, which is almost equal to the country's national budget.

PACIFIC REGION

- **Vanuatu and PNG have agreed to commence trade talks.** Vanuatu's Ambassador to the European Union Roy Mickey-Joy is co-ordinating the talks, and commented that Vanuatu stands to benefit from PNG's experience and leadership in industries such as natural gas and fishing.
- **Tonga and Vanuatu top the list of countries most vulnerable to natural disasters,** according to the recently published United Nations World risk report. The report looks at the countries' exposure to and ability to cope with natural disasters.

FX FORECASTS

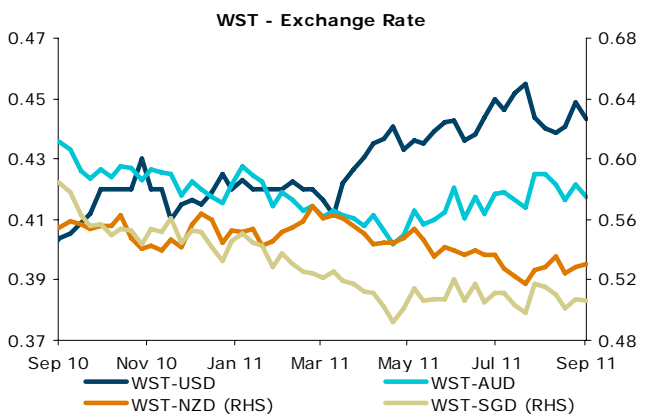
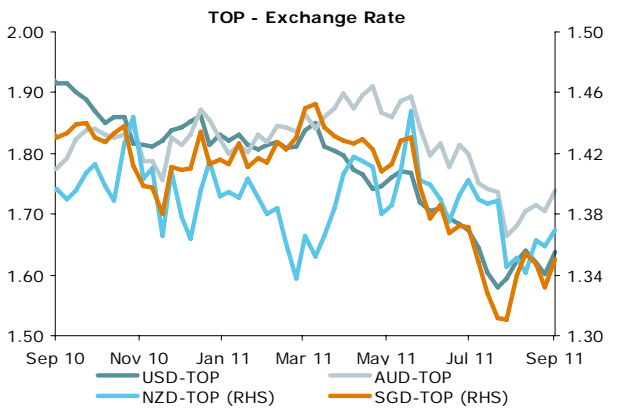
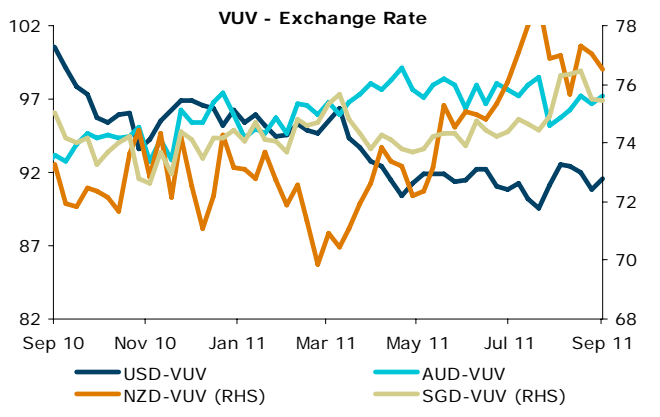
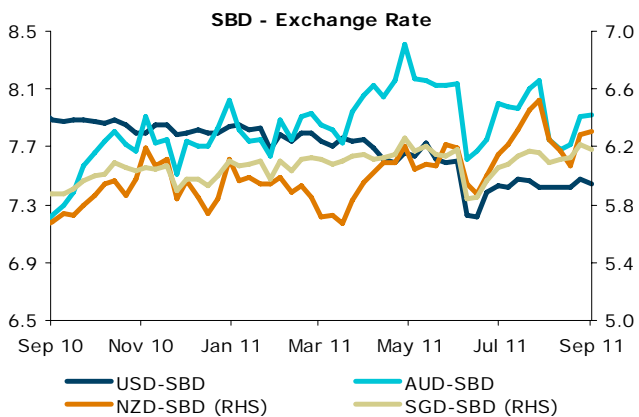
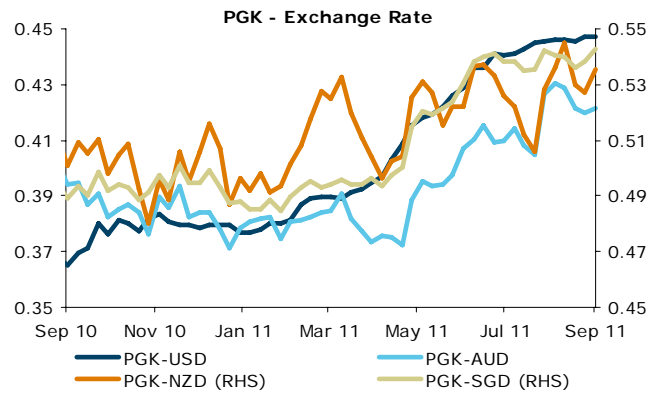
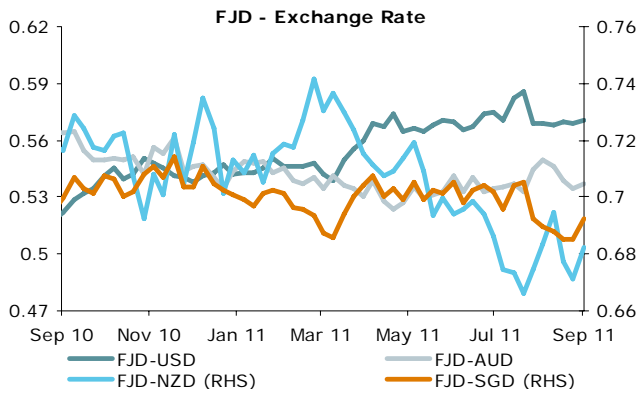
FX FORECASTS

		CURRENT	OCT-11	NOV-11	DEC-11	JAN-12	FEB-12	MAR-12
FIJI	FJDUSD	0.570	0.591	0.591	0.598	0.599	0.599	0.600
	FJDAUD	0.537	0.534	0.531	0.534	0.535	0.535	0.536
PAPUA NEW GUINEA	PGKUSD	0.445	0.448	0.450	0.450	0.452	0.452	0.452
	PGKAUD	0.421	0.405	0.404	0.402	0.404	0.404	0.404
SAMOA	WSTUSD	0.443	0.452	0.454	0.456	0.456	0.456	0.456
	WSTAUD	0.417	0.408	0.408	0.407	0.407	0.407	0.407
SOLOMON ISLANDS	USDSBD	7.440	7.460	7.470	7.480	7.480	7.480	7.480
	AUDSBD	7.920	8.256	8.316	8.378	8.378	8.378	8.378
TONGA	USDTOP	1.639	1.678	1.690	1.702	1.703	1.704	1.705
	AUDTOP	1.740	1.857	1.881	1.906	1.907	1.908	1.910
VANUATU	USDVUV	91.55	89.61	89.18	88.76	88.76	88.76	88.76
	AUDVUV	97.21	99.17	99.28	99.41	99.41	99.41	99.41

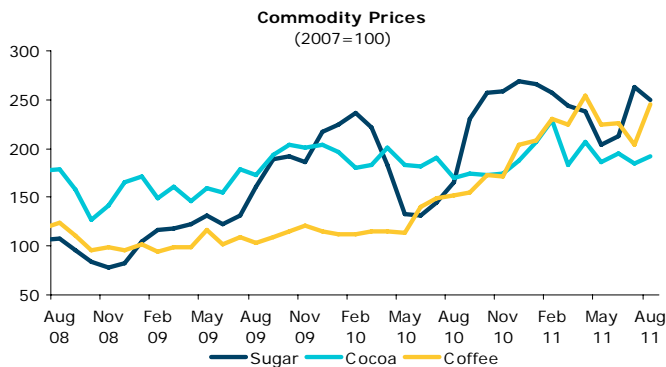
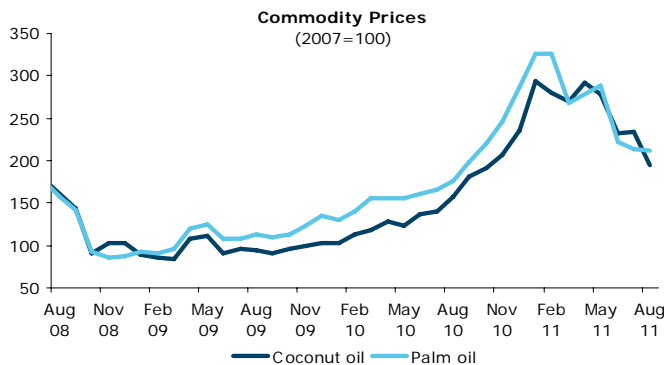
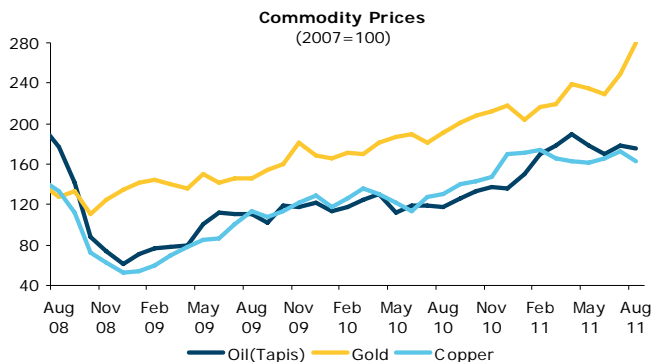
Note: The source of FX data is Bloomberg. As the currencies are illiquid with wide bid/offer spreads, the rate published is only indicative.

FX MARKET DEVELOPMENTS

AUD came under pressure in August in all the Pacific currency pairs we cover, though it picked up some lost ground in early September. In August, PGK/AUD and TOP/AUD surged 4.3%, followed by FJD/AUD and SBD/AUD at 1.9% and 1.8% respectively. SBD/AUD gave back some of the August gains in the first week of September, while FJD/AUD gave back close to two-thirds of its August gains. Turning to the USD, PGK/USD, SBD/USD and TOP/USD gained while the remaining Pacific currencies we cover declined against the greenback.



COMMODITY MARKET DEVELOPMENTS



Key commodity prices for the Pacific were broadly down in August on volatile trading. Oil prices suffered from large selloffs before a minor relief rally by month's end; Gold prices spiked; base metals were down; agricultural prices were mixed, with coffee posting the largest monthly gain of all commodities.

- Oil prices swung wildly in August on global volatile sentiment. Weak US Q2 GDP growth and a downward revision of Q1 growth; S&P's downgrade of the US to AA+; and overall weak activity indicators from the world's largest economy weighed on prices. European sovereign debt problems spread to French banks and Q2 growth figures were below expectations for most European economies adding further downward pressure on oil demand. The only upside movement in oil was on surprising US inventory figures, healthy China activity indicators, and relief rallies.
- Gold prices were on a steep climb in August, gaining 12.2% from July's close. Safe-haven purchases fuelled the spike as the North Atlantic continued to struggle with stalling economies and unsustainable debt levels. Asian central banks (Korea and Thailand) also purchased gold in June which helped buoy prices on speculation that other central banks would enter the gold market. Gains were capped by liquidation of positions to offset large equity declines.
- Agricultural prices were mixed. Coffee prices outperformed all commodities, gaining over 20% on the month as supply concerns drove up prices; coconut oil dropped 17% and palm oil prices were flat. Elsewhere, prices experienced minor gains.
- Base metal prices suffered from some large selloffs while a floor was placed on copper price losses due to supply chain disruptions stemming from Chile, and speculation on increased demand from China in the coming months.

Daniel Wilson

COMMODITY PRICE CHANGES	OIL (TAPIS)	GOLD	COPPER	COC. OIL	PALM OIL	SUGAR	COFFEE	COCOA	RICE
M/M % (nsa)	-1.5%	12.2%	-5.6%	-16.6%	-0.8%	-5.3%	20.3%	4.7%	5.1%
Q/Q % (nsa)	-1.4%	18.9%	0.6%	-29.7%	-27.0%	22.4%	8.9%	3.8%	10.9%
Y/Y %	49.5%	46.4%	24.7%	24.8%	20.3%	50.9%	61.5%	13.8%	21.9%

Source: Bloomberg

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