

Monthly Report.

September 2023



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Monthly Highlights.

PNG Government increases stake in PNG LNG

Kumul Petroleum Holdings Ltd. (KPHL) acquired an additional 2.6% equity interest in the PNG LNG project its purchase from Santos – this brings the PNG Government’s share (through KPHL) in the PNG LNG project to 19.4%.

PGK/USD records largest monthly drop in 2023

The PGK/USD interbank rate closed 40bps lower at 0.2730 - the largest drop in the interbank rate this year. On average, the rate is falling 10bps a month.

BPNG revises down growth forecast to 2.5%

In its September Monetary Policy Statement, BPNG said that it would revise down its Real GDP forecast to 2.5%, from its earlier prediction of 3.2% in March - caused by lower production of extractive exports and continued delays in re-opening the Porgera gold mine.

Kina Securities Index extends rally by +0.30%

The Kina Securities closed up +0.30% higher in September, adding to August’s return of +0.10%. Total traded volumes were also up with 0.63m units in September compared to 0.58m for the previous period.

Domestic fuel prices were up over +5%

Domestic fuel prices rose over +5% in September, as international energy prices continue to feed into domestic bowsters. Domestic fuel prices have increased by more than +30% since the Government’s household support through fuel subsidies ended in June.

Treasury Bills gains 30bps

Yield on PNG’s 1-year Treasury bill moved +30bps higher at 3.09%, from 2.79% in August. The Government raised PGK1.18 billion from auctions in September - with demand for T-bills remaining strong in the market.

Market Commentary.

Government acquires additional stake in PNG LNG from Santos

The Government, through Kumul Petroleum Holdings (KPHL), acquired an additional 2.6% equity interest in the PNG LNG project from Santos. The agreement, which was announced by KPHL during September, includes a Call Option for KPHL to ‘exercise on or before 30 June 2024’ to acquire a further 2.4% interest in the PNG LNG project. With this new arrangement, Exxon Mobil remains the ‘project operator’, while Santos still maintains its majority equity stake in the project (39.9%).

	Old		New
Santos	42.5%	↓	39.9%
Exxon Mobil	33.2%	-	33.2%
Kumul Petroleum	16.8%	↑	19.4%
JX Nippon Oil & Gas	4.7%	-	4.7%
MRDC	2.8%	-	2.8%
	100.0%		100.0%

Papua New Guinea’s interests in the PNG LNG project now total 22.2%. This is comprised of 19.4% through KPHL and 2.8% managed on behalf of

PNG landowners through the Mineral Resources Development Corporation (MRDC).

Market Commentary, cont.

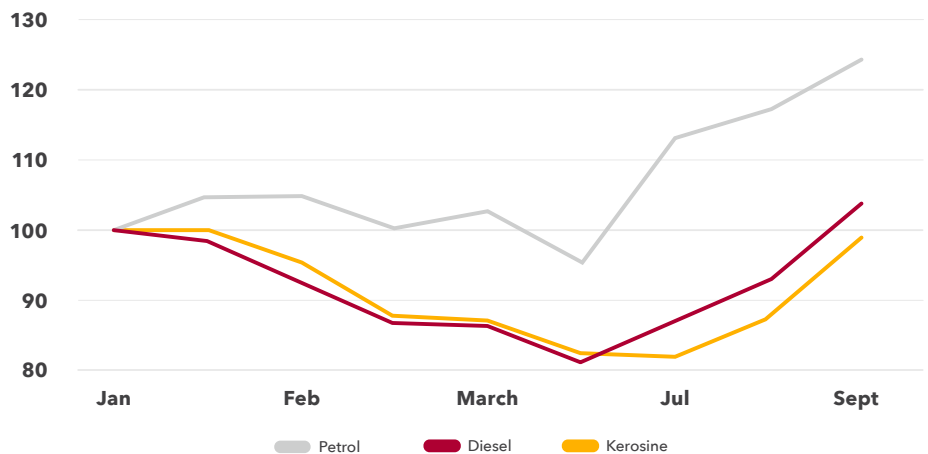
PGK/USD experiences largest monthly drop this year

In September, the PGK/USD interbank rate experienced its largest depreciation over a month for this year, falling 40 basis points. The PGK/USD interbank has now fallen 3.9% since the beginning of this year. After remaining unchanged for the first 5 months of 2023, the gradual drop follows calls by the International Monetary Fund for the domestic FX rate to move towards a 'market clearing' system.

BPNG revises down 2023 Growth forecasts

The Bank of PNG (BPNG) announced in its September Monetary Policy Statement (MPS) that it would be revising downwards its growth projections for the domestic economy to 2.5% (after initial forecasts of 3.2% in its March MPS). BPNG asserted that this downgrade in its outlook was due to 'lower production of extractive exports', particularly with a scheduled maintenance of the LNG plant site which will impact gas production, plus the continued delay with the re-opening of the Porgera gold mine.

Fuel Price movements since January 2023



Price Watch: Domestic Fuel prices continue to climb

Domestic fuel prices continue to trend upwards during September. Petrol (+5.8%), Diesel (+11%) and Kerosine (+13%) all increased as international energy prices continue to feed into domestic consumers.

Since the Government's fuel subsidies were relaxed in June, petrol prices have increased by 30% over the last quarter, while diesel (+27%) and kerosine (+20%) have also trended in the same direction during this period for domestic consumers.

Kina Bank Outlook.

Global price pressures persist despite rate hikes

Despite monetary policy tightening by major Central Banks, inflationary pressures have persisted - which continues to lead to more rate hikes in major economies. According to the World Bank's latest indices for major commodities, prices have been on an upward trend for major items including agriculture, food, and energy. With the increased policy rates, BPNG reported in the September MPS that this may lead to an easing of global price pressures in the coming months. In terms of domestic prices for this year, the Central

Bank announced that it expects overall headline inflation for this year to be at 3%, helped by weakening currencies in PNG's major trading partners. However, it should also be noted that continued price increase in oil will still play an important role in general price levels over the coming months.

IMF Program: update on exchange rate system going forward

BPNG provided a further update on the current IMF program in its September MPS, which included an more guidance on a timeframe for implementing a new exchange rate arrangement.

According to the MPS, the new 'arrangement will be finalised by end of November for implementation in December 2023, based on the roadmap agreed to with the IMF.' BPNG also stated that it will continue to support market imports orders with US\$100 million in intervention per month.

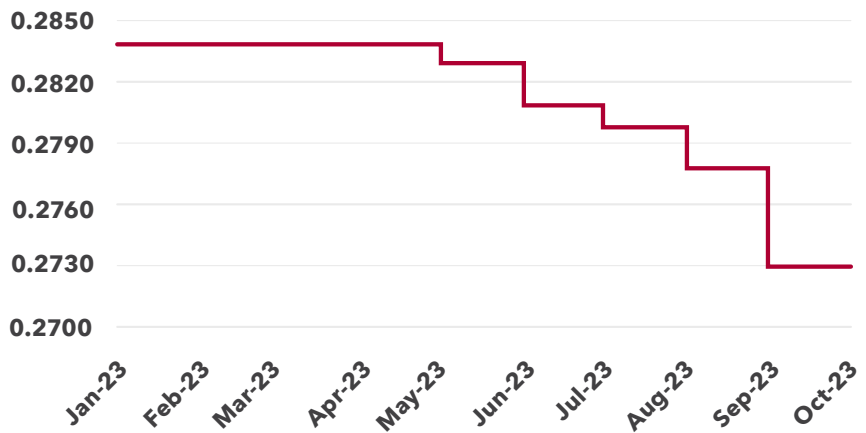
PNG FX Market.

The PGK/USD interbank dropped 40 basis points during September - the largest ever movement in a month in 2023 so far. After opening the year at PGK/USD of 0.2840 and remaining flat for 5 months, the interbank rate has moved a total of 11 times - with an average drop of 10 basis points for every drop, to close out September at PGK/USD = 0.2730.

Prior to this year, the PGK/USD interbank had only moved 10 times between 2020 to 2022. This gradual move coincides with the Government's agreement to its latest IMF program which was signed in March of this year - with the IMF signalling to the PNG Government to move towards a more liberalised exchange rate regime. During September, BPNG continued to support the market's import orders with another PGK 336million in intervention. BPNG intervention has averaged about PGK352million during the third quarter. According to its September MPS, BPNG will continue to intervene in the market to clear our import orders with sufficient foreign reserves, which was reported at about 10 months of total import cover (as of June this year).

Going forward, we anticipate that the interbank rate will continue its downward trend at a pace of 10 to 15 basis points per month through the end of the year. Continued strength in the US dollar will see a favourable PGK cross-rate with other majors, including the AUD and NZD heading into the final quarter of this year. However, as noted previously, for PNG importers the availability of currency to fill import orders will be the key to benefitting from these cross-rates.

PGK/USD interbank movement in 2023



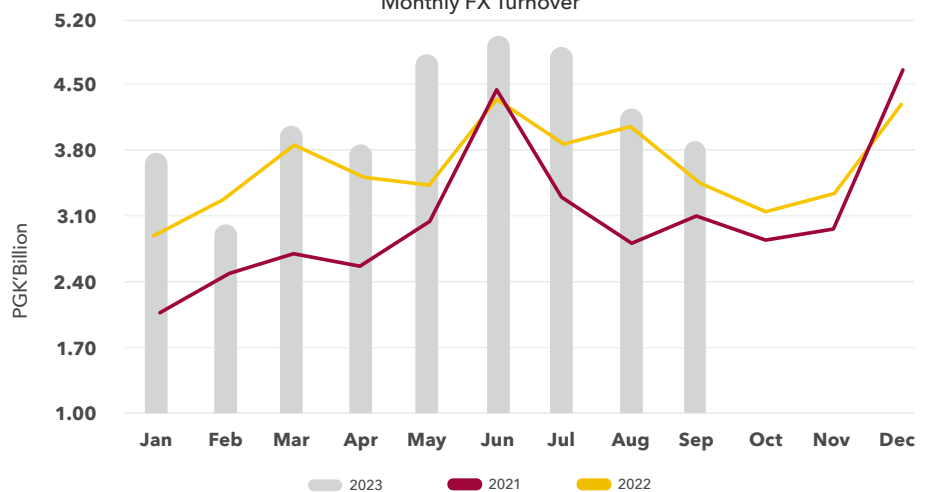
PGK-Cross Rate Outlook*

	Oct-23	Nov-23	Dec-23	Mar-24
PGK/USD	0.2730	0.2715	0.2705	0.2685
PGK/AUD	0.4256	0.4177	0.4098	0.3891
PGK/NZD	0.4553	0.4531	0.4508	0.4331
PGK/JPY	40.85	39.0904	37.33	36.25
EUR/USD	0.2582	0.2488	0.2394	0.2315

Source: Bank of PNG, KFM Economics calculations.

*Estimates only, subject to change based on market conditions.

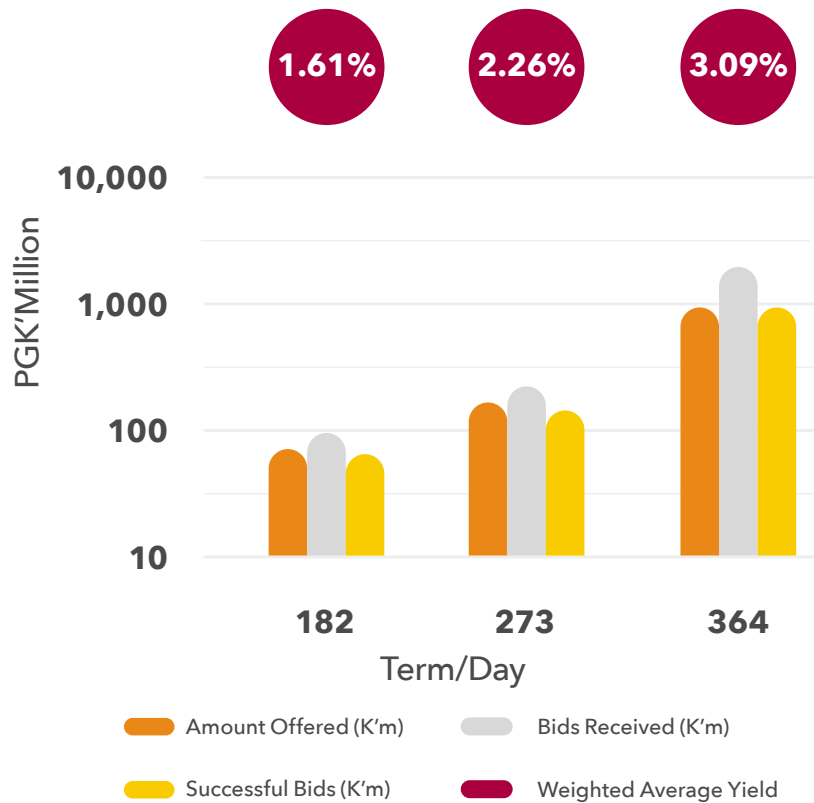
Monthly FX Turnover



PNG Cash & Fixed Income.

During September, the Bank of PNG issued PGK1.3 billion in Treasury Bills for the domestic debt market, which represents a +16.6% increase compared to the amount raised in August. There was an increase in activity for the 182-day and 273-day T-Bills, with yields closing at 1.61% and 2.26% respectively. Yield for the 1-year paper recovered by +30 basis points, closing the month at 3.09%. Overall, the market was oversubscribed by more than 30%, with a success rate of 73%.

BPNG also stated in the September MPS that it will maintain a neutral monetary policy stance over the next six months to March 2024 and will continue to ensure that ongoing reforms are successfully implemented, while keeping inflationary pressures under control. They will also use the reserve money framework and policy interest rate to influence domestic interest rates through Open Market Operations and other liquidity management tools like the Cash Reserve Requirement.



International Cash & Fixed Income.

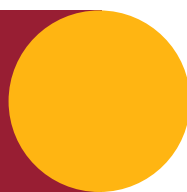
Global bond markets are bracing for more declines after a volatile third quarter. Central banks have adopted a more hawkish stance, indicating interest rates will remain higher for longer to combat inflation. The Federal Reserve surprised markets by projecting higher rates through 2024, pushing Treasury yields higher. Fiscal concerns around the large U.S. budget deficit are also weighing on bonds.

The bond market signals the era of low interest rates and inflation that began after the 2008 crisis had ended. This shift to a higher rate environment means the Fed will likely need to keep raising rates to bring inflation down to its 2% target. Higher rates imply

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.57%	↑	0.11	↑	0.19	↑	0.30
United Kingdom	4.44%	↑	0.02	↑	0.08	↑	0.33
Australia	4.49%	↑	0.11	↑	0.15	↑	0.26
New Zealand	5.31%	↑	0.09	↑	0.23	↑	0.27
France	3.40%	↑	0.14	↑	0.25	↑	0.24
Japan	0.77%	↑	0.18	↑	2.14	↑	0.54

the Fed will have more flexibility to adjust policy using interest rates alone. However, there remains uncertainty around what the "neutral rate" is and how the Fed will navigate this new environment.

The key themes for markets heading into the final quarter include the outlook for inflation, and the potential impact on economic growth. Central bank meetings and economic data will provide clues on the path ahead.



PNG Equities.

Local equity markets (PNGX) closed slightly higher in September, with the Kina securities index (KSi) - a price-weighted measure of PNG's local equity market - increasing by +0.30% - adding to last month's gain of +0.10%. The shares of Santos Limited (+ 0.52%) supported the movement in the KSi.

In terms of trading volumes, PNGX recorded a total volume of 0.63 million units, which was (+8.62%) higher than that of August (0.58 million units). Despite the increase in the traded volumes, the demand for the local equities trended below the monthly average of 1.76 million units.

Total value exchanging hands on the PNGX was PGK1.49 million, a decline of -8.02% compared to PGK1.62 million in August.

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation PNG	2.05	-	0.00%	↑	10.81%	↑	7.89%
Kina Assetmanagement Limited (KAM)	0.90	-	0.00%	↓	-5.26%	↓	-5.26%
Kina Securities Ltd (KSL)	2.41	↓	-5.49%	↓	-16.90%	↓	-13.93%
Santos Limited (STO)	19.21	↑	0.52%	↑	0.58%	↑	0.58%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.79	↓	-5.42%	↓	-7.65%	↑	2.61%
BSP Financial Group Ltd (BFL)	5.15	↓	-6.36%	↑	3.00%	↑	13.44%
Newcrest Mining Ltd (NCM)	29.07	↑	11.68%	↑	71.81%	↑	30.30%
Santos Limited (STO)	7.90	↑	3.00%	↑	11.42%	↑	11.11%
PNG Market Indices							
KSi	6,314.96	↑	0.30%	↑	0.56%	↑	0.57%
KSHi	15,830.59	-	0.00%	↑	3.39%	↑	1.58%

*PNGX prices in PGK; ASX prices in AUD.

International Equities.

Global equities fell for a second straight month in September, while government bond yields rose record highs - largely due to concerns that the world's major central banks will hold interest rates higher for a longer time-period than the market had anticipated. During the month, investors' demand for equities grew thin amidst interest rate concerns, which resulted in a huge sell-off across all equity bourses. This trend might continue next month should economic data support central banks' hawkish stance to fight sticky inflation. The MSCI All-Country Equity index dropped -4.46%, adding to last month's decline of -2.46%.

	PRICE		MONTH		YOY		YTD
North America							
Dow Jones IA	33,507.50	↓	-3.50%	↑	16.65%	↓	-1.70%
S&P 500	4,288.05	↓	-4.87%	↑	19.59%	↑	5.19%
NASDAQ	13,219.32	↓	-5.81%	↑	25.00%	↑	14.11%
Toronto S&P/TSX	19,541.27	↓	-3.70%	↑	5.95%	↓	-5.90%
Europe							
FTSE	7,608.08	↑	2.27%	↑	10.36%	↓	-2.11%
DAX	15,386.58	↓	-3.51%	↑	27.01%	↑	1.71%
CAC 40	7,135.06	↓	-2.48%	↑	23.82%	↑	0.74%
Asia							
Nikkei	31,857.62	↓	-2.34%	↑	22.83%	↑	16.58%
Hang Seng Index	17,809.66	↓	-3.11%	↑	3.41%	↓	-18.46%
Shanghai Composite	3,110.48	↓	-0.30%	↑	2.85%	↓	-4.46%
Sensex	65,828.41	↑	1.54%	↑	14.63%	↑	10.54%
S&P/ASX 200	7,048.64	↓	-3.51%	↑	8.87%	↓	-5.72%



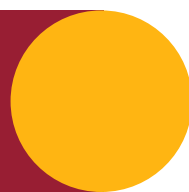
Commodities.

Gold prices fell sharply in September, driven mostly by expectations of higher interest rates and a stronger dollar. This has implications for both gold investors and consumers. The market is also responding to data showing the US economy grew strongly in the second quarter. However, even though gold prices declined sharply during the month, experts still maintained confidence in gold's long-term value proposition due to its ability to dampen volatility and hedge against uncertainty. They believe gold remains a safe investment bet for the long run.

In agriculture commodities, coffee prices declined due to forecasts of rain in Brazil and a stronger dollar. While price decreases are likely to continue, the longer-term outlook remains uncertain due to questions over future weather conditions and economic factors. For cocoa, farmers in Ivory Coast are disappointed with the smaller-than-expected increase in farmgate prices this season, which could fuel cocoa smuggling to neighbouring countries with higher prices.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	146.15	↓	-4.29%	↓	-34.03%	↓	-19.59%
Cocoa (US\$/mt)	3,418.00	↓	-5.11%	↑	45.20%	↑	32.43%
Palm Oil (RM/tn)	3,689.00	↓	-4.43%	↓	10.88%	↓	-0.83%
Energy							
Brent Crude (US\$/bbl)	95.31	↑	-4.29%	↓	8.36%	↑	12.81%
LNG (US\$/mmBtu)	14.63	↑	-5.11%	↓	-62.22%	↓	-23.10%
Light Crude WTI Futures (US\$/bbl)	90.79	↑	-4.43%	↓	14.22%	↑	15.11%
Precious Metals							
Gold (US\$/oz)	1,866.10	↓	-5.08%	↑	11.61%	↓	-4.07%
Silver (US\$/oz)	22.45	↓	-9.52%	↑	17.92%	↓	-5.81%
Base Metals							
Copper (US\$/lb)	3.74	↓	-2.21%	↑	9.52%	↓	-11.56%
Iron Ore (US\$/mt)	115.41	↑	5.07%	↑	20.87%	↓	-2.26%

Meanwhile, palm oil prices are projected to continue falling over the next quarter as production increases. However, an El Nino event by late 2024 could reduce output and improve palm oil prices for 2024 to 2025, but more weather data is needed for solid forecasts.



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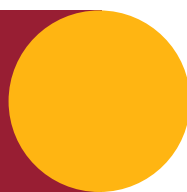
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