

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

In September, the global market showed a cautious recovery, with rebounding stock indices and investor interest in resilient sectors like technology and healthcare amid ongoing uncertainties

COMMODITIES

Gold prices fell with a stronger U.S. dollar, copper fluctuated due to Chinese demand concerns, cocoa stabilized after initial supply worries, Arabica coffee dropped, and palm oil retreated from early gains, reflecting ongoing supply and demand complexities.

FX MARKETS

Market foreign exchange turnover rose by 15% to a record K5.4 billion, rebounding from a sluggish August, driven by above-average exporter inflows and substantial interventions by the Bank of Papua New Guinea.

MONEY MARKETS

Domestic interest rates are rising due to constrained market liquidity. While the government's GIS auction in September was successful, it was undersubscribed by K583 million, leaving Treasury K1.753 billion behind its annual issuance plan.

CONTENTS

02

GLOBAL MARKETS

03-04

FOREIGN EXCHANGE MARKETS

05-06

MONEY MARKETS

07-08

COMMODITIES

09

CONTACTS

GLOBAL MARKETS

In September 2024, the global market is characterized by a cautious yet steady recovery following a period of economic volatility. Major stock indices, particularly in developed markets, have rebounded, driven by a combination of positive corporate earnings and easing inflation concerns. Investors have increasingly focused on growth-oriented sectors, such as technology and healthcare, which have demonstrated resilience and adaptability in the face of economic challenges. This renewed interest has fostered a general sense of optimism in the markets, albeit tempered by ongoing uncertainties.

A significant factor influencing the global market this month is the stability of monetary policy in major economies. Central banks, notably the U.S. Federal Reserve and the European Central Bank, have indicated a more cautious approach to interest rate adjustments, prioritizing economic growth over aggressive inflation control. This shift has bolstered investor confidence, as the prospect of sustained low borrowing costs may stimulate consumer spending and investment. Consequently, markets have responded positively, with capital flowing into equities and other growth assets.

Furthermore, geopolitical factors continue to play a pivotal role in shaping market sentiment. While certain regions, particularly Eastern Europe and parts of the Middle East, face ongoing tensions, others exhibit signs of stabilization. Countries that have effectively navigated political uncertainties or conflicts are attracting increased foreign direct investment, enhancing their economic prospects. This divergence in geopolitical stability presents opportunities for investors seeking to capitalize on growth in specific markets, while simultaneously underscoring the importance of careful risk assessment.



FOREIGN EXCHANGE MARKETS

Market foreign exchange turnover increased by 15% to a record high of K5.4 billion in September, recovering from a sluggish performance in August. This surge in turnover was driven by above-average exporter inflows, particularly substantial conversions from foreign currency accounts. The Bank of Papua New Guinea (BPNG) offered a total of US\$125 million in its weekly foreign exchange auctions throughout the month. Consequently, this has led to a significant reduction in outstanding foreign exchange orders, with recent estimates indicating approximately K600 million.

PGK/USD

The PGK depreciated by 14 basis points or 0.55% against the USD, opening the month at 0.2566 and closing at 0.2552. The current rate of depreciation averages around 3 basis points per week.

AUD/USD

The Australian dollar appreciated past \$0.69 on Monday (30 Sep 2024), trading at its highest levels since February 2023 as China's stimulus measures boosted the demand outlook in Australia's largest trading partner, lifting prices of commodities and commodity-linked currencies. The Aussie also benefited from a general weakness in the greenback, as soft U.S. economic data reinforced expectations of further Federal Reserve rate cuts. Domestically, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 4.35% during its September meeting and indicated that it may maintain policy at current levels for an extended period.

Currently, markets are pricing in a 55% probability of a 25 basis point rate cut by the end of the year. Moreover, the RBA is likely to be among the last of the G10 central banks to begin cutting rates, with expectations that it will join the global easing cycle later this year due to weak underlying economic activity, which is anticipated to reduce inflationary pressures.

PGK/AUD

The PGK maintained a stable exchange rate of 0.38 against the AUD during the first half of the month before yielding to a stronger AUD in subsequent weeks. By the end of September, the PGK had declined to a low of 0.3681 against the Australian dollar, having previously reached a peak of 0.3848 on September 11, 2024. Over the month of September, the PGK/AUD fell 87 basis points or 2.30%.

FOREIGN EXCHANGE MARKETS

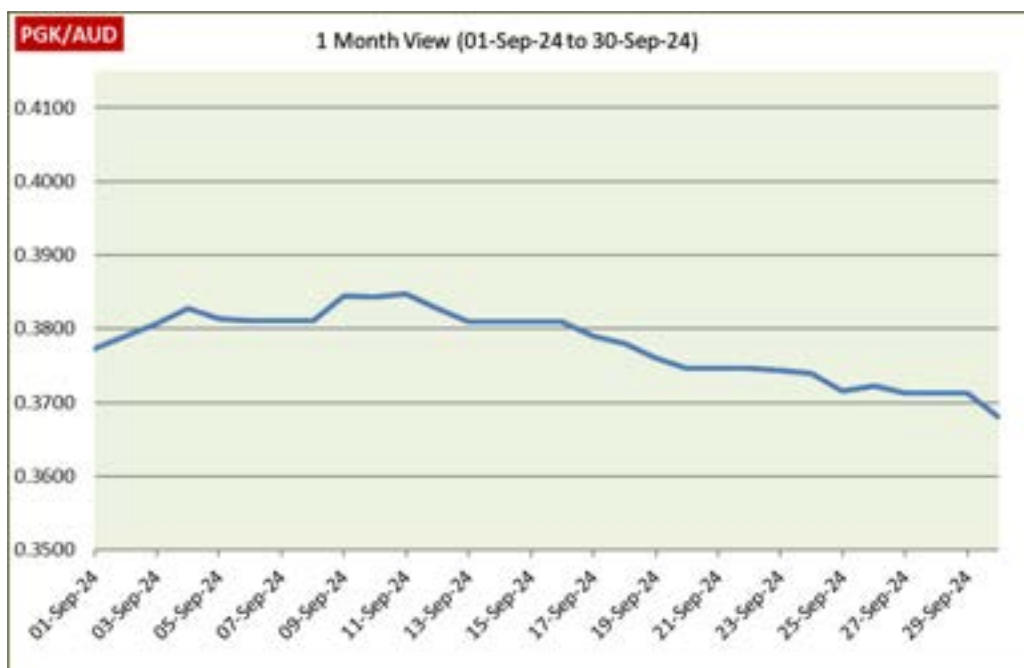
PGK/USD



PGK/USD

The PGK opened the month at 0.2566 against the US dollar and closed at 0.2552, reflecting a decline of 14 points or 0.55%. Year to date, the PGK/USD exchange rate has decreased by a total of 131 points or 4.88%.

PGK/AUD



PGK/AUD

The PGK reached a peak of 0.3848 against the AUD early in the month on September 11, 2024; however, it subsequently declined towards the end of the month as the AUD strengthened.

MONEY MARKETS

Domestic interest rates are gradually rising due to constrained market liquidity. Although the government successfully conducted its Government Inscribed Stock (GIS) auction in September, it was undersubscribed, falling short of target by K583 million, leaving Treasury K1.753 billion behind issuance plan for the year.

Treasury will now be holding weekly GIS auctions in an effort to complete its planned bond issuance. If required, the government will consider external funding or a supplementary budget. Recently, Treasury offered a private placement of K300 million at higher interest rates to attract investors, with K150 million allocated for 273 days at 5.86% and 364 days at 8.00%.

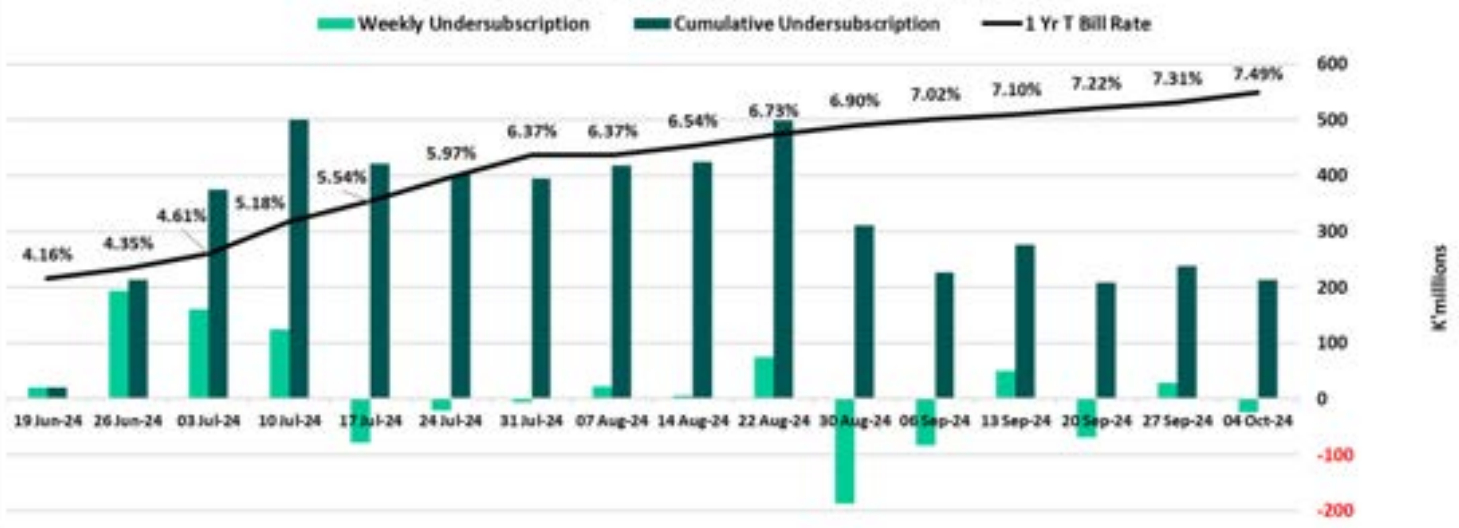
Meanwhile, the Bank of Papua New Guinea (BPNG) raised the Kina Facility Rate (KFR) by 100 basis points in September to 4.00% and introduced an overnight reverse repo facility for commercial banks to deposit surplus funds at a rate of KFR minus 1.50%. These measures aim to improve liquidity management and ensure effective transmission of BPNG's monetary policy.

Auction Date	Central Bank Bills						Treasury Bills		
	O/N	7	14	28	63	91	182	273	364
Previous	1.50	3.00					4.91	5.40	6.90
04-Sep-24	1.50	3.00					4.99	5.50	7.02
11-Sep-24	1.50	3.00					5.00	5.60	7.10
18-Sep-24	1.50	3.00					5.30	5.86	7.22
25-Sep-24	2.50	4.00					5.48	5.90	7.31
04-Oct-24	2.50	4.00		4.00			5.58	5.99	7.49
Movement	1.00	1.00	0.00		0.00	0.00	0.67	0.59	0.59

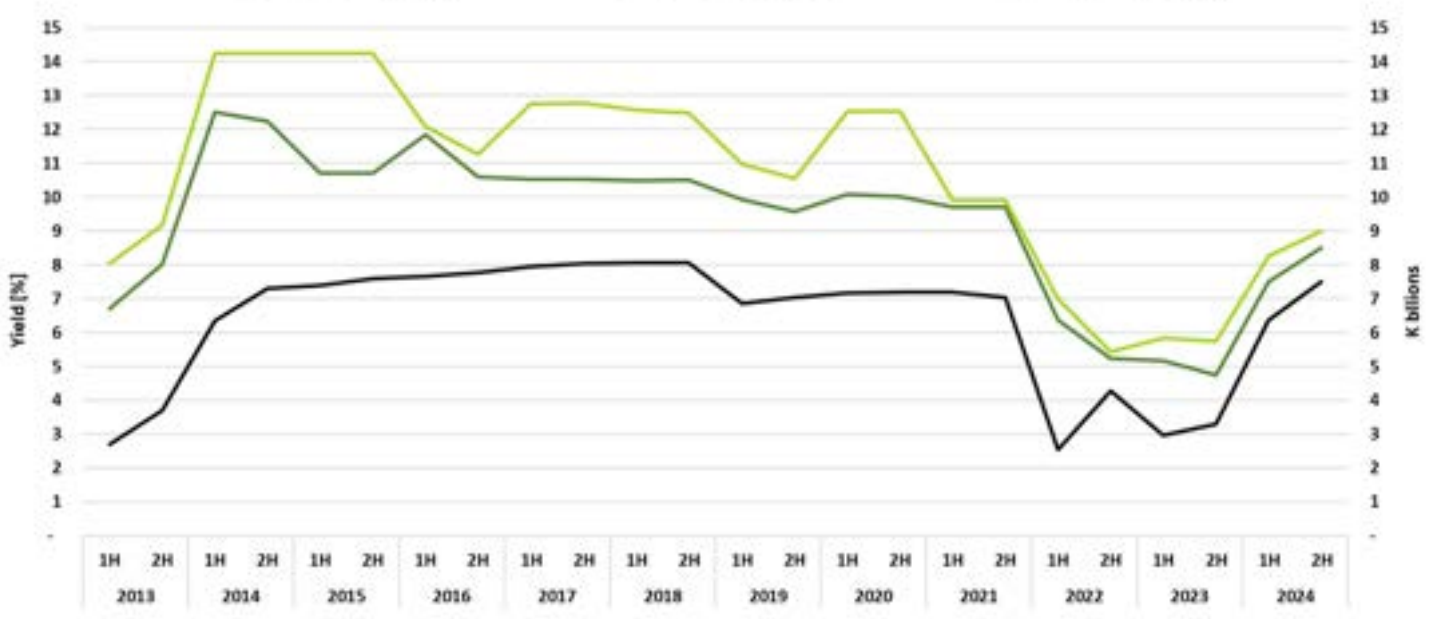


MONEY MARKETS

T-Bill Undersubscriptions & 1 Year T-Bill Rates



T-bills 1 Year Yield [%], I-Stock 5 Year Yield [%], I-Stock 10 Year Yield [%]



COMMODITIES

Brent Crude Oil

Brent Crude oil prices experienced notable volatility, influenced by geopolitical tensions and shifting supply-demand dynamics. Concerns over potential supply disruptions due to conflicts and OPEC+ production strategies exerted upward pressure on prices. However, an increase in U.S. oil inventories and slower demand growth in major markets moderated these gains. By the end of the month, Brent Crude reflected a modest decline, underscoring the ongoing uncertainties in the global energy market.

Natural Gas

Natural gas prices experienced significant volatility, largely influenced by seasonal demand expectations and fluctuating supply levels. Early in the month, prices rose amid forecasts of cooler weather, which prompted increased demand for heating. However, as the month progressed, concerns about oversupply and robust production levels in the U.S. led to a decline in prices. By the end of September, natural gas futures reflected a moderate decrease compared to the previous month, underscoring the ongoing balance between seasonal demand and supply dynamics in the market.

Gold

Gold prices exhibited fluctuations influenced by a mix of economic data and geopolitical tensions. The month began with rising prices as investors sought safe-haven assets amid concerns over global economic growth and potential conflicts. However, as the U.S. dollar strengthened and interest rate expectations shifted following hawkish signals from the Federal Reserve, gold experienced downward pressure. By the end of September, gold prices reflected a modest decline from earlier highs, highlighting the ongoing interplay between investor sentiment, inflation concerns, and monetary policy in the precious metals market.

Copper

Copper prices experienced notable volatility, influenced by a combination of supply concerns and shifting demand forecasts. Early in the month, prices rose as market participants reacted to potential disruptions in major producing countries and optimistic projections for industrial demand, particularly in China. However, as the month progressed, increasing inventory levels and signs of slowing economic growth in key markets, including China, exerted downward pressure on prices. By the end of September, copper prices had declined from their earlier peaks, reflecting the ongoing challenges of balancing supply and demand in the global market.

Iron Ore

Iron ore prices fluctuated significantly in September, driven by demand dynamics in China and global supply chain developments. Prices initially rose due to positive signals from the Chinese steel industry as construction activity increased. However, mid-month, rising inventory levels and concerns about potential economic slowdowns in China led to downward pressure on prices. By the end of September, iron ore prices had retreated from earlier gains, highlighting the market's sensitivity to changing demand forecasts and supply considerations.

COMMODITIES

Coffee

Arabica coffee prices experienced notable fluctuations, influenced by weather patterns in key producing regions and changing global demand. Early in the month, prices rose due to concerns over adverse weather conditions in Brazil, which could impact crop yields. However, as the month progressed, easing supply chain disruptions and a stronger U.S. dollar exerted downward pressure on prices. Additionally, shifts in consumer demand, particularly in major markets like the U.S. and Europe, contributed to price volatility. By the end of September, Arabica coffee prices reflected a moderate decline from earlier highs, highlighting the ongoing interplay between supply uncertainties and market dynamics.

Cocoa

Cocoa prices experienced significant volatility, influenced by a combination of weather conditions in West Africa and shifting global demand. Early in the month, prices rose as concerns about potential crop damage due to unfavorable weather in key producing countries, such as Côte d'Ivoire and Ghana, raised supply worries. However, as the month progressed, reports of improving weather and increased production forecasts led to a pullback in prices. Additionally, fluctuations in consumer demand and economic conditions in major markets, including Europe and the United States, contributed to the overall price dynamics. By the end of September, cocoa prices had stabilized, reflecting the complex balance between supply uncertainties and market demand.

Palm Oil

Palm oil prices experienced notable fluctuations, driven by changes in supply dynamics and global demand trends. The month began with a rise in prices as concerns over production levels in key producing countries, particularly Malaysia and Indonesia, fueled fears of tighter supplies. However, as the month progressed, easing production concerns and improved output reports led to a decline in prices. Additionally, shifting demand from major importing countries, influenced by changing dietary preferences and economic conditions, added further complexity to the market. By the end of September, palm oil prices reflected a moderate decrease from earlier highs, highlighting the ongoing interplay between supply uncertainties and global demand factors.

Rice

Rice prices displayed significant fluctuations driven by changes in supply conditions and global consumption trends. The month began with an uptick in prices as fears of crop losses due to adverse weather in major producing regions raised concerns about future availability. However, as the month progressed, improved harvest forecasts from key exporters in Southeast Asia helped ease these worries, resulting in a decline in prices. Additionally, shifts in consumer demand, particularly in Asian markets, influenced market dynamics. By the end of September, rice prices had stabilized, reflecting a complex interplay between supply uncertainties and evolving demand patterns.

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