

Monthly Report.

May 2024



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Monthly Highlights.

<p>KINA SECURITIES INDEX 4TH MONTHLY RISE</p>	<p>The Kina Securities Index rose for a fourth straight month on strong performances from banking and financial stocks including BSP and KAML.</p>	<p>DEMAND FOR TREASURY BILLS UP 26%</p>	<p>Demand for 1-year Treasury Bills has increased compared to last year, with successful bid subscription rates up +26% and yields averaging 3.5% so far in 2024.</p>
<p>AGMARK NET PROFIT UP +73%</p>	<p>Agmark (NGP) recorded a +73% increase in its 2023 net profit results, after a strong year of cocoa prices which has continued into 2024.</p>	<p>GOLD AND PALM OIL SPOT PRICE UP 20%</p>	<p>Spot prices for Major Exports such as gold and palm oil have tracked above +20% against the Government's 2024 budgeted projections.</p>
<p>BUDGET TO BALANCE BY 2027</p>	<p>Government's plans for a balanced budget by 2027 are on track with a reduction in the deficit to GDP ratio from 5.3% in 2022 down to 4.3% last year.</p>	<p>FX LIQUIDITY TOPS PGK 5 BILLION</p>	<p>May recorded the highest level of FX liquidity so far this year, with turnover exceeding PGK5 billion for first time due to solid exports in mining and agriculture.</p>

Market Commentary.

Good news for PNG amongst mixed results

May delivered mixed results across global equities and commodity prices. Persistent geo-political tensions, inflationary concerns and uncertainties around interest rate outlook blanket market sentiment. On the domestic front, the Government released its Final Budget Outcome (FBO) report for the 2023 fiscal year, providing guidance on the upcoming 2025 Budget.

Budget on track to balance by 2027.

The 2023 Final Budget Outcome (FBO) released by Treasury showed a welcome fiscal deficit ratio to GDP improvement from 5.3% in 2022, to

4.3% for 2023. This trend is consistent with the Government's "13-year" fiscal recovery plan that targets a balanced budget by 2027. In terms of its revenue, better than expected Tax collections (+8% vs '23 Supplementary Budget) more than off-set a shortfall in expected Grants (-42.8%) and Other Revenues

(-50.2%). The main variances in revenue collections were lower dividends from Kumul Consolidated Holdings Limited and its subsidiary resource companies (Kumul Petroleum and Kumul Minerals), with an estimated PGK650million in dividends foregone.

PGK' MILLIONS	2023 (SUPPLEMENTARY BUDGET)	2023 (ACTUAL)	Variance
Tax Revenue	16,320.70	17,626.90	8.0%
Grants	2,024.90	1,158.60	-42.8%
Other Revenue	2057.40	1024.50	-50.2%
Total Revenue & Grants	20,403.00	19,810.00	-2.9%

Source: PNG Department of Treasury

Market Commentary cont.

The total domestic debt portfolio increased by +7.9% from the previous fiscal year, reflecting the issuance of more Treasury Bills during the first half of 2023. The Government's debt strategy to rebalance its portfolio towards more external debt with the additional retirement of short-term domestic debt using external funding sources did not occur immediately since the external funds for budget support only came in at the back end of 2023. In terms of external funding, net external borrowings increased, in large part due to budget support from Australia (AUD\$600m) and the International Monetary Fund (IMF) through its ongoing conditional loan program (US\$175m).

East Asia Pacific Region to grow.

Recent World Bank estimates have projected the East Asia Pacific (EAP) region to grow on average by 4.5% in 2024. The largest economy in the EAP region, China, is projected to grow by 4.5% as the Chinese economy's bounce-back from the COVID-19 recovery fades due to elevated debt levels and weakness in its property sector.

The rest of the EAP region is projected to grow by 4.6% due to the recovery in global trade conditions from recent supply chain challenges. In the

Pacific, growth is expected to be moderate at 3.6%, as the recovery from COVID-19 eases.

PNG medium term growth conservative at 3%.

PNG's growth in the medium-term is forecasted at 3%. This is slightly more conservative than the ADB's outlook for 3.3% this year, but consistent with the Bank of PNG's estimates as the Porgera mine's resumption starts to drive growth in the mining sector, as well as in other support sectors including transportation and logistics.

Foreign Exchange.

FX turnover tops PGK 5 billion for first time.

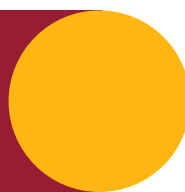
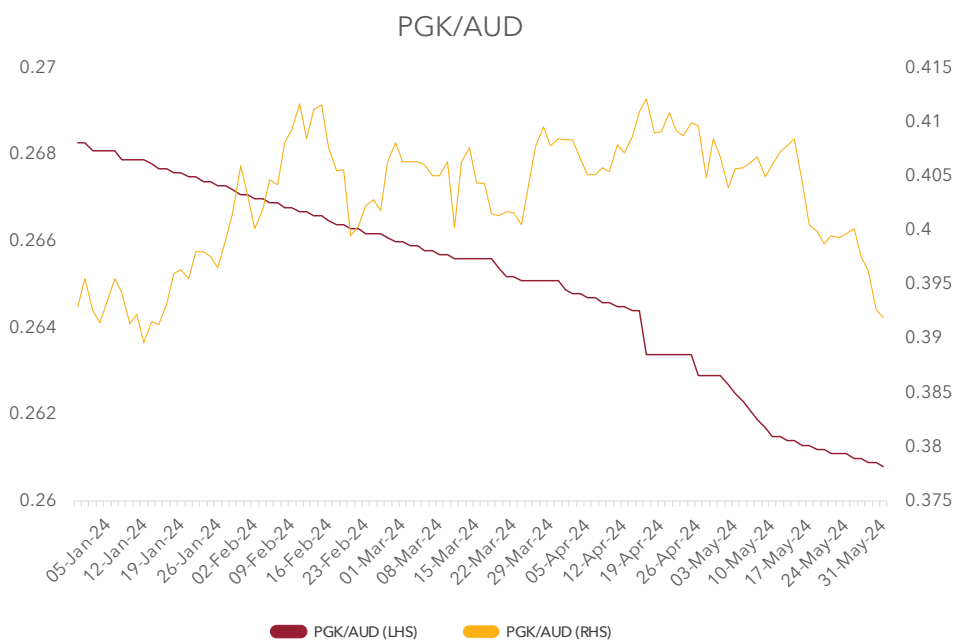
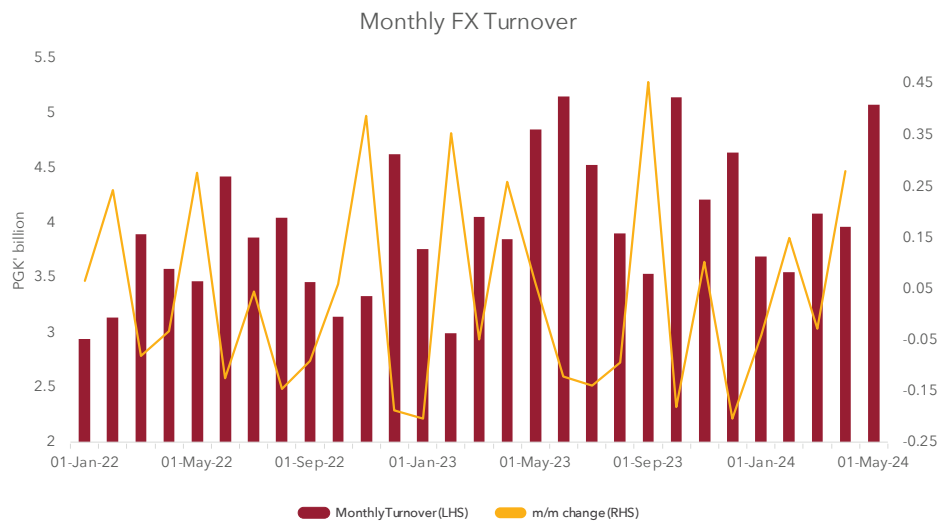
FX inflows from exports improved during May, with a +28% m/m increase in total FX turnover. May also recorded the highest level of market activity for 2024, with turnover exceeding PGK5billion for the first time this year.

FX flows have trended upwards on average the past 2 years during the second half of the year (averaging +5%). The first 5 months of 2024 have been supported by strong commodity prices, and we expect increased turnover during the second half with export receipts from Porgera operating at greater capacity after its resumption of operations during the first quarter. The mine reported that it produced 14,000 ounces of gold during Q1/2024. Prior to its suspension, it was producing half a million ounces per year. These increased flows should help with pending import orders.

Kina re-rates lower

The PGK/USD interbank rate also continued its 'downward crawl', depreciating another 21 basis points during the month. This was the second highest month that the interbank rate had moved this year. In total, the PGK/USD rate has depreciated by 75 basis points this year, or 2.80%, at average rate of 15 basis points per month.

The PGK/AUD cross-rate also closed the month 103 basis points lower m/m at AUD\$0.3930, following AUD strength during the month. The AUD/USD strengthened by 161 points during May to close off at USD\$0.6637. The PGK/AUD cross-rate has been trading within the band of AUD\$0.3900 - AUD\$0.4100. As the PGK/USD continues to lower in the coming months, coupled with AUD interest rates holding due to contained inflation data, we expect the PGK/AUD to dip below AUD\$0.3800.

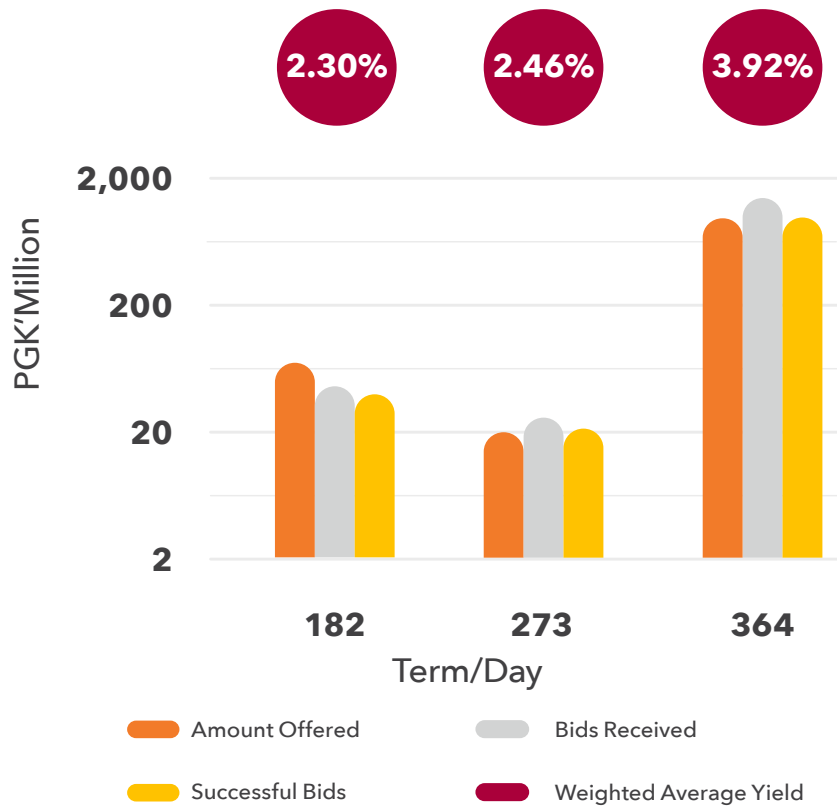


Domestic Fixed Income.

Treasury bill auction was oversubscribed by PGK388 billion

A total of PGK1.28 billion was raised through Treasury Bill (T-bills) auctions during the month. May's auction for T-bills was a PGK1.21 billion, with an oversubscription of close to PGK388 million.

Yields were mostly stable in May, after picking up in March following a decline at the start of the year. Yield for the 1-year T-bill has averaged around 3.5% since the start of the year, while yields for both the 182 and 273-day papers have been fluctuating, as the 273-day T-bill was at 0.00% for most of March & April, and leading into May. This volatility in the yields have also been reflected in the demand for the two shorter term papers. Compared to the same period in 2023, successful bids for the 1-year T-bill have increased by 26.45%, while the 273-day paper has seen a -44.18% drop.



Domestic Equities.

BSP Budgeted PGK354 million in Capital Expenditure

BSP (PNGX: BSP | ASX: BFL) CEO, Mark Robinson announced during the company's Annual General Meeting (AGM) that the company has allocated PGK354 million in capital expenditure for the next two years to "modernize its capabilities (digital offering and introducing new services) and provide its customers a world class banking experience". Mr. Robinson also stated that some of the steps the company had taken recently to upgrade its systems had yielded positive results. This includes the digitalization of loan pre-approvals and the reduction of waiting times at its branches.

CPL Group CEO moves on

City Pharmacy (PNGX: CPL) Group announced to the market that its CEO, Mr. Navin Raju, will resign after working with CPL for the past five and a half years. The Board acknowledged Mr. Raju's contributions to the company. His tenure officially ends on 24th June 2024. CPL has yet to announce a successor.

NGP may gain from elevated cocoa prices in 2024

With elevated international prices for cocoa, PNG's largest cocoa exporter, NGP Agmark Limited (PNGX: NGP), may potentially deliver another outstanding performance in 2024. For 2023, NGP reported a +73% increase in net profit.

PGK'MILLION	2023	2022	Change
Total Revenue	PGK166.17	PGK154.62	+7.47%
Net Profit	PGK6.77	PGK3.90	+73.59%

Domestic Equities cont.

NGP attributed the strong financial results to the high international cocoa prices. During the first five months of 2024, cocoa has risen more than +79% on the New York futures market. Bullish sentiments around cocoa look set to continue due to unfavorable weather conditions and chronic underinvestment in cocoa farms in major cocoa producing countries in West Africa.

Kina Securities Index (KSi)

The local stock market (PNGX) closed higher in May, with the Kina Securities index (KSi), a price-weighted measure of PNGX stocks, rising +0.27% for a fourth-straight month. This strong performance was driven by finance and investment stocks, particularly for BSP (+3.38%) and KAM (4.08%). A total volume of 1.5 million units was traded

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation PNG (CCP)	2.16	↑	0.46%	↑	8.54%	↑	7.70%
Kina Asset Management (KAM)	1.25	↑	4.08%	↑	31.58%	↑	32.85%
BSP Financial Group Limited (BSP)	16.86	↑	3.38%	↑	31.21%	↑	11.69%
Kina Securities Ltd (KSL)	2.97	↑	0.68%	↑	35.00%	↑	9.53%
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	0.95	↑	0.53%	↑	26.00%	↑	9.43%
BSP Financial Group Ltd (BFL)	6.49	↑	5.54%	↑	35.21%	↑	7.02%
Santos Limited (STO)	7.63	↓	-0.91%	↑	4.66%	↓	-2.84%
PNG Market Indices							
KSi	6,452.90	↑	0.27%	↑	2.69%	↑	1.51%
KSHi	6,794.61	↑	0.66%	↑	8.05%	↑	7.63%

Source: PNGX, Bloomberg, KFM Calculation

in volumes during May, compared to the monthly average of 0.9 million traded over the previous four-months.

International Fixed Income.

While inflation-linked Government bonds in the U.S and U.K saw gains in May, Eurozone returns were slightly down. This difference seems to stem from how U.S and U.K markets reacted to economic reports and central bank statements on the timing and magnitude of interest rate decreases. In contrast, the European Central Bank's earlier signals of a probable June rate cut created more predictability and thus less dramatic yield changes for investors in euro-denominated fixed income.

In the U.S Treasury market, yields initially declined in the month on weaker than expected economic data. Specifically, the non-farm payrolls report showed job additions below consensus estimates,

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.50%	↓	-0.04	↑	0.23	↑	0.14
United Kingdom	4.32%	↓	-0.01	↑	0.03	↑	0.13
Australia	4.41%	↑	0.00	↑	0.22	↑	0.09
New Zealand	4.81%	↓	-0.02	↑	0.12	↑	0.05
France	3.14%	↑	0.03	↑	0.10	↑	0.16
Japan	1.07%	↑	0.20	↑	1.45	↑	0.38

Source: Bloomberg

with the unemployment rate increasing and wages growing less than projected. The Federal Reserve additionally supported the market by announcing it would slow the pace of balance

sheet reduction more substantially than anticipated. Yields continued falling after the mid-month consumer price inflation came in slightly under expectations, but this proved to be the low point as rates



International Fixed Income cont.

rose in the second half of the month. Similarly, higher consumer confidence moved yields higher towards the end of the month. Regardless of the fluctuations, the benchmark 10-year Treasury note finished the month 4bps lower from April's yield, at 4.50%.

In the U.K, positive economic data was largely offset by signals that the Bank of England is getting closer to its first rate cut. Economic data released during the month indicated that GDP had a strong recovery during the first quarter of 2024, reflecting resilience in the economy

coming off the back of a shallow recession witnessed in the second half of 2023. Additionally, inflation data was higher than expected, however, this was not enough to convince investors that the BOE would continue to hold rates for longer.

International Equities.

North America and Europe mixed. APAC uncertain

Asia-Pacific

Asia-Pacific stock benchmarks were mixed in May with uncertainties around global markets. These uncertainties were fueled by heightened risks around US-China trade relations, news around prolonged elevated interest rates, the Chinese Government's announcements around stimulus measures, and upbeat trade data from the world's second largest economy - China. The Hang Seng (+1.77%) and Nikkei (+0.21%) ended the month strongly, while the Sensex (-0.70%) ended May in the red. In terms of YTD performance, the Hang Seng (+15.49% ytd) and Shanghai Composite (+10.16%) are still ahead.

North America

North America's major stock benchmarks closed another month with positive returns, thanks to softer-than-expected employment and consumer inflation data that rejuvenated investors' hope for an interest rate cut later this year. Strong

	PRICE (USD)		MONTH		YOY		YTD
North America							
Dow Jones IA	38,686.32	↑	2.28%	↑	17.56%	↑	1.40%
S&P 500	5,277.51	↑	4.69%	↑	26.26%	↑	8.54%
NASDAQ	16,735.02	↑	6.65%	↑	29.37%	↑	9.86%
Toronto S&P/TSX	22,269.12	↑	2.52%	↑	13.78%	↑	5.76%
Europe							
FTSE	8,275.38	↑	1.60%	↑	11.14%	↑	8.11%
DAX	18,497.94	↑	3.11%	↑	18.09%	↑	9.01%
CAC40	7,992.87	↑	0.10%	↑	12.60%	↑	4.30%
Asia							
Nikkei	38,487.90	↑	0.21%	↑	24.61%	↑	5.89%
Hang Seng Index	18,079.61	↑	1.77%	↑	-0.85%	↑	15.49%
Shanghai Composite	3,086.81	↓	-0.58%	↓	-3.67%	↑	10.16%
Sensex	73,961.31	↓	-0.70%	↓	18.11%	↓	3.03%
S&P/ASX 200	7,701.74	↑	0.49%	↑	8.61%	↓	0.27%

Source: Bloomberg

quarterly earnings and corporate guidance from tech giants, including Nvidia and Apple, also lured investors into the markets during May. All 3 major stock benchmarks rose over +2% (Dow Jones +2.28%, the S&P 500 +4.69%, and Nasdaq +6.65%), while Canada's Toronto S&P/TSX posted a +2.52% return.

Europe

Most of Europe's major stock benchmarks closed May in positive

territory. Optimism over interest rate cuts and the release of upbeat corporate earnings from companies such as UBS, UniCredit, Anheuser-Busch Inbev, and Siemens Energy, during the month kept investors interested in the markets. Germany's DAX rose +3.11%, London's FTSE 100 index gained +1.60%, and France's CAC40 index inched +0.10% higher.

Commodities.

Elevated gold, palm oil and crude contrast major commodities.

International prices for some of PNG's major commodity exports, including cocoa, coffee, and Liquefied Natural Gas, have continued to remain below the Government's 2024 National Budget revenue projections. On the upside, there have been elevated gold, palm oil, and crude (Brent) oil prices since the beginning of this year. Compared to the Government's forecasts, spot prices for gold and palm oil are tracking more than +20%, while crude oil price is tracking +2% higher.

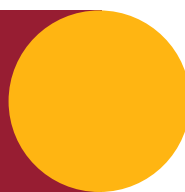
During May, cocoa futures fell -8.3% m/m to US\$9,331 per metric ton, ending its four-month rise as traders cashed out amidst concerns about the market's short-term stability. Medium-term supply constraints are still inherent, and we anticipate for cocoa prices to remain elevated this year. Crude oil benchmarks also fell during the month, with Brent crude falling -7.37% to US\$81.62 per barrel, while U.S. crude closed -6.22% lower at US\$76.99 per barrel. Spot gold rose +1.85% to US\$2,345.90 per ounce, while spot silver surged +13.28% to close at US\$30.44 per ounce.

	Average Closing Price(s)*	2024 Budget
Agriculture		
Cocoa (US\$/mt)	8,112.40	12,528
Coffee (US\$/lb)	204.35	15,277
Palm oil (RM/tn)	4,019.00	3,083
Precious Metals		
Gold (US\$/oz)	2,199.86	1,973
Energy		
Crude Oil (US\$/bbl)	84.46	80
LNG (US\$/mmBtu)	9.94	15

*average monthly closing prices

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	222.35	↑	0.77%	↑	24.46%	↑	13.61%
Cocoa (US\$/mt)	9,331.00	↓	-8.25%	↑	210.31%	↑	66.02%
Palm Oil (RM/tn)	4,069.00	↑	5.22%	↑	25.01%	↑	6.47%
Energy							
Brent Crude (US\$/bbl)	81.62	↓	-7.37%	↑	12.33%	↓	-0.11%
LNG (US\$/mmBtu)	11.91	↑	14.14%	↑	28.22%	↑	22.25%
Light Crude WTI Futures (US\$/bbl)	76.99	↓	-6.22%	↑	13.07%	↑	1.49%
Precious Metals							
Gold (US\$/oz)	2,345.80	↑	1.85%	↑	18.35%	↑	13.11%
Silver (US\$/oz)	30.44	↑	13.28%	↑	29.05%	↑	27.83%
Base Metals							
Copper (US\$/lb)	4.60	↑	0.82%	↑	26.53%	↑	16.69%
Iron Ore (US\$/mt)	108.19	↓	-0.40%	↑	9.45%	↓	-17.96%

Source: Bloomberg



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