

Monthly Report.

July 2024



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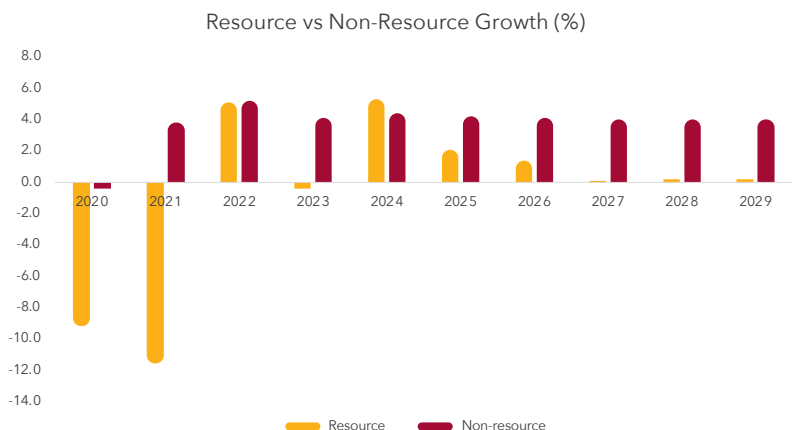
Monthly Highlights.

<p>IMF RELEASES US\$125M IN BUDGET SUPPORT</p>	<p>The IMF released US\$125m in budget support for the PNG Government. The Fund forecasts solid resource sector growth this year, but still warned of debt sustainability risks in the medium-term.</p>	<p>AUSSIE DOLLAR WEAKNESS HELPS PGK/AUD</p>	<p>The Aussie dollar depreciated during July against the USD, which meant a PGK/AUD cross-rate of 0.3980 to end July. Continued Aussie weakness has helped PGK/AUD importers in the midst of the Kina's depreciation over the past eight months.</p>
<p>CCP DIVESTS ITS BSP SHARES</p>	<p>Credit Corp divested 5 million of its BSP shares, effectively reducing its shareholding in BSP from 7.77% to 6.70%. The transaction was executed at a price of PGK17.50 per share.</p>	<p>KSL REPORTS STRONG PERFORMANCE</p>	<p>Kina Bank (PNGX: KSL) expects an NPAT within the range of PGK41.2m to PGK42.9m for its first half performance, driven by solid loan growth and digital platforms.</p>
<p>4.6% GROWTH FOR 2024</p>	<p>The reopening of Porgera Gold mine with strong gold prices has prompted the ADB and IMF to revise up their forecasts for 2024. The IMF projects 4.6% real GDP growth this year with resource sector GDP driving this growth with +5.3%.</p>	<p>T-BILL DEMAND SHOWS INVESTORS SEEKING HIGHER YIELDS</p>	<p>The 182-day and 273-day papers experienced oversubscription of 12.5% and 15% respectively, indicating increasing demand for shorter term papers as yield increases.</p>

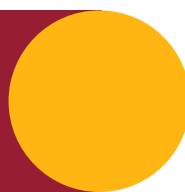
Market Commentary & Outlook.

IMF Budget support released

The IMF completed its second review of the current Staff Monitored Program in July, releasing another tranche of funding totalling US\$125 million. Under the IMF current facility, the PNG Government has now accessed US\$299 million in budget support. This financial assistance is conditional on a suite of structural reforms and quantitative fiscal and debt targets.



Source: IMF, KFM Economics



Market Commentary & Outlook cont.

IMF Economic Outlook bullish for this year

The IMF's recently revised projections are for PNG's resource sector GDP to grow by 5.3% in 2024 due to Porgera's re-opening, with the non-resource sector also robust at 4.4% despite the slow start to the year. Headline inflation is expected to continue to rise,

with the continued nominal currency depreciation. However, we expect some of the imported inflation effects to be softened should AUD weakness hold.

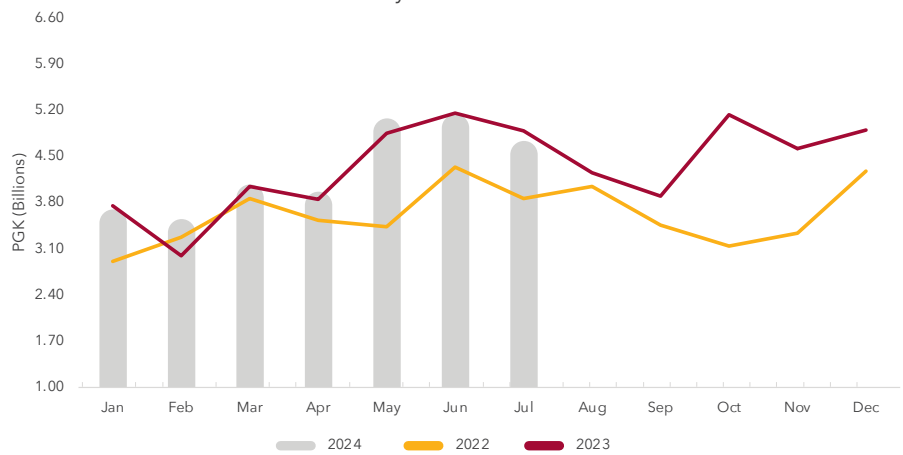
Despite its positive near-term outlook, the IMF was also very cautious on PNG's debt sustainability position, noting that the 'public and publicly guaranteed debt remains at high risk of debt distress'.

PGK FX Market.

The PGK/USD interbank rate dropped 16 basis points (-0.62%) during July to close out the month at 0.2584 (against our initial July forecast of 0.2580). We anticipate the nominal exchange rate to drop another 12 - 15 basis points per month to the end of this year. This continued depreciation is also helping to clear outstanding FX orders as some importers on the FX order books have had their waiting times lessened. Total market turnover was PGK5.2 billion for July - the third straight month of turnover exceeding PGK5 billion. The BPNG also continued its intervention program, purchasing PGK485 million worth of import orders. To date this year, BPNG's intervention into market is +13.1% higher y/y.

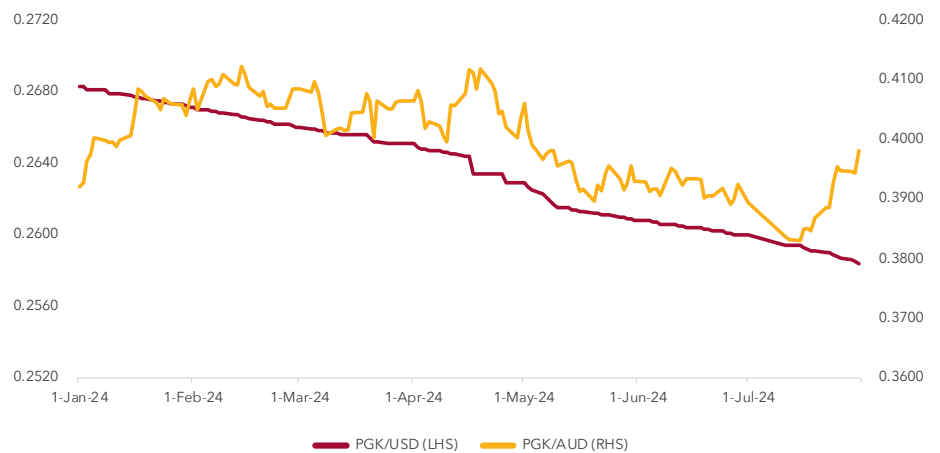
While the PGK/USD rate dropped to 0.2584 on the 31st of July with a forecast of 0.2569 by the end of August, the PGK/AUD cross-rate has continued to trade between 0.3800 and 0.3950. By the end of July, the PGK/AUD was trading at 0.3981 (+2.23%). This was due to a weaker Aussie dollar during August, which outweighed the Kina's own depreciation. The AUD/USD traded between 0.6500 to 0.6700 leading into June before closing at 0.6492 at the end of July. The AUD weakness has been a result of steady US economic data and China's economy still remaining flat.

Monthly FX Market Turnover

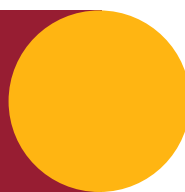


Source: Bank of PNG, KFM Economics

PGK/USD and PGK/AUD



Source: Bank of PNG, KFM Economics



PGK FX Market cont.

In the medium term, either weaker US data or a hike in Australian interest rates by the Reserve Bank of Australia could see the Aussie dollar (AUD/USD) edge up towards 0.6700 – 0.7000. This would in turn place downward pressure on the PGK/AUD cross-rate, which we anticipate could quickly move towards 0.3750 over the coming months depending on the AUD’s movements.

PNG Cash & Fixed Income.

Treasury Bill Demand Shows Investors Seeking Higher Yields

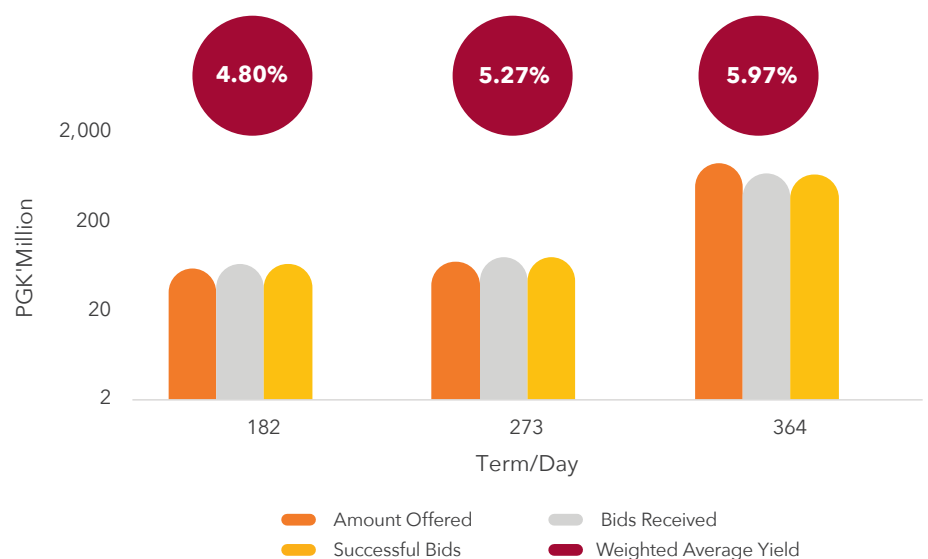
The domestic debt market’s auction for Treasury-bills (T-bills) in July saw oversubscriptions for both the 182-day and 273-day maturities, indicating that investors are looking to capitalize on higher short-term yields. The 182-day and 273-day papers experienced oversubscription of 12.50% and 15% respectively. We’ve observed investors’ interest in short-term papers gradually increase as yields have risen. The steady demand for shorter maturities coupled with growing demand for the longest tenor shows investors want to maximize returns from rising rates by allocating more funds to the Treasury bill market.

Yields on the 182-day, 273-day, and 364-day Treasury bills climbed to new yearly highs at month-end. Rates increased by 34 basis points (bps) to 4.80% on the 182-day paper, up 37bps to 5.27% on the 273-day bill, and up 43bps to 5.97% on the 1-year note. July’s T-bill auction was undersubscribed by PGK184.10 million overall, which is due to a -22.54% undersubscription of the 1-year bill. Total successful bids awarded in July came to PGK817.50 million, down -7.70% from the previous month’s amount raised.

Government Inscribed Stocks (GIS) Auction Sees Weak Demand in July

The Government’s GIS auction held in July experienced significantly weaker demand from investors compared to previous months. Only PGK11.15 million in bids were received for the PGK400million in GIS (bonds) on offer,

resulting in an undersubscription of PGK388.850 million - the largest shortfall seen so far in 2024. The market did not clear in July with all bids receiving an allocation. Of the total PGK11.15 million bid amount, only PGK2.15 million was awarded, with a 19% bid to cover ratio, underscoring a decline in appetite.



Source: Bank of PNG, KFM Economics

PNG Cash & Fixed Income cont.

Successful bids were concentrated solely in the 5 and 10 year maturities, consistent with expectations of higher yields. Both tenors saw pricing rise substantially. The 5-year paper increased by 101 basis points to 5.70%, while the 10-year paper rose 14 basis points to 6.90% versus last

month's auction results. Persistent undersubscriptions across auctions this year due to lackluster demand has led to total allocated amounts falling by about PGK1.4 billion short of the aggregate amount offered to investors to date. Weakness in the government bond market may continue if economic

conditions deteriorate further.

International Fixed Income.

Soft CPI data for June and a weakening labour market have heightened investor expectations for rate cuts by the US Fed in 2024 and 2025. This optimism boosted US Treasuries, which gained 2.20% over the month. The rally at the front end of the curve also caused the yield curve to steepen, with the spread between the 10-year and 2-year US Treasury yield reducing to its narrowest level since January 2024.

In Japan, the Bank of Japan continued to normalize monetary policy in July, raising its policy rate by 15 basis points to 0.25% and stating that it will reduce the pace of Japanese Government Bond (JGB) purchases by JPY 400 billion per quarter starting in August. Consequently, JGBs were flat over the month.

In the Eurozone, government bonds in the periphery continue to outperform core bonds as investors seek higher yields in anticipation of further European Central Bank interest rate cuts. Italian and Spanish sovereign bonds returned 2.80% and 2.30% over the month, respectively, with Italy maintaining its status as the top-performing major sovereign bond market year to date.

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.03%	↓	-0.09	↑	0.02	↑	0.03
United Kingdom	3.97%	↓	-0.05	↓	-0.08	↑	0.05
Australia	4.12%	↓	-0.05	↑	0.01	↑	0.03
New Zealand	4.34%	↓	-0.07	↓	-0.07	↓	-0.05
France	3.01%	↓	-0.09	↑	0.00	↑	0.12
Japan	1.06%	-	0.00	↑	0.73	↑	0.37

Source: Bloomberg, KFM Economics

International Equities.

Asia-Pacific

Chinese equity markets fell last month, due to continued challenges in the real estate sector and the spillover effects on the broader economy. The MSCI China Index fell by 1.20% in US dollar terms, while the Shanghai Composite closed the month lower at -0.97%. However, Chinese authorities implemented measures to provide liquidity support to the financial system, including cutting the reverse repo rate, a key short-term policy rate, and lowering the benchmark loan prime rate. These efforts aim to stimulate lending and support economic growth amid ongoing market challenges.

The Japanese TOPIX index underperformed last month, falling 0.50%, while the Nikkei also dropped by 1.22%. This decline partly reflected the weakness in global tech stocks, but returns were also pressured by a strengthening yen. Expectations of earlier Fed interest rate cuts, coupled with an interest rate hike from the Bank of Japan led to the yen appreciating by 6.5% against the US dollar, the strongest monthly move since June 2016.

North America

In the US, earnings season continued with four of the 'magnificent seven' reporting results for the previous quarter. Broadly, investors appeared underwhelmed by the releases, resulting in the tech sector coming under pressure for most of July before a rebound into month end. Overall, the S&P 500 gained 1.20% over the month.

Europe

UK stocks outperformed, with the FTSE rising by 2.47% during July. Robust service sector data in July with stronger than expected economic growth for the second quarter pointed to improving economic momentum.

The MSCI Europe ex-UK returned 0.60% over the month. Disappointing Purchasing Managers' Index (PMI) data, which indicated a slight tempering of eurozone economic growth over the summer, coupled with uncertainties around the French elections, likely contributed to the weakness.

	PRICE (USD)		MONTH		YOY		YTD
North America							
Dow Jones IA	40,842.79	↑	4.31%	↑	14.86%	↑	6.82%
S&P 500	5,522.30	↑	1.13%	↑	20.34%	↑	13.07%
NASDAQ	17,599.40	↓	-0.75%	↑	22.68%	↑	14.89%
Toronto S&P/TSX	23,110.81	↑	5.49%	↑	12.04%	↑	9.47%
Europe							
FTSE	8,367.98	↑	2.47%	↑	8.68%	↑	9.22%
DAX	18,508.65	↑	1.49%	↑	12.54%	↑	9.07%
CAC40	7,531.49	↑	0.69%	↑	0.45%	↓	-1.65%
Asia							
Nikkei	39,101.82	↓	-1.22%	↑	17.88%	↑	7.47%
Hang Seng Index	17,344.60	↓	-2.13%	↓	-13.62%	↑	11.34%
Shanghai Composite	2,938.75	↓	-0.97%	↓	-10.70%	↑	5.25%
Sensex	81,741.34	↑	3.37%	↑	22.87%	↑	13.03%
S&P/ASX 200	8,092.33	↑	4.10%	↑	9.20%	↑	5.22%

Source: Bloomberg, Reuters JP Morgan, KFM Economics



PNG Equities.

KSL reports strong growth YTD

Kina Securities Limited (PNGX/ASX: KSL) announced that it expects to report Net Profit After Tax (NPAT) for the first half of this year within the range of PGK41.2m to PGK42.9m, with a forecasted full year result within the range of PGK109.8m to PGK111.2m. The Bank attributed the solid half year results to a healthy growth in its loan portfolios and revenue from its digital channels as it continues its drive as a leader in PNG's digital banking space. This half-year announcement also took into consideration a fraud incident which translates to an expected loss of PGK6.6m - PGK8.3m (post-tax basis).

Credit Corporation Limited (PNGX: CCP) divests its shares in BSP

Credit Corporation (PNGX: CCP) reduced its shareholding in BSP Financial Group (PNGX: BSP/ASX: BFL), with the sale of 5 million shares sold at PGK17.50 (total of PGK85million). The sale reduces CCP's percentage of shares in BSP from 7.77% to 6.70%, with a total of 31.294 million voting shares after the change.

Newmont (PNGX: NEM) Q2 Report

Newmont (PNGX/ASX: NEM) announced its second quarter results for this year, declaring a dividend of \$0.25 per share. According to an official statement from CEO, Tom Palmer, it was "a solid second quarter, producing 2.1 million gold equivalent ounces and generating \$594 million in free cash flow". Heading into the second half of the year, the company "remains confident in meeting shareholder returns and the full year guidance".

Steamships (PNGX: STO) announces new Executive appointments

The Steamships Board confirmed Christopher Daniells' appointment as Managing Director and Rupert Bray's resignation from the Board took effect on 1 July 2024. Alessandro Mistrone's appointment as a director has also taken effect from 1 July 2024. Mr Alesandro's responsibilities include the role of finance director and company secretary, in place of Michael Scantlebury who retired from those roles at the end of June 2024.

	PRICE*		MONTH		YOY		YTD
PNG Stock Exchange (PNGX)							
Credit Corporation (CCP)	2.23	↑	3.19%	↑	10.95%	↑	10.89%
Santos Limited (STO)	19.60	↑	1.13%	↑	2.56%	↑	1.85%
BSP Financial Group Limited (BSP)	17.52	↑	0.11%	↑	36.34%	↑	15.53%
Newmont Corporation (NEM)	146.00	↑	0.69%	-	N/A	-	N/A
NGP Agmark Limited	0.75	↑	8.34%	-	N/A	-	N/A
Australian Securities Exchange (ASX)							
Kina Securities Ltd (KSL)	1.03	↑	10.21%	↑	28.75%	↑	18.04%
BSP Financial Group Ltd (BFL)	6.55	↑	1.54%	↑	23.58%	↑	7.94%
Santos Limited (STO)	7.99	↑	4.22%	↑	0.38%	↑	1.77%
PNG Market Indices							
KSi	6,541.08	↑	0.92%	↑	4.03%	↑	2.87%
KSHi	7,228.30	↑	2.60%	↑	10.39%	↑	10.18%

Source: PNGX, KFM Economics



Commodities.

Coffee Price Outlook

Coffee prices have soared to record highs recently due to supply constraints and rising demand. Vietnam, which produces 40% of the world's robusta coffee beans, has faced drought conditions that are likely to result in its smallest crop in 13 years. This has pushed robusta coffee futures prices up around double from a year ago. Arabica coffee prices have also hit their highest level in a decade. While coffee bean prices are a small part of the overall cost of a cup of coffee, consumers of instant coffee and coffee blends are feeling the impact sooner. In the long run, high coffee prices could incentivise more production. However, climate change poses risks to future coffee supplies. Around half the land suitable for growing arabica coffee could become unsuitable by 2050 due to rising temperatures. Researchers predict that coffee demand could outstrip supply by 35 million bags within two decades.

Oil

Asia's crude oil imports dropped to the lowest in two years in July as demand remained weak for top importer, China, and eased in number two, India.

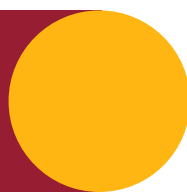
A total of 24.88 million barrels per day (bpd) arrived in July in Asia, the world's biggest oil importing region, down 6.1% from the previous month and the lowest on a daily basis since July 2022 according to data compiled by LSEG Oil Research. For the first seven months of the year, Asia's imports averaged 26.78 million bpd, down 340,000 bpd from the same period in 2023.

Food Prices

According to the World Bank's Pink Sheet, Agricultural prices changed little in July. Food prices increased almost 1%, as gains in edible oils and meals (+7.3%) were offset by losses in grains (-2.5%) and other food items (-2.7%). Beverage prices declined 1.8% while raw material prices inched up 0.8%.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	229.20	↑	0.11%	↑	39.20%	↑	16.65%
Cocoa (US\$/mt)	8,092.00	↑	4.59%	↑	128.07%	↑	51.77%
Palm Oil (RM/tn)	4,028.00	↑	1.30%	↑	6.22%	↑	5.46%
Energy							
Brent Crude (US\$/bbl)	80.72	↓	-6.81%	↓	-5.66%	↓	-1.22%
LNG (US\$/mmBtu)	12.53	↓	-0.87%	↑	14.70%	↑	27.33%
Light Crude WTI Futures (US\$/bbl)	77.91	↓	-4.55%	↓	-4.76%	↑	2.68%
Precious Metals							
Gold (US\$/oz)	2,473.00	↑	5.55%	↑	23.08%	↑	18.39%
Silver (US\$/oz)	28.94	↓	-2.13%	↑	15.88%	↑	22.77%
Base Metals							
Copper (US\$/lb)	4.18	↓	-5.02%	↑	4.20%	↑	6.99%
Iron Ore (US\$/mt)	93.82	↓	-7.63%	↓	-15.06%	↓	-32.21%

Source: Bloomberg, KFM Economics.



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