

Monthly Report.

January 2023



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Monthly Highlights.

**+6.25%
MoM**

Gold Futures

Gold futures closed January 2023 at \$1,945.30/ounce - an increase of +6.52% from the previous month. The futures price for the bullion has been increasing since early November 2022, boosted by an increase in demand for gold by central banks, along with intermarket movements.

**Off 21
BPS**

1-year Treasury Bill

Yields on the government's Treasury bills closed widely lower on strong market demand and increasing bank liquidity. The 1-year T-bills dropped 21 basis points (bps) to close this month at 3.39%. The government raised around PGK1.4 billion this month to support its expenditure.

**Energy
prices
eased**

Crude Oil Futures

LNG prices dropped as storage levels in Europe reached over 80% paired with a decline in end-user demand. Crude oil futures also dropped, settling below \$90/barrel, as data by the International Energy Agency showed an increase in crude inventory.

**PGK3.8
Billion**

FX Transaction

FX transaction in the domestic market continues to improve. Total FX transaction in January 2023 was PGK3.8 billion; a +29% increase from the same period in 2022. This figure does not include BPNG's intervention in the market (PGK352.1 million).

+8.98%

Coffee

Coffee prices spiked on downbeat outlook for global coffee supply, as top coffee growers expect to harvest less coffee beans during the harvest season. The spike in prices also reflect an increase in production costs and strong market demand.

+0.03%

Kina Securities
Index (KSi)

The Kina Securities index marginally increased in January, crawling +0.03% higher from last month's peak. The financial stocks of Kina Securities Limited and Credit Corporation PNG helped support the growth.

Market Commentary.

International interest from Regional neighbours

During January, Australian Prime Minister Anthony Albanese became the first foreign leader to address the PNG Parliament as he called for both countries to "deepen ties across security, economics, trade and sport." In his speech to PNG's leaders, Prime Minister Albanese also announced a 'strong pipeline of projects' through the Australian Infrastructure Financing Facility for the Pacific, as well as the employment opportunities available for PNG citizens under the Pacific-Australia Labour Mobility Scheme. Also during the month, the Minister for International Trade and Investment, Honourable Richard Maru announced private investment interest from the Philippines in the agriculture sector, with a possible 800 hectare rice farming project in the Central Province.

FX liquidity issue disrupts domestic flight

Domestic flights across PNG came to halt in the first week of January, as Air Niugini announced that it did not have any Jet Fuel supply from Puma Energy. Puma released a statement in the following days stating that this was due to Puma not being able to source sufficient US dollars to purchase crude oil. Puma Energy also explained that part of the issue of not accessing the FX was due to the on-going disagreement with the Bank of PNG in how FX intervention into the market is allocated. The Prime Minister mentioned that "BPNG had raised 13 issues against Puma, which the company had already responded to BPNG". However, in the absence of a long-term solution between the parties, the situation may continue in the near future, as structural imbalances in the local FX market persist.

New Bank of PNG Appointment

Treasurer Ian Ling-Stuckey announced the appointment of Elizabeth Genia as the new Acting Governor for the Central Bank. Mrs. Genia succeeds Benny Popoitai who was in the role for a period of 6 months as the acting Governor. According to reports, Prime Minister Marape stated that the Central Banking Act does not allow an acting appointment to be in place for more than 6 months. The industry looks forward to the progress of the appointment of a permanent Governor soon.

Kina Bank Outlook.

Domestic price pressures persist

A major cause for concern of many businesses last year were the price pressures of consumer staples, particular tradable goods. Inflation was contained around 6.70% in 2022, thanks in part to the tax exemptions on fuel products. This year, the Government will continue to provide price subsidies on fuel for the first 6 months. It will be interesting to see if the Government continues this support if inflation persists.

In the medium-term, there will be a review by the Independent Consumer & Competition Commission (ICCC) on the price of sugar. The ICCC is responsible for price monitoring of goods and services 'declared' by the Treasurer to

form a significant component of PNG's household expenses basket. "Under the current price monitoring arrangements, the ICCC usually monitors the factory gate price movements of the 1kg Ramu mill white sugar product against the movements of certain international benchmark sugar prices to ensure that PNG consumers pay competitive prices for sugar products," said ICCC Commissioner Paulus Ain. The ICCC completed a similar review on rice prices during the second half of last year.

IMF adjusts global economic outlook: recession looming

The global economy is poised to slow this year, before rebounding next year, according to the latest International

Monetary Fund (IMF) World Economic Outlook released in January. The IMF forecasts that global growth will slow from 3.40% in 2022 to 2.90% this year, before rebounding to 3.10% in 2024. For emerging and developing markets, growth prospects will be higher due to China's re-opening, together with global inflationary pressures easing following interest rate hikes in major economies. For PNG, a major driver of inflation is due to its import partner economies - with 70% coming from Singapore, the U.S and Australia. With interest rate hikes forecasted in these economies, we can possibly see an easing in imported price pressures, subject to any oil price shocks. Official estimates point to an Inflation forecast of 5.20% this year.

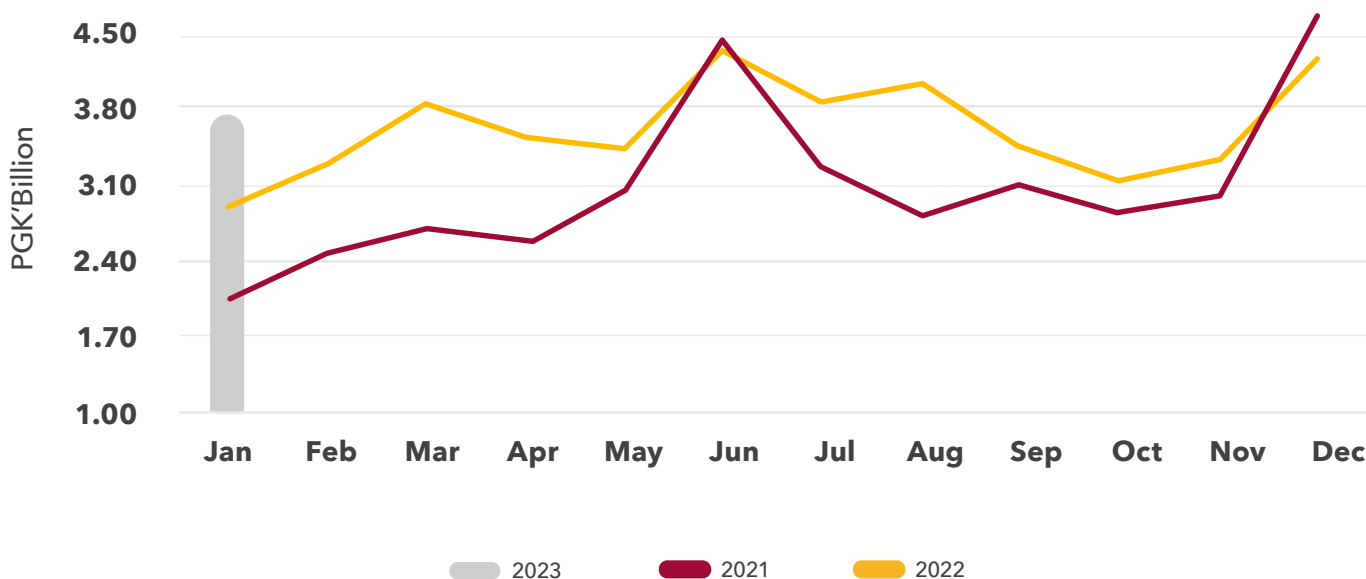
PNG FX Market.

The local FX market continued to gradually improve during January, particularly in relation to total FX market turnover against the past 18 months. January is traditionally a slow month after the peak of December, with market turnover flows dropping 12% from December 2022. This was

not as big of a drop compared to a 38% fall between December 2021 and January 2022.

In terms of January flows from the past 2 years, the average January flows from 2021 and 2022 has been at PGK2.5billion, compared to PGK3.8billion this past

month - pointing to the FX market continuing to see more flows. Going into February, the last 2 years has seen an average increase of 16% in FX market flows heading into the second month. We anticipate for this to continue in February.



As the regulator, BPNG normally intervenes with the FX market



PNG Equities.

After a quiet first week, the local share market started to pick-up activity at the back end of the second week and continued for the rest of January. Most of the trades during the month were small in volumes. About 300,000 stocks exchanged hands on the PNGX during the month, compared to December's volume of 8,871,146.

The Kina Securities index (KSi), a measure of PNG's 12 publicly listed companies, closed the month with little change, while the Kina Securities Home index (subset of KSi) jumped more than +3%. Financial and retail stocks supported both indices.

On the Australia Stock exchange, PNG's dual-listed stocks closed down with negative returns - particularly the financial stocks of BSP Financial Group Limited (BFL) and the Kina Securities Limited (KSL). BFL dropped -7.35% at \$4.54 and KSL declined at \$0.77, down -1.28%. The declines were partly due to an increase of banking tax from 30% to 45%.

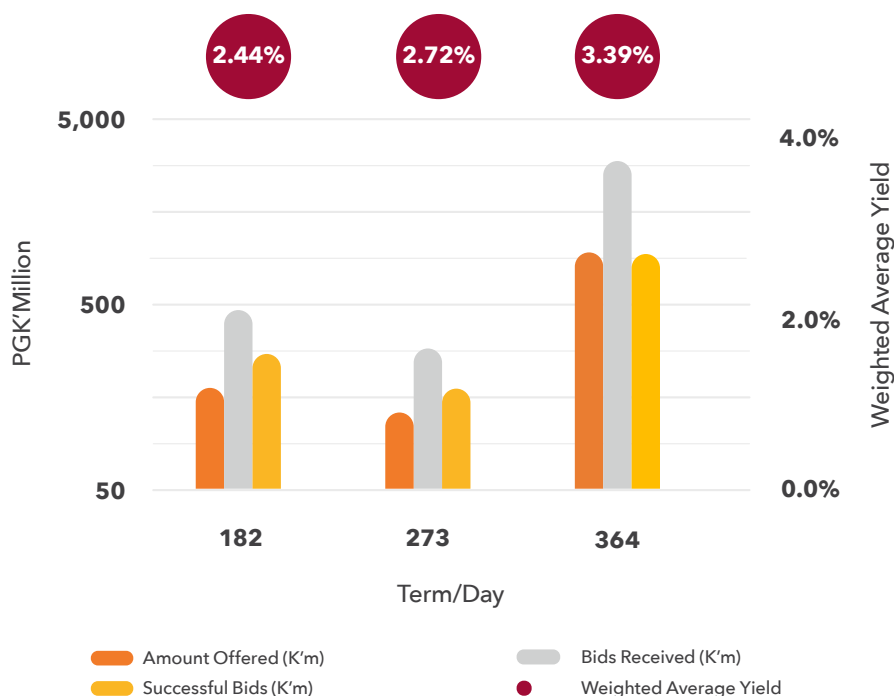
	PRICE*		MONTH		YTD
PNG Stock Exchange (PNGX)					
Credit Corporation PNG	1.90	↑	2.70%	↑	2.70%
City Pharmacy Limited	0.95	↑	5.56%	↑	5.56%
Kina Securities Ltd (KSL)	2.80	↑	1.82%	↑	1.82%
BSP Financial Group Ltd (BSP)	12.41	-	0.00%	-	0.00%
Australian Securities Exchange (ASX)					
Kina Securities Ltd (KSL)	0.77	↓	-1.28%	↓	-1.28%
BSP Financial Group Ltd (BFL)	4.54	↓	-7.35%	↓	-7.35%
Newcrest Mining Ltd (NCM)	22.31	↑	8.09%	↑	8.09%
Santos Limited (STO)	7.11	↓	-0.42%	↓	-0.42%
PNG Market Indices					
KSi	6,279.38	↑	0.03%	↑	0.03%
KSHi	15,584.73	↑	3.07%	↑	3.07%

*PNGX prices in PGK; ASX prices in AUD.

PNG Cash & Fixed Income.

During January, the Government's Treasury-bill rates fell broadly across all tenures. Generally, rates have been falling since January 2022, as the Government continues to utilize cheap and concessional sources of financing, thus having an impact on the domestic debt market. The 364-day term paper started the year at 4.27%, but closed the month down at 3.39%. Likewise, the 273-day and 182 day papers ended the month down at 2.72% and 2.44% respectively. We expect this trend to continue further into the year.

The government through BPNG raised around PGK1.4 billion in January 2023. With the overall auction oversubscribed by about PGK2.5 billion, there continues to be strong demand in the market despite the falling rates, as liquidity continues to be high.



International Equities.

It was a strong performance by the global stock market in January, compared to the same period in 2022. The market growth was supported by strong economic data for December 2022. In the U.S, real earnings was up +0.40%, while both consumer and producer price indices dropped by -0.10% and -0.50%, respectively. The labour market again showed solid growth during the month, as job openings climbed to a five-month high of 11 million compared to 10.5 million in November. A strong labour market overshadowed investors' concerns about U.S economy going into recession. The Eurozone also saw a decline in inflation - falling at 9.20% in December, from 10.10% in November. The global stock markets were also supported by China's decision to end its 'zero-COVID' policy. In response to the policy shift, investors poured a record \$12.7 billion into emerging-market debt and equity funds towards the back end of January.

Central banks in developed economies are scheduled to hold their first monetary policy meetings in February. Investors are hoping that policymakers will either slow or put a pause to their interest rate hike cycles.

	Price		MONTH		YTD
North America					
Dow Jones IA	34,086.04	↑	2.83%	↑	2.83%
S&P 500	4,076.60	↑	6.18%	↑	6.18%
NASDAQ	11,584.55	↑	10.68%	↑	10.68%
Toronto S&P/TSX	20,767.38	↑	7.13%	↑	7.13%
Europe					
FTSE	7,771.70	↑	4.29%	↑	4.29%
DAX	15,128.27	↑	8.65%	↑	8.65%
CAC 40	7,082.42	↑	9.40%	↑	9.40%
Asia					
Nikkei	27,327.11	↑	4.72%	↑	4.72%
Hang Seng Index	21,842.33	↑	10.42%	↑	10.42%
Shanghai Composite	3,255.67	↑	5.39%	↑	5.39%
Sensex	59,549.90	↓	-2.12%	↓	-2.12%
S&P/ASX 200	7,476.66	↑	6.22%	↑	6.22%

Source: Reuters, JP Morgan & KFM



International Cash & Fixed Income.

Global government bond yields dropped in January, as bond prices increased on positive inflation data especially in the US. January saw fewer central bank meetings, however the market began anticipating a slower pace of rate hikes by the Federal Open Market Committee (FOMC). The U.S 10-year yields fell from 3.87% to 3.51%, and the UK's 10-year yield fell from 3.67% to 3.33%.

Also during January, a lot of focus was on the Bank of Japan (BOJ), as investors were eager to see the outcome of its January policy committee meeting. Much of this focus came after the BOJ made a sudden adjustment to the yield curve control policy in December last

10 Year Government Bond Yields					
COUNTRY	YIELD		MONTH		YTD
United States	3.51%	↓	-9.30%	↓	-9.30%
United Kingdom	3.33%	↓	-9.26%	↓	-9.26%
Australia	3.55%	↓	-12.35%	↓	-12.35%
New Zealand	4.17%	↓	-6.71%	↓	-6.71%
France	2.75%	↓	-11.86%	↓	-11.86%
Japan	0.50%	↑	19.05%	↑	19.05%

year, which permitted the yield on the 10-year Japanese government bonds (JGB) to float in a band of 50 basis points on either side of its 0% target.

However, in the meeting the policy was left unchanged, maintaining the yield curve cap for the 10-year JGB at 0.50%.

Commodities.

It was a strong start to 2023 with base metals, in particular copper (+11%) and iron ore (9%) posting strong gains. Industrial metals are considered the most crucial inputs to our future economy, with demand expected to pick up rapidly, while supply may be constrained over the next decade. China's reopening from strict COVID-19 lockdown restrictions also contributed to the bullish price action in the sector. Gold also had one of its best starts to a year in a decade, as the U.S. dollar continued its steady decline below 2022 highs. A demand for real assets and one of the strongest recent readings of global central bank purchases of gold led market participants to position bullishly in gold.

On the other hand, LNG prices plummeted (-36%), as European consumers filled their tanks to the brim causing a glut in inventory.

	PRICE (USD)		MONTH		YTD
Agriculture					
Coffee (US cents/lb)	182.00	↑	8.98%	↑	8.98%
Cocoa (US\$/mt)	2,581.00	↓	-0.73%	↓	-0.73%
Palm Oil (RM/tn)	3,720.00	↓	-10.81%	↓	-10.81%
Energy					
Brent Crude (US\$/bbl)	84.49	↓	-1.65%	↓	-1.65%
LNG (US\$/mmBtu)	19.03	↓	-35.54%	↓	-35.54%
Light Crude WTI Futures (US\$/bbl)	78.87	↓	-1.73%	↓	-1.73%
Precious Metals					
Gold (US\$/oz)	1,945.30	↑	6.52%	↑	6.52%
Silver (US\$/oz)	23.84	↓	-0.83%	↓	-0.83%
Base Metals					
Copper (US\$/lb)	4.23	↑	11.02%	↑	11.02%
Iron Ore (US\$/mt)	118.08	↑	8.70%	↑	8.70%



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