FEBRUARY 2025

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

Markets started 2025 strong, with European equities (+7.1%) outperforming the US (+2.8%). Bonds volatile but ended higher, while commodities surged on gold and oil gains. Future trends depend on US policy, inflation, and earnings.

COMMODITIES

Oil prices fluctuated but remained range-bound, gold hit USD 2,800 amid policy uncertainty and inflation concerns. Arabica coffee surged due to Brazilian crop losses and tariff risks, and cocoa rebounded to USD 11,300 on West African supply challenges.

FX MARKETS

The forex market fell 3% in January but remained strong at K5.3 billion, up 40% year-on-year, with support from mining and oil & gas conversions. BPNG injected US$100 million, below its US$125 million average.

MONEY MARKETS

System liquidity improved in January as government funds boosted demand for T-Bills, keeping rates stable. The first GIS auction is expected in March, with monthly auctions planned for the year.

CONTENTS

GLOBAL MARKETS

Review of Markets – January 2025

January 2025 saw strong returns across equities, bonds, and commodities.

Equities

Equities rebounded, with European markets outperforming the US. The MSCI Europe ex-UK Index rose 7.1%, while the S&P 500 gained 2.8%. Value stocks (+4.5%) led over growth stocks (+2.6%).

- **Europe:** The region benefited from financial and consumer discretionary gains, a rising PMI (50.2), and positive earnings revisions.
- **UK:** The FTSE All-Share rose 5.5%, supported by sterling depreciation.
- **US:** The S&P 500's 2.8% gain was driven by a strong labor market and GDP growth (+2.3% annualized in Q4), though the tech sector lagged due to DeepSeek's AI breakthrough, which caused Nvidia's record $600 billion loss.
- **China & Emerging Markets:** Chinese equities saw marginal gains, while Indian equities fell 3.5%, marking four consecutive months of decline. The MSCI Emerging Markets Index rose 1.8%.
- **Japan:** The TOPIX Index rose 0.1%, as a 25 bps rate hike by the BoJ and yen appreciation pressured exports.

Fixed Income

Bond markets were volatile but ended positively as credit spreads tightened.

- **US:** 10-year Treasury yields rose 20 bps before retreating on weak inflation data. Government bonds returned 0.5%.
- **Europe:** Italian bonds were flat, Spanish bonds fell 0.1%, and German Bunds declined 0.4% amid fiscal stimulus expectations.
- **UK:** Gilt yields spiked on stagflation fears but eased after soft inflation data, ending up 0.8%.
- **Credit:** US high-yield bonds gained 1.4%, European high-yield 0.6%, global investment-grade 0.6%, and emerging market debt 1.2%.

Commodities

Commodities outperformed, with the Bloomberg Commodity Index up 4.0%.

- **Gold & Metals:** Prices surged amid tariff concerns.
- **Oil:** Prices rose due to cold weather and US sanctions on Russia.

Conclusion

January 2025 was a strong month for investors, with European equities leading, bond markets stabilizing, and commodities rallying. Future trends will be shaped by US fiscal policy, inflation, and corporate earnings.

FOREIGN EXCHANGE MARKETS

Foreign Exchange Market Overview

The foreign exchange market recorded a 3% decline in turnover in January 2025 from the record highs of December 2024. Despite this drop, turnover remained strong at K5.3 billion, a 40% increase from January 2024. Market support was driven by one-off conversions from mining and oil & gas companies. The Bank of Papua New Guinea (BPNG) injected US$100 million into the market, up from US$64 million in December, though still below its US$125 million monthly average. With strong FX reserves, BPNG may increase interventions in 2025. Outstanding foreign exchange orders remained subdued due to steady inflows, BPNG's regular market support, and slower order lodgments following the holiday period.

PNG Kina Performance Against the US Dollar

The PGK experienced a slight depreciation in January, starting at 0.2500 against the USD and declining by 6 basis points to 0.2494. Moving forward, the PGK is expected to gradually weaken against the USD at an average pace of 3–4 basis points per week for the remainder of the year.

Australian Dollar Decline

The Australian dollar (AUD) weakened by approximately 2% in January, falling below $0.61, marking its lowest point since April 2020. The decline was attributed to heightened concerns over the potential for a global trade war following the imposition of new US tariffs. The US introduced 25% tariffs on goods from Mexico and Canada, alongside a 10% levy on imports from China, prompting retaliatory measures from these countries. Although Australia was not directly affected by the new tariffs, its economy, which relies heavily on exports and free trade, remains vulnerable to the broader global trade disruptions.

Retail Sales and Economic Outlook in Australia

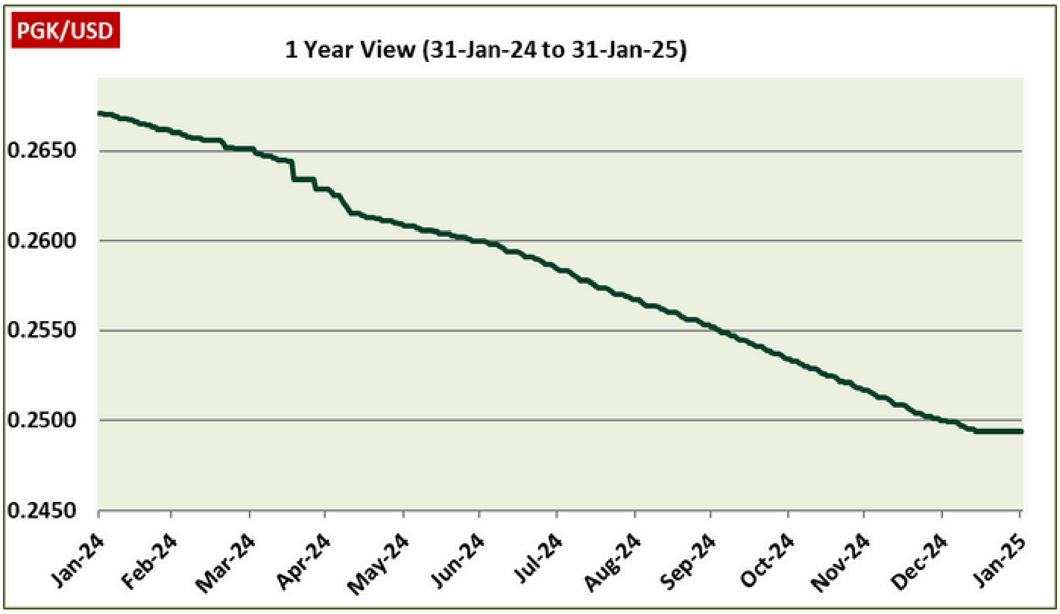
Australian retail sales declined by 0.1% in December 2024, the first drop in nine months, reinforcing expectations that the Reserve Bank of Australia may begin rate cuts in February. The slowdown in retail sales follows a drop in inflation, suggesting easing monetary policy from the RBA.

PGK Movement Against the Australian Dollar

The PGK strengthened against the Australian dollar during the first half of January, supported by AUD weakness and increased demand for the US dollar as a safe haven. However, in the latter part of the month, the kina weakened as the AUD strengthened. The PGK began the month at 0.4022 and ended at 0.4007 against the AUD.

FOREIGN EXCHANGE MARKETS

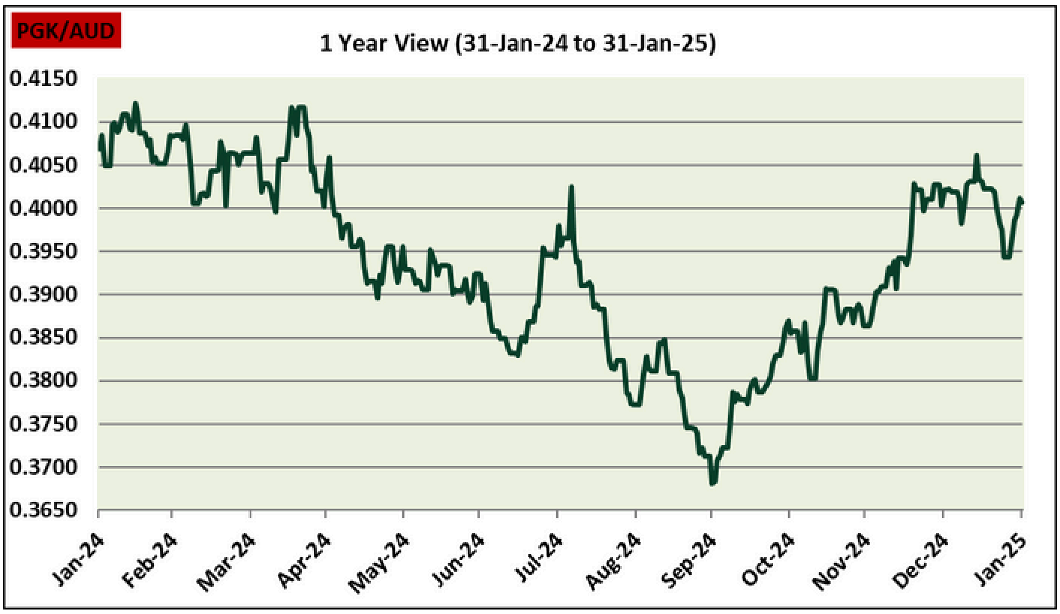
PGK/USD



PGK/USD

The PGK depreciated slightly in January, slipping from 0.2500 to 0.2494 against the USD. It is expected to continue weakening gradually at a rate of 3–4 basis points per week throughout the remainder of the year.

PGK/AUD



PGK/AUD

The PGK appreciated against the Australian dollar in the first half of January, driven by AUD weakness and increased demand for the USD. However, the kina lost ground in the second half of the month as the AUD strengthened. The PGK opened the month at 0.4022 and closed at 0.4007 against the AUD.

MONEY MARKETS

Liquidity Conditions

System liquidity in Papua New Guinea increased in January, supported by the Government's release of funds for development programs, provincial and district allocations, and State-Owned Enterprises (SOEs) from last year's budgetary support. This injection of funds contributed to strong demand in Treasury Bill auctions, which continued to see oversubscriptions throughout the month.

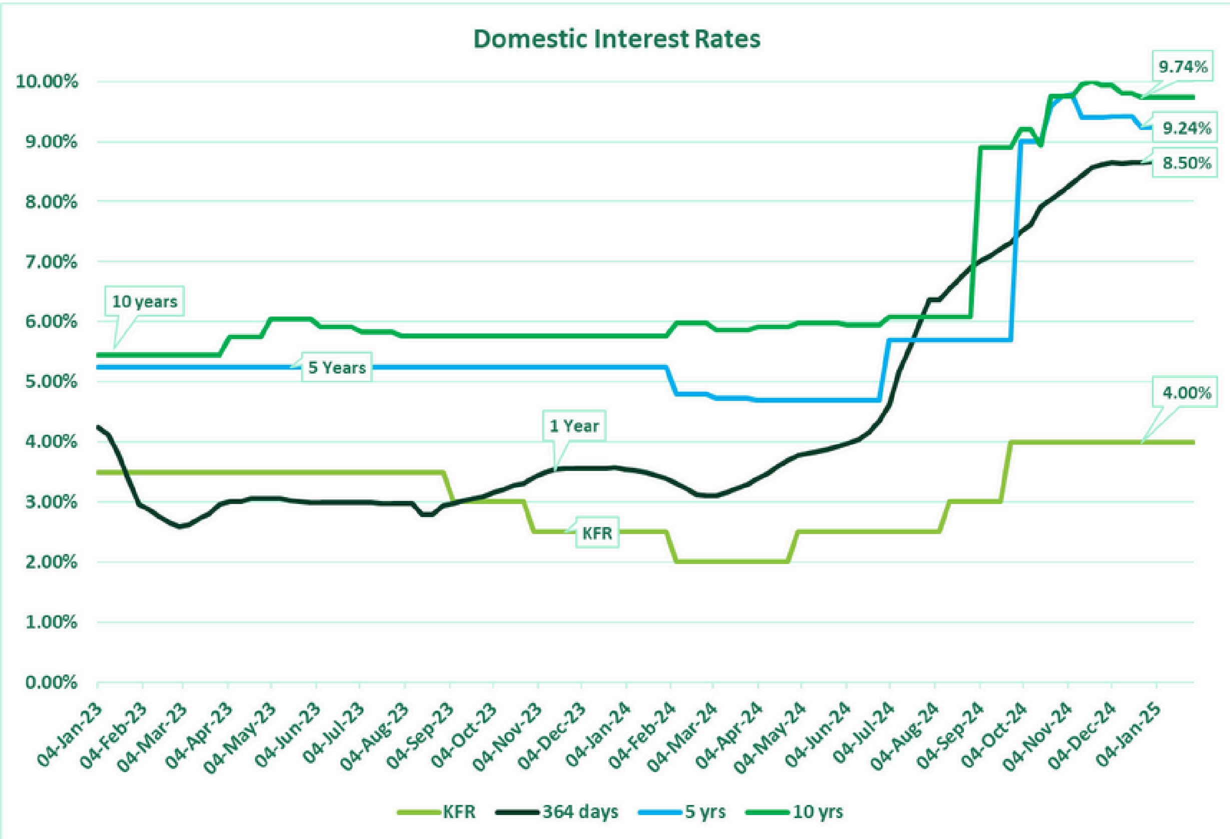
Interest Rate Trends

Treasury Bill rates remained stable at higher levels compared to a year ago, reflecting consistent market demand and the prevailing economic conditions. The sustained liquidity in the system has helped maintain stability in short-term interest rates.

Outlook for GIS Auctions

The first Government Inscribed Stock (GIS) auction for 2025 is expected to take place in March, with subsequent auctions anticipated on a monthly basis for the remainder of the year. These auctions will provide opportunities for long-term investors and are expected to support ongoing government financing needs.

Auction	Central Bank Bills			Treasury Bills				GIS		Subscription		
Date	7	14	28	91	182	273	364	5 year	10 year	C-Bills	T-Bills	Total
Previous	4.00		-		5.72	-	8.65	9.40	9.94			
02-Jan-25	4.00				5.74	-	8.66	9.41	9.94	1,350.00	-172.77	1,177.23
08-Jan-25	4.00				5.74	6.44	8.64	-	9.80	1,475.00	177.50	1,652.50
15-Jan-25	4.00				5.73	6.45	8.61	-	9.80	1,541.50	144.60	1,686.10
22-Jan-25	4.00			3.90	5.73	6.46	8.57	9.24	9.74	1,718.50	217.71	1,936.21
29-Jan-25	4.00			4.00	5.73	6.46	8.50			1,422.00	421.41	1,843.41
Movement	0.00	0.00	0.00	0.10	0.00	0.00	-0.07	-0.17	-0.06	7,507.00	788.45	8,295.45



COMMODITIES

Crude Oil Market Overview

Crude oil prices surged to six-month highs in early January before retreating to end the month near their starting levels. The initial rally was driven by increased demand for heating fuels amid severe U.S. cold weather and rising natural gas prices, while sanctions on Russia's energy sector raised supply concerns. However, prices reversed after former President Trump declared a "national energy emergency" to boost domestic production, though industry appetite for large-scale drilling remains limited due to financial and market risks.

Looking ahead, the market will monitor trade tensions, an expected OPEC+ production increase in April, and supply disruptions from sanctioned nations. With Brent and WTI largely range-bound due to OPEC+ production management, crude prices are expected to remain between USD 65 and USD 85 in 2025.

Gold and Silver Gain Amid Trump Policy Uncertainty and Market Squeeze

Precious metals surged in January, driven by uncertainty surrounding newly announced Trump administration policies, including tariffs, which raised concerns over inflation and monetary policy shifts. Spot gold reached a record high of USD 2,800, while New York futures peaked at USD 2,860, fueled by a tariff-induced market squeeze. A softer U.S. dollar provided additional support to both metals.

In our Q1 2025 outlook, we reaffirmed our bullish stance on gold and silver, as the risks of higher inflation and a growing U.S. fiscal deficit remain key drivers. Silver, benefiting from the New York squeeze and selling pressure on the gold-to-silver ratio above 91, retraced 61.8% of its losses from the October–December correction. Should gold reach our conservative forecast of USD 2,900 per ounce, silver could rise above USD 38 per ounce.

Arabica Coffee Prices Surge Amid Supply Concerns and Tariff Risks

Arabica coffee prices reached new record highs in January, driven by supply concerns and trade uncertainties. Brazil, the world's top producer, faced severe drought followed by heavy rains in 2024, significantly damaging its coffee crop. As a result, Brazil's crop agency, Conab, lowered its 2025/26 Arabica production forecast to 34.7 million bags, a 12% decline from the previous season and the lowest output since 2022. Additionally, the risk of U.S. import tariffs, particularly amid recent tensions with Colombia—another major producer—has further supported price gains.

The New York-traded Arabica futures contract, which relies heavily on supply from Brazil and Colombia, reached a record USD 3.64, marking an 86% increase over the past year. On a total return basis, factoring in the positive carry from rolling futures contracts, gains have reached 108%. Money managers continue to hold elevated long positions, sustaining the rally as long as positive momentum persists.

Cocoa Prices Rebound Amid Supply Concerns and Weather Challenges

Cocoa futures climbed toward $11,300 per tonne, recovering from a two-week low of $11,092 on January 31, which was driven by long liquidation following light rainfall in West Africa that improved soil conditions. Meanwhile, recent data showed cocoa arrivals at Ivorian ports reached 1.29 million metric tons by February 2, a 22.7% increase from the same period last year, though bean quality remained disappointing.

Despite recent fluctuations, cocoa prices are expected to remain elevated due to ongoing weather challenges in key producers like Ivory Coast and Ghana. Maxar Technologies reported that this year's Harmattan winds are the driest in six years, exacerbating crop stress. Farmers in both countries have already observed the adverse impact on their cocoa trees, reinforcing concerns over future supply.

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