

Monthly Report.

August 2024



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Monthly Highlights.

KSI CLOSED -0.18% LOWER IN A QUIET MONTH

The PNGX had a quiet month with around 1 million units traded versus a 1.6 million monthly average for the first 7 months of 2024. The Kina Securities Index also closed -0.18% lower m/m with losses in Santos (STO) shares outweighing gains from bank stocks (BSP and KSL).

TREASURY BILL RATES REACH NEW YEAR HIGHS

Yield on the 1-year T-bill is now at 6.90%, which has increased by +94.37% since January this year.

Overall, T-bill rates have been rising faster than expected across all maturities.

GLOBAL SUPPLY FOR COCOA KEEPING PRICES HIGH

The International Cocoa Organization (ICCO) has estimated a "production deficit of 462,000 tonnes is forecast for the current cocoa season", which will keep global cocoa prices elevated. Cocoa prices increased 17.09% in August, and 68.86% for the year-to-date.

KSL REPORTS STRONG UNDERLYING NPAT IN H1

Kina Bank (PNGX: KSL) reported a +7% increase in its underlying NPAT for its first half results, driven by strong growth in its lending book and FX income. The Board declared an interim dividend of 11 toea per share (versus 10 toea p.c.p), with a dividend yield of 3.6%.*

BSP REPORTS +22% INCREASE IN NPAT

BSP Financial Group (PNGX: BSP | ASX: BFL) reported a +22% increase in NPAT, at PGK520.5 million compared to p.c.p. This includes a PGK95 million tax refund from the Government. The BSP Board declared an interim dividend of 45 toea per share (versus 37 toea in p.c.p).

POSSIBLE US RATE CUTS LEAD TO WEAKER PGK/ AUD

The Aussie dollar (AUD/USD) appreciated by +4.82% during August, leading to a PGK/AUD cross-rate depreciation of 5.22% during August. The direction of the Aussie dollar comes in the wake of news of possible interest rate cuts in the US, which would make AUD assets more attractive relative to the US. This will be a cause for concern for PGK/AUD importers in the coming months.

Market Commentary.

More Uncertainty on Papua LNG

PNG businesses continue to be in a "holding pattern" as uncertainty on the much-anticipated start-date for the Total Energies-led Papua LNG project continues to be pushed back. The project is currently in its Front-End Engineering Design (FEED) stage. Following an announcement by project participant, Santos (22.8% interest), that agreement for commercially viable Engineering, Procurement and Construction contracts are being worked on with an "expected

Final Investment Decision (FID) in 2025", the PNG Government's nominee, Kumul Petroleum Holdings Limited (KPHL), announced in August during a Business Conference that this FID date could actually be pushed back to 2026, signalling a further delay. The continued delay is expected to place more strain on the general economic sentiment with the projected FX flows for the construction phase needed to stimulate business activity. The Papua LNG project

has 936 mmboe in recoverable reserves with an expected Capital Expenditure of US\$15 billion. Other Joint Venture partners besides Santos include Total Energies (40.1% and operator) and ExxonMobil (37.1%). The State (through its nominee, KPHL) may exercise a back-in right up to 22.5%.

The ICCC proposes Price Controls

The pricing and competition regulator, the Independent Consumer and

Market Commentary cont.

Competition Commission (ICCC), has proposed to have “unilateral price-setting powers” through proposed amendments to the Prices Regulation Act. In its Public Consultation Paper, the ICCC stated that this proposed approach is to “prevent businesses with market power from charging monopoly prices” to combat the current cost of living pressures. The proposed amendments include that the ICCC may (without consultation) unilaterally “decide the maximum percentage margins, or the maximum selling prices, to apply to goods and services” to any goods or services. While this proposal by the ICCC to target ‘price gouging’ may have good intentions, there is also a risk that such policies in the long-run will have detrimental consequences for the economy in our opinion. Such policies have tended to lead to “black markets” for goods which can be unregulated and lead to risky health outcomes (especially

for foods and medicines). Furthermore, in the long-run, this policy may deter any incentive to invest in markets and stifle long-term productivity and growth for the PNG economy. The Commission is inviting comments before the 11th of September.

Key policies during September

BPNG is set to release its next Monetary Policy Statement at the end of September. Below is a summary of key indicators from the March MPS to provide some guidance for the upcoming MPS.

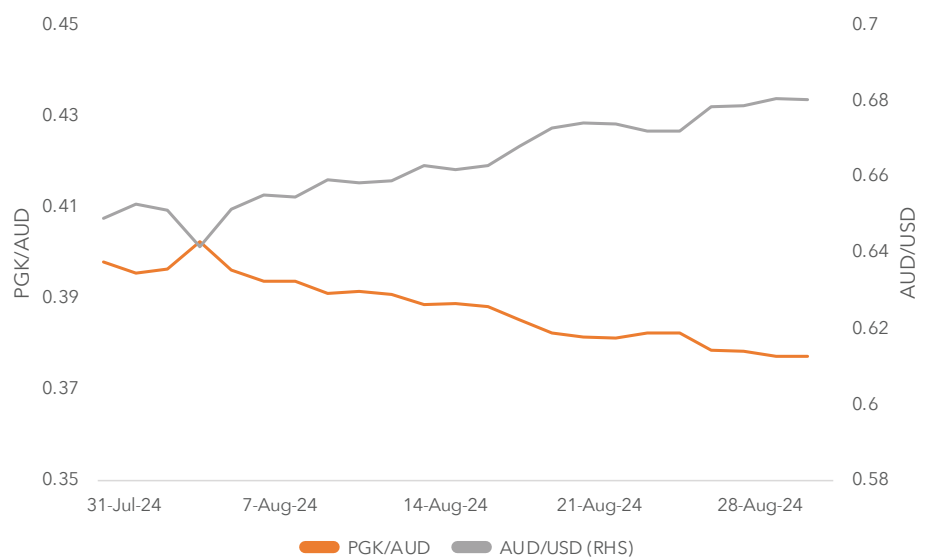
	2021	2022	2023	2024
Real Domestic GDP (annual % growth)				
Total GDP	-0.80	5.20	2.70	3.00
Non-mineral GDP	3.80	5.20	4.50	2.10
Total Employment	1.60	5.00	2.50	-
Non-mineral Employment	-0.30	5.40	1.70	-
Headline Inflation (%)				
	5.7	3.4	3.9	5.0
Gross International Reserves (PGK'm)				
	11,368.70	14,225.90	14,424.80	14,587.20
Import Cover (months)				
Total	5.4	7.4	12.8	7.3
Non-mineral	8.4	15.1	30.2	13.3

Source: Bank of PNG

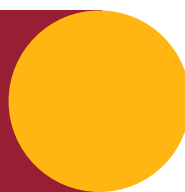
PGK FX Market.

The PGK/USD interbank rate dropped 17 basis points (-0.66%) in August to close out the month at 0.2567. At the end of August, the interbank rate has depreciated by 4.32% at an average of 15 basis points per month so far in 2024. The PGK/AUD cross-rate was also affected during August off the back of weaker US data, which led to relative Aussie dollar strength. From the 5th of August, we saw the AUD/USD slowly pick up from 0.6400 to close the month at 0.6805, a +4.82% appreciation during August.

AUD strength drives down PGK/AUD cross-rate



Source: Bank of PNG, KFM Economics Calculations



PGK FX Market cont.

This AUD/USD direction meant a PGK/AUD cross-rate depreciation of 5.22% during August, with the PGK/AUD cross-rate now below 0.3800 to close out the month at 0.3773.

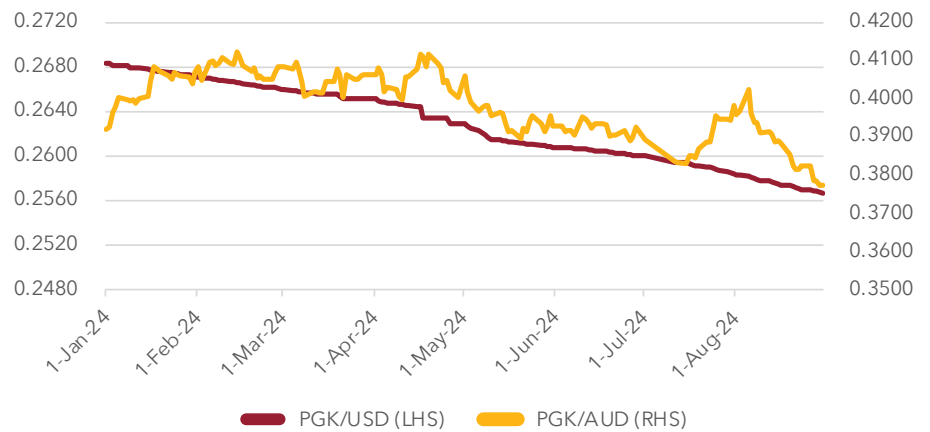
After breaking the PGK5 billion turnover mark for 3 straight months between May to July, August was much quieter with total activity turnover down -13.31% m/m. The BPNG also intervened with buying PGK 710m (selling US dollars) from the market to help with clearing out import orders.

In terms of the immediate outlook, the month of September has been a relatively quiet month over the past 2 years (averaging -12.92% lower m/m), before picking up again in the final quarter of the year.

PGK/USD forecast to end of this year

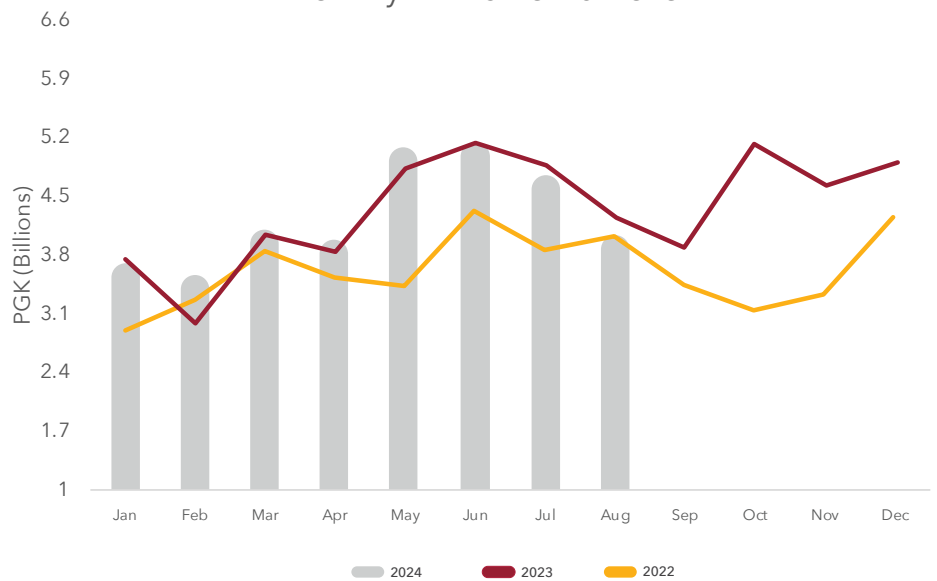
Based on recent historical data and monthly turnover figures, we estimate an average devaluation of between 15-20 basis points per month; another 2.42% depreciation from this month onwards by the end of this year, to sub-0.2500 in the New Year if the rate of devaluation continues.

PGK/USD and PGK/AUD



Source: Bank of PNG, KFM Economics Calculations

Monthly FX Market Turnover



Source: Bank of PNG, KFM Economics Calculations

Actual				Forecast	
Jan-24	Mar-24	Jun-24	Aug-24	Sep-24	Dec-24
0.2671	0.2651	0.2600	0.2567	0.2545	0.2505



PNG Cash & Fixed Income.

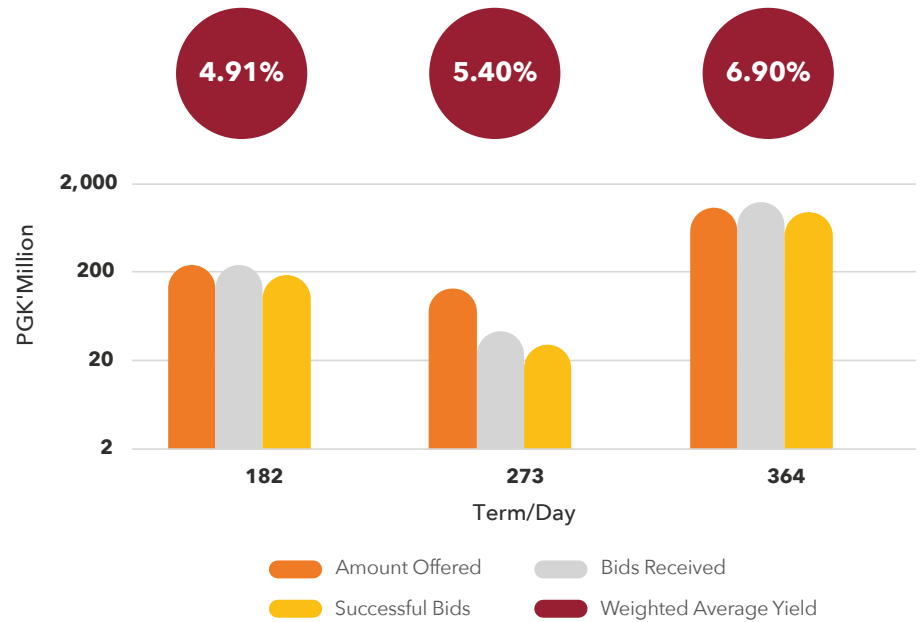
Treasury Bills (T-bills) reach highs not seen since 2022

The yield on the 1-year T-bill increased for the sixth month in a row in August 2024, rising from 6.37% at the beginning of the month to 6.90% by month-end, an increase of +8.32%. Generally, yields have increased across all T-bills faster than expected, with the 1-year yield up +94.37% since January 2024.

It has been observed that there may be efforts to generate higher demand for Government Securities by raising rates. On the investor side, some market participants appear to be waiting for rates to reach their peak before increasing purchases of Treasury Bills.

This dynamic indicates the current environment favors investors, as evidenced by auction results in recent months. While August auctions for T-bills saw an oversubscription of 6.41%, with PGK1.51 billion in total bids, only 31.37% of those bids were successful. The Department of Treasury raised a total of PGK1.156 billion for the month, up +41.41% from the amount raised in July (m/m), but only slightly higher by +0.51% compared to August 2023 (y/y).

Overall, T-bill rates have been rising faster than expected across all maturities. Auction results signal investors presently have more negotiating power in the market. The trajectory of rates



Source: Bank of PNG, KFM Economics Calculations

going forward will likely depend on the actions of investors, market sentiment, and political stability.

Auctions for Government Inscribed Stocks (GIS) canceled for August

The story for Government Bonds or GIS was not the same as with T-bills. The Department of Treasury directed the cancellation of GIS auctions scheduled for August. Market participants were

notified of this decision via a letter on Wednesday 14th August, with limited details regarding the rationale for cancelling the auctions. However, demand for GIS has exhibited a declining trend in recent months despite rising interest rates. Market observers infer that investors may be more cautious towards longer-dated securities, likely due to perceived credit risk factors.



International Cash & Fixed Income.

August was a good month for international bond investors. Prices for Government Bonds increased, which caused bond yields to drop sharply. However, some investors on Wall Street are worried that bond prices may have grown too fast too soon, and bonds could face problems going forward.

The yield on the benchmark 10-year U.S Treasury note fell by 30 percentage points by the end of August. This was driven by expectations that Central Banks will cut interest rates more aggressively. However, the economic data so far this year doesn't really show the economy slowing down all that much to justify such big bets on rate cuts. Some think bonds are "back" after last year's poor performance, but others argue the recent price gains in bonds may be overdone given sticky inflation in the U.S. Investors now face some important tests that could cause bond prices to fall back down.

In the radar now is the next jobs report from the U.S. Government which will

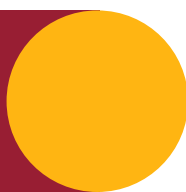
10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	3.90%	↓	-0.03	↓	-0.05	-	0.00
United Kingdom	4.02%	↑	0.01	↓	-0.08	↑	0.06
Australia	3.97%	↓	-0.04	↓	-0.01	↓	-0.01
New Zealand	4.27%	↓	-0.02	↓	-0.12	↓	-0.07
France	3.03%	-	0.00	↑	0.01	↑	0.13
Japan	0.90%	↓	-0.16	↑	0.38	↑	0.20

Source: Bloomberg

provide more clues about how strong the U.S economy is, and whether rates need to be cut. Also in the mix is the tight race for the U.S Presidential elections, which is creating uncertainty since different outcomes from the election could impact how much the U.S Government spends and what happens with inflation. A Trump victory might push longer-term bond prices down more because it could lead to both higher spending and higher inflation.

In summary, while government bonds have had a nice summer, some on Wall Street remain skeptical of the recent price gains and warn that inflation is still a risk. The bond market now has to deal with important upcoming economic reports and the looming U.S. Presidential election, which could challenge the upward momentum for bonds seen over the past few months.

Source: Bloomberg, Reuters and JP Morgan



International Equities.

North America

Stock markets in North America closed broadly higher in August, recouping most of the points lost in a sell-off earlier in the month. This resulted after favourable inflation data, retail sales reports and Jerome Powell's dovish comments about policy rates at the Jackson Hole symposium reignited hopes for rate cuts, boosting investors' appetite for risky assets. All major equity indices posted strong gains: Dow Jones + 1.75%, S&P 500 +2.26%, Nasdaq +0.65%, and Toronto S&P/TSX +1.01%.

Europe

European stock markets also rose in August, mirroring a recovery from their peers in the U.S, as investors cheered on the upbeat risk sentiment across the Atlantic. Positive domestic economic data, including British retail sales and inflation data from Germany and Spain, also uplifted investors' moods. Germany's DAX rose +2.13%, France's CAC40 gained +1.31%, and London's FTSE 100 inched +0.10% higher.

	PRICE (USD)		MONTH		YOY		YTD
North America							
Dow Jones IA	41,563.08	↑	1.75%	↑	19.70%	↑	8.57%
S&P 500	5,648.40	↑	2.26%	↑	25.31%	↑	15.33%
NASDAQ	17,713.63	↑	0.65%	↑	26.21%	↑	15.54%
Toronto S&P/TSX	23,346.18	↑	1.01%	↑	15.05%	↑	10.49%
Europe							
FTSE	8,376.63	↑	0.10%	↑	12.60%	↑	9.33%
DAX	18,906.92	↑	2.13%	↑	18.56%	↑	11.20%
CAC40	7,630.95	↑	1.31%	↑	4.29%	↓	-0.34%
Asia							
Nikkei	38,647.75	↓	-1.17%	↑	18.48%	↑	6.30%
Hang Seng Index	17,989.07	↑	3.65%	↓	-2.14%	↑	14.99%
Shanghai Composite	2,842.21	↓	-3.34%	↓	-8.90%	↑	1.91%
Sensex	82,365.77	↑	0.76%	↑	27.05%	↑	13.80%
S&P/ASX 200	8,091.85	↓	-0.01%	↑	10.77%	↑	5.21%

Source: Bloomberg

Asia-Pacific

In Asia-Pacific, stock markets closed mixed as investors struggled amidst a number of macro-economic factors including the Bank of Japan's decision to hike rates, ongoing concerns about China's economic growth

and the changing global monetary policy environment. China's Shanghai Composite fell -3.34%, Japanese Nikkei dropped -1.17%, while Hong Kong's Hang Seng index posted a +3.65% return.

PNG Equities.

Half-Year Results

In August, a number of PNGX-listed companies released their 2024 first-half financial results, including the two major commercial banks: BSP Financial Group Limited (PNGX: BSP | ASX: BFL) and Kina Securities Limited (PNGX/ASX: KSL).

Financial Sector

BSP: NPAT grew by +22% to PGK520.5 million, compared to the prior corresponding period (p.c.p) in 2023. This included a PGK95 million 'Additional Company Tax' refund (one-

off) from the Government. The Board declared an interim dividend of 45 toea per share (versus 37 toea in p.c.p), with a dividend yield of 2.6%*.

KSL: Statutory NPAT dropped -9% to PGK42.2 million from p.c.p, largely due to provisioning for a fraud incident which was reported to the market in Q2 (loss provision of PGK13.5 million). However, the group achieved a +7% increase in underlying NPAT, at PGK49.6 million, driven by strong growth in commercial loans, FX, and fees and commission

income from digital channels. The Board declared an interim dividend of 11 toea per share (versus 10 toea p.c.p), with a dividend yield of 3.6%*.

Other sectors

Santos Limited (PNGX/ASX: STO): NPAT declined -19% to US\$636 million from p.c.p, with sales revenue falling due to lower production volumes and lower LNG prices. On the upside, the company declared a 49% increase in its interim dividend at 19 U.S cents (unfranked) per share: a 2.5%* dividend yield.

PNG Equities cont.

Steamships Trading Company Limited (PNGX/ASX:SST): Unaudited NPAT and minority interest increased +4.3% to PGK25.3 million, from PGK24.2 million (p.c.p), with revenue from ordinary operations rising +7% off the back of strong growth in its property and logistics divisions. SST proposed an interim dividend of 40 toea per share (subject to Board's approval).

CCP launches new name and brand

Credit Corporation PNG Limited (PNGX: CCP) launched a new name and brand, CreditBank PNG, for its subsidiary, Credit Corporation Finance Limited, after CCP received its commercial banking license from BPNG. The launching was in line with the implementation of the Group's new core banking system, internet banking and mobile application. The company Chair, Dr. Albert Mellam said, "We are excited to unveil our new brand and logo which exemplifies our promise to provide a better banking experience to the people of PNG and fill a gap in the market for commercial business customers, SMEs (small/medium enterprises), high net worth individuals and the emerging affluent."

New Appointments

During the month, City Pharmacy Group Limited (PNGX: CPL) appointed a new Executive Director, Mr. Kim Lim, to the CPL Group Board. Mr. Lim's role to the company will be in various capacities, including an advisor to the Board.

Credit Corporation (PNGX: CCP) also announced the appointment of Lady Winifred Kamit as the new Chairperson of the Group's Board, following the retirement of Dr. Albert Mellam. The appointment took effect on 30th August 2024.

PGK'million	NPAT	Change	EPS	DPS
BSP	520	22%	1.11	0.45
KSL	42.2	-9%	0.15	0.11
SST	25.3	4.3%	0.82	0.40
\$'million		U.S cents		
STO	636	-19%	0.20	0.13

Earnings per share (EPS), Dividend per share (DPS) *calculated based on the closing price as at 28 June 2024

	PRICE*	MONTH	YOY	YTD	
PNG Stock Exchange (PNGX)		PGK			
Credit Corporation (CCP)	2.50	↑ 11.43%	↑ 21.95%	↑ 22.31%	
Santos Limited (STO)	19.51	↓ -0.46%	↑ 2.09%	↑ 1.39%	
BSP Financial Group Limited (BSP)	17.54	↑ 0.11%	↑ 33.49%	↑ 15.64%	
Kina Securities Ltd (KSL)	3.09	↑ 1.30%	↑ 21.18%	↑ 13.49%	
Kina Asset Management Limited (KAM)	1.30	↑ 3.92%	↑ 44.44%	↑ 36.77%	
Australian Securities Exchange (ASX)		AUD			
Kina Securities Ltd (KSL)	1.03	↑ -0.49%	↑ 23.49%	↑ 17.55%	
BSP Financial Group Ltd (BFL)	6.37	↑ -2.79%	↑ 15.82%	↑ 5.15%	
Santos Limited (STO)	7.22	↑ -10.13%	↓ -5.87%	↓ -8.37%	

Source: PNGX, Bloomberg

PNG Market Indices				
KSi	6,529.35	↓ -0.18%	↑ 3.71%	↑ 2.69%
KSHi	18,786.25	↑ 8.66%	↑ 18.67%	↑ 18.83%

Source: KFM Calculation

PNGX movement

The Kina Securities index (KSi), a measure of the PNG stock market (PNGX), closed -0.18% lower from the previous month's level as losses in Santos stocks outweighed gains from investment and financial stocks (BSP and KSL). In terms of volume, about 1 million units were traded during the month, compared to an average of about 1.6 million units traded over the past 7 months. In the next couple of months, we are expecting to see more movement in the market, as corporate earnings season continues.

Commodities.

Agriculture

Cocoa prices were the major performer in August, enjoying another strong month this year finishing August up +17.09%. According to the International Cocoa Organisation (ICCO), "global supply remains low with factors including adverse weather conditions, aged trees, pests and diseases affecting production in major cocoa growing areas during the season". The ICCO estimates a production deficit of 462,000 tonnes is forecast for the current season, resulting in a 45-year low stocks-to-grindings ratio of 27.9%. Coffee prices also finished the month strongly, up +9.40%.

Energy

Spot LNG prices rose to over US\$14/mmBtu in mid-August from around US\$12/mmBtu in mid-July, driven by escalating geopolitical risks amid worsening situations in the Middle East and Europe, according to S&P Global. This was the highest level since the beginning of this year. However, forecasted weakening of demand in Asia may push the price below US\$13/mmBtu in the near term.

Precious Metals

Gold prices posted a 3.47% gain during the month as prices rallied on the back of uncertainty of inflation figures in the US. Possible US interest rate cuts by the Federal Reserve saw increased demand of the precious metal which is seen as a 'safe-haven' asset by investors. Gold prices have risen by over 60% since the start of 2020, however, most of that increase has been driven this year with the increased expectation of rate cuts by the US Fed.

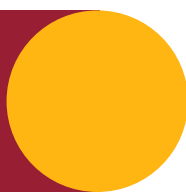
	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	251.80	↑	9.40%	↑	64.90%	↑	26.05%
Cocoa (US\$/mt)	9,600.00	↑	17.09%	↑	166.52%	↑	68.86%
Palm Oil (RM/tn)	4,047.00	↑	0.47%	↑	4.84%	↑	5.93%
Energy							
Brent Crude (US\$/bbl)	79.94	↓	-0.97%	↓	-7.97%	↓	-2.19%
LNG (US\$/mmBtu)	14.01	↑	11.20%	↑	6.14%	↑	38.53%
Light Crude WTI Futures (US\$/bbl)	75.91	↓	-2.60%	↓	-9.23%	↑	0.08%
Precious Metals							
Gold (US\$/oz)	2,560.30	↑	3.47%	↑	30.24%	↑	21.86%
Silver (US\$/oz)	29.99	↑	3.57%	↑	20.86%	↑	26.34%
Base Metals							
Copper (US\$/lb)	4.22	↑	1.10%	↑	10.48%	↑	8.09%
Iron Ore (US\$/mt)	94.96	↑	1.21%	↓	-13.55%	↓	-31.00%

Source: Bloomberg

Spot gold price in USD per oz



Source: LSEG



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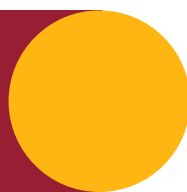
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