

# Monthly Synopsis.

April 2022



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## Month Change Highlights.

Petrol  
**+12%**

Fuel prices increased across the board for petrol, diesel and kerosene – as global crude price increases started to transmit into the local economy.

LNG  
**-29%**

LNG prices took a hit during the month as Asia's energy demand softened in major markets due to weather transitions.

Deficit/GDP  
**+6.7%**

The Final Budget Outcome by the Treasurer reported that the Fiscal Deficit-to-GDP ratio had improved from +9% in 2020 to +6.7% last year – as the Government continues its fiscal balancing plan.

Palm Oil  
**+20.7%**

Palm Oil continued to rise off the back of major suppliers going through structural shifts – with Indonesia's plans to ban exports and Malaysia facing labor challenges.

**Risk-off**  
with Equities

Major global equity indices were down for the month – as inflationary pressures continued to drive investor sentiment to price in more interest rate hikes and avoid equities.

**T-bills**  
continue to drop

The Government's 364-term Treasury Bills continue to drop – closing at 4.60% in April. T-bills have now dropped 260 basis points since the start of 2022.

## Market Commentary.

As the war in Ukraine entered its third month, April brought with it an extension of a more cautious approach since the beginning of 2022. The Chinese economy continued to stagnate, as another COVID-19 Omicron outbreak meant more lockdowns and a pause on consumer spending and investments in the world's second largest economy. Meanwhile in the U.S, as with most of the major economies – the main market driver has been inflation. The U.S CPI was reported to have increased by +8.5% at the end of Q1; prompting many to predict that another rate hike is imminent in May.

On the domestic front, the major concern for businesses was the price of fuel, with the Independent Consumer & Competition Commission announcing increases for the retail price of petrol (+12%), diesel (+18%) and kerosene (+20%) – reflecting the increase in global price crude oil. As fuel is a major input cost for transportation and power supply (many businesses use diesel generators), the flow on effects to consumers in increased prices in the immediate term will be a concern.

On the macroeconomic front, the Hon. Ian Ling-Stuckey announced some of

the results of the 2021 Final Budget Outcome in Parliament. The Treasurer reported that **2021 revenues came in at PGK13.9b vs total expenditure of PGK20.1b**. This represented a total deficit of PGK6.3b, or 6.7% of GDP. This deficit/GDP ratio is consistent with the Government's plans to bring the budget back to balance, following a Deficit/GDP ratio of 8.9% in 2020. A major reason for the increased revenues was the increased support from external partners, with international financing and grants also increasing by an extra PGK1b last year.

# Kina Bank Outlook.

The immediate concern as we head into the second quarter of this year will be the impact of inflation, both locally and internationally. The supply-chain disruptions which continue to plague global trading patterns, combined with the after-shocks of Russia’s invasion of Ukraine, means that the global economy is still in somewhat fragile territory. Most Central Banks are expected to continue the interest-rate hike trajectory to contain the persistent price rises.

On the domestic front, fuel prices will be a key driver for supply-side price pressures. The Government has announced it may provide some support, however, this will be only for the immediate term, so there may be further inflationary pressures heading into election period, which also presents its own set of challenges with the pressures of demand-aggravated inflation. We anticipate that it will be a ‘risk-off’ approach for many of the

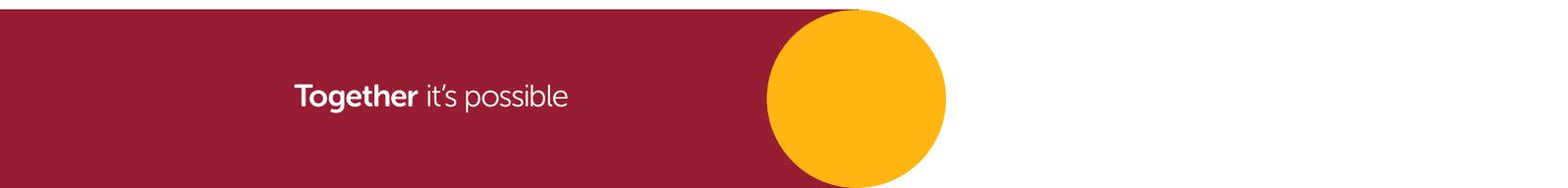
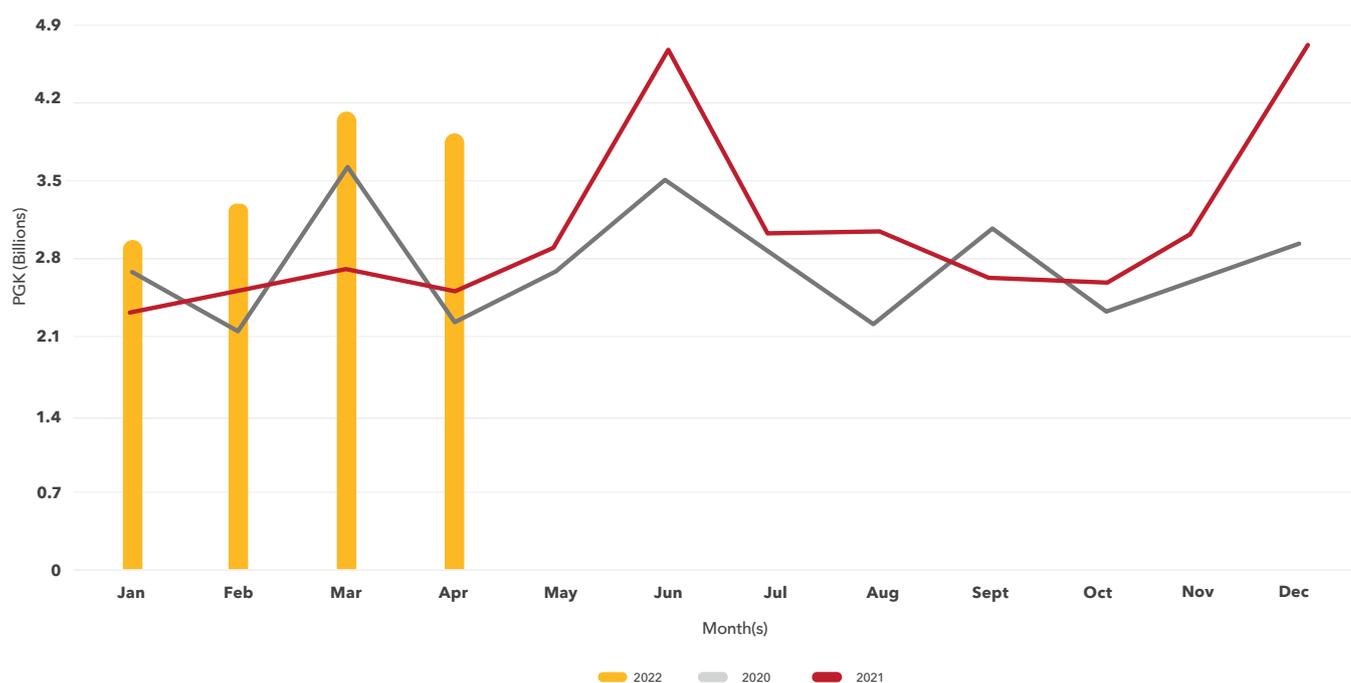
large businesses, as they wait to see how the elections pan out and the decision on the pending resource projects of Wafi-Golpu and Porgera’s re-commencement.

# FX Market.

Following the U.S Fed’s decision to raise its benchmark interest rate, U.S Treasury yields rose sharply in April, particularly along the short end of the yield curve. The interest rate hike increased investor-demand for the U.S dollar. Major currencies strengthened against the Euro, Sterling, and Aussie dollar, which all fell by more than 400 basis points (bps) versus the U.S dollar, while the Japanese Yen lost more than 600bps.

In the local market, the PGK/USD interbank rate remained unchanged at 0.2840. However, the strengthening U.S dollar against the major traded currencies such as the EUR, GBP, AUD and JPY meant that the stable PGK rate gained on the cross-conversion against the other currencies. In terms of total FX market turnover flows, April recorded PGK3.75b, a +36% increase on the corresponding period 12 months earlier. This demonstrates

that the FX market is very busy with more flows coming into the market and clearing out import orders. Through the first 5 months of 2022, there has been an average FX monthly turnover of PGK3.54b; a +50% increase on the average monthly FX turnover in 2021.



## PNG Equities.

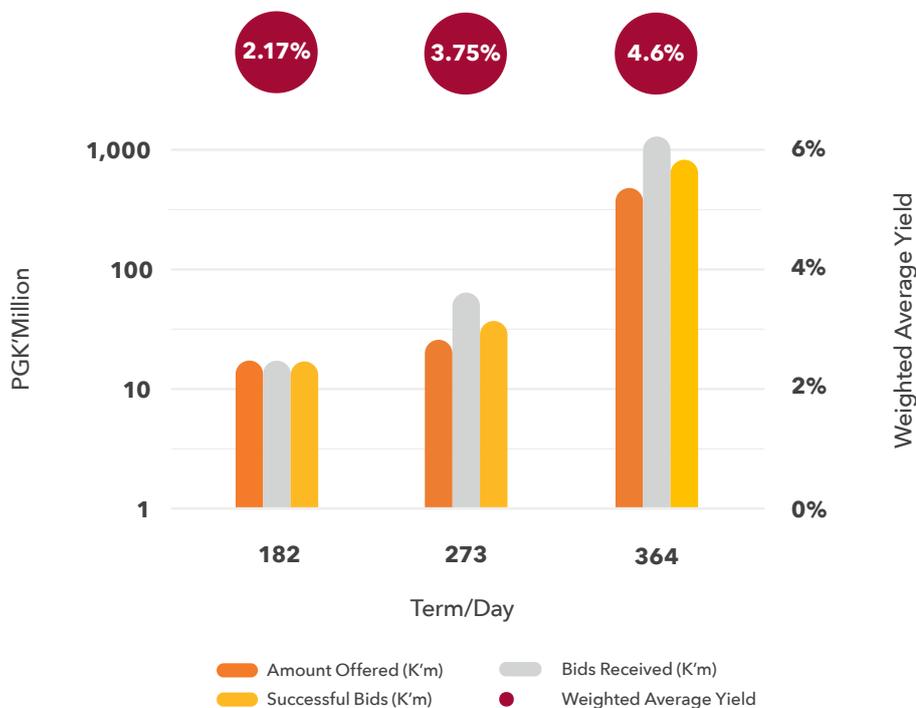
It was a relatively quiet month for the Kina Securities Index (KSi) with a +0.1% increase during April by closing at 5,862.1 points. On the local bourse, BSP Financial Group (BSP) gained +2.1%, closing the month at PGK12.30; while other major stocks such as Kina Securities (KSL) and Credit Corporation (CCP) remained relatively unchanged to close out the month.

In other major news for the PNGX market during April, Santos (STO) announced its new capital management framework, including an initial on-market share buyback to target higher returns for its shareholders. And lastly, BSP Board Chairman, Sir Kostas Constantinou announced to the market that long-serving CEO, Robin Fleming has decided he will not be seeking an extension to his term which expires at the end of this year. Sir Kostas further advised that BSP has initiated a process to select a new CEO. BSP currently holds a 65% market share of the PNG Commercial Banking sector.

	PRICE*		MTD		YTD
<b>PNG Stock Exchange (PNGX)</b>					
Kina Securities Ltd. (KSL)	3.00	-	0%	↑	1.7%
Credit Corporation PNG. (CCP)	1.60	-	0%	↓	-4.8%
BSP Financial Group Ltd. (BSP)	12.30	↑	2.1%	↑	0.4%
<b>Australian Securities Exchange (ASX)</b>					
Kina Securities Ltd. (KSL)	0.88	↑	4.8%	↑	2.9%
BSP Financial Group Ltd. (BFL)	4.90	↓	-2.0%	↓	-5.8%
Newcrest Mining Ltd. (NCM)	26.88	↓	-0.2%	↑	9.8%
Santos Limited (STO)	8.00	↑	1.3%	↑	26.8%
<b>PNG Market Indices</b>					
Ksi	5,862.09	↑	0.1%	-	0.0%
KSHi	13,950.35	-	0.0%	↓	-3.1%

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

## PNG Cash & Fixed Income.



Source: KFM & BPNG

The local Treasuries market continued to receive excess demand for the bids on offer. Across the 3 separate short-term tenors (182, 273 and 364) in Treasury Bills; the Government received in excess of PGK8.6b worth of bids, against an offering of PGK3.7b. The Government ended up accepting PGK5.2b of the bids. Of particular note is the continued down-ward trend of the 364-day term market, which continued to drop and closed out the month at 4.60%. This is a 260 basis point fall in 364-day Treasury Bills since the start of the year - a clear sign of aggressive bidding by the market.

For the longer-dated Government Inscribed Stocks (GIS), the Treasury finally held its first auction for Bonds following the earlier cancellation the previous month. The Government offered PGK700m; and received in excess of PGK1.2b in bids. The final outcome was a raising of PGK320m. The bulk of the successful bids came in for the shorter-dated bonds (especially for the 2-yr and 4-yr terms), with the weighted average rate ranging from 6.50% to 6.71%. The Weighted Average Rate for the 10-year paper was reported at 7.90%.

## Commodities.

Energy continued to dominate the market, mainly Brent crude and Light crude as the demand for oil continues to remain firm, reflecting the impact of the on-going war in Ukraine and the sanctions imposed on Russia. Liquefied Natural Gas prices dropped on soft demand, as Asia and other parts of the world moved into the shoulder season (March, April and early May) - during this period demand for gas is usually lower due to moderate temperatures.

Palm Oil prices (+20.7%) finished the month strongly on the continued geopolitical tensions and Indonesia's decision to ban exports of crude palm oil, which saw global markets react with panic. Meanwhile, Coffee (-2.6%) and Cocoa (-0.1%) had a challenging month, with each posting negative gains.

Gold prices came off by 60bps by the end of April, finishing below US\$2,000/ounce. Investors normally perceive gold as a safe-haven commodity to hedge against inflation and uncertainty - however the price of the precious metal eased off following the announcement of rising policy rates which dented its appeal and increased the opportunity cost of holding non-interest bearing assets.

## International Equities.

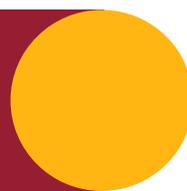
April was the third month this year that major global equity indices posted negative returns. This was driven by the increased risk-sentiment as the Ukraine war continues to carry on into its first quarter; while China announced more lock-downs with increased COVID-19 cases, which exacerbated already strained supply-chain issues. Of the major indices, only London's FTSE 100 edged up slightly due to gains in miners and strong corporate updates during the month.

	PRICE*		MTD		YTD
<b>Agriculture</b>					
Coffee. (US cents/lb)	223	↓	-2.6%	↓	-1.6%
Cocoa. (US\$/mt)	2,597	↓	-0.1%	↑	3.1%
Palm Oil. (RM/tn)	7,683	↑	20.7%	↑	48.9%
<b>Energy</b>					
Brent Crude. (US\$/bbl)	109.34	↑	4.7%	↑	39.9%
LNG. (US\$/mmBtu)	24.53	↓	-29.3%	↓	-19.6%
Light Crude. (US\$/bbl)	104.69	↑	5.5%	↑	38.4%
<b>Precious Metals</b>					
Gold. (US\$/oz)	1,911.70	↓	-0.6%	↑	4.4%
Silver. (US\$/oz)	23.09	↓	-6.4%	↓	-1.4%
<b>Base Metals</b>					
Copper. (US\$/lb)	4.41	↓	-6.0%	↓	-1.4%
Iron Ore. (US\$/t)	130.43	↓	-8.5%	↑	15.8%

Source: Reuters & KFM

	Price		MTD		YTD
<b>North America</b>					
Dow Jones IA	32,977.21	↓	-5.3%	↓	-9.2%
S&P 500	4,131.93	↓	-9.1%	↓	-13.3%
NASDAQ	12,334.64	↓	-13.5%	↓	-21.2%
Toronto S&P/TSX	20,762.00	↓	-5.4%	↓	-2.2%
<b>Europe</b>					
FTSE	7,544.55	↑	0.1%	↑	2.2%
DAX	14,097.88	↓	-2.4%	↓	-11.2%
CAC 40	6,533.77	↓	-2.3%	↓	-8.7%
<b>Asia</b>					
Nikkei 255	26,847.90	↓	-3.0%	↓	-6.8%
Han seng Index	21,089.39	↓	-4.3%	↓	-9.9%
Shanghai Comp.	3,047.06	↓	-7.2%	↓	-16.3%
BSE Sensex	57,060.87	↓	-3.7%	↓	-2.0%
S&P/ASX 200	7,435.01	↓	-0.8%	↓	-0.1%

Source: Reuters, JP Morgan & KFM



## International Cash & Fixed Income.

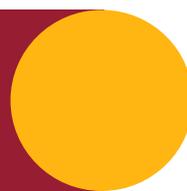
Bond yields continued to rise during the month of April due to the mounting concerns over rising inflation pressures, and investors' expectations that Central Banks will take a more aggressive approach towards interest rate hikes. The latest U.S Federal Reserve policy minutes showed that it is considering a relatively swift reduction in its balance sheet. The U.S 10-Year Treasury rose to 2.93% and the 2-year closed higher at 2.73%. The '10-2 Year' Treasury Spread inverted briefly early in the month, which sparked recession concerns.

In Europe, the U.K 10-year yield closed higher at 1.91%, adding 30 basis points (bps) to the peak of March. The German 10-year yield increased from 0.55% to 0.94%, and the Italian 10-year yield saw a gain of 73bps (2.77%).

10 Year Government Bond Yields					
COUNTRY	YIELD		MTD		YTD
United States	2.93%	↑	0.55%	↑	1.42%
United Kingdom	1.91%	↑	0.30%	↑	0.93%
Australia	3.13%	↑	0.30%	↑	1.46%
New Zealand	3.64%	↑	0.37%	↑	1.25%
France	1.46%	↑	0.44%	↑	1.26%
Japan	0.23%	↑	0.00%	↑	0.16%

Source: Reuters & KFM

Closer to the region, Australia and New Zealand shared similar sentiments, as they both witnessed more than 30bps gains in 10-year yields - with the Australia and New Zealand 10-year yields rising to 3.13% and 3.64%, respectively.



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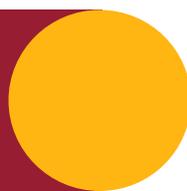
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