

# Monthly Report.

December 2023



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## Monthly Highlights.

### Porgera resumes operation

Porgera gold mine resumed operation, however is expected to be in full capability later in the year. Under the new Progeria mine deal, PNG will receive 53% of the economic benefit from the mine, while investors will share the remaining 47%. It is estimated that the mine has a life-span of 20-years remaining.

### PGK/USD drop 2bps at 0.268

The PGK/USD interbank rate moved 2bps in December to close the year at 0.2683. For 2023, the official exchange rate depreciated by -5.53%, or 153bps, as FX demand still outweighs export inflows, with excess fuel import demand still the major concern.

### Ongoing Challenges to Businesses

Inflation and foreign exchange issues were the main challenges faced by businesses in 2023. The increased costs of fuel, oil, steel and shipping greatly impacted manufacturing and distribution companies. The continued FX constraints have been making it difficult for businesses to pay for supplies in foreign currency, which has had a huge impact on productivity and output.

### BPNG raise PGK1.3 billion in T-bill auctions

December 2023 saw the Central bank raise a total of PGK1.3 billion in Treasury Bills in the domestic debt market, noting a +3.42% increase from November 2023. In terms of amount offered to the market, the 182-day paper saw an increase by +14.29%, while both the 273-day and 1-year T-bill dropped by -9.09% and -19.62% respectively.

### BPNG affirms support to economic growth

BPNG has affirmed its focus on policy settings and reducing reliance on foreign exchange interventions to support sustainable economic growth. BPNG will continue to provide foreign exchange support in 2024, but at a reduced level from 2023.

### Global energy prices slowdown in December

According to the World Bank's energy price index for December, energy prices declined by -6.3% m/m to end the year. The price fall was mainly attributed to Brent Crude (-6.99%) and LNG prices (-28.60%).

## Market Commentary.

### Porgera Reopening

The Porgera gold mine reopened on 22 December 2023, after being closed for four years. Despite the reopening, full operations won't resume until equipment is recommissioned and staff are hired. Vital infrastructure like power lines and water supply still need major repairs.

Under the new terms, it's projected that PNG stakeholders will receive 53% of economic spin-off benefits

over the mine's 20-year lifespan, while investors (Barrick and Zijin) will share the remaining 47%. It's estimated that during that 20-year period PNG will receive nearly US\$7.3 billion in both tax revenue and royalty payments, with about US\$2.8 billion projected in the first 10 years, assuming gold prices stay steady at or above \$1,800 per ounce. It's also estimated that the mine will employ around 3,000+ workers by late 2024, a further boost to the economy,

and much needed support to manage the growing unemployment rate in the country.

While the economic benefits of reopening are positive, the financial aspects require close monitoring to help support local communities and the country overall. Careful assessment is needed to ensure the project's long-term sustainability, as well as a strong repayment plan to cater for the fiscal debt taken to finance the project.

# Market Commentary, cont.

## Ongoing Challenges to Businesses

Inflation and foreign exchange issues were the main challenges faced by businesses in 2023. The increased costs of fuel, oil, steel and shipping greatly impacted manufacturing and distribution companies. The continued FX constraints have been making it difficult for businesses to pay for supplies in foreign currency, which has had a huge impact on productivity and output.

Furthermore, the continuous power cuts have caused businesses to spend more on keeping their generators on to ensure production continues. This has put a huge burden on expenses that businesses had to incur.

We hope that more consultations between relevant government authorities and the private sector are conducted in 2024.

## Kina Bank Outlook.

### Inflation

Global inflation continued during the fourth Quarter of 2023 but started to ease. As 2023 ended, the monetary policy tightening stance of major Central Banks globally to combat inflation started to take effect with a slowdown in price pressures and easing of interest rate hikes during Q4 2023. However, the geopolitical conflicts in the Middle East led to some price volatility in oil and gas. Though the Government has forecast inflation next year to be 3.5%, we anticipate that it will be closer to 5% given the elevated price of oil which will feed into the global supply chain network.

### Bank of PNG Update

The Bank of Papua New Guinea (BPNG) has affirmed its focus on policy settings and reducing reliance on foreign exchange interventions to support sustainable economic growth. In 2023, BPNG had a record foreign exchange intervention totaling over \$1.5 billion that was made available to the market. However, foreign exchange access continues to be a challenge.

BPNG has assured the market that it will continue to provide foreign exchange support in 2024, but at a reduced level from 2023, as the bank expects to reduce reliance on extractive

sectors for FX, and hopes that favorable commodity prices can buffer supply constraints.

Additionally, the Central Bank has taken steps to improve monetary policy transmission, which included the introduction of a fixed rate 7-day Central Bank Bill (CBB) auction with no predetermined limit on a bid amount, to absorb excess liquidity in the financial system. This also saw BPNG allow superfunds to bid for CBB's, which initially was only available to deposit taking financial institutions.

# PNG FX Market.

## PGK/USD downward trend slowed down in December.

The PGK/USD official interbank rate only moved 2 bps in December to close out the year at 0.2683. After remaining unchanged at 0.2840 during the first 5 months of 2023, the PGK/USD interbank dropped by a monthly average of 22 22 basis points (bps) between May to November. For 2023, the official exchange rate depreciated by 5.53%, or 153 bps, as FX demand still outweighs export inflows, with excess fuel import demand still the major concern.

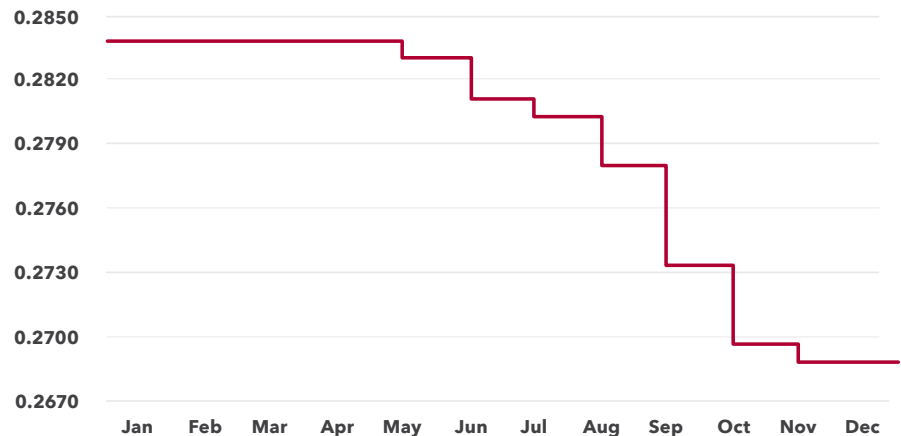
## PGK market activity continued to increase, while BPNG Intervention dropped.

As the PGK/USD interbank rate continued to depreciate, traded volumes continued to increase in the market during December. Following a dip in November market activity (-18.1%), December expected saw an increase in FX turnover (+16.4%). In terms of FX market support from the Bank of PNG (BPNG) there was a substantial fall in intervention volumes during December, compared to the previous two months. During October and November, BPNG provided an average of PGK 0.74billion worth of US dollars to fill import orders. This support was halved (-49.9%) during December, which also saw an acute slowdown in the downward movement of the interbank rate.

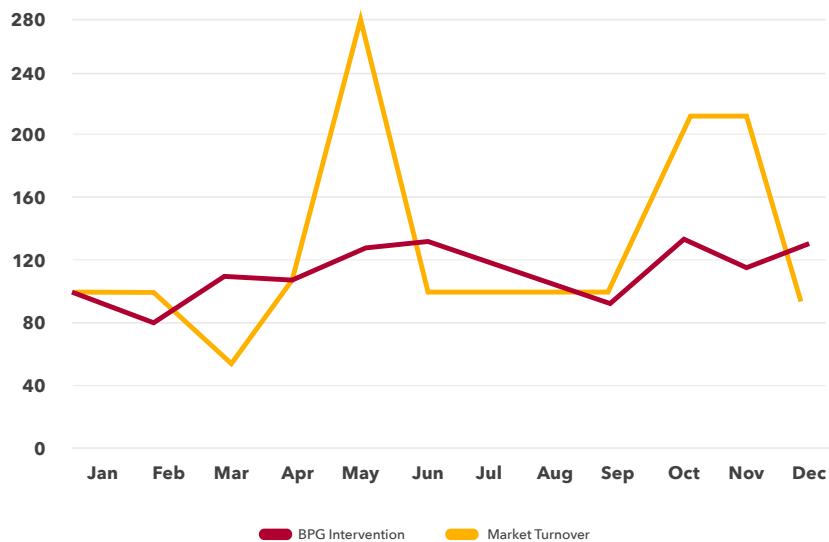
## In terms of FX market activity, excess import demand will continue to weigh on the large back log of import orders as export inflows remain scarce.

Since the economy's recovery from COVID-19 in 2020, FX market turnover has increased by almost 2.5x. This represents the Government's fiscal stimulus over the past three years with BPNG utilizing its foreign reserves to intervene. In the short-term, this has provided some relief for the economy, but remains a questionable fiscal strategy for the Government's public financial stability in the long-term, especially in the absence of foreign direct investments.

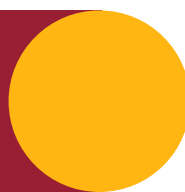
PGK/USD interbank movements



Monthly Movements



FX Market Turnover (2021-2023)

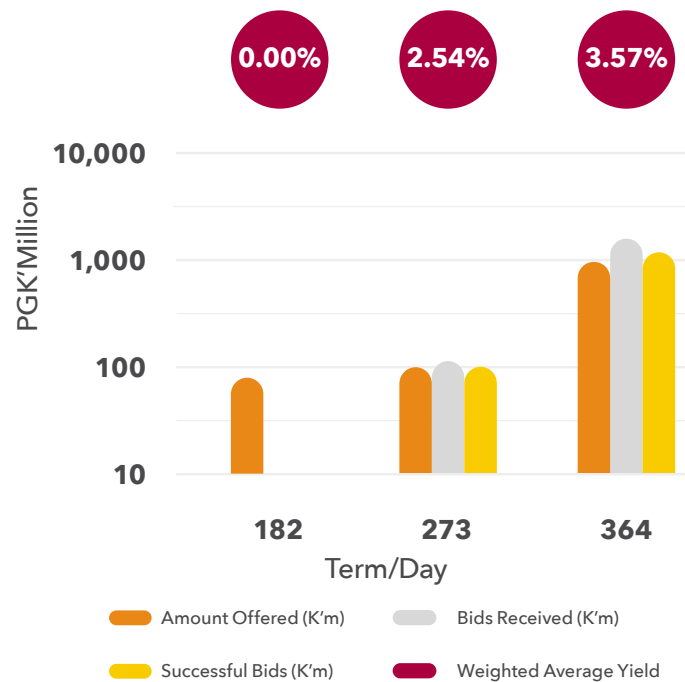


## PNG Cash & Fixed Income.

December 2023 saw the Central bank raise a total of PGK1.3 billion in Treasury Bills (T-bill) in the domestic debt market, noting a +3.42% increase from November 2023. In terms of amount offered to the market, the 182-day paper saw an increase by +14.29%, while both the 273-day and 1-year T-bill dropped by -9.09% and -19.62% respectively.

Market for the 182-day was largely undersubscribed, as investors opted out of bids as rates for the paper reached 0.00% by the end of December. Meanwhile, the 1-year T-bill was oversubscribed by +67.30%, owing to high demand for the paper in the market. Overall, the market was oversubscribed by more than 50%, indicating continued high liquidity in the financial sector.

In 2024, we expect to see rates either increase or remain steady, especially for the 1-year paper, remain above the 3% mark, given the indication



by the government in the 2024 National Budget that interest costs to the government will increase in the medium-term and peak in 2025. After 2025, it is expected to decline, reflecting

interventions by the government in reducing rates on domestic debt as part of its debt management reforms under the new 'Medium Term Development Strategy 2023-2027'.

## International Cash & Fixed Income.

In December, the US Federal Reserve adopted a more dovish policy stance as interest rates were projected to remain lower in 2024. Long-term bond yields fell further by the end of the year. The U.S Economy showed signs of slowing growth based on surveys and durable goods orders data, supporting the bond market rally. At their December meeting, the Fed acknowledged that economic growth had eased in the third quarter and inflation had dropped over the past year. The Fed's projections indicated that inflation would fall faster than previously expected and interest rates in 2024 would be 50 basis points lower than their previous forecast.

European government bond markets followed the performance of US treasuries in December.

10 Year Government Bond Yields						
COUNTRY	YIELD		MOM		YOY	YTD
United States	3.88%	↓	-0.10	↑	0.00	↑ 0.11
United Kingdom	3.54%	↓	-0.15	↓	-0.04	↑ 0.06
Australia	3.96%	↓	-0.10	↓	-0.02	↑ 0.12
New Zealand	4.32%	↓	-0.12	↓	-0.03	↑ 0.04
France	2.56%	↓	-0.15	↓	-0.18	↓ -0.07
Japan	0.61%	↓	-0.09	↑	0.45	↑ 0.23

Peripheral bond yields narrowed versus German Bunds approaching the tightest levels of the year. The European Central Bank (ECB) kept rates unchanged but didn't signal a dovish pivot, indicating it was too early to consider rate cuts.

UK gilt yields also fell in December, driven by weak domestic data and lower-than-expected inflation. The Bank of England kept rates unchanged for a third meeting in a row while inflation dropped to 2 year lows of 3.9%, providing a supportive environment for UK bond markets.



## PNG Equities.

The PNG stock market was subdued during December's sessions, with the Kina Securities index (KSi), a price-weighted measure of PNG's equity market (PNGX), edging -0.02% lower after heavyweight Santos Limited (STO) and Credit Corporation (CCP) posted negative returns of -0.50% and -0.05%, respectively.

Shares of BSP Financial Group Limited (BSP) curbed some of the market's losses by adding +0.15% to PGK13.70. For the whole of 2023, the KSi was up +0.72%.

Dual-listed stocks: Kina Securities (+4.58%), BSP Financial Group (+1.31%), and Santos (+9.99%), all reported strong returns on the Australian stock market.

	PRICE*		MONTH		YOY		YTD
<b>PNG Stock Exchange (PNGX)</b>							
City Pharmacy Limited (CPL)	0.79	-	-	↓	-12.22%	↓	-16.84%
Credit Corporation PNG (CCP)	2.00	↓	-0.50%	↑	8.11%	↑	5.26%
BSP Financial Group Ltd (BSP)	13.70	↑	0.15%	↑	10.39%	↑	10.39%
Santos Limited (STO)	19.23	↓	-0.05%	↑	0.68%	↑	0.68%
<b>Australian Securities Exchange (ASX)</b>							
Kina Securities Ltd (KSL)	0.80	↑	-	↑	3.23%	↑	4.58%
BSP Financial Group Ltd (BFL)	5.42	↑	-0.50%	↑	10.61%	↑	19.38%
Santos Limited (STO)	7.60	↑	0.15%	↑	6.44%	↑	6.89%
<b>PNG Market Indices</b>							
KSi	6,324.64	↓	-0.02%	↑	0.75%	↑	0.72%
KSHi	15,561.14	↓	-0.35%	↑	2.91%	↑	-0.15%

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

In terms of volumes, a total volume of 0.39 million units was traded during December on the PNGX, lower than the monthly average of 1.79 million units.

## International Equities.

Top equity benchmarks in developed markets recorded their second-straight month of wins in December, backed by an optimism of interest rate cuts in early 2024. During the month, major central banks including the U.S Federal Reserve, European Central Bank, and the Reserve Bank of Australia supported the buying mood of equities by holding interest rates unchanged in their respective monetary policy decisions. In addition, the Fed stood out amongst its peers by announcing that it will start cutting rates in March 2024.

In North America, all four major equity indices were up by more than +3% (Dow: +4.84%, S&P 500: +4.42%, Nasdaq: +5.52%, and Toronto: +3.57%), while Europe's stock indices also rose with over +3% (+FTSE:3.75%, DAX: 3.31%, and CAC40: 3.18%) returns during the month.

	PRICE		MONTH		YOY		YTD
<b>North America</b>							
Dow Jones IA	37,689.54	↑	4.84%	↑	13.70%	↑	10.57%
S&P 500	4,769.83	↑	4.42%	↑	24.23%	↑	17.01%
NASDAQ	15,011.35	↑	5.52%	↑	43.42%	↑	29.58%
Toronto S&P/TSX	20,958.44	↑	3.57%	↑	8.12%	↑	0.92%
<b>Europe</b>							
FTSE	7,733.24	↑	3.75%	↑	3.78%	↓	-0.49%
DAX	16,751.64	↑	3.31%	↑	20.31%	↑	10.73%
CAC 40	7,543.18	↑	3.18%	↑	16.52%	↑	6.51%
<b>Asia</b>							
Nikkei	33,464.17	↓	-0.07%	↑	28.24%	↑	22.46%
Hang Seng Index	17,047.39	↑	0.03%	↓	-13.82%	↓	-21.95%
Shanghai Composite	2,974.94	↓	-1.81%	↓	-3.70%	↓	-8.62%
Sensex	72,240.26	↑	7.84%	↑	18.74%	↑	21.31%
S&P/ASX 200	7,590.82	↑	7.10%	↑	7.84%	↑	1.53%

Asia-Pacific shares struggled with direction, posting a mixed bag of returns: Nikkei -0.07%, Hang Seng +0.03%, Shanghai -1.81%, Sensex +7.84%, and S&P/ASX 200 +7.10%.

# Commodities.

## December saw a slow-down in global energy prices.

According to the World Bank's energy price index for December, energy prices declined by -6.3% m/m to end the year. The price fall was mainly attributed to Brent Crude (-6.99%) and LNG prices (-28.60%).

## Oil remains volatile due to geo-political tensions.

Since the latest conflicts in the middle east, oil prices have been consistently volatile. Despite news of disruptions to supply with announcements by OPEC to cut production and the U.S Government increasing its own purchases to replenish its own reserves.

## Commodity Price outlook remains uncertain with supply-chain disruptions.

Heading into 2024, prices of agricultural commodities are expected to decline due to rising supplies, according to the World Bank's 2024 Commodity Price Outlook report. The report sighted several key factors which will affect commodity prices, including possible escalation of the most recent Middle East conflict and sustained elevated oil price levels, which may lead to increased production and transportation costs. Furthermore, current weather patterns with persistent El Nino implications and trade restrictions in major importing countries such as India will also play into an uncertain market outlook.

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	188.00	↓	-3.59%	↑	12.37%	↑	3.44%
Cocoa (US\$/mt)	4,196.00	↓	-6.23%	↑	61.38%	↑	62.57%
Palm Oil (RM/tn)	3,662.00	↓	-2.45%	↓	-12.20%	↓	-1.56%
<b>Energy</b>							
Brent Crude (US\$/bbl)	77.04	↓	-6.99%	↓	-10.32%	↓	-8.82%
LNG (US\$/mmBtu)	11.52	↓	-28.60%	↓	-60.97%	↓	-39.45%
Light Crude WTI Futures (US\$/bbl)	71.65	↓	-5.67%	↓	-10.73%	↓	-9.15%
<b>Precious Metals</b>							
Gold (US\$/oz)	2,071.80	↑	0.71%	↑	13.45%	↑	6.50%
Silver (US\$/oz)	24.09	↓	-6.12%	↑	0.21%	↑	1.07%
<b>Base Metals</b>							
Copper (US\$/lb)	3.89	↑	1.03%	↑	2.09%	↓	-7.95%
Iron Ore (US\$/mt)	130.33	↑	5.85%	↑	19.98%	↑	10.37%



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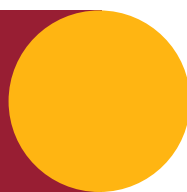
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