MARCH
2024

BSP TREASURY MONTHLY MARKET PULSE

GLOBAL MARKETS

February was a good month for stock markets, with resilient economic data and relatively strong earnings reports both contributing to year-to-date gains

FX MARKETS

The USDPGK rate closed the month at 0.2660, down by 11 basis points from the start of February. The Kina dropped 3 points each week, in line with BPNG's preference for a 'crawling' pace of depreciation

MONEY MARKETS

BPNG reduced their indicator rate, the KFR, by 50 bps in February. The rationale behind the reduction was to assist businesses affected by the looting and unrest from the 10th of January

CONTENTS

GLOBAL MARKETS

February was a good month for stock markets, with resilient U.S. economic data and relatively strong earnings reports both contributing to year-to-date gains. In contrast, fixed income markets were broadly down, with the Bloomberg Global Aggregate index losing 1.3% over February.

Within equities, emerging markets performed well, up 4.8% over the month thanks primarily to a Chinese rebound. In developed markets, Japan continued to outperform, with the Nikkei 225 Index reaching a new all-time high for the first time in over 30 years. In contrast, UK stocks lagged.

Fixed income markets came under pressure as investors continued to push out interest rate cuts further into 2024, with US Treasuries down 1.3% in February. Less rate-sensitive high yield bond markets outperformed, with euro high yield eking out an 0.4% gain.

Elsewhere, commodities lost ground, with the broad Bloomberg Commodity Index falling 1.5% over February as gas and agricultural prices continued to drop. Real estate investment trusts lost 0.1%, as expectations for slower interest rate cuts outweighed the positive impact of supportive activity data.

GLOBAL MARKETS

Equities

Earnings season continued, with five of the 'magnificent seven' US stocks reporting results for the previous quarter. These companies broadly met or exceeded expectations, contributing to a 5.3% gain in the S&P 500 over the month. With over 90% of S&P 500 firms having reported, nearly three quarters have beaten analysts' earnings forecasts. Economic data also proved resilient, with the US composite Purchasing Managers' Index (PMI) suggesting activity continued to expand over February and the US economy adding 353,000 jobs in January.

European stock markets underperformed. MSCI Europe ex-UK rose 2.8% in February, versus 4.3% for the developed market MSCI World Index. This was despite a larger than expected rise in the eurozone composite PMI in February to 48.9, a print that suggested the worst of the continent's growth weakness is likely over.

UK stocks also underperformed and are down 1.1% year to date, following a -0.3% (quarter-on-quarter) fourth quarter GDP print that showed the UK falling into a technical recession last year. Recent earnings data from UK companies also somewhat disappointed, leading analysts to downgrade estimates for 2024 profit growth to 4.7% year on year.

The Japanese TOPIX Index rose 4.9% over the month, despite a weaker than expected fourth quarter GDP print (-0.1% quarter on quarter) which also put the country into technical recession over the second half of 2023. Further currency weakness likely helped given the export-oriented nature of the Japanese stock market: the yen fell 2.3% versus the US dollar in February.

Chinese equity markets had hit five-year lows coming into the month. However, activity data over the Lunar New Year holiday period strengthened, and the Chinese government announced a number of supportive interventions, including a cut to the 5-year loan prime rate (a benchmark for mortgage rates), curbs on short selling, and stock purchases by state-owned investment firms. The MSCI China Index consequently gained 8.6% over February.

GLOBAL MARKETS

Fixed Income

January inflation numbers were stronger than anticipated in the US, with headline inflation at 3.1% year on year. This reduced investors' expectations for Federal Reserve interest rate cuts over 2024 further. US Treasuries thus came under pressure, falling 1.3% over the month although yields did experience a significant uptick on Friday the 16th of February, following the release of January wholesaler price data, which surpassed expectations.
The yield on the benchmark 10-year Treasury note climbed 6 basis points to reach 4.283%, edging closer to the closely monitored 4.3% threshold.
Meanwhile, the 2-year Treasury yield surged by 9 basis points to 4.65%, peaking at 4.718% during the session, marking its highest level since December 13th.

In the UK, wage growth fell less than expected in December, with total earnings (including bonuses) growing 5.8% year-on-year. This once again pushed investors to pare back their rate cut forecasts for the Bank of England, given stronger wage pressures suggest inflation might prove stickier than anticipated. UK Gilts suffered, and are now down 3.6% year to date.

In the eurozone, government bonds similarly lost ground over the month, with German Bunds down 1.4%. However, signs of green shoots for the eurozone economy helped spreads between Italian and German sovereign debt to tighten.

In credit, less rate sensitive high yield indices outperformed investment grade (IG) bonds. The Bloomberg Global Aggregate Corporate index – measuring the performance of developed market IG bonds – is now down 1.9% year to date. In contrast, US high yield has gained 0.3% over the first two months of 2024, and investors in euro high yield debt have made 1.2% over the same period.

FOREIGN EXCHANGE MARKETS

PGK/USD

PNG FX market turnover was down by 6% from January, finishing off at K3.5 billion for the month of February. However, a comparison with the same period from last year paints a better picture, rising by 10%. FX market turnover increased towards month's end with a few large exporters supporting the market with increased FX conversions. BPNG assisted the market with approximately US$115m in two separate interventions.

The PGK/USD rate finished the month at 0.2660, down by 11 basis points from the start of February. The Kina dropped 3 basis points each week, in line with BPNG's preference for a 'crawling' pace of depreciation.
BPNG will continue to monitor market conditions with a review of the pace of depreciation in upcoming months.

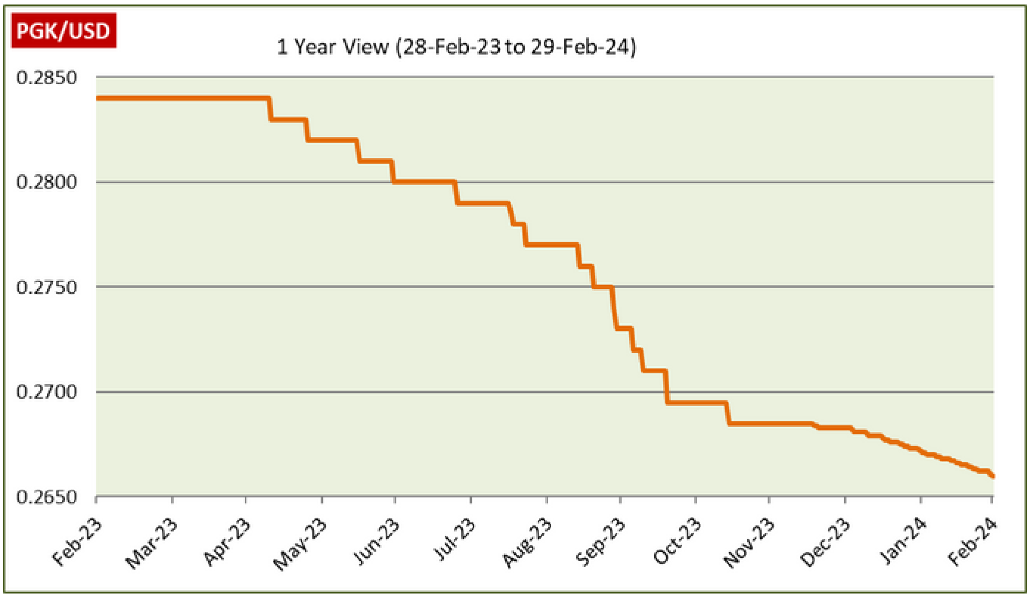
AUD/USD

AUD/USD found key support at 0.6500 and resumed its monthly decline, reaching a low of 0.6453 on the 13 February 2024. Further loss of traction in the pair came amidst the increasing pick up in upside momentum in the greenback, particularly after US inflation figures gauged by the PCE, showed that disinflationary pressure remains well in place in the US economy and comments from Fed officials continued to signal a potential rate reduction in June.

The Aussie dollar suffered from another slump in iron ore prices, retreating sharply to levels last seen in late August near the $110 mark per tonne. Although potential stimulus measures in China may offer temporary support for a rebound, a pickup in Chinese leading indicators and commodity import demand is required to positively influence the Australian dollar. Delays in US rates cuts have offset commodity price falls and relative weakness in the Chinese economy.

FOREIGN EXCHANGE MARKETS

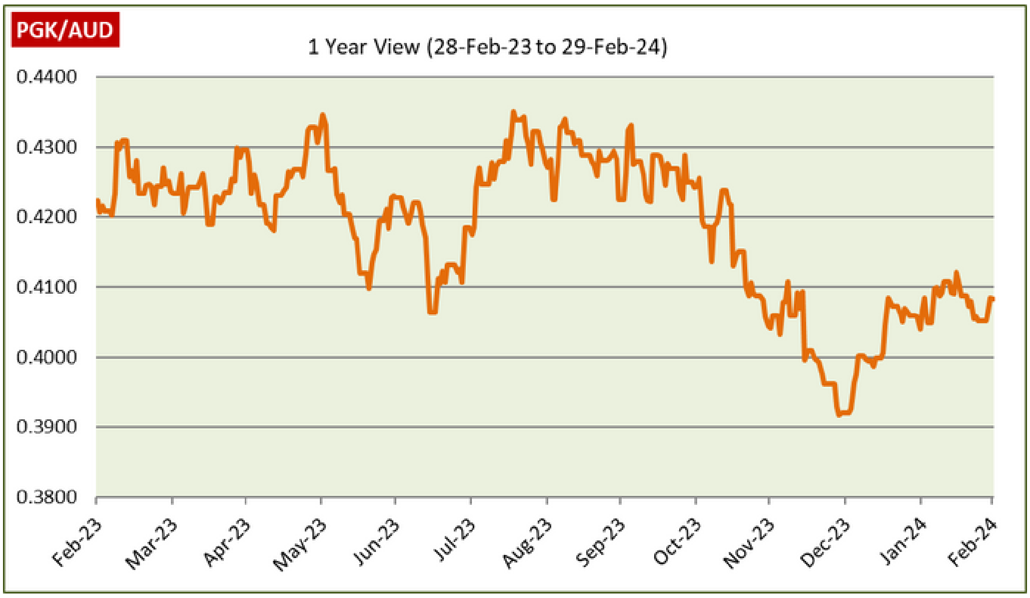
PGK/USD



PGK/USD

The PGK continued on its orderly depreciation course against the USD in line with BPNG's "crawling peg"

PGK/AUD



PGK/AUD

The PGK finished the month stronger against the AUD driven by USD strength

MONEY MARKETS

BPNG reduced their indicator rate, the KFR, by 50 bps in February. The rationale behind the reduction was to assist businesses affected by the looting and unrest on the 10th of January in Port Moresby.

With a system already flush with liquidity, the market reaction was immediate. Rates were lower across all tenors.

Auction	Central Bank Bills					Treasury Bills					
Date	7	14	28	63	91	28	63	91	182	273	364
Previous	2.50								2.07	2.60	3.39
07-Feb-24	2.50								2.04	2.54	3.30
14-Feb-24	2.50								2.00	2.49	3.22
21-Feb-24	2.50								1.80	2.45	3.13
28-Feb-24	2.50								1.79	-	3.11
		-	-	-	-						
Movement	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**-0.28**	**-0.15**	**-0.28**

TREASURY & MARKETS CONTACT DETAILS

Group General Manager | Treasury & Markets
Rohan R George
+675 305 6520
Rgeorge@bsp.com.pg

Head of Markets Sales Pacific | Markets
Leighton Crisp
+675 305 6561
LCrisp@bsp.com.pg

Head of Treasury | Treasury
Wayne Taylor
+675 3056512
Wtaylor@bsp.com.pg

Senior Markets Sales Managers | Markets
Egau Mulina
+675 305-6516
Emulina@bsp.com.pg

Rosetta Marum
+675 305-6513
Rmarum@bsp.com.pg

Liquidity Managers | Treasury
Lance Kila
+675 305-6514
Lkila2@bsp.com.pg

Ron Saulep
+675 305-6532
RSaulep@bsp.com.pg

Interbank Dealer | Treasury
Hava Kasa
+675 305 6523
HKasa@bsp.com.pg