

# Monthly Report.

August 2022



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## Month Change Highlights.

<p><b>+26.17%</b> <b>YoY</b> Bank Debit Card Usage</p>	<p>Retail activity continues to improve from last year, as business houses returned to full operations. Data collected via BPNG's Retail Electronic Payment System (REPS) shows that total transactions recorded in August was 1.58m, up by +26.17% from 12 months ago.</p>	<p><b>+17.41%</b> Liquefied Natural Gas (Lng)</p>	<p>The energy crisis in Europe, together with the growing use of air-conditioning due to the hot weather, has spooked LNG prices to jump +17.41%, adding further gains to last month's peak. LNG was the key performer on the commodity front. Its peer, crude oil, fell on recession fears.</p>
<p><b>+25.61%</b> <b>YoY</b> FX Market Turnover</p>	<p>FX market conditions in PNG continued to improve, as per August FX data from BPNG. Data showed that total FX market turnover increased by +25.61% from the same period in 2021. Strong commodity prices will continue to support the FX market.</p>	<p><b>+11.39%</b> Coffee</p>	<p>Coffee had a solid month in August, closing +11.39% higher at 239 cent/lb, as broader output concerns in Brazil and Vietnam provided support to the rising prices. Coffee spearheaded the gains in the agriculture industry.</p>
<p><b>Fell at 4.18%</b> 1-Year Treasury Yield</p>	<p>Yield on the Government's 1-year Treasury Bill closed out the month at 4.18%, falling 13 basis points (bps). Demand for the paper continues to remain strong.</p>	<p><b>+0.01%</b> Kina Securities Index (KSI)</p>	<p>The Kina Securities index (KSI) barely moved in August. The benchmark inched +0.01% higher, supported by an increase in the share price of Kina Securities Limited (KSL). KSL settled +3.45% higher at PGK3.00. Publicly listed companies released their first half year and full year results for 2022.</p>

## Market Commentary.

The month of August saw some major announcements in the PNG market. Kina Bank announced changes to Executive Management Roles, as Chief Financial Officer and Company Secretary, Mr. Chetan Chopra, retires from his post. His retirement follows a very successful 6 years with the Kina Group. This also saw the appointment of Mr. Johnson Kalo as Acting Chief Financial Officer and Company Secretary. Also announced was the appointment of Mr. Sachin Samant as the Groups' new Chief Information Officer.

BSP Capital announced their half year results, noting a profit of K396 million, after paying the Government's Additional Company Tax of K190 million imposed in March. Kina Bank also

announced its first half-year net profit of K45.6 million, which is a 15% year-on-year increase.

Government Treasury Bills (T-Bills) continue to be oversubscribed at weekly auctions. The T-Bills Weighted Average yields dropped by -3.00% across all series. As supply for government papers decrease and investor demand increases, yields will continue to move downwards.

Globally, markets experienced widespread losses as major markets finished negatively for the month as volatility in global equities continue. This came as US Federal Reserve Chair, Jerome Powell, reinforced the Fed's position to curb inflation with further

rate hikes combined with higher inflation outcomes from data releases in the USA and UK in particular.

The hawkish remarks by the Fed's also resonated with the European Central Bank as they reaffirmed rate hikes amid escalating inflation in Europe. Meanwhile in Asia, the Bank of Japan saw no reason to increase interest rates, while weak economic data in China caused The People's Bank of China to slacken monetary policy.

## Kina Bank Outlook.

In his inaugural address to the 11th Parliament on 9th August, Prime Minister Elect, Hon. James Marape highlighted his government's focus for the next 5 years which are; strengthening the democratic processes, building a resilient economy, building economic infrastructure, addressing natural resources, address business and investment confidence, addressing law and order, working on education and health, and strengthening the institutions of state.

As part of the government's focus to rebuild the economy, they have taken a 'targeted approach' by creating two new Ministerial portfolios for Coffee & Palm Oil. Palm Oil & Coffee are the two largest Agricultural exports in PNG. Palm Oil, being the largest agriculture

commodity, contributes about 40% (K1.2 billion) annually to PNG's export revenue in the agriculture sector. Likewise, coffee exports contribute about 27% of agricultural exports and 6% of GDP.

Another focus for the new government will be to strengthen investor confidence in the PNG economy. A key component of this is political stability, which the current government is confident will be intact for the next 5 years. Furthermore, emphasis will be placed on the Connect PNG Policy in the coming years, to open the economic corridors of the country to transition from being a 'non-renewable resource dependent' economy to a broad-based economy. This will open new opportunities for foreign investment, as well as boost the

local capacity for new and emerging industries and sectors.

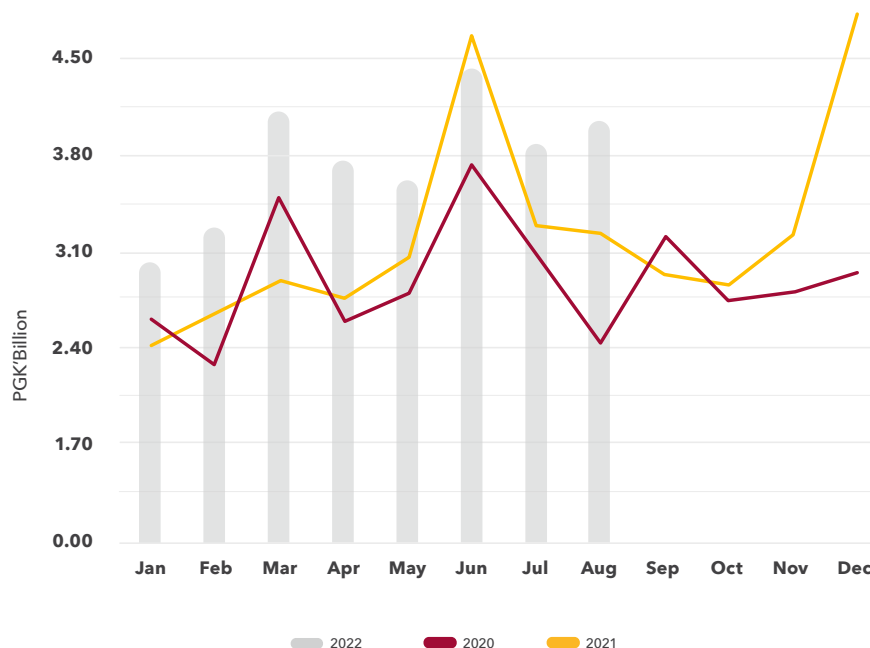
In the shorter term, confidence is building locally on the back of strong commodity prices and improving sentiment given ongoing progress towards the larger resource projects.

Internationally, stagflation remains an ever present threat as the impact of lockdowns and drought in China weigh on global growth sentiment whilst inflation remains an ongoing issue. Earnings outcomes generally remain elevated internationally and both bonds and equity markets are expected to remain volatile as markets continue price in these factors.

## FX Market.

FX market conditions in PNG continued to improve. The FX data from the Bank of Papua New Guinea (BPNG) suggested that the country's FX situation has improved significantly compared to the last two years. The market continued to see assistance from BPNG. For this month, BPNG intervened in the market with a PGK0.18b, which is slightly below its monthly average in percentage terms. This was somewhat surprising given the improved reserves backdrop. The FX market is currently being driven organically and the outlook for the FX market looks promising, given stronger global commodity prices.

Total FX market turnover in August grew +25.61% compared to the corresponding period in 2021 and added about +5.62% from last month's turnover.



## PNG Equities.

Listed companies released their half year reports to the market during the month. BSP Financial Group (PNGX: BSP | ASX: BFL) and Kina Securities Limited (PNGX: KSL | ASX: KSL) both reported stronger underlying financial performance over the first six months of 2022. In the resource industry, Santos Limited (PNGX: STO | ASX: STO) achieved a record result for the same period, while Newcrest Mining Limited (PNGX: NCM | ASX: NCM) announced its full-year results, reporting a solid operating profit and financial performance for 2021/2022. Further details are available at [www.pngx.com.pg](http://www.pngx.com.pg) or at [kina history of news flashes].

The Kina Securities index (KSi) closed near flat in August, with Kina Securities (or KSL) rallying after last month's drop. Kina closed higher at PGK3.00, gaining +3.45% for the month. Share prices for other listed companies remained largely unchanged in PNGX.

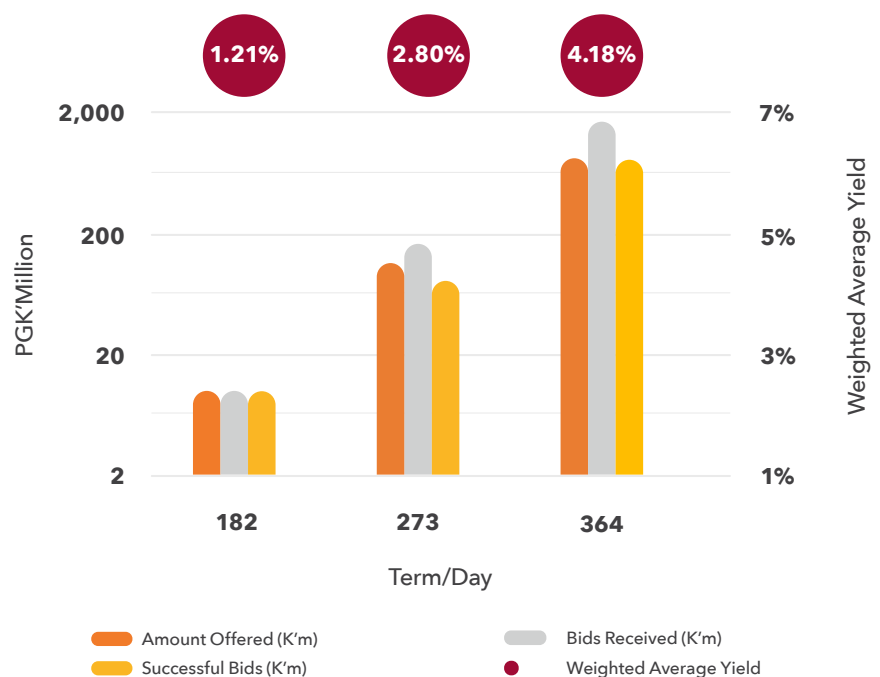
	PRICE*		MTD		YTD
<b>PNG Stock Exchange (PNGX)</b>					
Kina Securities Ltd (KSL)	3.00	↑	3.45%	↑	1.69%
Credit Corporation PNG (CCP)	1.85	-	0.00%	↑	10.12%
BSP Financial Group Ltd (BSP)	12.41	-	0.00%	↑	1.31%
<b>Australian Securities Exchange (ASX)</b>					
Kina Securities Ltd (KSL)	0.92	↑	4.55%	↑	7.60%
BSP Financial Group Ltd (BFL)	4.90	-	0.00%	↑	14.75%
Newcrest Mining Ltd (NCM)	17.73	↓	-7.66%	↓	-27.57%
Santos Limited (STO)	7.89	↑	11.28%	↑	25.04%
<b>PNG Market Indices</b>					
Ksi	6,280.46	↑	0.01%	↑	7.15%
KSHi	15,356.56	-	0.00%	↑	6.71%

\*PNGX prices in PGK; ASX prices in AUD.

## PNG Cash & Fixed Income.

The absence of a Debt Financing Plan for 2022 has left investors concerned about the Government's borrowing plans in the domestic debt market. It is clear that the Government still has a deficit budget to fund and the market awaits details of this. Auctions for Government Inscribed Stocks (GIS) and Treasury Bills (T-Bills) were generally oversubscribed as liquidity in the system remains ample, keeping interest rates under pressure locking in recent falls. Hence, no new money was introduced into the market during the month.

The Government raised about PGK1.4b in August. Of this total amount, about PGK1b was sourced through the short Dated T-Bills, and PGK0.4b was raised through Treasury bonds. Investors showed strong demand for 2-year and 10-year bonds. Demand for shorter dated paper continued to remain strong.



## PNG Cash & Fixed Income Continued

Yield on the 10-year bond moved 12 basis points to 6.92%, from 6.80% in July, while the 1-year and 2-year papers slightly eased at 4.18% (down 13bps) and 4.84% (down 16bps), respectively.

The Kina Facility Rate (KFR) remains the same from July at 3.25%. The Cash Reserve Requirement (CRR) also remains the same from July at 8%. The KFR is the rate at which funds can be

lent or borrowed, while the CRR is set to determine the amount of cash held by BPNG.

## Commodities.

Prices for agricultural commodities such as coffee, cocoa, and palm oil increased in August as demand improved following the full re-opening of economies. Coffee closed the month higher at 239 cents/lb, which was +11.39% higher than the prior month. Broader output concerns of coffee in Brazil (world's largest producer) and Vietnam continued to apply upward pressure on coffee prices. Less conducive weather conditions in Africa, combined with increasing prices for farm inputs, supported cocoa prices to increase further from last month's peak.

In the energy market, crude oil prices have fallen back from their recent highs this month as global growth concerns weighed on sentiment. Traders fear that as central banks continue to fight against inflation, global demand for oil will be impacted. Crude oil trended below \$100 per barrel. Meanwhile, liquefied natural gas (LNG) enjoyed a bullish month on the back of Europe's energy crisis, heightened by the increasing use of air-conditioning during summer. LNG settled +17.41% higher at \$53.95/MMBtu.

On the other hand, metal prices were subdued on a stronger U.S. dollar.

	PRICE (USD)		MTD		YTD
<b>Agriculture</b>					
Coffee (US cents/lb)	239.00	↑	11.39%	↑	5.75%
Cocoa (US\$/mt)	2,427.00	↑	6.40%	↓	-3.69%
Palm Oil (RM/tn)	4,003.00	↑	0.45%	↓	-22.41%
<b>Energy</b>					
Brent Crude (US\$/bbl)	96.49	↓	-0.30%	↑	23.42%
LNG (US\$/mmBtu)	53.95	↑	17.41%	↑	76.91%
Light Crude WTI Futures (US\$/bbl)	89.55	↓	-1.22%	↑	18.39%
<b>Precious Metals</b>					
Gold (US\$/oz)	1,726.20	↓	-2.83%	↓	-5.76%
Silver (US\$/oz)	17.88	↓	-10.11%	↓	-23.63%
<b>Base Metals</b>					
Copper (US\$/lb)	3.52	↑	1.49%	↓	-21.30%
Iron Ore (US\$/mt)	95.23	↓	-10.84%	↓	-15.46%

## International Equities.

Equity markets in the U.S and Europe fell on hawkish remarks by central banks during the Jackson Hole Economic symposium. Central banks suggested that further rate hikes are needed to tame inflation. Also in Europe, the energy crisis - triggered by the Russian invasion of Ukraine and worsened by the summer heat - weighed on investor confidence. Meanwhile, the Asian markets inched slightly higher amid fears of a recession.

Despite global recessionary fears, as well as hawkish remarks from central banks regarding further strengthening of monetary policy, emerging markets outperformed developed markets by noting marginal returns. Turkey was the best performer in the Emerging Market (EM) index, recording a double-digit return.

	Price (USD)		MTD		YTD
<b>North America</b>					
Dow Jones IA	31,510.43	↓	-3.97%	↓	-13.3%
S&P 500	3,955.00	↓	-4.82%	↓	-17.0%
NASDAQ	11,816.20	↓	-6.73%	↓	-24.5%
Toronto S&P/TSX	19,330.81	↓	-1.10%	↓	-8.9%
<b>Europe</b>					
FTSE	7,284.15	↓	-2.17%	↓	-1.4%
DAX	12,834.96	↓	-5.54%	↓	-19.2%
CAC40	6,125.10	↓	-5.36%	↓	-14.4%
<b>Asia</b>					
Nikkei	28,091.53	↑	1.26%	↓	-2.4%
Hang Seng Index	19,954.39	↑	0.95%	↓	-14.7%
Shanghai Composite	3,202.14	↑	1.22%	↓	-12.0%
Sensex	59,537.04	↑	2.03%	↑	2.2%
S&P/ASX 200	6,986.76	↑	0.15%	↓	-6.2%

## International Cash & Fixed Income.

After last month's drop, government Treasury yields have rallied as investors priced in bets about rising inflation and more interest rate hikes in the months ahead. During the Fed's economic symposium, central banks re-affirmed their focus on inflation. Rising inflation has caused investors to demand higher returns for the risk of lending money to the government, which has resulted in higher Treasury yields.

The U.S 10-year bond yield closed higher at 3.19% in August, which is an increase of 49 bps from the previous month. In Europe, the U. K's 10-year bond gained 89 bps to 2.80%, while France added 71 bps to 2.15%. Similar trends were seen in Asia-Pacific; Australia's 10-year bond increased to 3.60%, and the Kiwi gained 67 bps to 3.98%, while Japan rose to 0.23% from 0.19%.

10 Year Government Bond Yields					
COUNTRY	YIELD		MTD		YTD
United States	3.19%	↑	0.49%	↑	1.68%
United Kingdom	2.80%	↑	0.89%	↑	1.83%
Australia	3.60%	↑	0.52%	↑	1.93%
New Zealand	3.98%	↑	0.67%	↑	1.59%
France	2.15%	↑	0.71%	↑	1.96%
Japan	0.23%	↑	0.04%	↑	0.16%

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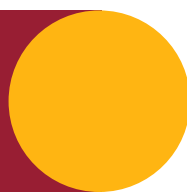
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