

Monthly Synopsis.

January 2022



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Month Change Highlights.

<p>↓ 107bps 364-day T-bills</p>	<p>Treasury bill rates for all tenures dropped in successive auctions during January, weighed on by excess liquidity in the banking system and the Government's cash balances. The 364-day term dropped 107 basis points; hovering above 6% at months close.</p>	<p>↑ 27% YoY Bank Debit Card Usage</p>	<p>Retail activity continues its growth from 2021, as evidenced by the latest statistics from the Bank of PNG's Retail payments processing system (commonly known as REPS). The REPS system recorded over 1.3m transactions in January; an increase of 27% YoY for Bank Debit Card transactions for ATM Withdrawals and EFTPOS purchases.</p>
<p>↑ 4.0% Coffee</p>	<p>Global Coffee prices gained +4% in January, extending its consistent rise throughout 2021, due to global supply disruptions, particularly in Brazil due to persistent bad weather affecting crops.</p>	<p>↓ 3.4% KSHi</p>	<p>The Kina Securities Home Index (KSHi) dropped 3.4% to open the first month of 2022. This was mainly attributed to falls in Banking and Finance stocks to open the year, led by a 4.8% drop in the Credit Corporation (CCP) share price.</p>
<p>↑ 16.7% Crude Oil</p>	<p>Crude oil prices soared during January due to global supply disruptions as tensions between major Oil-producer Russia and the West over Ukraine continues to heat up.</p>	<p>↑ 27% YoY FX Market Turnover</p>	<p>January 2022 FX market turnover had a 25% YoY increase from Jan '21. Following a flat 1.1% monthly growth rate in 2020, last year's monthly compound growth rate was a solid 6.5%. Early signs are that this growth will increase in the short-term with improved commodity prices supporting exporter inflows.</p>

Market Commentary.

In global markets, the focal point for the month was the U.S Federal Reserve's policy statement which highlighted that its security buying programme ('quantitative easing') would end in early March, and the Fed expects it will "soon" be appropriate to raise interest rates, due to the rising and persistent inflation along with stronger US labour markets data. This change in interest rate expectations drove up U.S Treasury yields, while the U.S share market declined 5.3% in January. In contrast, commodity prices rose over the first month of 2022, as measured by the Bloomberg Commodity Index, which gained 8.0%. Oil was a standout performer, returning +16%, and

benefiting from favourable supply and demand dynamics, with the ongoing Russian tensions over Ukraine also placing upward price pressure for oil.

On the local front, the main news was the acute drop in fixed income from Government debt. The 364-day term interest rate dropped from opening the year at 7.17% to 6.10% by the end of January. We expect that this will continue to creep lower over the coming months.

In other major news during January, the competition regulator (ICCC) released its draft determination to approve Australian-owned Telstra to

acquire Digicel. A final determination is expected in February. Also in the utilities sector, the PNG Government signed an agreement with Australia for support to the ports sector. PNG Ports will be the beneficiary of this arrangement to upgrade and refurbish several 'priority ports' across PNG through a \$580million loan and financing package delivered through the Australian Financing Facility for the Pacific (AIFFP).

Kina Bank Outlook.

In the immediate next couple of months, we anticipate that domestic interest rates will continue to drop further, and this drop will pass through to deposit rates at commercial banks. This sharp drop may be attributed to the Government's ability to access international concessional financing and be more assertive when accepting Treasury Bill auction bids.

A Debt Issuance plan from Government may provide more certainty around its financing plan for this year, particularly with regards to Government Inscribed

Stocks. When the Government will release a plan is still unknown. However, as the National Elections draw near, the need for a pre-election stimulus may be the impetus to see domestic rates creep again.

Globally, investors are still trying to work out how far the U.S Fed could raise interest rates, and this uncertainty will keep global equities volatile for some time. The tensions between Russia and Ukraine will also add to this anxiety, and will keep Oil elevated. On softer agricultural commodities, global

Coffee prices will look to gain on a solid month, with reports from Brazil that supply will take time to return to normal - implying a global shortage that will keep prices elevated. This will bode well for coffee-producing price-takers such as PNG.

PNG Equities.

The local equities market started off 2022 with losses in the banking stocks impacting a 0.2% drop in the Kina Securities Index (KSi), with KSL and BSP stock prices both down 3.4% and 2%, respectively.

The Kina Securities Home Index (KSHi) also dropped 3.4% in January, with the fall attributed to Credit Corporation (CCP) which experienced a 4.8% drop in its share price.

	PRICE*		MTD		YTD
PNG Stock Exchange (PNGX)					
Kina Securities Ltd. (KSL)	2.85	↓	-3.4%	↓	-3.4%
Credit Corporation PNG	1.60	↓	-4.8%	↓	-4.8%
BSP Financial Group Ltd. (BSP)	12.00	↓	-2.0%	↓	-2.0%
Australian Securities Exchange (ASX)					
Kina Securities Ltd. (KSL)	0.84	↓	-2.3%	↓	-2.3%
Newcrest Mining Ltd. (NCM)	21.55	↓	-12.0%	↓	-12.0%
Oil Search Limited. (OSH)	4.04	-	0.0%	-	0.0%
PNG Market Indices					
Ksi	5,850.05	↓	-0.2%	↓	-0.2%
KSHi	13,905.67	↓	-3.4%	↓	-3.4%

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

PNG Cash & Fixed Income.

The Government's Treasury-bill rates sharply fell across all tenures during January, as it continues to explore concessional sources of external financing to support its key investment initiatives. The 364-day term paper opened the year at 7.17%; but was down at 6.10% by the end of January. We expect this to drop down further in February.

These developments have created an acute margin pressure for banks, thus the only course of action will be to revise term deposits rates.

The BPNG raised about PGK1.6 billion from the new issuance (PGK1.3 billion) this month. The market saw a strong demand amidst weak rates as investors sought for better rates; with the overall auction over-subscribed by PGK2.2 billion.



Source: KFM & BPNG

Commodities.

Commodity traders had a fantastic start to 2022, noting strong margins on positive commodity prices. Energy dominated the commodity market in January, with strong gains posted by Brent Crude (+16.7%) and the Light Crude (+16.5%). Strong oil prices resulted from a supply-shortage and geo-political tensions between Russia and Ukraine. Russia makes up about 11% of global oil production and 16% of global natural gas production.

Agriculture saw modest gains, while the Precious Metals closed in the red - Gold and Silver lost -1.9% and -4.4%, respectively.

Base Metals ended January on a mixed note, as Copper closed lower by -3.3%, and Iron Ore was up +12.0% to end the month.

	PRICE*		MTD		YTD
Agriculture					
Coffee. (US\$/lb)	235	↑	4.0%	↑	4.0%
Cocoa. (US\$/mt)	2,528	↑	0.3%	↑	0.3%
Palm Oil. (RM/tn)	5,785	↑	12.1%	↑	12.1%
Energy					
Brent Crude. (US\$/bbl)	91.21	↑	16.7%	↑	16.7%
LNG. (US\$/mmBtu)	24.71	↓	-19.0%	↓	-19.0%
Light Crude. (US\$/bbl)	88.15	↑	16.5%	↑	16.5%
Precious Metals					
Gold. (US\$/oz)	1,796.40	↓	-1.9%	↓	-1.9%
Silver. (US\$/oz)	22.39	↓	-4.4%	↓	-4.4%
Base Metals					
Copper. (US\$/lb)	4.32	↓	-3.3%	↓	-3.3%
Iron Ore. (US\$/t)	127.33	↑	13.0%	↑	13.0%

Source: Bloomberg & KFM

International Equities.

There have been a lot of emphasis on interest rate hikes in 2022 driving global equity investment behaviour.

Investors were concerned by this, thinking that Central banks would go hard on tightening their monetary policy as strong December jobs data and high oil prices continued to super charge inflation.

The US share market was one of the worst performing markets in January, declining 5.3%. Europe outperformed, down -2.9%, due to low technology exposure and a higher weighting to value stocks.

The technology laden US NASDAQ Index fell -9.0% over the first month of the year. The FAANG Index (Facebook, Apple, Amazon, Netflix and Alphabet's Google) was down -15% at one stage during the month, only to stage a strong recovery to end the month -7.8% lower.

	Price		MTD		YTD
North America					
Dow Jones IA	35,131.86	↓	-3.3%	↓	-3.3%
S&P 500	4,515.55	↓	-5.3%	↓	-5.3%
NASDAQ	14,239.88	↓	-9.0%	↓	-9.0%
Toronto S&P/TSX	21,098.29	↓	-0.6%	↓	-0.6%
Europe					
FTSE	7,464.37	↑	1.1%	↑	1.1%
DAX	15,471.20	↓	-2.6%	↓	-2.6%
CAC 40	6,999.20	↓	-2.2%	↓	-2.2%
Asia					
Nikkei 255	27,001.98	↓	-6.2%	↓	-6.2%
Han seng Index	23,802.27	↑	1.7%	↑	1.7%
Shanghai Comp.	3,361.44	↓	-7.6%	↓	-7.6%
BSE Sensex	58,014.17	↓	-0.4%	↓	-0.4%
S&P/ASX 200	6,971.63	↓	-6.4%	↓	-6.4%

Source: Bloomberg & KFM

International Cash & Fixed Income.

January was a good start to the year for the global bond market. Major developed economies registered positive returns on rising 10-year Government bond yields, after the market reacted to policy decisions by central banks to hike interest rates at the back end of 2021. The U.S 10-year Treasury yield rose +0.27% and the UK 10-year yield scored +0.33% for the month. In the euro zone, the France 10-year yield up +0.23%, while the German 10-year yield reached new highs by closing above 0% for the first time since March 2019.

10 Year Government Bond Yields					
COUNTRY	YIELD		MTD		YTD
United States	1.78%	↑	0.27%	↑	0.27%
United Kingdom	1.30%	↑	0.33%	↑	0.33%
Australia	1.91%	↑	0.24%	↑	0.24%
New Zealand	2.60%	↑	0.21%	↑	0.21%
France	0.43%	↑	0.23%	↑	0.23%
Japan	0.18%	↑	0.11%	↑	0.11%

Source: Bloomberg & KFM

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