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ANZ PACIFIC TEAM

Paul Gruenwald
Chief Economist, Asia
+65 6216 1814
Paul.Gruenwald@anz.com

Chang Wei Liang
Analyst, Economic Research
+65 6216 1918
Weiliang.Chang@anz.com

Bora Bedamu, Jr.
Senior FX Dealer, Economics
+675 322 3250
Borab@anz.com

Graduate Trainees
Shu Zhen Pay
Isaac Thong

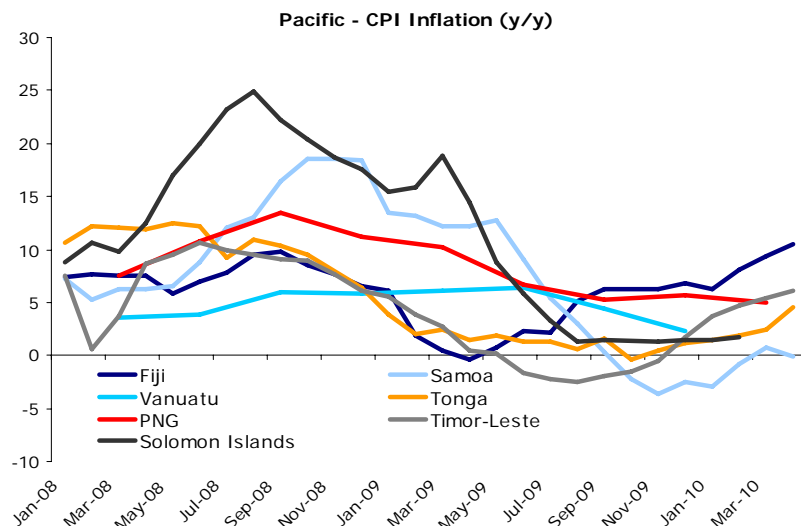
Research Intern
Raj Gopalakrishnan

HIGHLIGHTS

- Inflation remains mixed across the Pacific region. Fiji continues to lead the pack followed by Timor-Leste and Papua New Guinea. Samoa has recently recorded deflation.
- Trade flows remained weak on a year-on-year basis. However, recent data show signs of improvement in Samoa.
- Tourism and remittance growth remained positive in Fiji but continued to decline elsewhere.
- Credit growth was mixed; Papua New Guinea and Samoa saw positive growth.
- Renewed global financial market turbulence caused mixed results for Pacific currency crosses and negatively affected commodity prices relevant for the Pacific.

CHART OF THE MONTH

INFLATION REMAINS MIXED IN THE PACIFIC



Source: National Statistics Agencies

PACIFIC NEWS

KEY DATA RELEASES AND COMMENTARY

Inflation continues to rise across the Pacific with the exception of Samoa. Fiji's CPI rose by 1.1% in Apr to reach 10.5% (y/y) from 9.4% in Mar. Timor-Leste and PNG followed with 6.1% and 5.0% inflation, respectively, though PNG's inflation declined slightly in Q1. Prices in Tonga rose by 2.1% to 4.6% and Samoa experienced deflation as prices fell 0.1% in Apr from a 0.7% increase in Mar.

			LATEST	PREV
Fiji	CPI (y/y)	Apr	10.5%	9.4%
Samoa	CPI (y/y)	Apr	-0.1%	0.7%
Timor-Leste	CPI (y/y)	Apr	6.1%	5.4%
Tonga	CPI (y/y)	Apr	4.6%	2.5%
Vanuatu	CPI (y/y)	Q4 2009	2.3%	3.4%
PNG	CPI (y/y)	Q1 2010	5.0%	5.7%

Trade flows remained weak in Timor-Leste and Tonga but improved in Samoa. Samoa's exports expanded by 13.0% (y/y) in Apr compared to a 44.0% decline in Mar; imports declined by 0.4% in Apr from a 22.0% growth in the previous month. Timor-Leste's exports in Apr and Tonga exports in Mar contracted by 44.5% and 12.9% respectively from the previous month.

			LATEST	PREV
Samoa	Exports (y/y)	Apr	13.0%	-44.0%
Samoa	Imports (y/y)	Apr	-0.4%	22.0%
Timor-Leste	Exports (y/y)	Apr	-78.7%	-34.2%
Timor-Leste	Imports (y/y)	Apr	12.3%	13.7%
Tonga	Exports (y/y)	Mar	-25.8%	-12.9%
Tonga	Imports (y/y)	Mar	-29.0%	-31.5%

Tourism remained strong in Fiji and Timor-Leste but was weak in Samoa. Fiji continued to outperform the region with a 26.5% (y/y) increase in Mar arrivals compared to 25.1% in the previous month. Tourist arrivals in Timor-Leste increased by 14.1% in Q1, down 6.9% from the previous quarter. Tonga's tourist receipts and remittances improved marginally in Mar rising 0.2% and 4.7% respectively. Tourist arrivals and receipts in Samoa both declined by 15.0% and remittances dropped by 5.8%.

			LATEST	PREV
Fiji	Tourist Arrivals (y/y)	Mar	26.5%	25.1%
Samoa	Tourist Arrivals (y/y)	Apr	-13.0%	2.0%
Samoa	Tourist Receipts (y/y)	Apr	-21.0%	-6.0%
Samoa	Remittances (y/y)	Mar	-5.7%	0.1%
Timor-Leste	Tourist Arrivals (y/y)	Q1 2010	14.1%	21.0%
Tonga	Tourist Receipts (y/y)	Mar	-7.7%	-7.9%
Tonga	Remittances (y/y)	Mar	-9.6%	-14.3%

PACIFIC NEWS

Credit growth varied across the Pacific, but money growth remained positive. Credit growth in both PNG and Samoa was positive. Tonga's private sector credit contracted by 14.6% in Apr while Fiji's domestic credit growth was 1.5% lower than in Mar. Vanuatu's private sector credit declined significantly from 21.1% in Jan to 10.8% in Feb.

			LATEST	PREV
Fiji	Domestic Credit (y/y)	Apr	3.9%	5.4%
Fiji	Broad Money (y/y)	Mar	13.3%	11.0%
PNG	Total lending (y/y)	26-Feb	17.4%	15.5%
Samoa	M2 - Money Supply (y/y)	Apr	10.7%	9.0%
Samoa	Private & Public Sector Credit (y/y)	Apr	5.0%	3.9%
Timor-Leste	M1 - Money Supply (y/y)	Apr	26.1%	21.0%
Timor-Leste	M2 - Money Supply (y/y)	Apr	29.4%	22.7%
Tonga	Private Sector Credit (y/y)	Apr	-14.6%	-14.1%
Tonga	M3 - Money Supply (y/y)	Apr	6.1%	4.6%
Vanuatu	M1 - Money Supply (y/y)	Feb	8.5%	1.7%
Vanuatu	Private Sector Credit (y/y)	Feb	10.8%	21.1%

Foreign reserves inched higher. Fiji's reserves totalled FJD1.09bn in Apr compared to FJD1.07bn in Mar, equalling 3.4 months of import cover.

			LATEST	PREV
Fiji	Foreign Reserves	Apr	FJD 1086mn	FJD 1068mn
PNG	Foreign Reserves	Q1 2010	USD2330mn	USD2610mn
Samoa	Foreign Reserves	Apr	WST349mn	WST350mn
Timor-Leste	Foreign Reserves	Apr	USD176mn	USD161mn
Solomon Is	Foreign Reserves	Apr	SBD1344mn	SBD1258mn
Tonga	Foreign Reserves	Apr	TOP161mn	TOP156mn
Vanuatu	Foreign Reserves	Feb	VUV15152mn	VUV14778mn

The Bank of Papua New Guinea held the kina facility rate (KFR) steady in June at 7.0% despite lower inflation in Q1. The KFR has remained unchanged since Dec 2009.

			LATEST	PREV
Fiji	Overnight Cash Rate	May	3.0%	4.0%
PNG	Kina Facility Rate	Jun	7.0%	7.0%
Samoa	Official Interest Rate	Apr	0.2%	0.2%
Vanuatu	Rediscount Rate	May	6.0%	6.0%

PACIFIC NEWS

FIJI

- The government is seeking IMF support for its deteriorating balance of payments, as fuel price hikes and natural disasters have taken their toll on the economy. The volume of loans sought is pending further discussion.
- On the political front, a proposal by the governments of Australia and New Zealand to send a delegation of ministers to Fiji to assess the progress of democratic reforms was rejected.

PAPUA NEW GUINEA

- Prices for most items in the CPI basket declined except food and clothing & footwear. On q/q basis, inflation rose to 1.4% from 1.2%.
- Lending picked up as loans outstanding grew by 17.4% (y/y) to PGK5.6bn at Feb-end. A major contributor to the rise was growth in kina lending, which was up by 18.7%. Foreign currency lending declined by 2.0%.
- Banking liquidity remained high. The average level of total deposits rose by 20.4% to PGK12.1bn at Feb-end. Foreign currency deposits, which increased by 55.6% (y/y), drove overall deposits. Average liquid assets grew by 32.6% to PGK6.4bn with the liquid asset ratio and free reserves margin at 51.5% and 26.5% respectively.

SAMOA

- With the resumption of coconut oil, spring water and Noni juice shipments, export receipts rose significantly by 62.2% (m/m) to WST2.1m in Apr. However, provisional estimates on imports dropped by 2.0% to WST48.5m. Samoa recorded a trade deficit of WST46.4m in Apr, a fall of 2.0% from Mar.
- Commercial bank lending grew by 1.1% (m/m) in Apr as the average lending rate declined. Lending growth was broad based. Commercial bank liquidity contracted by 4.7% in Apr driven by a decline of excess reserves. On y/y basis, liquidity was 46.3% up.

- M2 rose by 1.7% (m/m) in Apr driven by net domestic assets, up from the 0.4% decline in previous month. Foreign reserves declined by 0.3% in Apr. Import cover fell to 6.8 months from 7.1 months in Mar.
- The World Bank approved a US\$20.0m interest-free loan to assist the nation recover from the impact of the global financial crisis.

TIMOR-LESTE

- New vehicle registrations declined by 22.6% (y/y) in Q1 to 3,058 units, compared with a sharp rise of 50.5% in the previous quarter. Growth suffered in all four categories of vehicle registration. However, on a q/q basis, registrations increased by 26.4% following three successive quarters of decline.
- The number of cellular phone subscribers continued to show rapid growth, expanding 181.8% (y/y) in Q1, following a 180.6% growth in the previous quarter. But on a q/q basis, subscriber growth was moderate at 9.7% for Q1 after witnessing a growth of 53.9% in Q4 2009.
- The government's financial position continued to be strong in Q1, with a revenue surplus of \$43.9mn, marginally higher than the \$41.3mn surplus recorded in the previous quarter. While there was a decline of 63.4% in total revenue, on a q/q basis, the budget surplus rose 6.3% due to a sharp fall of 73.1% in total expenditure.
- The \$1.1bn development plan for the Kitan oil field received approval after a three-year, evaluation process. The project is expected to be on-stream by the end of 2011 and will generate revenues of \$1.2bn a year.

PACIFIC NEWS

TONGA

- Official foreign reserves in Apr rose 3.8% (m/m) to TOP161.4mn, equivalent to 6.3 months of import cover. The increase in foreign reserves reflected lower overseas payments and higher inflows during Apr.
- The government's overall fiscal position for the nine-month period of Jul 2009 to Mar 2010 was a deficit of TOP7.4mn. However, Mar recorded a surplus of TOP5.7mn. Higher revenues and budgetary support from the Asian Development Bank (ADB) contributed to the surplus.
- Total government debt stood at 36.5% of GDP at the end of Mar, with external debt accounting for 32.3% of GDP. The debt servicing cost at the end of Mar stood at 3.0% of GDP and 20.1% of recurrent revenues.

SOLOMON ISLANDS

- The central bank, in its 2010 outlook, has forecasted a 5.0% (y/y) real GDP growth in 2010 compared with 2009's 2.2% fall. The bank expects strong performances from agriculture and fishing, construction, transport, and the communication sectors will boost overall growth in 2010.
- Gross external reserves rose by 6.9% (m/m) to SBD1,344mn in Apr compared with a 1.1% drop in Mar. Total reserves equalled 6.9 months of import cover.
- Total government debt outstanding fell 4.3% (m/m) in Apr to SBD1,381.2mn. External debt fell by 1.2% and domestic debt fell by 0.5% in Apr 2010.
- The Honiara City Council and the Ministry of Infrastructure Development launched a rapid employment program this month. The project is partially funded by the World Bank and aims to provide short-term employment and training for unemployed youths in Honiara.

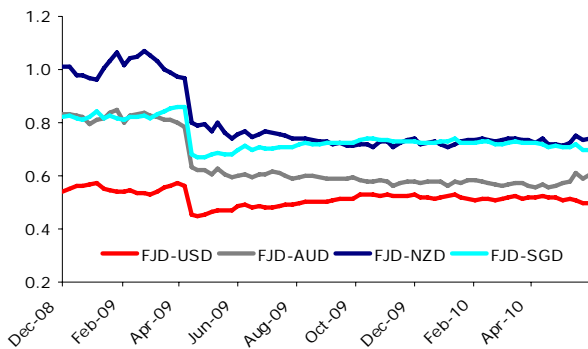
VANUATU

- The country was hit by a series of earthquakes in May. Air and water supplies were affected in Jun by volcanic ash spreading from Mount Yasur. These natural disasters have had little impact on the tourism industry.

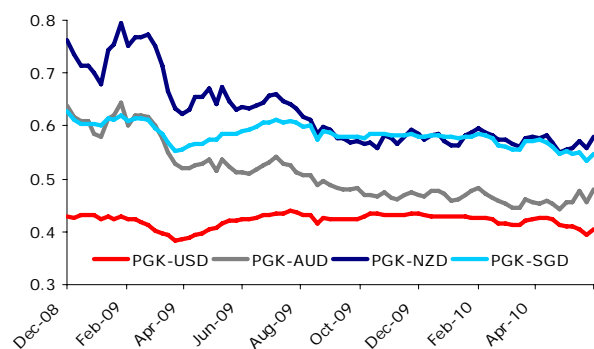
FX MARKET DEVELOPMENTS

Pacific currencies saw mixed results in May. FJD, PGK and WST gained against AUD whilst other currencies declined; FJD led the pack with a 5.0% gain against AUD. VUV and TOP appreciated against USD whilst other currencies declined. PGK depreciated against USD on slow inflows and strong import demand but found a bottom at month-end.

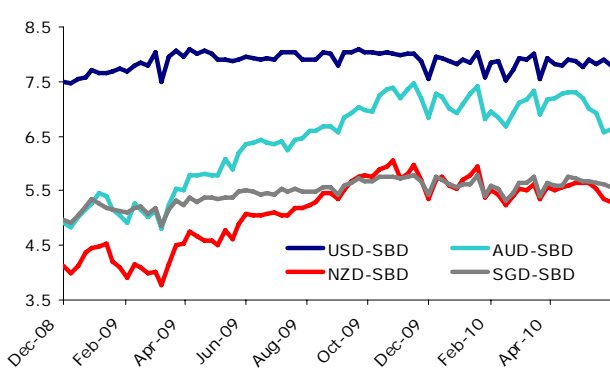
FJD - Exchange rates



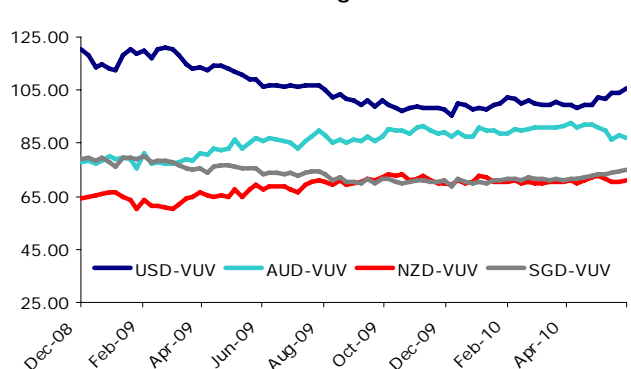
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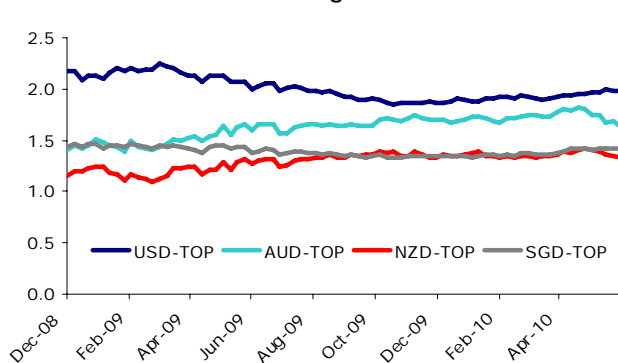
SBD - Exchange rates



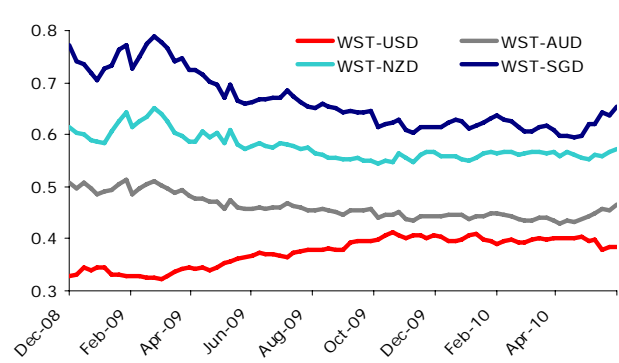
VUV - Exchange rates



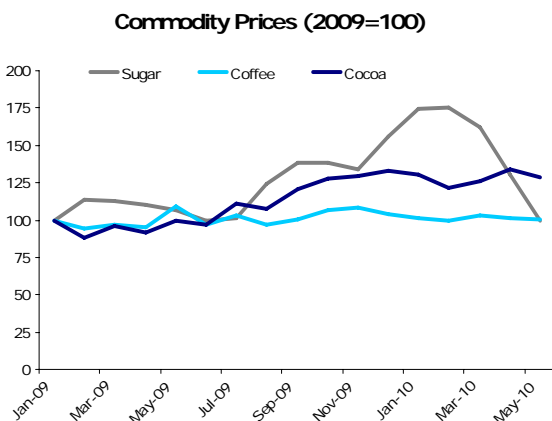
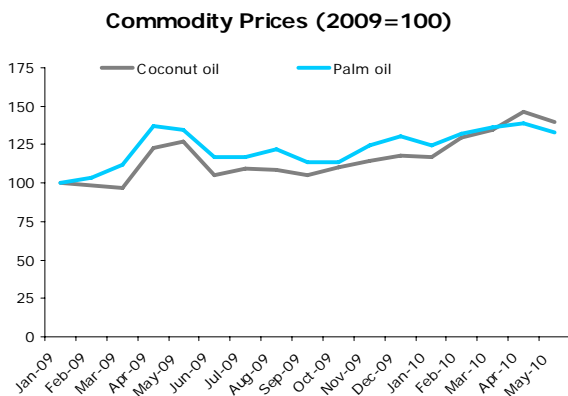
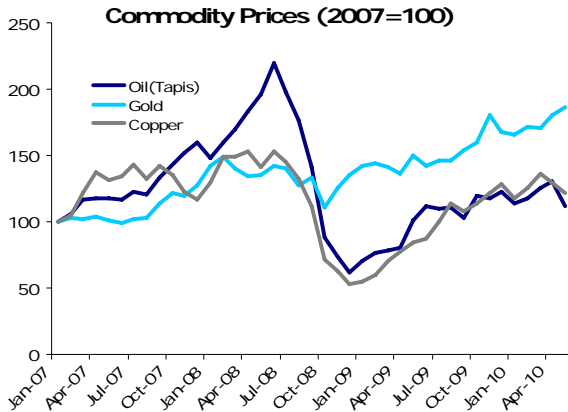
TOP - Exchange rates



WST - Exchange rates



COMMODITY MARKET DEVELOPMENTS



Commodity prices remained weak in May, with a run of disappointing economic data releases coinciding with another bout of sovereign risk concerns. Soft US ISM and factory orders data, and weaker-than-expected US payrolls, were the main drag. We expect negative sentiment to persist over the short term.

- After a steady rise in recent months, Pacific commodity prices declined owing to ongoing sovereign debt concerns in Europe, which in turn led to a pullback in global risk appetite. Measures to cool China's overheating economy and the fragile nature of the global economic recovery also seemed to have played a role.
- Crude oil dipped below US\$70/bbl. With EUR weakening further against USD, crude oil prices may have downside risks in the short term. However, oil prices are expected to increase in the near term due to curbs on deepwater drilling by the US government.
- Gold prices strengthened further as investors hedged against inflation and decreased their risk appetite. Gold traded comfortably above US\$1,000/oz and we predict prices will remain strong in the near-term.
- May's economic data continue to suggest that the Chinese economy is overheating. Base metal prices are expected to decline as the Chinese government takes steps to cool economic activity and demand.

COMMODITY PRICE CHANGES	OIL (TAPIS)	GOLD	COPPER	COC. OIL	PALM OIL	SUGAR	COFFEE	COCOA
MoM %	-14.4	3.1	-6.6	-4.4	-4.0	-23.8	-0.6	-4.2
3M/3M %	-5.3	8.8	-3.6	7.8	0.6	-43.3	1.0	6.0
YoY %	10.7	24.2	43.5	9.8	-1.0	-6.4	-8.3	29.3

Source: Bloomberg

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Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands,
 Victoria 3008, Australia
 Telephone +61 3 9273 5555 Fax +61 3 9273 5711

CHINA

Australia and New Zealand Banking Group Limited
 Level 15, Mirae Asset Tower, 166 Lujiazui Ring Road, Pudong,
 Shanghai, 200120, People's Republic of China
 Telephone +86 21 6169 6000 Fax +86 21 6169 6199

HONG KONG

Australia and New Zealand Banking Group Limited
 Level 31, One Exchange Square, 8 Connaught Place, Central, Hong
 Kong
 Telephone +852 2176 8888

NEW ZEALAND

ANZ National Bank Limited
 Level 7, 1-9 Victoria Street, Wellington, New Zealand
 Telephone +64 4 802 2000

SINGAPORE

Australia and New Zealand Banking Group Limited
 1 Raffles Place, Level 46, One Raffles Place, Singapore 048616
 Telephone +65 6535 8355 Fax +65 6539 6111

UNITED KINGDOM

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
 Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA

ANZ Securities, Inc. is a member of FINRA (www.finra.org) and registered with the SEC.
 277 Park Avenue, 31 Floor, New York, NY 10172, United States of America
 Telephone +1 212 801 9160 Fax +1 212 801 9163

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