

# Monthly Report.

October 2024



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## Monthly Highlights.

### T-BILL YIELDS INCREASE AMIDST LARGEST UNDER SUBSCRIPTIONS

Yield on the 1-year T-bill increased by 55bps month-on-month, while undersubscription hit its largest amount in a month for this year at PGK 360 million.

### BPNG PROVIDES CURRENCY LIQUIDITY

BPNG maintained its support to the FX market with a further US \$125 million to the market during the month. The Central Bank intervened on five occasions every week, providing US \$25 million on each intervention.

### KSI HITS A NEW 52-WEEK HIGH

The Kina Securities index (KSi) rose +1.1% in October, hitting a new 52-week high of 6,585.68. The Index was supported by a broad rise in prices for major stocks including BSP, CCP and KAM.

### GOLD PRICE CONTINUES ITS RISE

Geopolitical tensions, market uncertainty and expected global rate cuts continues to make the 'safe-haven' asset an attractive investment. Gold continued its increase in October, with the US\$3,000/oz price mark now in sight.

### BSP MAINTAINS REVENUE GROWTH DURING Q3

BSP's total revenue grew by +1% to PGK 750 million in Q3 from its prior corresponding period. This was largely driven by strong non-interest income earnings, particularly from FX.

### AUSSIE DOLLAR WEAKNESS SEES PGK/AUD HOLD

With the US dollar strengthening, the AUD/USD firmed during the month at 0.6600. This has seen the PGK/AUD cross steady around the 0.3750 level. Continued US strength should solidify this level in November.

## Market Summary.

- October was a relatively busy month for domestic equity markets with some activity leading to the Kina Securities Index peaking, and solid Q3 results announced by BSP, Santos and Newmont.
- Meanwhile, rates on PNG Government securities continued their climb against the backdrop of limited demand from the domestic market. With minimal fiscal policy visibility, we can expect that this will continue to have upward pressure on rates in the next month.
- The Bank of PNG (BPNG) released its September Monetary Policy Statement (MPS) during the month. There were few surprises, other than the Bank's leadership announcing that Monetary Policy settings going forward would be set by an independent Monetary Policy Committee. The Bank also forecasted real growth this year at 3%, although this may have to be revised down given the on-going disruptions at Porgera Gold mine.

## Outlook.

In November, the key indicator for the PNG business outlook will be the Government's 2025 Budget. Since the 2023 Final Budget Outcome, there has been no fiscal policy announcements (including a Budget Strategy Paper and Mid-Year Economic Fiscal Outlook) from the Treasurer's office. High on the agenda of many businesses will be the Government's Income Tax reforms (which seem to have stalled). Given the current challenges to raise revenue, it has to be strongly considered by the PNG Government to cut back on excess expenditure if it wants to continue its deficit-reduction plan.

## PGK FX Market.

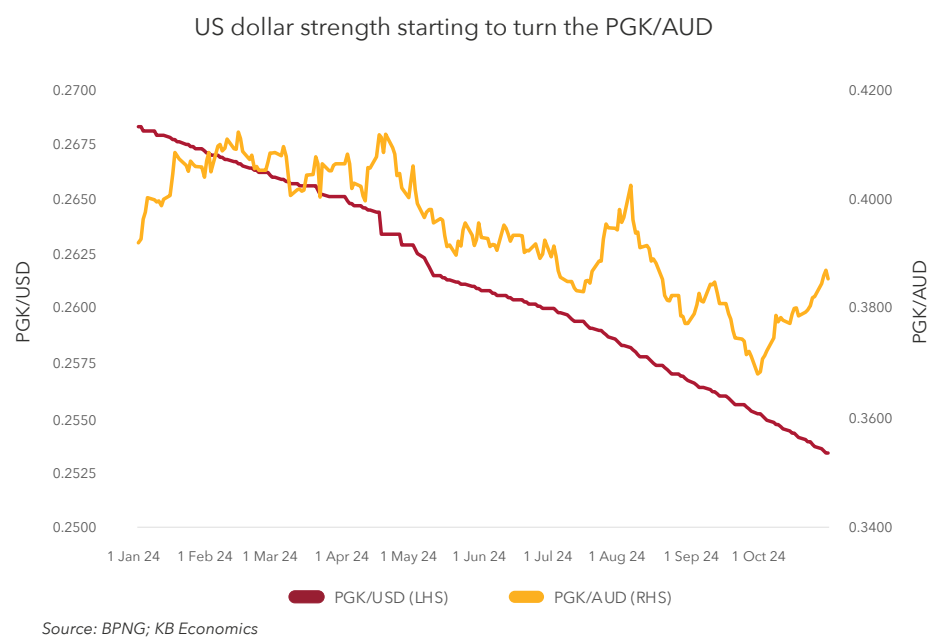
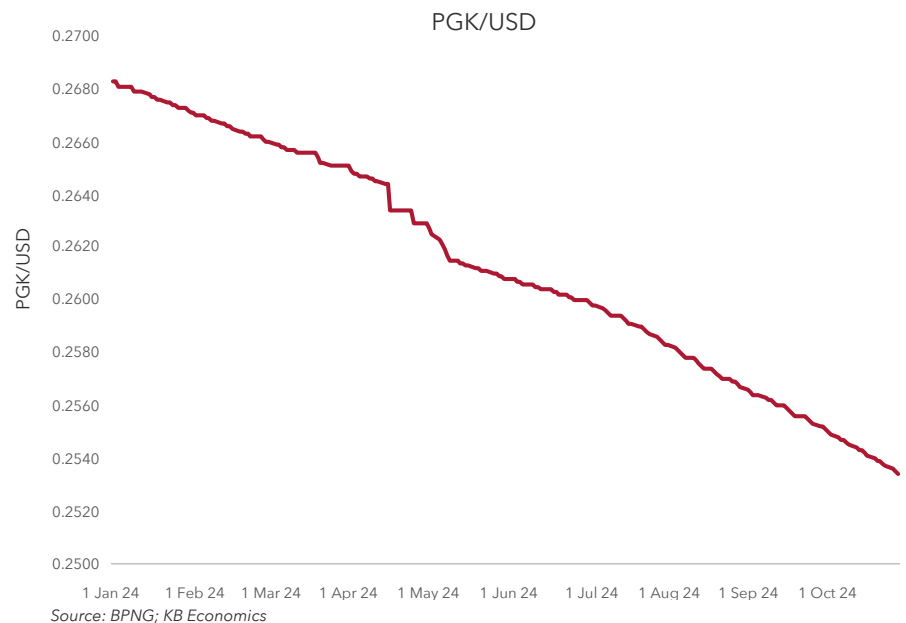
The Bank of PNG (BPNG) backed up its promise to the market from its September Monetary Policy Statement by injecting US \$125 million into the market. BPNG intervened on five separate occasions during the month on a weekly basis with US \$25 million each time. The US dollars was sold to the commercial banks at a weighted average of 0.2517 in October.

### PGK/USD interbank rate moves lower

The PGK/USD interbank rate moved another 18 basis points (bps) lower in October, closing the month at 0.2534. The -0.71% monthly drop is the third highest movement in the interbank rate this year. The official Kina rate has now moved 149bps, or -5.55% lower through the first 10 months of 2024.

### PGK/AUD rate moving in the other direction

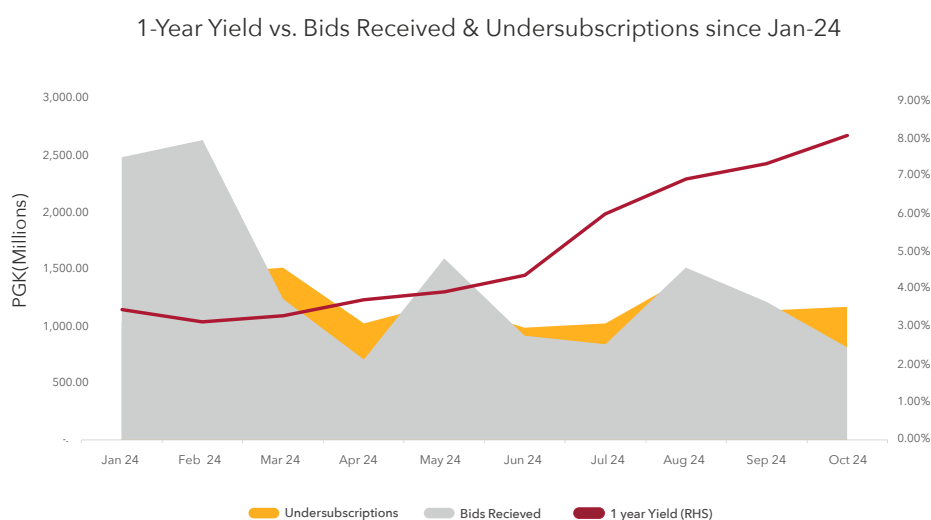
News of a resilient US economy, leading to a stronger US dollar during the month led to relative AUD weakness, which started to push the AUD/USD exchange rate from 0.6927 at the beginning of the month, to consolidate at below 0.6600 by the end of October. The -5.08% depreciation of the Aussie dollar meant that the PGK/AUD cross-rate appreciated during the month. After opening October at 0.3684, the PGK/AUD closed the month strongly above 0.3800. With the certain depreciation of the PGK/USD, coupled with the Aussie (AUD/USD) trading within the band of 0.6600 - 0.6800, we anticipate that the PGK/AUD cross-rate should hover above 0.3600 in November.



# PNG Fixed Income.

## October Revised Issuance Plan

The PNG Department of Treasury (DoT) released a revised debt issuance plan for both Government Inscribed Stocks/ Bonds (GIS) and Treasury Bills (T-bills) on the 9th of October. The revised plan also included incorporating new weekly auctions for GIS. This revision addresses shifting investor demand trends and evolving Government cash flow needs. According to the revised issuance plan, the Government intends to raise PGK 1.08 billion from GIS, and PGK 4.43 billion from T-bills, aggregating to PGK 5.51 billion this fiscal year.



Source: BPNG, KB Economics

## T-Bill yields increase amidst largest undersubscription

During the month, T-bills continued their upward trend month-on-month. However, auctions saw an undersubscription of approximately PGK 360 million, the largest undersubscription in a month to date. When the month began, rates on the 182, 273, and 364-day T-bills were at 5.58%, 5.99%, and 7.49% respectively. By month end, all papers were up by an average of about 29 basis points (bps), with the 1-year T-bill reaching 8.04%, up by 55 bps. Despite the continuing upward trend in yields, only the first week of auctions saw an oversubscription of 8.25%, or PGK 24.3 million, while the rest of the weekly auctions during the month saw undersubscriptions, leading to an overall monthly undersubscription of -30.6% (PGK 360 million).

Overall, PGK 789.06 million was raised through T-bills in October, which was a -31.4% drop month-on-month. If the trend of rising yields, paired

Term Days	91	182	273	364	Total
Weighted Average Yield	3.85%	5.69%	6.19%	8.04%	
Amount Offered	50.00	45.00	45.00	1,035.07	1,175.07
Bids Received	15.20	22.10	54.00	723.76	815.06
Successful Bids	15.20	22.10	54.00	697.76	789.06
Over/undersubscribe	-34.80	-22.90	9.00	-311.31	-360.01
Success rate	100%	100%	100%	96%	97%

with undersubscriptions persists, it could suggest weak demand in the market for PNG Government securities. This would pose difficulties for the PNG Government as it seeks to achieve its debt financing objectives for 2024.

From an investor's perspective, there are several potential factors contributing to a gradual reduction in participation or hesitation to heavily commit during weekly auctions.

A key consideration is the lack of visibility into a Supplementary Budget. Given the backdrop of the Government's debt restructuring initiative, there is limited information available for market participants to make well-informed, data-driven decisions. At this stage, investors appear to be prudently managing risks, which is reflected in current market conditions.

## PNG Fixed Income cont.

### GIS Auctions continue undersubscriptions

Government Inscribed Stocks (GIS) or Government Bonds, were undersubscribed by PGK 190.78 million in October, marking the seventh consecutive month of GIS undersubscriptions, however, this was a -67% drop month-on-month in undersubscriptions.

According to the revised issuance plan, the DoT shifted from holding one GIS auction per month to weekly auctions starting in October. October's auctions offered PGK 480 million in total, with PGK 289.22 million in total bids received, and successful bids of PGK 194.22 million accepted. This indicates that investor demand for longer-term Government securities remains weak, despite higher rates offered across all maturities.

October GIS Auction Results				
Auction Dates	Amount Offered	Bids Received	Successful Bids	Over/undersubscribe
Tuesday 8 Oct 24	180.00	65.60	55.60	-114.40
Tuesday 15 Oct 24	100.00	63.00	23.00	-37.00
Tuesday 22 Oct 24	100.00	106.00	101.00	6.00
Tuesday 29 Oct 24	100.00	54.62	14.62	-45.38
Total	480.00	289.22	194.22	-190.78

In the 2024 National Budget, DoT projected a raising of PGK 4.3 billion from GIS. However, as of this report, Government bonds have raised only PGK 2.74 billion, resulting in a deficit of PGK 1.56 billion compared to projections.

As noted previously, covering this revenue shortfall remains a challenge for the Government. The persistent undersubscriptions will pose difficulties for fiscal management and meeting required funding levels.

## International Cash & Fixed Income.

In international fixed income markets, the resilience of the US economy and uncertainty surrounding potential post-election policy changes prompted a more gradual re-pricing of the anticipated Federal Reserve (Fed) rate cuts. The cooling in rate cut expectations, alongside election uncertainty, pushed 2-year and 10-year Treasury yields above 4.0%. In aggregate, US Treasuries returned -2.4% for the month.

In the UK, the labour market remains tight, with the unemployment rate falling to 4.0% and pay growth remaining high at 4.9% year-over-year in August. Despite this, September's headline inflation declined significantly to 1.7% year-over-year, with core inflation at 3.2%. Later in October, the UK budget announcement put

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.28%	↑	0.13	↓	-0.14	↑	0.09
United Kingdom	4.45%	↑	0.10	↓	-0.01	↑	0.16
Australia	4.50%	↑	0.13	↓	-0.09	↑	0.12
New Zealand	4.48%	↑	0.05	↓	-0.22	↓	-0.02
France	3.13%	↑	0.07	↓	-0.09	↑	0.16
Japan	0.95%	↑	0.10	↑	0.01	↑	0.26

Source: Bloomberg

pressure on the UK Gilt market due to stronger-than-expected levels of spending now planned for 2025.

In Europe, September headline inflation was revised down to 1.7% year-

over-year (from the preliminary 1.8%). The October reading however picked up to 2.0% year-over-year, although this was mainly driven by energy base effects. The European Central Bank (ECB) acknowledged

## International Cash & Fixed Income cont.

signs of weakening economic momentum in Europe, particularly in the manufacturing sector, while the service sector continued to see signs of solid demand. Consequently, the ECB announced a third 25 basis point rate cut of the year, taking the deposit facility rate to 3.25%.

This was in line with expectations and highlights the relatively more predictable path of European rate cuts relative to the US. President Lagarde expressed confidence in the disinflation process but reinforced the message that future moves will be data dependent.

In Japan, Tokyo core inflation came in at 1.8% year-over-year in October, supported by positive wage momentum. At its October meeting, the Bank of Japan (BoJ) stayed on hold, as widely expected, but struck a hawkish tone overall.

## PNG Equities.

### PNGX-heavyweights release Q3 earnings results

During October, PNGX's largest companies by market capitalization released their financial results for the 2024 third quarter. Below are some key highlights:

**BSP:** Total revenue rose to PG K750 million, a +1% increase from the previous corresponding period (pcp). This was due to an increase in FX (+3.5%) and fee income (+2%). A decline in net interest income offset revenue growth. In addition, operating profit fell -3.8% to PG K429 million (from pcp) as operating expenses climbed due to the Company's ongoing investments to modernise operations and enable its growth strategy. Underlying net profit after tax (NPAT) was reported at PGK 232 million, down -6% compared to pcp. BSP maintains a strong capital position that will enable the Group to continue to invest in its modernisation program, while maintaining a healthy loan book.

**Newmont (NEM):** Net income increased +8.1% to US \$922 million (vs. Q2:US \$853m), with an increased revenue of US \$4.6 billion (up +15%) from pcp due to higher average realised gold prices and higher sales volumes – partially offset by higher unit costs of production. Net operating cash flow grew to US \$1.6 billion, up by +17% from pcp. The Board declared a 25 US cents interim dividend, payable to shareholders on 23rd December 2024.

	PRICE*		MONTH		YOY		YTD
<b>PNG Stock Exchange (PNGX)</b>		<b>PGK</b>					
Credit Corporation (CCP)	2.62	↑	4.29%	↑	23.08%	↑	27.00%
Kina Securities Limited (KSL)	3.15	↑	1.60%	↑	26.78%	↑	15.42%
BSP Financial Group Limited (BSP)	19.06	↑	5.06%	↑	34.42%	↑	23.95%
Steamships Trading Company (SST)	50.00	-	0.00%	↑	34.36%	↑	34.36%
Kina Asset Management Limited (KAM)	1.75	↑	22.31%	↑	66.50%	↑	66.50%
<b>Australian Securities Exchange (ASX)</b>		<b>AUD</b>					
Kina Securities Ltd (KSL)	1.06	↑	3.85%	↑	32.61%	↑	20.91%
Newmont (NIM)	70.96	↓	-9.36%	↑	111.15%	-	N/A
BSP Financial Group Ltd (BFL)	6.19	-	0.00%	↑	18.88%	↑	2.29%
Santos Limited (STO)	6.78	↓	-3.48%	↓	-12.33%	↓	-14.65%

Source: PNGX, Bloomberg

<b>PNG Market Indices</b>							
KSi	6,585.68	↑	1.12%	↑	5.25%	↑	4.67%
KSHi	18,559.33	↑	6.00%	↑	23.23%	↑	23.62%

Source: KB Economics

PGK'million	Q3	Q2	YTD	Q3 vs. Q2
<b>Revenue</b>	750	745	2,209	0.7%
Operating Expense	(321)	(299)	(901)	-
<b>Operating Profit</b>	<b>429</b>	<b>446</b>	<b>1,308</b>	<b>-3.8%</b>
Impairment	(23)	(19)	(107)	-
<b>Earnings before tax</b>	<b>406</b>	<b>427</b>	<b>1,201</b>	<b>-4.9%</b>
Tax	(174)	(180)	(509)	
<b>Underlying NPAT</b>	<b>232</b>	<b>247</b>	<b>692</b>	<b>-6.1%</b>
One-off impact	-	59	59	-
<b>NPAT</b>	<b>232</b>	<b>306</b>	<b>751</b>	<b>-24.2%</b>

### NEM Dividend Schedule

Ex-date:	Tuesday, 26 November 2024
Record date:	Wednesday, 27 November 2024
Payment date:	Monday, 23 December 2024

# PNG Equities cont.

**Santos (STO):** Total revenue from sales slightly dropped to US \$1.27 billion, from US \$1.31 pc, reflecting lower production of crude oil, condensate and LNG. However, higher realised prices for LNG and domestic gas

capped losses in sales revenue. In terms of major project delivery, Moomba Carbon Capture and Storage (CCS) project completed commissioning and is now online; Barossa project is over 82% complete and remains on track for

production in Q3, 2025; and the Phikka phase one project is 67% complete, with focus now on accelerating pipeline activities.

## PNGX movement

The local stock market (PNGX) closed higher in October, extending its winning streak for a second successive month this year. The Kina Securities index, a market capitalization-weighted average measure of PNGX, increased by +1.1% to peak at a new 52-week high of 6,585.68. The KSi was supported by a broader rise in stock prices, including BSP, Credit Corporation (CCP) and Kina Asset Management (KAM).

PNG Market Indices							
PNG Stock Exchange (PNGX)				PGK			
KS	6,585.68	↑	1.12%	↑	5.25%	↑	4.67%
KSH	18,559.33	↑	6.00%	↑	23.23%	↑	23.62%

Source: KB Economics

In terms of volume, the market saw a total of 1.6 million units traded during the month, +14% higher than the average of 1.4 million traded over the

past three months. The financial stocks make up about 90.5% of the total volume traded.

# International Equities.

## Asia-Pacific

Share markets in the Asia-Pacific region closed mostly lower in October, tracking their peers in the U.S, amidst escalating Middle East tensions, along with uncertainty over the U.S Presidential elections. In addition, China's stimulus measures ran out of steam during the month to impress investors, further weighing on the broader market sentiment. Major stock benchmarks closed more than -1% lower, including the Hang Seng (-3.94%), Shanghai Composite (-1.71%), Sensex (-6%), and the S&P/ASX 200 (-1.34%). The Nikkei bucked this trend, gaining +3.02% during October.

## North America

In North America, share markets retreated from previous month's gains, as investors tread cautiously amidst the global uncertainty and a round of disappointing quarterly earnings

	PRICE (USD)		MONTH		YOY		YTD
North America							
Dow Jones IA	41,763.46	↓	-1.35%	↑	23.39%	↑	9.05%
S&P 500	5,705.45	↓	-0.99%	↑	30.78%	↑	16.33%
NASDAQ	18,095.15	↓	-0.52%	↑	34.22%	↑	17.67%
Toronto S&P/TSX	24,156.87	↑	0.65%	↑	24.68%	↑	13.90%
Europe							
FTSE	8,110.10	↓	-1.55%	↑	10.23%	↑	6.09%
DAX	19,077.54	↓	-1.29%	↑	25.32%	↑	12.10%
CAC40	7,350.37	↓	-3.81%	↑	6.53%	↓	-4.08%
Asia							
Nikkei	39,081.25	↑	3.02%	↑	23.62%	↑	7.42%
Hang Seng Index	20,317.33	↓	-3.94%	↑	17.17%	↑	27.16%
Shanghai Composite	3,279.82	↓	-1.71%	↑	8.29%	↑	16.23%
Sensex	79,389.06	↓	-6.00%	↑	21.74%	↑	10.11%
S&P/ASX 200	8,160.03	↓	-1.34%	↑	18.52%	↑	6.05%

Source: Bloomberg

that sparked a sell-off in the markets. All three major U.S equity benchmarks (Dow -1.4%, S&P 500 -0.9% and

Nasdaq -0.5%) close broadly lower, while Canada's Toronto S&P/TSX closed higher with a +0.65% return.





## International Equities cont.

### Europe

European share markets fell into the red territory during October, pressured by rising geopolitical risks, uncertainty over continued stimulus measures in China, and a streak of bleak quarterly

earnings, which promoted a 'risk-off' mood. The European Central Bank's 25 basis points interest rate cut failed to provide support for equities. The UK's FTSE fell -1.6%, Germany's DAX

dropped -1.29%, while the French CAC40 Index posted the largest drop among its peers, closing -3.81% lower.

## Commodities.

### Agriculture

**Coffee prices and export volumes remain strong:** Coffee prices eased off at the end of October, with prices closing the month down -9.44% (m/m). But coffee prices still remain relatively strong in 2024 compared to 12 months ago, up +23.68%. According to International Coffee Organisation (ICO), global coffee exports amounted to 10.76 million bags in September 2024, compared with 8.62 million in September 2023. Exports throughout the 12 months of the coffee year 2023/24 (October 2023 to September 2024) increased by +11.7% to 137.27 million bags compared to 122.92 million bags in the same period in 2022/23. In the twelve months ending September 2024, exports of Arabica totalled 84.68 million bags compared to 73.51 million bags last year; whereas Robusta exports amounted to 52.60 million bags compared to 49.41 million bags.

### Energy

**LNG prices remain subdued:** Following a spike in August, global LNG prices steadied throughout the past 2 months, with a slight uptick in October due to the Middle East conflict. In the medium term, the LNG price outlook remains fragile. According to the Institute for Energy Economics and Financial Analysis, various issues including "fiscal constraints, infrastructure delays, and contracting issues" could affect demand certainty in South and Southeast Asia, causing an oversupply through to 2028 and keeping prices subdued.

	PRICE (USD)		MONTH		YOY		YTD
<b>Agriculture</b>							
Coffee (US cents/lb)	245.90	↓	-9.44%	↑	38.51%	↑	23.68%
Cocoa (US\$/mt)	7,334.00	↓	-5.16%	↑	65.31%	↑	41.93%
Palm Oil (RM/tn)	4,800.00	↑	15.18%	↑	29.77%	↑	22.99%
<b>Energy</b>							
Brent Crude (US\$/bbl)	73.16	↑	-1.92%	↓	-17.80%	↓	-11.05%
LNG (US\$/mmBtu)	13.62	↑	-3.70%	↓	-26.32%	↑	35.71%
Light Crude WTI Futures (US\$/bbl)	69.26	↑	-1.59%	↓	-15.68%	↓	-9.09%
<b>Precious Metals</b>							
Gold (US\$/oz)	2,749.30	↑	3.32%	↑	32.11%	↑	28.99%
Silver (US\$/oz)	32.80	↑	4.17%	↑	35.69%	↑	35.29%
<b>Base Metals</b>							
Copper (US\$/lb)	4.34	↓	4.79%	↑	17.34%	↑	10.83%
Iron Ore (US\$/mt)	96.06	↓	3.84%	↓	-20.13%	↓	-29.85%

Source: Bloomberg

LNG price movements in 2024



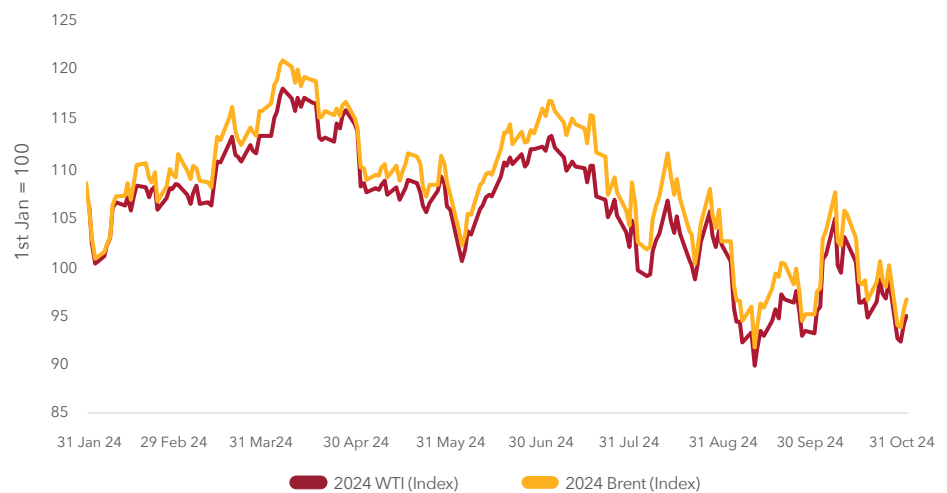


## Commodities cont.

### Oil prices slightly rebounded:

Following a slight dip in September, the major oil price benchmarks rebounded in October as potential oil supply risks once again came to the fore due to escalating tensions in the Middle East. According to the International Energy Agency (IEA), these 'heightened supply security concerns' are set against a backdrop of a global market that seems to be adequately supplied. Spare production capacity as reported by the OPEC+ alliance is at a historic high (with the exception of the COVID-19 period). This over-supply will continue to keep oil prices subdued heading into end of this year – barring any new geopolitical conflicts which would impact the supply outlook.

Oil benchmark price movements in 2024

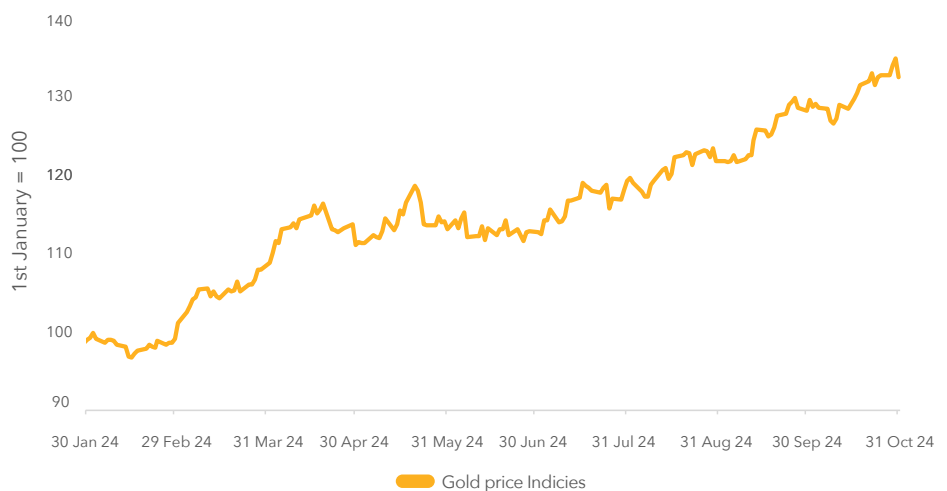


Source: Bloomberg, KB Economics

### Precious Metals

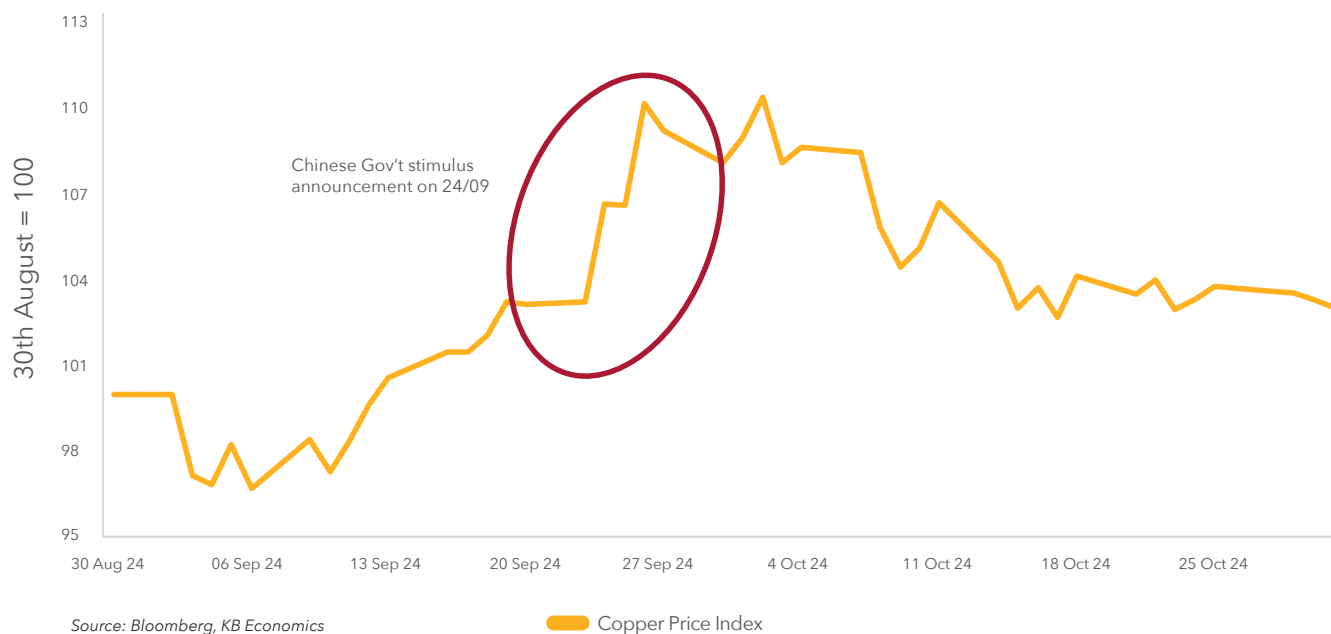
**Golden year continues:** The Gold price continues to rise. Gold prices rose 3.32% in October, to close off the month at US\$2,749.30/oz. The US \$3,000 mark which has been touted previously by many analysts is in sight. This could all change with many factors, including a serious shift in the US Fed's monetary loosening stance, or a turnaround in global geopolitical tensions. For the time being, with low yields in Government securities and uncertainty across global markets, the 'safe-haven' asset continues to climb heading into the final 2 months of the year. With US interest rates likely to remain low in the medium-term, we anticipate that gold prices will remain elevated.

Gold price movements in 2024



Source: Bloomberg, KB Economics

Copper price movements Sep-Oct



### Base Metals

**Copper:** The average monthly copper price increased for the second month in a row, following a slowdown in August. After the Chinese Government's announcement of a fiscal stimulus in September, global copper prices spiked towards the end of September and into the beginning

of October, before a normalisation of prices throughout the month. Copper prices closed the month trading at US \$4.34/lb, which is still over +17.34% higher from 12 months ago, and +10.83% since the start of the year.

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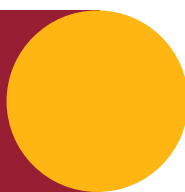
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