

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

November was volatile, driven by Trump's election win and Republican control of Congress, which boosted U.S. equities and the dollar but increased uncertainty over future economic and trade policies.

COMMODITIES

In November, coffee, cocoa, and natural gas gained, while precious metals and industrials fell. Cocoa and coffee surged on supply concerns, natural gas rose with cold weather, and crude oil remained stable.

FX MARKETS

FX turnover rose to K5.1 billion, an 8% increase from October, with BPNG raising its FX support to US\$186 million. The PGK depreciated by 17 basis points against the USD, closing at 0.2517, down 6.15% year-to-date.

MONEY MARKETS

Government security yields stabilized at elevated levels, supported by the reinvestment of coupon receipts. Yields expected to remain stable, bolstered by increased liquidity resulting from the release of budgetary support packages in late December.

CONTENTS

02

GLOBAL MARKETS

03-04

FOREIGN EXCHANGE MARKETS

05

MONEY MARKETS

06

COMMODITIES

07

CONTACTS

GLOBAL MARKETS

Market Summary – November 2024

November was a volatile month, primarily driven by the U.S. presidential election and its implications for economic policy. Trump's victory and Republican control of Congress boosted U.S. equities and the dollar, but raised uncertainty about future domestic and trade policies.

U.S. Market Performance

U.S. stocks surged, with small-cap stocks up 11%, driven by expectations of tax cuts, deregulation, and pro-business policies. Growth stocks outperformed, while healthcare stocks lagged due to concerns about pharma policies. U.S. retail sales and a strong PMI also supported growth, with the S&P 500 up 6%.

Global Equities

Global equities rose 3.8%, but performance varied:

- U.S. led with strong gains, while Europe and Asia faced headwinds from trade concerns and a strong U.S. dollar.
- Emerging markets underperformed, with Chinese stocks down due to domestic challenges.

Dollar and Currency Impact

The U.S. dollar surged, driven by expectations that Trump's fiscal policies could push inflation higher, which led to the Fed potentially halting rate cuts. This impacted global bonds, making U.S. assets more attractive while dampening non-dollar returns.

Commodities

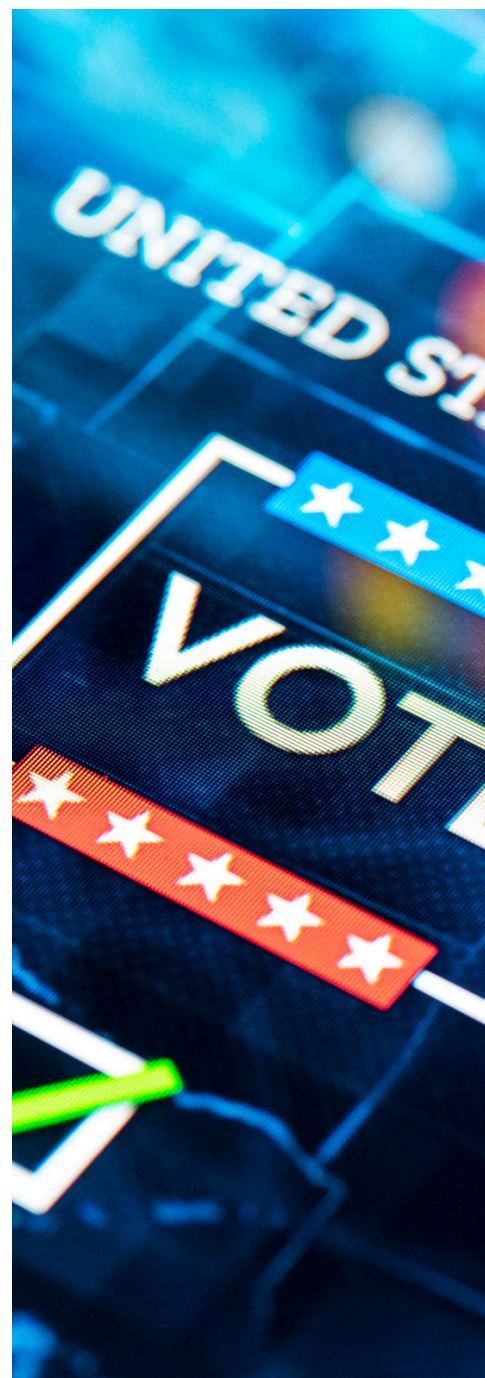
Oil prices rose due to supply concerns, with natural gas jumping over 20% amid Russian supply cuts and an LNG plant closure in Australia. Precious metals saw minor profit-taking.

Fixed Income

- U.S. bonds saw mixed returns with rate cuts from the Fed but concerns over future inflation.
- Eurozone bonds outperformed, benefiting from weak demand in Germany and France.
- Japanese government bonds struggled due to expectations of continued rate hikes by the Bank of Japan.

Conclusion

November's rally was driven by the U.S. election outcome, but market uncertainty remains, particularly regarding trade, inflation, and policy shifts. Global equities performed well in the U.S., but weaker performance in emerging markets and Europe reflected broader concerns.



FOREIGN EXCHANGE MARKETS

Market FX Turnover

November's FX turnover reached K5.1 billion, marking an 8% increase from October's K4.7 billion. However, FX conversions from major mining and commodity exporters were lower than in previous months, with the Bank of Papua New Guinea (BPNG) stepping in to provide additional liquidity. BPNG raised its monthly FX support to US\$186 million, US\$60 million above its usual target, aiming to clear long-dated essential orders before the year-end. Outstanding FX orders in the market have been declining, with the latest estimate at just over K800 million.

BPNG Forex Directive

On October 24, the Bank of Papua New Guinea (BPNG) issued a [new directive](#) to clarify the prioritization of foreign exchange orders. Non-essential capital orders (e.g., company dividends) will only be processed after all market FX orders for essential imports, such as food, medicine, and critical raw materials, have been fulfilled. This directive does not introduce any significant policy changes but provides clarification on the execution prioritization of forex orders.

PGK/USD

The PNG Kina (PGK) depreciated by 17 basis points against the U.S. dollar in November, starting the month at 0.2534 and closing at 0.2517. The PGK has lost 6.15% (166 pips) against the USD since the start of 2024.

AUD/USD

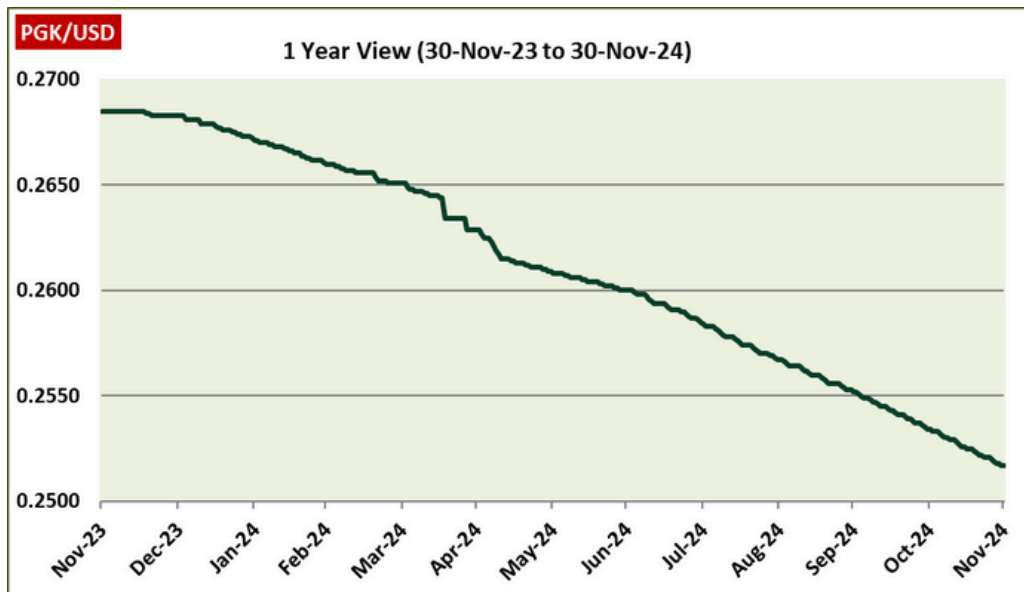
The AUD/USD opened November at 0.6559, but dropped 3.3% following Trump's victory in the U.S. presidential elections. Trump's trade policy proposals, including tariffs on imports from China, Mexico, and Canada, exerted downward pressure on the Australian Dollar (AUD), given its strong trade ties with China. Additionally, geopolitical tensions and increased demand for the U.S. dollar as a safe haven further weighed on the AUD. However, the AUD found support later in the month due to USD weakness, despite mixed economic data and a hawkish Reserve Bank of Australia (RBA) stance. The RBA Governor stated that underlying inflation remains too high to consider cutting interest rates. The AUD closed November at 0.6512 against the USD.

PGK/AUD

The PGK/AUD exchange rate showed more muted movement. The pair opened November at 0.3858 and closed slightly higher at 0.3864.

FOREIGN EXCHANGE MARKETS

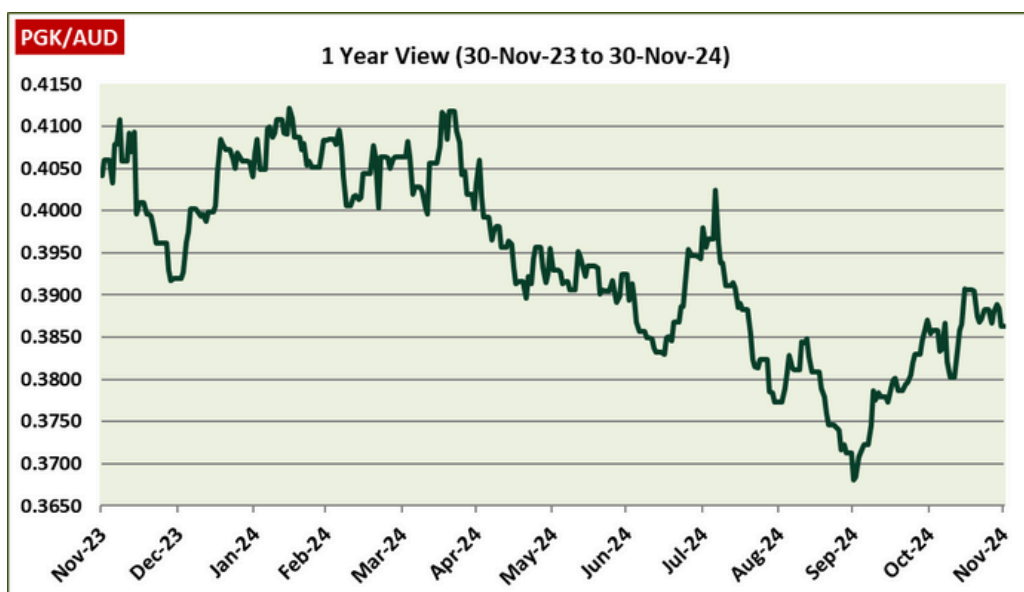
PGK/USD



PGK/USD

The PGK depreciated by 17 basis points against the U.S. dollar in November, closing at 0.2517. It has fallen 6.15% (166 pips) year-to-date.

PGK/AUD



PGK/AUD

The PGK/AUD exchange rate remained relatively stable in November, opening at 0.3858 and closing at 0.3864. Key risks for the AUD continue to stem from fluctuations in iron ore and coal demand, as well as persistent capital outflows into US markets.

MONEY MARKETS

Government Security Yields and Borrowing Outlook

Interest rates stabilized in the latter half of November, supported by over K700 million in GIS maturities and coupon payments, which were mostly reinvested by investors. Looking ahead, net domestic borrowing is expected to total PGK 2.3 billion in 2024, decreasing to PGK 761 million in 2025. The reduction in net borrowing and continued high system liquidity will likely lead to lower interest rates on government securities. The 2025 budget outlines PGK 861 million in net domestic borrowing through Treasury bills and bonds, alongside PGK 2.1 billion in net external borrowing from institutions such as the ADB, World Bank, and IMF. This will bring total debt to K64.9 billion, or 47.4% of GDP (GDP expected to grow by 5.2%). Interest rates are expected to remain stable in the near term with GIS payments and the anticipated inflow of external government funds by year-end increasing system liquidity.

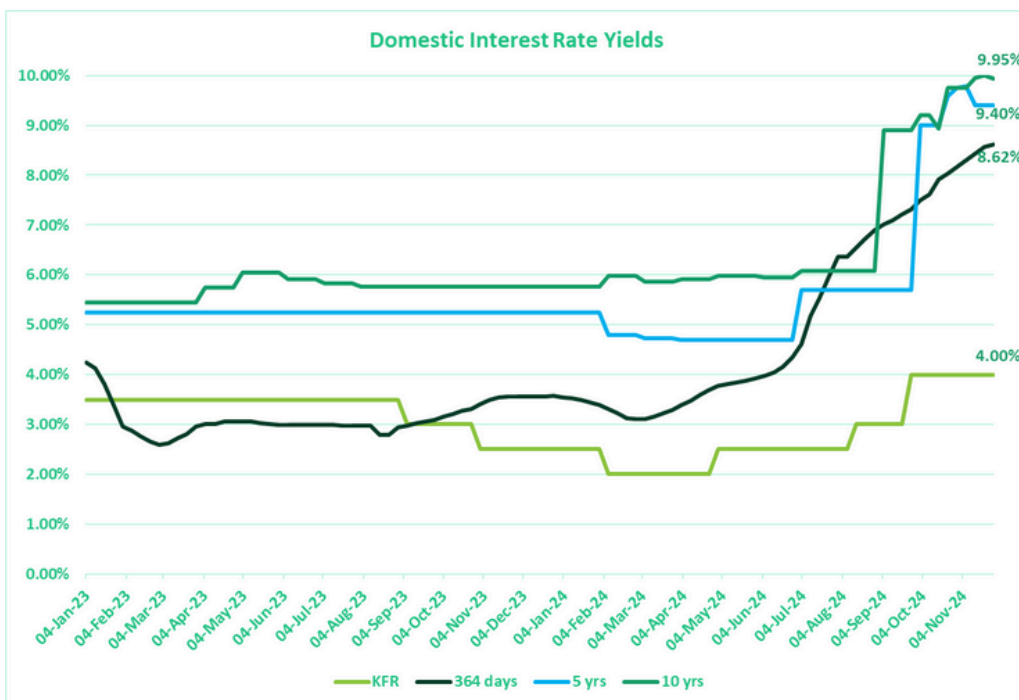
Investor Preferences and Auction Trends

Following the GIS payments, GIS auctions have been oversubscribed, while Treasury bill auctions have seen relatively lower demand, reflecting investor preference for the higher yields offered by GIS. The 2025 budget forecasts a 7.00% yield for 3-year Inscribed Stock.

Impact of External Funds

The anticipated receipt of external funds could release approximately K1.80 billion in unissued warrants, further adding to market liquidity and supporting stable/lower market interest rates.

Auction Date	Central Bank Bills					Treasury Bills			GIS	
	7	14	28	63	91	182	273	364	5 year	10 year
Previous	4.00					5.69	6.19	8.16	9.75	9.75
06-Nov-24	4.00					5.72	-	8.30	9.79	9.75
13-Nov-24	4.00					5.72	6.33	8.43	9.40	9.95
20-Nov-24	4.00					-	6.44	8.57	9.40	10.01
27-Nov-24	4.00		4.13			-	6.44	8.62	9.40	9.94
Movement	0.00	0.00	4.13	0.00	0.00	0.00	0.00	0.05	0.00	-0.07



COMMODITIES

November 2024 Commodity Price Recap

Commodities showed steady trading in November, with strong performances in **coffee, cocoa, and natural gas**, offset by declines in **precious metals, industrial metals, and grains**. **Cocoa** continued its rally due to production concerns in West Africa, while **Arabica coffee** surged over 33%, reaching a 47-year high amid fears over Brazil's 2025 crop. **Natural gas** prices soared as colder-than-expected weather in the US and Europe boosted demand. In contrast, **precious metals**, led by **silver**, saw declines as investors locked in profits following a stellar year, with a stronger US dollar and robust economic data suggesting a potential slowdown in interest rate cuts. Crude oil had a quiet month, with **WTI** and **Brent** trading in their narrowest ranges since May, ahead of a delayed OPEC+ meeting.

Market Background

November was marked by significant economic and political developments. The US presidential election delivered a victory for Donald Trump, raising concerns about potential trade wars, particularly tariffs on China, Canada, and Mexico. His proposed policies on mass deportations, tax cuts, and infrastructure spending could add fiscal strain, increasing debt. Meanwhile, geopolitical tensions rose, particularly with Russia and the US dollar strengthened for the second consecutive month, with the Bloomberg Dollar Index set for its strongest monthly close in over two years.

Natural Gas, Cocoa, and Coffee Surge

In the energy market, natural gas prices hit fresh one-year highs, driven by higher power demand from colder weather and concerns about Russian gas flows to Europe. Cocoa extended its 240% rise this year, supported by ongoing production issues in West Africa. Arabica coffee captured attention, surging 33% on fears over Brazil's 2025 crop, reaching a 47-year high.

Precious Metals See Profit-Taking

Precious metals, especially silver, experienced declines as investors took profits, driven by a stronger dollar and positive US economic data. After a 30% rally in 2024, both gold and silver faced reassessments, although the longer-term outlook for gold remains positive due to global uncertainties, demand for safe-haven assets, and potential inflation risks from tariff policies under the Trump administration.

Industrial Metals Mixed

Industrial metals saw mixed results, overall trending lower, particularly due to trade concerns following proposed tariffs on imports, especially from China. Copper dropped over 5% amid fears of a slowdown in the energy transition and uncertainties regarding the Inflation Reduction Act (IRA). However, the shift toward electrification, including the growth of EVs in China and energy-intensive industries in the US, is expected to increase demand for metals like copper, which is critical for electrical infrastructure.

Crude Oil Stagnates

Crude oil had a quiet November, with WTI and Brent trading within their narrowest ranges since May. Prices were supported by rising refinery margins and concerns over geopolitical tensions, especially the Russia-Ukraine conflict. However, concerns about an oversupplied market in 2025, including the possibility of OPEC+ unwinding production cuts and strong production from non-OPEC countries, kept prices capped. Geopolitical risks, including potential new sanctions on Iran and Venezuela, remain upside risks, but natural gas continues to look like a more significant opportunity due to growing global demand.

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