

# BSP TREASURY & MARKETS MONTHLY MARKET PULSE

## GLOBAL MARKETS

Feb saw US market weakness (-0.7%) amid policy uncertainty. Global bonds (+1.4%) rose as Treasury yields fell. Emerging markets (+0.5%) outperformed on Chinese tech. Europe (+3.4%) led, Japan (-3.8%) lagged, and US equities struggled as mega-cap tech fell.

## COMMODITIES

Natural gas rose on cold weather and supply issues, while palm oil stayed volatile amid production swings and strong demand. Coffee fluctuated due to supply concerns and currency moves, and cocoa surged on West African shortages and strong demand.

## FX MARKETS

Market FX turnover fell 8% to K4.8 billion but remained 37% higher year-on-year. BPNG's US\$112 million support fell short. Exporter flows stabilized, while essential orders saw faster processing. PGK/USD dipped 7 points to 0.2487.

## MONEY MARKETS

February's first GIS auction saw strong demand, with bids exceeding twice the offered amount, reflecting investor confidence. Treasury bill auctions were also oversubscribed but weakened later as liquidity tightened.

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# GLOBAL MARKETS

## Market Performance - February 2025

### US Market Weakness

- US exceptionalism faded as policy uncertainty weighed on sentiment.
- Growth concerns re-emerged, dragging developed market equities down (-0.7%).
- Weak consumer and business sentiment, with consumer confidence seeing its steepest decline since August 2021.
- House of Representatives agreed on a budget blueprint but no clear additional fiscal stimulus.

### Bonds Provide Diversification

- Global bonds offset equity losses, focusing on weaker US sentiment rather than inflation risks.
- Treasury yields fell, and the Bloomberg Global Aggregate index gained 1.4%.

### Emerging Markets & Real Estate Outperform

- Emerging markets (+0.5%) benefited from Chinese tech momentum and a weaker US dollar (-0.7%).
- Real estate investment trusts (REITs) gained (+2.6%) as falling yields supported valuations.

### Sector-Specific Trends

- **Small Caps:** Underperformed (-3.3%) despite lower yields due to growth concerns.
- **Tech:** Mega-cap tech stocks fell (-2.8%) on earnings sustainability worries.
- **Commodities:** Broad commodities rose (+0.8%), as rising natural gas prices offset gold's decline.

## Equities Performance

### Europe & Asia Lead

- **Europe:** MSCI Europe ex-UK rose (+3.4%), driven by financials and defense stocks (+9.3%).
- **Asia:** Chinese equities surged (+11.7%) on tech optimism, while Japan lagged (-3.8%) as the yen appreciated (+2.8%).
- **US:** Mega-cap tech dragged markets lower; communication services (-4.2%) and consumer discretionary (-9.0%) were the worst performers. Consumer staples, energy, and real estate saw positive returns.

### Fixed Income Gains

- Falling US yields supported all fixed income sectors.
- **US Treasuries:** Top performer (+2.2%).
- **Emerging Market Debt & Investment Grade Credit:** Both up (+1.6%).
- **US High Yield:** Underperformed (+0.6%) due to slight spread widening.
- **European Bonds:** Growth hopes limited yield declines, with European government bonds returning (+0.7%). Italian bonds outperformed German Bunds.

**Summary:** February saw a shift in market sentiment, with US equities weakening, bonds providing stability, and emerging markets outperforming amid Chinese tech strength.



# FOREIGN EXCHANGE MARKETS

## Foreign Exchange Market Overview – February 2025

### Market Turnover Decline

Market FX turnover fell by 8% to K4.8 billion in February, marking a six-month low. Despite this decline, turnover remains strong, registering a 37% increase compared to February 2024. The Bank of Papua New Guinea (BPNG) increased its market support but provided only US\$112 million, falling short of expectations. Exporter flows normalized after the seasonally high volumes in December and January. Meanwhile, outstanding orders in the market rose significantly, primarily due to increased capital and dividend orders. However, a clear timeline for fulfilling these orders remains uncertain, as BPNG continues to prioritize essential orders. In contrast, trade and service orders saw significant improvements, with essential orders now being processed within 3–4 weeks, reducing previous backlogs.

### PGK/USD Performance

The PGK/USD reference rate declined slightly by 7 points in February, closing at 0.2487. Over the past two months, the PGK has dropped only 13 points, which is a much slower depreciation compared to the 15-point average monthly decline observed throughout 2024. The more stable performance of the PGK suggests that BPNG's interventions and the normalization of exporter flows may have contributed to reduced volatility.

### Australian Dollar Volatility

The Australian dollar (AUD) experienced notable fluctuations in February, driven by global economic events and central bank policy decisions. The Reserve Bank of Australia (RBA) implemented a 25 basis point interest rate cut to 4.10% in response to economic uncertainties, including the potential impact of new U.S. tariffs and a slowdown in China. While aimed at stimulating domestic growth, the decision introduced an element of market uncertainty, affecting investor sentiment.

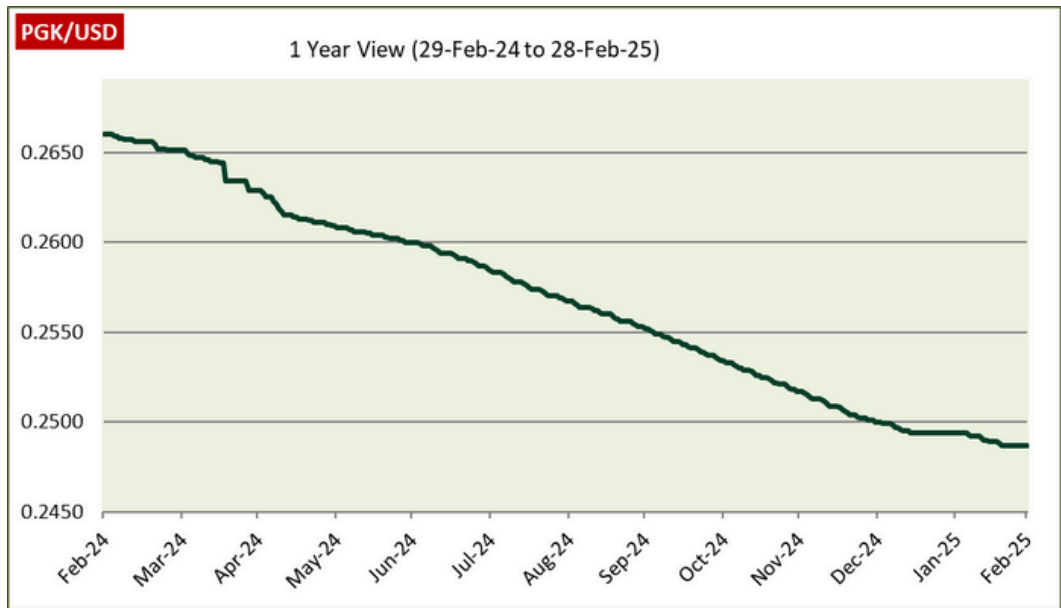
Mid-month, the AUD reached a peak of 0.6384 against the USD on February 21, benefiting from temporary risk-on sentiment in global markets. However, by February 28, the AUD/USD pair had fallen to approximately 0.6170. This decline was largely driven by a strengthening U.S. dollar and heightened risk aversion following President Donald Trump's announcement of new tariffs on imports from Mexico, Canada, and China. The increased trade tensions led to a sell-off in risk-sensitive assets, including the AUD.

### PGK/AUD Movements

The PGK opened February at 0.4007 against the AUD. The exchange rate saw mixed movements throughout the month, initially weakening in the first half before recovering in the latter half to close at the same level of 0.4007. The fluctuations reflected broader trends in the AUD/USD market and shifting investor sentiment surrounding global trade policies and interest rate adjustments.

# FOREIGN EXCHANGE MARKETS

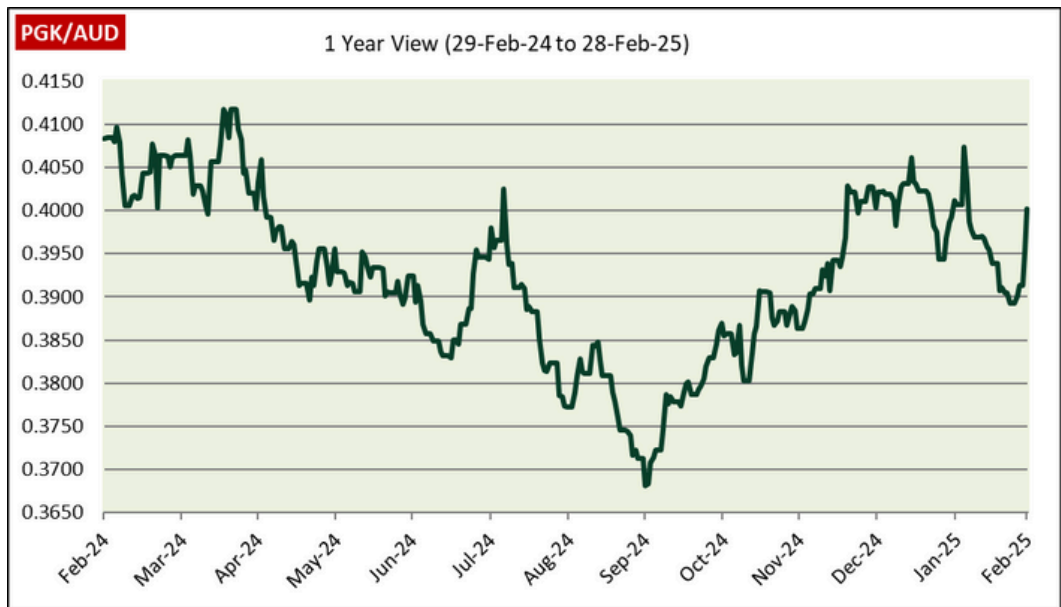
## PGK/USD



## PGK/USD

The PGK/USD rate fell 7 points in February to 0.2487, with a two-month drop of 13 points—slower than 2024's 15-point monthly average. Stability suggests BPNG interventions and normalized exporter flows reduced volatility.

## PGK/AUD



## PGK/AUD

The PGK/AUD opened and closed February at 0.4007, dipping mid-month before recovering. Movements reflected AUD/USD trends and shifting investor sentiment on trade and interest rates.

# MONEY MARKETS

## GIS Auction Kicks Off 2025

February marked the first GIS auction of the year, attracting significant investor interest. The Department of Treasury received bids exceeding twice the offered amount, highlighting strong market demand for government securities. The high level of participation reflected investor confidence and the continued appetite for fixed-income instruments amid evolving economic conditions.

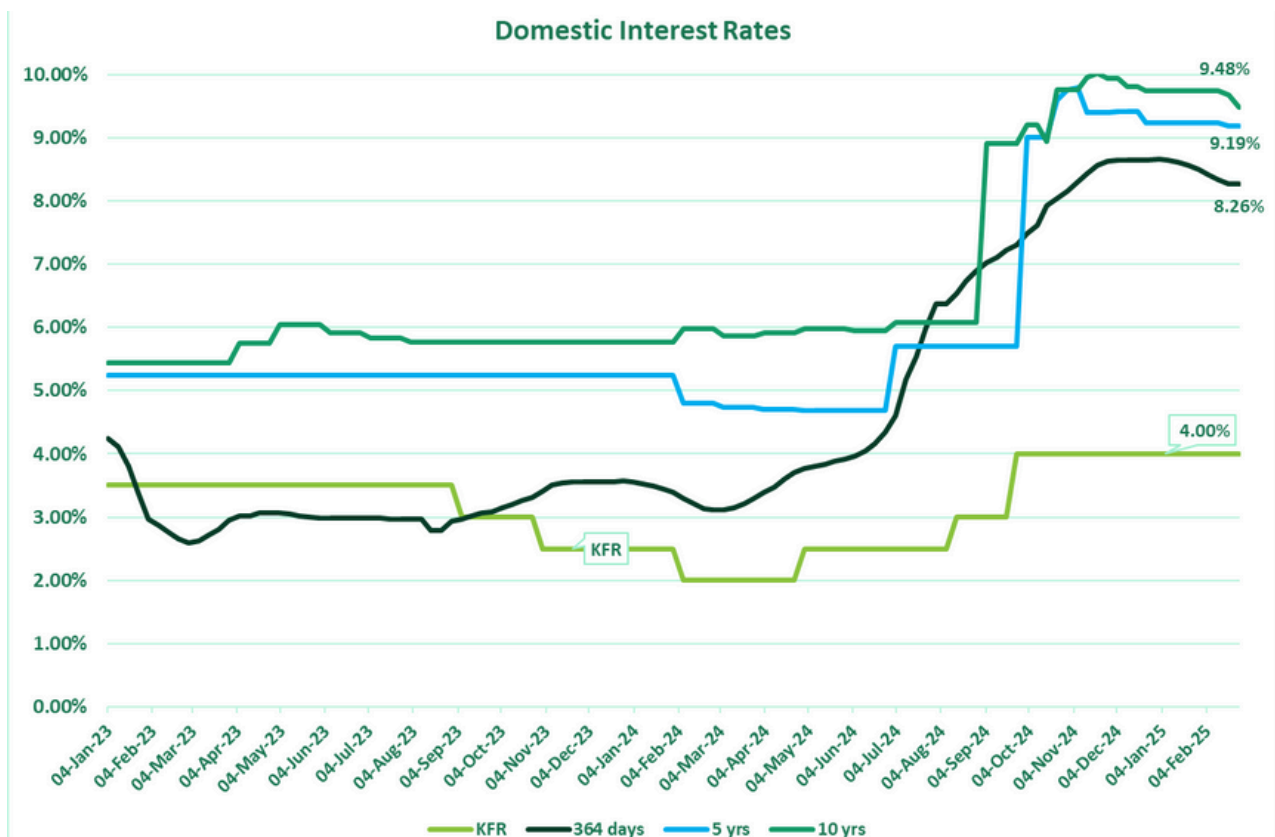
## Treasury Bill Auctions Oversubscribed

Treasury bill auctions also experienced strong demand throughout most of February, with oversubscription in multiple offerings. However, towards the end of the month, demand softened as liquidity in the financial system tightened. The decline in participation suggested investors were adjusting to changing market conditions, including shifts in liquidity and interest rate expectations.

## Liquidity Drain and Interest Rates

The liquidity drain observed in February was primarily driven by the over-allocation of funds in auctions and the Bank of Papua New Guinea's (BPNG) intervention in the foreign exchange market. These factors contributed to a reduction in available liquidity, impacting overall market activity. Interest rates, which initially showed a downward trend, have since stabilized, reflecting a more balanced market environment as investors reassess their positions.

Auction Date	Central Bank Bills			Treasury Bills				GIS		Subscription		
	7	14	28	91	182	273	364	5 year	10 year	C-Bills	T-Bills	Total
Previous	4.00		-	4.00	5.73	6.46	8.50	9.24	9.74			
05-Feb-25	4.00			4.00	5.73	6.46	8.42			1,778.00	363.07	2,141.07
12-Feb-25	4.00		4.28	4.00	5.66	6.44	8.33			1,401.00	275.26	1,676.26
19-Feb-25	4.00			4.00	5.82	6.59	8.27	9.19	9.68	1,216.00	247.49	1,463.49
26-Feb-25	4.00			3.97	-	6.83	8.26	-	9.48	1,268.00	-63.60	1,204.40
												0.00
<b>Movement</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.16</b>	<b>0.24</b>	<b>-0.01</b>	<b>-9.24</b>	<b>-0.20</b>	<b>5,663.00</b>	<b>822.22</b>	<b>6,485.22</b>



# COMMODITIES

## Gold

Gold prices declined as rising Treasury yields and a stronger US dollar pressured the market. Investor sentiment shifted towards riskier assets, reducing demand for gold as a safe haven. However, geopolitical uncertainties and central bank purchases provided some support, limiting further losses.

## Copper

Copper prices fluctuated amid mixed global demand signals. Strong industrial activity in China supported prices, while concerns over slower economic growth in the US and Europe created headwinds. Supply disruptions in key mining regions added to volatility, but overall, copper remained resilient due to its critical role in green energy and infrastructure projects.

## Crude Oil

Crude oil prices fluctuated due to a mix of supply concerns and demand uncertainties. OPEC+ production decisions and geopolitical tensions supported prices, while fears of slowing global economic growth weighed on demand outlooks. Strong refinery demand and seasonal factors provided some stability, but market volatility remained high.

## Natural Gas

Natural gas prices rose due to cold weather increasing heating demand, alongside temporary supply disruptions. Strong demand from Europe and Asia further supported prices, while fluctuations in production and storage levels added to market volatility.

## Palm Oil

CPO prices remained volatile due to fluctuating production levels in Malaysia and Indonesia, impacted by weather conditions and labor shortages. Strong demand from key importing countries, including China and India, supported prices, while concerns over biodiesel mandates and export policies added to market uncertainty.

## Coffee

Coffee prices experienced fluctuations due to weather-related supply concerns in key producing regions like Brazil and Vietnam. Supply chain disruptions and strong global demand contributed to price volatility. Meanwhile, currency movements and economic conditions influenced market sentiment, with robusta coffee showing relative strength amid tightening supplies.

## Cocoa

Cocoa prices remained volatile, driven by supply concerns from West Africa and fluctuating demand. Weather disruptions and ongoing logistical challenges impacted production, leading to price surges. Meanwhile, strong global demand, especially from major chocolate producers, supported the market. Currency fluctuations and economic uncertainties also influenced trading dynamics.

## Rice

Rice prices remained stable, supported by strong demand from key importing countries and steady production in major growing regions. Weather conditions in Asia influenced supply expectations, while export policies from leading producers like India and Thailand added some uncertainty. Global trade flows remained active, keeping the market balanced.

# TREASURY & MARKETS CONTACT LIST

## **Group General Manager | Treasury & Markets**

Rohan R George  
+675 305 6520  
[RGeorge@bsp.com.pg](mailto:RGeorge@bsp.com.pg)

## **Head of Markets Sales Pacific | Markets**

Leighton Crisp  
+675 305 6561  
[LCrisp@bsp.com.pg](mailto:LCrisp@bsp.com.pg)

## **Head of Group Treasury | Treasury**

Nayef Khoury  
+675 305 6512  
[NKhoury@bsp.com.pg](mailto:NKhoury@bsp.com.pg)

## **Senior Markets Sales Manager | Markets**

Perryson Miori  
+675 305 6749  
[PMiori@bsp.com.pg](mailto:PMiori@bsp.com.pg)

## **Senior Markets Sales Manager | Markets**

Egau Mulina  
+675 305 6516  
[EMulina@bsp.com.pg](mailto:EMulina@bsp.com.pg)

## **Senior Markets Sales Manager | Markets**

Rosetta Marum  
+675 305 6513  
[RMarum@bsp.com.pg](mailto:RMarum@bsp.com.pg)

## **Liquidity Manager | Treasury**

Ron Saulep  
+675 305 6532  
[RSaulep@bsp.com.pg](mailto:RSaulep@bsp.com.pg)

## **Interbank Dealer | Treasury**

Hava Kasa  
+675 305 6523  
[HKasa@bsp.com.pg](mailto:HKasa@bsp.com.pg)

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