

Monthly Report.

November 2024



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Monthly Highlights.

1-YEAR T-BILL HITS 8.62% YIELD: HIGHEST FOR 2024

The 1-year T-bill ended November at 8.62%, making it the highest level observed to date for 2024.

SANTOS COMPLETE 2.6% INTEREST SALE IN PNG LNG

Santos announced the sale of its 2.6% interest in the PNG LNG project to Kumul Petroleum Holdings Limited, reducing Santos' interest in the project to 39.9%.

2025 BUDGET DEFICIT OF PGK2.9 BILLION

The 2025 National Budget has a deficit of PGK2.9 billion, which the Gov't plans to finance with PGK 861 million domestically, and PGK 2.1 billion externally.

KSI GAINS +0.31% RETURN

The Kina Securities Index, a market capitalization measure of PNGX, closed +0.31% higher in November, backed by gains in financial stocks.

PGK/AUD FIRMS ABOVE 0.3800

Despite the continued downward trend of the PGK/USD interbank rate, USD strength against major currencies (including the AUD) saw the PGK/AUD stabilise above 0.3800.

GOVERNMENT ANNOUNCES NEW BANK TAX

The 2025 National Budget brought about new tax reforms for commercial banks, with a hybrid model introduced between smaller banks and large banks making more than PGK300 million.

Market Summary.

The major news from the month was the Government's 2025 budget announcement. Two of the most significant announcements for businesses and households from the 2025 Budget were:

New Commercial Bank Tax rate | Commercial Bank tax rates for profits **below PGK300m** will now be subject to a 40% tax rate – a change from a 45% flat rate for all. This will reduce to 35% in 2026. The amount of the profits **above PGK300m** will be subjected to 44% in 2025, and be gradually decreased by 1% each year until the tax rate reaches 35%.

GST Zero-rating for certain items - beginning in H2/2025 | GST on 13 essential household products will be zero-rated as part of the Government's efforts to ease cost-of-living pressures. *Some of these items include rice, flour, chicken, tinned meats, soap, hygiene products and baby diapers.* The implementation of this policy announcement will most likely be subject to the IRC's implementation of its GST Monitoring System, commencing in H2/2025.

Outlook.

Heading into 2025, the implementation of the newly announced Budget is still subject to many variables, not least the recent announcement by the Financial Action Taskforce (FATF) to issue a 12-month ultimatum to the PNG Government to resolve issues around Anti-Money Laundering. Whilst the 2025 Budget proposed some important initiatives to support households and small businesses, the revenue projections may be under threat from a possible 'gray listing' if PNG doesn't meet its obligations.

PGK FX Market.

The PGK/USD interbank rate moved another 17 basis points (bps) lower in November, closing the month at 0.2517. The interbank rate has been moving at an average of 16 basis points per month, with the 'crawling peg' movement complemented by increased FX intervention by BPNG. The official Kina rate has now moved 166bps, or -6.19% lower, heading into the final month of the year.

Trump tariff announcements put upward pressure on US dollar against major trading currencies

Since the beginning of November (post US elections), the USD has been strengthening against all of its major trading currencies - including the Aussie dollar. The financial markets had anticipated this would happen with a Trump victory. Following the election victory, **Trump announced during the month that once he gets into office starting next year, he will impose tariffs against the 3 largest trading partners to the US: Canada, Mexico and China.** He's said to impose a 25% tariff on all products from Mexico and Canada, with an additional 10% on goods from China. The US imports almost half a trillion dollars in goods from China each year.

How does the imposition of tariffs in the US push the US dollar up?

Tariffs will raise the after-tax price of imported goods into the US, and therefore the demand for imported goods falls. Lower demand for foreign goods means lower demand for foreign currencies, making the US dollar stronger as a result. With the US importing a lot of goods from China - these tariffs will impact the Chinese economy, and therefore the Chinese economy's demand for 'raw materials' which it imports from Australia. By extension, reduced demand for Australian goods (China imports from Australia, or in other words Australia exports to China) - will lead to AUD weakness.

PGK interbank rate edges closer to sub-0.2500

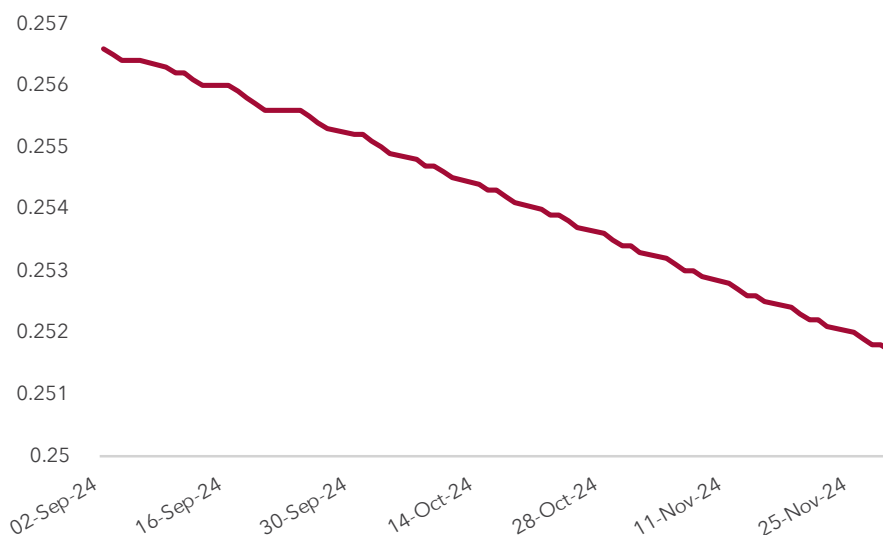


Figure 1.1 PGK/USD interbank rate, Sep-24 to Nov 24.
Source: Bank of PNG, KB Economics.

AUD eases below 0.6500 following Trump tariff comments

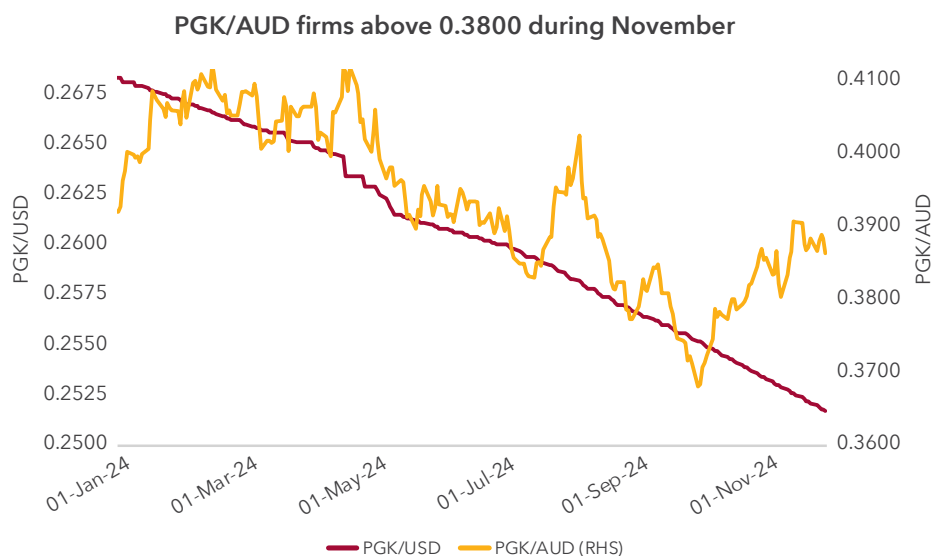


Figure 1.2 AUD/USD interbank rate, Oct-24 to Nov 24.
Source: Bank of PNG, KB Economics.

PGK FX Market cont.

After opening the month at 0.6575, the AUD/USD saw a gradual move towards breaking below the 0.6500 level for the first time since August this year. The AUD/USD did go as low as 0.6464 towards the last week of November, before rebounding to end the month above 0.6500. On the PGK/AUD cross-rate, this saw the PGK/AUD appreciate due to AUD weakness, resulting in the PGK/AUD firming up above 0.3800, and even touching a high of 0.3907 following Trump's tariff comments.

Figure 1.3 PGK/USD vs PGK/AUD, Jan-24 to Nov-24.
Source: Bank of PNG, KB Economics.



PNG Cash & Fixed Income.

GIS Weekly Auctions on track

The PNG Department of Treasury (DoT) revised its debt issuance plan, aiming to raise approximately PGK 1 billion to compensate for significant undersubscriptions in earlier auctions this year. Following announcements made in October, the November auctions for Government Inscribed Stocks (GIS)

have progressed as anticipated, with oversubscriptions occurring in two out of the four weekly auctions.

In November, the auctions successfully raised a total of PGK 288.61 million, reflecting a +48.60% m/m increase. However, this figure falls -27.85% short of the projected amount outlined in the revised issuance plan.

The DoT's proactive measures to adjust its borrowing strategy and the positive response from investors in the recent auctions suggest efforts to stabilize the government's financing requirements. Nonetheless, the shortfall against the revised target highlights the ongoing challenges in securing sufficient funding through the domestic debt market.

Government Inscribed Stocks (GIS) - Auction Results 2024

	February Tentative Issuance Amount	September Revised Issuance Amount	October Revised Issuance Amount	Amount Offered	Bids Received	Successful Bids	Over/Under Subscription
February	800.00			800.00	872.10	782.10	72.10
March	800.00			800.00	655.70	640.70	-144.30
April	700.00			700.00	499.70	434.70	-200.30
May	600.00			600.00	512.46	422.46	-87.54
June	500.00			500.00	130.50	130.50	-369.50
July	300.00			400.00	11.15	2.15	-388.85
August	200.00			-	-	-	-
September	150.00	800.00		800.00	217.00	135.00	-583.00
October	150.00	600.00	480.00	480.00	289.22	194.22	-190.78
November	100.90	300.00	400.00	450.00	449.61	288.61	-0.39
December	-	188.29	200.00				
	4,300.90	1,888.29	1,080.00	5,530.00	3,637.44	3,030.44	-1,892.56

Table 2.1 GIS Auction Results. Source: Bank of PNG, KB Economics.

PNG Cash & Fixed Income cont.

November GIS Auction Results						
Auction Dates	Amount Offered	Bids Received	Successful Bids	Over/under subscribe	Over/undersubscription rate	Success rate
Tuesday, November 05, 2024	100.00	47.00	47.00	(53.00)	-53.00%	100%
Tuesday, November 12, 2024	150.00	106.90	41.90	(43.10)	-28.73%	39%
Tuesday, November 19, 2024	100.00	124.11	84.11	24.11	24.11%	68%
Tuesday, November 26, 2024	100.00	171.60	115.60	71.60	71.60%	67%
Total	450.00	449.61	288.61	(0.39)	-0.09%	64%

Table 2.2 Nov-24 GIS Auction Results. Source: Bank of PNG, KB Economics.

In November, yields on Treasury bills (T-bills), particularly for the 1-year term, maintained their upward trajectory on a month-over-month basis. Auctions witnessed another undersubscription for the second consecutive month; however, November's undersubscription level was -30.87% lower than October's substantial undersubscription.

At the beginning of the month, rates on the 182-day, 273-day, and 364-day (1-year) T-bills stood at 5.69%, 6.19%, and 8.16%, respectively. By the end of November, yields on both the 273-day and 1-year securities had increased by 25 and 58 basis points (bps) month-over-month, with the 1-year T-bill closing at 8.62%, the highest level observed this year.

Undersubscriptions continue in T-bill Auctions				
Term (days)	182	273	364	Total
Weighted Average Yield	0.00%	6.44%	8.62%	
Amount Offered	75.00	115.00	1,520.56	1,710.56
Bids Received	26.90	52.00	1,382.78	1,461.68
Successful Bids	26.90	49.50	1,269.78	1,346.18
Over/undersubscribe	(48.10)	(63.00)	(137.78)	(248.88)
Success rate	100%	95%	92%	92%

Table 2.3 Treasury Bill Auction Results. Source: Bank of PNG, KB Economics.

Despite the persistent upward trend in yields, all weekly auctions during the month experienced undersubscriptions, culminating in an overall monthly undersubscription of PGK248.88 million (-30.87% month-over-month).

In total, approximately PGK1.35 billion was raised through T-bill issuances in November, representing a substantial increase of more than +70% compared to the previous month.

PNG Cash & Fixed Income cont.

2025 National Budget - Debt Financing

On the 29th November, the 2025 National Budget was tabled on the floor of Parliament. The Government plans to finance a budget deficit of PGK2.9 billion through a combination of domestic borrowing (PGK861 million) and external borrowing (PGK2.1 billion).

The goal is to maintain a balanced debt portfolio with 40% domestic debt and 60% external debt, mitigating exchange rate risks for external debt and interest rate risks for domestic debt. Funds will be allocated to high-impact public investment projects, co-funded with multilateral partners at concessional rates. The Government aims to shift its debt focus from commercial financing to more extraordinary financing sources.

	2024	2025
Domestic	PGK2.5b	PGK861.2m
Debt Securities	PGK2.6b	PGK1.1b
Loan	-PGK62.2m	-PGK235.6m
External	PGK1.4b	PGK2.1b
Concessional (Project) Financing	PGK253.3m	PGK293.0m
Commercial Financing	PGK145.9m	PGK54.6m
Extra-ordinary Financing (Budget support from development partners)	PGK1.0b	PGK1.7b
Total Financing/ Deficit	PGK3.9b	PGK2.9b
Total Government Debt	PGK61.9b	PGK64.8b
% of GDP	49.8%	47.4%

Table 2.4 2025 National Budget, Volume 1. Source: PNG Department of Treasury.

For domestic debt, the strategy is to increase the average time to maturity of Government securities by shifting from T-bills to longer-dated GIS.

The projected debt level for 2025 is PGK64.8 billion, or 47.4% of GDP.

PNG Equities.

Impact of new commercial bank tax

The Government announced a new tax regime for commercial banks in the 2025 National Budget. Details on the bank tax are as follows:

- Profits above PGK300 million will be subject to a 44% tax rate. This rate will gradually reduce by 1% each year until it reaches 35%.
- Profits below PGK300 million will be subject to 40% tax rate in 2025, and then reduce again to 35% in 2026.

The new tax policy will provide commercial banks an opportunity to invest in initiatives such as greater financial inclusion, as well as strengthen their capital based with the extra profits.

Explanation - Two Scenarios

The two scenarios showed that as tax rates drop, bank's tax expenses will fall, resulting in increased profitability.

What does this mean for shareholders or potential shareholder?

Illustration - Two Scenarios

Scenario 1: Bank A - earns profit above PGK300 million. For e.g. PGK400 million

	2024	2025	2026	2027
Tax Rate	45%	44%	43%	42%
Taxable Income	400	400	400	400
Tax expense	180	176	172	168
Post-Tax Profit	220	224	228	232

Scenario 2: Bank B - earns profit below PGK300 million. i.e. PGK200 million

	2024	2025	2026	2027
Tax Rates	45%	40%	35%	35%
Taxable Income	200	200	200	200
Tax expense	90	80	70	70
Post-Tax Profit	110	120	130	130

Increase profitability could mean higher dividend pay-outs and an increase stock value for existing shareholders.

PNG Equities cont.

Santos complete sale of 2.6% interest in PNG LNG

Santos Limited informed the PNG Stock Exchange (PNGX) that it has completed the sale of 2.6% interest in PNG LNG to Kumul Consolidated Holdings. Santos received the final payment of US\$241 million, bringing

the total cash payment amount to US\$602 million. This transaction reduces Santos' working interest in the PNG LNG project to 39.9%.

Stock movement

PNGX saw significant activity during November, with the Kina Securities index closing +0.31% higher from

October's close as gains in financial stocks provided most of the lift. In terms of volume, the market traded 2.3 million units, compared to an average of 1.7 million traded over the past two months.

International Cash & Fixed Income.

Fixed income movements

The 10-year US government bond yield fluctuated, peaking at 4.5% before settling at 4.17% by month-end. European government bond yields experienced a larger decline. However, concerns over the upcoming French budget vote caused the spread between 10-year French and German bonds to widen to levels unseen in over a decade.

US economic data

US economic data for October was mixed, but more recent business surveys and labour market figures painted a healthier picture in November. Early estimates suggest continued GDP growth in the fourth quarter. Core inflation remained elevated at 3.3% year-over-year in October.

European developments

UK GDP grew a modest 0.1% quarter-over-quarter in Q3, below expectations. Business surveys indicated softening activity in the Eurozone and UK in November. Inflation exceeded targets in both regions, with UK core inflation over 3% year-over-year. In contrast, Swiss inflation was relatively muted.

China outlook

China's stimulus measures had a modest positive impact on sentiment and activity so far, with firmer retail sales in October. Business surveys for the manufacturing sector improved slightly in November.

10 Year Government Bond Yields							
COUNTRY	YIELD		MOM		YOY		YTD
United States	4.17%	↓	-0.03	↓	-0.04	↑	0.06
United Kingdom	4.24%	↓	-0.05	↑	0.02	↑	0.11
Australia	4.34%	↓	-0.04	↓	-0.02	↑	0.08
New Zealand	4.38%	↓	-0.02	↓	-0.11	↓	-0.04
France	2.90%	↓	-0.08	↓	-0.04	↑	0.08
Japan	1.05%	↑	0.10	↑	0.44	↑	0.36

Table 3.0 Government Bond Yields. Source: Bloomberg.

Geopolitical shifts and fiscal policy developments

the recent presidential transition in the United States has brought significant changes to the global geopolitical landscape and fiscal policy outlook. The new administration has taken a firm stance on trade, threatening tariffs on imports from neighbouring countries. Geopolitical tensions persist in regions like Ukraine and Syria, although temporary ceasefires have been brokered.

On the monetary policy front, major central banks like the Federal Reserve and the Bank of England have adopted a cautious approach, reducing their target interest rates.

However, fiscal developments have taken centre stage, with budget-related issues causing political turbulence in several European countries, including Germany and France.

Meanwhile, authorities in China and Japan have announced economic support measures and fiscal packages, respectively, to bolster their economies.

As the global economic landscape continues to evolve, policymakers worldwide are grappling with challenges and implementing measures to navigate these uncertain times.

International Equities.

North America

Stock markets across North America closed November in the green territory, following a soft start earlier in the month, as uncertainty about the U.S Presidential elections eased after Donald Trump's victory brought a wave of optimism in the market. Strong corporate earnings, and the U.S Federal Reserve's decision to cut interest rates further provided a boost to the market. In the U.S, all three major stock indices (Dow Jones +7.27%, S&P 500 +5.57% and Nasdaq +6.02%) closed more than +5% higher, while Canada's Toronto S&P/TSX rose +5.99%, from last month's close.

Europe

European stock markets closed mostly higher this month, uplifted by favourable economic data, which offset concerns lingering from trade tariffs and recent political turmoil in France. The region's STOXX 600 index rose +0.96%, with U.K's FTSE rising +2.16%, while Germany's DAX added +2.84% return. France's CAC40 posted a -1.58% return.

Asia-Pacific

In Asia-Pacific, stock markets closed mixed amid geopolitical tensions, optimism about Beijing's stimulus measures and mixed corporate earnings results. Australia's S&P/ASX 200 rose +3.33% to new record close, while Hong Kong's Hang Seng dropped by -4.50%. China's Shanghai climbed +1.41% and India's Sensex gained +0.52% return.

	PRICE (USD)		MONTH		YOY		YTD
North America							
Dow Jones IA	44,910.65	↑	7.27%	↑	22.25%	↑	16.31%
S&P 500	6,032.38	↑	5.57%	↑	27.81%	↑	21.91%
NASDAQ	19,218.17	↑	6.02%	↑	30.08%	↑	23.69%
Toronto S&P/TSX	25,648.00	↑	5.99%	↑	23.70%	↑	19.89%
Europe							
FTSE	8,287.30	↑	2.16%	↑	10.60%	↑	8.26%
DAX	19,626.45	↑	2.84%	↑	19.09%	↑	14.93%
CAC40	7,235.11	↓	-1.58%	↓	-1.04%	↓	-5.66%
Asia							
Nikkei	38,208.03	↓	-2.26%	↑	13.19%	↑	5.16%
Hang Seng Index	19,423.61	↓	-4.50%	↑	13.08%	↑	22.66%
Shanghai Composite	3,326.46	↑	1.41%	↑	9.35%	↑	17.64%
Sensex	79,802.79	↑	0.52%	↑	17.50%	↑	10.63%
S&P/ASX 200	8,436.23	↑	3.33%	↑	17.42%	↑	9.38%

Table 4.0 International Equity Markets. Source: Bloomberg.

Commodities.

Agriculture

After Brazilian coffee prices were pressured in October due to the arrival of heavy rains, the start of the Vietnamese harvest, and the postponement of the European Union's Deforestation Regulation (EUDR), coffee prices showed strong appreciation in November. With a weakening Brazilian real currency (BRL), average arabica coffee prices rose 11% compared to October, reaching levels above BRL 1,900/bag. Meanwhile, robusta coffee prices also increased by 7%.

Meanwhile, palm oil prices are ticking upwards with growing demand from India and China. Indian edible oil imports reached a four-month peak in November, with a surge in palm oil buying post-festival season boosting demand.

	PRICE (USD)		MONTH		YOY		YTD
Agriculture							
Coffee (US cents/lb)	321.65	↑	26.85%	↑	50.05%	↑	50.53%
Cocoa (US\$/mt)	9,220.00	↑	22.89%	↑	72.29%	↑	64.82%
Palm Oil (RM/tn)	5,238.00	↑	8.73%	↑	33.31%	↑	31.73%
Energy							
Brent Crude (US\$/bbl)	72.94	↓	-0.30%	↓	-12.72%	↓	-11.35%
LNG (US\$/mmBtu)	14.93	↑	9.15%	↓	-7.80%	↑	44.86%
Light Crude WTI Futures (US\$/bbl)	68.00	↓	-1.84%	↓	-11.07%	↓	-10.93%
Precious Metals							
Gold (US\$/oz)	2,681.00	↓	-2.52%	↑	26.48%	↑	26.47%
Silver (US\$/oz)	31.11	↓	-5.28%	↑	19.25%	↑	30.00%
Base Metals							
Copper (US\$/lb)	4.14	↓	-4.72%	↑	7.25%	↑	6.11%
Iron Ore (US\$/mt)	95.96	↓	-0.10%	↓	-24.93%	↓	-29.95%

Table 5.0 International Commodity Prices. Source: Bloomberg.

ICO Coffee Price trend: Sep - Nov

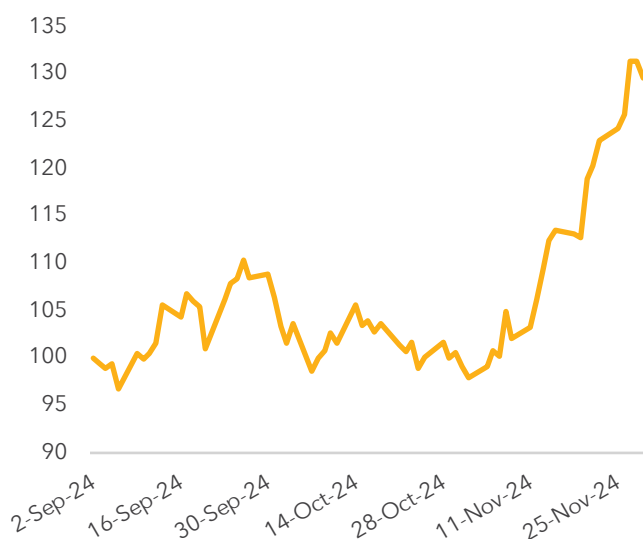


Figure 5.1 Coffee Price. Source: Bloomberg, KB Economics.

Palm Oil Price trend: Sep - Nov

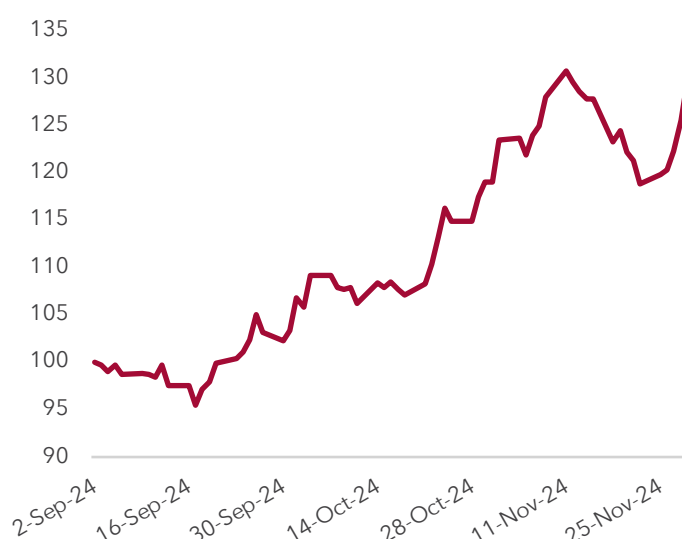


Figure 5.2 Palm Oil Price. Source: Bloomberg, KB Economics.

Commodities cont.

Energy

After a relatively subdued September and October, LNG prices (MMBTu) had an uptick in November. European natural gas prices in particular climbed to their highest levels in 2 years on fears remaining Russian pipeline supplies to Europe will be halted or face further curtailment.

In terms of the price outlook, global disturbances and supply-demand imbalances are key to influencing spot LNG prices. Ongoing conflicts in the Middle East and the Russia-Ukraine situation have supported bullish sentiment, driving spot prices higher in 2024, and post-winter gas inventories will also significantly influence 2025 price projections, according to market sources.

Global oil prices have eased from early-October highs, as market attention once again shifted from supply risks to concerns over the health of the global economy, sluggish oil demand and ample supply. After surging past \$80 per barrel at the start of October, Brent crude oil futures fell to around \$72/bbl by mid-November as fears of an attack by Israel on Iran's energy infrastructure faded.

LNG price over past 3 months

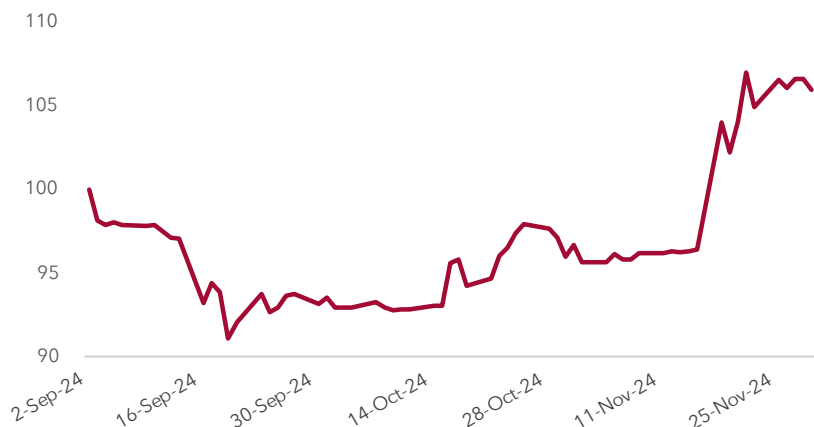


Figure 5.3 LNG Prices, Sep to Nov-24. Source: Bloomberg, KB Economics.

LNG Price trend in 2024 (YTD)



Figure 5.4 LNG Prices, YTD. Source: Bloomberg, KB Economics.

Brent price trend over past 3 months

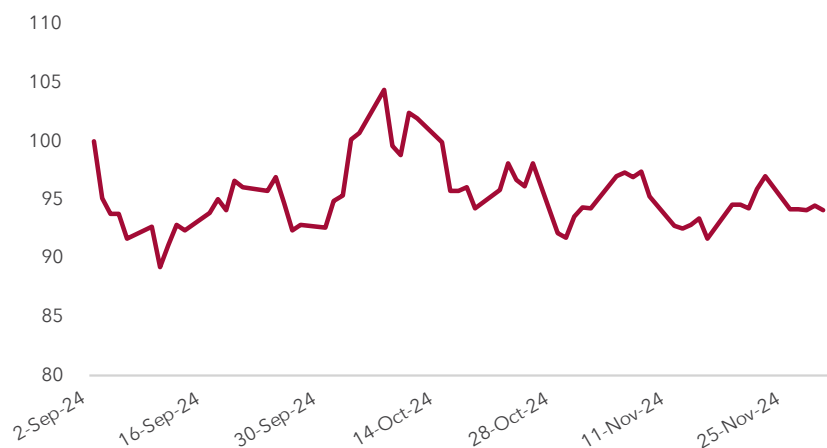


Figure 5.5 Brent Prices, Sep to Nov-24. Source: Bloomberg, KB Economics.



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