

Quarterly Report.

March 2022



kinabank

Together it's possible

Quarter Highlights.

+2%

Revised Growth
in 2022

BPNG released its revised GDP projections for 2022 in its latest Monetary Policy Statement. Economy is still in recovery mode.

+17%

Domestic Fuel
Prices

Domestic fuel prices for consumers spiked during the first quarter - rising +17% since the beginning of the year.

>US\$100/bl
Brent Crude

The IMF projects that Oil Prices will remain elevated for the remainder of 2022 - pointing to continued inflationary pressures for import dependent economies such as PNG.

+24%

Iron Ore

Global Iron Prices increased as China announced it would relax its 'green targets' in the steelmaking industry.

+24%

Palm Oil

Palm Oil prices spiked by +24% in the first quarter - after leading Global producer - Indonesia - announced that it will ban exports.

<5%

1 year T-Bills

364-day Treasury Bills continue to creep lower with excess demand in the market forcing institutions to bid aggressively for Government paper.

Market Commentary.

The first quarter of 2022 started with a similar story to the end of last year dominating the news headlines - supply-chain disruptions, inflation and the possibilities of new COVID-19 variants threatening economic recovery. These global challenges were exacerbated by Russia's invasion of Ukraine. The significance of these two countries to the global supply of major commodities - ranging from oil, LNG, precious metal and wheat - has sparked supply-side shocks to the global trading system and increased prices for raw commodities. The S&P GS Commodities Index - the widely-recognized benchmark commodities index that tracks the performance of the global commodities market-increased almost +29% during the first quarter.

The first quarter was also challenging for the 2 largest economies - the U.S and China. The U.S. Federal Reserve raised interest rates as expected, highlighting the persistent inflation in the U.S economy over the past year. The

Chinese economy was also slow due to the property market issues (carrying over from 2021), as well as another wave of COVID-19 outbreaks across the country which triggered lockdowns in main cities.

On the domestic front, a major concern to businesses and consumers has been the impact of global oil prices on the local price offered at fuel bowsers across the country. **Kina's Economic Note** published last month briefly explains PNG's fuel price-setting scheme on how local prices are very sensitive to global oil price shocks. During the first quarter, local fuel prices rose +17% from the start of the year, as Brent Oil shot past US\$100/barrel in the wake of Russia's invasion.

The PNG-headquartered companies listed on the local PNGX stock exchange released their final 2021 financial reports. Finance and Banking sector stocks did very well; with BSP, Kina Bank and Credit Corporation announcing

strong profits for 2021. Domestic retail activity also continued to grow during the first quarter, with the Bank of PNG's data on the use of Bank Debit Cards (for interbank machine transactions) showing very active usage, particularly for ATM cash withdrawals and EFTPOS purchases. During the first quarter, there were almost 1.4million interbank debit card transactions recorded - a +34% increase on the first quarter transactional volumes in 2021 - and a +15% increase on the quarterly average through the whole of last year.

In terms of the macroeconomic recovery, both the Bank of PNG (in their March Monetary Policy Statement) and the World Bank released their revised 2022 growth forecasts last month: with BPNG forecasting 2% GDP growth this year (Kina's MPS Summary can be found here- [insert link](#)). The World Bank is more optimistic - projecting 4% GDP growth for 2022.

Kina Bank Outlook.

Since the Russia/Ukraine crisis and a hawkish Fed signaling more interest rate hikes, the degree of uncertainty has risen around global markets, particularly with major commodities and stocks. Rising interest rates, coupled with inflation have in the past led to recessions for the U.S economy.

This will prompt business planners and investors alike to approach the remaining months with caution, particularly as inflation remains 'persistent', but we

expect global economic activity to still continue to rise, reflecting the economic recovery from the pandemic.

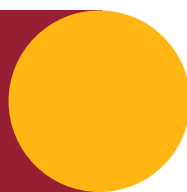
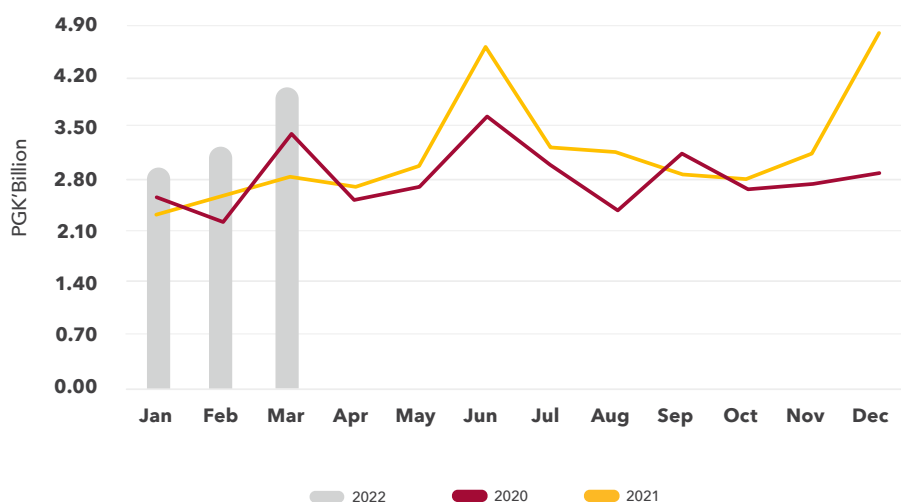
Looking forward in the coming months in PNG, the major cause for concern will be the increase in prices for goods and services. BPNG forecasts headline inflation at 5% this year. However, with continued elevated oil prices impacting local fuel costs (already +17% this year); the global supply-chain crisis impacting shipping

container movements dragging on; and the entrenched structural imbalances which have impacted the PGK foreign currency market for some time; the costs of imports into the country will continue to impact retail margins.

Upward price pressures will continue to persist, particularly with the issuing of writs for the General Elections in April triggering the start of the election campaigning period.

PNG FX Market.

The first quarter recorded a total average of just under PGK3.5 billion in FX market turnover. These levels are +28% more than the average quarterly turnover of the corresponding period from the previous 2 years - reflecting increased inflows into the market. Increased export flows came from gold exporters, with the gold price spiking during the first quarter due to current global geopolitical tensions. The Bank of PNG also supported the market with about PGK664m of foreign currency during the quarter. The second and fourth quarters are normally the busier periods of the year - so we will expect greater turnover over the next 3 months.



PNG Equities.

Corporate earnings for most of the major companies on the PNGX were released during the first quarter, with the 2 major commercial Banks, BSP (BFL) and Kina (KSL), both posting strong Return on Equity (ROE) of 28% (BSP) and 12% (KSL); respectively. The quarter was also the first in which Santos traded, following its acquisition of Oil Search at the back end of 2021.

In terms of the first quarter performance, Kina (KSL) shares closed out +1.7% higher; while Credit Corporation (CCP) dropped -4.8%. The Kina Securities Index (KSI) remained relatively flat throughout the quarter, while the Home Stocks index (KSHi) dropped -3.1%, in part to the CCP price drop.

	PRICE*		Q1		YTD
PNG Stock Exchange (PNGX)					
Kina Securities Ltd. (KSL)	3.00	↑	1.7%	↑	1.7%
Credit Corporation PNG. (CCP)	1.60	↓	-4.8%	↓	-4.8%
BSP Financial Group Ltd. (BSP)	12.05	↓	-1.6%	↓	-1.6%
Australian Securities Exchange (ASX)					
Kina Securities Ltd. (KSL)	0.86	-	0.0%	-	0.0%
Newcrest Mining Ltd. (NCM)	26.74	↑	9.2%	↑	9.2%
Santos Limited (STO)	7.74	↑	22.7%	↑	22.7%
PNG Market Indices					
Ksi	5,853.76	↓	-0.1%	↓	-0.1%
KSHi	13,950.35	↓	-3.1%	↓	-3.1%

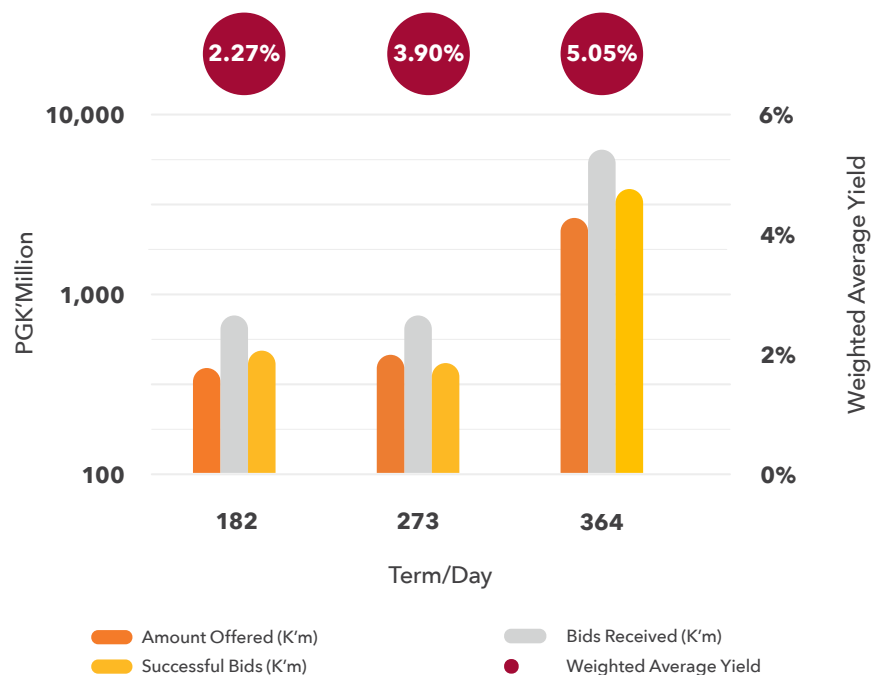
*Prices are in PGK on PNGX; \$AUD on ASX.

PNG Cash & Fixed Income.

Over the past 3 months, the Government raised PGK5.2bn through the issuance of Treasury bills, while the longer-dated Government Inscribed Stock (GIS) auction was cancelled.

The 364-day term bill fell sharply by more than 100 basis points during the period, forcing Deposit-Taking Institutions to revise their Term Deposit rates to account for this downward pressure. Nonetheless, the rates eased and slowly flatten in the middle of the quarter. This was after the BPNG dropped its reduction rate from more than 30bps to less than 4bps (on average).

Data from BPNG's auction results showed that market sentiment remained strong amidst weak rates throughout Q1.



International Equities.

Global equity markets had a difficult start to 2022, as major benchmarks in the U.S., Europe, and Asia fell in January and February, which overshadowed some of the gains incurred later in the quarter.

The Central Banks on-going hawkish comments on interest rates concerning inflation pressure were the key drivers of the equity markets. The Ukraine war fostered existing concerns of inflation pressure and forced Central Banks to hike rates, leaving no room for risky assets as investors sought for safe-haven assets, particularly bonds and gold.

It will be a challenging journey for the global equity market considering the on-going war between Russia and the Ukraine. It is unclear when the war will end.

	Price (USD)		Q1		YTD
North America					
Dow Jones IA	34,678.35	↓	-4.6%	↓	-4.6%
S&P 500	4,530.41	↓	-5.0%	↓	-5.0%
NASDAQ	14,220.52	↓	-9.1%	↓	-9.1%
Toronto S&P/TSX	21,890.16	↑	3.1%	↑	3.1%
Europe					
FTSE	7,515.68	↑	1.8%	↑	1.8%
DAX	14,414.75	↓	-9.3%	↓	-9.3%
CAC40	6,659.87	↓	-6.9%	↓	-6.9%
Asia					
Nikkei	27,821.43	↓	-3.4%	↓	-3.4%
Hang Seng Index	21,996.85	↓	-6.0%	↓	-6.0%
Shanghai Composite	3,252.20	↓	-10.7%	↓	-10.7%
Sensex	58,568.51	↑	0.5%	↑	0.5%
S&P/ASX 200	7,499.59	↑	0.7%	↑	0.7%

Source: Reuters, JP Morgan & KFM

International Cash & Fixed Income.

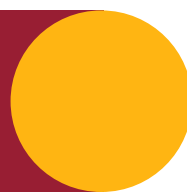
More developed markets saw strong growth in 10-year Treasury bonds which were mainly driven by inflation concerns - with the U.S. Federal Reserve raising rates by 25bps. The U.S. 10-year Treasury yield rose to 2.34% (up 83bps) and the 2-year bond yield rose 160bps to 2.33%. The increased yield in shorter-dated terms relative to longer-term (especially for the 2-yr/10-yr bonds) in the U.S. has traditionally been a precursor for recession, according to analysts.

The European and Australian markets also shared similar sentiments, by with short-term rates increasing during the first quarter.

Developed-market Central Banks are expected by investors to carry out a further round of interest rate hikes in the coming months.

10 Year Government Bond Yields					
COUNTRY	YIELD		Q1		YTD
United States	2.34%	↑	0.83%	↑	0.83%
United Kingdom	1.61%	↑	0.64%	↑	0.64%
Australia	2.84%	↑	1.17%	↑	1.17%
New Zealand	3.22%	↑	0.83%	↑	0.83%
France	0.98%	↑	0.78%	↑	0.78%
Japan	0.22%	↑	0.15%	↑	0.15%

Source: Reuters & KFM



Commodities.

It was a volatile first 3 months for commodity traders, notably in late February, with Russia's invasion of Ukraine adding to production-supply chain bottlenecks, which exponentially drove up the prices of some key commodities into record high territory. Crude Oil made headlines by breaking the US\$100 per barrel mark after 7 years. Precious metals, including Gold and Silver also spiked - with the former used as a hedge against inflation. The elevated demand pushed up Gold by +6.7%, whilst Silver notched +7.3%.

In the agriculture space, Palm Oil outperformed Coffee and Cocoa, adding +23.9% Q/Q, after the world's largest producer, Indonesia, announced that it would consider reducing export volumes. Furthermore, production woes in the second-largest producer - Malaysia, also added to upward price pressure as the country was faced with labor shortages.

	PRICE (USD)		Q1		YTD
Agriculture					
Coffee. (US cents/lb)	226.00	↑	0.1%	↑	0.1%
Cocoa. (US\$/mt)	2,650.00	↑	5.2%	↑	5.2%
Palm Oil. (RM/tn)	6,391.00	↑	23.9%	↑	23.9%
Energy					
Brent Crude. (US\$/bbl)	107.91	↑	38.0%	↑	38.0%
LNG. (US\$/mmBtu)	35.44	↑	16.2%	↑	16.2%
Light Crude. (US\$/bbl)	100.28	↑	32.6%	↑	32.6%
Precious Metals					
Gold. (US\$/oz)	1,954.00	↑	6.7%	↑	6.7%
Silver. (US\$/oz)	25.13	↑	7.3%	↑	7.3%
Base Metals					
Copper. (US\$/lb)	4.75	↑	6.3%	↑	6.3%
Iron Ore. (US\$/t)	139.83	↑	24.1%	↑	24.1%

Source: Reuters & KFM



Kina Bank Wealth Management.

EGM | Business, Wealth Management and Advisory Services

Deepak Gupta
deepak.gupta@kinabank.com.pg

Head of Investments

Michael Rook
michael.rook@kinabank.com.pg

Manager | Research & Analysis

Charles Wama
charles.wama@kinabank.com.pg

Manager | Portfolio Administration & Compliance

Noelyne Togs
noelyne.togs@kinabank.com.pg

Manager | Retail Wealth Management

Josh Mua
joshua.mua@kinabank.com.pg

Senior Economist

Moses David
moses.david@kinabank.com.pg

Senior Investment Analyst

Gareth Rus
gareth.rus@kinabank.com.pg

Investment Analysts

Max Kasening
max.kasening@kinabank.com.pg

Senior Portfolio Administrators

Mareta Kokiva
mareta.kokiva@kinabank.com.pg
Teddy Aipeta
teddy.aipeta@kinabank.com.pg

Portfolio Administrators

Serah Kokun
serah.kokun@kinabank.com.pg
Kimberley Melegepa
kimberley.melegepa@kinabank.com.pg

Economics

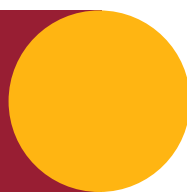
Karo Tuva
karo.tuva@kinabank.com.pg

Shares

Vera Saisagu
Goldstein Napitalai
wealth@kinabank.com.pg

Administration Coordinator

Dagu Hebore
dagu.hebore@kinabank.com.pg



Disclaimer.

General Disclosure

This report is for our clients only. All information contained herein is obtained by Kina Funds Management Limited (KFM) and/or Kina Group of Companies (Kina Group) from sources believed by it to be accurate and reliable. Whilst every care has been taken in the compilation of this Report and all information is believed to be accurate, No liability is accepted by KFM and/or Kina Group or its subsidiaries, or any of their officers, employees or agents for any errors or omissions in this Report. All information is provided "as is" without warranty of any kind and KFM and/or Kina Group, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any such information. Opinions and recommendations are subject to change without notice and cannot be relied on without independent confirmation. This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income

derived from, certain investments. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. This document is confidential and intended only for authorised clients of KFM and/or Kina Group.

Conflict Disclosure

KFM and/or Kina Group, its Directors, officers, employees or agents may own shares in the Companies stated in this Report, but under no circumstances shall KFM and/or Kina Group have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstances or contingency within or outside the control of KFM and/or Kina Group or any of its Directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication, or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory, or incidental damages whatsoever (including without limitation, lost profits), even if KFM and/or Kina Group is advised in advance of the possibility of such

damages, resulting from the use of or inability to use any such information. Past performance of Companies reviewed herein are not, and should not be held as indicators of the of the entities future performance. The information contained herein is, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. KFM and/or Kina Group may seek to do business with companies mentioned in research reports. Accordingly, KFM and/or Kina Group employees and/or directors may have a conflict of interest. Investors should be aware of this potential for conflicts of interest, and should consider KFM and/or Kina Group research reports as just one aspect of their investment decisions.