



The KFM Investment Committee met this week, and the following summarises our view of the markets over the next six months.

Market Outlook (for next 6 months)

	Current Measure	KFM view Last month	KFM view Current
PNG Macro Environment			
Real GDP Growth Source: National Budget for 2013	6.1%		
Inflation (trailing 12 mth) As at June 2013	3.20%		
PGK/AUD	0.4345		
PGK/USD	0.3908		
PNG Cash & Fixed Income			
28 Days CBills	1.85%		
180 Days TBills	2.82%		
5Year GIS	8.02%		
10 Year GIS	9.39%		
PNG Equities			
KSI index	3,866		
KSHI index	8,109		
Global Macro Environment			
Implied World Growth (Reuters Breaking Views)	3.6%		
International Cash & Fixed Income			
US 10Y Bond	2.73%		
International Equities			
MSCI ACWI	US \$178		
Commodities			
Oil (WTI)	US \$100		
Gold	US \$1,300		

KFM Investment Committee Members

Dominic Beange (Chair)
Investment Fund Manager

Syd Yates
Chief Executive Officer

Ivan Gutai
Credit Admin Manager

Raicie Guillermo
Team Leader,
Investment Analysis

Sermomo Tungapak
Team Leader,
Portfolio Administration

Noelyne Togs
Senior Projects Analyst

PNG Macro Environment

KFM maintains the view that medium term economic growth will be slow, as government infrastructure spending fails to compensate for falling private sector demand and investment. Inflation of 5-6% for 2014 is still on the cards.

PNG Kina

PNG Kina will continue to depreciate in H1 2014, most notably against US dollar, and less so against (a weak) Australian dollar. Prospects of first LNG exports in late 2014 may well support the Kina in latter 2014.

PNG Cash & Fixed Income

Excess liquidity combined with low credit demand has kept short term rates relatively low. However, we have seen recent evidence of higher interest rates for State securities at both the short and long end of the yield curve. We expect short term rates to increase marginally over H1 2014, but to not reach the BPNG KFR of 6.25%. **We believe that rates for longer dated securities will increase from current levels, due to large issuance to finance the budget deficit.** There is a risk the State will reduce issuance if rates increase too much from current levels. We still believe these rates are attractive rates for long term investors, especially compared to our long term inflation forecast.

PNG Equities

We repeat last month's comment that **"KFM believe that local share prices should be flat for the next half year, notwithstanding the lack of liquidity and hence potential for drawdown if sellers emerge."** Lack of liquidity remains an issue, but dividend yields in excess of bank deposit rates continue to support share prices.

Global Macro Environment

Global outlook looks generally favourable in the US, UK and Australia. We see some evidence emerging of economic growth in Europe and China, and by mid-2014 should be confirmed. We believe this will also help activity in emerging markets. We expect the US Federal Reserve will have substantially removed QE easing, from the current level of USD 65 billion per month. Inflation remains subdued in USA and Europe, and central banks will not increase rates from historically low levels.

International Cash & Fixed Income

We still believe the Fed Funds rate should be effectively zero for a prolonged period. Long term bond rates have fallen from their recent highs, with US 10 year rates now around 2.70% from a high around 3.00%. We expect these bond rates to remain in recent ranges.

International Equities

KFM still believe US equities appear fully priced and subject to correction as share prices have rallied so strongly through the past year. KFM have believed for several months that US equities in particular appear fully valued, requiring stronger earnings to justify high multiples. Emerging market equities have underperformed in 2013 and early 2014, and whilst global growth should support all emerging markets, not all will be equally supported. Look for selective opportunities in emerging markets.

Commodities

KFM still expect both oil and gold prices to stabilise around current levels, noting the recent rally in gold since the start of 2014.

IMPORTANT NOTICE—PLEASE READ

Kina Funds Management Limited (KFM) and/or Kina Group of Companies (Kina Group) seeks to do business with Companies mentioned in research reports. Accordingly, KFM and/or Kina Group employees and/or directors may have a conflict of interest. Investors should be aware of this potential for conflicts of interest, and should consider KFM and/or Kina Group research reports as just one aspect of their investment decisions.

Please also read General Disclosure & Conflicts Disclosure.

