

BSP Treasury and Markets

PACIFIC QUARTERLY ECONOMIC & MARKET PULSE

June Quarter 2024

GLOBAL ECONOMY

The OECD, IMF, and World Bank forecasted economic growth for 2024 and 2025, highlighting strong domestic demand and improvements in the services and tourism sectors.

COMMODITY PRICE TRENDS

Prices for cocoa, coffee, and palm oil remained high, primarily driven by supply constraints. LNG struggled with low demand; crude oil rose on OPEC+ cuts and US fuel demand optimism.

PNG H1 2024

ADB and IMF project 3.3% and 4.5% Real GDP Growth rates for 2024 respectively, while the political sphere anticipates a potential VONC in the upcoming parliamentary sitting.

PACIFIC MARKETS

Growth is anticipated to be predominantly positive across the Pacific in 2024. Headline inflation in Pacific Markets shows signs of deceleration, largely due to a decrease in imported inflation.



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BSP's Economic and Market views



Mark T. Robinson

Group Chief Executive Officer

Stop on Private Sector Cheques

- All private sector cheques were phased out of the banking system by 30 June 2024, inline with BPNG's directive. Consequently, private sector banking service users can no longer use cheques for payments.
- Public sector and state-owned enterprise cheques will continue to be honored.
- To ensure a smooth transition for our private sector customers, BSP has proactively communicated the importance of digital payment alternatives through regular reminders and awareness campaigns.

Ok Tedi Achieves Record Production to Kick Off 2024

- Ok Tedi Mining Limited (OTML) announced its Q1 2024 production volumes in April, reporting record outputs to kick off the year. Notably, OTML's copper output increased by 61% compared to the same period in 2023.
- This achievement follows OTML's strategic initiatives launched in 2023, which focus on revitalizing operations and pursuing the life of mine extension through 2050.
- Receipts from OTML's copper exports significantly contribute to the economy by providing essential foreign exchange relief to various sectors.

Key Global Megatrends Shaping the Economic Outlook for the South Pacific

- Tourism numbers in the Cook Islands have rebounded to pre-COVID levels, with holiday companies reporting a 48% increase in bookings. This surge is linked to the rise in direct flights to the Cook Islands from Australia and New Zealand.
- In Fiji, while inflation is gradually cooling month-on-month, the May headline rate of 5.8% remains a challenge for consumer spending. As a result, the Reserve Bank has revised its economic growth estimates from 3.4% to 2.8% due to the impact of high inflation on consumption.
- In Samoa, major economic indicators are trending positively in the first half of 2024. The central bank reports that headline inflation has decreased to 6.6% from 12% in June 2023, marking a significant improvement, although costs for medicine, furniture, and transport remain elevated. Inward remittances and tourism numbers continue to grow each month, supporting consumption and economic growth in 2024.
- Vanuatu is projecting optimistic economic growth of 3.1% in 2024 and 3.6% in 2025, despite facing climate and severe weather challenges. Public and private reconstruction spending is driving this activity, bolstered by improved tourism numbers, even in the wake of Air Vanuatu's liquidation.

BSP's Economic and Market Views



Peter Beswick

Group General Manager – Corporate Bank

What is the business sentiment in the first half of 2024?

- The Black Wednesday Riots in Port Moresby earlier this year have significantly affected business and investor confidence. In response to these disruptions, the Government approved K260 million to support impacted businesses.
- Business activity showed sluggishness towards the end of Q2 2024, with mixed employment trends observed across different regions, predominantly negative. Employment declines were noted in the Southern Region, Morobe, Islands Region, and NCD compared to Q1 2024, while the Momase and Highlands Regions experienced increases.
- The Porgera mine is expected to face delays in achieving full production by Q3 2024 due to operational setbacks from the Mulitaka landslide, potentially pushing anticipated production into Q4 2024.
- FX constraints continue to impact import-dependent businesses, which are facing challenges despite an increased demand for FX, as evidenced by the rising FX orders placed with BSP.

The agricultural sector in Papua New Guinea has significant potential.

- The agricultural sector in PNG is crucial to the economy, often referred to as the "engine room" due to its significant role in driving growth and creating employment opportunities. It is the largest employer in PNG, providing livelihoods for numerous farmers and harvesters across the region.
- Rising commodity prices offer extensive opportunities beyond cocoa, underscoring the sector's potential to enhance economic stability and support national development.
- BSP Retail's collaboration with New Britain Palm Oil Ltd, resulting in the opening of 7,000 farmer accounts, marks significant progress in empowering local farmers and promoting financial inclusion. This initiative ultimately strengthens the agricultural sector and contributes to bolstering PNG's economic resilience.



Rohan George

Group General Manager – Treasury & Markets

How was foreign exchange liquidity and the Kina in the second quarter of 2024?

- Foreign exchange market turnover in Q2 2024 rose 24.7% from Q1, reaching K14.2 billion. This increase was driven by an 18.3% rise in inflows from exporters, state-owned enterprises (SOEs), and program support packages to K5.4 billion. Additionally, the Bank of Papua New Guinea's (BPNG) FX interventions grew by 50.9% to K1.69 billion, representing 23.8% of total FX inflows in Q2, up from 21.7% in Q1.
- BSP's outstanding FX orders peaked at K863 million in mid-May; however, as FX inflows from exporters, SOEs, and central bank interventions increased, this amount was reduced to K342 million by the end of the quarter.
- Consequently, FX order execution times improved, shortening to 2 to 4 weeks, though fluctuations between 2 and 8 weeks are expected in Q3 2024.
- BPNG's intervention is playing a critical role in addressing the ongoing structural imbalance between FX inflows and outflows.
- The PGK/USD depreciation accelerated under the "crawling peg," falling 1.9% to 0.2600. The Kina also declined 3.7% to 0.3912 against the Australian dollar due to improved AUD/USD interest rate differentials. Rising Australian inflation has increased expectations for a rate hike in September, while the market anticipates the first U.S. rate cut in Q4 2024, supported by stable inflation in a resilient economy.

What is the outlook for FX inflows this quarter, and how should customers manage currency volatility?

- In the upcoming quarter, the PGK is expected to continue its gradual depreciation against the USD by approximately 0.7% per month, or 8.5% annually, and even more against the Australian dollar due to improving interest rate differentials with the U.S. dollar.
- We anticipate a decrease in FX inflows from the high levels seen last quarter, partly because some fuel imports will be settled in foreign currency.
- With BPNG's FX intervention unlikely to increase to offset the decline in commercial FX inflows, outstanding FX orders are expected to rise from the low levels observed mid-year. The availability of foreign currency remains volatile, making it essential for customers to place FX orders promptly and with the correct documentation to avoid unnecessary delays.

Global Economic Outlook

Global growth in 2024 is expected to be subdued, as tighter global monetary policies restrict access to credit and constrain economic activity.

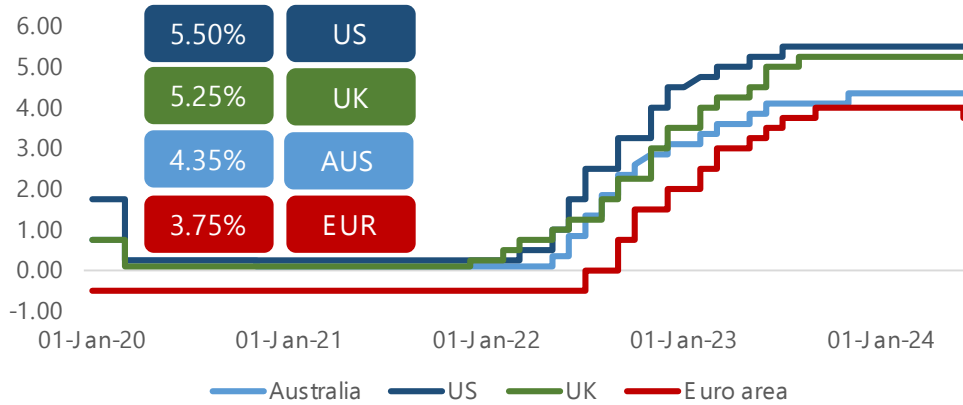
World Growth



2024:	3.1%	3.2%	2.4%
2025:	3.2%	3.2%	2.7%

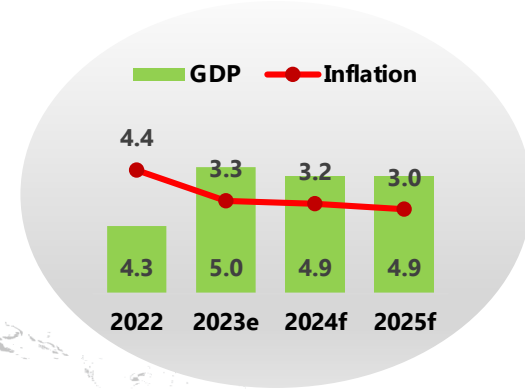
- > Global growth is anticipated to incrementally improve in 2024 before gaining momentum in 2025.
- > Despite stringent monetary conditions affecting households and credit markets, global economic activity remains resilient. Real incomes are benefiting from moderated inflation, alongside a resurgence in trade growth turning positive.

Central Bank Interest Rates [%]



Source: IMF World Economic Outlook-Jan 2024, OECD World Economic Outlook Fed-2024, World Bank GEP-Jan 2024

Developing Asia



- > The Asian Development Bank (ADB) forecasts a moderation in growth for Developing Asia to 4.9% in both 2024 and 2025. This outlook is underpinned by robust domestic demand and improved exports of semiconductors and services, including tourism, across most sub-regions, despite a deceleration in economic activity in the People's Republic of China.
- > Inflation in Developing Asia is projected to decelerate, easing from 3.3% in 2023 to 3.2% in 2024, and further moderating to 3.0% in 2025.
- > Moreover, countries in the Association of Southeast Asian Nations (ASEAN) are actively promoting the use of local currencies for trade and reducing dependence on the U.S. dollar in cross-border transactions. Among ASEAN nations, Indonesia stands out for its assertive efforts towards de-dollarization, driven partly by concerns over increasing U.S. debt levels.

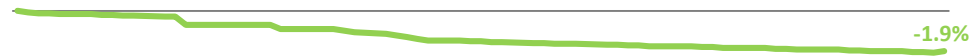
In a significant departure from its recent series of aggressive rate hikes, the European Central Bank (ECB) announced a reduction of 25 basis points in June. Nevertheless, the ECB's forward guidance regarding a potential additional rate cut remains opaque, reflecting concerns over the uncertain inflationary environment. Meanwhile, the Reserve Bank of Australia (RBA) opted to maintain its cash rate at 4.35%, citing persistent pricing pressures. In the United States, inflationary pressures moderated notably in June, heightening speculation about a potential Federal Reserve rate reduction in September.

Currency Trends

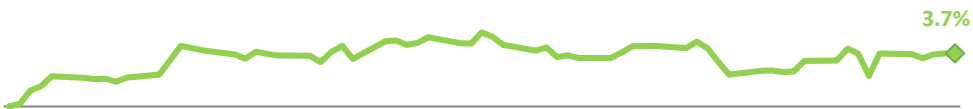
A rate cut in the third quarter of 2024 is expected for the US, driven by indications of easing inflation. Under BPNG's crawling peg regime, the PGK depreciated against the USD to 0.2600.

Currency Movements

PGK/USD in Q2-24



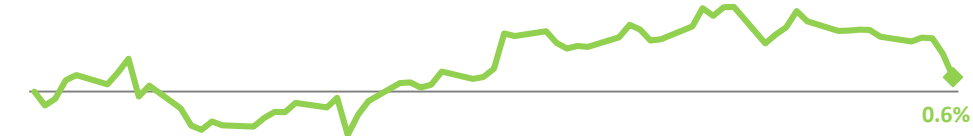
PGK/AUD in Q2-24



AUD/USD in Q2-24-24



NZD/USD in Q2-24



01-Apr-24

29-Apr-24

27-May-24

24-Jun-24

Commentary



USD – Throughout the second quarter of 2024, the US dollar maintained its strength, with the USD Index closing 3.59% higher year-to-date. Expectations for interest rate cuts in the third quarter of 2024 have increased as data suggests that inflation in the US is trending towards the 2% target. The Federal Reserve's decision to postpone rate cuts until economic conditions stabilize bolstered the USD against other major currencies during this period.



PGK – At the conclusion of Q2 2024, the midrate for the PNG kina against the USD stood at 0.2600. BPNG's implementation of a crawling peg regime resulted in a 51-point decrease in the kina's midrate, marking a 1.9% decline from the previous quarter's closing rate. Initially strong against the Australian dollar at the start of Q2 2024, the kina benefited from the resilient strength of the USD, which supported its value relative to the AUD.



AUD – In Q2 2024, the Australian dollar rose 1.8% to 0.6651 compared to the previous quarter. Initially volatile due to stronger US inflation data and geopolitical uncertainties, the AUD found support from Australia's increased commodity prices in May. Towards the end of the quarter, it stabilized and strengthened slightly amid softer US inflation data and expectations of impending rate cuts in the US.

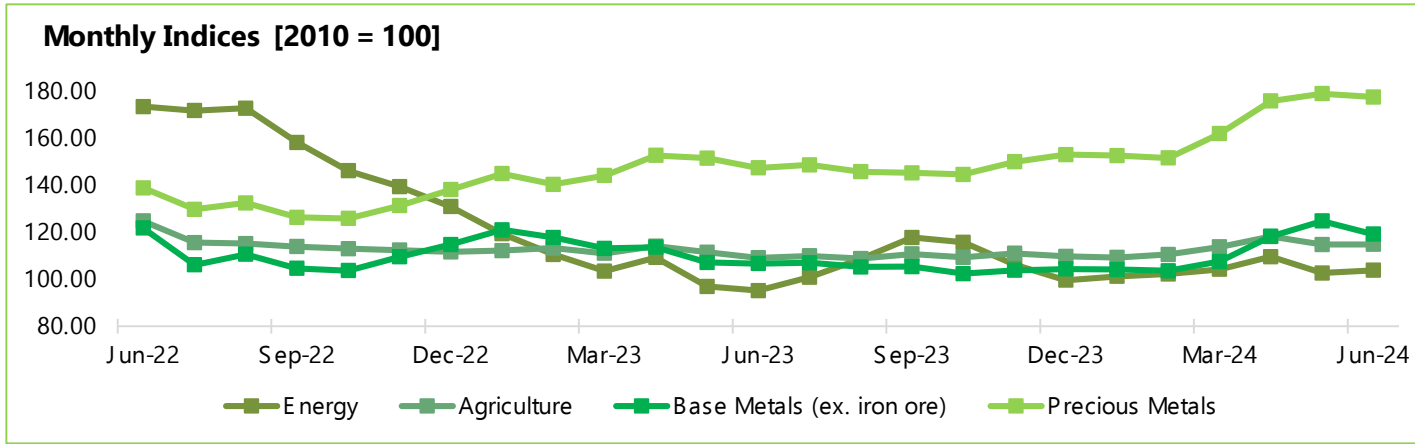


NZD – In Q2 2024, the New Zealand dollar rose 0.6% to 0.6085 from the previous quarter. Like the AUD, the NZD initially faltered before recovering. The Commodity Price Index showed mixed results with higher dairy and aluminum prices in May and June, offset by declines in meat, forestry, and horticultural produce prices.

Source: Reuters, yahoo finance, BPNG, RNZ, Western Aus. Treasury Corp., CNBC, ANZ Commodity Price Index, RBA Commodity Price Index

Commodity Price Trends

Commodity prices for major exports remained buoyant during the quarter, supported by supply disruptions and geopolitical tensions.



Commentary:


- » **Cocoa** prices have maintained positivity despite a decline in May and are anticipated to remain elevated through the 2023/24 mid-crop season. Concurrently, **coffee** and **palm oil** prices also showed strength amid supply concerns during the quarter.
- » **LNG** prices continued to face pressure from subdued demand, whereas **crude oil** prices benefited from extended production cuts by OPEC+ and optimism surrounding increased summer fuel demand in the US.
- » **Gold** prices experienced an upward trend in April and May driven by sustained Middle East tensions and robust central bank demand. However, gold decreased by 1.1% in June, influenced by a stronger US dollar and higher bond yields. Meanwhile, **silver** prices continued to rally, supported by gains in gold prices.
- » Average Q2 **copper** prices rose by 15.5% due to expectations of tight supply and strong demand from sectors such as electric vehicles and new technology, particularly in April and May. However, prices declined by 4.8% in June amid investor concerns over potential regulatory measures from Chinese authorities aimed at curbing recent price increases.

Commodities	Avg. 24Q1	Avg. 24Q2	%Change
Agriculture			
Coffee, Arabica [US\$/kg]	4.6	5.3	↑ 15.7
Cocoa [US\$/kg]	5.7	8.5	↑ 49.9
Palm Oil [US\$/mt]	881.6	889.5	↑ 0.9
Energy			
Crude Oil, Brent [US\$/bbl.]	83.1	84.9	↑ 2.1
LNG, Japan [US\$/MMBtu]	13.7	12.1	↓ 12.2
Precious Metals			
Gold [US\$/troy oz]	2,071.8	2,336.3	↑ 12.8
Silver [US\$/troy oz]	23.4	28.8	↑ 23.3
Base Metals			
Copper [US\$/MT]	8,444.3	9,750.6	↑ 15.5
Iron ore [US\$/dmt]	123.3	113.0	↓ 8.4
Nickel [US\$/mt]	16,627.0	18,416.3	↑ 10.8

Source: World Bank Commodity prices- July data, Reuters, Nasdaq, ICCO, S&P Global

PNG Economic Outlook

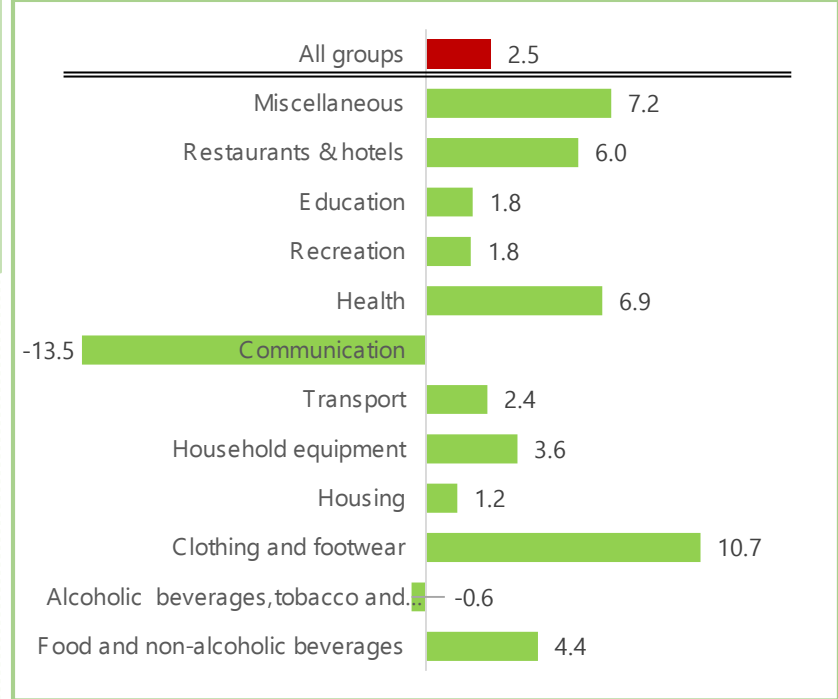
Political instability persists within the PNG economy, compounded by increasing inflationary pressures.

	2024 3.3%..Real GDP	2025 4.6%..Real GDP
	2024 4.5%..Real GDP	2025 3.7%..Real GDP

The agriculture sector has benefited from robust cocoa prices in recent months, leading to increased earnings for cocoa farmers and fostering vibrant economic activity in rural townships and districts. The upcoming coffee harvest season is also anticipated to bolster sectoral growth.

Moreover, the commencement of the 2024 National Census in June promises to provide essential data for informed economic policy planning. Nevertheless, there are current challenges with the timely completion of the census.

NSO Inflation Figures (% change Mar-24 vs Mar-23)



Vote of no confidence

The second attempt by the opposition to move a motion of VONC was deemed defective due to technicalities. The matter is currently before the Supreme Court for resolution.

The delay in the VONC prolongs political uncertainty within the economy, posing a recognized risk for business investments in the short term, particularly those associated with major government projects.



Key Matters to Economic Management:



National Census



Political Stability



Fiscal Consolidation

Inflation & BPNG Contractionary Monetary Policy

The National Statistical Office (NSO) recently reported a 2.5% increase in headline inflation for the March quarter compared to last year. Key contributors include clothing and footwear (up 10.7%), miscellaneous items (up 7.2%), health (up 6.9%), and restaurants and hotels (up 6.0%). Price hikes for Ramu Sugar and SP products, effective June 1st, are also expected to further raise inflation in food and alcoholic beverages.

To address inflation concerns, BPNG has taken several measures, including raising the Kina Facility Rate (KFR) by 50 basis points to 2.5%. Additionally, from April to June, the Cash Reserve Ratio (CRR) was increased from 10% to 12%, in an attempt to tighten market liquidity.

Kina Facility Rate



Cash Reserve Ratio

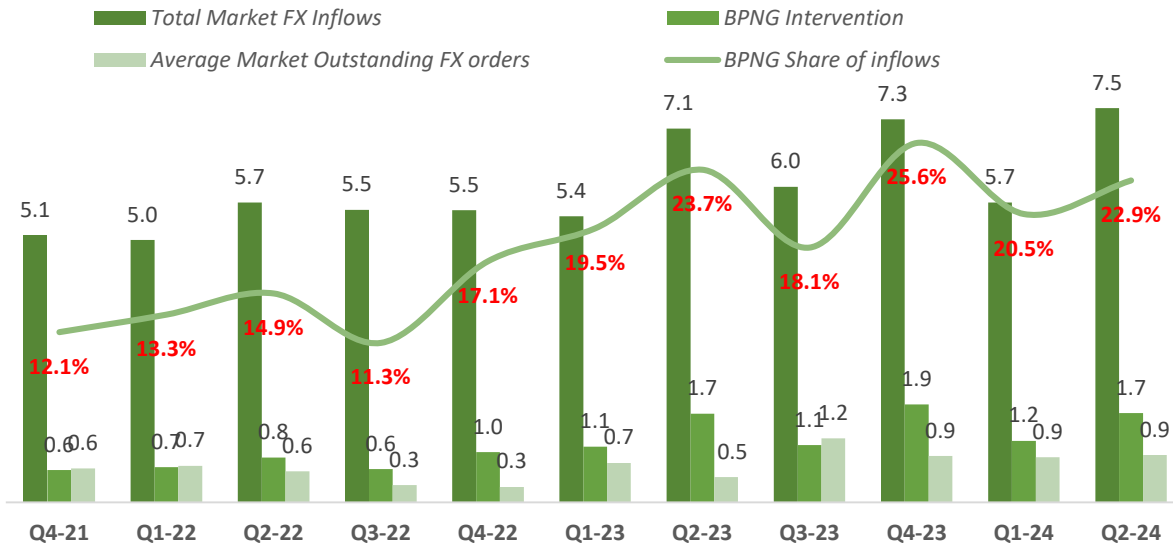


Source: Post-Courier & National Newspaper, NSO Mar Quarter 2024 CPI, ADB Asian Development Outlook-April 2024, IMF WEO-April 2024

FX Market Inflows vs BPNG Intervention

Despite increased intervention by BPNG and FX inflows from exporters in Q2-2024, average outstanding market FX orders have remained stable for the third consecutive quarter.

Total FX Market Inflows vs BPNG FX Intervention (Kb)



Q2-24 FX Market Inflow

K7.48b

↑ 31.5% vs Q1-24

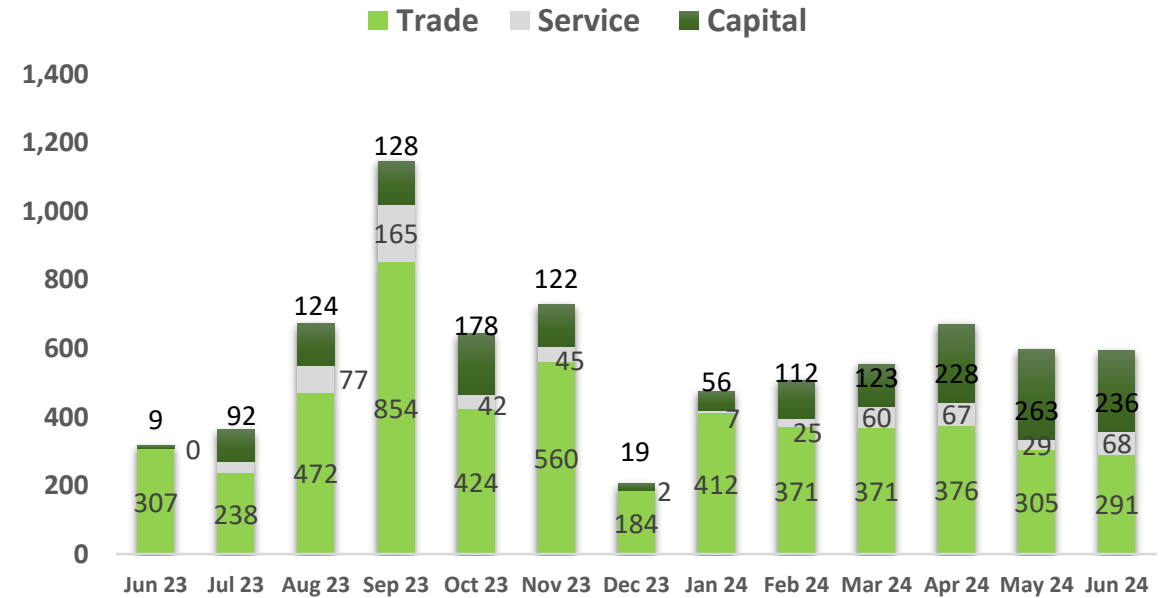
Q2-24 BPNG FX Intervention

K1.69b

↑ 44.8% vs Q1-24

- FX market inflows strengthened in Q2, driven by heightened FX intervention (22.9% of total FX inflows), increased flows from exporters benefiting from stable commodity prices, and the culmination of first-half financial flows.

Volume of Outstanding BSP FX Orders (Km)



- Despite a 40% increase in BPNG's FX intervention, average outstanding market FX orders have remained stable for a third consecutive quarter.

Source: BSP Treasury and Markets

PNG Resource Sector

The extractive industry projects show promise for PNG's future, complemented by the launch of the National Agricultural Plan 2024-2033, aiming to boost sustainable growth in the agricultural sector.



Extractive Resource Sector



Twinza – Pasca A Project

- In May 2024, Twinza and Mineral Resource Development Corporation (MRDC) signed an agreement for MRDC to acquire a 50% participating interest at a cost of US\$160 million (K620 million).
- The start of Pasca A depends on finalizing the Pasca Gas Agreement, under negotiation since 2020, and securing the Petroleum Development License, pending since 2015.

- Twinza Chairman stated that development could begin by early 2026, with production starting by mid-2028, if all proceeds as scheduled.

ExxonMobil - PNG LNG

Angore Project

- The Angore Pipeline is integral to the original PNG LNG Development Plan, requiring approximately K5 billion in new investments.
- This project will utilize existing PNG LNG Infrastructure, connecting to the Hides Gas conditioning plant in Hela to bring the one trillion cubic feet Angore resource into production.
- Construction activities are nearing completion, with additional natural gas production expected later in 2024.

Wilbebeest Prospect

- The Wilbebeest Prospect represents another potential development located in the Eastern fold belt of Gulf Province.
- Success in this area could extend PNG LNG's construction timeline to 13 years, incorporating Angore and Papua LNG projects, thereby attracting continued foreign investment into Papua New Guinea.



Non-Extractive Resource Sector

Black Wednesday Riots

- In February, the government approved K270 million in relief for businesses affected by the January 10 riots. Since then, approximately K17.5 million has been disbursed to 8 businesses for purposes such as debris removal, clearing claims, and wage support. These funds were also allocated under an employee retention scheme, providing K500.00 per fortnight to affected employees of these businesses.

Cocoa prices in PNG



- Cocoa prices in PNG surged to an average of K2,500.00 per bag in Q2-2024, retreating to K1,700.00 per bag by the end of the quarter. While producers in the country benefited from these price increases, concerns about quality were raised by scientists in East Sepik.
- Cocoa is a regulated industrial crop, and the recent price surge underscores the importance for the Cocoa Board to enforce stringent quality control measures, ensuring consistency and high standards.

National Agricultural Plan 2024-2033

The newly launched National Agricultural Plan 2024-2033 aims to achieve several key objectives:

- Enhancing food supply and security
- Creating income-earning opportunities
- Improving overall performance within the agricultural sector

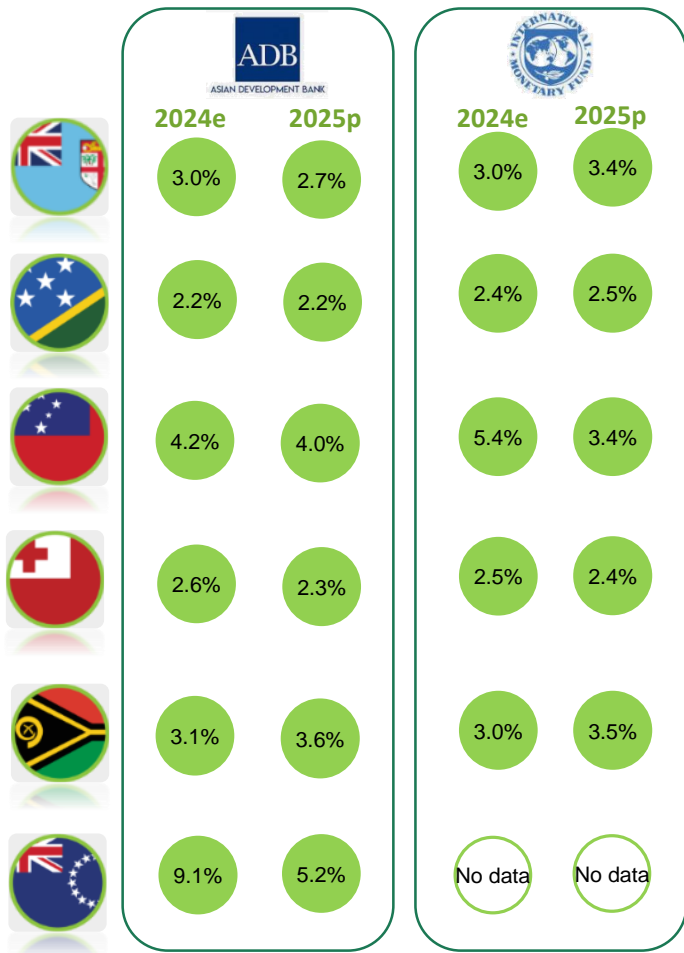
This plan is aligned with the strategic objectives of Vision 2050, the PNG Development Strategic Plan 2010-2030, and the Medium-Term Development Plan IV 2023-2027. These alignments ensure a cohesive approach towards sustainable agricultural development in PNG.

Source: Business advantage News, The National, PNG Business News

Pacific Markets Economic Update

Economic growth across Pacific Markets was largely positive, with tourism-related activities serving as a common factor driving growth in the region.

GDP Growth



Commentary

Fiji

GDP growth forecasts for Fiji by the ADB and IMF vary for 2025, reflecting uncertainty. However, Fiji's strong tourism sector continues to support its economic potential. According to the RBF March Quarterly Review, Fiji's headline inflation was 4.6% in March 2024, down from 5.1% in the previous quarter but up 2.6% from March 2023. Despite this, RBF remains optimistic about Fiji's economic stability due to the slowdown in month-on-month inflation.

Solomon Islands

Solomon Islands' GDP growth is anticipated to stabilize and slow down in 2025 after the economic boost from hosting the 2023 South Pacific Games. According to the CBSI Monthly Economic Bulletin, headline inflation in the Solomon Islands has been rising since early 2024 and reached 5% by the end of Q1, driven mainly by increased imported inflation.

Samoa

According to estimates and projections from the ADB and the IMF, Samoa is expected to experience a deceleration in GDP growth heading into 2025. However, the country's tourism sector has the potential to mitigate the extent of this slowdown. At the beginning of Q1 2024, headline inflation stood at 7.9%, marking a decline from the levels of 12% in Q2 2023 and 9.1% in Q3 2023.

Tonga

GDP growth estimates and projections from the ADB and the IMF indicate a decelerating trend for Tonga in 2025. According to the National Reserve Bank of Tonga, headline inflation stood at 3.2% at the end of Q1 2024, which increased to 4.6% by April 2024. This rise was primarily driven by imported inflation, including higher prices for fuel, imported food items, and alcoholic beverages.

Vanuatu

Vanuatu's stronger growth in 2025 is driven by recovery efforts following twin cyclones. These disasters disrupted supply networks, compounded by higher fuel prices due to the Russian-Ukraine conflict, leading to 13.5% inflation in 2023. Responding to these inflation levels, the RBV tightened monetary policy by increasing the Statutory Reserve Deposit to 5.5% from January 1, 2024. The RBV also reported a 2.7% decrease in average fuel prices, easing imported inflation pressures.

Cook Islands

In 2024, the Cook Islands' GDP growth is forecasted at 9.1%, down from the robust 13.3% in 2022, driven by infrastructural projects on Rarotonga and outer islands. Despite pandemic-related delays, tourism and ongoing infrastructural investments are expected to drive economic expansion this year and next. Inflation in the Cook Islands spiked to 13.2% in 2023 from 3.6% in 2022 but is projected to decrease to 3.6% in 2024 as prices stabilize.

Source: ADB Asian Development Outlook-April 2024, IMF World Economic Outlook-April 2024, BSP Pacific Market's Central Banks

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