

Monthly Report.

November 2023



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Monthly Highlights.

2024 National Budget: PGK27.4 billion

The Government plans to expend PGK27.4 billion in 2024, an increase of +8% from the 2023 budget.

Coffee remains strong: up +16.5%

Coffee remained strong in November, adding +16.5% to October's wins as a supply deficit provided most of the push during the month. Year-on-Year, coffee is up +16.23%. This is an encouraging result for PNG growers.

Further support to Households: PGK440 million

With the rising cost of living, the Government has appropriated a further PGK440million in its package assistance to households.

PNG 1-year Treasury yield continues rally

November saw yet another good month in the domestic market. Consistent with the trend since August this year, rates for Treasury bills have been improving, with November ending with the 1-year paper at 3.56%, the highest rate for 2023.

2024 Domestic Inflation Forecast: 5%

The Government forecasts that inflation is projected to average around 5.0%, due to higher oil prices, exchange rate depreciation, increased Government spending and higher economic growth.

PGK/USD continues downward trend

The PGK/USD dropped a further 10 basis points, or -0.4% during November. After remaining flat at 0.2840 in the first 5 months of this year, the PGK/USD has now dropped -5.1% since May.

Market Commentary.

2024 National Budget

The Government presented its money plan for 2024, with an expected PGK27.4 billion to be expensed based on the theme 'Securing our Future'. It aims to build on the Medium-Term Development Plan IV (MTDP4) by funding investment priorities.

Much has already been discussed and analyzed about the budget, but we believe there are 3 key things you should remember about this budget;

1. The Government plans to raise PGK23.4 billion (Total Revenues and Grants), and intends to spend PGK27.4 billion, resulting with a Budget deficit forecasted at PGK3.9 billion

2. Growth in 2024 will be driven by the 'resources sector- GDP' growing by +7%, based on the assumption that Porgera will re-commence, coupled with elevated global energy prices.

3. Inflation forecast for 2024 is expected to remain steady at 5.0% in the medium term, however, other indicators of continued price pressures would deem this forecast very conservative.

Given that tax is a common pain point for many citizens, there has been some misunderstanding between the increase in projected tax collections and an increase in the tax rate. The Government projected

that 90% of PNG's tax revenue in 2024 will be collected from;

Taxes on Goods and Services, including GST (PGK 5.3billion);
Personal Income Tax (PGK 4.3 billion);

Company Tax (PGK 3.8 billion) and;

Mining & Petroleum Tax (PGK 3.6 billion)

The proposed amendment to the Income Tax Bill 2023 was to formalize and make permanent the tax-free threshold that was increased in the 2023 Budget for income earners less than PGK20,000.

Market Commentary, cont.

Porgera and the PNG Economy

It is estimated that the PNG economy has been losing an average of PGK1.1 billion every year since the Porgera gold mine closed in 2020, which would amount to about PGK4 billion in total loss to date.

The mine is now set to reopen by Q2 2024, and we believe the timing and execution of this is very critical to the PNG Economy at this point in time due to the following;

1. the 2024 National Budget was formulated with projections and forecasts based on the expectation that the mine will reopen by Q2 of 2024.
2. the reopening of the mine is expected to increase FX inflows, an issue that has become a nightmare for the business community, and the economy at large.
3. the boost to employment and local businesses. About 3,000+ people lost their jobs when Porgera closed, and countless other PNG owned businesses had to close or scale down operations. Porgera's reopening will be an answered prayer for many people.

Updates from the Mining Sector

Four mining companies received exploration licenses recently. Licenses were given to New Porgera Limited, K92 Mine, Ramu NiCo Management, and the Frieda River project. The companies have met the requirements to receive the licenses and the government was satisfied with the processes they had gone through. In total, 18 tenement agreements were signed, including 15 for the New Porgera mine project, and exploration licenses for the other three mines.

Meanwhile, details of the Wafi-Golpu mine development contract and the special mining lease will be announced at the Mining and Petroleum Conference in Sydney, Australia. Newmont Corporation has taken over all of Newcrest Mining Limited's interests in PNG, particularly the Wafi-Golpu and Lihir gold mining projects. Newmont and Newcrest will own 69% and 31% of the joint entity in Papua New Guinea respectively. The government hopes to have the mine development contract and special mining lease ready to announce at the upcoming conference.

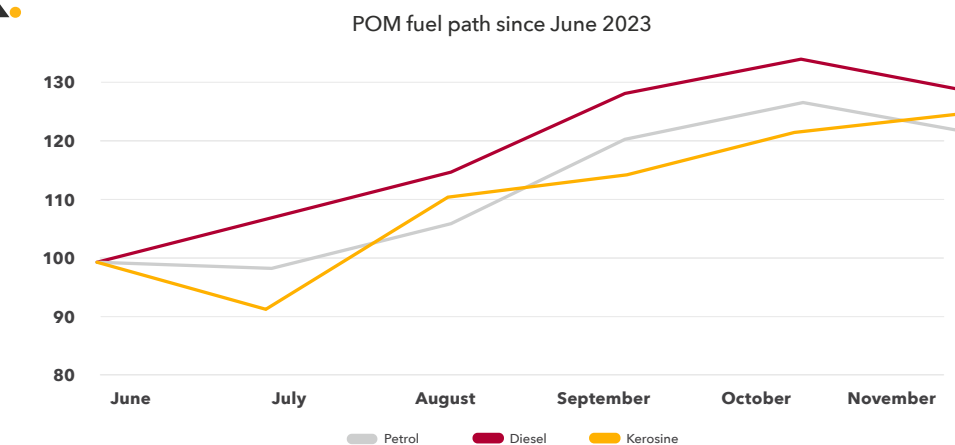
Policy Update

The new National Manufacturing Policy that is currently in the pipeline aims to industrialize PNG's economy by processing the country's natural resources into value-added products. The policy outlines 13 strategies to address issues in the manufacturing sector. A proposed National Manufacturing Authority (NMA) will improve the regulatory aspect of the policy. The policy is set to align with the government's vision to prioritize and support the manufacturing sector to diversify the economy and create jobs.

Kina Bank Outlook.

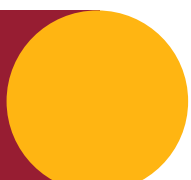
Domestic Inflation

Going into 2024, inflation is projected to average around 5.0% in the medium term, reflecting higher oil price, exchange rate depreciation, increased Government spending and higher economic growth. Given the ongoing nominal depreciation of the PGK, domestic price pressures are expected to be offset by the depreciation of currencies from PNG's trading partners. This would maintain a stable real exchange rate. However, other indicators suggest continued elevated price pressures, potentially making this inflation forecast conservative. For example, domestic fuel prices have



risen significantly over the past six months. In Port Moresby alone, petrol prices increased 24%, diesel 28%, and kerosene 21% from June to November.

Price growth was likely even higher in more remote areas. Average oil prices were between US\$75-80 per barrel during this period.



Kina Bank Outlook, cont.

2024 Global Economic Outlook

Global economic growth is expected to slow down further in 2024 due to factors like rising interest rates, higher energy prices, and slowdowns in the Chinese and US economies. Geopolitical risks from the Ukraine war and other conflicts may also contribute.

Several banks forecast that global growth may drop to 2.6% in 2024 from an estimated 2.9% in 2023. While economists believe a global recession can be avoided, mild recessions are possible in Europe and the UK. Most experts view the economic outlook as weak and expect conditions to deteriorate in the coming year.

There is uncertainty around the Federal Reserve’s interest rate hikes and their impact on the US economy. China’s economy is also expected to grow at a slower pace due to companies moving production to lower cost locations. However, some banks like Goldman Sachs present a more optimistic view, pointing to the better-than-expected economic performance so far and steady GDP growth and employment in major economies facing high inflation.

The World Bank commodity price index is expected to fall by about -4% in 2024, following a projected drop of around -24% in 2023, the sharpest decline since the pandemic. Key points from the World Bank forecasts include;

1. Commodity prices on average are forecasted to decline slightly in the first quarter of 2024 by about -0.5%. This decline reflects lower metal prices from slowing economic activity and higher agriculture yields from good weather. Regardless, most commodity prices remain above their 2015-2019 average.
2. Oil prices are expected to average around \$81 in 2024 as result of slowing demand and improved non-OPEC supplies. Although Brent oil prices benefited from the volatility following the conflict in the Middle East in early October, they declined below pre-conflict levels (just below \$83) by the end of November, ahead of the monthly OPEC meeting.
3. Natural gas prices remain sensitive to disruptions and demand. European natural gas prices are expected to drop by about -4% in 2024, owing to slower demand, while U.S. natural gas and LNG

prices are also expected to decline in 2024 by 20% and 7% respectively

4. Agricultural prices are expected to fall by a further -2% in 2024, after been relatively stable in 2023. The World Bank reported that despite ample food supplies in 2023, food insecurity continues to be a major concern for many countries.
5. Metal prices have weakened due to demand concerns and are expected to fall by about -5% in 2024 due to slowing demand. However, it is expected to recover in 2025 as demand increases, mainly driven by increasing global activity in the renewable energy and technologies sectors.

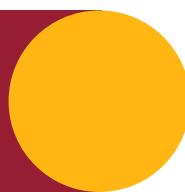
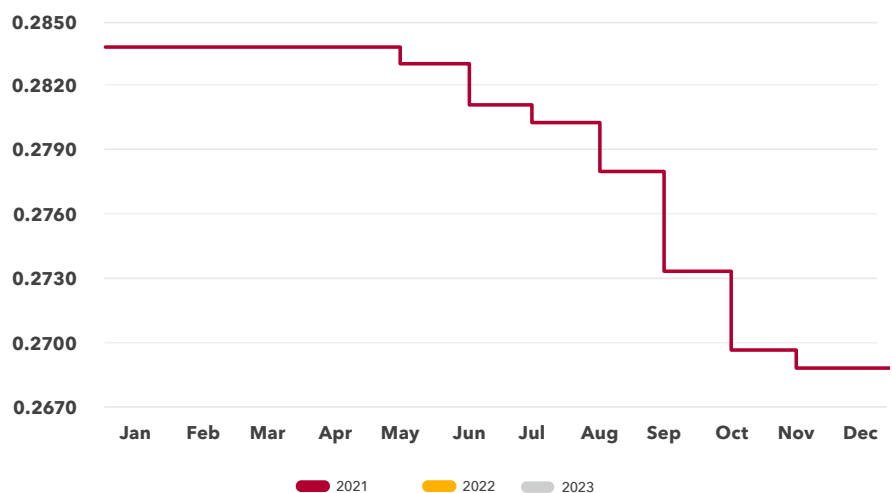
These forecasts bring to light the risk to the government’s projected fiscal revenue, which were mostly based on commodity prices that were above average market prices. Regardless, it is important to note that the above forecasts are based on assumptions that; (a) the conflict in the Middle East will have a limited impact on commodity prices, though geopolitical risks remain high; and (b) slowdown in global economic growth, which would greatly impact industrial commodities.

PNG FX Market.

PGK/USD continues downward trend

The PGK/USD dropped a further 10 basis points, or -0.4% during November. After remaining flat at 0.2840 in the first 5 months of this year, the PGK/USD has dropped -5.1% since May. The PGK/USD was trading at 0.2685 by the end of November. The average movement in the interbank rate has been around 20 basis points per month, and we anticipate further movements in December as import demand continues to overweight scarce export flows.

PGK / USD Interbank movement in 2023



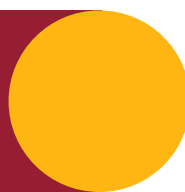
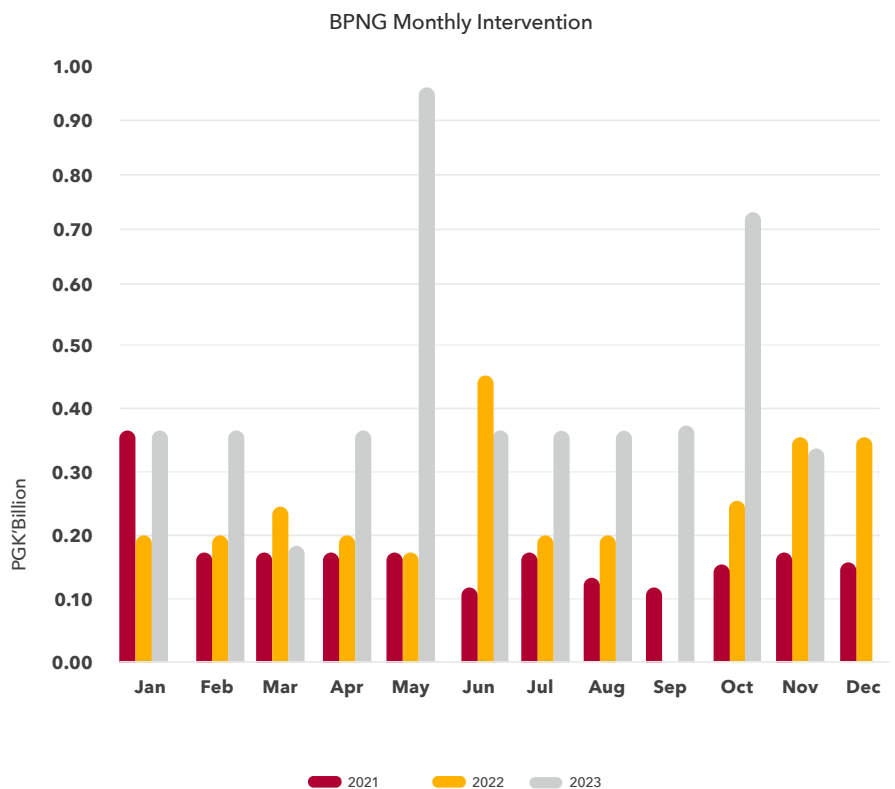
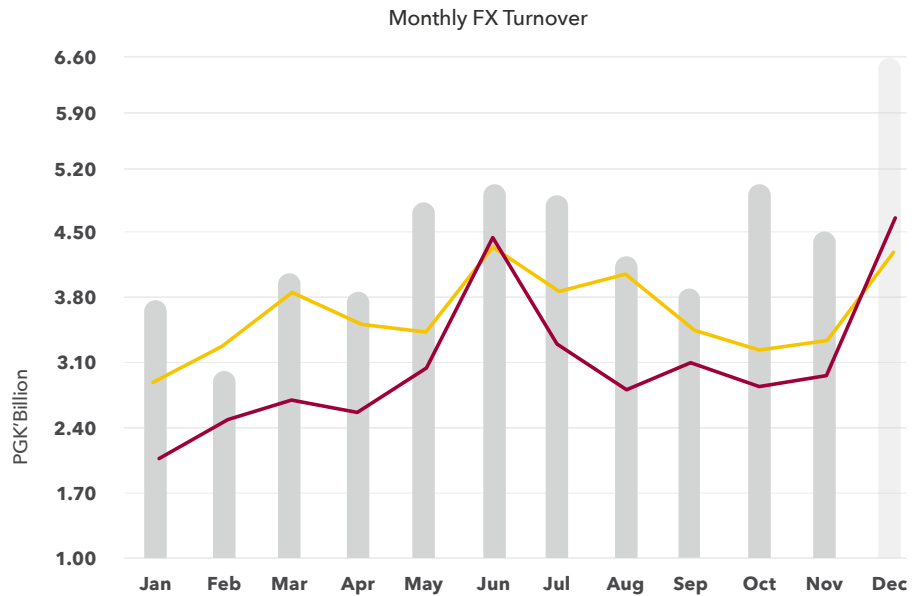
PNG FX Market, cont.

PGK Market activity continues to increase

As the PGK/USD interbank rate continues to fall, we also note the increased traded volumes. Following a busy October when FX market turnover increased by +31.7% m/m, November saw market turnover total just under PGK5 billion, which was 10.1% less than October’s activity. As we have seen in previous years, we anticipate that there will be an uptick in FX market turnover during December (in the past 2 years, there has been an average of +41% increase in market turnover during December).

Bank of PNG intervention remains consistent

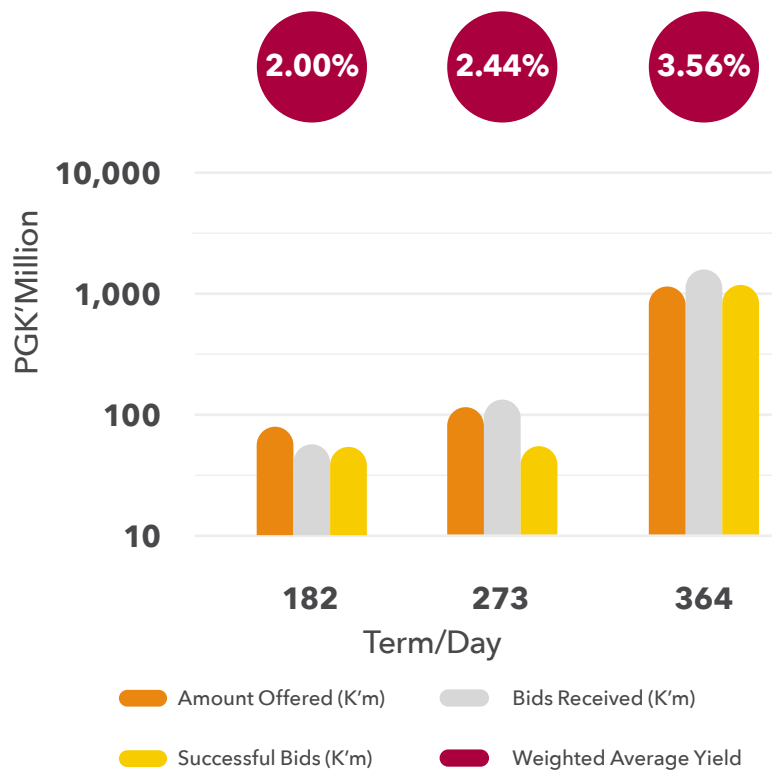
The Bank of PNG (BPNG) continued to provide FX support for import orders with an injection of PGK330 million worth of US dollars during November. Since announcing that it would provide US\$100m a month to fill import orders, BPNG has been consistent and supported import with an average of US\$130 million per month.



PNG Cash & Fixed Income.

November saw yet another good month in the domestic market. Consistent with the trend since August this year, rates for Treasury bills (T-bills) have been improving, with November ending with the 1-year paper at 3.56%, the record for the highest month for 2023. The 182-day and 273-day T-bills both added 34 basis points (bps) and 14bps respectively. About PGK1.28 billion was raised in November through the issuance of T-bills.

As per the 2024 National Budget, the Government plans to borrow PGK21.9 billion from the domestic debt market through the issuance of Treasury bills, Treasury bonds, and commercial loans. From that amount (K21.9 billion); PGK19.6 billion is allocated for domestic repayments, leaving PGK2.3 billion in net domestic financing.



International Cash & Fixed Income.

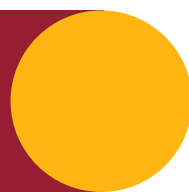
In November, fixed income markets rallied as central banks signaled that interest rate hikes may be nearing an end. Inflation pressures eased and oil prices stabilized, supporting the market rally. The US Federal Reserve kept rates unchanged and issued a dovish statement. Government bond yields fell across major markets, led by a -60 basis point (bps) drop in the US 10-year yield to 4.33%. The Bank of England also kept rates steady amid weaker economic data.

In Europe, inflation fell more than expected and the market anticipated an end to European Central Bank rate hikes. Weaker growth, lower inflation, and shifting interest rate

10 Year Government Bond Yields						
COUNTRY	YIELD		MOM		YOY	YTD
United States	4.33%	↓	-0.12	↑	0.20	↑ 0.23
United Kingdom	4.18%	↓	-0.07	↑	0.32	↑ 0.25
Australia	4.41%	↓	-0.10	↑	0.25	↑ 0.24
New Zealand	4.88%	↓	-0.12	↑	0.20	↑ 0.17
France	3.02%	↓	-0.12	↑	0.26	↑ 0.10
Japan	0.67%	↓	-0.29	↑	1.66	↑ 0.35

expectations resulted in yield declines across markets and saw peripheral European bonds, (or less popular European bonds) including Spain and Italy, outperform core markets.

Meanwhile in Australia, the 10-year bond yields fell by -52bps over November, on softer monthly inflation data.



PNG Equities.

PNG Air enters into a scheme of arrangement to restructure its debt position

PNG Air Limited (PNGX: CGA) entered into a formal scheme of arrangement (scheme) with its major creditors: MRDC (PGK25 million) and Nasfund (PGK25 million), where it will convert a combined debt of PGK50 million into additional 416.67 million shares, using the last closing price of 12 toea in 2019. In addition, both MRDC (PGK55 million) and Nasfund (PGK8.23) have further committed PGK 63.23 million. This amount will be converted into shares at a share price of 0.843 toea - current estimated value of those shares. The additional issuance will increase MRDC's holdings to 83.4%, while reducing Nasfund's holdings to 15.9%.

The Board of directors have scheduled a special meeting of shareholders in December and asked shareholders to vote in favor of the scheme. The scheme is expected to be completed in December 2023.

Newcrest removed from PNGX's official listing

After Newmont Corporation's 100% takeover of Newcrest Mining Limited, PNGX removed Newcrest from its official list at the close of trading on Tuesday, 7th November 2023.

Local share market extends rally

The local share market edged higher in November, extending its rally from October. The Kina Securities index - which measures the price movement of PNG's 9 listed companies - rose +0.10% off the back of strong share price of City Pharmacy Limited (+12.86%), BSP Financial Group Limited (+1.26%), and Santos Limited (+0.05%). Total volume traded during the month was 1.73 million, lower than October's volume of 2.19 million. However, the demand for shares remained relatively strong.

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
City Pharmacy Limited (CPL)	0.79	↑	12.86%	↓	-16.84%	↓	-16.84%
Credit Corporation PNG (CCP)	2.01	↓	-3.37%	↑	5.79%	↑	5.79%
BSP Financial Group Ltd (BSP)	13.68	↑	1.26%	↑	10.23%	↑	10.23%
Santos Limited (STO)	19.24	↑	0.05%	↑	0.73%	↑	0.73%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.77	-	-	↓	-10.53%	-	-
BSP Financial Group Ltd (BFL)	5.35	↑	4.39%	↑	10.31%	↑	17.84%
Santos Limited (STO)	6.91	↓	-9.91%	↓	-6.62%	↓	-2.81%
PNG Market Indices							
KSi	6,325.84	↑	0.10%	↑	1.32%	↑	0.74%
KSHi	15,615.03	↓	-0.04%	↑	0.14%	↑	0.19%

*PNGX prices in PGK; ASX prices in AUD.

	Pre-Scheme		Post-Scheme	
	No. of share	Holdings (%)	No. of share	Holdings (%)
MRDC	124,500,000	40.4%	6,857,151,245	83.4%
Nasfund	121,000,000	39.2%	1,305,039,146	15.9%
Others	62,792,080	20.4%	62,792,080	0.8%
	308,292,080		8,224,982,471	

International Equities.

International equities recovered from three straight months of declines to rebound in November. Investors returned to buying equities after keeping their distance over the last three months due to emerging risks from geopolitics and the 'higher for longer' interest rate scenario. Optimism about an interest rate cut in early 2024 is what drove equities higher this month. A batch of upbeat third quarter corporate earnings also supported investor sentiment. In North America, all four equity indices closed more than +7% higher in returns (the Dow Jones +8.8%; S&P 500 +8.9%; Nasdaq +10.7%; and Toronto S&P/TSX +7.2%). In Europe, the FTSE was up +1.8%, DAX gained +9.5%, and the CAC40 added +6.2%. Asia-Pacific equity indices also rose in November with strong returns (Nikkei +8.5%; Shanghai Composite +0.4%; Sensex +4.9%; S&P/ASX 200 +4.5%).

	PRICE			YOY		YTD
North America						
Dow Jones IA	35,950.89	↑	8.77%	↑	3.94%	↑ 5.47%
S&P 500	4,567.80	↑	8.92%	↑	11.95%	↑ 12.05%
NASDAQ	14,226.22	↑	10.70%	↑	24.05%	↑ 22.80%
Toronto S&P/TSX	20,236.29	↑	7.22%	↓	-1.06%	↓ -2.56%
Europe						
FTSE	7,453.75	↑	1.80%	↓	-1.58%	↓ -4.09%
DAX	16,215.43	↑	9.49%	↑	12.63%	↑ 7.19%
CAC 40	7,310.77	↑	6.17%	↑	8.49%	↑ 3.22%
Asia						
Nikkei	33,486.89	↑	8.52%	↑	19.73%	↑ 22.54%
Hang Seng Index	17,042.88	↓	-0.41%	↓	-8.36%	↓ -21.97%
Shanghai Composite	3,029.67	↑	0.36%	↓	-3.86%	↓ -6.94%
Sensex	66,988.44	↑	4.87%	↑	6.16%	↑ 12.49%
S&P/ASX 200	7,087.33	↑	4.52%	↓	-2.70%	↓ -5.21%

Commodities.

Except for the unpredictable energy markets, it was generally a strong performance across the board for major commodities within the agriculture, base, and precious metals sectors.

Very volatile energy markets

Uncertainty surrounding OPEC+ meetings saw oil and LNG prices experience a volatile month. Brent Crude dropped -5.2% from the highs of the previous 2 months, despite continued tight crude supplies and the intensifying Middle East conflict. Year to date, Brent oil has remained above US\$80 per barrel (-1.9% year to date). LNG was also hit hard with a -8.9% drop as geopolitical tensions continued to weigh on energy confidence.

Coffee was strong

Both Coffee (+16.5% m/m) and cocoa (17.2% m/m) had large increases in their prices during November. For coffee, it was a particularly bullish month that may have been partly

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	195.00	↑	16.56%	↑	16.28%	↑	7.29%
Cocoa (US\$/mt)	4,475.00	↑	17.24%	↑	82.58%	↑	73.38%
Palm Oil (RM/tn)	3,754.00	↑	5.33%	↓	-8.42%	↑	0.91%
Energy							
Brent Crude (US\$/bbl)	82.83	↓	-5.24%	↓	-3.04%	↓	-1.96%
LNG (US\$/mmBtu)	16.14	↓	-8.94%	↓	-51.56%	↓	-15.19%
Light Crude WTI Futures (US\$/bbl)	75.96	↓	-6.25%	↓	-5.70%	↓	-3.69%
Precious Metals							
Gold (US\$/oz)	2,057.20	↑	3.15%	↑	16.89%	↑	5.75%
Silver (US\$/oz)	25.66	↑	11.80%	↑	17.81%	↑	7.65%
Base Metals							
Copper (US\$/lb)	3.85	↑	5.52%	↑	3.01%	↓	-8.89%
Iron Ore (US\$/mt)	123.13	↑	4.81%	↑	28.21%	↑	4.28%

driven by the expiration of many Coffee futures in December pushing up prices as exporters trade on a supply deficit.

Gold provides certainty as a haven

Gold prices went above US\$2,000 per ounce during November, marking a

+5.8% increase since the start of the year. The steady state of Gold this year has been down to the uncertainty around markets relative to the decisions of some of the world's major Central Banks as interest rate hiking cycles come into question pending CPI data.

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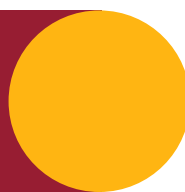
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