APRIL 2024

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

Resilient economic data helped investors get into the Spring spirit during the first quarter of 2024. The US economy was confirmed to have grown & macroeconomic data around the world also showed encouraging signs, further supporting the prospect of a soft landing

COMMODITIES

Cocoa extended its surge in March - gaining more than $700 per ton in a single day and surpassing $9,000 for the first time ever - as supply crunch grips the market

FX MARKETS

Market turnover improved to K3.9 billion in March, rising by 11% after February's 4 month low. The PGK/USD rate depreciated a total of 9bps in March, settling at 0.2651

MONEY MARKETS

Increased corporate tax transfers and Provincial Government Goods and Services tax (GST) transfers to the Internal Revenue Commission (IRC) tightened system liquidity over the month

CONTENTS

GLOBAL MARKETS

Resilient economic data helped investors get into the Spring spirit during the first quarter of 2024. The US economy was confirmed to have grown by more than expected during Q4 2023, while survey data from the composite Purchasing Managers' Index (PMI) remained firmly in expansionary territory, boosting investor sentiment. Macroeconomic data elsewhere around the world also showed encouraging signs, further supporting the prospect of a soft landing.

Against this backdrop, global equities posted strong returns, with the MSCI ACWI up 7.4% during the first quarter. Volatility, meanwhile, remained low with the VIX Index – a reference point for equity market volatility – averaging around 14 over the same period.

While equity investors cheered strong economic data, for fixed income investors it was a more challenging period. Stickier inflation prints, resilient economic activity, and the Federal Reserve (Fed) backpedaling somewhat on its dovish December tone combined to drive negative returns for bonds. The shift in the macro backdrop was also reflected in market expectations for interest rate cuts, where the implied number of US rate cuts for 2024 reduced from six to seven cuts at the end of 2023, to no more than three rate cuts in total, starting in the summer. Today's market pricing is now broadly in line with the Fed's latest dot plot. As prospects for aggressive rate cuts faded, the yield of the Bloomberg Global Aggregate Index increased by 28 basis points (bps) over the quarter, which led to negative returns of -2.1%.

GLOBAL MARKETS

Other interest rate sensitive asset classes, such as real estate, also suffered on the back of higher interest rates. The Global REITs Index ended the quarter down -1.5%.

In commodity markets, the broad Bloomberg Commodity Index increased slightly by 2.2% last quarter as the fall in gas prices was more than offset by a rise in oil prices on the back of ongoing supply cuts and geopolitical tensions.

Developed market equities had a strong first quarter thanks in large part to the performance of growth stocks, which returned 10.3%.

This was especially true in the US, where the S&P 500 rose 10.6%, outperforming most of its peers, driven once again by the stellar performance of the 'magnificent seven' stocks which posted earnings growth of 56% during Q4 2023, helping to lift overall index earnings growth to 8%.

However, the best performing market of the quarter was once again Japan. The Topix ended up 18.1% in the first three months of the year, despite the Bank of Japan beginning normalisation of its monetary policy in March. The central bank announced an end to its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts.

While some European equity indexes, such as the French CAC 40, reached new all-time highs, European equities overall continued to lag the US and Japan, with the MSCI Europe ex-UK Index posting returns of 9.7%. European stocks did, however, end the quarter on a brighter note. Global investors, concerned about the concentration risks of the US market, may be starting to turn to Europe where cheaper valuations and a potential shrinking of the economic growth gap relative to the US are making the region look more attractive.

Emerging market equities underperformed their developed market peers, with the MSCI EM Index returning 2.4% as investors remained concerned about China's growth prospects in the absence of any meaningful fiscal stimulus. The MSCI China Index, nevertheless, rebounded 12.3% from its January low on the back of better economic activity data during the Lunar New Year holiday and some easing measures from the People's Bank of China, which lowered its 5-year loan prime rate for the first time since June 2023.

GLOBAL MARKETS

UK equities lagged most of their international peers with the FTSE All-Share rising just 3.6% since the beginning of the year. The UK market suffered due to its value bias, as well as from the poor performance of the UK economy which was confirmed to have fallen into a technical recession in the last six months of 2023.

In fixed income markets, the Bloomberg Global Aggregate Index fell -2.1% last quarter as yields increased on the back of hotter than expected US inflation data in both January and February.

In Europe, higher yielding countries such as Italy (+0.8%) fared better than Germany (-1.0%). Overall, this helped European sovereign bonds to outperform US Treasuries with a return of -0.6% versus -1.0% for the latter. UK Gilts continued to lag (-1.8%) as still elevated service inflation and wage growth meant the Bank of England maintained its forward guidance, reiterating that policy will need to ‘remain restrictive for sufficiently long’ to return inflation to target.

Within credit, high yield outperformed investment grade thanks to its lower interest rate sensitivity and easier financial conditions. European and US high yield indices posted returns of +1.6% and +1.5% respectively while the Global Investment Grade Index ended the quarter with negative returns of -0.8%.

Emerging market debt was up 1.4% over the quarter, as high real yields outweighed the impact of the strengthening US dollar on the asset class.

All in all, it has been a pretty good start to the year for investors, albeit with further concentration of stock market gains in the large-cap growth space against a backdrop of rising equity market valuations.

While the resilience of the global economy and the prospect of rate cuts in the second part of the year could continue to support this trend, some markets appear increasingly priced for perfection and hence are not immune to profit taking.

FOREIGN EXCHANGE MARKETS

PGK/USD

Market turnover improved to K3.9 billion in March, rising by 11% after February's 4 month low. March was mostly quiet in terms of FX flows. Apart from BPNG intervention of US$100m, the FX market had minimal activity until the latter stages of the month. Large conversions by resource companies in particular gave the market a much needed boost after consecutive days of light flows.

The PGK/USD rate depreciated a total of 9bps in March, settling at 0.2651. This represents a slight change in BPNG's preferred 'crawling' pace considering the rate [PGK/USD] fell by 12 and 11 points in January and February respectively. BPNG and IMF will review the current pace of depreciation in May to ensure it meets their objectives.

PGK/AUD

During the month of March, the PGK/AUD saw a high of 0.4096 (5th March) and a low of 0.4006 (10th March) closing the month at a rate of 0.4065.

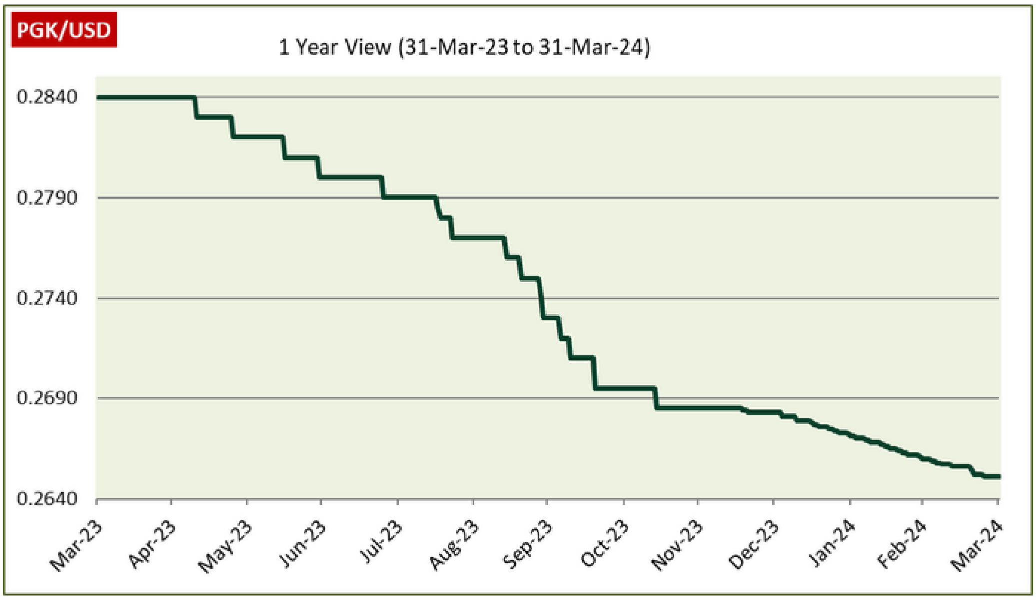
AUD/USD

The Australian dollar fell to $0.651 at month's end, hovering close to three-week lows as softer-than-expected domestic inflation data weighed on the currency. Data showed that Australia's monthly CPI indicator stood at 3.4% in February 2024, unchanged from the previous two months and missing forecasts for a slight increase to 3.5%. Latest figures also showed that retail sales rose less than expected in February. In March, the Reserve Bank of Australia kept its cash rate at a 12-year high of 4.35%, standing pat for the third straight meeting. However, the RBA dropped a previous warning that a further hike could not be ruled out, indicating confidence that inflation would continue to ease and bolstering bets that it could start cutting rates later this year. Externally, the US dollar strengthened on growing expectations that US rates could remain higher for longer even as other major economies start easing policy.

The AUD/USD reached both its highest and lowest points early on in the month, dropping to 0.6481 on the 05th of March before rising to 0.6648 a few days later on the 8th of March after the release of strong retail sales data.

FOREIGN EXCHANGE MARKETS

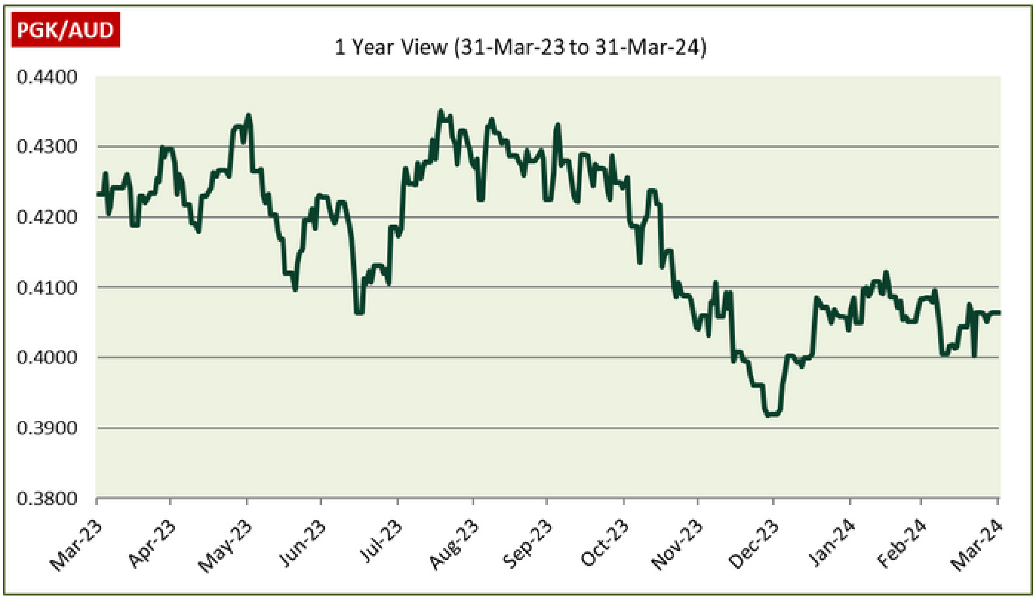
PGK/USD



PGK/USD

The PGK/USD rate depreciated by a total of 9bps in March, settling at 0.2651. BPNG and IMF will review the current "crawling peg" arrangement in May.

PGK/AUD



PGK/AUD

The PGK/AUD rate finished the month of March slightly lower than the end of February. The movement in the cross rate driven largely by a stronger USD, bolstered by the resilient US economy and delayed expectations of interest rate cuts.

MONEY MARKETS

Increased corporate tax transfers to the Government and Provincial Government goods and services tax (GST) transfers to the Internal Revenue Commission (IRC) tightened system liquidity over the month.

Reduced corporate and system liquidity affected the Government Inscribed Stock (GIS) auction. The GIS auction was undersubscribed by K144.3 million (previous auction was oversubscribed by K72.1 million).

We expect the Government tax collections to be less than forecast in the 2024 Budget due to a slowing economy, affected by events that unfolded on Jan 10, fuel supply chain & storage issues and consequent low business confidence & reduced demand. This will see an increased issuance of Government debt and a rise in yields in upcoming months.

Auction	Central Bank Bills					Treasury Bills					
Date	7	14	28	63	91	28	63	91	182	273	364
Previous	2.50								1.79	-	3.11
06-Mar-24	2.50								1.79	-	3.11
13-Mar-24	2.50								1.79	-	3.15
20-Mar-24	2.50								1.85	2.45	3.22
27-Mar-24	2.50								1.85	-	3.29
		-	-	-	-						
Movement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	2.45	0.18

COMMODITIES

Energy

Several factors supported the crude oil price, resulting in a strong Q1 amid bets on tighter supplies. OPEC+ announced on March 3 that it would extend its current crude production cuts of about 2 million bpd until the end of June. OPEC+ will meet on April 3 to assess implementation of its crude output cuts. Ongoing Ukrainian drone attacks on Russian refineries as well as attacks on commercial shipping in the Red Sea continue to disrupt global crude oil supplies.

Metals

On the Gold front, both Spot and Futures prices gained in March. Gold prices are up by 7.46% from one month ago and is presently trading above US$ 2200.00 mark.
Gold prices scaled to another record high Monday, propelled by U.S. interest rate cut expectations and the metal's appeal as a safe haven asset. Lower interest rates reduce the opportunity cost of holding non-yielding bullion.
Iron Ore prices have decreased 36.50 USD/MT or 25.61% since the beginning of 2024.

Coffee

Arabica coffee futures climbed towards the $1.9 per pound level, rebounding from the two-month lows of $1.8 reached on March 18th, after an announcement from the Vietnam Coffee Association, indicating a potential 20% year-on-year decline in the country's coffee exports for the 2023/2024 period. The department also projected a corresponding 20% decrease in Vietnam's coffee production for the same crop year, estimated at 1,472 MMT, marking the lowest output in four years due to drought conditions. Despite these factors, the ICO forecasts a 5.8% growth in global production, while demand is expected to rise by a modest 2.2%, leading to a surplus of 1 million bags.

Cocoa

Cocoa futures climbed further to reach a new record level of nearly $9,900 per tonne, reflecting the sustained pessimism surrounding the supply outlook. Cocoa prices have soared by more than 100% since the beginning of the year, driven by the severe cocoa shortage in West Africa, in particular Ghana and Ivory Coast, where more than half of the world's cocoa beans are harvested. Ghana's Cocoa Board (Cocobod) said that Ghana's 2023/24 cocoa harvest will be only 422,500 MMT to 425,000 MT, half the country's initial forecast and a 22-year low, as extreme weather and disease decimated the cocoa crop. In the meantime, farmers noted that the lack of rain and strong sun in most of Ivory Coast's main cocoa regions last week could hinder the April-to-September mid-crop. The International Cocoa Organization (ICCO) projected that the global 2023/24 cocoa deficit would widen to 374,000 MT from 74,000 MT in 2022/23, as the global cocoa production in 2023/24 will likely fall by 11% y/y to 4.45 MMT.

Palm Oil

Palm Oil increased 615 MYR/MT or 16.53% since the beginning of 2024, according to trading on a contract for difference (CFD) that tracks the benchmark market for this commodity. Historically, Palm Oil reached an all time high of 7268 in March of 2022.

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