

Monthly Report.

July 2022



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Month Change Highlights.

↑25 BPS
Kina Facility Rate

The Bank of Papua New Guinea increased the Kina Facility rate to 3.25%, up 25bps to tame rising prices for domestic goods and services.

+185 BPS
1-Year Treasury Yields

Government's 1-year Treasury yield rallied in July, adding 185bps to 4.40%. Most of the auctions during the month were under-subscribed.

+0.25%
Kina Securities
Index (KSi)

The Kina Securities index rose +0.25%, backed by an increase in the share price of BSP Financial Group Limited (PNGX: BSP | ASX: BFL). A decline in Kina's (PNGX: KSL | ASX: KSL) share price pared gains in KSi.

+9.18%
Liquefied Natural
Gas (Lng)

LNG prices settled +9.18% higher at \$42.23/MMBtu, on concerns over return of the Nord Stream pipeline, coupled with rising demand due to heatwave.

+17.87%
Total Fx Market
Turnover

Total FX Market Turnover was up +17.87% to PGK3.87b, compared to the corresponding period of 2021. FX continues to remain a challenge for businesses.

**CRUDE
OIL**

Oil prices fell on rising inflation and recession fears. Brent crude shed -1.45% at \$110.01 per barrel and U.S crude lost -9.05% at \$98.62 per barrel.

Market Commentary.

The Bank of Papua New Guinea (BPNG) raised the Kina Facility rate to 3.25% to counter rising prices for domestic goods and services, owing to imported inflation. BPNG also lifted the Cash Reserve Requirement (CRR) from 7.00% to 8.00% to reduce cash-holdings held by commercial banks in the system. Even with this tightening monetary policy stance, commercial banks still have ample cash to lend to the private sector and support the economic growth projections for 2022. BPNG reinforced that these adjustments are very timely, considering developments in both the domestic and global economy.

Plans to re-open Porgera Gold mine still remains in progress. The mine operator, Barrick Niugini Limited (BNL), is closely working with all stakeholders to get the mine up and running, starting with the signing of the Shareholders Agreement by the Mineral Resource Enga Limited. The further delays mean

that PNG will continue to miss out on opportunities to generate cash inflows from higher global prices for gold and silver. On a micro level, communities, and businesses especially in the Porgera area are missing out on economic opportunities. Furthermore, the delay continues to increase the maintenance cost of the infrastructure and equipment, with costs only to be offset after the mine is fully operational. BNL President, Mark Bristow, has stated that costs have increased to PGK1.2 billion since the mine closed in April 2020.

In terms of the LNG project pipeline, the Papua LNG project is set to enter the front-end engineering and design studies during the final quarter of this year (2022). Project operator, Total, aims to reach the Final Investment Decision at the back end of 2023, and start-up full operations at the end of 2027. In the medium-term, the re-opening of Porgera Gold mine and

progress on projects such as the Papua LNG project will boost the economy.

Meanwhile, a major priority of the new Government will be to look at the second phase of the 'Central Banking Act 2000 Review', which commenced last year. Given the fast-changing pace of the global economy and its impact on the domestic front, continued reforms to PNG's financial sector is critical and timely. The second phase of the review looks particularly at issues pertinent to the private sector such as financial system regulation, competition constraints, as well as other major financial sector development challenges.

Now turning our attention to the global economy, recent data suggests that growth in major developed economies is slowing down amidst rising inflation, interest rate hikes, and the prolonged Russia/Ukraine war. On the upside, a strengthening labour market,

Market Commentary Continued

expansionary fiscal policy, and the continued re-opening of economies to support services sectors has provided much-needed relief to stimulate economic growth.

In the U.S, real GDP contracted for the second time this year, while inflation continued to remain higher-than-expected. Thus, the US Federal Reserve (Fed) increased interest rates in an effort to help curb inflation. However, despite undesirable economic indicators, the U.S Jobs Report in July was surprisingly higher than anticipated, with records showing that about 528,000 new jobs

were created.

In Europe, the Russian invasion of Ukraine continues to weigh down on economic growth. Talks of Russia cutting off its gas supply to Europe continues to incite fear across the continent, while on the other hand, the European Union also decided it wanted to impose sanctions on Russia's oil and coal exports. The European Central Bank has taken appropriate steps to address these risks by increasing its interest rates and approving the Transmission Protection Instrument to ensure the effective transmission of monetary policy.

China, on the other hand was faced with a range of economic challenges, partly due to COVID-19 lockdowns. Business activity slowed down across the board which included factory output, investment, consumer spending, youth hiring and real estate. The lockdowns added to the global headwinds given China being the biggest crude oil importer and the largest supplier of industrial products to the world.

Kina Bank Outlook.

As the country comes out of a very challenging election period, local business houses have expressed concern over the disruption of business activity caused by election-related violence. Regardless, business activity in the first half of this year has increased as a result of election-related spending. This has been reflected in the strong activity growth in the retail market. As per data provided by BPNG, bank debit card usage rates in July increased by +15.12% from the previous year.

Initial forecasts for PNG's inflation in 2022 was 5.00%, however first quarter inflation was higher-than-expected at 6.90% as per the Consumer Price Index (CPI) in March. Much of this inflationary pressure is imported, given the rising energy prices and volatile commodity prices amidst a complex and unpredictable geopolitical environment.

As the Russia-Ukraine war reaches nearly half a year of conflict along with the ongoing Global Supply Chain Crisis,

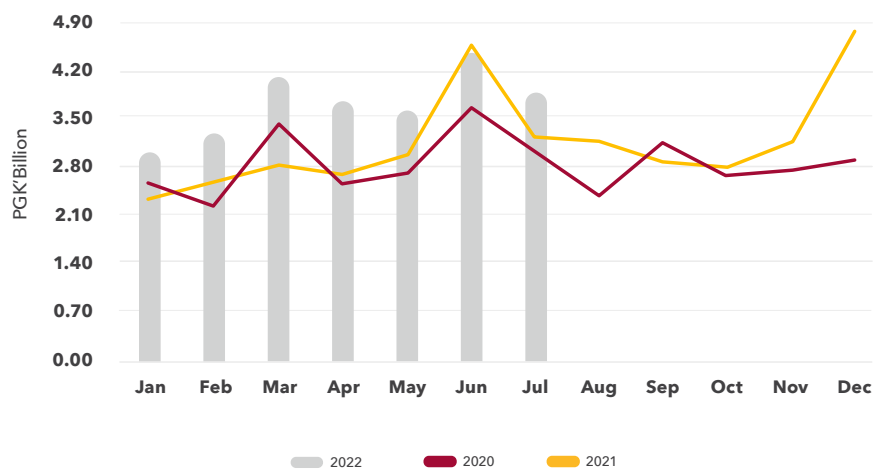
fears of a global recession have taken centre stage in decision making. With higher-than-expected inflation, global financial conditions have become tighter especially in the US and major European economies. Furthermore, a reduction in consumption and tighter monetary policy have driven growth down to 2.30% in the US, and 2.60% in the Eurozone, causing global output to contract in the first half of this year.



FX Market.

In July, the U.S dollar depreciated against its competitors, owing to recession fears heightened by weaker economic data, together with market views on the implication of rate hikes on the U.S economic growth. However, the greenback rose against the Euro, as growing concerns about economic recession in Europe saw the EUR drop below parity (versus the U.S dollar) for the first time in nearly 20 years. A weaker U.S dollar weighed on the Kina exchange rate, falling off from its previous month's peak against the AUD, GBP, NZD and JPY.

Total FX market turnover was at PGK3.87b, up by +17.87% from the corresponding period of 2021. FX data from BPNG shows that FX flows remained relatively higher than the past two years. However, with the available FX flows in the country, it is still not enough to meet the domestic



demand. This continues to remain a challenge for businesses trying to obtain the required amount of FX to settle import orders, meet off-shore investment targets, or dividend payments. Steamships Trading

Company Limited announced to defer the payment of final dividend of 2021 to 31st August due to FX challenges.

PNG Equities.

Santos Limited (PNGX: STO | ASX: STO) released its second quarter report in July. The Group delivered a record performance on the back of strong base business and diversified portfolio. Total sales revenue increased +85.00% to US\$3.80b and free cash flow stood at US\$1.70b, up +199% over the last six months. Chief Executive Officer, Kevin Gallagher said that "Santos is positioned as a leading and reliable LNG supplier into Asia and we are well placed to take advantage of growing Asian demand for LNG, which is forecast to double by 2050."

In terms of equity performance, the Kina Securities index (KSi) was up +0.25%, supported by an increase in the share price of BSP Financial Group Limited (PNGX: BSP | ASX: BFL). Meanwhile, the Kina Securities Home index (a subset of KSi measuring PNGX-based stocks) remained unchanged.

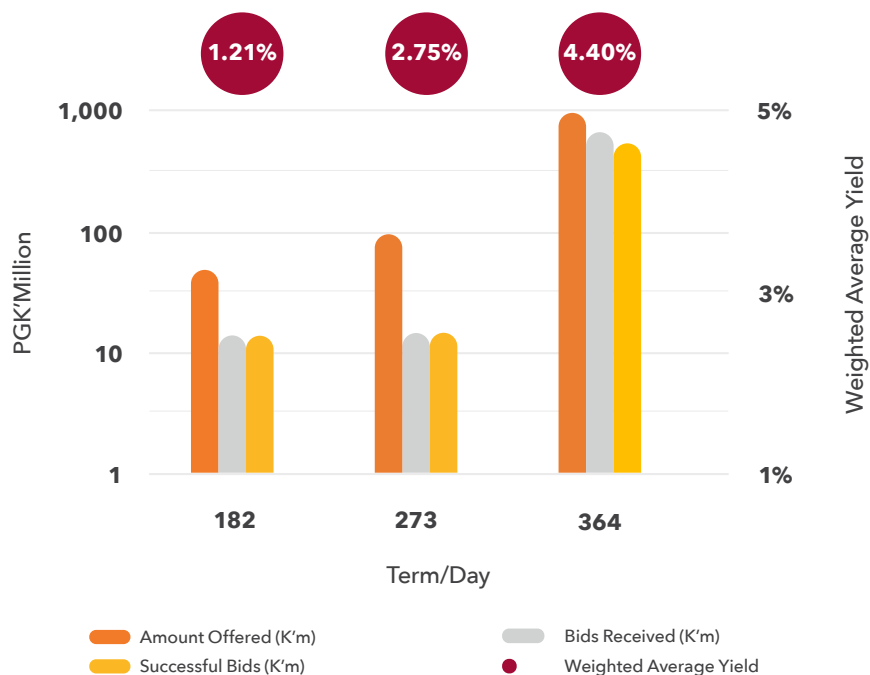
	PRICE*		MTD		YTD
PNG Stock Exchange (PNGX)					
Kina Securities Ltd (KSL)	2.90	↓	-3.3%	↓	-1.7%
Credit Corporation PNG (CCP)	1.85	-	0.0%	↑	10.1%
BSP Financial Group Ltd (BSP)	12.41	↑	0.1%	↑	1.3%
Australian Securities Exchange (ASX)					
Kina Securities Ltd (KSL)	0.88	↑	-7.3%	↑	2.9%
BSP Financial Group Ltd (BFL)	5.00	↑	2.5%	↑	17.1%
Newcrest Mining Ltd (NCM)	19.3	↓	-4.8%	↓	-21.2%
Santos Limited (STO)	7.30	↑	1.3%	↑	15.7%
PNG Market Indices					
Ksi	6,279.62	↑	0.3%	↑	7.1%
KSHi	15,356.56	-	0.0%	↑	6.7%

*PNGX prices in PGK; ASX prices in AUD.

PNG Cash & Fixed Income.

Yield on the Government’s 1-year Treasury bill (T-bill) recovered in July. Data showed that 1-year T-bill rose five straight weeks, rallying from this year’s lowest peak of 2.46%. For the month 1-year paper gained about 185 bps. During the month, the Government raised PGK603.61m, from the total offering of PGK1.15b. The Government also raised about PGK152.50m through Treasury bond issuance (Government Inscribed Stock) – about 69% of the bids were unsuccessful. Investors have shown strong demand for 2-year and 10-year bonds.

The Bank of Papua New Guinea raised in total of PGK756.11m and the overall auctions were under-subscribed.



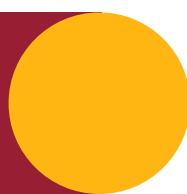
Commodities.

Major global commodities had a challenging month in July posting negative returns, with the exception of Cocoa (+2.56%), LNG (+9.19%), and Silver (+2.69%), finishing above last month’s peak. Declines in energy (excluding LNG), precious metals and base metals were due to growing inflation and fears surrounding another global economic contraction.

While in agricultural products, declines were mostly to do with an increase in output for cocoa and palm oil. Cocoa grindings increased in Europe and South-East Asia, while major palm oil producer and exporter, Indonesia, has helped ease some worries about supply shortages with official Government announcements looking to allow for more palm oil exports.

LNG was the top performer for the month, settling higher on concerns over return of the Nord Stream pipeline, along with rising demand due to heatwave.

	PRICE (USD)		MTD		YTD
Agriculture					
Coffee (US cents/lb)	217.00	↓	-4.9%	↓	-3.9%
Cocoa (US\$/mt)	2,323.00	↑	2.56%	↓	-7.8%
Palm Oil (RM/tn)	4,355.00	↓	-10.9%	↓	-15.6%
Energy					
Brent Crude (US\$/bbl)	110.01	↓	-1.5%	↑	40.7%
LNG (US\$/mmBtu)	42.23	↑	9.18%	↑	38.5%
Light Crude WTI Futures (US\$/bbl)	98.62	↓	-9.1%	↑	30.4%
Precious Metals					
Gold (US\$/oz)	1,781.80	↓	-1.1%	↓	-2.7%
Silver (US\$/oz)	20.20	↑	2.69%	↓	-13.7%
Base Metals					
Copper (US\$/lb)	3.57	↓	-0.9%	↓	-20.1%
Iron Ore (US\$/mt)	106.33	↓	-8.0%	↓	-5.6%



International Equities.

Global equities looked positive in July after being in red for the past six months. U.S equities closed out the month with positive returns as investors found some comfort in the remarks of the Fed Chair, Jerome Powell.

Following a much-anticipated rate hike of 75bps, Mr. Powell commented that the pace of the Fed's monetary policy tightening might slow down moving forward. Wall Street's three major benchmarks finished strongly with the Dow Jones Industrial Average rising +5.62%, the S&P 500 gaining +7.97%, and the tech-heavy, Nasdaq Composite posting a +11.35% gain. In Europe, major key benchmarks (FTSE +3.55%, DAX +5.24%, and CAC40 +8.72%) settled in the green as upbeat corporate earnings and higher energy prices overshadowed rate hikes and recession fears. Meanwhile, share markets in the Asia-Pacific subdued with the Japanese Nikkei (+7.19%) and Australia's S&P/ASX 200 (+6.20%) closed up, while markets in China (Shanghai Composite -3.97%) and Hong Kong (Hang Seng Index -7.79%) saw losses.

	Price (USD)		MTD		YTD
North America					
Dow Jones IA	32,845.13	↑	5.62%	↓	-9.6%
S&P 500	4,130.29	↑	7.97%	↓	-13.3%
NASDAQ	12,390.69	↑	11.35%	↓	-20.8%
Toronto S&P/TSX	19,692.92	↑	4.41%	↓	-7.2%
Europe					
FTSE	7,423.43	↑	3.55%	↑	0.5%
DAX	13,484.05	↑	5.24%	↓	-15.1%
CAC40	6,448.50	↑	8.72%	↓	-9.9%
Asia					
Nikkei	27,801.64	↑	7.19%	↓	-3.4%
Hang Seng Index	20,156.51	↓	-7.79%	↓	-13.9%
Shanghai Composite	3,253.24	↓	-3.97%	↓	-10.6%
Sensex	57,570.25	↑	8.81%	↓	-1.2%
S&P/ASX 200	6,945.15	↑	6.20%	↓	-6.7%

International Cash & Fixed Income.

Yields for Government Bonds snapped their six months winning streak in July, while bond prices increased following the markets expectations that policymakers might loosen up with rate hikes given the broader slowing down of economic growth. However, bond yields remained strong on a Year-to-date basis.

The U.S 10-year Treasury yield closed 23bps lower at 2.65%. In Europe, U.K 10-year yields shed 22bps and the France 10-year yield dropped from 1.80% to 1.38%.

The Asia-Pacific had a similar trend to the U.S and Europe, falling from last month's peak. The Australian 10-year bond lost 53bps at 3.06%, while New Zealand's 10-year bond settled at 3.42%, down by 30bps.

10 Year Government Bond Yields					
COUNTRY	YIELD		MTD		YTD
United States	2.65%	↓	-0.23%	↑	1.14%
United Kingdom	1.86%	↓	-0.22%	↑	0.89%
Australia	3.06%	↓	-0.54%	↑	1.39%
New Zealand	3.42%	↓	-0.30%	↑	1.03%
France	1.38%	↓	-0.42%	↑	1.18%
Japan	0.19%	↓	-0.04%	↑	0.11%



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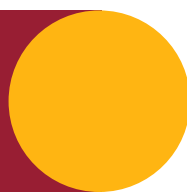
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