

# Monthly Report.

October 2022



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## Monthly Highlights.

Up more than  
**+3%**  
Crude Oil Futures

The prices for crude oil recovered from the September drop, fuelled by tight oil supply. In early October, OPEC+ member countries agreed to cut their overall oil production by 2m/bbl per day to drive up prices. Both Brent and U.S futures settled more than +3.0% higher in October.

**+20  
basis  
points**  
1-year Treasury Bill

During October, yield on the Government's 1-year Treasury bill increased at 4.2%, from the September peak of 3.9%. The yield continued to uptrend after ending an acute free-fall during the first half of 2022.

**+16.2%**  
Palm Oil

Palm oil was the top performer in the commodity market. The prices for the edible vegetable oil increased by +16.2% in October, supported by tight output and increasing demand for the commodity.

**+0.02%**  
Kina Securities  
Index (KSi)

The KSi closed near flat in October, while the Kina Home Index (subset of KSi) settled +1.8% higher. The gains were supported by increasing share prices for Kina Securities Limited and Credit Corporation PNG.

**+10.5%**  
**YOY**  
FX Market Turnover

FX market transactions in October were PGK3.2b - which was +10.5% higher than the same period in 2021, with FX inflows from high commodity prices greatly supporting the domestic FX market.

**+6.0%**  
Consumer Price  
Index (CPI)

The Bank of PNG projected CPI to grow by +6.0% in 2022. BPNG forecasts that higher imported inflation and excess liquidity in the banking system will drive up prices.

## Market Commentary.

An environment of more aggressive interest rate hikes, inflationary pressures, and the on-going geopolitical crisis in Ukraine have continued to cause global commodity prices for some of PNG's main export commodities to remain volatile and spur uncertainty.

In the local financial sector, the PNG Securities Commission announced that it issued five new capital market services licenses to Government-owned Trustee for State-owned Enterprises, Kumul Consolidated Holdings (KCH). The licenses will enable KCH to act as a trustee, fund manager, stockbroker, investment advisor and corporate finance advisor. With its diverse portfolio and commercial and financial focus, it's expected that KCH will add depth to the local capital market.

The impact of increasing local business costs and decreasing household

purchasing power continued to take its toll, especially for those in industries that rely heavily on imports and foreign investment. Tourism has been one of the hardest hit since the COVID-19 lockdowns in 2020, and the recovery since then has been very slow. The PNG Tourism Promotion Authority announced that the number of visitors travelling into the country dropped by 82% between 2019 to 2020 - resulting in 95% of local tourism sector businesses being severely affected, and with more than 90% of cancellations from clients, causing close to 100% loss in revenue. Simple solutions to help the tourism industry such as recommencing the "no cost" Visa on Arrival (VOA) at the customs and immigration arrival clearance at Jacksons instead of a pre-approved cost based VOA with a cumbersome process do not seem to be considered. Adding a VOA cost to tourists puts PNG at a tourism

disadvantage compared to the no cost and easy to obtain VOA, which had been in place pre-COVID-19.

On the global front, market conditions are still relatively unfavourable as inflationary pressures and expectations about policy interest rate hikes increased the uncertainty on the global economic outlook. Long-dated Government bond yields rose as investors priced in more rate hikes from Central Banks, which led to limited liquidity in the financial markets. The key equity benchmarks finished strongly on expectations that the Federal Reserve might ease the pace of interest rate hikes - supported by weaker-than-expected economic activity. Corporate earnings reports are generally better than expected for the time being also helping to buoy equity markets. Commodity prices were generally weak on recession fears.

# Kina Bank Outlook.

The financing of the upcoming 2023 National Budget is expected to be another challenging proposition considering the continued global economic challenges.

As the global economy continues to face harsh economic headwinds with the increasing probability of a global recession, the PNG Government is adamant that the country will be able to weather the economic storm much better than neighbouring Pacific countries. The Bank of PNG announced in its September Monetary Policy Statement that Real GDP was projected to grow by 4% this year - an upgrade from the initial projection

of 2% in the March Statement. Other commentators, including the Australian National University also suggest that 'non-resource GDP' is expected to grow by 13.2% in 2023 with expectations of high commodity prices, paired with high export volumes in the agriculture sector.

In the immediate term, the ongoing global effects of high inflation and supply chain bottlenecks pose a risk to the local economy and consumers. BPNG announced that inflation was +5.47% in the June quarter of 2022 - with annual headline inflation for 2022 expected to increase to 6.00%. Higher imported inflation caused by the Russia/ Ukraine war, the supply-chain crisis,

and higher commodity prices continue to be the main factors impacting the consumer price index. Additionally, the Government's increased external borrowing has resulted in excess-banking liquidity fuelling more price pressures.

Heading into the final 2 months of the year and as the Marape/Ling-Stuckey Government prepares its first budget of the new electoral cycle, we expect that the 'fiscal budget repair' objective will still be the priority, as it continues to restructure its debt stock profile and look towards concessional financing from multi-lateral development partners in the upcoming 2023 Budget.

# PNG FX Market.

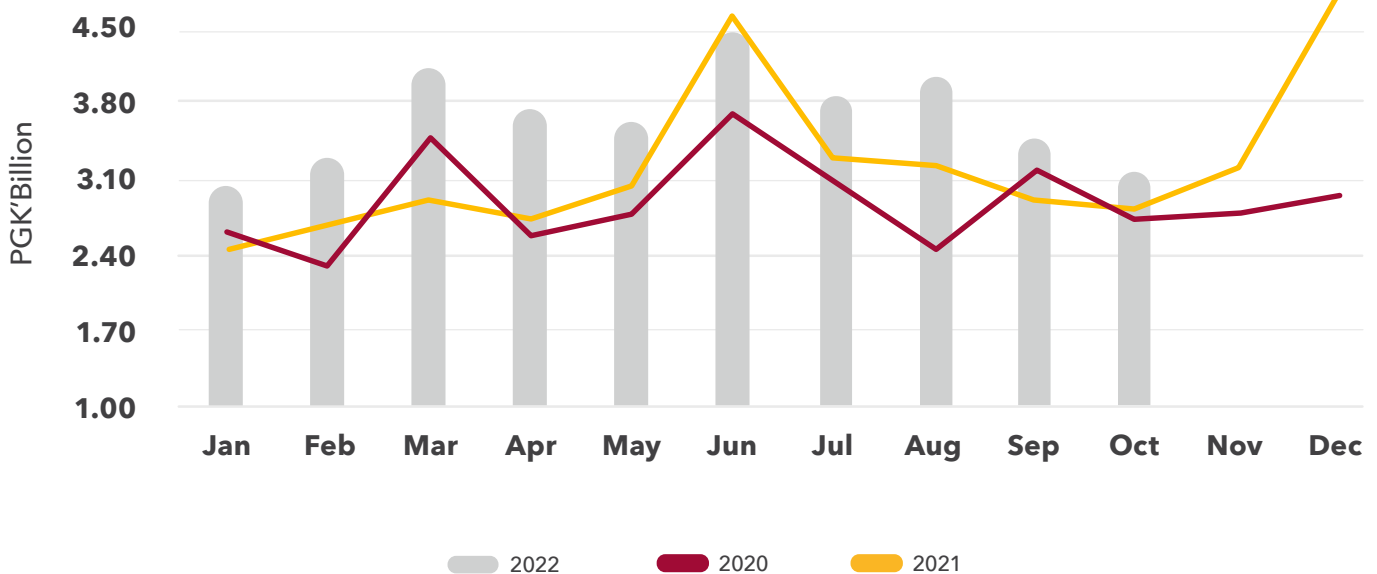
In October, PGK FX market transactions totalled PGK3.15b, an increase of +10.49% higher than the corresponding period in 2021. This was a slight drop of -8.96% from September as expected - FX transactions normally ease off at this time of the year from July, before picking up to the end of the year.

The PGK exchange rate remained unchanged against the U.S dollar for the

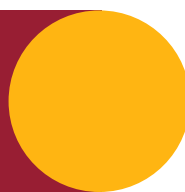
eighth straight month, closing at 0.2840. In terms of the PGK cross-conversion with other currencies, the continued strength of the US dollar meant that the fixed-PGK rate appreciated against majors including the AUD, NZD, JPY, and the EUR.

We anticipate the USD to continue to appreciate amidst continued inflationary pressures in November, which will

mean further PGK-cross currency appreciation. In terms of PGK/FX market liquidity, November is historically the month where FX transactions start to reverse up. Over the last 2-years, FX liquidity during the month of November has increased more than +3% from the previous month heading into Christmas.



As the regulator, BPNG normally intervenes with the FX market



## PNG Equities.

October saw modest gains on the PNGX for Credit Corporation PNG (PNGX: CCP) & Kina Securities Limited (PNGX: KSL | ASX: KSL). CCP closed at PGK1.90, up +2.70% from the previous month, with KSL also closing higher at PGK2.95, recovering +1.72% from September. Share prices for the other PNGX-listed companies remained unchanged.

PNGX has also proposed for new Listing Rules, which it released to the market for consultation during October. The current Listing Rules were based on the ASX and last amended 10 years ago. This development is a crucial step to building an effective secondary market for equity securities in PNG. PNGX also raised concerns about dual-listed company shareholders opting to move their shares from PNGX across to the ASX, in particular because of the current lack of access to FX liquidity in the PGK market.

On the ASX, big-cap Santos Limited (PNGX: STO | ASX: STO) rallied after delivering strong Q3 results, closing at AUD\$7.70, up by +7.39% month-

on-month, while Newcrest Mining Limited (PNGX: NCM | ASX: NCM) also recovered, closing higher at AUD\$17.35, gaining +4.14% from the previous month.

	PRICE*		MONTH		YTD
<b>PNG Stock Exchange (PNGX)</b>					
Credit Corporation PNG	1.90	↑	2.70%	↑	13.10%
Kina Securities Ltd (KSL)	2.95	↑	1.72%	-	0.00%
BSP Financial Group Ltd (BSP)	12.41	-	0.00%	↑	1.31%
Santos Limited (STO)	19.10	-	0.00%	-	N/A
<b>Australian Securities Exchange (ASX)</b>					
Kina Securities Ltd (KSL)	0.88	↑	4.17%	↑	2.34%
BSP Financial Group Ltd (BFL)	4.90	↓	-2.00%	↑	14.75%
Newcrest Mining Ltd (NCM)	17.35	↑	4.14%	↓	-29.13%
Santos Limited (STO)	7.70	↑	7.39%	↑	22.03%
<b>PNG Market Indices</b>					
KSi	6,280.66	↑	0.02%	↑	7.15%
KSHi	15,593.11	↑	1.84%	↑	8.35%

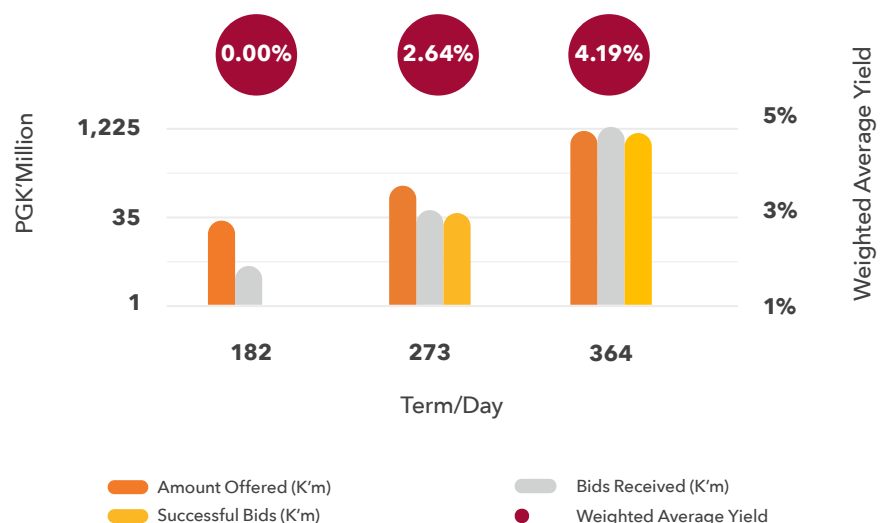
\*PNGX prices in PGK; ASX prices in AUD.

## PNG Cash & Fixed Income.

Since an acute free-fall over the first half of this year, the Government's 1-year Treasury Bill yield continued to creep up during the month, as yields increased to 4.19%, up from 3.99%. We are expecting further increase in the 1-year paper, as the Government looks to finance the last quarter of its forecasted 2022 budget deficit.

The Government raised about PGK1.40b from the domestic debt market. More than 60% of the revenue was raised through the Treasury Bill auctions, while the rest was sourced from longer-term Treasury Bonds (Government Inscribed Stocks).

Overall auctions for T-Bills were oversubscribed by 16.64%, while in contrast the GIS auction was undersubscribed.



## International Equities.

Equity markets in the U.S and Europe posted strong returns during October, despite persisting conditions of a global economic slowdown. All major benchmarks in the U.S posted their first positive month since July this year. The S&P 500 posted its best October gain since 2011, the Dow Jones Industrial Average saw its best month since January 1976, while the Nasdaq gained the least, up by +1.60%. The main driver behind the strong performance was positive investor outlook that the US Federal Reserve might soften its pace of aggressive interest rate hikes, possibly by as early as December. In general, when the Fed cuts interest rates, equity markets go up, and vice versa. However, market reactions to any given interest rate change can be unpredictable at times.

European equities ended the month supported by a better-than-expected earnings season and hopes that the US Fed will slow its pace of raising interest rates. In the UK, the FTSE 100 Index gained +2.69% to trade at 7,094.53 points after investors welcomed Rishi Sunak's confirmation as the UK's new Prime Minister.

Meanwhile in Asia, Chinese and Hong Kong equities declined. China continues to experience harsh economic headwinds as it continues

to prioritize its "zero Covid-19 policy" target amidst a crashing housing market, even despite the Government's best efforts to buffer the impacts.

	Price		MONTH		YTD
<b>North America</b>					
Dow Jones IA	32,732.95	↑	10.99%	↓	-9.9%
S&P 500	3,871.98	↑	5.26%	↓	-18.8%
NASDAQ	10,988.15	↑	1.60%	↓	-29.8%
Toronto S&P/TSX	19,426.14	↑	2.89%	↓	-8.5%
<b>Europe</b>					
FTSE	7,094.53	↑	2.69%	↓	-3.9%
DAX	13,253.74	↑	8.55%	↓	-16.6%
CAC 40	6,266.77	↑	8.16%	↓	-12.4%
<b>Asia</b>					
Nikkei	27,587.46	↑	5.23%	↓	-4.2%
Hang Seng Index	14,687.02	↓	-14.01%	↓	-37.2%
Shanghai Composite	2,893.48	↓	-4.33%	↓	-20.5%
Sensex	60,746.59	↑	6.97%	↑	4.3%
S&P/ASX 200	6,863.46	↑	6.30%	↓	-7.8%

Source: Reuters, JP Morgan & KFM

## International Cash & Fixed Income.

US 10-year Treasury bond yields closed the month higher by +41 bps at 4.05%. In Europe, markets reacted positively to the new UK PM, Rishi Sunak, as the 10-year gilt yield fell to 3.52%, shedding -45bps. UK long-term government bonds have been in free-fall since controversial tax cuts were announced by Sunak's predecessor, Liz Truss, which ultimately led to her ousting.

The downward trend in the UK was also seen in Australia and New Zealand, with the Australian 10-year Bond closing at 3.76%, down by -14bps, while the Kiwi erased -15bps, closing at 4.19%. Meanwhile, Japanese government bonds closed higher at 0.25%, leading the Bank of Japan to buy back bonds to protect its yield cap.

10 Year Government Bond Yields					
COUNTRY	YIELD		MONTH		YTD
United States	4.05%	↑	0.41%	↑	2.54%
United Kingdom	3.52%	↓	-0.45%	↑	2.55%
Australia	3.76%	↓	-0.14%	↑	2.09%
New Zealand	4.19%	↓	-0.15%	↑	1.80%
France	2.68%	↑	0.17%	↑	2.48%
Japan	0.25%	↑	0.00%	↑	0.18%

## Commodities.

Global commodity markets continued to decline in October from the previous month as market expectations for more monetary policy tightening affected the demand for major commodities including coffee (-17.64%), cocoa (-0.09%), and LNG (-29.16%). On the upside, crude oil and palm oil finished in the green, as markets expected OPEC to cut oil output, boosting some confidence. Brent futures also closed at \$94.83, up +6.72% per barrel, and US crude futures added +3.47% during the month to close at \$86.53 per barrel. Palm oil was the top performer in the market, closing at +16.20% up by the end of the month. This was mainly driven by tight output due to excessive rainfall in key producing countries, along with increasing demand for its use in food and biofuels. We anticipate the price for palm oil to increase further as consumer demand continues to shift towards palm oil and shift away from other edible oils.

	PRICE (USD)		MONTH		YTD
<b>Agriculture</b>					
Coffee (US cents/lb)	178.00	↓	-17.64%	↓	-21.41%
Cocoa (US\$/mt)	2,335.00	↓	-0.09%	↓	-7.34%
Palm Oil (RM/tn)	3,858.00	↑	16.20%	↓	-25.22%
<b>Energy</b>					
Brent Crude (US\$/bbl)	94.83	↑	6.72%	↑	21.30%
LNG (US\$/mmBtu)	27.54	↓	-29.16%	↓	-9.71%
Light Crude WTI Futures (US\$/bbl)	86.53	↑	3.47%	↑	14.40%
<b>Precious Metals</b>					
Gold (US\$/oz)	1,640.70	↓	-3.60%	↓	-10.43%
Silver (US\$/oz)	19.12	↓	-7.14%	↓	-18.35%
<b>Base Metals</b>					
Copper (US\$/lb)	3.38	↓	-1.03%	↓	-24.51%
Iron Ore (US\$/mt)	82.02	↓	-14.10%	↓	-27.19%



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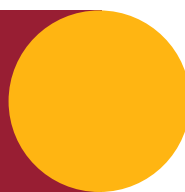
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