

# PAC TOK

PacWealth's Monthly Newsletter



**PACWEALTH**  
Capital Limited

**May 2017**

## May 2017

Climate change is a real threat to the longevity of this planet, with the Pacific region already feeling its devastating effects.

It is why we feel great sadness that a global leader has decided to leave the Paris Agreement this month.

But all is not lost. The monumental backlash that President Trump's decision received, from fellow Presidents, Prime Ministers, business leaders and the broader population has been inspiring.

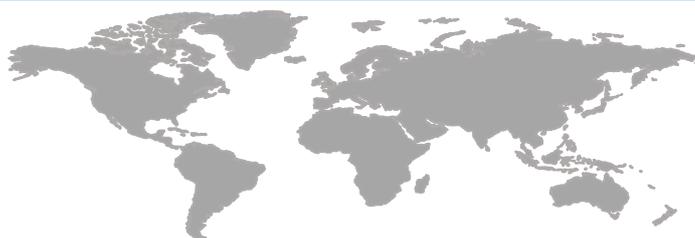
If nothing else, Trump's decision has further solidified the Paris Agreement and reinforced the need for all of us to not just be aware of climate change, but to ensure we make tangible changes to the way we live so that it's effects are limited on the Pacific and the rest of the world.



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# GLOBAL MARKET OVERVIEW

May 2017



1 President Trump continues to make headlines, however the front page worthy news is still failing to derail the US share market juggernaut. After firing the now ex-FBI Director James Comey under questionable circumstances, the President also declared that the US would no longer be a part of the Paris Agreement, stating that the restrictions put on carbon emissions was stifling American growth. As expected, this decision attracted worldwide condemnation. But despite the outspokenness of prominent people such as Emmanuel Macron (French President), Elon Musk (Tesla founder) and Angela Merkel (German Chancellor), the NASDAQ continued to ascend (+2% for May).

2 We witnessed not one, but two horrendous terrorist attacks that claimed the lives of innocent people in Manchester and London. PCL, and those from the Pacific send our prayers and thoughts to those affected by the both tragedies. Border control and protectionist measures are now certain to play the dominate role in the final campaign's for both Theresa May and Jeremy Corbyn, who are the front-runners for the UK election that was polled on June 8<sup>th</sup>.

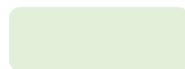
3 China is arguably the biggest winner out of President Trump's recent climate change shun, as its position as a relatively new globalisation advocate and trade giant continues to strengthen as the US becomes more and more insulated. Moody's, however, does not believe that China is in the greatest position of strength, downgrading China's debt from Aa3 to A1, citing that "rising debt will erode China's credit metrics, with robust growth increasingly reliant on policy stimulus". China's industrial production has recently exceeded expectations, easing fears of a hard landing or a banking crisis, which could explain why markets, both equity and bonds were basically unmoved by Moody's decision.

4 Frontier Markets, which include economies such as Pakistan and Croatia, are back in vogue with fund managers and their clients around the world. The continued success of Emerging Markets (those economies that are slightly more developed than Frontier) has meant investors are warming to Frontier Markets due to their extremely attractive growth potential, improved governance and added diversification benefits – inflows into the category are at record highs in 2017. Here at PCL, we continue to push the Pacific in the areas of governance and transparency so that it too can reap the benefits that come with being categorised as a Frontier Market.



**GOLD = \$1,280 USD/oz**

All eyes were on US jobs report released early June, with the soft numbers skyrocketing Gold to a 6-week high as the Department of Labor reported that job creation had fallen well below economists' expectations. Gold is up 11.3% year-to-date.



**COPPER = \$2.56 USD/lb**

Copper prices, which have historically had a high correlation with global economic growth, are tipped to decline as trading volumes and prices in Copper mining companies hit 6-month lows on fears of a China and US slowdown.



**WTI OIL = \$48.34 USD/bbl**

Saudi Arabia, Egypt, Bahrain and the UAE have all cut ties with Qatar, accusing it of backing terrorism. As such, oil traders will keenly follow developments as tensions in the Middle East can lead to the increased likelihood of supply disruption.

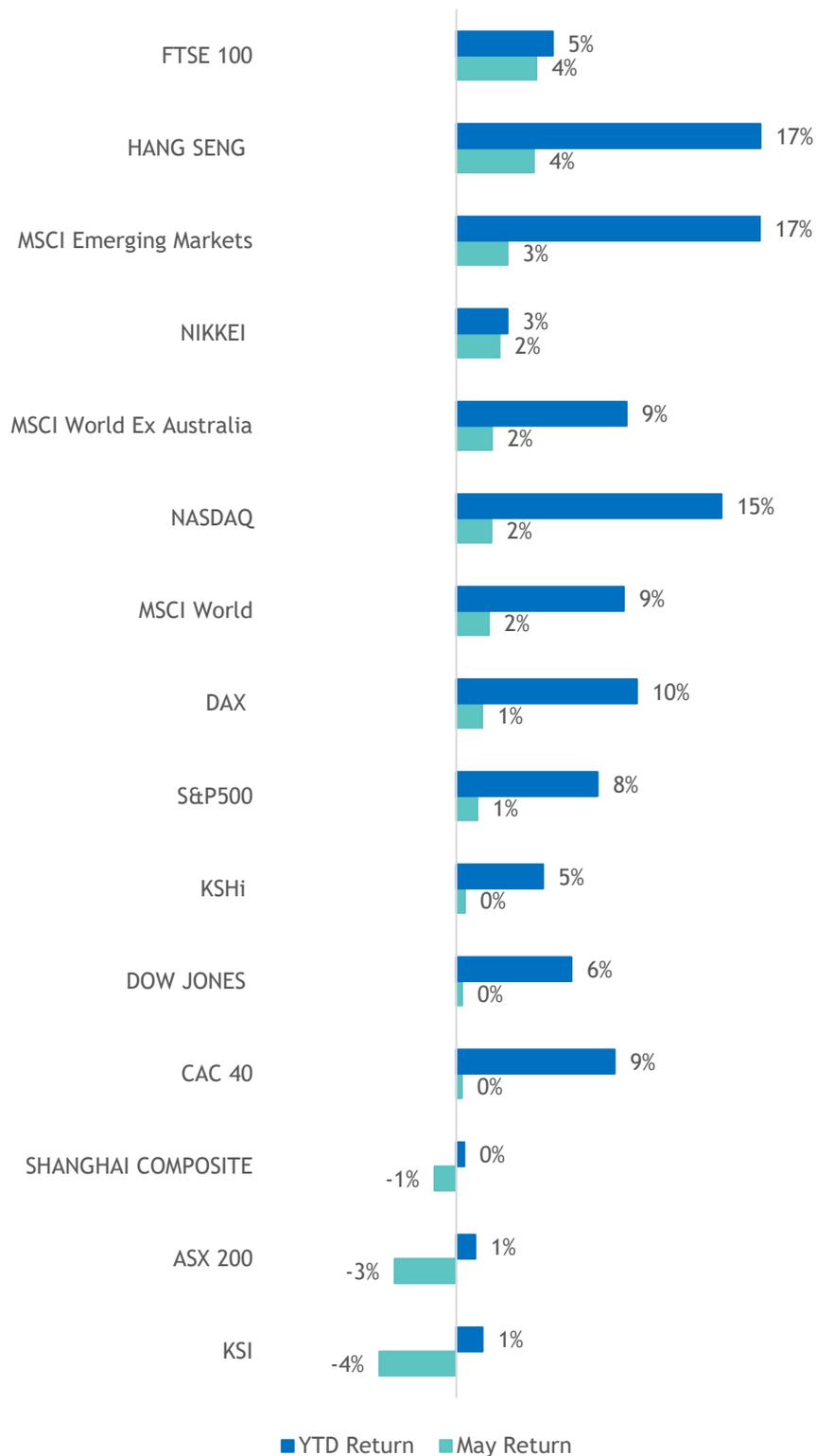


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## May 2017 return VS YTD return



Source: Bloomberg, PCL, May 2017



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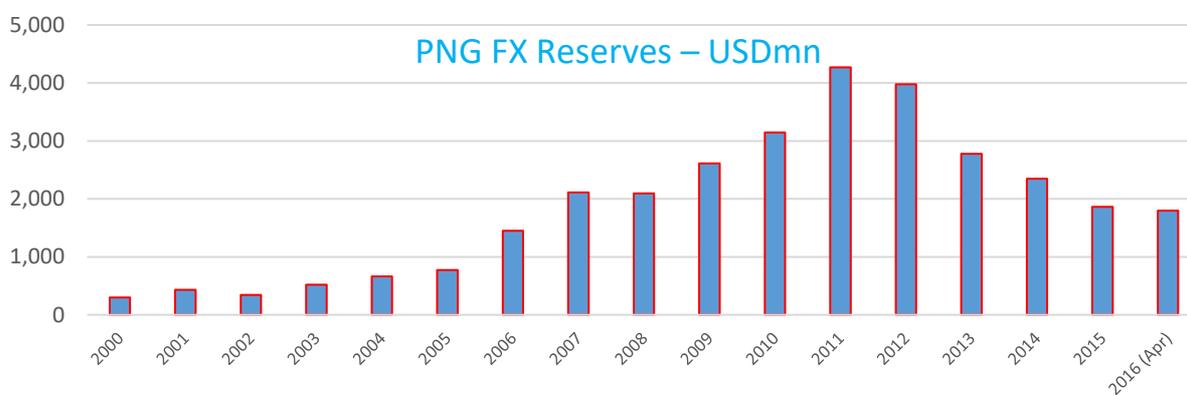
# PACIFIC MARKET OVERVIEW

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## PAPUA NEW GUINEA

The amount of foreign currency available to both institutions and individuals in PNG has been a hot topic of debate for some time now. With the construction of numerous large-scale projects, most notably the PNG LNG project coming to an end in the early 2010's, so did the inflow of money into the country. There was some good news on this front, with agricultural prices (cocoa, copra, oil, cobalt and LNG) increasing by a collective 1% in Q1 2017 that led to improved currency inflows. A recent BPNG statement declared that "at the end of 2016, gross foreign exchange reserves were ... sufficient for 7.2 months of total import cover."

It is encouraging to read that a key objective of the Government and Central Bank is to ensure that any new inflows from upcoming mining projects will be managed prudently to preserve the currency reserves.



Source: Central Bank of PNG, PCL, May 2017

## FIJI

After estimated growth of 2% last year, the Fijian economy is pleasingly now expected to grow by 3.8% in 2017, an upward revision from the October 2016 forecast of 3.6% (IMF, May 2017). With the exception of fishing, forestry and mining, most sectors are expected to improve this year, with the following expected to lead the way:

- Financial and insurance activities - increased regulations translating to increased trust in the sector.
- Manufacturing - underpinned by an expected rebound in cane production.
- Construction - major post Cyclone Winston related reconstruction.
- Wholesale and retail trade - forecast show a gain from increased sales of hardware.
- Transport and storage - expected to benefit from additional flights by Fiji Airways into Adelaide and San Francisco.

Tourism, which drives a large proportion of the Fijian economy, saw 5% growth in 2016, despite Cyclone Winston, with the Fiji Tourism Minister, Faiyaz Koya highlighting that the country is targeting two of the largest tourism markets in the world – China and India.

Fiji Visitor Arrivals 1995 to 2016



Source: World Bank, PCL, May 2017



# PACIFIC MARKET OVERVIEW

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## AUSTRALIA

On May 2nd, the Reserve Bank of Australia left the cash rate on hold at 1.50%. Whilst unemployment is expected to continue to decline (currently 5.8%), it appears part time jobs have been replacing lost full-time jobs. Wage growth is low and expected to remain at this level for a while (+1.9% for the year).



The May Federal Budget was also released and provided the same long-term hope for the Australian economy with an increase in infrastructure spending announced over the next 10 years. Additionally, proposed tax cuts for small businesses should help boost the economy, although the added increase in the Medicare levy and bank tax may work against growth.

Given that the proposed infrastructure program and company tax cuts will take time to work their way through the economy, we see the possibility of an additional one or two rate cuts by the RBA before reaching the RBA's OCR (overnight cash rate) low.

## KIRIBATI

This month we feature Kiribati for the first time in Pak Tok. The economy of Kiribati is dominated by public sector enterprises, while government revenues are dependent primarily on fishing revenues from the country's vast maritime exclusive economic zone.

Kiribati with all its beauty, does face some development challenges which stem from its geographic location, size, and its vulnerability to climate change. Private sector development is visible and will help in achieving more sustained and inclusive growth and employment.

PacWealth visited Tarawa during May to spend time with Kiribati Insurance Corporation. The trip offered PacWealth insight into the local business environment in Kiribati. We were able to share insights we had gathered from elsewhere in the Pacific region and look forward to our next visit.



Kiribati will be a signatory to the Pacific Agreement on Closer Economic Relations, known as PACER Plus, in Tonga on June 16.

# PACIFIC MARKET OVERVIEW

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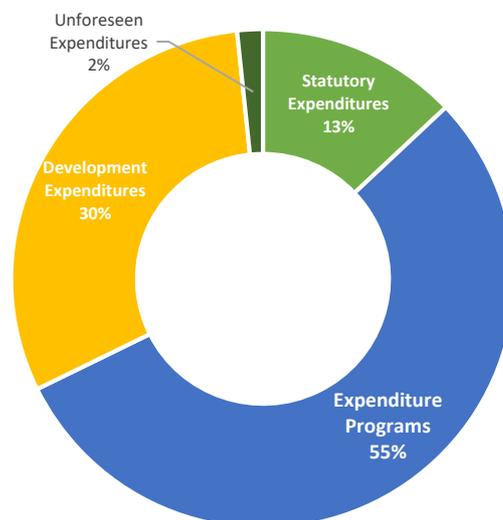
## SAMOA

The Government of Samoa has passed its National Budget address for the fiscal year 2017-2018 on 30 May 2017. The theme of the budget is “Equity and Fairness” which is in alignment with the Strategy Development for Samoa 2016-2020 theme of “Accelerating Sustainable Development and Creating Opportunity for all”.

The 2017/18 financial year is expected to record an overall fiscal deficit of approximately WST81.9 million which is equivalent to 3.5% of the anticipated level of GDP. Total domestic revenue is expected to increase by 6.3%. Total grants are expected to decline slightly by 1.9% as a result of donor funded projects tailing off.

The government expects to achieve these budgets by improving compliance of revenue collection mechanisms and several adjustments to taxes. The total expenditures for 2017/18 is expected to be WST934.2 million which is 4.4% higher than the current financial year. The budgets top priority areas are education, health and infrastructure.

Samoa's Budgeted Expenses for Fiscal Year 2017/2018



Source: Samoan Ministry of Finance, PCL, May 2017

## SOLOMON ISLANDS

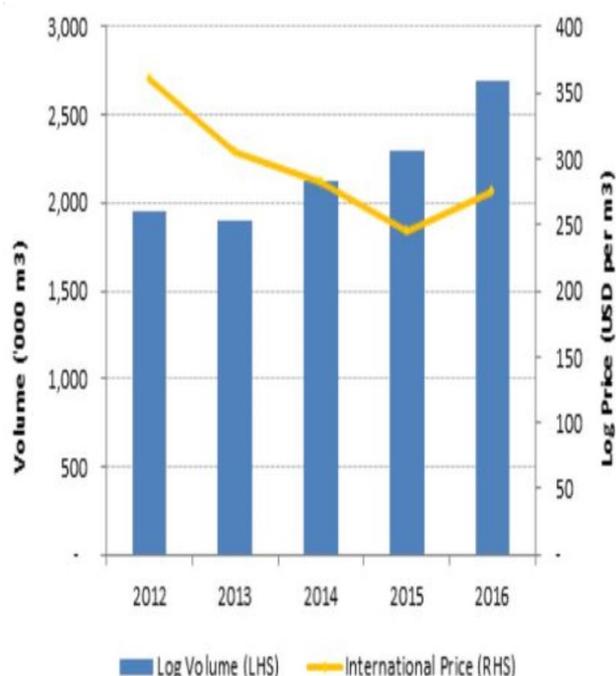
Earlier this month, the Permanent Secretary of Forestry and Research, Vaeno Vigulu, said the forests of the Solomon Islands have been logged to unsustainable levels. This follows the Ministry of Forestry’s decision in March to stop issuing licenses to new logging companies, or to non-members of the Solomon Forest Association. In 2016, the logging industry collected its biggest revenue of all time of more than SBD\$500 million (US\$62 million) dollars.

Responding to these claims, the President of the Solomon Forest Association (SFA) says the devastating impacts of the logging industry in Solomon Islands are not its responsibility. Despite the social and environmental effects that communities continue to witness from logging activities, SFA president John Si said he did not think the logging companies should be blamed; instead he believes the blame should lay with landowners who allow their land to be logged.

During May Cyclone Donna caused damage to housing, crops and the water infrastructure of Temotu Province.

Also this month, a Global Health Observatory 2017 report released by the World Health Organisation found that Solomon Islands has the cleanest air on earth; the country has the lowest concentrations of “fine particular matter in urban areas” in its air in the world.

Round Logs Volume and Prices



Source: Central Bank of SI, CED, WB, May 2017



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## TIMOR-LESTE

Timor-Leste's fourth president, but first from the nationalist left-wing party was inaugurated this month during a 12-hour ceremony. Francisco Guterres, a former guerrilla fighter who won the March presidential election in a single round of voting promises to reinvigorate the economy, diversifying the nation away from just oil revenue.

This goal is exemplified in the plan for Oecusse, a small, poor region in Timor-Leste (pictured below) that is surrounded by coast and the Indonesian border. Over the next five years, the Timorese Government plans to spend approximately \$USD400m to turn the underdeveloped town into a small city, with the hope of creating a hub for tourism and foreign investment. There will be certain tax advantages available to investors, including a low 10% corporate tax rate and a "no profit, no tax" scheme which could make Oecusse an attractive destination for tourists and investors alike.

This month, the ADB also celebrated their 50-year anniversary of working on Asia and the Pacific's development, with the ceremony held in Dili, Timor-Leste. Since 1999, the ADB has provided development assistance to Timor-Leste with 15 loans and grants totalling A\$342m, and 49 technical assistance projects totalling A\$42m.



## TONGA

Tonga has numerous national resources that have the potential to generate more revenues and drive enterprise in the country.

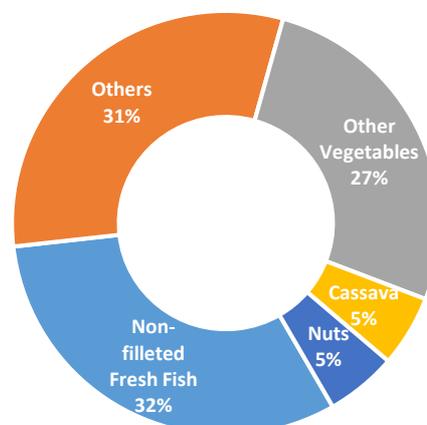
When looking at the trade development of small Pacific Island countries, there is a large difference, for example, in where Fiji and Tonga both sit.

Tonga's revenues accrue from a relatively small basket. Trade (exports and investments) is globally renowned as the firmest foundation for sustainable economic development, but currently only plays a minor role in Tonga's development. Over the last ten years Tonga's exports have not crossed the \$USD20m mark.

That being said, innovative services are still improving, nurturing new sectors and developing new robust areas of business (i.e. ICT and financial) with an enormous potential in tourism services.

Meanwhile Tonga has pulled out of hosting the 2019 Pacific Games, citing budget pressures.

Total Tongan Export Composition  
2016



Source: The Observatory of Economic Complexity, PCL, May 2017

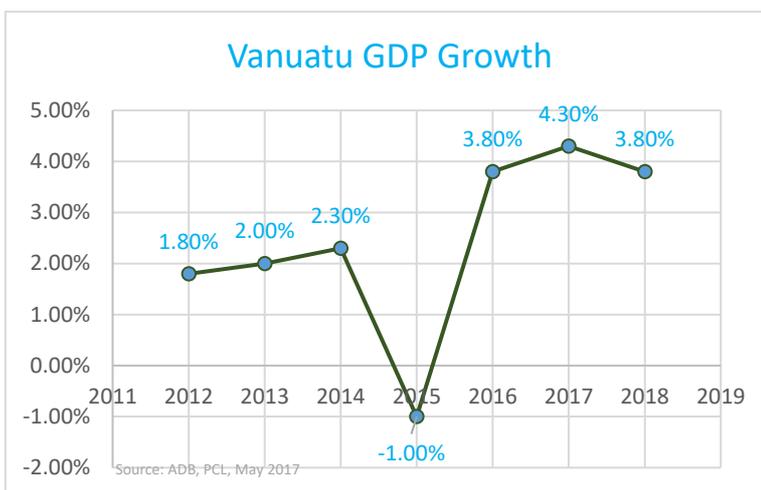
## VANUATU

Tropical Cyclone Donna has caused serious damage in the northern parts of Vanuatu with winds of up to 145 km/h. Torba Province, with a population of about 10,000 people, was severely hit. Cyclone Donna intensified into a Category 5 storm (winds of up to 215 km/h near the centre and gusts of 300 km/h) as it moved across Vanuatu towards New Caledonia. On the 9th of May, the Cyclone eventually, and thankfully, moved out of the Vanuatu region with relief supplies sourced and delivered to the affected areas.

Like Kiribati, Vanuatu remains committed to signing the Pacific Agreement on Closer Economic Relations (PACER) Plus agreement and considers that the agreement is significant with vast potentials. PACER Plus is envisioned as a development-oriented Agreement with the

objective of facilitating economic growth and sustainable development for all parties involved, particularly the Pacific Island Forum Countries. A wider scope and coverage of trade within the region will enable parties to better harness opportunities and take advantage of this regional economic integration.

As highlighted in previous Pac Tok publications, the Pacific region, if viewed as a collective, has the potential to become an economic power - total pension assets alone total approximately AUD\$35b. PacWealth applauds Vanuatu and the other Pacific nations on their commitment to PACER Plus and regional collaboration.



## PACWEALTH PULSE

*Lukim yu sampla tiam, Gareth! (Farewell, Gareth!)*

PacWealth would like to congratulate Gareth Kobua, one of our investment analysts who has recently been selected for a scholarship to Massey University, New Zealand to complete his MBA.

Gareth started working for PacWealth 4 years ago after completing his Finance & Banking degree at the University of Papua New Guinea. PacWealth CEO, Eric Kramer said "Gareth has shown excellent dedication to PacWealth's internal training and we wish him all the best. It is great to see our staff excel and be recognised for the effort they put in". We and our clients' will miss Gareth's enthusiasm, passion and high calibre of output. Gareth has been a dedicated team member of PacWealth, producing work that consistently exceeded our clients' expectations and PacWealth's lofty high standards.

On behalf of PacWealth, we thank Gareth for his enormous contribution to the team over the last 4 years and wish him all the best in New Zealand!



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