

Monthly Report.

March 2023



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Monthly Highlights.

+3.2%
Estimated PNG
economic growth

The Bank of Papua New Guinea (BPNG) is expecting the domestic economy to continue its rally in 2023. BPNG has projected +3.2% growth - in real terms. The growth is expected to come from an increase in business activity, underpinned by increased private sector credit, along with the government's PGK24.56b expenditure budget.

4.3%
NASFUND
crediting rate
announced

PNG's largest super fund by membership, announced a Crediting interest of 4.3% for 2022. This is lower than what the Fund had hoped to pay its members, owing to tough economic conditions that influenced investments. In real terms, members received a crediting interest on their balances of 0.9%.

5.5%
Annual Headline
Inflation revised
down

BPNG slashed their forecast for inflation to 5.5%, from 6% in September MPS. The Bank is betting on improved supply chain conditions and interest rate cuts by global central banks to support its downgraded inflation forecast for this year.

+5.7%
Private Sector
Credit (PSC)
projected
to grow

Commercial banks and Authorized Deposit taking institutions are expected by BPNG to increase their lending this year, as businesses and households look to fully operationalize, after the global pandemic. BPNG projected PSC to increase by +5.7%.

+36.8%
BPNG FX
supply improved

Due to the on-going FX issues in PNG, BPNG has decided to increase its monthly supply of FX into the domestic market. In the March MPS, the Bank said to increase FX intervention by ~ +36.8% to US\$100m, approximately PGK352.11m.

+6%
Cocoa growth

The price for cocoa increased +6.73% to \$2,748/mt in March, extending its winning streak for a second successive months. The global supply for the commodity remains low due to poor weather and crop disease experienced by cocoa farmers in West Africa - the world's top exporter.

Market Commentary.

Banking Crisis

March saw an interesting turn of events, as a series of bank fallouts caused fear in global markets. It started with the collapse of Silicon Valley Bank (SVB), after a bank-run by customers was triggered by an announcement by SVB that it had sold off securities at a loss and needed to sell US\$2.25 billion in new shares to cover its losses. This was followed by the subsequent forced takeover of Credit Suisse by Union Bank of Switzerland (UBS), after a slump in its shares and bonds intensified fears about a global banking crisis.

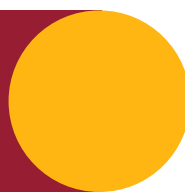
Authorities reacted quickly, as the Federal Reserve (Fed) and Swiss National Bank announced new lending facilities to boost liquidity, with other central banks on high alert. Some experts urged the Fed not to hike rates, as this would trigger more bank failures, given that rate hikes would undermine the value of Treasury-bonds and other securities, which are a critical source of capital for most U.S. banks. However, the Fed raised interest rates to a range of 4.75%-5%, indicating to the market that its top priority was still in ensuring price stability.

PNG Capital Markets

Moving locally, the 'PNG Capital Markets Development Strategy 2023-2033' was presented to the Securities Commission of PNG (SCPNG) outlining the policy, legal, regulatory, and technical reforms needed to sustain a vibrant capital market in PNG. The implementation of this will greatly improve governance, monitoring, and will attract investment activities to PNG.

The strategy was helped developed by the Pacific Private Sector Development Initiative (PSDI) as a result of a memorandum of understanding signed between the Asian Development Bank (ADB) and SCPNG, along with provisional funding from the Australian Government.

Furthermore, the strengthening and development of capital markets in PNG are key focus areas of PNG's Financial Sector Development Strategy 2018-2030, which is further in line with the PNG Government's Vision 2050 policy. The next step is to present the strategy to the government to consider before implementation.



Kina Bank Outlook.

2022 Annual Superannuation Results

Earlier in March, National Superannuation Fund Ltd (Nasfund) announced its audited results for 2022 with a net asset value of PGK6.3 billion (+6.78%, y/y), and a net profit after tax of PGK256 million (-29.48%, y/y), as well as an interest crediting rate of 4.3% for the 2022 financial year (Real Return of 0.9%, +2% from previous period). This resulted in more than PGK260 million paid to over 650,000 member accounts - the largest superfund in the country in terms of membership.

Nasfund continues to post strong results despite tough economic conditions, demonstrating its resilience and effective management practices. However, the fund experienced valuation losses due to the ongoing conflict in Europe along with FX losses.

Meanwhile, Nambawan Superannuation Limited (NSL), largest superfund in terms of assets, is yet to announce its results, however, NSL expects a PGK50 million

reduction in its 2022 interest income, as some of the fund's investments were hard hit in 2022. High inflation, rising interest rates from foreign central banks, falling yields on local fixed income investments, coupled with supply chain disruptions, rising fuel and energy prices, as well as the Additional Company Tax on BSP, have had a huge impact on NSL's investments.

March Monetary Policy & Economic Outlook

In its March Monetary Policy Statement (MPS), BPNG indicated that it would take a neutral stance of monetary policy for the next 6 months until September 2023, to support the on-going economic recovery amid the challenging global economic landscape. However, the bank may adjust its policy stance if required, in order to achieve its objectives and ensure macroeconomic stability.

As per the MPS, real GDP growth is projected to be 3.2% this year, about a +10.4% increase from projections in

2022. This projected growth is expected to be driven by an increase in activity in the mineral sector (6.0%) and non-mineral sector (2.2%); the private sector, especially through lending by commercial banks and financial institutions; as well as increased government spending funded by external borrowing - about PGK3.52 billion external financing component of the budget deficit.

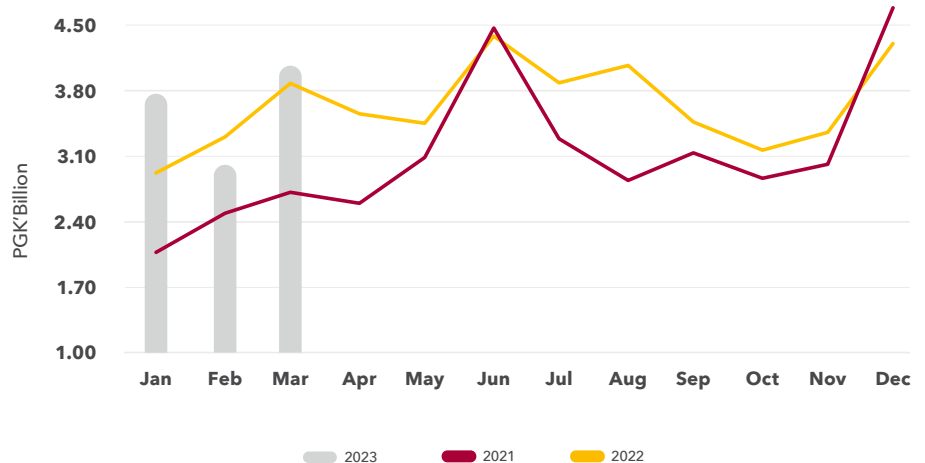
However, around PGK1.75 billion of the external financing component is yet to be secured, leaving many puzzled as to how the government plans to cover it. Additionally, the uncertainty in Pongera's reopening raises questions as to whether or not there will be more delays to the reopening.

Furthermore, the International Monetary Fund (IMF) projected that global economic growth would slow in 2023 by about 2.9%, down from 3.4% in 2022. This projected slowdown is expected to cause a drop in key commodity prices, which will affect PNG's export revenue.

PNG FX Market.

Total FX market transactions in March significantly improved from February's drop, with a +35.45% month-on-month increase, totalling PGK4.05 billion. Given the increase, BPNG's intervention in the market was -48.57% lower than February's amount, at around PGK180 million.

Due to the ongoing FX constraints, BPNG has assured the market that their monthly intervention for the rest of 2023 will be around US\$100m, approximately PGK352.11 million - which in comparison, is about a +36.8% increase from its monthly interventions in 2022.



As the regulator, BPNG normally intervenes with the FX market



PNG Equities.

Reporting season continued in March. PNG's locally listed companies released their full year financial results for 2022, with Credit Corporation PNG (CCP) reporting an increase in NPAT of PGK86.04 (+12%) million. CCP's board was delighted with the company's performance, hence declaring a final dividend of 12 toea per share, which brings the total dividend for the year to 23 toea (2021| 22 toea).

In the retail sector, City Pharmacy Limited (CPL) announced an NPAT of PGK15.16 million, an increase of +9% from 2021. CPL's board announced a 5 toea (2021| 4 toea) final dividend for its shareholders scheduled to be paid on 15th May 2023.

Meanwhile, Kina Asset Management Limited (KAM) had a challenging year, particularly with its investments in offshore equity markets. The group saw an investment return of -2.30%, yielding a net loss of PGK3.26 million, compared to PGK5.97 million in 2021. Regardless of that, KAM is hopeful that global equity market will normalize this year and yield positive returns to the Group's investment portfolio.

In terms of market performance, the Kina Securities index, barely moved, rising +0.02% from February's peak. The total volume traded on PNGX was around 0.89 million units, compared to 4.79 million units exchanged in February. Meanwhile on the Australian Stock Exchange (ASX), PNG's dual-listed stock,

Newcrest Mining Limited (NCM), jumped +19.12% higher to \$22.54 a share, after American gold mining company Newmont Corporation proposed a non-binding offer to acquire NCM. NCM outperformed the benchmark S&P/ASX 200 - which had declined by -0.65%.

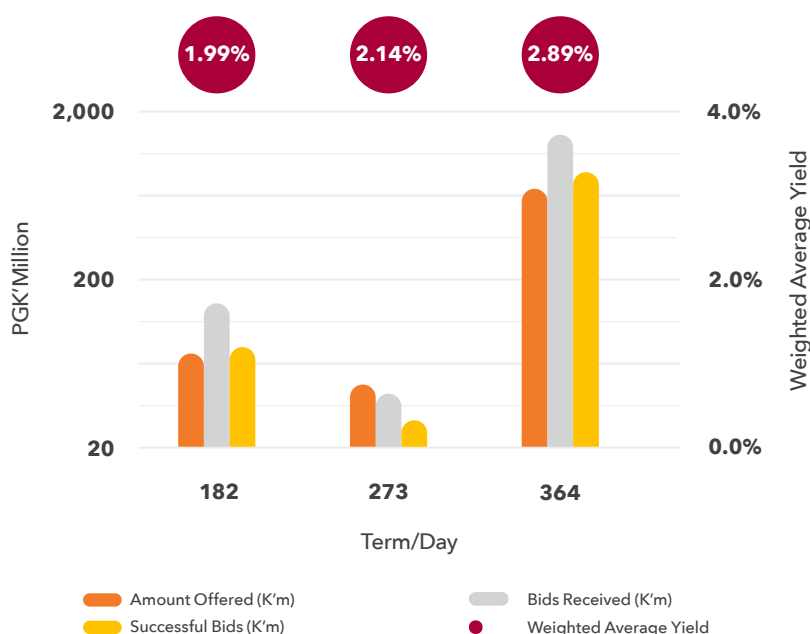
	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation PNG	2.00	↑	5.3%	↑	25.0%	-	5.3%
City Pharmacy Limited	0.95	-	0.0%	-	0.0%	-	0.0%
Kina Securities Ltd (KSL)	2.50	↓	-9.1%	↓	-16.7%	↓	-10.7%
BSP Financial Group Ltd (BSP)	12.80	-	0.0%	↑	6.2%	↑	3.1%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.75	↓	-6.3%	↓	-12.3%	↓	-2.0%
BSP Financial Group Ltd (BFL)	4.88	↓	-6.2%	↑	1.7%	↑	7.5%
Newcrest Mining Ltd (NCM)	26.85	↑	19.12%	↑	0.4%	↑	20.3%
Santos Limited (STO)	6.90	↓	-1.4%	↓	-10.9%	↓	-3.0%
PNG Market Indices							
KSi	6,286.75	-	0.0%	↑	1.9%	↑	0.1%
KSHi	16,013.15	↑	2.7%	↑	14.8%	↑	2.7%

*PNGX prices in PGK; ASX prices in AUD.

PNG Cash & Fixed Income.

Yields on government papers continued their downward trend, with the 273-day (2.14%) and 182-day (1.99%) papers shedding 6 basis points (bps), and 3bps respectively. However, the 364-day closed up by 24bps at 2.89%.

Successful bids for the month amounted to PGK1.37 billion, about -36.56% lower than the amount in the previous month. Despite the continuous over subscription during weekly auctions, there is high indication that the government does not have an appetite to borrow domestically, which is consistent with its fiscal strategy to fund government expenditure mostly with cheap external debt.



International Equities.

International equity markets were flustered after the banking crisis in the U.S and Europe. The turmoil provoked sharp sell-off in equities, particularly in the financial sector. Worried investors bought into safe-haven assets to cap their losses after weighing further distress in the financial sector amid tight monetary policy stance by central banks. However, a timely intervention by regulators helped calmed the nerves of investors. A multi-billion-dollar lifeline was rolled out to help troubled lending banks with liquidity needs, which uplifted investors' appetite for equities.

In the U.S, the three major equity indices closed more than +1% higher in March: the Dow Jones rose +1.17%, the S&P 500 gained +3.19%, and the tech-heavy Nasdaq Composite grew by +6.58%. Meanwhile, Europe's region wide STOXX 600 index posted little change with +0.03% growth. In Asia-Pacific, all key indices closed mixed at the end of March.

	Price		MONTH		YOY		YTD
North America							
Dow Jones IA	33,274.15	↑	1.17%	↓	-4.05%	↓	-2.38%
S&P 500	4,109.31	↑	3.19%	↓	-9.29%	↑	0.80%
NASDAQ	12,221.91	↑	6.58%	↓	-14.05%	↑	5.50%
Toronto S&P/TSX	20,099.89	↓	-0.79%	↓	-8.18%	↓	-3.21%
Europe							
FTSE	7,631.74	↓	-3.82%	↑	1.54%	↓	-1.80%
DAX	15,628.84	↑	1.61%	↑	8.42%	↑	3.31%
CAC 40	7,322.39	↑	0.37%	↑	9.95%	↑	3.39%
Asia							
Nikkei	28,041.48	↑	2.25%	↑	0.79%	↑	2.61%
Hang Seng Index	20,400.11	↑	2.29%	↓	-7.26%	↓	-6.60%
Shanghai Composite	3,272.86	↑	0.46%	↑	0.64%	↑	0.53%
Sensex	58,991.52	↓	-0.50%	↑	0.72%	↓	-0.94%
S&P/ASX 200	7,177.75	↓	-0.65%	↓	-4.29%	↓	-4.00%

International Cash & Fixed Income.

Financial markets experienced a series of turmoil during March with bond yields dropping significantly. Yields fell across the board as investors hoped for the Fed and other central banks to soften their monetary policy stance, given that the markets appetite for risk assets was dim. However, following the Fed's interest rate hike after its March monetary policy meeting, yields briefly recovered towards the end of the month.

The 10-year U.S Treasury yield dropped by 11bps to 3.92%, while yields in Australia (3.85%) and New Zealand (4.57%) dropped by 14bps and 8bps respectively.

10 Year Government Bond Yields							
COUNTRY	YIELD		MONTH		YOY		YTD
United States	3.47%	↓	-0.11	↑	0.48	↓	-0.01
United Kingdom	3.49%	↓	-0.09	↑	1.17	↑	0.05
Australia	3.30%	↓	-0.14	↑	0.16	↓	-0.07
New Zealand	4.20%	↓	-0.08	↑	0.30	↑	0.01
France	2.79%	↓	-0.11	↑	1.85	↑	0.01
Japan	0.35%	↓	-0.31	↑	0.59	↓	-0.29



Commodities.

In the commodity front, precious metals (Gold and Silver) were the top performers compared to their peers. The bullions rose over +8% in returns, buoyed by a weaker U.S dollar and strong safe-haven demand, owing to banking crisis. Gold settled higher at \$1,836.70, up +8.14% and silver soared +14.67% to \$21.07 per ounce.

The price for cocoa also increased in March, finishing higher at \$2,748.00 (+6.73%) per metric ton, as global supply remains low amid high demand, pushing the price further up. The low supply was caused by unfavourable weather patterns and crop disease experienced in West Africa where the top global exporters are located.

Meanwhile, energy markets broadly failed to close up after the banking turmoil, as improved crude oil supply and lower demand due to warmer weather in the northern hemisphere dragged energy prices lower. Brent and U.S crude respectively fell at \$83.89 (-4.91%) and \$77.05 (-1.79%) per barrel. Liquefied natural gas was down by -5.85% to close the month at \$14.36 per million British thermal units.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	171.00	↓	-10.0%	↓	-24.5%	↓	-5.9%
Cocoa (US\$/mt)	2,933.00	↑	6.73%	↑	10.7%	↑	13.6%
Palm Oil (RM/tn)	4,058.00	↓	-1.3%	↓	-36.5%	↑	9.1%
Energy							
Brent Crude (US\$/bbl)	79.77	↓	-4.9%	↓	-26.1%	↓	-5.6%
LNG (US\$/mmBtu)	13.52	↓	-5.8%	↓	-61.8%	↓	-28.9%
Light Crude WTI Futures (US\$/bbl)	75.67	↓	-1.8%	↓	-24.5%	↓	-4.1%
Precious Metals							
Gold (US\$/oz)	1,986.20	↑	8.14%	↑	1.6%	↑	2.1%
Silver (US\$/oz)	24.16	↑	14.67%	↓	-3.9%	↑	1.4%
Base Metals							
Copper (US\$/lb)	4.09	-	0.0%	↓	-13.9%	↓	-3.2%
Iron Ore (US\$/mt)	121.30	↑	1.8%	↓	-13.3%	↑	2.7%



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