

Monthly Report.

February 2023



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Monthly Highlights.

Strong Corporate Earnings Reports

During February, PNG's publicly listed companies, especially the dual-listed companies, released their financial results for 2022. Despite of the challenging economic circumstances, these companies delivered strong financial performance.

FX Market Turnover Drove -17.29%

FX market turnover fell by -17.29% in February. FX import orders continue to increase while FX inflows decrease. BPNG intervened in the market with PGK350m, which helped to ease the FX issue that restricted Puma Energy from importing crude oil.

+10.56%

Palm Oil

Palm Oil rallied from January's drop, closing +10.56% higher at RM4,113/tonne. The growth was supported by supply concerns, owing to heavy rainfall and restrictive export policies in Indonesia - the top palm oil exporter.

1 Year Treasury Bill

Down at 2.65%

Yields on government Treasury bills, particularly the 1-year paper, declined faster than expected, at an average rate of 6% during February. The months' auctions were oversubscribed by PGK2.06b, as liquidity & demand remain high.

+4.47%

Coffee

Coffee prices were up +4.47% to 190 cents/lb during February, extending its positive run on tight supply. This was due to heavy rainfall in Brazil and Vietnam.

+0.10%

Kina Securities Index (KSi)

The Kina Securities index, a measure of PNG's publicly listed companies, closed near flat in February, recording a gain of +0.10%. Banking stocks led this growth.

Market Commentary.

Prime Minister provides an update on Major Resource Projects

In his speech to the business community during the 'Back-to-Business' breakfast hosted by the PNG Business Council, Prime Minister Hon. James Marape, provided some updates on major resource projects in the pipeline: Papua, P'nyang, Porgera, Pasca and Wafi-Golpu. For Porgera, PM Marape said that all parties were close to finalizing arrangements for the mine's recommencement. Similarly, the State and Joint Venture partners of the Wafi-Golpu project are in the process of finalizing the agreed terms before a Project Agreement is signed. Meanwhile, for the major gas projects, the Total-led Papua LNG is currently undergoing its FEED phase, with reports that a Final Investment Decision is expected at the end of this calendar year, followed by construction in the first half of 2024. The Government also plans to have the P'nyang project constructed after the Papua LNG construction phase. With respect to Pasca, the Prime Minister remarked that even though 'talks had stalled, the Government 'was confident that it would proceed to its final conclusion'. PM Marape said the Government's intention was to 'stagger' the capital-intensive construction phase of these projects from 2024 to 2032. The total capital investment for all five projects is approximately USD\$ 30 billion.

Fuel Crisis

The ongoing FX constraints led to another fuel crisis as the country's major supplier, Puma Energy, rationed fuel supplies to customers. According to reports, Puma was unable to source its crude oil imports due to the unavailability of foreign currency. Air travel was also affected, as Air Niugini's jet fuel stocks were depleted, causing the airline to halt its international flights indefinitely. Even though the government through BPNG intervened to resolve the matter, limited FX continues to be a major constraint on business activity in PNG.

PNG-Australia Ministerial Forum

A 17-Minister delegation, led by Deputy Prime Minister John Rosso, visited Canberra during February for the 29th PNG-Australian Ministerial Forum. Issues discussed included Cyber Security, Forestry and labor mobility, with improved visa access as a key priority. Also during the forum it was announced "PNG will receive almost PGK 4.2 billion from the Australian Infrastructure Financing Facility for the Pacific", which includes about AU\$790 million towards supporting "major capital projects in ports (AU\$621 million), roads (AU\$76 million) and electrification (AU\$92 million) across PNG".

Financial Reporting Season

The end of February is normally reporting season for major PNG companies listed on the PNG/ASX. Both BSP and KSL announced their performance results for 2022, as did Steamships. Overall, for the banks, performance remained solid amidst the Government's announcement of a new Corporate Income Tax rate for commercial banks. BSP's Board announced a statutory profit of PGK1.1b, with shareholders expected to receive a dividend yield of 13.59% based off its PNGX share price of PGK12.80. Kina also posted solid returns, with a dividend announcement of 5.8% for its shareholders.

Steamships also announced that it had an 'improved year in 2022', compared to the prior corresponding period. The company's sales revenue, on a continuing basis, increased 12% to PGK631.3 million, against last year's PGK563.9 million, with improved revenue across the various businesses. A final dividend of PGK0.70 per share has been proposed and will be paid following approval at the Board of Directors meeting on 15 June 2023, subject to Steamships' ability to secure foreign exchange for its non-PNG resident shareholders.



Kina Bank Outlook.

Annual Superannuation Results looking modest

Superannuation Funds will be announcing their investment returns to their members' contributions for 2022. Nambawan Super Limited (NSL) indicated in a press statement that its 2022 results were challenging. According to NSL CEO - Paul Sayer, investments have 'come under pressure due to a combination of high inflation, supply chain disruptions, rising fuel costs and energy prices, the Additional Company Tax on BSP, monetary policy tightening by Central Banks in major markets, but falling yields on local fixed income investments.'

Major Economic Announcements due end of March

As per the Government's mandate on major fiscal and monetary policy, a couple of key documents are expected to be released at the end of March, which will provide more insight into the current state of the economy. On the fiscal policy front, the Treasurer is expected to release the 2022 Final Budget Outcome (FBO). This document is required under the Fiscal Responsibility Act 2006 to be released at the end of the first quarter. The timely and accurate release of this important fiscal document will demonstrate the current government's economic management credentials, particularly on accountability and transparency - traits they claim have set them apart from previous Government's economic management style.

The other major announcement at the end of March will be the Bank of PNG's 6-monthly Monetary Policy Statement. This will be the first statement released under the recently appointed Acting Governor, Elizabeth Genia, as well as the new BPNG Board that was appointed following the recent reforms to the Central Banking Act 2000. A major point for discussion, particularly within the business community, will be the Bank's announcement on its current level of foreign reserves. PM Marape mentioned that the reserves were at record levels to support the country's import requirements. However, given the recent Puma Energy saga, the business community is eager to see the Central Bank's trajectory of FX reserve levels, as well as whether or not there will be any major changes or announcements on the current management of FX intervention to avoid similar issues in the future.

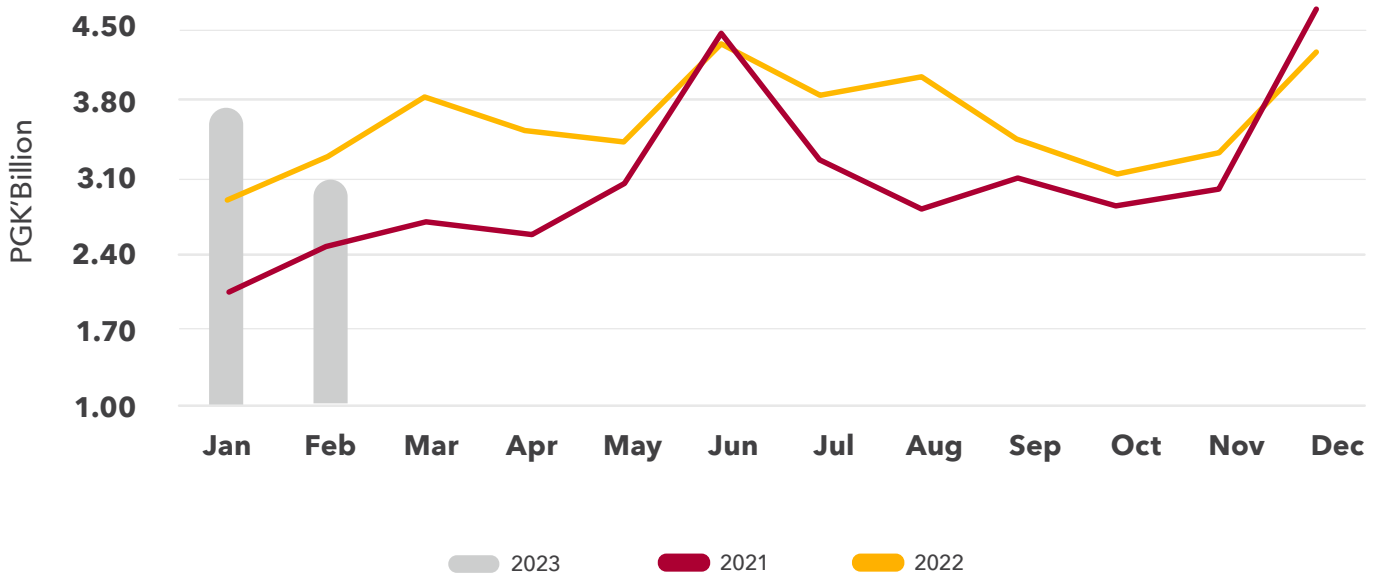
PNG FX Market.

The FX market in PNG fell behind expectations of an increase from January. The average month-on-month increase for the same period in the past 2 years was +16%, but total FX transactions in February saw a -17.29% drop from the month before,

at about PGK3.11 billion. A drop in commodity prices and export volumes are among some of the factors owing to the decline.

For February, BPNG intervened in the market with around PGK350

million, much of which was directed to resolve the FX issue with Puma. BPNG continues to intervene in the market, however, many experts argue that a more sustainable solution needs to be in place, to ensure that supply for FX meets the demand in the market.



As the regulator, BPNG normally intervenes with the FX market



PNG Equities.

It is the time of the year where PNG’s publicly listed companies normally start to release their full year financial results for the previous year. Amidst challenging economic circumstances, PNG’s publicly listed companies did well by reporting strong financial results for 2022. These results demonstrated how disciplined and robust these companies are in terms of their operations, management, strategy and balance sheets.

In the financial sector, PNG’s two largest commercial banks: BSP Financial Group Limited and Kina Securities Limited saw increases in their respective NPAT of PGK1.08 billion (+0.50%) and PGK106.2 million (+10%). BSP also announced a final dividend of PGK1.40/share, which brings the total dividend to PGK1.74/share with a dividend yield of 13.59% - based on the closing share price of PGK12.80 on PNGX. KSL shareholders are also expecting to receive a final dividend of 16 toea/share in April. The total dividend for the year is around 26 toea, along with a dividend yield of 9.45% - based on the closing share price of PGK2.75 on PNGX.

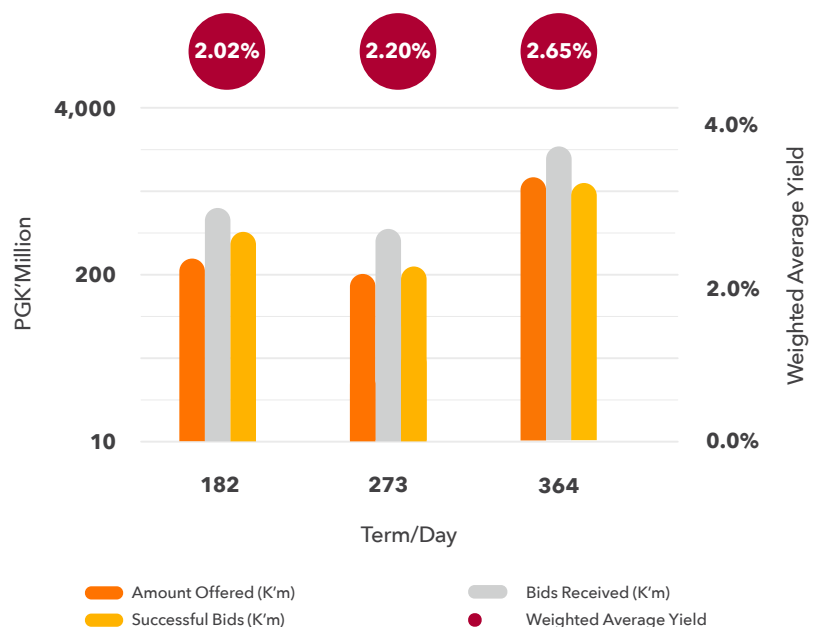
Other companies such as Santos Limited, Newcrest Mining Limited, and Steamships Trading Company Limited also announced strong results for 2022. You can find the full reports for these companies on the PNGX website. [Click Here](#)

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation PNG	1.90	-	0.00%	↑	18.8%	-	0.00%
City Pharmacy Limited	0.95	-	0.00%	-	0.00%	-	0.00%
Kina Securities Ltd (KSL)	2.75	↓	-1.80%	↓	-5.20%	↓	-1.8%
BSP Financial Group Ltd (BSP)	12.80	↑	3.10%	↑	4.50%	↑	3.1%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.80	↑	4.6%	↓	-10.60%	↑	4.60%
BSP Financial Group Ltd (BFL)	5.20	↑	14.5%	↑	4.0%	↑	14.50%
Newcrest Mining Ltd (NCM)	22.54	↑	1.0%	↓	-11.90%	↑	1.0%
Santos Limited (STO)	7.00	↓	-1.50%	↓	-3.60%	↓	-1.50%
PNG Market Indices							
KSi	6,287.72	↑	0.10%	↑	7.40%	↑	0.01%
KSHi	15,584.73	-	0.00%	↑	11.70%	↑	0.00%

*PNGX prices in PGK; ASX prices in AUD.

PNG Cash & Fixed Income.

February saw a continued downward trend across all government Treasury bills. Rates have been falling faster than expected, at an average rate of 6%. In contrast, rates in 2022 were falling at an average rate of 3%. The 364-day term paper closed the month down at 2.65%, losing more than 20 basis points (bps) from January. Similarly, the 273-day and 182-day papers ended the month down at 2.20% and 2.02% respectively. The government raised around PGK2.16 billion in February, which is approximately 53% higher than the amount raised in January 2023. Nonetheless, oversubscription on weekly auctions still persist, with the overall auctions in February oversubscribed at PGK2.06 billion, as demand for T-bills remain high consistent with high liquidity.



International Equities.

During February, a confluence of events such as interest rate hikes, strong corporate earnings reports, along with U.S economic data and China re-opening presented the global equity market with a mixed bag of emotions. In the U.S, equity markets saw a huge sell-off after economic data re-ignited fears that the U.S Federal Reserve will keep interest rates higher for a longer period than previously anticipated.

Meanwhile, European equities extended their bullish run from January, buoyed by strong corporate earnings - which offset concerns about rate hikes by the European Central Bank. Equities in Asia-Pacific closed the month mixed, as investors grapple with interest rate hikes and optimism over China's economic recovery after the country abandoned its zero Covid-19 policy.

	Price		MONTH		YOY		YTD
North America							
Dow Jones IA	32,889.09	↓	-3.50%	↓	-3.0%	↓	-3.50%
S&P 500	3,982.24	↓	-2.30%	↓	-9.0%	↓	-2.30%
NASDAQ	11,466.98	↓	-1.0%	↓	-16.6%	↓	-1.00%
Toronto S&P/TSX	20,260.13	↓	-2.4%	↓	-4.1%	↓	-2.40%
Europe							
FTSE	7,935.11	↑	2.10%	↑	6.40%	↑	2.10%
DAX	15,381.43	↑	1.70%	↑	6.40%	↑	1.70%
CAC 40	7,295.55	↑	3.00%	↑	9.60%	↑	3.00%
Asia							
Nikkei	27,423.96	↑	0.40%	↑	3.40%	↑	0.40%
Hang Seng Index	19,943.51	↓	-8.70%	↓	-12.20	↓	-8.70%
Shanghai Composite	3,258.03	↑	0.10%	↓	-5.90	↑	0.10%
Sensex	59,288.35	↓	-0.40%	↑	5.40	↓	-0.40%
S&P/ASX 200	7,224.81	↓	-3.4%	↑	1.40	↓	-3.40%

Source: Reuters, JP Morgan & KFM

International Cash & Fixed Income.

The international bond market saw an increase in yields, as bond prices plummeted due to further rate hikes by the U.S Fed. January started the year on a positive tone for bonds, as yields dropped and stocks were up. However, February reversed hopes after the release of retail & labor data resulted in the worst February performance for bonds since 1981. Persistent inflation and strong economic data caused investors to rethink their views on the path of interest rates - seeing that rates would keep climbing and most likely stay there for longer. This further sent stocks lower and Treasury yields higher. The 10-year U.S. Treasury yields closed February at 3.92%, almost reaching its highest level since November last year, while the two-year yield hit a 16-year high of 4.90%, taking the curve spread to its most inverted point this cycle and a multi-decade low of almost 90 bps.

Meanwhile in the U.K., the 10-year gilt yield climbed to 3.83%, hitting its highest level since October 2023.

10 Year Government Bond Yields							
COUNTRY	YIELD		MONTH		YOY		YTD
United States	3.92%	↑	0.12%	↑	1.15%	↓	-0.12%
United Kingdom	3.83%	↑	0.15%	↑	1.72%	↓	-0.15%
Australia	3.85%	↑	0.08%	↑	0.78%	↓	-0.08%
New Zealand	4.57%	↑	0.10%	↑	0.68%	↓	-0.10%
France	3.12%	↑	0.13%	↑	4.16%	↓	-0.13%
Japan	0.51%	↑	0.03%	↑	1.66%	↑	0.03%



Commodities.

Most segments of the commodity market struggled to add points in February, as investors feared that Central Banks would continue their interest rate hike cycle, which may hurt global demand for commodities. A higher interest rate environment boosted the U.S dollar, which was discouraging for traders outside the U.S to buy into metals and energy products. In addition, an increase in U.S inventory, together with lower global demand for energy due to mild temperature during winter, weighed on commodity prices.

Nonetheless, the agriculture market was the top performer for the month, as prices for coffee (+4.54%), cocoa (+6.47%), and palm oil (+10.56%) closed off with strong gains on the back of tight global supply. Traders were worried that heavy rainfalls in tropical regions, together with the lack of fertilizers and pesticides caused by the war, would affect the quality and output of these agricultural commodities. Moreover, restrictive export policies in Indonesia, further added to the supply pressure, hence a strong gain in palm oil prices.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	190.00	↑	4.50%	↓	-18.90%	↑	4.50%
Cocoa (US\$/mt)	2,748.00	↑	6.5%	↑	10.30%	↑	6.50%
Palm Oil (RM/tn)	4,113.00	↑	10.60%	↓	-44.40%	↑	10.60%
Energy							
Brent Crude (US\$/bbl)	83.89	↓	-0.70%	↓	-16.90%	↓	-0.70%
LNG (US\$/mmBtu)	14.36	↓	-24.50%	↓	-48.60%	↓	-24.50%
Light Crude WTI Futures (US\$/bbl)	77.05	↓	-2.30%	↓	-19.40%	↓	-2.30%
Precious Metals							
Gold (US\$/oz)	1,836.70	↓	-5.6%	↓	-3.80%	↓	-5.60%
Silver (US\$/oz)	21.07	↓	-11.6%	↓	-14.00%	↓	-11.60%
Base Metals							
Copper (US\$/lb)	4.09	↓	-3.20%	↓	-9.3%	↓	-3.20%
Iron Ore (US\$/mt)	119.17	↑	0.9%	↓	-3.1%	↑	0.90%



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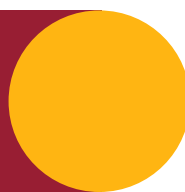
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