

Monthly Report.

September 2024



kinabank

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Monthly Highlights.

CCP REPORTS +147% GROWTH IN NPAT

Credit Corporation reported an NPAT of PGK183.6 million, a +147% increase on its NPAT y/y. This spike was attributed to income growth across CCP's core activities, in particular for finance business. The CCP Board declared a 12 toea interim dividend, with an annualized dividend yield of 11.1%.

PNGX UP +0.86% IN SEPTEMBER

The local stock market finished higher in September, with the Kina Securities Index rising +0.86% amidst the half-year earnings season. Total volume exchange during the month was 1.8 million units, compared to an average of 1.2 million units traded over the previous two months.

PGK/USD DROPS 14 BPS

The interbank rate dropped by 14 bps to close September at 0.2552. This represents a -4.88% drop year-to-date. We estimate the rate to close the year at 0.2510, a further 1.65% drop.

GOLD HIT HISTORICAL HIGHS

Gold prices hit historical highs in September, fuelled by robust demand, as uncertainty around the global economic outlook promoted the safe-haven demand for the bullion. In addition, Fed's interest rate cut also supported the case for gold.

TREASURY BILL YIELDS SET NEW YEARLY HIGHS

Rates for Treasury bills reached 5.48% (182-day), 5.90% (273-day), and 7.31% (1-year), setting new yearly highs.

PGK583 MILLION IN GIS UNDER- SUBSCRIPTIONS

Government Inscribed Stocks (GIS) were undersubscribed by PGK583 million in September. The sixth month of undersubscriptions and the highest so far in Kina value.

Market Commentary.

FX market activity has been improving

Heading into the final quarter of 2024, the PGK/USD interbank rate has continued its downward trend. But has the situation improved in terms of currency availability for businesses? We have observed that the import order book of 'essential items' (the Bank of PNG terms 'essential items' as goods for trade) has actually decreased over the past year for some dealers. This could be the case for others (if not most) FX dealers – because now the Bank of PNG has started to allow 'non-essential' goods to be also included on the import order book. And waiting times to have improved. From orders that would've taken months over a year ago, it now takes at most 4 – 6 weeks to fill.

So, has the access to currency improved? Yes. Is it perfect and back to the way it was before? No. Realistically, it will take some time for us to go back to a liberalised FX system (where market participants decide the price). Do note that even after 1994 when the currency was floated, it was a "managed" float (meaning the Central Bank did intervene when it had to). As the economy navigates through the transition period for the currency (from a fixed to 'crawling pegged' regime), the next question is where the 'floor' of this currency adjustment will be. Judging by the reduced waiting times for currency, this could be not far off.

China's economic stimulus program impacts global markets

The Chinese economy has been struggling (by its own standards). The Chinese Government has a strong view on achieving economic growth of around 5% this year. However, China's economy this year has been reportedly slowing, with 'excess supply' of properties placing a strain on its massive mortgage markets. To address this issue, Chinese authorities kicked off an 'economic stimulus' program in September to boost lending and drive 'consumer-led' growth. This suite of reforms includes an announcement to lower the reserve requirement ratio for China's commercial banks by 50 basis points – which will effectively release around 1 trillion yuan (circa US\$140 billion) in long-term liquidity into the country's financial markets.

In addition to the monetary easing stance, the Government also announced that it will issue special bonds raise financing to increase direct subsidies to households. Following the announcements, equity markets in China and Hong Kong, followed by gains in major commodities such as iron ore and coal which China is a major importer. This led to the Aussie dollar strengthening, with the AUD/USD jumping from 0.6800 to 0.6950. This continued appreciation in the Aussie dollar (driven by Chinese demand, and weaker U.S. data) will drive the PGK/AUD cross-rate below 0.3700.

Fuel Pricing Review

The Independent Consumer & Competition Commission (ICCC) has commenced a pricing review of the current regulated price frameworks of fuel products in the country.

Under the Price Regulation Act, the ICCC is responsible for determining the maximum retail fuel price that can be charged to consumers. The ICCC carries out these reviews in consultation with all relevant stakeholders in the fuel supply chain to calculate an appropriate price model for both suppliers and consumers. These reviews are normally undertaken every 5 years, with the last review done in 2019. The current process undertaken by the ICCC is expected to finalise the new price determinations by the end of this year, so they become effective on 1st January 2025.

Source: Bank of PNG, KFM Economics Calculations



PGK FX Market.

BPNG continued its strong support to the market, by buying over PGK630m from the local market and supplying US dollars to fill import orders. This rounds off a strong quarter of major interventions by the Central Bank to help fill import orders which has led to wait times drastically improving for many businesses.

PGK/USD

The PGK/USD closed the month at 0.2552. This is a drop of 14 basis points (bps) or -0.55% during September. This represents a -4.88% drop year-to-date, moving at an average of -15 bps per month in 2024. We estimate a further 1.65% change in the interbank rate by the end of this year, with a forecast of 0.2510 by December given the current movement rate.

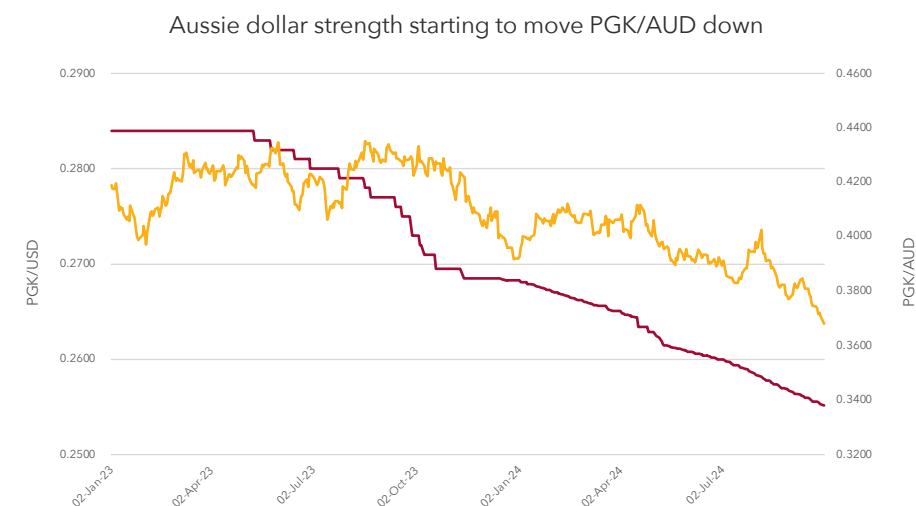
AUD/USD

After a slight dip during the first week of September due to solid US data figures, the Aussie dollar began a steady climb by mid-month, with news of a Chinese Government stimulus package lending to higher commodity prices and a stronger demand for the AUD. The AUD/USD tested 0.6900 by the months end and looks set to break above 0.7000 and on to 0.7200 during October with continued strength in major commodity prices such as iron ore which China demands from Australia.

Strength in the Aussie dollar during September meant that the PGK/AUD cross-rate fell below 0.3600 for the first time this year. After remaining stubbornly above 0.3700 this year, the PGK/AUD ended the month at 0.3680 once the AUD/USD started to strengthen to 0.7000 at the end of the month.



Source: BPNG



Source: BPNG

PNG Fixed Income.

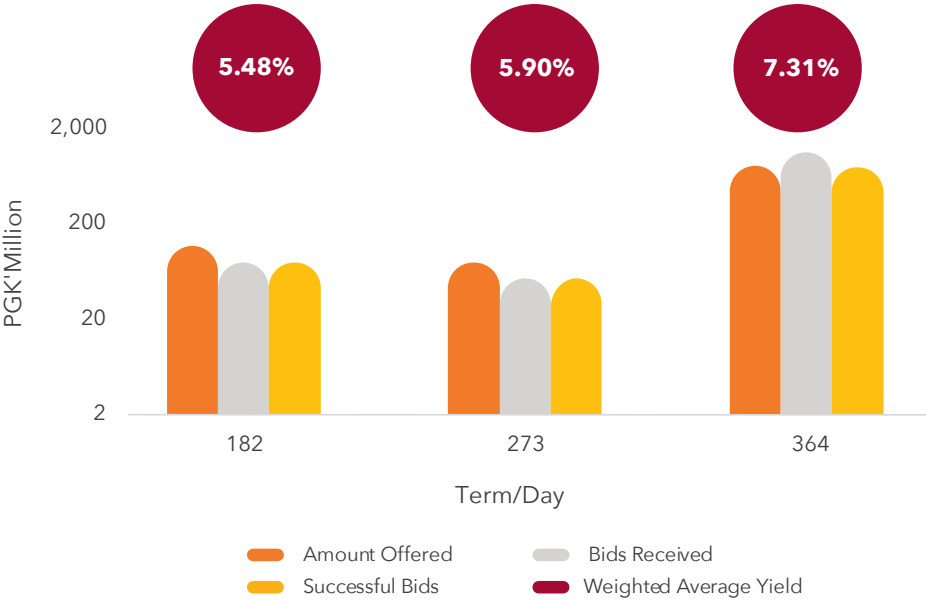
Treasury bill yields set new yearly highs

The month of September saw rising yields on Treasury bills (T-bills) continue their upward trend, as the government worked to raise funds. Overall successful bid rates remained high, reaching 100% several times during the month, as investors showed strong demand. However, undersubscriptions in the later weeks also showed the market maintaining its discipline.

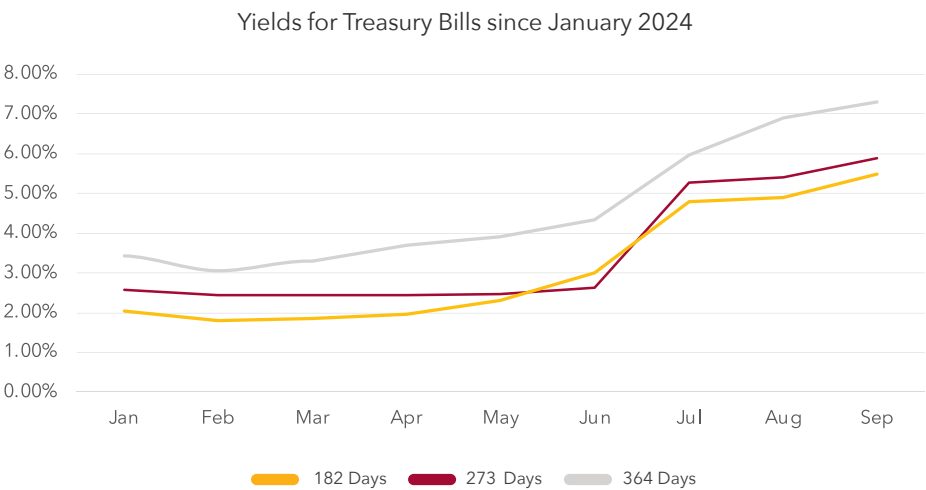
In early September, rates on the 182, 273, and 364-day T-bills reached yearly highs of 4.99%, 5.50%, and 7.02% respectively. Successful bidding was 100%, indicating investors were well-calibrated to the central bank's acceptable rate ranges. Later auctions saw undersubscriptions but rates continued climbing, with the 364-day T-bill reaching 7.10%.

While demand weakened mid-month, with undersubscriptions across all tenors, rates remained on the rise. The central bank continued rejecting excessive bids to avoid market distortions. By month-end, rates had reached 5.48% (182-day), 5.90% (273-day), and 7.31% (1-year), setting new yearly highs. Successful bidding was again 100% despite undersubscriptions.

In total, around K1.15 billion was raised through T-bills in September. The bills were oversubscribed by 6.35% overall, led by the 1-year T-bill. However, this was a slight decline from August's oversubscription level. Successful bids remained below the total amount offered, allowing for potential further rate increases going forward.



| Term Days | 182 | 273 | 364 | Total |
|------------------------|--------|-------|----------|----------|
| Weighted Average Yield | 5.48% | 5.90% | 7.31% | |
| Amount Offered | 100.00 | 80.00 | 963.08 | 1,143.08 |
| Bids Received | 81.12 | 67.00 | 1,067.51 | 1,215.63 |
| Successful Bids | 81.12 | 67.00 | 1,002.51 | 1,150.63 |



PNG Fixed Income cont.

GIS Auction for September Undersubscribed

Government bonds, also known as Government Inscribed Stocks (GIS), were undersubscribed by PGK583 million in September's auction, marking the sixth consecutive month of undersubscriptions.

This was the highest undersubscription in Kina value seen so far this year. The auction offered PGK800 million in GIS, which was PGK650 million more than the planned issuance of PGK150 million to make up for the cancelled auction last month.

Total bids received amounted to just PGK217 million, with successful placements of PGK135 million - a success rate of only 62%, the second lowest rate year-to-date.

This indicates investors' appetite for longer-term PNG government securities continues to wane despite higher rates offered across maturities.

| | Planned Issuance Amount | Amount Offered | Bids Received | Successful Bids | Over/Under Subscription | Success Rate (1%) |
|-----------|-------------------------|----------------|---------------|-----------------|-------------------------|-------------------|
| February | 800.00 | 800.00 | 872.10 | 782.10 | 72.10 | 90% |
| March | 800.00 | 800.00 | 655.70 | 640.70 | 144.30 | 98% |
| April | 700.00 | 700.00 | 499.70 | 434.70 | 200.30 | 87% |
| May | 600.00 | 600.00 | 512.46 | 422.46 | 87.54 | 82% |
| June | 500.00 | 500.00 | 130.50 | 130.50 | 369.50 | 100% |
| July | 300.00 | 400.00 | 11.15 | 2.15 | 388.85 | 19% |
| August | 200.00 | - | - | - | - | - |
| September | 150.00 | 800.00 | 217.00 | 135.00 | 583.00 | 62% |
| October | 150.00 | - | - | - | - | - |
| November | 100.90 | - | - | - | - | - |
| | 4,300.90 | 4,600.00 | 2,898.61 | 2,547.61 | 1,701.39 | |

Persistently low demand and undersubscriptions throughout the year have led to net capital losses for the issuer, the Central Bank.

To attract more interest from investors in upcoming auctions, rates may need to be increased further. The lack of placements poses challenges for PNG's fiscal management and funding needs.

International Cash & Fixed Income.

US

The US Federal Reserve voted to lower interest rates by half a percentage point, bringing the federal funds rate down to a range of 4.75% - 5%. Fed Chair Jerome Powell stated this this substantial rate cut was a "recalibration" of its monetary policy, rather than a reactionary stance. Many investors interpreted move by the Fed as a sign that it is committed to establishing a new "neutral" stance without necessarily being compelled by a weakening economy. The 10-year US Treasury yields rose modestly ending the month higher at 3.75%. The 30-year yield rose 2 bps to 4.11%, and the 2-year decreased 3 bps to 3.56% - steepening the yield curve.

| 10 Year Government Bond Yields | | | | | | | |
|--------------------------------|-------|---|-------|---|-------|---|-------|
| COUNTRY | YIELD | | MOM | | YOY | | YTD |
| United States | 3.78% | ↓ | -0.03 | ↓ | -0.17 | ↓ | -0.03 |
| United Kingdom | 4.00% | - | 0.00 | ↓ | -0.10 | ↑ | 0.05 |
| Australia | 3.97% | - | 0.00 | ↓ | -0.11 | ↓ | -0.01 |
| New Zealand | 4.24% | ↓ | -0.01 | ↓ | -0.20 | ↓ | -0.07 |
| France | 2.92% | ↓ | -0.04 | ↓ | -0.14 | ↑ | 0.09 |
| Japan | 0.86% | ↓ | -0.04 | ↑ | 0.13 | ↑ | 0.16 |

Source: Bloomberg

International Cash & Fixed Income cont.

Europe

The European Central Bank (ECB) cut its benchmark interest rate by a quarter percentage point to 3.5%.

ECB President Christine Lagarde stated that the decision to lower the deposit rate for the second time this year was

made unanimously, with Eurozone inflation slowing to a 3-year low of 2.2% in August, down from 2.6% in July. Concerns about a slowing Eurozone economy have grown, particularly in light of declining industrial output in Germany and Italy.

International Equities.

North America

Despite a shaky start to September, all major equity indices managed to close out the month with more than +1% return, shrugging off concerns raised by disappointing manufacturing and jobs opening reports earlier in the month. The equity rally was backed by a string of disappointing economic data (retail sales and jobs opening) that promoted the case for the US Federal Reserve (Fed) to cut its interest rate by 50 bps, boosting the demand for risky assets. In the US, the Dow Jones was up +1.83%, the S&P 500 gained +2% and the Nasdaq added +2.65%, while Canada's Toronto S&P/TSX logged a +2.76% return.

Europe

Europe's top equity indices suffered losses earlier in the month as disappointing US economic reports rattled global market sentiment. On the upside, European Central bank's 25 bps interest rate cut provided a much-needed breather for equities, particularly the technology stocks. Optimism over China's economic stimulus and improved consumer index report from the region's largest economy, Germany, later in the month intensified appetite for equities.

Germany's DAX rose +2.19%, the French CAC40 climbed +0.06% and UK's FTSE fell -1.68%.

| | PRICE (USD) | | MONTH | | YOY | | YTD |
|----------------------|-------------|---|--------|---|--------|---|--------|
| North America | | | | | | | |
| Dow Jones IA | 42,330.15 | ↑ | 1.83% | ↑ | 26.33% | ↑ | 10.40% |
| S&P 500 | 5,762.48 | ↑ | 2.00% | ↑ | 34.38% | ↑ | 17.33% |
| NASDAQ | 18,189.17 | ↑ | 2.65% | ↑ | 37.60% | ↑ | 18.19% |
| Toronto S&P/TSX | 24,000.37 | ↑ | 2.76% | ↑ | 22.82% | ↑ | 13.25% |
| Europe | | | | | | | |
| FTSE | 8,236.95 | ↓ | -1.68% | ↑ | 8.27% | ↑ | 7.65% |
| DAX | 19,324.93 | ↑ | 2.19% | ↑ | 25.60% | ↑ | 13.39% |
| CAC40 | 7,635.75 | ↑ | 0.06% | ↑ | 7.02% | ↓ | -0.27% |
| Asia | | | | | | | |
| Nikkei | 37,919.55 | ↓ | -1.90% | ↑ | 19.03% | ↑ | 4.40% |
| Hang Seng Index | 21,133.68 | ↑ | 16.11% | ↑ | 18.66% | ↑ | 31.10% |
| Shanghai Composite | 3,336.50 | ↑ | 16.03% | ↑ | 7.27% | ↑ | 17.94% |
| Sensex | 84,299.78 | ↑ | 2.32% | ↑ | 28.06% | ↑ | 16.12% |
| S&P/ASX 200 | 8,269.83 | ↑ | 2.18% | ↑ | 17.33% | ↑ | 7.39% |

Source: Bloomberg

Asia-Pacific

Major equity indices in the Asia-Pacific closed broadly high with both Chinese stock indices (Hang Seng and Shanghai Composite) leading the gains with over +16% return. The rise in China's stock indices were due to the country's Government announcing a fresh stimulus package to boost the economy with reductions to various interest rate products including mortgages and a decrease in the reserve requirement ratio.

Meanwhile in Japan, the Nikkei fell -1.90% from its August level. This drop followed the election of a new Prime Minister, Shigeru Ishida.

Prime Minister ishida has previously stated that he would support the Bank of Japan's efforts to 'normalize' monetary policy with higher interest rates, in addition to raising the country's capital gains tax. Higher interest rates would put upward pressure on the Japanese Yen currency, which would hurt Japanese exporters listed on the Nikkei.

PNG Equities.

PNGX companies wrap up their half-year earnings reports

The final round of half-year corporate reporting on the PNG stock exchange (PNGX) came to an end in September, with locally listed companies Credit Corporation (PNGX: CCP), Kina Asset Management (KAM) and NGIP Agmark Limited (PNGX: NGP) reporting strong profits (post-tax) for the first half of 2024. Elevated international cocoa prices, high Treasury bill yields, and resilient global equity market conditions were some of the key drivers that supported the performance of the local companies.

Looking into the second half, we are expecting another strong performance from these companies given the backdrop of cocoa prices, rising Treasury bill yields and easing monetary policy conditions - promote risky assets.

Financial summary

- **CCP:** Net Profit after Tax (NPAT) increased +147.2% to PGK183.6 million, from previous corresponding period (pcp). This gain was mostly due to a fair value gain on its equity in BSP Financial Group. Net Interest Margin grew at +12.9% (versus 12% pcp), supported by increase in loan sales and lower cost of funds. Return on equity increased from 8.3% to 9.2%. The Board declared a 12 toea interim dividend for the period, payable on 24th October 2024.
- **KAM:** NPAT grew at PGK9.9 million, up +85% from PGK5.3 million pcp, with a strong investment return of 12.9% (PGK10.6 million). The Board announced a 20 toea interim dividend, payable on 24th October 2024.

- **NGP:** NPAT surged +367% to PGK8.8 million, compared to PGK1.8 million pcp, with revenue rising +142% - largely due to elevated international cocoa prices. However, gross margins fell from 34% to 20%, reflecting increased overhead costs - due to supplier price increases. The board declared a 4 toea interim dividend and payment date is scheduled on 15th October 2024.
- **CPL:** Reported a net loss of PGK8.9 million, with revenue down -13% from pcp, - mainly due to a closure of four of its major shopping outlets due to the January 10th riots. Total cash generated from operating activity was PGK10.1 million, compared to PGK11.8 million in pcp.

PNGX movement

PNGX saw strong activity in September, amid corporate earnings season. The Kina Securities index, a price weighted measure of PNGX, climbed +0.84% from last month's level, helped by broader gains in stocks across the market, including Kina Asset Management, Steamships Trading company and BSP Financial Group.

In terms of volume, total units traded during the month was 1.8 million, compared to a two-month average of 1.2 million units. Off the total volume, Kina Securities (KSL) shares constituted about 94% of the total units traded during the month.

| | PRICE* | | MONTH | | YOY | | YTD |
|---|--------|------------|--------|---|---------|---|---------|
| PNG Stock Exchange (PNGX) | | PGK | | | | | |
| Credit Corporation (CCP) | 2.51 | ↑ | 0.40% | ↑ | 22.44% | ↑ | 22.71% |
| Kina Securities Limited (KSL) | 3.10 | ↑ | 0.32% | ↑ | 28.63% | ↑ | 13.82% |
| BSP Financial Group Limited (BSP) | 18.12 | ↑ | 3.25% | ↑ | 35.12% | ↑ | 18.90% |
| Steamships Trading Company (SST) | 50.00 | ↑ | 4.08% | ↑ | 41.00% | ↑ | 34.36% |
| Kina Asset Management Limited (KAM) | 1.40 | ↑ | 7.41% | ↑ | 55.56% | ↑ | 44.18% |
| Australian Securities Exchange (ASX) | | AUD | | | | | |
| Kina Securities Ltd (KSL) | 1.02 | ↓ | -0.49% | ↑ | 29.94% | ↑ | 17.06% |
| BSP Financial Group Ltd (BFL) | 6.19 | ↓ | -2.87% | ↑ | 20.19% | ↑ | 2.29% |
| Santos Limited (STO) | 7.02 | ↓ | -2.81% | ↓ | -11.14% | ↓ | -11.18% |

Source: PNGX, Bloomberg

| | | | | | | | |
|---------------------------|-----------|---|--------|---|--------|---|--------|
| PNG Market Indices | | | | | | | |
| KSi | 6,585.68 | ↑ | 0.86% | ↑ | 4.29% | ↑ | 3.55% |
| KSHi | 18,559.33 | ↑ | -1.22% | ↑ | 17.24% | ↑ | 17.62% |

Source: KFM Calculation

Commodities.

Agriculture

Despite a slight easing in global coffee prices during September, global coffee prices were still +8.51% higher m/m, and up nearly 85% y/y. This elevated price is due to Brazil enduring its driest weather conditions in over 40 years, with concerns over crop conditions weighing on tight supply conditions. Cocoa prices took a minor hit in September following concerns about weak chocolate demand. However, in the medium-term prices remain elevated with lower production levels still being experienced in the Ivory Coast (the world's largest producer).

Precious Metals

Gold prices continued to record historical highs above US\$2,600 per ounce in September. This 'golden run' has been pushed by the uncertainties around the global economic outlook, in particular with the looming US elections and on-going Middle East conflicts. During these periods, gold is often seen as a safe-haven asset for investors. In addition, the anticipated rate cuts by the US Fed is poised to weaken the US dollar. There is a historical inverse relationship between gold and the dollar, so further rate cuts in the next quarter could see gold prices continue to spike. This could have positive implications for PNG's gold export proceeds.

Precious metals, particularly iron ore and copper had a strong end to September following the announcements of China's stimulus package. Strong demand in China means stronger metals demand from Australia, which will also lead to a stronger Aussie dollar.

| | PRICE (USD) | | MONTH | | YOY | | YTD |
|------------------------------------|-------------|---|---------|---|---------|---|---------|
| Agriculture | | | | | | | |
| Coffee (US cents/lb) | 270.25 | ↑ | 8.51% | ↑ | 84.91% | ↑ | 33.12% |
| Cocoa (US\$/mt) | 7,722.00 | ↓ | -22.45% | ↑ | 125.92% | ↑ | 47.09% |
| Palm Oil (RM/tn) | 4,124.00 | ↑ | 1.20% | ↑ | 11.79% | ↑ | 7.81% |
| Energy | | | | | | | |
| Brent Crude (US\$/bbl) | 71.77 | ↓ | -9.34% | ↓ | -24.70% | ↓ | -12.97% |
| LNG (US\$/mmBtu) | 13.13 | ↓ | -7.09% | ↓ | -10.29% | ↑ | 32.01% |
| Light Crude WTI Futures (US\$/bbl) | 68.17 | ↓ | -7.60% | ↓ | -24.91% | ↓ | -10.68% |
| Precious Metals | | | | | | | |
| Gold (US\$/oz) | 2,659.40 | ↑ | 5.08% | ↑ | 42.51% | ↑ | 25.66% |
| Silver (US\$/oz) | 31.46 | ↑ | 7.64% | ↑ | 40.12% | ↑ | 31.12% |
| Base Metals | | | | | | | |
| Copper (US\$/lb) | 4.55 | ↑ | 7.80% | ↑ | 21.82% | ↑ | 15.62% |
| Iron Ore (US\$/mt) | 99.82 | ↑ | 4.47% | ↓ | -13.51% | ↓ | -26.01% |

Source: Bloomberg

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