Monthly Report.

December 2022

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Monthly Highlights.

Expected to +4.5% in 2023
Global Economic Growth

Overall outlook for the global economy is expected to accelerate from 3.2% in 2022 to around the 4.5% mark in 2023. Driven by the reopening of Chinese borders, and expected strong growth in emerging economies in Asia

7%
Kina Securities Index (KSi)

PNG's share market closed up in the green territory, as the Kina Securities index (KSi) – which measures the 12 publicly listed companies, gained +7.10% for the year. KSi was driven by a rise in the share price of Credit Corporation PNG and BSP Financial Group Limited.

Above 6%
Crude Oil Futures

Crude oil futures had a stellar run in 2022, capping off the year with more than +6% growth. Future prices were fuelled by stronger global demand that reflected the impact of the Russia/Ukraine war.

+17%
FX Transaction

FX market conditions in the domestic economy peaked in 2022, supported by high commodity prices and the uplifting of COVID-19 curbs. However, an increase in FX supply was not enough to meet the domestic demand.

+6%
Consumer Price Index (CPI)

The last CPI data from the National Statistics Office showed that prices for domestic goods and services had increased by 6.3% during September quarter.

-277 Points
Treasury Bills

Yields on the government Treasury bills were pushed down by a stronger demand for government papers in the market. The 1-year yield in particular, lost about 277 points to close the year at 4.27%.

Market Commentary.

As the global economy continued its recovery from COVID-19, 2022 witnessed one of the greatest inflation shocks that the global economy has seen in almost half a century, with the global supply-chain constraints, exacerbated by rising energy and commodity costs due to the Russian/Ukraine crisis and ultra-loose monetary policy settings all feeding into rising price pressures.

As a net importing economy, PNG is not insulated from the global inflationary pressures. A significant effect of this was reflected in the indicative fuel prices for petrol and diesel, which were quite volatile throughout the year.

As the Pangu-led coalition retained its seating in Parliament to form Government post a tumultuous election period, there was some level of policy continuity to consolidate the country's debt position. This saw, among other things, a preference for external concessional loans in place of domestic borrowing, and the Government's policy stance with regards to negotiating major resource projects in the pipeline. Thus, activity in the domestic bond market in 2022 showed impacts of the debt policy, with the 1-year Treasury Bills rate, in particular, falling rapidly through the first half of the year before settling through the final quarter of 2022. The Government's inclination to source external financing from bilateral and multi-lateral development partners meant the average interest cost of financing the fiscal budget continued its downward trend. Global ratings agency, Moody's, expects *"a stable debt burden and debt affordability in the next few years. In addition, government liquidity and external vulnerability risks have ebbed given improvements in domestic funding conditions and the balance of payments, leading to lower domestic interest rates and higher foreign exchange reserves."* This culminated in Moody's announcing its rating for PNG in November from 'negative' to 'stable'.

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Kina Bank Outlook.

Looking forward to this year, the overall global macroeconomic outlook looks likely to improve particularly closer to home in Asia. China and Japan are expected to post strong growth this year, as well as India, one of the world's most populous economies. However, the International Monetary Fund (IMF) cautioned that "one-third of the world economy will fall into recession in 2023". It was reported that China's abandonment of its zero-COVID policies caused an overnight re-opening of the economy and pushed COVID cases to record levels. With low levels of acquired immunity in the population and low vaccination rates among older people, the Chinese health system faces a severe test. But the re-opening will also drive growth that is widely expected to accelerate from 3.2% in 2022 to around the 4.5% mark this year.

Meanwhile, India is likely to be the world's fastest-growing major economy for the third consecutive year, expanding by about 6.0%. Growth in PNG's close ASEAN neighbours – Indonesia, Vietnam, Malaysia and the Philippines – with a joint population of over half a billion, is expected to come in at over 5.0% this year. For energy-producing economies in the Middle East, growth is slowing but should remain well above those in Western economies. Among other large economies, prospects are brightest in Japan, South Korea, Taiwan, Australia and Turkey.

On the domestic front, there will be some key aspects to consider for business planning and policy makers alike on the PNG economy. The Government is expected to maintain its fiscal debt consolidation strategy by entering a new IMF program under the Extended Credit Facility this year. The Government's commitment to such facilities is normally underpinned by reform initiatives, which we expect to continue. These include; a second phase of the governance and operational reforms to the Central Banking Act; the tabling of the Superannuation and Life Industry reviews; as well as the anticipated operationalisation of the Independent Commission Against Corruption (ICAC) Agency.

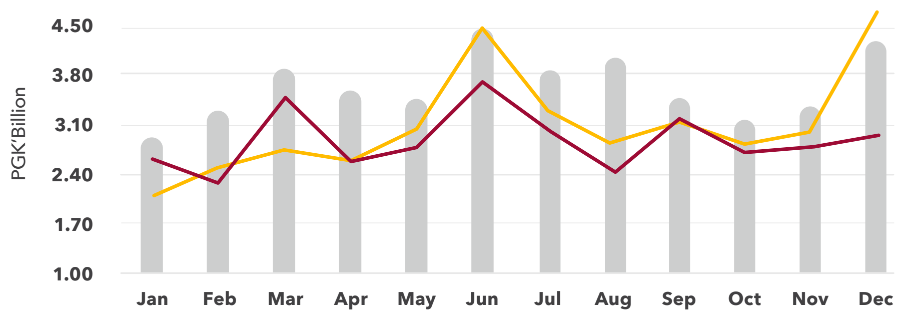
Apart from the reforms, we anticipate that sourcing of domestic debt will be limited; given the current split of 50% domestic to 50% external borrowing – external financing is expected to be at 60% in 2023. This may continue the downward trajectory of domestic interests' rates, which will be aided by excess liquidity in the financial system.

However, the key issue for businesses in PNG this year will be the prices of goods and services. We anticipate that with global inflationary pressures softening due to tighter monetary policy settings by Central Bank's, the pass-through effects of imported inflation will ease from 6.6% in 2022 to 5.7% this year. Furthermore, the easing-off in oil prices, paired with the Government's fiscal relief package for the first half of 2023, will help to moderate domestic inflation pressures.

PNG FX Market.

During 2022, FX market conditions tremendously improved from the last two years, owing to high commodity prices and the gradual uplifting of COVID-19 restrictions. However, businesses continue to face the challenge of getting their required amount of FX to settle import orders, dividend payments or invest money in offshore markets.

Total FX transaction for the year was PGK43.52b. This was about +17% higher than 2021. Much of the FX support came in from export receipts. The Bank of PNG (BPNG) also continued its monthly intervention – assisting the market with PGK2.85b throughout the year.



As the regulator, BPNG normally intervenes with the FX market

PNG Equities.

Overall, 2022 was a tough year for businesses, as many still tried to cope with the after effects of COVID-19, while added pressures from global economic and political instability didn't make it any easier. Regardless, PNG companies continued to show resilience.

In terms of annual performance, Credit Corporation (CCP) and BSP Financial Group (BSP) had a good run on the PNG Stock Exchange. CCP closed the year up +10.12%, with a share price of PGK1.85, and BSP gained +1.31% at PGK12.41. Kina Securities Ltd (KSL), however, ended the year with losses, closing the year down -6.78% at PGK2.75. Much of the loss came after the 2023 National Budget by the PNG Government revealed the 45% Corporate Income Tax on Commercial Banks.

Meanwhile the Kina Securities Index (KSi) and the Kina Securities Home Index (KSHi) closed the year up, gaining +7.10% and +5.07% respectively.

	PRICE*	MONTH	YTD
PNG Stock Exchange (PNGX)			
Credit Corporation PNG	1.85	↓ -2.63%	↑ 10.12%
Kina Securities Ltd *(KSL)*	2.75	↓ -4.51%	↓ -6.78%
BSP Financial Group Ltd *(BSP)*	12.41	- 0.00%	↑ 1.31%
Santos Limited *(STO)*	19.10	- 0.00%	- N/A
Australian Securities Exchange (ASX)			
Kina Securities Ltd *(KSL)*	0.78	↓ -10.40%	↓ -9.36%
BSP Financial Group Ltd *(BFL)*	4.90	↑ 1.24%	↑ 14.75%
Newcrest Mining Ltd *(NCM)*	20.64	↓ -2.13%	↓ -15.69%
Santos Limited *(STO)*	7.14	↓ -0.14%	↑ 13.15%
PNG Market Indices			
KSi	6,277.73	↑ 0.55%	↑ 7.10%
KSHi	15,120.85	↓ -3.03%	↑ 5.07%

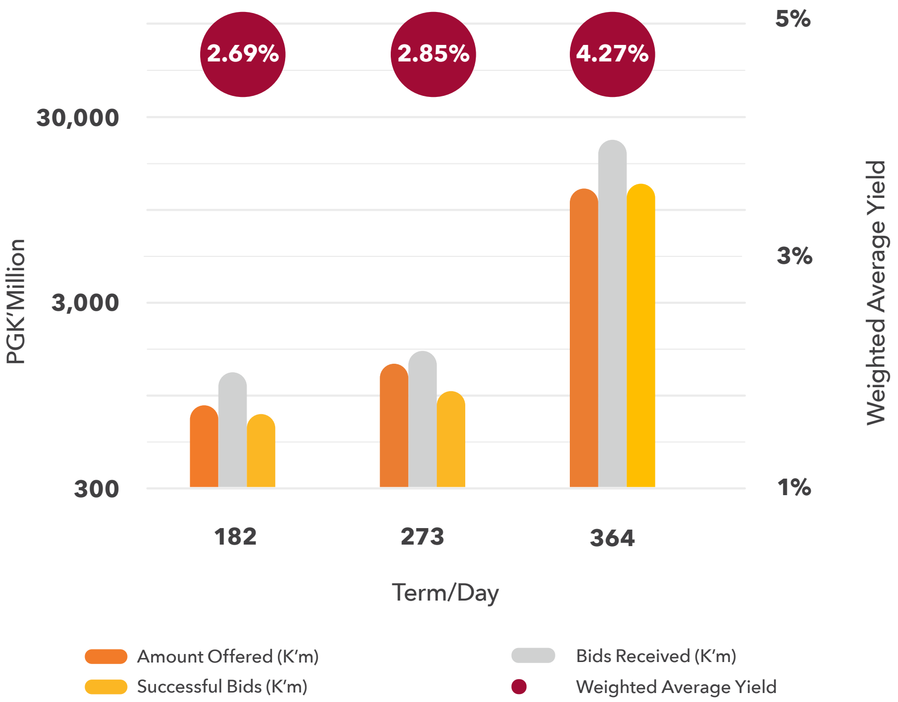
**PNGX prices in PGK; ASX prices in AUD.*

PNG Cash & Fixed Income.

The local debt market was volatile in 2022. Yields stumbled on investors' strong demand for government paper. Treasury bonds failed to rally, with 10-year bonds falling down 446 basis points (bps) at 5.44%, while the 2-year bond declined at 4.20%. On the upside, Treasury bills showed some improvement during the second half – paring some of the losses. Regardless, the 1-year bill shed 277 bps to close at 4.27%.

The drop in Treasury yields threatened earning potential for commercial banks and some of the non-depository institutions. This had led to the re-pricing of fixed and term deposit in the market as banks sought to maintain their margins.

Overall, the government borrowed about PGK14.99b from the debt market in 2022 to finance its budget deficit.



International Equities.

Global stocks produced a miserable year in 2022 amid soaring inflation, which forced central banks around the world to raise interest rates. Adding to the pressure was the Russia-Ukraine war that triggered the energy crisis in Europe, as well as the COVID-19 lockdowns in China that helped to worsen the supply-chain crisis.

Major benchmarks in the U.S pared badly. The Dow Jones Industrial Average closed down -8.78%, the S&P 500 closed at -19.44%, while the Nasdaq Composite worsened down at -33.10%. Experts are not as optimistic for 2023 as they were for 2022, while most economists expect a recession in 2023.

The MSCI All-Country World Index of stocks lost about a fifth of its value during 2022, which has been its worst performance in 14 years, since the global financial crisis in 2008 wiped out 40% off stock values.

European markets also had a tough year, as the continent grappled with the impact of the war, the energy crisis, and high inflation. The pan-European STOXX 600 index lost -12.4%, France's CAC index lost -9.50%, while Germany's DAX fell -12.35%, its biggest annual drop since 2018.

Meanwhile in the U.K, the FTSE 100 share index ended 2022 almost a percent higher than it began the year, closing up +0.91%, assisted by a sharp rise in share prices of energy companies and miners – which were sectors that benefited from the impact of the war and the energy crisis.

For the Asian markets, the story was the same throughout. For the year, Japan's Nikkei index lost -9.37%, Hong Kong's Hang Seng Index dropped -15.46%, while China's CSI 300 index fell by more than a fifth, as COVID-19 lockdowns hindered growth.

	Price (USD)		MONTH		YTD
North America					
Dow Jones IA	33,147.25	↓	-3.73%	↓	-8.78%
S&P 500	3,839.50	↓	-5.70%	↓	-19.44%
NASDAQ	10,466.48	↓	-8.68%	↓	-33.10%
Toronto S&P/TSX	19,384.92	↓	-5.37%	↓	-8.66%
Europe					
FTSE	7,451.74	↓	-1.38%	↑	0.91%
DAX	13,923.59	↓	-4.17%	↓	-12.35%
CAC 40	6,473.76	↓	-3.98%	↓	-9.50%
Asia					
Nikkei	26,094.50	↓	-6.06%	↓	-9.37%
Hang Seng Index	19,781.41	↑	5.92%	↓	-15.46%
Shanghai Composite	3,089.26	↓	-2.12%	↓	-15.13%
Sensex	60,840.74	↓	-3.23%	↑	4.44%
S&P/ASX 200	7,038.69	↓	-3.60%	↓	-5.45%

Source: Reuters, JP Morgan & KFM

International Cash & Fixed Income.

After years of low yields, 2022 was a challenging year for bonds. Last year saw the biggest spike in the 10-year Treasury's yield since 1788, according to Deutsche Bank Research. The 10-year yield went from about 1.6% to around 3.9%, and the inverse effect of this saw a drop in bond prices.

Despite the harsh year in 2022, outlook for 2023 is somewhat optimistic as investors centre their projections around the following;

1. Starting yields are the highest in years – both in nominal and real terms. Research suggest that calendar years in which the 10-year Treasury's yield spikes is often followed by better performance in the next year.
2. Expectation that the Fed tightening cycle will ease. As some experts have warned about the possibility of an economic recession, there is high expectation that the Fed will soften its rate hikes.
3. An expectation that inflation will decline. The Fed has made progress in dealing with inflation, however some experts say it may be too early to assume.

Nonetheless, if the Fed continues to tighten its policy stance, the 10-year Treasury yields could fall lower than 3%.

10 Year Government Bond Yields

COUNTRY	YIELD		MONTH		YTD
United States	3.87%	↑	0.39%	↑	2.36%
United Kingdom	3.67%	↑	0.52%	↑	2.70%
Australia	4.05%	↑	0.66%	↑	2.38%
New Zealand	4.47%	↑	0.49%	↑	2.08%
France	3.12%	↑	0.80%	↑	2.92%
Japan	0.42%	↑	0.17%	↑	0.35%

Commodities.

In the commodity market, crude oil out-performed most of its peers. Its demand remained firm throughout the year, reflecting the impact of the war in Ukraine, along with a range of sanctions imposed on Russia, who is responsible for about 11% of global oil production. Prices for crude oil closed the year with more than +6.00% growth, with Brent up at $85.91 (+9.89%) per barrel, while U.S crude added +6.11% at $80.26 per barrel.

In other parts of the market, a confluence of events – such as a stronger U.S dollar, increased production and a fear of a global recession, dented the demand for commodities. Agricultural products – Coffee (-26.01%) and palm oil (-19.15%) – saw big losses, while metals performed poorly; with Copper down at $3.81/lb (-14.77%), and Iron ore fell at $108.63/mt (-3.57%), while Gold dropped -0.31% at $1,826.20 per ounce.

	PRICE (USD)		MONTH		YTD
Agriculture					
Coffee *(US cents/lb)*	167.00	↑	4.46%	↓	-26.01%
Cocoa *(US$/mt)*	2,600.00	↑	4.46%	↑	3.17%
Palm Oil *(RM/tn)*	4,171.00	↑	6.81%	↓	-19.15%
Energy					
Brent Crude *(US$/bbl)*	85.91	↑	0.40%	↑	9.89%
LNG (*US$/mmBtu)*	29.52	↓	-7.07%	↓	-3.21%
Light Crude WTI Futures *(US$/bbl)*	80.26	↑	0.35%	↑	6.11%
Precious Metals					
Gold *(US$/oz)*	1,826.20	↑	0.92%	↓	-0.31%
Silver (US$/oz)	24.04	↑	3.40%	↑	2.67%
Base Metals					
Copper (US$/lb)	3.81	↓	-1.04%	↓	-14.77%
Iron Ore (US$/mt)	108.63	↑	12.24%	↓	-3.57%

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