

# Monthly Report.

May 2023



kinabank

Together it's possible

## Monthly Highlights.

### PGK/USD

Down at 28.20  
cents a Kina

PNG Kina interbank rate dropped by -0.70% to close the month at 28.20 cents, as the BPNG looks to allow the market to correct the long-term structural imbalance between import orders and PGK demand from exports. BPNG also supported this with an intervention of nearly PGK1 billion to support import orders.

### DROPS -0.73%

MSCI All-Country  
Equity Index

The MSCI ACWI index showed that global equities dropped by -0.73% from April's peak - with global equity markets bottoming out as fund managers took profit amidst high market volatility.

### India looks to strengthen ties with PNG

India is looking at strengthening its ties with Pacific Island nations and PNG seem to be one of the important partner that present more prospects for investment, trade and development financing. This would be a great opportunity for PNG businesses to grow.

### Newcrest enters into an exclusivity deed

Newcrest entered into an exclusivity agreement with Newmont, via a Scheme of Implementation Deed. Newcrest board has unanimously recommended that Newcrest shareholders vote in favor for Newmont's bid.

### PALM OIL FALLS -17.32%

International price for Palm oil, PNG's largest exporting agricultural product, closed the month in the red, as global supply improved amidst weaker demand. Higher demand for alternative edible oil products also weighed heavy on palm oil.

### PGK1.01

Billion raised  
domestically

The PNG Government raised about PGK1.01 billion through Treasury bill auctions in May. Meanwhile, the government continues to lower its borrowing cost at a narrow range.

# Market Commentary.

From widespread recession fears, to a drop in the general level of global equities, growing geopolitical tensions, and the U.S debt ceiling crisis, May was a month of uncertainty for global financial markets.

## FX pressures persist as Kina drops

Starting at home, the FX market experienced relatively higher activity with the Bank of PNG providing nearly PGK1b into the market to support import orders, as FX demand continues to apply pressure. With major resource development projects in train, FX will be needed for the imports of machineries, consumables and other supplies. Hence, the considerable intervention was necessary to help service the growing demand.

## U.S: Debt Ceiling

Global headlines were focused on the Debt Ceiling crisis in the U.S, as the Congress hurriedly worked during the month to raise the nation's \$31.4 trillion borrowing limit to meet its debt obligations. Had the U.S. Congress failed to raise the debt ceiling, it could

have tainted the reputation of U.S Treasury securities as a "safe haven" investment, causing interest rates to rise and the dollar's value to fall. This would have widespread effects, as U.S Treasury securities are held by central banks, governments, and investors worldwide. Higher interest rates in the U.S could slow the housing market's recovery and raise borrowing costs for consumers and businesses. This may reduce consumer spending and economic growth, which would negatively impact major trade partners like China and Canada that rely on the U.S market. Thus, declining demand in the U.S with and a weaker dollar could slow growth in emerging markets that depend on commodity exports.

## Fears of Global Recession

Recent shocks to the global economy, from trade wars to geopolitical tensions, have rattled markets and slowed growth, fueling speculation of a global recession. However, data available seems to paint a more mixed picture of what lies ahead. While some

indicators like manufacturing activity show signs of weakness, consumer spending and employment remain strong in some major economies.

The International Monetary Fund's (IMF) Regional Economic Outlook for May 2023 reported that global growth is set to decelerate as rising interest rates and the Russia-Ukraine war continue to weigh on economic activity. Adding on to that, inflation continues to be stubbornly high, and the impact of the banking crisis in the U.S and Europe earlier this year injected greater uncertainty into an already complex economic landscape.

According to the IMF, "...Asia and the Pacific remains a dynamic region despite the somber backdrop of what looks to be shaping up as a challenging year for the world economy." Overall, the global economic outlook remains uncertain.



## Kina Bank Outlook.

May was eventful in PNG with the Forum for India-Pacific Islands Cooperation (FIPIC), and the U.S-PNG Defense Cooperation Agreement (DCA) that made international headlines. With so much already said and discussed since then, we believe that PNG businesses and investors should pay close attention to some issues arising from the recent FIPIC forum and the U.S-PNG DCA. The FIPIC meeting highlighted opportunities for increased economic cooperation between PNG and India - with reports that PNG-India bilateral trade is at about US\$350 million (approx. K1.2 billion). India announced that it is seeking to strengthen its ties with Pacific Island nations and sees PNG as an important partner, with

more prospects for Indian investment, trade and development financing that PNG businesses could explore.

The U.S defense agreement signals Washington’s enhanced strategic interest in PNG and the wider Pacific region. This could translate into more U.S investment and involvement in sectors like infrastructure, IT, energy and natural resources that benefit the PNG economy. U.S companies may also look for opportunities to supply the PNG military and defense establishments.

Third, PNG businesses should monitor developments related to China’s role in the Pacific. Both the U.S and India want to provide a counterbalance to China’s

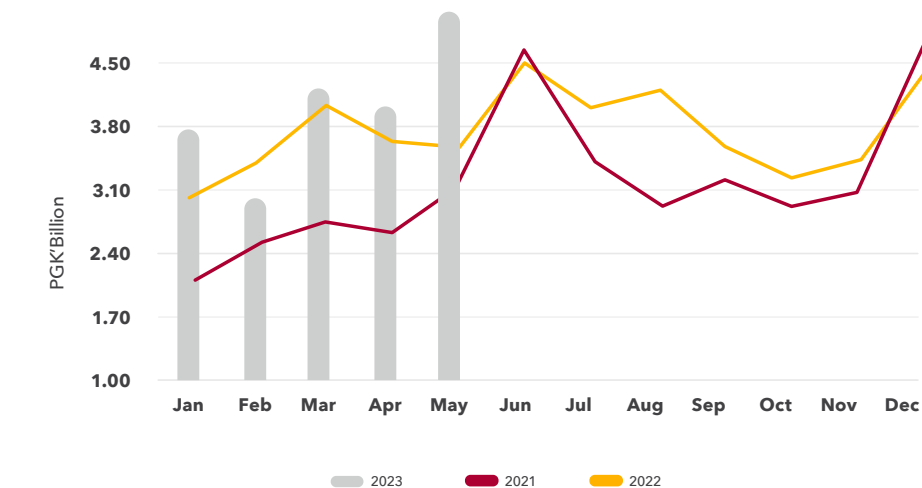
expanding influence, so PNG may have more options for partnerships. However, China remains a major investor, trader and aid donor for PNG, so Chinese policies and attitudes will continue to impact the business environment.

Finally, PNG investors and companies need to pay close attention to the shifting geopolitical dynamics in the region and evaluate how new partnerships, investments and trade ties with major powers could impact their strategic plans and decision making. While opportunities may arise, risks and challenges will as well. A calibrated and pragmatic approach that considers multiple options will serve PNG businesses best in the coming years.

## PNG FX Market.

The PGK/USD interbank rate dropped for the first time since 2022, as the Bank of PNG intervened into the local FX market with USD\$273 million (PGK969 million). The first drop was on May 9, 2023 by about -0.35%, followed by a further drop on May 25, 2023. The interbank closed the month as \$0.2820, down by -0.70% in May. We expect PGK/USD to depreciate further, as BPNG looks to encourage more FX convertibility and entice export dollars into the market.

In terms of FX transactional activity, the market recorded a total turnover of PGK5.82 billion during the month, boosted by BPNG’s massive intervention (PGK969 million), which was +120% higher than its 5-month average. To date, BPNG has intervened



As the regulator, BPNG normally intervenes with the FX market

in the market by about PGK440 million per month on average. Adjusting for regulatory intervention, total market turnover is trending approximately +41.19% higher, year-on-year.



## PNG Equities.

The Newcrest Board has unanimously suggested that shareholders vote in favor for Newmont Corporation to acquire 100% of Newcrest issued shares. In a market release on 15 May 2023, Newcrest Chairman, Peter Tomsett, stated that this transaction would add significant value to Newcrest shareholders. The shareholders are expected to attend a scheme meeting in September or October to cast their vote on the bid.

PNG equity market searched for the bottom in May, with the Kina Securities index (KSi), a measure of PNG's 12 publicly listed companies, dropping -0.04% lower at 6,284.11. Most of the activity was largely driven lower by weak retail and financial stocks, including Kina Securities limited (-11.29%), Credit Corporation Limited (-0.50%), and City Pharmacy Limited (-15.79%).

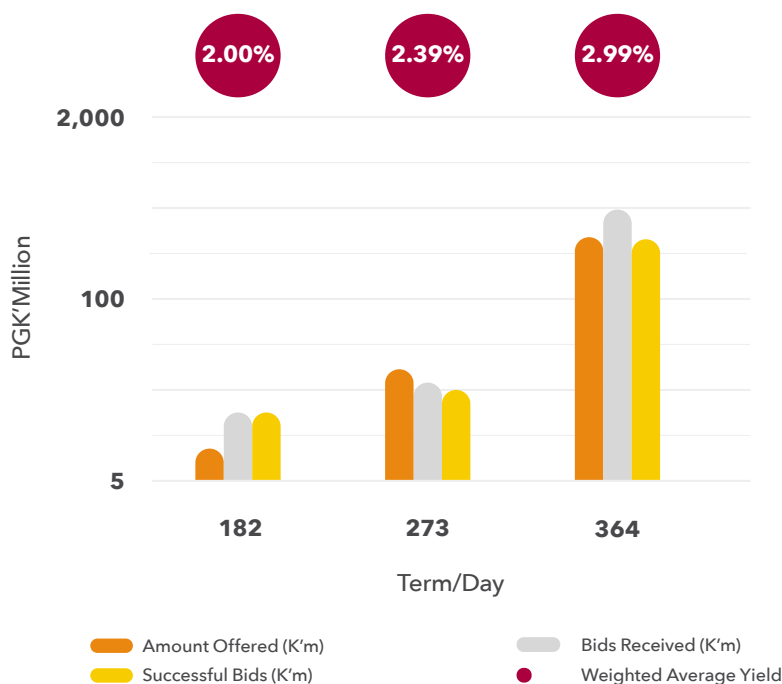
	PRICE*		MONTH		YOY		YTD
<b>PNG Stock Exchange (PNGX)</b>							
Credit Corporation PNG	1.99	↓	-0.50%	↑	7.57%	↑	4.74%
City Pharmacy Limited	0.80	↓	-15.79%	↓	-15.79%	↓	-15.79%
Kina Securities Ltd (KSL)	2.20	↓	-11.29%	↓	-26.67%	↓	-21.43%
BSP Financial Group Ltd (BSP)	12.85	↑	0.39%	↑	4.47%	↑	3.55%
<b>Australian Securities Exchange (ASX)</b>							
Kina Securities Ltd (KSL)	0.75	↑	2.74%	↓	-16.67%	↓	-1.96%
BSP Financial Group Ltd (BFL)	4.80	↓	-2.04%	↓	-3.42%	↑	5.73%
Newcrest Mining Ltd (NCM)	25.69	↓	-11.17%	↑	2.60%	↑	15.15%
Santos Limited (STO)	7.29	↑	3.11%	↓	-11.10%	↑	2.53%
<b>PNG Market Indices</b>							
KSi	6,284.11	↓	-0.04%	↑	0.36%	↑	0.08%
KSHi	15,543.06	↓	-3.74%	↑	1.21%	↓	-0.27%

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

## PNG Cash & Fixed Income.

Yields in the domestic Treasury market were mixed in May, with the 273-day (2.39%) and 182-day (2.00%) papers both adding about 1 basis point (bps), while the 364-day paper lost 2bps to end the month at 2.99%.

Successful bids in the domestic market continue to decline, as May results show a -2.16% drop from the month before. Despite seeing more than +20% increase in both Amount offered to the market and Bids received, the results continue to affirm the stance that the government prefers external sources to cover its funding requirements.



## International Equities.

Equities in developed markets closed lower in May, after fund managers opted to cash-in on a two months rally, as a wave of economic, policy, and corporate news fueled market volatility. Meanwhile, equities in emerging markets marked their second successive month of declines, with the MSCI emerging market index falling -1.90%, largely reflecting China's slowing economic activity.

Top equity indices in America (Dow: -3.49%, S&P 500: +0.25%, Nasdaq: +5.80%, and Toronto S&P/TSX: -5.16%) closed mixed, while Europe's region-wide STOXX 600 index plunged by -3.19%. In Asia, equity indices (Shanghai Composite: -3.57% and Sensex: +2.47%) were subdued, likewise in the Pan Pacific region (Nikkei: 7.04%, Hang Seng: -8.35%, and S&P/ASX200: -2.98%).

	Price		MONTH		YOY		YTD
<b>North America</b>							
Dow Jones IA	32,908.27	↓	-3.49%	↓	-0.25%	↓	-3.46%
S&P 500	4,179.83	↑	0.25%	↑	1.15%	↑	2.53%
NASDAQ	12,935.29	↑	5.80%	↑	7.07%	↑	11.66%
Toronto S&P/TSX	19,572.24	↓	-5.16%	↓	-5.58%	↓	-5.75%
<b>Europe</b>							
FTSE	7,446.14	↓	-5.39%	↓	-2.12%	↓	-4.19%
DAX	15,664.02	↓	-1.62%	↑	8.87%	↑	3.54%
CAC 40	7,098.70	↓	-5.24%	↑	9.74%	↑	0.23%
<b>Asia</b>							
Nikkei	30,887.88	↑	7.04%	↑	13.23%	↑	13.03%
Hang Seng Index	18,234.27	↓	-8.35%	↓	-14.85%	↓	-16.52%
Shanghai Composite	3,204.56	↓	-3.57%	↑	0.57%	↓	-1.57%
Sensex	62,622.24	↑	2.47%	↑	12.70%	↑	5.16%
S&P/ASX 200	7,091.31	↓	-2.98%	↓	-1.66%	↓	-5.15%

## International Cash & Fixed Income.

May started with the U.S Federal Reserve announcing its 10th interest rate hike of 0.25% since March 17, 2022, bringing the Fed funds rate to a target range of 5% to 5.25% - its highest since August 2007. Other major central banks followed suit, including the European Central Bank and the Bank of England, who raised their interest rates by 0.25% each.

Global bonds performed generally well throughout May with the US 10-year yield adding 6bps, increasing from 3.42% to 3.63%. The UK's 10-year yield saw its largest hike of 12bps, as it moved up from 3.72% to 4.18%.

Australia's 10-year bond yield also saw a rise of 8bps, closing May up at

<b>10 Year Government Bond Yields</b>							
COUNTRY	YIELD		MONTH		YOY		YTD
United States	3.64%	↑	0.06	↑	0.28	↑	0.04
United Kingdom	4.18%	↑	0.12	↑	0.99	↑	0.26
Australia	3.61%	↑	0.08	↑	0.08	↑	0.02
New Zealand	4.29%	↑	0.05	↑	0.19	↑	0.03
France	2.85%	↓	-0.01	↑	0.74	↑	0.04
Japan	0.44%	↑	0.11	↑	0.79	↓	-0.12

3.61%. Meanwhile, weak data across the Eurozone saw bond yields in the region drop, with Germany's 10-year yield shedding around 2bps to 2.27%, and France's 10-year losing 1bps to close at 2.85%.

## Commodities.

International benchmark prices for PNG's main exporting commodities declined on high market uncertainties, including a negative global economic outlook, unfavorable weather patterns, and global data pointing to weak demand.

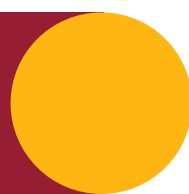
Agricultural products such as coffee (-5.90%), cocoa (-5.26%), and palm oil (-17.32%) had a disappointing month, as demand shifted towards alternative products due to high retail and wholesale costs.

Energy markets also fell, with crude oil falling more than -8%, while liquefied natural gas (-19.61%) registered its fourth biggest monthly loss this year.

Elsewhere, precious metals snapped their two-month rally on rising U.S Treasury yields and a stronger dollar. Gold was -0.85% lower at \$1,982.10 per barrel, while silver shed -6.50% to close

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	178.65	↓	-5.90%	↓	-22.75%	↓	-1.71%
Cocoa (US\$/mt)	3,007.00	↓	-5.26%	↑	20.47%	↑	16.51%
Palm Oil (RM/tn)	3,255.00	↓	-17.32%	↓	-50.73%	↓	-12.50%
<b>Energy</b>							
Brent Crude (US\$/bbl)	72.66	↓	-8.65%	↓	-40.85%	↓	-14.00%
LNG (US\$/mmBtu)	9.29	↓	-19.61%	↓	-61.43%	↓	-51.20%
Light Crude WTI Futures (US\$/bbl)	68.09	↓	-11.32%	↓	-40.62%	↓	-13.67%
<b>Precious Metals</b>							
Gold (US\$/oz)	1,982.10	↓	-0.85%	↑	7.23%	↑	1.89%
Silver (US\$/oz)	23.59	↓	-6.50%	↑	8.76%	↓	-1.04%
<b>Base Metals</b>							
Copper (US\$/lb)	3.64	↓	-6.52%	↓	-15.34%	↓	-13.94%
Iron Ore (US\$/mt)	98.85	↓	-7.60%	↓	-21.40%	↓	-16.29%

at \$23.59 per ounce. A weaker global demand for base metals knocked copper lower at \$3.64 (-6.52%) a pound, while iron ore shed -7.60% to close at \$98.85 per metric ton.



# Kina Bank Wealth Management.

## EGM | Business, Wealth Management and Advisory Services

---

Deepak Gupta  
**deepak.gupta@kinabank.com.pg**

## Head of Investments

---

Michael Rook  
**michael.rook@kinabank.com.pg**

## Manager | Research & Analysis

---

Gareth Rus  
**gareth.rus@kinabank.com.pg**

## Senior Economist

---

Moses David  
**moses.david@kinabank.com.pg**

## Senior Investment Analyst

---

David Menjawi  
**david.menjawi@kinabank.com.pg**

## Investment Analysts

---

Max Kasening  
**max.kasening@kinabank.com.pg**

## Team Leader | Client Portfolio Services

---

Mareta Kokiva  
**mareta.kokiva@kinabank.com.pg**

## Senior Client Portfolio Services officer

---

Kimberly Melegepa  
**kimberly.melegepa@kinabank.com.pg**

## Client Portfolio Services officer

---

Fatima Ai'io  
**fatima.ai'io@kinabank.com.pg**

## Economics

---

Karo Tuva  
**karo.tuva@kinabank.com.pg**

Joshua Sialis  
**Joshua.Sialis@kinabank.com.pg**

## Shares

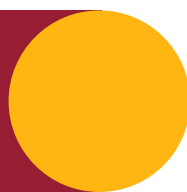
---

Vera Saisagu  
Goldstein Napitalai  
**wealth@kinabank.com.pg**

## Administration Coordinator

---

Dagu Hebore  
**dagu.hebore@kinabank.com.pg**





# Disclaimer.

## General Disclosure

This report is for our clients only. All information contained herein is obtained by Kina Funds Management Limited (KFM) and/or Kina Group of Companies (Kina Group) from sources believed by it to be accurate and reliable. Whilst every care has been taken in the compilation of this Report and all information is believed to be accurate, No liability is accepted by KFM and/or Kina Group or its subsidiaries, or any of their officers, employees or agents for any errors or omissions in this Report. All information is provided "as is" without warranty of any kind and KFM and/or Kina Group, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any such information. Opinions and recommendations are subject to change without notice and cannot be relied on without independent confirmation. This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income

derived from, certain investments. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document is confidential and intended only for authorised clients of KFM and/or Kina Group.

## Conflict Disclosure

KFM and/or Kina Group, its Directors, officers, employees or agents may own shares in the Companies stated in this Report, but under no circumstances shall KFM and/or Kina Group have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstances or contingency within or outside the control of KFM and/or Kina Group or any of its Directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication, or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory, or incidental damages whatsoever (including without limitation, lost profits), even if KFM and/or Kina Group is advised in advance of the possibility of such

damages, resulting from the use of or inability to use any such information. Past performance of Companies reviewed herein are not, and should not be held as indicators of the of the entities future performance. The information contained herein is, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. KFM and/or Kina Group may seek to do business with companies mentioned in research reports. Accordingly, KFM and/or Kina Group employees and/or directors may have a conflict of interest. Investors should be aware of this potential for conflicts of interest, and should consider KFM and/or Kina Group research reports as just one aspect of their investment decisions.