

Monthly Synopsis.

February 2022



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Month Change Highlights.

Oil
↑ **12.2%**

Brent Crude raced past the US\$100/barrel mark following the news of Russia invading Ukraine during the last week of February. With Russia supplying 11% of global oil production, the on-set of global sanctions and the disruption of Russia's supplies will see Oil elevated in the short to medium-term.

LNG
↑ **4.3%**

With Russia supplying 16% of global LNG, including 40% of the European market, LNG supplies have also been affected with prices to adjust and reflect the shortage across the various markets. Like Oil, this increased LNG price is expected to persist in the immediate short-term as Russia continues its invasion.

↓ **93bps**
364day T-Bill Rate

PNG Government Treasury Bill rates continued to slide through February; dropping another 93 basis points (bps) to settle at 5.17% at the end of February. The 1 year paper has dropped 187bps since the start of 2022.

14% Yield
BSP Dividend

BSP announced a PGK1billion Net Profit After Tax (NPAT). This meant a declared total 2021 dividend payment of PGK1.73 per share from its profits, which provides a yield of 14.4% based on its share price of PGK12.00 on the PNGX.

Coffee
↑ **3.6%** *ytd*

Coffee prices eased off slightly in February (-0.7%); but still remains at elevated levels due to bad weather in Brazil affecting global supplies. Coffee has been trending at above US230 cents/lb; after breaking the US200 cents/lb mark in December.

1.3m
Retail EFT
Transactions

BPNG statistics for recording debit card usage on its Retail Electronic Processing System was relatively similar to January figures at 1.3m 'value' transactions - which recorded ATM withdrawals and purchases (including cash-outs at EFTPOS machines). This is a +32% YoY increase to February 2021: highlighting the economy's continued recovery in retail activity.

Market Commentary.

Global markets conditions during February were driven by the news of Russia's invasion of Ukraine. As the situation continues to unfold amidst all the uncertainty, the clearest economic impact at this point for global markets is the impact on energy and food prices. Both Russia and Ukraine are major commodity suppliers, and disruptions to supply in these 2 countries will impact global prices. Following the announcement to invade on February 24, Crude Oil shot past US\$100/barrel, while natural gas gained +17% in the last week of February following the news of Russia's invasion. Overall, it was already shaping up to be a challenging month for both bond and

equity markets, even before the crisis. The Emerging Markets Equities (MSCI) Index was down -3%, and the Barclays Global Aggregate Index for bond activity fell -1.2%.

On the domestic front, the major announcement was the gas agreement signing between the PNG Government and its project partners for the P'nyang gas project in Western Province. ExxonMobil, Santos and Nippon are all confirmed to participate in the gas project, which is expected to produce 4.4trillion cubic feet (tcf) in total gas (compared to PNG LNG = 11tcf; Papua LNG = 7.5tcf).

February also saw major companies announcing their final 2021 results, including BSP, Kina and Santos, while Newcrest announced its half-year results - with BSP in particular posting solid 2021 earnings. BSP announced a PGK1billion Net Profit After Tax (NPAT) in its 2021 results, declaring a total dividend of PGK1.73 per share, providing a favourable yield of 14.4% based on its share price of PGK12.00 on the PNGX.

Kina Bank Outlook.

Risk appetite will be driven by events in Ukraine as uncertainty is elevated at the moment. For the global economy, what happens to energy prices over the coming weeks and months is probably the most important thing to watch and in turn, will influence how the major Central Banks will behave. As the US and EU continue to introduce tough sanctions on Russia, the major fall-out that the crisis will have on the global economy would be on the continued rise of major commodity prices - especially Oil, LNG, base metals (including aluminium and nickel) and grains.

This leads to the other major consequence of rising commodity prices: inflation. Prior to Russia's actions, the global economy was already experiencing inflationary pressures. The IMF's World Economic Outlook Update released in January forecasted price gains to 'average 3.9% in advanced economies' and '5.9% in emerging economies'. We anticipate that there will be upward pressure on prices, depending on the pace of the transmission of increased energy and other raw materials into production inputs.

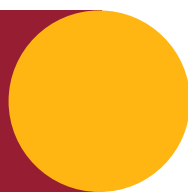
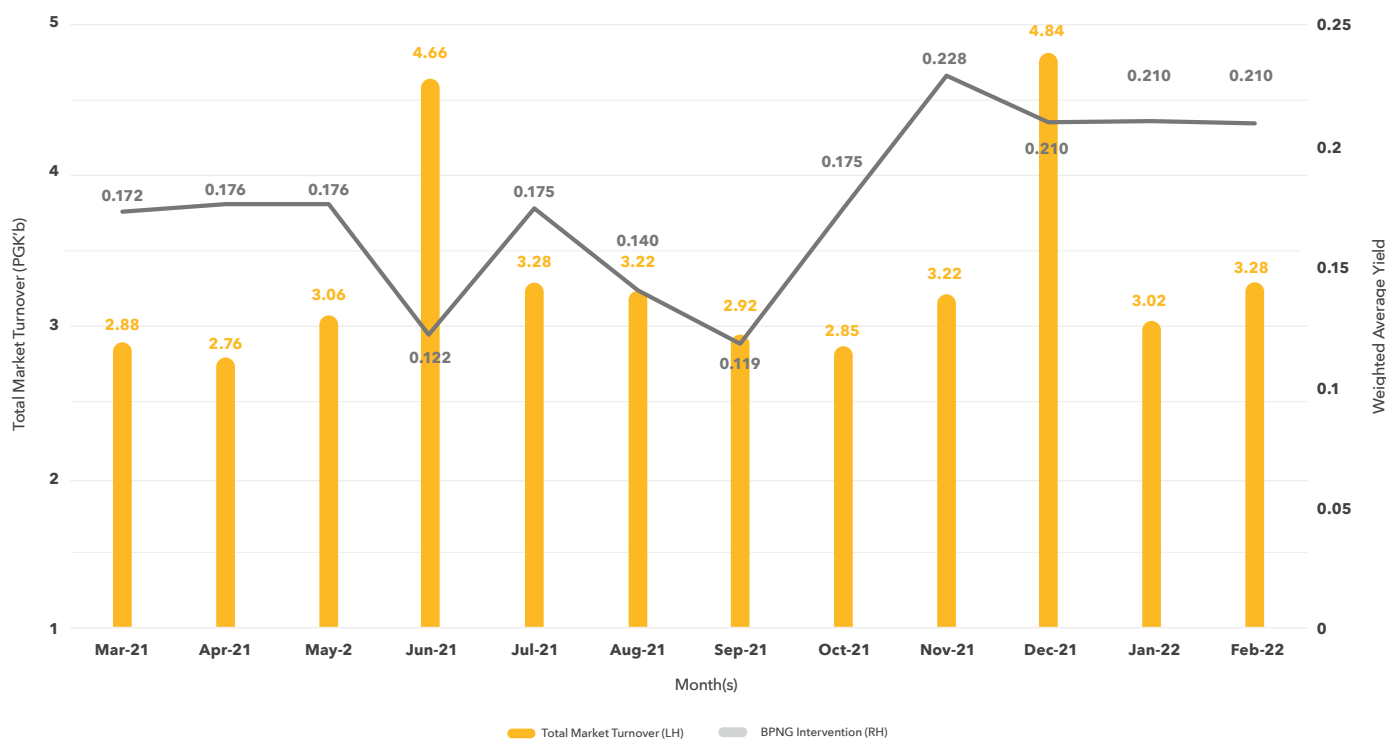
PNG's official inflation forecast for this year was 5.6%. With the global increase in fuel and food prices, coupled with the weak purchasing power of the PGK exchange rate, there is an increased likelihood of a transmission for increased prices across the consumer basket, particularly for fuel products. Although the higher commodity prices may point to higher revenues for PNG's main exports in the medium-term from a fiscal management perspective, an immediate short-term impact will be the rise consumer prices which will impact households.

PNG FX Market.

The PGK/USD Interbank rate dropped 10 basis points - the first move in 14 months. The structural imbalance still remains with import orders still waiting to be filled - with BPNG providing support by intervening with PGK209.7m during the month. The overall FX

market turnover during February was PGK3.3billion; an +8.6% increase on January. This is also a +25% increase YoY compared to turnover in February 2021, reflecting the economy's continued recovery from the last 2 years of the slow-down due to COVID-19.

Going forward, the continued upward pressure on global oil prices will place more import demand pressure for large crude importers.



PNG Equities.

A number of listed-companies announced their 2021 results in February - including BSP Financial Group (BSP); Kina Securities Limited (KSL) and Santos (STO); while Newcrest Mining (NCM) also released its FY21/22 half-year results.

BSP's announcement of PGK1billion Net Profit after Tax (NPAT) was the major headline; as it spells good news for some of its major shareholders, including the State through Kumul Consolidated, as well as the Superfunds and Credit Corporation.

| | PRICE* | | MTD | | YTD |
|---|-----------|---|-------|---|-------|
| PNG Stock Exchange (PNGX) | | | | | |
| Kina Securities Ltd. (KSL) | 2.90 | ↑ | 1.8% | ↓ | -1.7% |
| Credit Corporation PNG. (CCP) | 1.60 | - | 0% | ↓ | -4.8% |
| BSP Financial Group Ltd. (BSP) | 12.25 | ↑ | 2.1% | - | 0.0% |
| Australian Securities Exchange (ASX) | | | | | |
| Kina Securities Ltd. (KSL) | 0.90 | ↑ | 5.3% | ↑ | 4.7% |
| Newcrest Mining Ltd. (NCM) | 25.58 | ↑ | 19.0% | ↑ | 4.5% |
| Steamship Trading Company Ltd. (SST) | 9.41 | ↑ | 1.2% | ↓ | -5.9% |
| PNG Market Indices | | | | | |
| Ksi | 5,859.18 | ↑ | 0.2% | - | 0.0% |
| KSHi | 13,950.35 | ↑ | 0.3% | ↓ | -3.1% |

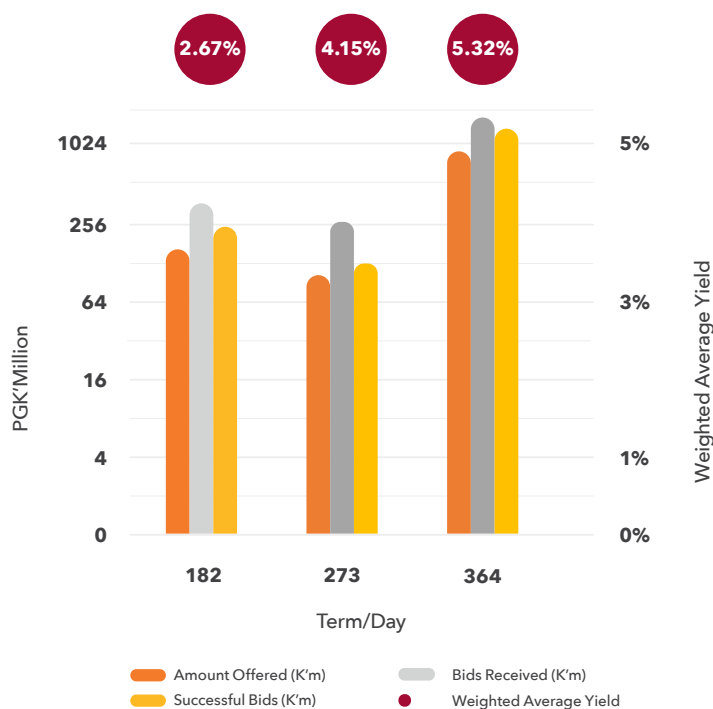
*Prices are PGK on PNGX; \$AU on ASX; and index points for the PNG Market Indices.

PNG Cash & Fixed Income.

Government's Treasury bill rates dropped for the second straight month this year: with the 364-day term falling +93 basis points (bps) to 5.17%; the 273-day dropped -107bps to 3.98%; and 182-day closed at 2.41% (down -124bps).

Total new issuance for the month was PGK0.91 billion, from which the BPNG raised about PGK2.1 billion on behalf of the Government. Even with the lower rates, the BPNG auction results showed that the overall market sentiment during February was strong.

As the National Election dates draw near, the Government may look to source funding for the major logistics campaign. To support this, we anticipate that the Treasury Department will soon announce the issuance of Government Inscribed Stocks (GIS).



Source: KFM & BPNG



Commodities.

Commodity markets moved into bullish territory in February, as major oil and LNG producer, Russia, has been hit hard with a broad range of severe sanctions following President Putin's launch of a full-scale invasion on Ukraine.

Crude oil made headlines by surpassing \$100 per barrel after 7 years. At the same time, the LNG price rose to \$27.95/mmBtu, gaining +4.3% for the month. Precious Metals closed higher after Gold saw a +6.9% growth m/m, as investors bid-up the gold price as they hedged against market volatility. Silver added +9.9% to its previous month peak.

Coffee lost momentum earlier during the month, putting an end to its growth trajectory after shedding about -0.7%. Cocoa also fell -0.1%, while Palm Oil saw a strong gain of +27.5%, fuelled by Production woes in Malaysia, combined with an expected -3% fall (yearly basis) in Indonesia's palm oil exports this year.

| | PRICE* | | MTD | | YTD |
|-------------------------|----------|---|-------|---|-------|
| Agriculture | | | | | |
| Coffee. (US cents/lb) | 234 | ↓ | -0.7% | ↑ | 3.6% |
| Cocoa. (US\$/mt) | 2,491 | ↓ | -0.1% | ↓ | -1.2% |
| Palm Oil. (RM/tn) | 7,400 | ↑ | 27.5% | ↑ | 43.4% |
| Energy | | | | | |
| Brent Crude. (US\$/bbl) | 100.99 | ↑ | 12.2% | ↑ | 29.3% |
| LNG. (US\$/mmBtu) | 27.95 | ↑ | 4.3% | ↓ | -8.3% |
| Light Crude. (US\$/bbl) | 95.60 | ↑ | 10.1% | ↑ | 26.4% |
| Precious Metals | | | | | |
| Gold. (US\$/oz) | 1,909.40 | ↑ | 6.9% | ↑ | 4.2% |
| Silver. (US\$/oz) | 24.51 | ↑ | 9.9% | ↑ | 4.7% |
| Base Metals | | | | | |
| Copper. (US\$/lb) | 4.51 | ↑ | 4.6% | ↑ | 0.8% |
| Iron Ore. (US\$/t) | 122.92 | ↓ | -3.5% | ↑ | 9.1% |

Source: Reuters & KFM

International Equities.

Major indices plunged around the world as investors lost their risk-appetite due to market volatility expectation, caused by Russia's actions in Ukraine.

Within developed markets, the S&P 500 fell -1.3%, while European equities underperformed significantly, with Euro Stoxx 50 falling more than -6.0%. From a sector perspective, Energy and Materials returned positively. MSCI Energy rose +2.1%, while MSCI Materials gained +2.0%.

Relatively, Europe equities were the worst performing during February. A major reason for this was the regions heavy reliance on Russia energy imports, particularly for Oil and LNG.

| | Price | | MTD | | YTD |
|----------------------|-----------|---|-------|---|--------|
| North America | | | | | |
| Dow Jones IA | 33,892.60 | ↓ | -2.4% | ↓ | -6.7% |
| S&P 500 | 4,373.94 | ↓ | -1.3% | ↓ | -8.2% |
| NASDAQ | 13,751.40 | ↓ | -0.1% | ↓ | -12.1% |
| Toronto S&P/TSX | 21,126.36 | ↑ | 1.9% | ↓ | -0.5% |
| Europe | | | | | |
| FTSE | 7,458.25 | ↓ | -0.1% | ↑ | 1.0% |
| DAX | 14,461.02 | ↓ | -5.6% | ↓ | -9.0% |
| CAC 40 | 6,658.83 | ↓ | -4.4% | ↓ | -6.9% |
| Asia | | | | | |
| Nikkei 255 | 26,526.82 | ↓ | -0.7% | ↓ | -7.9% |
| Han seng Index | 22,713.02 | ↓ | -3.6% | ↓ | -2.9% |
| Shanghai Comp. | 3,462.31 | ↑ | 3.0% | ↓ | -4.9% |
| BSE Sensex | 56,247.28 | ↓ | -1.7% | ↓ | -3.4% |
| S&P/ASX 200 | 7,124.20 | ↑ | 1.9% | ↓ | -4.3% |

Source: Reuters, JP Morgan & KFM



International Cash & Fixed Income.

Government bond yields saw modest gains during February. The bond market had a strong start earlier in the month, rising on the back of market assumption that Central Banks would take an aggressive approach in tightening their monetary policy stance. However, the tide turned around mid-February as yields declined after geopolitical tension escalated.

U.S 10-year Government bond yields rose +6basis points to 1.83%, while the U.K 10-year increased to 1.41% and Australian bonds gained +0.26% to close the month at 2.16%.

| 10 Year Government Bond Yields | | | | | |
|--------------------------------|-------|---|-------|---|-------|
| COUNTRY | YIELD | | MTD | | YTD |
| United States | 1.83% | ↑ | 0.06% | ↑ | 0.31% |
| United Kingdom | 1.41% | ↑ | 0.17% | ↑ | 0.44% |
| Australia | 2.16% | ↑ | 0.26% | ↑ | 0.49% |
| New Zealand | 2.72% | ↑ | 0.12% | ↑ | 0.33% |
| France | 0.61% | ↑ | 0.24% | ↑ | 0.41% |
| Japan | 0.19% | ↑ | 0.02% | ↑ | 0.12% |

Source: Reuters & KFM



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