

Monthly Report.

October 2023



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Monthly Highlights.

2023 Supplementary Budget released

The Treasurer, Hon. Ian Ling-Stuckey, presented the 2023 Supplementary Budget - with an additional PGK771million, bringing the total 2023 projected fiscal spend to PGK25 billion.

PGK/USD rate drops -35bps to US\$0.2695

The PNG Kina Interbank Rate dropped 35bps against the U.S dollar to US\$0.2695, extending its downward trend as BPNG allows for correction in the market. The PGK/USD interbank rate has depreciated 5.1% (145bps) since May'23.

2024 National Budget

The 2024 National Budget is scheduled to be tabled on the floor of parliament on Tuesday, November 28th, 2023. Among the issues garnering interest, observers are keen to see the outcome of the Proposed Tax Legislative changes in the 2024 national budget, as announced by the Internal Revenue Commission (IRC) recently. [Link here.](#)

Government's 1-Year Treasury bill ended 3.31%

Yield on the government's 1-year Treasury bill closed strongly higher at 3.31%, up by 22 basis points from the month before. We expect this trend to continue, as the government shifts its focus from external funding sources to the local debt market given rising global interest rates.

Retail Fuel Prices close over +3% high

Retail fuel prices closed broadly higher in Port Moresby, all rising over +3% on high international crude oil prices - largely driven by OPEC's production cut.

Coffee increase +14.47%

Coffee prices jumped +14.47% to 167.30 cents a pound in October, largely driven by tight supply due to adverse weather patterns in coffee producing regions.

Market Commentary.

New Porgera Limited Granted Special Mining Lease

The PNG Government (GoPNG) granted a Special Mining Lease (SML) to Barrick after both parties finalized and signed a Mining Development Contract. Barrick CEO, Mark Bristow announced that a new company was established to operate the mine (New Porgera Limited) and would soon be meeting with project landowners to finalise new compensation agreements. The finalisation of this agreement comes after three years of negotiations between Barrick and GoPNG.

Before the closure in 2020, Barrick, the operator, and Zijin Mining Group

of China each owned 47.5% of the mine, with the State owning 5% equity. Unfortunately, the closure happened around the same time the COVID-19 pandemic hit, and cost more than 5,000 jobs, negatively impacting businesses and communities that benefited from the mining operations. Nonetheless, the three years of negotiations has proven beneficial to all parties involved, however, Barrick acknowledges that there are still hurdles to overcome before full operations can resume.

As part of this new agreement, GoPNG increased its equity to 51%, while Barrick and Zijin Mining Group now each hold a 24.5% stake, respectively. This signifies 2 important things: (1) Considerable shift in the ownership

structure and power dynamics in the mining industry; and (2) GoPNG's increased involvement in the mine's operation. While the State's increased stake means potentially greater revenues, it also means assuming more of the operational and financial risk. Fluctuations in international gold prices, potential operational difficulties, and the cost of implementing environmental and social safeguards could pose financial challenges in the future.

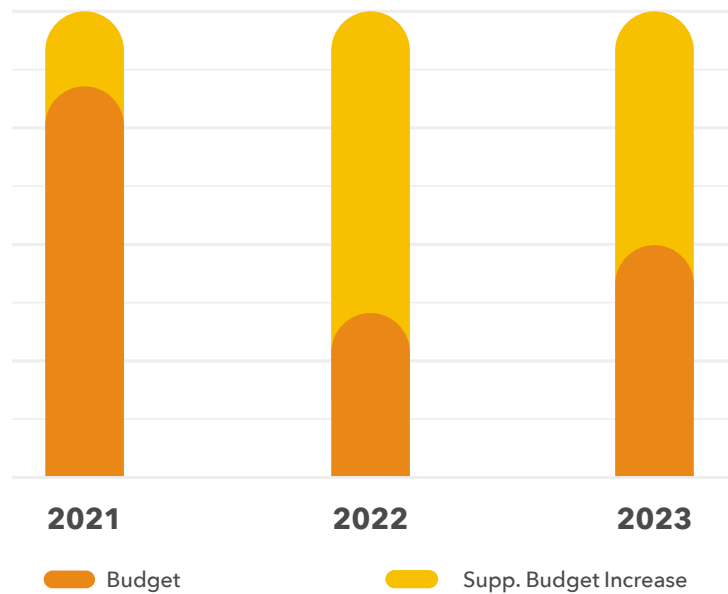
Market Commentary, cont.

2023 Supplementary Budget released

The 2023 Supplementary Budget was presented to the Parliament on 12th October by the Treasurer, Hon. Ian Ling-Stuckey. This Supplementary Budget has allocated an additional PGK771 million in expenditure, bringing the total 2023 Budget to about PGK25 billion.

Despite global economic challenges, the PNG economy is performing better than expected. Both the IMF and the World Bank indicated PNG's growth rate at 4.6% this year and estimated that growth path will remain consistent in 2024. Tax revenues have increased significantly due to strong economic growth and higher profits and incomes. Company taxes are up PGK646 million (+27%), personal income taxes up PGK350 million (+10%), and customs revenues up PGK183 million (+41.6%). A new Non-Tax Revenue Administration Act is expected to generate an additional PGK200 million in revenue. In total there is an estimated PGK821 million in extra revenues to allocate in the budget.

Comparison of Contribution to Final Budget since 2021

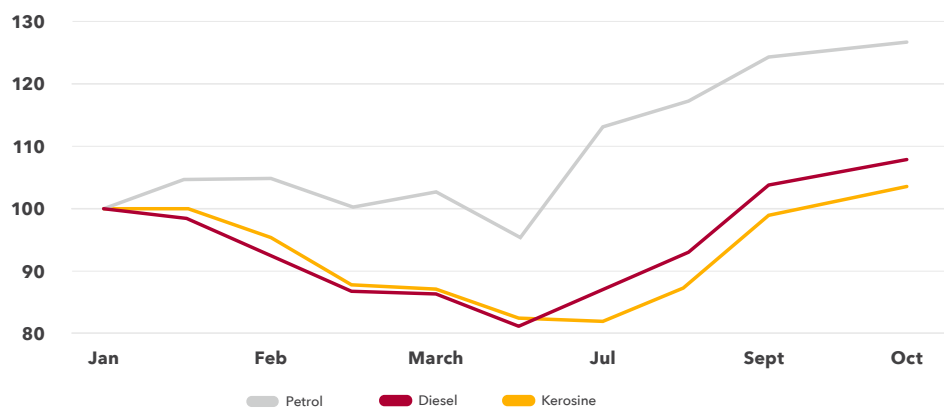


Fuel Price Watch

Fuel Prices in Port Moresby increased by an average of 3% in October 2023, as per the monthly announcements by the Independent Consumer & Competition Commission (ICCC). The increase was attributed to "the average increase in international crude oil prices in September 2023", following oil production cuts announced by OPEC, combined with the "continuous depreciation of the kina against the US dollar."

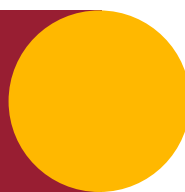
OPEC made a decision to maintain output cuts to keep a tight supply after Saudi Arabia and Russia indicated that they would keep voluntary supply cuts in place to support the market. The current oil output policy will be maintained for the rest of the year, as Saudi Arabia and Russia continue their voluntary supply cuts to support oil prices.

Fuel Price movements since January 2023



Graph below shows that fuel prices have been trending downwards from January - June. This was due to the government's fuel excise relief for households, buffering the impact of global inflation. From June onwards

when the tax exemptions were lifted, we can see that fuel prices have trended upwards.



Market Commentary, cont.

PNG signs up to AIIB

In October, PNG deposited USD\$200,000 (about PGK700,000) of the USD\$1 million required to become a member of the Asian Infrastructure Investment Bank (AIIB), a Chinese led multilateral development bank. PNG gained Prospective Member

status in 2018 and is now in the process of becoming a full member.

Membership in the AIIB will give PNG wider choices of financial assistance and an alternate funding source beyond its traditional financial institutions. PNG Prime Minister, Hon.

James Marape, met with the AIIB President, Mr. Jin Liqun, to make the initial payment and confirm PNG's membership. Joining the AIIB will provide PNG with more financing options and access to capital markets. PM Marape also discussed establishing a Bank of China branch in PNG.

Kina Bank Outlook.

IMF growth forecasts for region According to the IMF's World

Economic Outlook in October, growth in 'Emerging and Developing Asia' is projected to grow by 5.2% in 2023 (from 4.5% in 2022), before slowing to 4.8% in 2024. The downward revision reflects a lower forecast for China, which has been impacted by the property crisis, high inflation and weak consumer demand. Meanwhile, the global economic recovery has been slower than expected due to the lingering effects of the pandemic and the Russia-Ukraine war. Growth has fallen below pre-pandemic levels, especially in emerging markets. Global growth is forecast to slow to 3%

in 2023 and 2.9% in 2024, below the historical average of 3.8%. Inflation is expected to decline but remain above target through 2025.

As 2024 approaches, central banks will need to carefully manage monetary policy to restore price stability while also using tools to mitigate potential financial stress. Fiscal policymakers, on the other hand, are expected to increase budget flexibility and remove broad measures while protecting the most vulnerable via targeted methods such as household assistance packages, especially in the context of rising energy and food prices.

2024 National Budget & Proposed Tax Legislative Changes

Among the issues garnering interest for the upcoming 2024 Government Budget for businesses will be the proposed tax changes announced by the Internal Revenue Commission (IRC) recently. The proposed amendments aim to enhance administrative efficiency, reduce the compliance burden on taxpayers, and improve revenue collection. These changes will encompass a wide range of adjustments and will ensure that tax policies are up to date, equitable, efficient, and aligned with economic objectives of the country.

PNG FX Market.

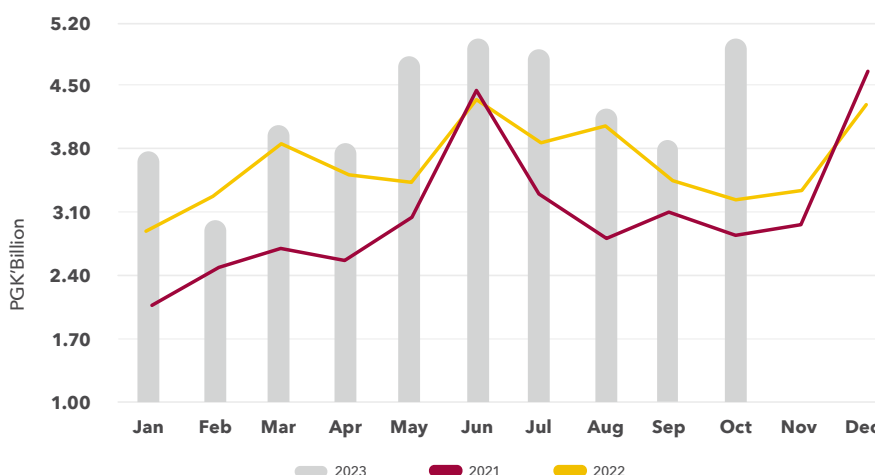
PNG's interbank rate extended its drop against the U.S dollar to US\$0.2695 in October, down by -1.28% or 35 basis points (bps) from the previous month's close of US\$0.2730. So far, the Bank of PNG (BPNG) has allowed the rate to fall -5.11% (145bps) since May this year. In terms of its support to the local FX market, BPNG intervened into the market twice during October, USD\$40 million on the 9th October, followed by USD\$160 million later in the month. Total FX intervention was USD\$200 million (PGK0.74 billion).

Total FX market turnover, excluding BPNG intervention, increased +31.72% to PGK5.14 billion from September, almost touching its highest level of PGK5.16 billion which was in June this

year. The increase was mainly driven by high commodity prices. Historically, the FX market turnover normally decline from July to October and pick up in November and December.

We expect the market turnover to fall in November, but close higher than last year's level.

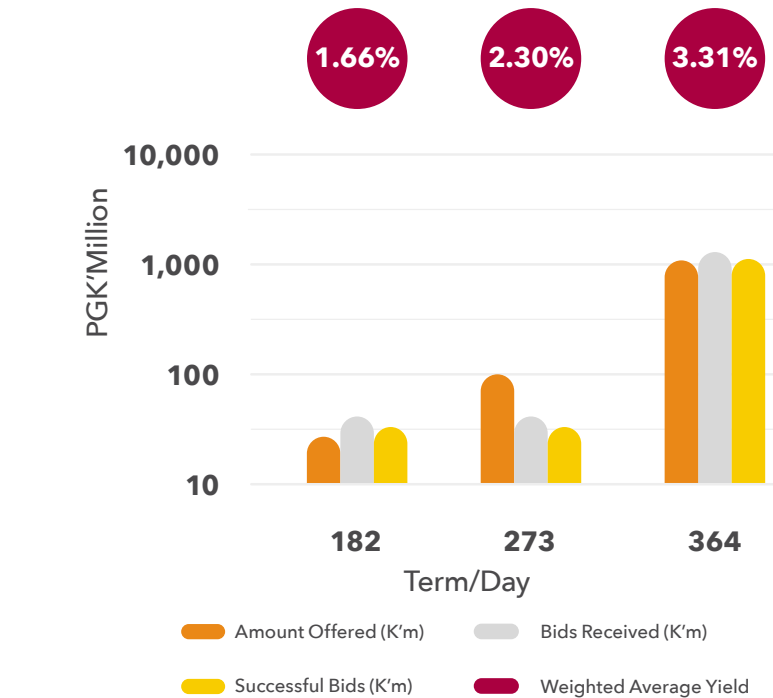
Monthly FX Market Turnover



PNG Cash & Fixed Income.

Rates for Treasury bills (T-bills) have been improving since August, with October ending the 1 year paper at 3.31%, the second highest rate for the year since January. The 182-day and 273-day T-bills both added 5 basis points (bps) and 4bps respectively. There has also been an increase in Successful Bids since July this year when it was the lowest. October saw T-bills rake in PGK1.19 billion for the Government, which is an increase of about 86.7% from the total raised in July (PGK0.64 billion).

According to the Mid-Year Economic and Fiscal Outlook (MYEFO) report for this year, it was reported that as of June 2023, the Government's domestic debt was K29.46 billion, which is a +7.0% increase compared to the 2022 outcome (PGK27.53 billion), and +1.6% higher than the 2023 Budget estimate of PGK28.99 billion. The Government's debt is expected to be around 52.2% of the country's total economic output (GDP) by the end of the year, yet still remains within the 60% debt limit. The MYEFO also reported that the



Governments increased domestic borrowing to raise funds for its weekly cash flow expenses, especially during the first quarter, because of delays with

getting funds from alternative sources, especially external financing.

International Cash & Fixed Income.

In October, bond markets saw interest rates remain high for an extended period due to factors like a strong US labor market, high inflation, and concerns over US debt issuance. US Treasury yields increased significantly, especially for long-term bonds, with the US 10-year yield increasing from 4.57% to 4.93%. In the UK, economic data was mixed, while the gilt yield curve steepened, as the 10-year yield increased from 4.44% to 4.52%.

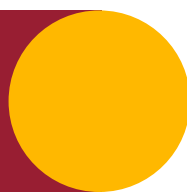
Meanwhile, the Bank of Japan (BoJ) made slight adjustments to its yield curve control policy, adding a bit more leeway around the upper limit at the 10-year point. This move didn't quite match up to what the market was expecting, as many thought there would be a more significant shift. BoJ Governor, Kazuo Ueda, pointed to the larger-than-

10 Year Government Bond Yields						
COUNTRY	YIELD		MOM		YOY	YTD
United States	4.93%	↑	0.08	↑	0.22	↑ 0.41
United Kingdom	4.51%	↑	0.02	↑	0.28	↑ 0.35
Australia	4.93%	↑	0.10	↑	0.31	↑ 0.39
New Zealand	5.55%	↑	0.05	↑	0.33	↑ 0.33
France	3.43%	↑	0.01	↑	0.28	↑ 0.25
Japan	0.95%	↑	0.24	↑	2.82	↑ 0.91

projected rise in US Treasury yields as the main reason for this latest decision.

The Reserve Bank of Australia on the other hand, left interest rates unchanged at its October meeting. Over the last year, the RBA has raised interest rates by 4 percentage points to control inflation. But this time, the central bank decided

to keep rates steady to assess the impact of previous rate hikes. The central bank may need to raise rates further if needed if price pressures continue, but noted that it will monitor economic data and risks before making any changes to monetary policy.



PNG Equities.

There was a lot of activity on the PNG Stock Exchange (PNGX) during October. Total volume exchanging hands was 2.19 million, a +4.29% higher than the monthly average of 2.10 million. This is due to rising demand for equities, particularly the banking stocks, as investors search for higher returns, while supply of Government securities remained tight.

The Kina Securities index, a measure of PNG's nine publicly listed companies, edged up +0.07% higher at 6,319.60, supported by financial and energy stocks.

Newmont Corporation officially listed on PNGX, after successfully completing its acquisition of Newcrest Mining Limited (NCM). PNGX announced that Newmont will list as a PETs Depository Interest (PDI) security on the local bourse, making it the first company to do so on the PNGX.

Newmont is a U.S based company and is listed on the New York Stock Exchange (NYSE). The rules of NYSE prohibit Newmont from listing as a common stock on PNGX. For this reason, Newmont was listed as the PDI. According to PNGX Chair, David Lawrence, 'PDIs will provide holders with most of the same benefits are shares, including the right to vote at shareholder meetings and receive dividends, rights issues and bonus issues.'

Newmont shares first traded on PNGX on 27th October 2023, a day before Newcrest shares were suspended from trading.

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
City Pharmacy Limited (CPL)	0.70	↓	-11.39%	↓	-26.32%	↓	-26.32%
Credit Corporation PNG (CCP)	2.08	↑	1.46%	↑	9.47%	↑	9.47%
BSP Financial Group Ltd (BSP)	13.51	↑	0.75%	↑	8.86%	↑	8.86%
Santos Limited (STO)	19.23	↑	0.10%	↑	0.68%	↑	0.68%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.77	↓	-2.55%	↓	-12.57%	-	-
BSP Financial Group Ltd (BFL)	5.13	↓	-0.49%	↑	4.59%	↑	12.89%
Newcrest Mining Ltd (NCM)	23.35	↓	-19.68%	↑	34.58%	↑	4.66%
Santos Limited (STO)	7.67	↓	-2.91%	↓	-0.39%	↑	7.88%
PNG Market Indices							
KSi	6,319.60	↑	0.07%	↑	0.62%	↑	0.62%
KSHi	15,621.91	↓	-1.32%	↑	0.18%	↑	0.18%

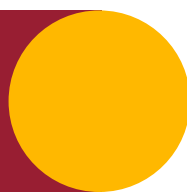
*PNGX prices in PGK; ASX prices in AUD.

Q3 performance results released

Santos (PNGX, ASX: STO) reported a +7.49% increase in revenue during Q3 (US\$1.44 billion), which was supported by a +2% (U.S\$1.4 billion) increase in production and high commodity prices. The Group's free cash flow from operations was around US\$470 million.

For Newcrest (PNGX, ASX: NCM), it reported an -18% decline in total gold production during Q3 (454,312 ounces) from the 556,187 ounces reported for the June quarter. The Group's All-In Sustainable Costs (AISC) increased to U.S\$1,397 per ounce, from U.S\$1,187 in Q2, resulting in a drop in AISC margin from U.S\$715 to U.S\$470 per ounce.

BSP Financial Group Limited (PNGX: BSP | ASX: BFL) reported strong revenue growth of +11.70% for Q3 compared to the prior corresponding period in 2023 (p.c.p). The total reported revenue was PGK707.6 million, which was driven by strong revenue base. However, the Group reported a decline in its NPAT by -32% in p.c.p. This was due to a +45.38% (PGK520.3) increase in total expenditure from p.c.p. Total deposits grew by +15% to PGK29 billion, while net loans stood at PGK15 billion, up +7%.



International Equities.

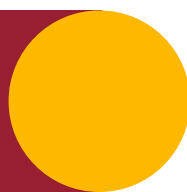
The Hamas-led attacks on Israel reinforced risk-off sentiment back into the global equity market during October, just before the market was about to fully price in the risk of a 'higher for longer' interest rate scenario.

Public traded companies in the U.S, Europe, and Asia kicked-off their reporting season for third quarter earnings. Even though an initial round of earnings reports provided much needed relief to the market, it was not enough to keep investors interested as risk from the Middle East war weighed heavy. The earnings season will continue throughout November.

Major equity benchmarks across the world plunged into the red territory in October. In North America, all four major indices dropped more than +1%, while European indices followed suit with over -3% in losses. Asia-Pacific shares also suffered, with losses over -2%.

Looking ahead, major headwinds for the global equities will be the on-going middle-east conflict and interest rate concerns.

	PRICE		MONTH		YOY		YTD
North America							
Dow Jones IA	33,052.87	↓	-1.36%	↑	0.98%	↓	-3.03%
S&P 500	4,193.80	↓	-2.20%	↑	8.31%	↑	2.87%
NASDAQ	12,851.24	↓	-2.78%	↑	16.96%	↑	10.93%
Toronto S&P/TSX	18,873.47	↓	-3.42%	↓	-2.84%	↓	-9.12%
Europe							
FTSE	7,321.72	↓	-3.76%	↑	3.20%	↓	-5.79%
DAX	14,810.34	↓	-3.75%	↑	11.74%	↓	-2.10%
CAC 40	6,885.65	↓	-3.50%	↑	9.88%	↓	-2.78%
Asia							
Nikkei	30,858.85	↓	-3.14%	↑	11.86%	↑	12.92%
Hang Seng Index	17,112.48	↓	-3.91%	↑	16.51%	↓	-21.65%
Shanghai Composite	3,018.77	↓	-2.95%	↑	4.33%	↓	-7.28%
Sensex	63,874.93	↓	-2.97%	↑	5.15%	↑	7.26%
S&P/ASX 200	6,780.68	↓	-3.80%	↓	-1.21%	↓	-9.31%



Commodities.

Following two-straight months of declines, gold bounced off from safe-haven demand, scaling over +6% during October. The demand for the precious metal was triggered by the geo-political risks and capital flight being promoted by the prospect of China's weakening economy, coupled with a weaker U.S dollar. Spot gold rose +6.87%, while U.S gold futures gained +7.50%, remaining above the US\$2,000 mark.

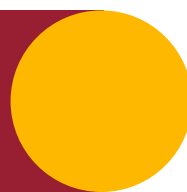
Agricultural commodities were mixed last month. Prices for coffee (+14.47%) and cocoa (+11.67) peaked due to supply concerns, while palm oil (-3.39%) deepened losses on rising stockpiles, coupled with price movements of related oils as they compete for a share in the global vegetable oils market.

In energy markets, liquefied Natural Gas (LNG) topped the market a price increase of +21%. This was off the back of strong demand coming in from North-East Asia and Europe, as buyers' prioritized stock building ahead of the winter season, coupled with the continued geopolitical risks.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	167.30	↑	14.47%	↓	-5.85%	↓	-7.95%
Cocoa (US\$/mt)	3,817.00	↑	11.67%	↑	63.47%	↑	47.89%
Palm Oil (RM/tn)	3,564.00	↓	-3.39%	↓	-7.62%	↓	-4.19%
Energy							
Brent Crude (US\$/bbl)	87.41	↓	-8.29%	↓	-7.82%	↑	3.46%
LNG (US\$/mmBtu)	17.72	↑	21.12%	↓	-35.65%	↓	-6.86%
Light Crude WTI Futures (US\$/bbl)	81.02	↓	-10.76%	↓	-6.37%	↑	2.73%
Precious Metals							
Gold (US\$/oz)	1,994.30	↑	6.87%	↑	21.55%	↑	2.52%
Silver (US\$/oz)	22.95	↑	2.24%	↑	20.05%	↓	-3.71%
Base Metals							
Copper (US\$/lb)	3.65	↓	-2.37%	↑	8.12%	↓	-13.65%
Iron Ore (US\$/mt)	117.48	↑	1.79%	↑	43.23%	↓	-0.51%

Meanwhile, Brent crude and U.S crude futures pulled back on soft demand, while supply in the U.S recovered. Brent crude dropped -8.29% to US\$87.41 per barrel and U.S crude shed -10.76% to close at US\$81.02 per barrel. Traders have yet to fully price in the risk posed by the Middle East war. We may see

both oil benchmarks breaking the US\$100 mark, should the war spread to other parts of the region.



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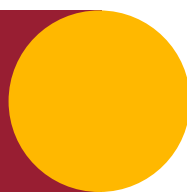
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