

Monthly Report.

August 2023



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Monthly Highlights.

Government cuts GDP forecast to 3%

PNG Government revised its GDP forecast for 2023 down to 3% from its initial 2023 budget forecast of 4%. The revised forecast is based on expectations of falling crude oil prices and further delays in the re-opening of the Porgera gold mine.

Newmont gets approval from ICCC

Newmont received ICCC approval to complete its acquisition of Newcrest. Both Newmont and Newcrest will continue to work with the Government and other regulators to secure 'additional approvals' before the end of 2023.

Government to raise extra PGK2.8b

The 2023 Debt-financing plan for the Government was budgeted at PGK4.9 billion. During the first half, the Government raised PGK2.1 billion, meaning that the Government will look to raise another PGK2.8 billion in the second half of the year.

1-Year Treasury Bill drops 18 bps

Yield on the Government's 1-year Treasury bill dropped 18bps to close the month at 2.79%. We expect the yield to normalize in the coming months on expectations that the Government funding from external sources will come through in the second half of 2023.

Retail Fuel price for petrol up more than +3% in Port Moresby

Indicative retail price for petrol rose more than +3% in August compared to the previous month. Petrol price increased by 23% since June

PGK/USD interbank rate falls 20 bps

The PGK/USD interbank rate fell another 20 bps to \$US0.2770 per Kina, as the market continues to correct imbalances between the supply-demand of forex. The interbank has fell 70 bps since early May 2023.

Market Commentary.

MYEFO report points to immediate climate risks from El Nino

The Government released its Mid-Year Economic & Fiscal Outlook (MYEFO) report on the 2023 budget. A possible risk to the global economy, including PNG, is the forecasted El Nino weather phenomenon predicted this year that could lead to drought conditions and impact global-supply chain lines.

Growth forecast downgraded due to oil price decline and further Porgera delays

Despite continued fiscal stimulus to the non-resources sectors including public administration, defense and wholesale and retail trade, the Government anticipates that an easing in oil prices and further delays in the Porgera mine re-opening means a downgrade in the 2023 GDP forecast to 3% (down from initial 4%).

Fiscal outlook forecast more revenue

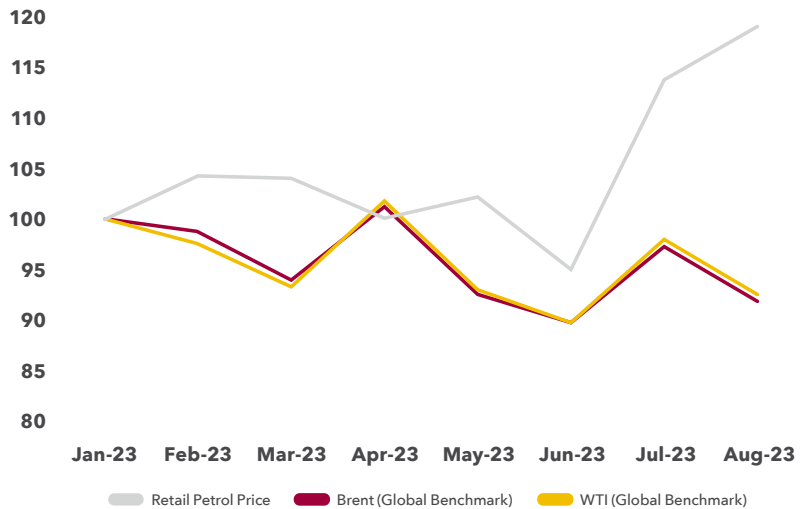
The MYEFO reported that the Government expects its initially planned revenue estimate of PGK19.5 billion to increase by +8.2% to PGK21.2 billion this year. The Government attributes this optimism in increased revenues to increased collections from Company Income Tax, Mining & Petroleum Tax and Personal Income Tax.

Market Commentary, cont.

Fuel Price Pressures continue

The regulated Indicative Retail Price (IRP) for petrol increased by +3.5% in August from the previous month. Since June, the IRP for petrol has increased by +23%. During the same period, diesel IRP has also increased by +14.4%, and kerosene IRP by +5.8%. Imported fuel prices are on the increase, and this is likely to place more pressure on other goods reliant on transport. An interesting trend to note is that despite an easing-off in the global oil benchmark prices (Brent and WTI) since May, domestic prices have trended the other way.

Local Petrol price vs Global Oil Price trends



Kina Bank Outlook.

Continued upward fuel price pressures and rice

The current trend in fuel prices has increased since May. Heading into a new month, the continued upward pressure may start to tell in passing-through to other critical daily items including goods and transport costs. The MYEFO points to lower fuel prices in the second half of this year, however the current regulated prices are not consistent with this assertion.

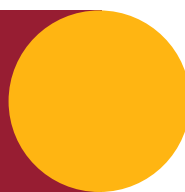
There is also a risk that we may see a price-rise in the global market for rice. The MYEFO acknowledged the current global weather patterns which have led to India placing a ban on rice exports, and a drought in Thailand which will limit global supply and place upward pressure on the household staple. As a rice importer, this may also place a strain on rice importers.

Supplementary Budget expected

Despite the additional revenue, the Government will continue to spend in proportion to its income, as it also adjusts its expenditure forecasts by the same amount (PGK1.6billion). The MYEFO reported that the additional expense items (totaling PGK1.6billion to match the additional revenue) included 4 key items: **Goods and services: PGK0.5billion; Foreign Loan Interest rate costs due to global interest rate hikes: PGK0.3billion; Trust Balance Allowances: PGK0.3billion and a MYEFO Contingency Fund: PGK0.5billion.** The "MYEFO Contingency Fund", as reported looks to be a supplementary budget for this year. The MYEFO reported that "parliament will decide how to spend this money later this year".

Budget Debt Financing

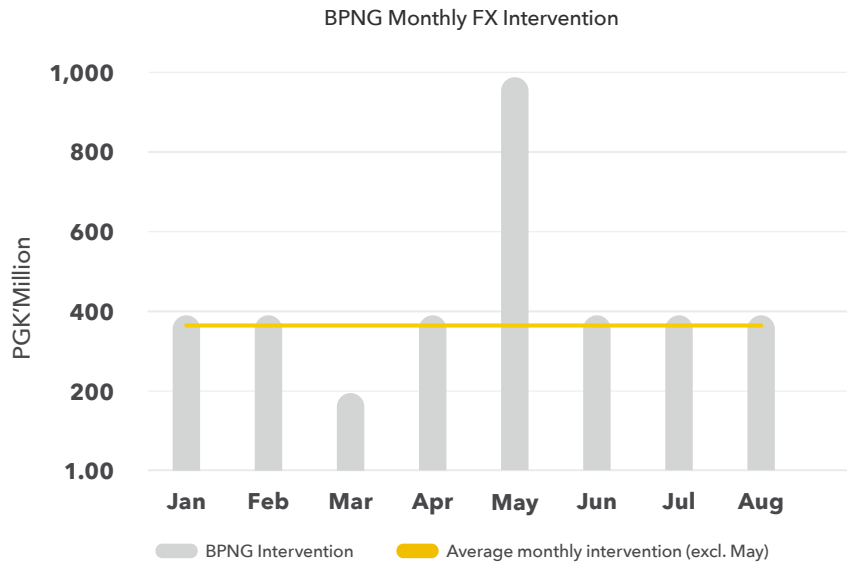
The Government planned to borrow K4.9billion in 2023 to finance the fiscal deficit. During the first half of 2023, it raised PGK2.1billion (90% from domestic market and 10% external sources). According to its 2023 financing plan, it still projects to raise a further PGK2.8billion in the second half of the year. Given it has budgeted for a substantial amount of financing from external sources in the budget which were not drawn down in the first half, we anticipate that the Government may source more external funding relative to domestic funding as opposed to the first half of this year - which may lessen its reliance on local T-bills, and possibly lead to lower domestic Treasury Bill rates.



PNG FX Market.

The PGK/USD interbank rate dropped 20 basis points in August to 0.2770 - which now records a total depreciation of -2.5% or 70 basis points (bps) since early March from US\$0.2840. The BPNG continued its support to clear import orders by intervening into the market with PGK361million during August. Since the start of this year, the Central Bank has intervened with a total of PGK 3.3billion into the market to assist with import orders. During the first 8 months, there was a large intervention of PGK0.969 billion in May. Besides this intervention, when adjusting for May, average monthly intervention by BPNG this year has been PGK330million. We anticipate that the Central Bank will continue this consistent support to the market heading into the final third of 2023.

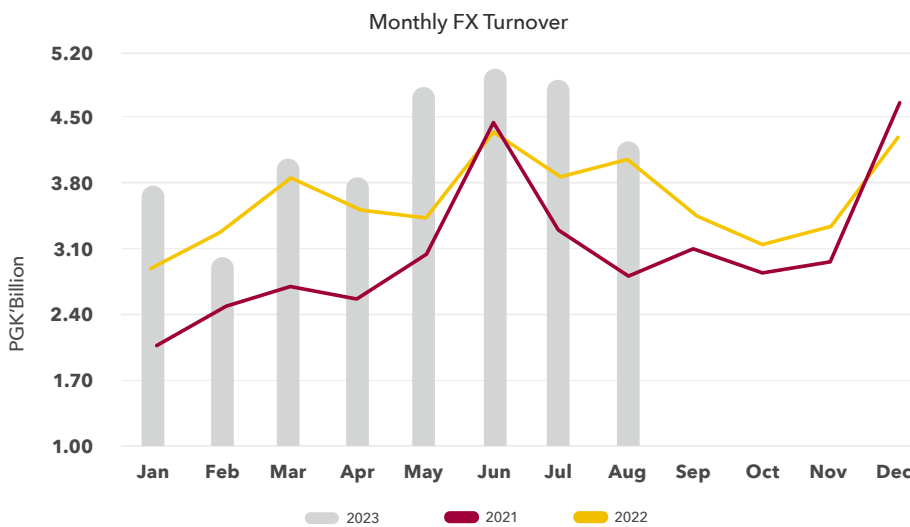
Despite remaining unchanged during the month, there is still a large backlog



Source: KFM Economics calculations; BPNG

of orders which is keeping downward pressure on the PGK/USD interbank which closed out the month at 0.2770. We estimate further downward movements within the range of 10-15basis on average per month to the end of this year, so we would likely see an interbank level of 0.2720 by

Christmas. During August, total FX market turnover was PGK4.62 billion, inclusive of BPNG intervention. This is -11.9% lower than July's turnover, however is tracking higher than the levels seen in 2022 and 2021.

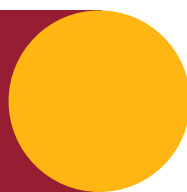


In terms of forward-looking projections on the PGK spot against other major currencies, we anticipate that the continued down-trend of the PGK/USD, coupled with interest rate hikes in other majors including the AUD, Kiwi, Yen and Euro will see a gradual decline in the respective PGK cross-rates over the next 6 months.

PGK exchange rates forecasts

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
PGK/USD	0.2755	0.2740	0.2730	0.2720	0.2710	0.2700	0.2700
PGK/AUD	0.4305	0.4238	0.4206	0.4174	0.4081	0.4037	0.3993
PGK/NZD	0.4669	0.4630	0.4611	0.4592	0.4516	0.4480	0.4444
PGK/JPY	40.22	40.00	39.86	39.71	39.57	39.42	39.42
EUR/USD	0.2528	0.2482	0.2460	0.2438	0.2406	0.2390	0.2375

Source:KFM Economics calculations; BPNG



PNG Equities.

Newmont gets approval from ICCC

Newmont Corporation received an approval from the Independent Consumer and Competition Commission (ICCC) to proceed with its proposed acquisition of Newcrest Mining Limited. The approval provides a significant boost to Newmont's pursuit of Newcrest, as it will make way for the company to secure other necessary approvals and clearances for the proposal. Newmont and Newcrest will continue to work with the PNG Government and other regulators to get this transaction across the line before year-end.

Corporate earnings season

Corporate reporting season for PNG listed companies began in August. Newcrest (NCM) declared a final dividend of US\$0.20 per share after it announced a full-year statutory profit of US\$778 million (vs. 2022 US\$872million). Meanwhile, Santos Limited (STO) reported its first-half (1H2023) financial results for 2023, declaring a statutory profit of US\$790 million (vs. 2022 US\$1.17 billion) and an interim dividend of US\$0.09 per share.

BSP Financial Group Limited (BSP |BFL) achieved a 1H2023 strong statutory profit of PGK427.2 million (+7.6%) and an interim dividend of PGK0.37 per share. Kina Securities Limited (KSL) also achieved an increased statutory profit of PGK46.4 million (+2%) and declared an interim dividend of PGK0.10 per share. Steamships Trading Company Limited (SST) closed off this month's reporting season by announcing a

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation PNG	2.05	↑	1.99%	↑	10.81%	↑	7.89%
Kina Assetmanagement Limited (KAM)	0.90	↑	5.88%	↓	-10.00%	↓	-5.26%
Kina Securities Ltd (KSL)	2.55	↑	6.25%	↓	-15.00%	↓	-8.93%
Santos Limited (STO)	19.11	-	0.00%	↑	0.05%	↑	0.05%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.83	↑	3.75%	↓	-9.78%	↑	8.50%
BSP Financial Group Ltd (BFL)	5.50	↑	3.77%	↑	12.24%	↑	21.15%
Newcrest Mining Ltd (NCM)	26.03	↓	-1.44%	↑	46.81%	↑	16.67%
Santos Limited (STO)	7.67	↓	-3.64%	↓	-2.79%	↑	7.88%
PNG Market Indices							
KSi	6,296.06	↑	0.14%	↑	0.25%	↑	0.27%
KSHi	15,830.59	↑	1.44%	↑	3.09%	↑	1.58%

*PNGX prices in PGK; ASX prices in AUD.

statutory profit of PGK24.2 million. Steamships proposed an interim dividend of PGK0.35 per share, which is subject to Board's approval.

Corporate reporting season will continue in the next month, with announcements expected from Credit Corporation PNG (CCP), City Pharmacy Limited (CPL), and Kina Asset Management Limited (KAM).

PNGX records little activity

PNG equity market (PNGX) finished in positive territory in August, with the Kina Securities index (KSi), a price-weighted measure of PNG's 10 publicly listed companies, posting a return of +0.1%. The KS Home index (a subset of the KSi tracking only PNGX-listed stocks) closed the month with +1.4% in return. Both indices were

driven by the financial and investment stocks. Total volume exchanged on PNGX was 0.58 million, compared to a 7-month average of 0.85 million. On the Year to date, total volume traded was 15 million.

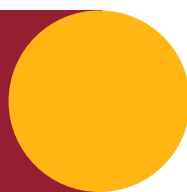
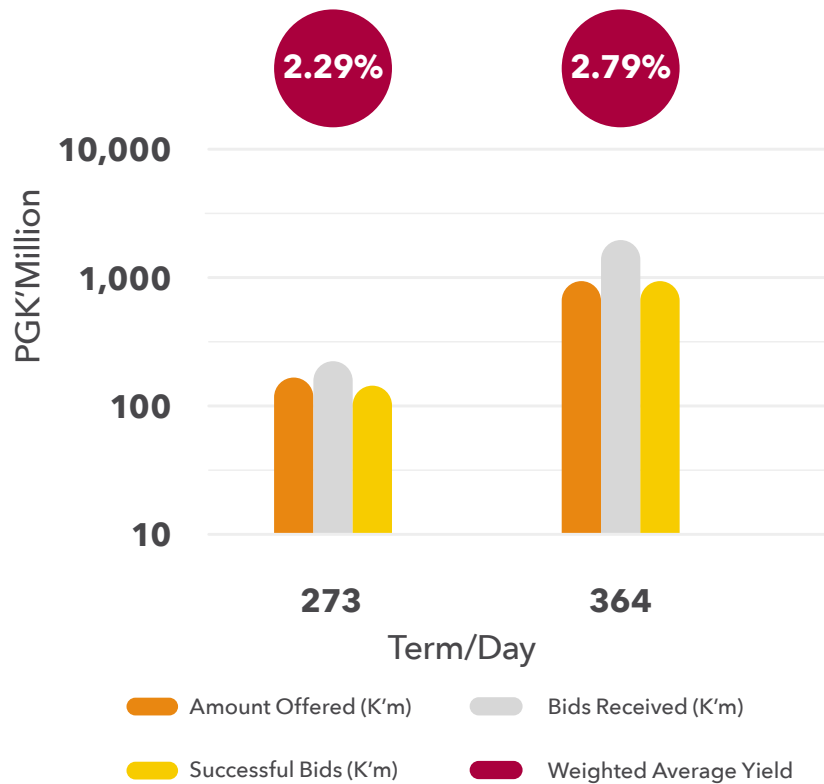


PNG Cash & Fixed Income.

During the Treasury bills (T-bills) auctions held in August, the 182-day paper remained inactive, while there was increased activity for the 273-day and 1-year papers compared to the previous month. This led to a decrease in yields of 11bps (2.29%) and 18bps (2.79%) respectively. The market observed an oversubscription of over 100%, with the bids received being more than twice the amount offered.

In 2023, the Government of PNG (GoPNG) has raised the highest amount of funds through domestic borrowing, totaling around PGK2 billion. The peak of successful bids occurred in February. However, since then, the success rate of bids in the domestic market has gradually declined each month, reaching its lowest point in July. It is worth noting that despite the initial plan outlined in the 2023 National Budget to borrow 30% domestically and 70% externally, GoPNG has borrowed 90% domestically in 2023 (as of June Outturn).

In August, PGK1.15 billion was raised through T-bills, marking an 80% increase compared to the previous month. It remains uncertain whether this indicates an ongoing upward trend, as the government still intends to source external funding.



International Equities.

The global equities closed sharply lower in August, ending their two-month rally, as rising Treasury bond yields challenged the demand of equities. The MSCI All-Country World Equity index posted a negative return of -3.1% during the month.

In North America, top equity indices declined more than -1% in returns, on concerns that the U.S Federal Reserve might hold its interest rate higher for a longer period.

Europe's region-wide STOXX 600 index shed -2.8%, owing to interest rate concerns, coupled with a slew of economic data and earnings results. Equities in Asia-Pacific also moved lower, tracking their peers in North America and Europe. Australia's S&P/ASX 200 fell -1.2% at 7,299 mark, while the MSCI All Country Asia-Pacific closed sharply lower by -5.1%, partly driven by China's weak factory activity data.

	PRICE		MONTH		YOY		YTD
North America							
Dow Jones IA	34,721.91	↓	-2.36%	↑	10.19%	↑	1.87%
S&P 500	4,507.66	↓	-1.77%	↑	13.97%	↑	10.57%
NASDAQ	14,034.97	↓	-2.17%	↑	18.78%	↑	21.15%
Toronto S&P/TSX	20,292.62	↓	-1.62%	↑	4.98%	↓	-2.29%
Europe							
FTSE	7,439.13	↓	-3.38%	↑	2.13%	↓	-4.28%
DAX	15,947.08	↓	-3.04%	↑	24.25%	↑	5.41%
CAC 40	7,316.70	↓	-2.42%	↑	19.45%	↑	3.31%
Asia							
Nikkei	32,619.34	↓	-1.67%	↑	16.12%	↑	19.37%
Hang Seng Index	18,382.06	↓	-8.45%	↓	-7.88%	↓	-15.84%
Shanghai Composite	3,119.88	↓	-5.20%	↓	-2.57%	↓	-4.17%
Sensex	64,831.41	↓	-2.55%	↑	8.89%	↑	8.87%
S&P/ASX 200	7,305.27	↓	-1.42%	↑	4.56%	↓	-2.29%

International Cash & Fixed Income.

U.S Treasury yields rose amidst growing expectations that interest rates would stay higher for longer, with the yield for the benchmark 10-year notes closing up to 4.1%. The U.S is showing signs of growth as borrowing costs rose sharply to 15-year highs in recent months driven by a resilient economy and rising issuance needs. The Euro zone on the other hand, is showing signs of weakness, reflected in the diverging bond market trends. U.S yields have risen more sharply compared to Europe. However, the spillover effects from higher U.S yields are pushing up yields globally, though the impact is more challenging for Japan where higher yields have weakened the yen and complicated the BOJ's policy efforts. Meanwhile in Australia, the 10-year government bond yield dropped to 4%, moving further away from its highest point in over nine years. The Reserve Bank of Australia (RBA) decided to keep

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.11%	↑	0.04	↑	0.29	↑	0.17
United Kingdom	4.36%	↑	0.01	↑	0.56	↑	0.31
Australia	4.03%	↓	-0.01	↑	0.12	↑	0.13
New Zealand	4.87%	↑	0.04	↑	0.22	↑	0.17
France	2.98%	↓	-0.01	↑	0.38	↑	0.08
Japan	0.65%	↑	0.06	↑	1.88	↑	0.31

its policy rate unchanged at 4.1% during its August meeting. This decision was contrary to market predictions of a 25bps rate hike. The RBA's board wanted more time to evaluate the impact of previous rate hikes on the economy. However, the minutes of the RBA's meeting indicated

that the central bank extended its timeline for achieving its inflation target, suggesting that it may maintain a restrictive monetary policy for an extended period.

Commodities.

While inflation in the U.S has cooled since its peak in July 2022, interest rates continue to remain at high levels. This has mixed effects on gold prices. Higher interest rates typically reduce investor appetite for risk, boosting demand for gold as a safe-haven asset. However, rising bond yields also attract some investors away from gold. The latest Personal Consumption Expenditures (PCE) price index data showed inflation in line with expectations, easing some fears of a sharp rise that could prompt further rate hikes, resulting in gold prices edging lower. Additionally, China's manufacturing activity continued to contract in August, highlighting weak demand domestically and abroad, further affecting the price of industrial metals to drop across the board.

Oil prices rose significantly due to a drawdown in U.S oil inventories and production cuts by OPEC+ countries led by Saudi Arabia. U.S crude oil prices gained +1.5% to settle at \$83.63 per barrel, while Brent crude settled at \$86.86 per barrel. The OPEC+ production cuts are expected to continue through 2023, supporting higher prices. In the PNG Government's 2023 MYEFO report, it views oil will remain flat through the end of this year, forecasting oil prices to be US\$75 per barrel. Higher global oil prices could mean greater revenue for the Government at the end of this year.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	152.70	↓	-7.26%	↓	-36.14%	↓	-15.98%
Cocoa (US\$/mt)	3,602.00	↑	1.52%	↑	48.41%	↑	39.56%
Palm Oil (RM/tn)	3,860.00	↑	1.79%	↓	-3.57%	↑	3.76%
Energy							
Brent Crude (US\$/bbl)	86.86	↑	1.52%	↓	-9.98%	↑	2.81%
LNG (US\$/mmBtu)	13.20	↑	20.88%	↓	-75.53%	↓	-30.62%
Light Crude WTI Futures (US\$/bbl)	83.63	↑	2.24%	↓	-6.61%	↑	6.04%
Precious Metals							
Gold (US\$/oz)	1,965.90	↓	-2.16%	↑	13.89%	↑	1.06%
Silver (US\$/oz)	24.81	↓	-0.64%	↑	38.75%	↑	4.09%
Base Metals							
Copper (US\$/lb)	3.82	↓	-4.64%	↑	8.63%	↓	-9.56%
Iron Ore (US\$/mt)	109.84	↓	-0.56%	↑	15.34%	↓	-6.98%

For agricultural commodities, crops in Southeast Asia, particularly Indonesia and Thailand, are receiving below average rainfall due to El Nino, which could impact production especially of palm oil and coffee. This saw prices of most crops increase, however coffee prices fell to \$1.52 per pound due to a stronger dollar. Regardless, we expect to see coffee prices increase as the two largest producers of Arabica coffee (Brazil and Colombia) are expected to see higher temperatures and less rainfall which could delay harvests and limit supply.



Kina Bank Wealth Management.

EGM | Wealth Management & Corporate Advisory

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

Head of Wholesale Business Development

Willie Konga
willie.konga@kinabank.com.pg

Senior Investment Analyst

David Menjawi
david.menjawi@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
Linah Leka
wealth@kinabank.com.pg

Administration Coordinator

Dagu Hebore
dagu.hebore@kinabank.com.pg



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