

# Monthly Report.

January 2024



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## Monthly Highlights.

### Santos sells 2.6% participating interest in PNG LNG to KPHL

Santos (STO) partially completed the sale of 2.6% of its participating interest in the PNG LNG project to Kumul Petroleum Holdings Limited (KPHL). Santos received a partial payment of US\$352 million (equivalent to 1.6% interest) from KPHL in January. The Remaining balance of US\$241 million is still owed by KPHL.

### BSP Shares peak +9.49% in January 2024.

BSP shares hit a new 52-week high during January, peaking +9.49% to PGK15.00, ahead of the company's final dividend announcement in early March. Total volume exchanged hands was 0.52 million units, compared to 0.25 million units in the same period in 2023.

### LNG prices drop -17% in January 2024.

LNG prices continued to struggle, down -17% in January. Combined geo-political activity causing price volatility and US announcements to limit the opening of new terminals has sent prices down. LNG prices are down nearly -50% compared to 12 months ago.

### T-bills drop -2.45% m/m in auctions.

The Government raised PGK1.29 billion from Treasury Bills in January, a -2.45% drop m/m and -7.76% drop y/y. As the Government plans to 'lessen its reliance on Treasury Bills', we expect to see this continue in the medium-term.

### Tight supply sees global cocoa prices soar by +60% y/y.

Global Cocoa prices increased by 15% during January. Cocoa is now up by +60% since last year as global supply continues to tighten in major Western Africa, signaling good news for PNG farmers.

### Tight Monetary Policy maintained by Central Banks globally.

Central Banks around the world continued to maintain their aggressive stance on monetary policy during January as inflation continues to be a concern. The U.S Federal Reserve left its official rate unchanged at 5.25% - 5.50%.

# Market Commentary.

## Riots in Port Moresby

As business houses and the public come to terms with the looting of major shopping Centres in Port Moresby on the 10th of January, the Government has since made public announcements of supporting the affected businesses. The extent to the damages in Kina terms will be ascertained in due course, however, the country's already-tainted image as a destination for private sector investment was not helped. The PNGX-listed City Pharmacy Limited (CPL) was one of the most affected from the looting. PNGX announced that CPL shares were suspended pending further assessment of the damages.

## Puma and BPNG conflict continues

The continued stand-off between major fuel supplier, Puma and the Bank of PNG continued in January as Puma reported it still cannot meet its fuel import requirements with the FX shortages. Puma has confirmed that it requires US \$50 million a month in foreign currency to fulfil its import orders. Most, if not all these currency requirements for Puma are normally filled through BPNG intervention into the market -with over 50% of the intervention going to BSP who have also publicly announced that they will no longer be banking Puma.

Puma has since announced that it is in the process of making alternate banking arrangements.

## Slowdown in PGK/USD depreciation continues

The PGK/USD slide has now turned into a 'crawl'. Since moving at about 22 basis points per month between June to November last year, the rate of depreciation of the nominal interbank rate has slowed to between 10-12 basis points over the last 2 months. Exporter flows continue to be an issue, with the Puma/BPNG /BSP fiasco continuing to take center stage with fuel rationing continuing during the month.

## Permanent Appointment of Bank of PNG Board Members

The Government announced the permanent of Ms. Elizabeth Genia as the Bank of PNG Governor, together with additional Board members, David Kavanamur and Michael Reddell. It appears that Reddell will be the Bank's independent international member of the Board, a position which was created during the recent suit of reforms introduced by the Government to 'modernize' the Bank. Going forward, it will be interesting to also see how the Bank's Monetary

Policy Committee will be established, together with its communications with market participants and the general public on monetary policy operations and management.

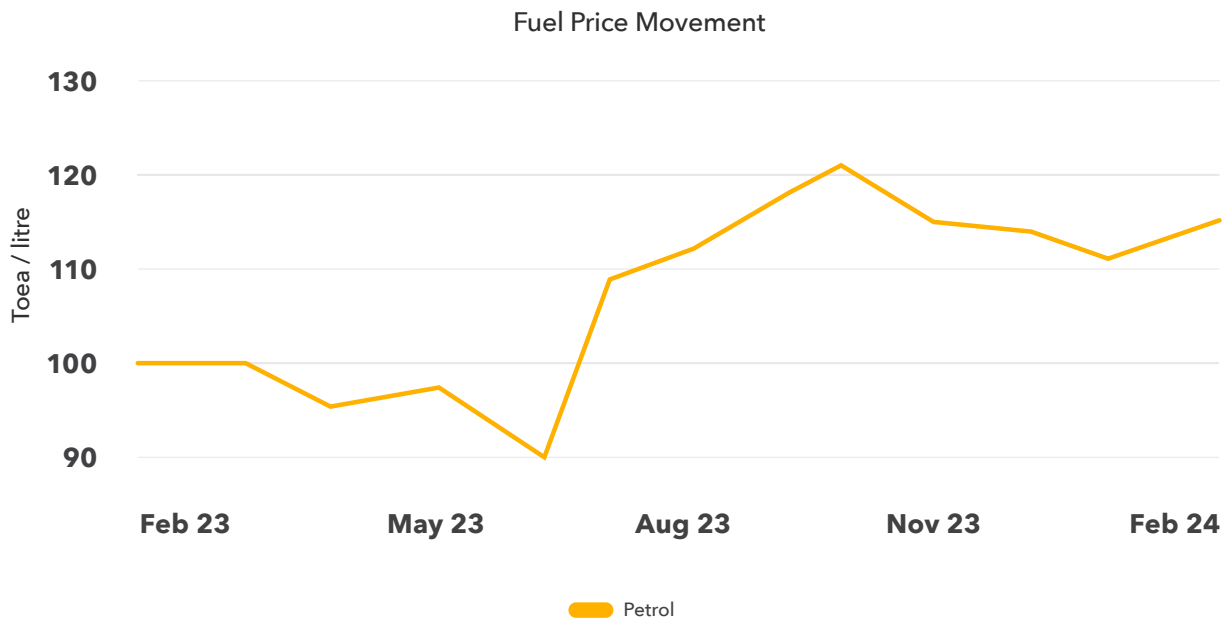
## US and UK data proved strong

US manufacturing and services activity improved unexpectedly in January thanks to easing price pressures and strong demand, according to the S&P Global PMI flash index. In the UK, the economy also showed signs of recovery as the S&P Global Flash UK PMI Composite Output index rose faster than expected in January and private sector activity gained momentum, while UK consumer confidence also reached a two-year high in January.

## Euro area data showing sluggishness

The euro area economy continued to slow in January, albeit at a marginally slower rate, as a decline in services activity offset an improvement in manufacturing activity, according to the S&P Global PMI flash index. Euro area consumer confidence also fell unexpectedly in January and remains well below its long-term average.

# Kina Bank Outlook.



## Fuel prices edging up

After flatlining between November to January, the ICCC's regulated fuel price has started to creep up again heading into the middle of this year's first quarter. The conflicts in the middle-east continue to elevate fuel prices. Since July last year, the regulated fuel prices in Port Moresby have increased by nearly 30%.

## Vote of No Confidence grace period ends

The February sitting of Parliament will be the first session where the Prime Minister's 18-month grace period against a potential Vote of No Confidence (VONC) will come to an end. This could pave the way for the Opposition to move a motion and nominate an alternate Prime Minister. The process is quite lengthy with Parliamentary process to be followed - therefore any movements in Parliament may take more than one sitting. With recent movements from Government to Opposition and re-shuffling of the cabinet - there is a high possibility of leadership instability in the coming months. This excellent piece ['What it takes to change a prime minister in PNG'](#) by

UPNG political scientist, Michael Kabuni, in ANU's Development Policy Blog outlines the process for a VONC.

## IMF growth prospects for U.S and China turns positive in New Year

The IMF released its latest global economic outlook for this year. Here is our summary on the outlook:

- Projected steady global growth to be at 3.1% for this year, consolidating at 3.2% in 2025. While this is relatively good news, this is still below global growth rate levels that averaged almost 4.0% in the years preceding COVID-19.
- The global economy is still in recovery mode with underlying risks still persistent. This includes productivity inefficiencies due to resource re-allocation across the globe as capital continues to adjust to the 'new normal' protocols following COVID.
- Governments around the world are consolidating their respective Fiscal Budget's to manage their debt portfolios. There was debt-fuelled growth over the past 3 years - with PNG being no exception. Therefore, balancing the debt-

servicing obligations with the growing demands of the current year will be a risk to this year's global economic outlook.

- Inflation is still high globally at almost 6% projected for 2024. Gone are the days of between 3% to 5% we saw in the years leading up to the current inflation crisis we've witnessed this since 2022 when it almost hit double digits. The globe is adjusting to higher cost-base, and financial markets are responding.
- Over the last 2 years, there has been a global monetary policy tightening cycle with major Central Banks targeting rising costs - with geo-political tensions elevating energy costs and supply-chain routes being disrupted.
- Global data shows that this hike in interest rates has helped to stem inflation pressures, with disinflation - 'a slowing down in the speed of inflation' - being the new buzzword across financial markets.

## PNG FX Market.

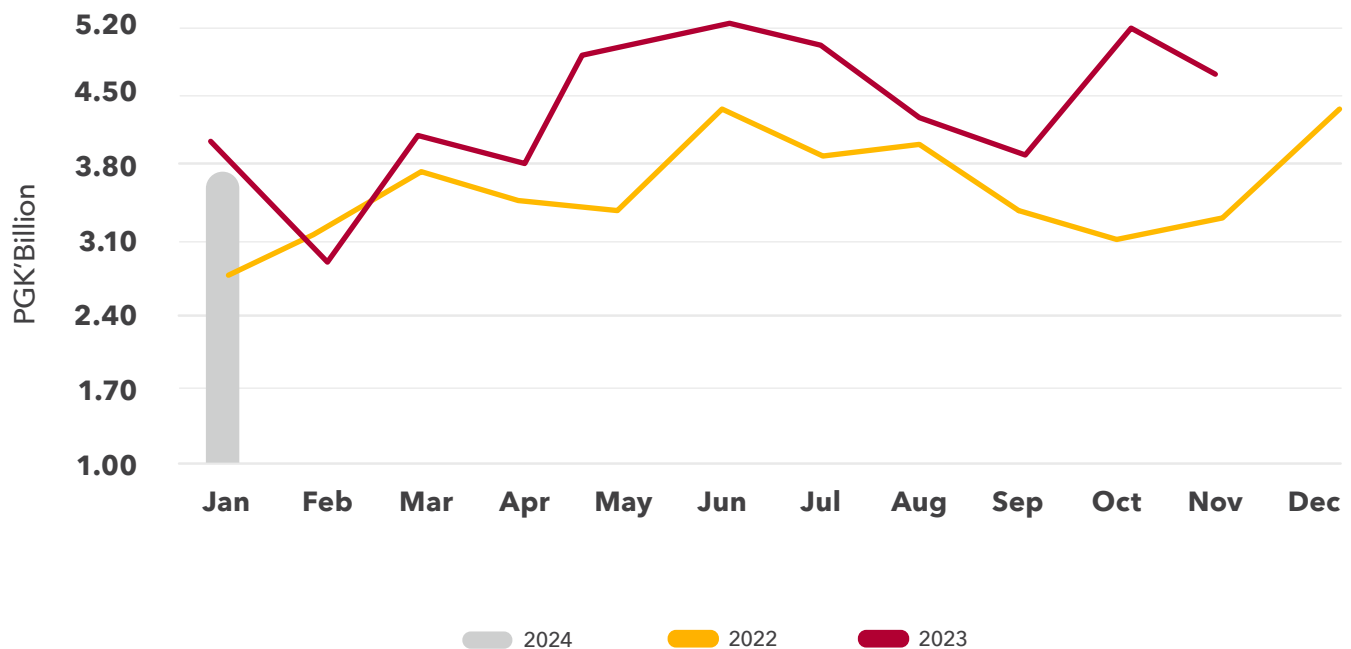
The acute slowdown in the depreciation of the nominal PGK/USD interbank rate continued in January, as the currency dropped another 12 basis points (bps) to close the month at 0.2671.

After dropping at an average rate of 22 bps per month between May and November last year, December saw the *pace of depreciation* slow down to 12 basis points at an increment of 1 basis point each time. This rapid slowdown in the movement of can possibly be described as the start of the ‘crawling peg’ which was a condition of the IMF program.

While BPNG’s continued intervention into the market remained relatively steady with PGK373.8 million worth of US dollars, total market turnover dropped -23.4% m/m from December to PGK3.55 billion. December is traditionally a high turnover month, so a drop in January was expected. As the PGK/USD continues to ‘crawl down’ in the coming months, market participants still await the possible inflows from the pipeline LNG projects, which seem to be dragging out. In terms of how much further the PGK will depreciate, economists Bobby Kunda and Stephen Howes recently looked at the Trade Weighted Index

(TWI) of the Kina and “how it has trended against all the currencies of the countries with which PNG trade”. While the PGK/USD interbank rate depreciated by 5.5% during the whole of 2023, the writers found that the TWI fell by about 2.2% during the same period, which suggest the Kina is still relatively overvalued. A link to that article can be found [here](#).

Monthly FX Market Turnover



# PNG Cash & Fixed Income.

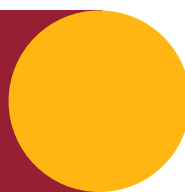
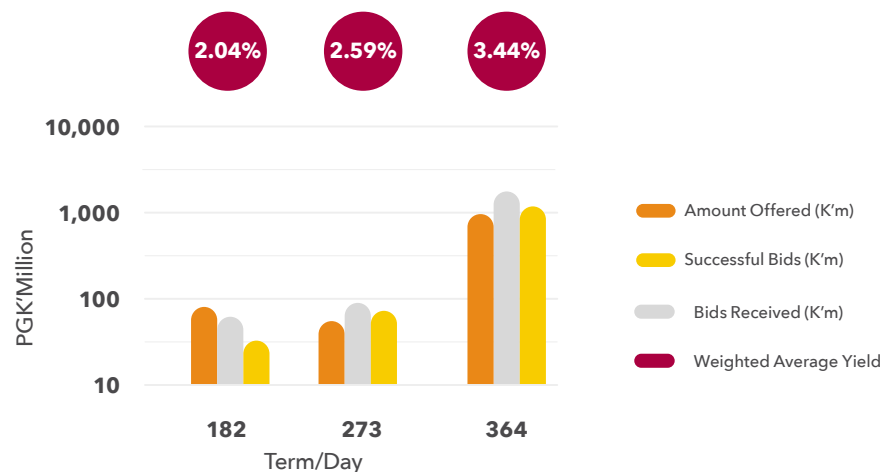
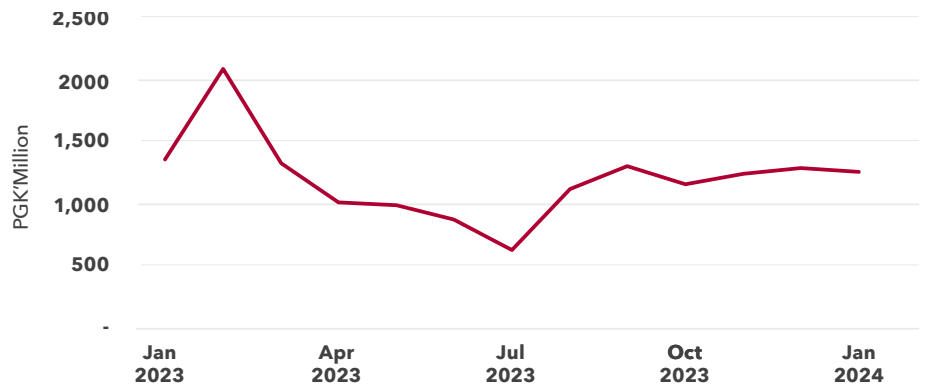
The Government raised PGK1.29 billion in Treasury bills (T-bills) during January, a -2.45% drop from the previous month. There was a considerable drop in amounts offered to the market across all T-bill terms, with the 273-day paper seeing a -50% drop from December's offering.

The 1-year T-bill was largely oversubscribed (+157.57%), while the 182-day paper, despite picking up bids, remained undersubscribed (-28.57%) for the third month in a row, mostly owing to unfavourable rates. Overall, the T-bill market was oversubscribed by more +140%, consistent with the continued high liquidity in the financial sector.

As we look back at the trend over the past 12 months looking solely at the amounts raised from T-bills, we can see that it peaked in February last year and had a downward trend till July 2023. Though it picked up in August 2023, successful bids have not reached past January 2023's level.

This is reflective of the government's Medium Term Debt Strategy (MTdS 2023- 2027), of which one of its main strategies is to 'lessen reliance on Treasury Bills to mitigate risk of refinancing or rollover risk'. We expect this trend to continue over the medium term.

Amount Raised in T-Bill since January 2023



# International Cash & Fixed Income.

2023 proved to be a surprisingly good year for global financial markets despite expectations of a recession. Factors like the AI boom, strong labour markets, and consumer spending drove market resilience. However, many risks continue to cast uncertainty over 2024. In 2023, inflation remained stubbornly high through most of the year, though there were signs of cooling in the second half. Central banks maintained their aggressive stance, as we saw interest rates increase in response. While a "soft landing" seems possible with growth and unemployment still decent, inflation is taking longer to fall, and central banks face a delicate balancing act.

As this year started, global bond yields initially rose as central banks signalled, they were not ready to cut rates. However, bond yields bounced back later in the month

10 Year Government Bond Yields						
COUNTRY	YIELD		MOM		YOY	YTD
United States	3.91%	↑	0.01	↑	0.12	0.01
United Kingdom	3.79%	↑	0.07	↑	0.14	0.07
Australia	4.01%	↑	0.01	↑	0.13	0.01
New Zealand	4.56%	↑	0.06	↑	0.09	0.06
France	2.66%	↑	0.04	↓	-0.03	0.04
Japan	0.73%	↑	0.20	↑	0.48	0.20

as inflation data came in lower than expected and the Federal Reserve indicated rate cuts may come sooner.

The FOMC kept interest rates unchanged but signalled a potential shift towards loosening monetary policy in the future. While they did not commit to any rate cuts at this meeting, the statement hinted at rate reductions later in the year. While bond issuance

reached record levels, demand remained strong from investors due to low rates and high cash levels.

## Key highlights of the Statement

- Bond yields were volatile in January due to mixed signals from central banks on the outlook for interest rate cuts.
- Record levels of new bond issuance saw strong investor demand for fixed income assets.
- Most fixed income asset classes had subdued returns in January except for European hybrid bonds which performed well.
- US Treasury yields rose initially on strong economic data but then fell on dovish Federal Reserve comments and signs of lower inflation.
- European bond yields also saw an increase then decrease in January with strong demand for new bond sales. Italian bonds outperformed on improved risk sentiment.
- UK Gilts underperformed due to higher-than-expected inflation data, delaying the timing for an expected interest rate cut.

Chair Powell also said the Fed is likely done raising rates for this cycle, and rate cuts are expected later this year depending on economic data. However, he believes a March rate cut is too soon. The Fed will

make decisions meeting-by-meeting, balancing the risks of tightening too soon versus too late. To cut rates, the Fed wants to see more convincing evidence that inflation is slowing sustainably towards 2%. The Fed also plans to discuss options for shrinking its balance sheet at its March meeting.



## PNG Equities.

Shares of City Pharmacy Group Limited (PNGX: CPL) were suspended from trading by PNG's National Stock Exchange (PNGX), upon the company's request after it had incurred considerable damages from the 'Black Wednesday' looting. The rationale for the suspension is to maintain market stability, while the company assess the extent of the damages. CPL shares will remain under suspension until the Group completes its assessment and confirmed its total losses and informs PNGX. The CPL share price last closed at PGK0.79 on 12th January 2024.

### Santos Limited (STO: ASX, PNGX) announced its fourth-quarter performance for 2023.

The results showed a strong sales revenue growth of +5% to \$US1.49 billion, compared to \$US1.44 billion in Q3. Free cash flow from operations

was over US\$500 million (vs Q3 around US\$470million), which added to the full year cash flow of US\$2.1 billion. Santos' Managing Director and Chief Executive Officer, Kevin Gallagher, said that this year's strong cash flow will help the company deliver shareholder returns, support existing businesses, and complete major projects like Barossa and Pikka in 2024.

### Santos partially completed the sale of 2.6% of PNG LNG to the Kumul Petroleum Holdings Limited (KPHL).

This was after both parties agreed to a sale agreement in September, where Santos will sell a 2.6% participating

interest in PNG LNG at a price of US\$593 million to KPHL. Santos received a partial payment of US\$352 million (equivalent to 1.6% interest) from KPHL. In addition, Santos will retain the control of the entity holding the 2.6% until KPHL pays the remaining US\$241 billion. Any future project distributions from the interest bought by KPHL will be used in purchase the remaining interest.

	US\$m	PNG LNG Equity Portion
Kumul (KPHL) paid this amount to Santos	352	1.6%
This is yet to paid	241	1.0%
Total amount that will be paid by KPHL for the stake	593	2.6%

## Market Movement

In terms of market movement, the Kina Securities index (KSi), a price-weighted measure of PNG's share market, kicked off 2024 on a strong note in January, as banking, oil and gas stock prices rose strongly. During the month, banking stocks: BSP Financial Group (BSP) and Kina Securities Limited (KSL) closed more than +8% higher on stronger demand, ahead of a final dividend payout in early March. The BSP share price rose +9.49% to a 52-week high of PGK15.00, while KSL added +8% to PGK2.70. Shares of Santos Limited (STO) also closed higher at PGK19.24, up by +0.05%.

Total volume traded was 1.5 million (value equating to PGK9.83 million), compared to 0.3 million units traded during the same period in 2023. We are expecting to see more activity in the coming months, as investors ride a speculation of final dividend announcements.

	PRICE*		MONTH	YOY	YTD
<b>PNG Stock Exchange (PNGX)</b>					
City Pharmacy Limited (CPL)	2.00	-	-	↑ 5.26%	-
Credit Corporation PNG (CCP)	2.70	↑	8.00%	↓ -3.57%	↑ 8.00%
BSP Financial Group Ltd (BSP)	15.00	↑	9.49%	↑ 20.87%	↑ 9.49%
Santos Limited (STO)	19.24	↑	0.05%	↑ 0.73%	↑ 0.05%
<b>Australian Securities Exchange (ASX)</b>					
Kina Securities Ltd (KSL)	0.86	↑	7.50%	↑ 12.42%	↑ 7.50%
BSP Financial Group Ltd (BFL)	6.05	↑	11.62%	↑ 33.26%	↑ 11.62%
Santos Limited (STO)	7.85	↑	3.29%	↑ 10.41%	↑ 3.29%
<b>PNG Market Indices</b>					
KSi	6,356.19	↑	0.50%	↑ 1.22%	↑ 0.50%
KSHi	15,561.14	-	-	↓ -0.15%	-

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



# International Equities.

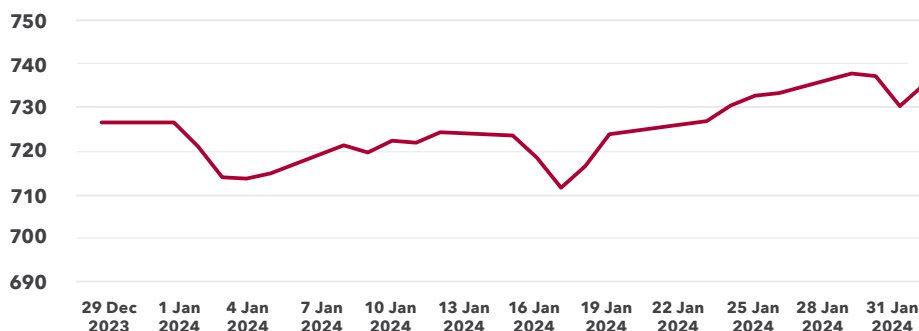
Despite a shaky start in early January, global equity markets managed to close out the month on a positive note, backed by optimism over China's Stimulus package, the 'disinflation' narrative, and strong earnings from some of the mega-capitalized corporations. The market's return was limited by strong economic data, which ruined hope of early interest rate cuts by major central banks. In addition, major central banks including the U.S Federal Reserve, European Central Bank, Reserve Bank of Australia, and the Bank of Japan, all decided to keep interest rates unchanged in their respective monetary policy meetings.

**The MSCI All-Country Equity index, a measure of broader global equity-market performance, rose +0.53% to close the month at 730.84 mark.**

Looking into regions, U.S major stock indices (Dow +1.22%, S&P 500 +1.59%, Nasdaq +1.02%, and Toronto +0.30%) closed broadly higher, while Europe's stock indices were subdued (FTSE -1.33%, DAX +0.91%, and CAC40 +1.51%).

In Asia, most stock indices (Hang Seng -9.16%, Shanghai -6.27%, Sensex -0.68%) closed in the red territory, while the S&P/ASX 200 (+1.18%) and Nikkei each recorded positive returns.

MSCI All-Country Equity Index



Source: MaretWatch.com

	PRICE		MONTH		YOY		YTD
<b>North America</b>							
Dow Jones IA	38,150.30	↑	1.22%	↑	11.92%	↑	1.22%
S&P 500	4,845.65	↑	1.59%	↑	18.86%	↑	1.59%
NASDAQ	15,164.01	↑	1.02%	↑	30.90%	↑	1.02%
Toronto S&P/TSX	21,021.88	↑	0.30%	↑	1.23%	↑	0.30%
<b>Europe</b>							
FTSE	7,630.57	↓	-1.33%	↓	-1.82%	↓	-1.33%
DAX	16,903.76	↑	0.91%	↑	11.74%	↑	0.91%
CAC 40	7,656.75	↑	1.51%	↑	8.11%	↑	1.51%
<b>Asia</b>							
Nikkei	36,286.71	↑	8.43%	↑	32.79%	↑	8.43%
Hang Seng Index	15,485.07	↓	-9.16%	↓	-29.11%	↓	-9.16%
Shanghai Composite	2,788.55	↓	-6.27%	↓	-14.35%	↓	-6.27%
Sensex	71,752.11	↓	-0.68%	↑	20.49%	↓	-0.68%
S&P/ASX 200	7,680.72	↑	1.18%	↑	2.73%	↑	1.18%

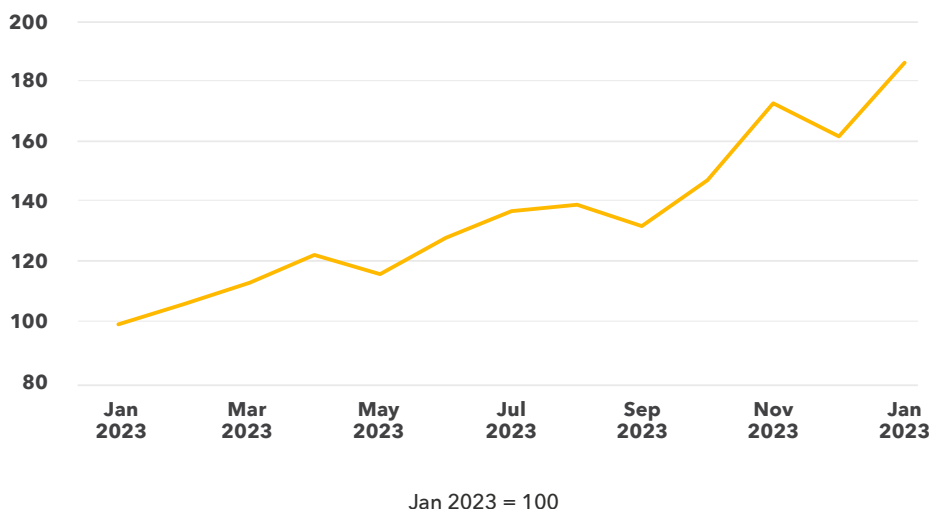


# Commodities.

## Cocoa continues to perform strongly.

The major story for commodities in January has been the rising price of Cocoa, up 14.92% in January. Cocoa prices have been driven up by poor harvests in West Africa, which produces the bulk of global supply. The El Niño weather phenomenon has been causing drier weather in Ghana and Ivory Coast, which are the world's two biggest producers of cocoa beans. Throughout 2023, global cocoa prices increased by over 60%. This has translated into positive outcomes for PNG's cocoa industry, with dry cocoa bean bags fetching high prices for local farmers. Previously, 63kg bags had been sold for around PGK400 per bag, but now have shot up to over PGK1,000. According to the national Cocoa authorities, this is down to the improved global prices, coupled with the depreciation of the PNG Kina, which has been favorable for the exporters.

Price Change in Coca Since Jan-2023



## LNG markets remain uncertain.

The price of LNG remains volatile with varying degrees of uncertainty. The International Energy Agency (IEA) warned that geopolitical conflict in the Middle East could lead to volatile gas prices this year as it could disrupt the shipping of liquefied natural gas exports.

Meanwhile in the US, President Joe Biden indefinitely paused approvals for new LNG export terminals, in a victory for climate change campaigners. LNG prices have started the year off on a negative tone, falling -17.7% in January, and down almost -50% from 12 months ago.

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	194.05	↑	3.22%	↑	6.77%	↑	3.22%
Cocoa (US\$/mt)	4,822.00	↑	14.92%	↑	86.83%	↑	14.92%
Palm Oil (RM/tn)	3,814.00	↑	4.15%	↑	2.53%	↑	4.15%
<b>Energy</b>							
Brent Crude (US\$/bbl)	81.71	↑	6.06%	↓	-3.29%	↑	6.06%
LNG (US\$/mmBtu)	9.53	↓	-17.27%	↓	-49.91%	↓	-17.27%
Light Crude WTI Futures (US\$/bbl)	75.85	↑	5.86%	↓	-3.83%	↑	5.86%
<b>Precious Metals</b>							
Gold (US\$/oz)	2,057.50	↓	-0.69%	↑	5.77%	↓	-0.69%
Silver (US\$/oz)	23.05	↓	-4.34%	↓	-3.32%	↓	-4.34%
<b>Base Metals</b>							
Copper (US\$/lb)	3.89	↑	0.12%	↓	-7.84%	↑	0.12%
Iron Ore (US\$/mt)	129.47	↓	-0.66%	↑	9.65%	↓	-0.66%

# Kina Bank Wealth Management.

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