

# Monthly Report.

July 2023



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## Monthly Highlights.

### Maru commits to grow PNG capital market by 350%

Minister of International Trade and Investment, Richard Maru, announced a commitment to increase the size of PNG's capital market by 350% to PGK500 billion, over the next 4 years. Minister Maru aims to achieve this through more company listings on the PNGX.

### 1-Year Treasury Bill inch lower

Yield on PNG's 1-year Treasury bill inched 2 bps lower at 2.97%. PNG Government raised PGK639.6 million through T-bill auction. Overall success rate of bids dropped by -28.7% Month-on-Month.

### Settlement Date reduces to T+2 from T+3

The settlement date of trades on PNGX was officially changed to T+2, from T+3, following amendments to PNGX's Business Rules.

### +6.93% Cocoa gains

Cocoa gained +6.93% to \$3,548/mt in July, touching its highest price in more than 12 years. The price increase was supported by tight supply, with Ivory Coast forward cocoa sales falling -13.3% year-on-year.

### PGK/USD interbank rate drops further by 10 bps

The PGK/USD interbank rate dropped another 10 bps to close at \$0.2790 per Kina. This is the third straight month of drop in 2023. We expect this trend to continue in the coming months.

### +2.27% Coffee close up

Coffee closed a volatile month at US\$ 1.6465 cents/lb, up by +2.27%. According to the International Coffee Organization (ICO), coffee prices initially fell but then recovered during the month, owing to a decrease in supply.

# Market Commentary.

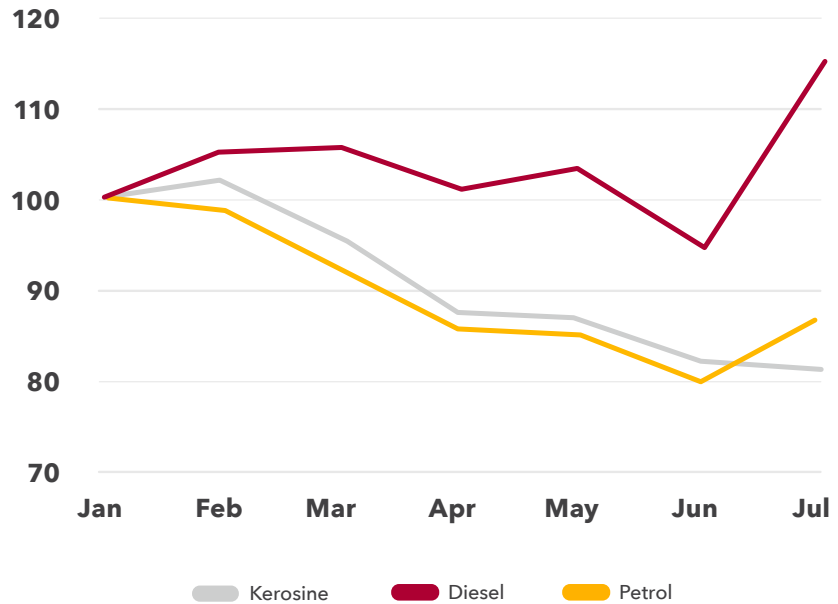
## PGK/USD continues to dip

The PGK/USD interbank dropped another 10 basis points (bps) - the third consecutive month that it has now moved, to close at 0.2790. Total FX market turnover in July continued to remain consistent, with an average of PGK4.64billion. As we have previously stated, we anticipate the interbank to continue to slide at a pace of 20 - 25 basis points per month over the remainder of the year.

## Fuel Price Pressures

In addition to the well-publicized reports on the unavailability of fuel supplied by Puma due to FX shortages, there was also an acute increase in the regulated price of fuel products, particular for petrol. There was a +19% increase in the price of petrol, coupled with a +8% increase in diesel. During the first half of the year, there was an exemption on excise duties as part of the Government's stimulus to support households. The excise duties were re-introduced in July and this saw a spike in the prices.

Indexed Price of Fuel Products since Jan '23



Since 2021, fuel prices have continued on an upward trend, attributed to a variety of factors both domestically and internationally. During this

period, petrol has increased by +44%, diesel by 57% and kerosene increasing by 62% over the past 2 years.

# Kina Bank Outlook.

## Continued upward fuel price pressure

Heading into the next 3-6 months, we anticipate that inflationary pressure will persist with fuel prices on the rise, coupled with the continued depreciation of the Kina since May which we anticipate will transmit through to final consumer prices. On

the global front, we also saw brent crude and light crude closing up +14.23% and 15.80%, respectively.

## Domestic interest rates continue to remain flat

There has been a gradual decline in the amounts offered in the domestic debt market for Treasury bills. The

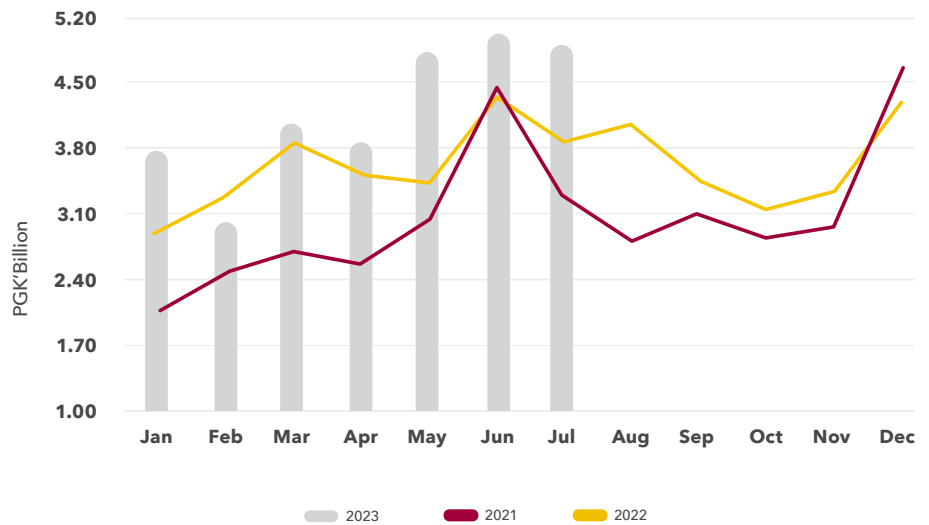
amounts offered have decreased by -27.44%, compared to the previous year, and since January 2023, the offering has dropped by over 30%. These declining offerings, coupled with oversubscription, continue to indicate a diminishing need for cash by the Government in light of its support from the International Monetary Fund.



## PNG FX Market.

The PGK/USD interbank rate dipped a further 10 basis points during July to close the month at 0.2790. The continued depreciation means the interbank has now moved 6 times this year - compared to dropping only once in 2022, and staying unchanged during 2021.

- The Kina interbank has now dropped by a total of 50 bps, or -1.76% since the start of the year.
- In terms of its support to the local market to clear import orders, the Bank of PNG continued to provide support in July, with intervention totaling PGK0.36 billion.
- Average annual intervention to the market since 2019 to 2022 was PGK2.3billion - whilst the total intervention for the first 7 months of this year is at PGK2.9billion.



As the regulator, BPNG normally intervenes with the FX market

- We still maintain a general forecast of the PGK/USD interbank level between PGK/USD 0.2600 - 0.2650 by the end of this year. In terms of the Aussie dollar, we still anticipate the PGK/AUD cross-rate to trade within the range of 0.3900 - 0.4100 over the next quarter.

## PNG Equities.

### Capital market growth

The settlement date of trades on PNG's National Stock Exchange (PNGX) was officially changed from T+3 to T+2 after the amendment of PNGX's Business Rules. The new settlement dates will allow investors to get their payment of equities sold on the second day of the trade, rather than waiting for three business days.

Minister of International Trade and Investment, Richard Maru, announced a commitment to increase the country's capital market size by 350% to PGK500 billion from an equity front, in the next 4 years. Minister Maru announced this when launching a new Capital Market product, a Debt Security, on the 6th July 2023.

### Santos and Newcrest release Q2 results

Despite strong (+3%) growth in total production, Santos reported total sales revenue of US\$1.3 billion (-2%), compared to US\$1.6 billion in Q1. The decline was largely due to lower

	PRICE*		MONTH		YOY		YTD
<b>PNG Stock Exchange (PNGX)</b>							
Credit Corporation PNG	2.01	↑	0.50%	↑	8.65%	↑	5.79%
Kina Assetmanagement Limited (KAM)	0.85	-	0.00%	↓	-15.00%	↓	-10.53%
Kina Securities Ltd (KSL)	2.40	-	0.00%	↓	-17.24%	↓	-14.29%
BSP Financial Group Ltd (BSP)	19.11	-	0.00%	↑	0.05%	↑	0.05%
<b>Australian Securities Exchange (ASX)</b>							
Kina Securities Ltd (KSL)	0.80	↑	8.11%	↓	-9.09%	↑	4.58%
BSP Financial Group Ltd (BFL)	5.30	↑	9.05%	↑	6.00%	↑	16.74%
Newcrest Mining Ltd (NCM)	26.41	↓	-0.04%	↑	36.84%	↑	18.38%
Santos Limited (STO)	7.96	↑	5.85%	↑	9.04%	↑	11.95%
<b>PNG Market Indices</b>							
KSi	6,287.49	-	0.00%	↑	0.13%	↑	0.13%
KSHi	15,606.15	↑	0.35%	↑	1.63%	↑	0.14%

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

sales volumes and commodity prices. On the upside, the Group reported free cash flow of US\$400 million, and has a strong balance sheet to deliver development projects in the pipeline.

Newcrest achieved its full year gold production and costs guidance for 2023, owing to a much-improved operational performance in Q2. Total gold production increased to 556,187



## PNG Equities Continued.

ounces, up +9.13% from 509,637 ounces in the last quarter. Meanwhile, the cost per unit of ore increased from US\$1,012 per ounce to US\$1,196 per ounce. Despite the rise in costs, Newcrest managed to report a margin of US\$706 per ounce, compared to its FY23 expectation of US\$678 per ounce.

10 listed stocks, closed near flat at 6,287.70 level, compared to June's level of 6,287.43. Meanwhile, the KS Home index (only PNGX listed stocks) edged +0.50% higher following the strong share price of Credit Corporation (CCP). Total volume exchanged during the month was 3.1 million, compared to a six-month average of 0.87 million.

### Kina Securities Index remains steady

The PNG equity market closed back up in July, after spending most of the month in red territory. The Kina Securities index - a measure of PNG's

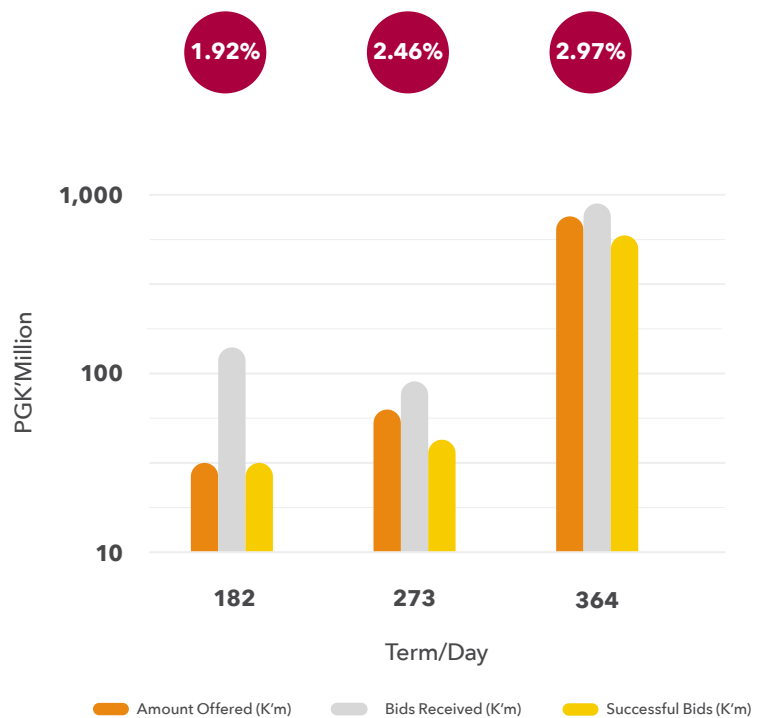
## PNG Cash & Fixed Income.

In July, the domestic debt market continued to experience oversubscription, with bids totaling around PGK1,702.2 million for both Treasury bills (T-bills) and Government Inscribed Stocks (GIS). Out of these bids, PGK1,057.1 million were successful, with the majority coming from the 1-year T-bills, and a total of PGK417.5 million from new GIS issuance. The overall success rate of bids dropped by approximately -28.7% compared to the previous month.

In terms of T-bills, both the 182-day and 273-day papers showed increased activity during July, with a Weighted Average Yield of 1.92%, and 2.40% respectively, after inactivity in June. Meanwhile, the yield for the 364-day paper stood at 2.97%, representing a decrease of about -0.67% from the previous month.

There has been a gradual decline in the amounts offered in the market, particularly for T-bills. The amount offered has decreased by -27.44% compared to the previous year, and since

January 2023, the offering has dropped by over 30%. These declining offerings, coupled with the oversubscription, continue to indicate a diminishing need for cash by the PNG Government.



## International Equities.

The global equity market rallied for a second straight month in July, as broader rise in equities lifted the MSCI All-Country World Equity (MSCI ACWI) index by +2.77% in return. Since the bounce-off in early November 2022, the global market has risen by +2.80%, recouping more than 70% of the losses incurred in 2022.

After a gloomy first week in July, demand for equities gradually pick up as investors saw positive corporate earnings results and solid economic data, including labor market, inflation, and gross domestic product that cleared clouds over central banks' monetary policy path.

Going forward, we are betting that investors will continue to buy into equity assets, given wide expectations that top central banks will put a pause to interest rate hike cycles in their next meetings.

	PRICE		MONTH		YOY		YTD
<b>North America</b>							
Dow Jones IA	35,559.53	↑	3.35%	↑	8.26%	↑	4.32%
S&P 500	4,588.96	↑	3.11%	↑	11.11%	↑	12.57%
NASDAQ	14,346.02	↑	4.05%	↑	15.78%	↑	23.84%
Toronto S&P/TSX	20,626.64	↑	2.34%	↑	4.74%	↓	-0.68%
<b>Europe</b>							
FTSE	7,699.41	↑	2.23%	↑	3.72%	↓	-0.93%
DAX	16,446.83	↑	1.85%	↑	21.97%	↑	8.72%
CAC 40	7,497.78	↑	1.32%	↑	16.27%	↑	5.86%
<b>Asia</b>							
Nikkei	33,172.22	↓	-0.05%	↑	19.32%	↑	21.39%
Hang Seng Index	20,078.94	↑	6.15%	↓	-0.38%	↓	-8.07%
Shanghai Composite	3,291.04	↑	2.78%	↑	1.16%	↑	1.09%
Sensex	66,527.67	↑	2.80%	↑	15.56%	↑	11.72%
S&P/ASX 200	7,410.42	↑	2.88%	↑	6.70%	↓	-0.89%

## International Cash & Fixed Income.

Prices for international government bonds had a relatively weak performance in July, resulting in a spike in yields. The U.S. reported lower-than-anticipated inflation figures, which boosted optimism that the U.S. economy might avoid a severe downturn. This led to a growing belief in a soft landing scenario. As expected, both the U.S. Federal Reserve (Fed) and the European Central Bank (ECB) raised interest rates by 0.25%. However, they emphasized that future rate decisions would depend on economic data.

Overall, long-term bond yields increased, while short-term bond yields decreased slightly due to indications that central banks might slow down their pace of interest rate hiking. The U.S. 10-year yield continued its upward trend, rising from 3.84% to 3.96%, while the two-year yield remained at 4.87%.

The Bank of Japan (BoJ) introduced some market volatility by adjusting its yield curve control (YCC) policy.

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	3.96%	↑	0.03	↑	0.49	↑	0.13
United Kingdom	4.31%	↓	-0.02	↑	1.31	↑	0.29
Australia	4.06%	↑	0.01	↑	0.33	↑	0.14
New Zealand	4.68%	↑	0.01	↑	0.37	↑	0.12
France	3.02%	↑	0.03	↑	1.19	↑	0.10
Japan	0.61%	↑	0.53	↑	2.31	↑	0.23

While maintaining the original target range, the BoJ widened the reference band by imposing a 1% cap on the 10-year Japanese government bond yield. This resulted in a sell-off by investors of Japanese Government bonds. Meanwhile in the U.K, the Bank of England's (BoE) Monetary Policy Committee (MPC) did not convene in July. However, as

inflation news improved, investors scaled back their expectations of aggressive interest rate hikes. As a result, U.K. gilts outperformed other major government bond markets during the month. The U.K. 2-year yield decreased from 5.26% to 4.98%, and the 10-year yield also declined from 4.39% to 4.31%.

## Commodities.

Global commodity prices performed well in July. In particular, it was a good month for agriculture, with cocoa witnessing its highest price in more than 12 years during the month. Cocoa prices exhibited interesting dynamics, as cocoa futures prices saw support due to tightness in supplies, with Ivory Coast forward cocoa sales falling by 1.3 million metric tons (MMT) or 13.3%, year-on-year. Coffee prices experienced some fluctuations in the market, but still ended the month up by 2.27% at US\$ 1.6465 cents/lb. According to the International Coffee Organization (ICO), coffee prices initially fell but then recovered during the month, owing to a decrease in supply.

Energy commodities had a mixed performance, with prices for Brent Crude and Light Crude futures closing up by +14.2% and +15.8%, respectively. However, natural gas prices (LNG) faced a slight decline due to a fall in European demand.

Gold showed positive signs. Generally, gold's price has climbed in 2023, and ended the month +12.8% YoY. As of the end of June, gold traded at \$2,009.20 per ounce, up by more than +4% MoM. The rise has been attributed to rising interest rates and stock market volatility, as well as instability in the banking sector. Buying gold during an economic slowdown is an age-old trend because, unlike other investment options like stocks, the value of gold tends to rise as investors seek safe haven assets.

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	164.65	↑	2.27%	↓	-24.19%	↓	-9.41%
Cocoa (US\$/mt)	3,548.00	↑	6.93%	↑	52.73%	↑	37.47%
Palm Oil (RM/tn)	3,792.00	↑	1.09%	↓	-12.93%	↑	1.94%
<b>Energy</b>							
Brent Crude (US\$/bbl)	85.56	↑	14.23%	↓	-22.23%	↑	1.27%
LNG (US\$/mmBtu)	10.92	↓	-10.78%	↓	-74.14%	↓	-42.60%
Light Crude WTI Futures (US\$/bbl)	81.80	↑	15.80%	↓	-17.06%	↑	3.71%
<b>Precious Metals</b>							
Gold (US\$/oz)	2,009.20	↑	4.14%	↑	12.76%	↑	3.28%
Silver (US\$/oz)	24.97	↑	8.48%	↑	23.64%	↑	4.77%
<b>Base Metals</b>							
Copper (US\$/lb)	4.01	↑	6.61%	↑	12.16%	↓	-5.16%
Iron Ore (US\$/mt)	110.46	↑	1.41%	↑	3.88%	↓	-6.45%



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