

Quarterly Report.

September 2022



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Quarter Highlights.

4%

Real Gross Domestic Product (GDP)

The Bank of PNG (BPNG) improved its outlook for the domestic economy for 2022. BPNG revised its real GDP projection from 2.00% to 4.00% based on higher production and commodity prices and increasing infrastructure spending by the Government and donor agencies.

PGK9.24 BILLION

New Domestic Drawdown

During the first six months of 2022, the Government raised about PGK9.24b from the domestic debt market. About PGK7.99b was raised through T-bills and PGK1.25b was sourced from T-bonds. The net domestic borrowing stood at PGK2.57b. Domestic borrowing is likely to increase further as the Government needs funds to finance budget deficit.

-20%

Price drop for Crude oil

Crude oil prices dropped more than -20.00% as investors fear that rising risk of global economic recession might reduce demand for oil. A stronger U.S dollar together with property woes and Covid-19 curbs in China adds to the worries. Losses in oil prices more than offset gains posted by Liquefied Natural Gas.

+5.47%

Consumer Price Index (CPI)

Inflation data for Q2, released by the National Statistics Office showed that the general prices for goods and services have slightly eased to 5.47%, from 5.94% in March quarter 2022. This was due to a drop in education, clothing and footwear, as well as food and non-alcoholic beverages.

PGK5.98 BILLION

Budget Deficit

The Government revised their revenue and expenditure projections for 2022 in the supplementary budget. Total revenue increased to PGK17.07b and expenditure estimate at PGK23.05b, while maintaining a deficit balance at PGK5.98b.

+0.25%

Kina Securities Index (KSi)

The KSi posted modest gains in Q3, supported by a higher share price of Santos and BSP. Meanwhile, the Kina Securities Home Index (subset of KSi), lost about -0.29% for the quarter. On year-to-date, both indices finished more than +6.00%.

Market Commentary.

The Kina Facility Rate (KFR) remained at 3.25% by the end of the third quarter. However, BPNG increased the Cash Reserve Requirement (CRR) from 8.00% to 9.00%. This increase was in line with the Central Banks indication in July to tighten monetary policy due to a significant increase in liquidity because of high government tax revenue from resource tax - given the increase in international commodity prices. The new CRR was effective on Monday 12 September. The third quarter of 2022 also saw a milestone achievement for PNG's capital markets as the Securities Commission of PNG (SCPNG) announced the approval of wholesale corporate bonds to be issued through the PNG National Stock

Exchange (PNGX). This is a significant step forward for PNG, as a healthy bond market will open up opportunities and benefits for the country.

Looking globally, the U.S may be going through one of the worst oil crisis it has seen in 40 years. As the Organisation of the Petroleum Exporting Countries (OPEC) plans to cut oil production by 2 million barrels of oil per day in November, the impact of this decision will have a tremendous effect on the U.S economy, and most importantly global oil prices. The cutting of production by OPEC will cause the price of crude oil to go up; hence, the U.S government in an effort to stabilise the price of oil will release its Strategic Petroleum Reserves (SPR).

However, in March this year, President Biden already announced the release of 1 million barrels of crude oil per day from the SPR for the next 6 months, and since then the SPR has depleted from 640 million barrels to 450 million barrels, the lowest it has been in 40 years. Ultimately, what this means for the rest of the world is global price stability. Experts believe that this is necessary especially for countries going through an energy crisis. However, the counter argument that most Americans are putting forward is that the U.S government should not use the reserves for anything other than emergency, and that even though price may be stabilized, using the SPR is not a sustainable solution.

Kina Bank Outlook.

Recent publications by the central bank of PNG (BPNG) and the Department of Treasury (DoT) showed that the domestic economy would recover strongly this year, in spite of underlying headwinds amid global economic recession. BPNG and DoT made significant adjustments to their initial projections, however both are expecting more than 4.00% growth rate in GDP, in real terms. BPNG increased its outlook to 4.00%, from 2.00%, while the DoT cut its projection from 5.40% to 4.70%. They are betting

on high production and increasing commodity prices, coupled with an increase in Government spending to drive growth. In addition, business activity will further support growth as business houses have returned to full operation, after the disruptions caused by the Covid-19 pandemic.

Inflation slightly improved in Q2, but the carry on inflationary pressures continue to erode the Kina's purchasing power. We anticipate further increases in inflation for the rest of this year, as the 'Russia-

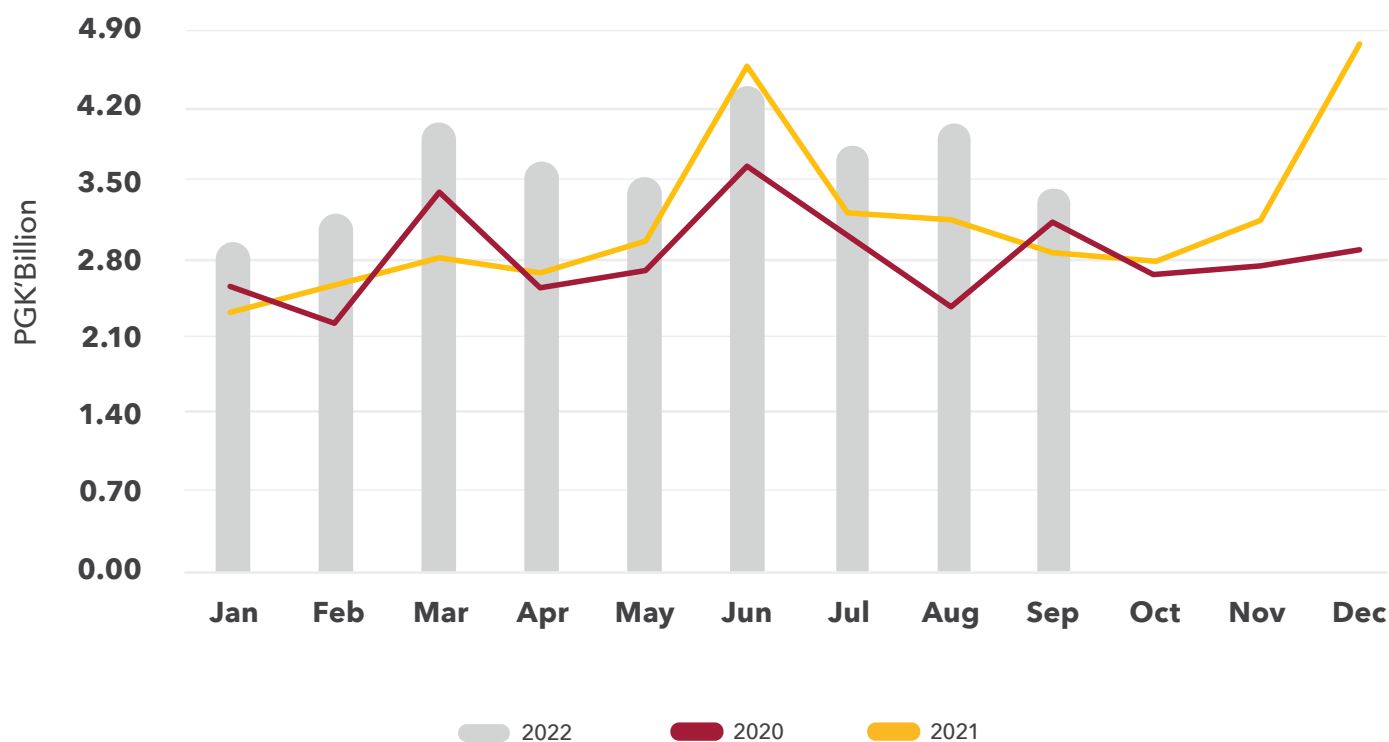
Ukraine' war continues, along with reduced oil output by OPEC+ member countries, and supply chain bottlenecks add to high levels of imported inflation. Domestically, the Government's deficit financing, especially from external sources, will inject more money into the economy and beef up aggregate demand for goods and services both locally and imported, further adding more inflationary pressure.

PNG FX Market.

Total FX market turnover eased in the September quarter, however, it remained strong compared to the corresponding period in 2021. Higher market turnover depicts improving FX market inflows, owing to high commodity prices. Commercial banks and other licensed FX dealers in the country continue to channel FX from

their corresponding banks to support the market. According to BPNG's FX data, on average, market inflows make up about 94% of the total turnover, and BPNG intervention accounts for about 6% on a monthly basis. The September quarter saw a total market turnover of PGK11.38b. Of the total turnover, BPNG assisted the market with PGK0.39b.

In terms of currency movements, the Kina exchange rate remained unchanged against the U.S dollar at 0.2840. However, it is appreciating against other currencies (AUD, JYP, EUR, and GBP) in cross-currency terms. A stronger U.S dollar is helping to fortify the Kina exchange rate.



¹ As the regulator, BPNG normally intervenes with the FX market



PNG Equities.

The Securities Commission (SCPNG) announced the approval of the new PNGX Debt Market Rules of Issuance and Listings of Corporate Bonds through PNGX. The debt market will provide an alternative for capital raising and give investors the chance to diversify their investments. This achievement is the result of years of work and commitment between SCPNG, key stakeholders and industry players in the financial sector.

The last three months also saw announcements by publicly listed companies regarding their half-year financial performance for 2022. Despite the challenging business environment in PNG, and the state of the global economy, most companies delivered strong underlying results. In the banking sector, BSP Financial Group and Kina Securities Limited achieved increased profits of PGK396.12m and PGK45.59m respectively. Mega-caps like Santos Limited (US\$1.17b) and Newcrest Mining Limited (US\$872m) also reported increased profits, mostly driven by an increase in production and high commodity prices.

Consequently, Company Boards announced to return some of the margins to shareholders as interim dividends. The Kina Securities Index (KSi), which tracks all 12 publicly listed companies in PNG, noted a modest

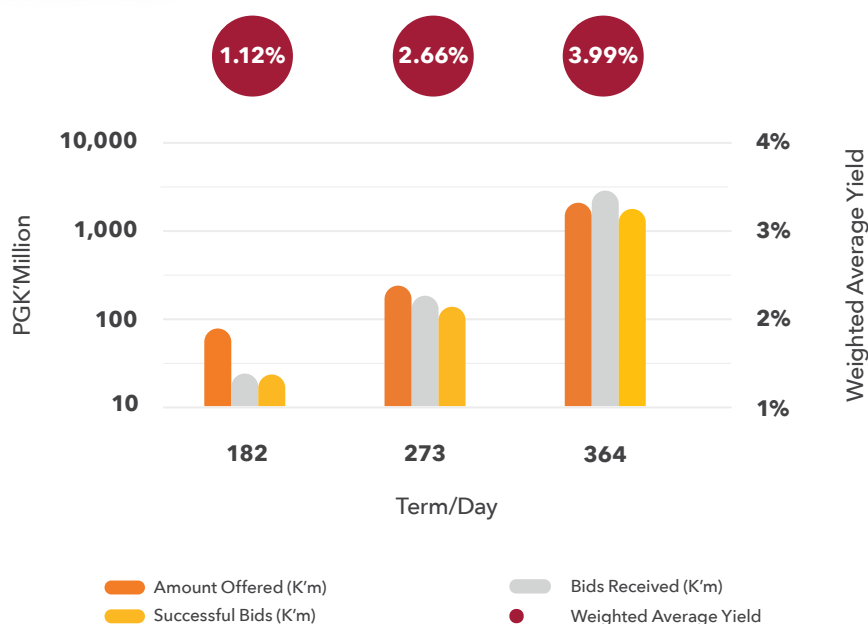
gain, supported by a higher share price of Santos and BSP. Meanwhile, the Kina Securities Home Index (a subset of KSi), lost about -0.29% in Q3. Overall, both indices finished more than +6.00% on year-to-date.

	PRICE*		Q3		YTD
PNG Stock Exchange (PNGX)					
Kina Asset Management Limited (<i>KAM</i>)	0.95	↓	-5.00%	↓	-4.04%
Kina Securities Ltd (<i>KSL</i>)	2.90	↓	-3.33%	↓	-1.69%
BSP Financial Group Ltd (<i>BSP</i>)	12.41	↑	0.08%	↑	1.31%
Santos Limited (<i>STO</i>)	19.10	↑	0.53%	-	N/A
Australian Securities Exchange (ASX)					
Kina Securities Ltd (<i>KSL</i>)	0.85	↑	5.59%	↓	-0.58%
BSP Financial Group Ltd (<i>BFL</i>)	5.00	↑	1.01%	↑	17.1%
Newcrest Mining Ltd (<i>NCM</i>)	16.92	↓	-19%	↑	30.88%
Santos Limited (<i>STO</i>)	7.09	↓	-4.45%	↑	12.36%
PNG Market Indices					
KSi	6,279.50	↑	0.25%	↑	7.13%
KSHi	15,311.87	↓	-0.29%	↑	6.4%

*PNGX prices in PGK; ASX prices in AUD.

PNG Cash & Fixed Income.

For the third quarter of this year, yield on PNG's 1-year Treasury Bill (T-Bill) recovered at the beginning of the third quarter in July, but started to drop mid-August. As per auction results provided by BPNG, the 1-year paper gained about 144 basis points (bps) from the last quarter. During the Quarter, the government raised about K2.82b from T-Bills alone, while the Government's Treasury bond (commonly referred to as Government Inscribed Stocks or GIS for short) raised K0.842b. Overall, about K3.66b was raised in the domestic debt market in Q3.



International Equities.

A sell-off in equity markets continued in Q3 2022. Key benchmarks across the U.S, Europe and Asia closed with negative returns, thus extending losses to prior quarters, leaving investors wondering when the market will normalise. Investors are exiting the markets against a backdrop of energy crisis, rising inflation, along with higher interest rates and slow economic growth. It is highly likely that the global equity market will further add to these losses in the final quarter of 2022.

Emerging Markets (EM) also had a tough session during the quarter. China was among other EMs that posted significant losses. Meanwhile, Turkey, India, Indonesia and Brazil outperformed the broader index, registering strong gains.

	Price (USD)		Q2		YTD
North America					
Dow Jones IA	28,725.51	↓	-6.66%	↓	-21.0%
S&P 500	3,585.62	↓	-5.28%	↓	-24.8%
NASDAQ	10,575.62	↓	-4.11%	↓	-32.4%
Toronto S&P/TSX	18,444.22	↓	-2.21%	↓	-13.1%
Europe					
FTSE	6,893.81	↓	-3.84%	↓	-6.7%
DAX	12,114.36	↓	-5.24%	↓	-23.7%
CAC40	5,762.34	↓	-2.71%	↓	-19.4%
Asia					
Nikkei	25,937.21	↓	-1.73%	↓	-9.9%
Hang Seng Index	17,222.83	↓	-21.21%	↓	-26.4%
Shanghai Composite	3,024.39	↓	-11.01%	↓	-16.9%
Sensex	57,426.92	↑	8.31%	↓	-1.4%
S&P/ASX 200	6,474.20	↓	-1.43%	↓	-13.0%

International Cash & Fixed Income.

Yields on government bonds for developed markets were up in Q3, marking their third straight quarters of gain as central banks continue the interest rate hike cycle. The consensus, from the Fed's annual economic symposium held in August, was that there is more need for rate hikes to tame stubborn inflation. Henceforth, we expect to see rate hikes continue in the coming months.

The U.S Federal Reserve (Fed) increased the Funds rate by 150bps in their July and September meetings, bringing the target range for the rate between 3.00% and 3.25%. The European Central Bank resonated with the Fed by raising the interest rate twice during the quarter. The Reserve Bank of Australia also lifted its cash rate by 150 bps to 2.60%.

The 10-year Government yields in the U.S, Europe, and Asia finished strong as investors priced in more rate hikes by the central banks in the future.

10 Year Government Bond Yields					
COUNTRY	YIELD		Q3		YTD
United States	3.83%	↑	0.82%	↑	2.32%
United Kingdom	4.09%	↑	1.86%	↑	3.12%
Australia	3.89%	↑	0.23%	↑	2.22%
New Zealand	4.30%	↑	0.44%	↑	1.92%
France	2.72%	↑	0.80%	↑	2.52%
Japan	0.24%	↑	0.01%	↑	0.17%

Commodities.

The third quarter of 2022 saw more losers than winners amid the current global economic backdrop of rising interest rates and a strong US dollar, which weighed heavy on commodity prices.

Cocoa was the only commodity in Agriculture to see a price increase from the previous quarter, closing at \$2,354.00 per metric ton. Prices may continue to increase given that global cocoa supply remains at a deficit; however, forecast for the cocoa market suggests that supply will move to a balanced situation in the 2022-2023 harvest season, as production is expected to increase in the Ivory Coast and Ghana (the world's largest producers of cocoa).

Looking at energy prices, pressure eased a little during the third quarter, aided by slower global economic growth and weaker demand in China. However, potential supply cuts from Russia and underinvestment in oil and gas extraction are causing concerns of a spike in price growth. Countries with greater dependency on energy imports, especially in Europe, will feel the brunt of higher inflationary pressure if energy price growth accelerates.

Meanwhile, Liquefied Natural Gas (LNG) had a strong performance throughout the quarter closing in at \$38.73. Rising prices in Europe and low reserves in the US pushed LNG prices higher in the third quarter. Meanwhile Brent and WTI crude oil fell over 20% by the end of the third quarter.

	PRICE (USD)		Q2		YTD
Agriculture					
Coffee (US cents/lb)	222.00	↓	-5.16%	↓	-2.01%
Cocoa (US\$/mt)	2,354.00	↑	2.75%	↓	-6.59%
Palm Oil (RM/tn)	3,327.00	↓	-34.61%	↓	-35.51%
Energy					
Brent Crude (US\$/bbl)	87.96	↓	-23.39%	↑	12.51%
LNG (US\$/mmBtu)	38.73	↑	0.17%	↑	26.99%
Light Crude WTI Futures (US\$/bbl)	79.49	↓	-24.84%	↑	5.09%
Precious Metals					
Gold (US\$/oz)	1,672.00	↓	-7.49%	↓	-8.72%
Silver (US\$/oz)	19.04	↓	-6.45%	↓	-18.69%
Base Metals					
Copper (US\$/lb)	3.41	↓	-8.02%	↓	-23.67%
Iron Ore (US\$/mt)	95.48	↓	-18.16%	↓	-15.24%



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