

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

Markets were impacted by political events, including an attempted assassination of Trump. The Bank of Japan raised rates to 0.25% and the Bank of England cut rates to 5.0%.

COMMODITIES

Gold and coffee prices rose due to geopolitical and weather-related factors, copper prices increased from supply constraints, cocoa prices fell with oversupply, and palm oil prices climbed due to supply disruptions.

FX MARKETS

FX turnover hit K5.21 billion, driven by consistent exporter flows and BPNG's US\$124 million in FX auctions. The PGK/USD rate fell to 0.2584, with a projected year-end range of low 0.25 to high 0.24.

MONEY MARKETS

Treasury bill and bond yields rose amid tight liquidity. The 364-day Treasury bill rate surged 202 basis points to 6.37%, the highest since January 2022.

CONTENTS

02

GLOBAL
MARKETS

03-04

FOREIGN EXCHANGE
MARKETS

05

MONEY
MARKETS

06-07

COMMODITIES

08

CONTACTS

GLOBAL MARKETS

In July, market dynamics were significantly shaped by political events, including the election in France and the attempted assassination of former U.S. President Donald Trump. Additionally, GDP and inflation data from major economies played a crucial role in influencing global market trends.

During the same month, the Bank of Japan (BOJ) raised its interest rate to 0.25%, ending an eight-year period of negative rates. This decision was primarily driven by movements in the yen. Conversely, the Bank of England reduced its rate from 5.25% to 5.0%, following a 16-year high. This cut was a result of a policymaker vote indicating that inflationary pressures had sufficiently eased.

In the United States, the Federal Reserve maintained its interest rates at the most recent meeting. However, Fed Governor Jerome Powell suggested that a rate cut could be forthcoming in September, aligning with market expectations. This potential adjustment reflects the Fed's confidence, supported by data indicating a moderation in U.S. inflation.

Geo-political tensions in the middle-east coupled and the supply and demand dynamics are the key drivers for the decline of Bloomberg's Commodity Price Index.

The July decline in commodity prices suggests changing market dynamics that could affect global trade, inflation, and investment strategies. This shift may also reflect broader economic adjustments, altering the international trade and valuation of commodities.

Forecasts suggest a gradual decline in global inflation, with advanced economies expected to achieve their inflation targets sooner than developing nations. This divergence could affect economic policies and investment approaches across different regions, highlighting the need for tailored strategies to navigate the evolving economic landscape.



FOREIGN EXCHANGE MARKETS

PGK/USD

In July, market FX turnover surpassed June's record, reaching K5.21 billion. Exporter flows remained consistent throughout most of the month, contributing to the elevated turnover. Additionally, the Bank of Papua New Guinea (BPNG) conducted four FX auctions, offering a total of US\$124 million. Outstanding FX orders have been declining since April and ended July below the K1 billion mark.

The PGK/USD exchange rate fell by 16 points in July, doubling the 8-point decline observed the previous month. The kina began July at 0.2600 against the USD and closed at 0.2584. At this rate, the PGK/USD is projected to end the year in the low 0.25 or high 0.24 range.

PGK/AUD

Against the AUD, the PGK reached a low of 0.3830 on July 15th and peaked at 0.3981 on the last day of the month.

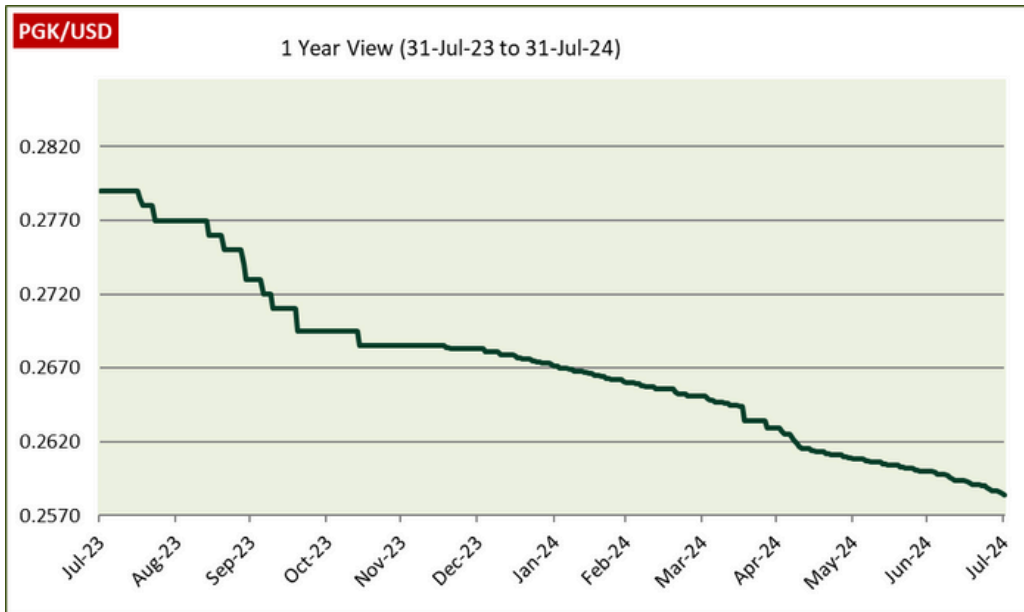
AUD/USD

At the beginning of August, the Australian dollar held above \$0.655, rebounding from a three-month low of \$0.65 recorded on July 31, following the Federal Reserve's decision to maintain its current interest rate and its acknowledgment of an economic environment that may eventually support less restrictive borrowing costs. Concerns about the Australian economy are being exacerbated by a slightly weaker outlook from China. Nevertheless, the Reserve Bank of Australia's (RBA) hesitancy to implement rate cuts due to persistent high inflation may offer some support for the Australian dollar.

Forecasts indicate that the RBA is likely to be one of the last among the G10 countries to reduce rates, which could help mitigate further downside pressure on the Australian dollar.

FOREIGN EXCHANGE MARKETS

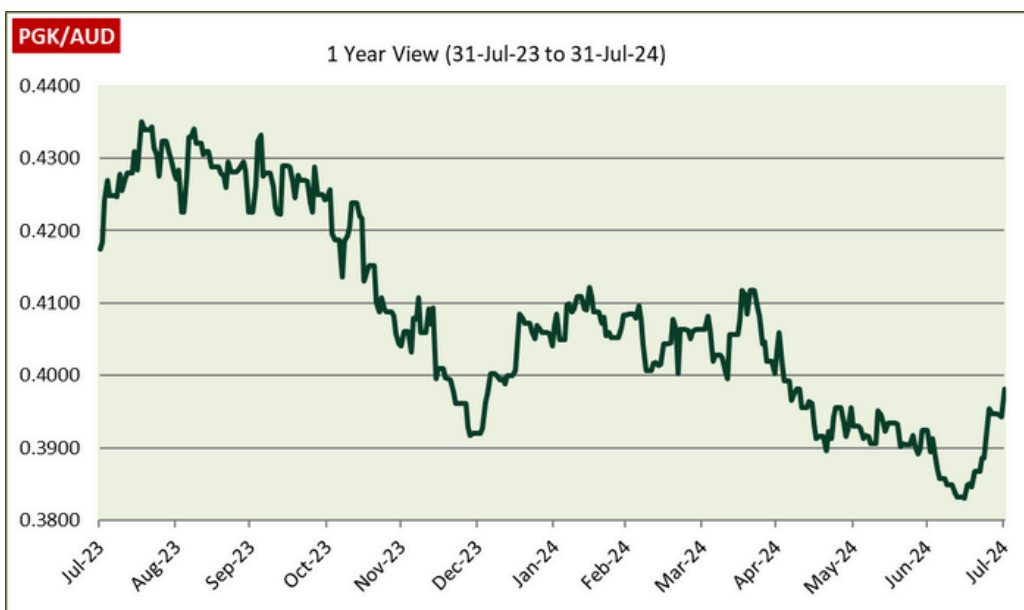
PGK/USD



PGK/USD

In July, the PGK/USD rate depreciated by 16 basis points, ending the month at 0.2584. It is anticipated that the rate will conclude the year in the low 0.25 or high 0.24 range.

PGK/AUD



PGK/AUD

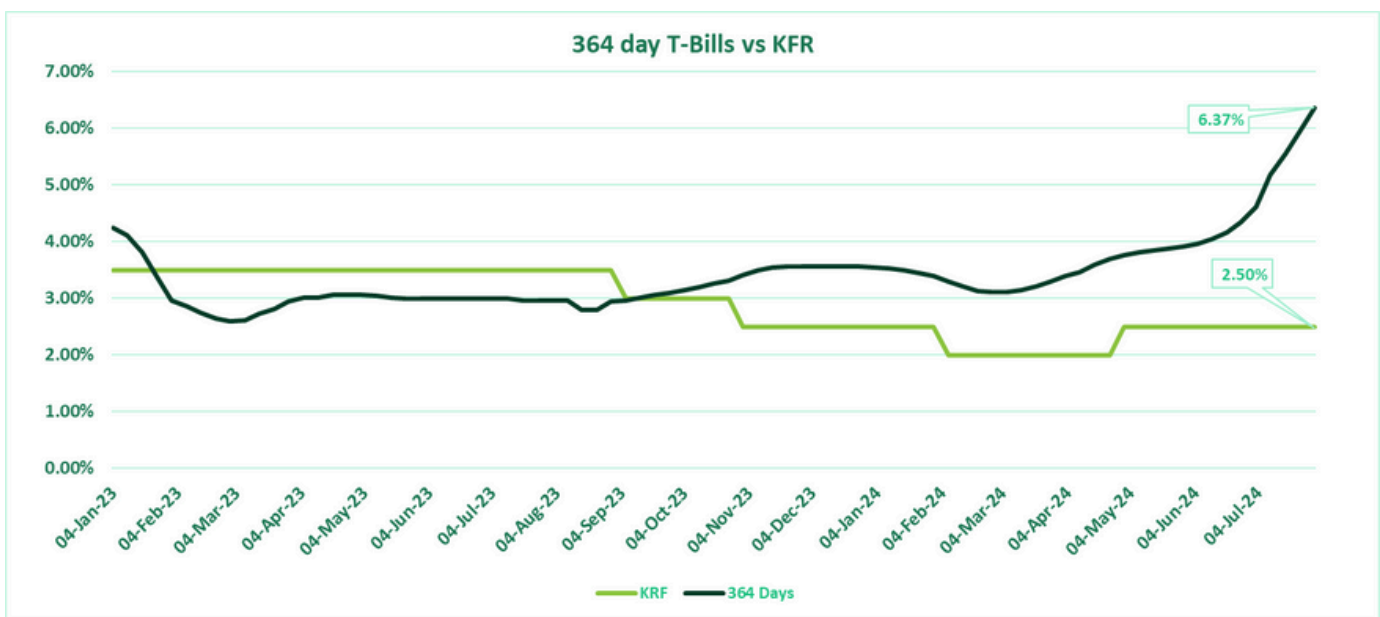
Earlier in the month, the PGK appreciated against the AUD but subsequently declined. By the end of July, it closed at a rate of 0.3951

MONEY MARKETS

In July, Treasury bill and bond yields sustained their upward trajectory due to persistently tight liquidity conditions. The yield on the 364-day Treasury bill surged by 202 basis points, reaching 6.37% by the end of the month. This level represents a significant increase and is the highest observed since January 2022, highlighting ongoing pressures in the financial markets.

This rise in yields reflects broader trends in the fixed-income sector and may signal shifts in investor sentiment and expectations regarding economic conditions. The elevated rates on Treasury bills suggest a more cautious market outlook, potentially influencing borrowing costs and investment strategies across various sectors. As liquidity remains constrained, the behavior of yields could continue to impact financial conditions and market dynamics in the near term.

Auction Date	Central Bank Bills					Treasury Bills					
	7	14	28	63	91	28	63	91	182	273	364
Previous	2.50								-	2.64	4.35
03-Jul-24	2.50							-	3.18	2.74	4.61
10-Jul-24	2.50							3.11	4.07	4.34	5.18
17-Jul-24	2.50							3.43	4.46	4.90	5.54
24-Jul-24	2.50							-	4.80	5.27	5.97
31-Jul-24	2.50	-	-	-	-			3.42	4.80	-	6.37
Movement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.31	1.62	2.63	2.02



COMMODITIES

Brent Crude Oil

Brent crude prices rose significantly due to supply constraints and geopolitical tensions. Production cuts by major oil producers, coupled with increased global demand and economic activity, drove prices higher. Geopolitical uncertainties also added a risk premium, contributing to the overall increase in prices for the month.

Natural Gas

Natural gas prices experienced a notable increase, influenced by several key factors. Supply constraints played a significant role, as disruptions in production and infrastructure maintenance affected availability. Additionally, strong demand, driven by seasonal consumption patterns and higher temperatures leading to increased cooling needs, further supported price gains. Geopolitical tensions and supply chain issues also contributed to the upward pressure on natural gas prices throughout the month.

Gold

Gold prices saw a steady increase, driven by a mix of economic and geopolitical factors. Investors sought safe-haven assets amid ongoing geopolitical uncertainties and economic concerns, including potential slowdowns in global growth. Additionally, lower-than-expected economic data from major economies and persistent inflation worries further supported gold's appeal as a store of value. The combination of these factors led to a gradual rise in gold prices throughout the month.

Copper

Copper prices saw a moderate increase due to a combination of supply and demand dynamics. Supply constraints, including disruptions in key mining regions and logistical challenges, contributed to tighter market conditions. On the demand side, robust industrial activity and infrastructure investments, particularly in emerging economies, supported higher prices. Additionally, investor sentiment was buoyed by positive economic indicators, further driving up copper prices for the month.

Iron Ore

Iron ore prices experienced a notable increase driven by several key factors. Strong demand from major steel-producing countries, particularly in China, supported higher prices as industrial activity and infrastructure projects continued to drive consumption. Supply constraints, including logistical disruptions and reduced output from key exporters, also contributed to the upward pressure on prices. Additionally, market sentiment improved with optimistic economic forecasts, further supporting the rise in iron ore prices throughout the month.

COMMODITIES

Coffee

Coffee prices experienced a significant rise, influenced by several critical factors. Adverse weather conditions in major coffee-producing countries, particularly Brazil and Colombia, played a crucial role in driving up prices. Droughts in Brazil and excessive rainfall in Colombia disrupted coffee cultivation and harvesting, leading to concerns about reduced coffee output for the current season.

These weather-related supply issues were compounded by strong global demand for coffee. Despite economic uncertainties in various regions, consumer appetite for coffee remained robust, with increased consumption patterns in both traditional and emerging markets. Additionally, market dynamics were impacted by logistical challenges and higher transportation costs, which further contributed to the upward pressure on coffee prices. As a result, the coffee market saw a notable increase in prices throughout July, reflecting the tight supply conditions and sustained demand.

Cocoa

Cocoa prices faced a decline, influenced by several interrelated factors. Increased production was a significant contributor, as favorable weather conditions in major cocoa-producing regions, such as West Africa, led to higher-than-expected yields. This surge in supply outpaced demand, creating an oversupply situation in the market.

Compounding the issue, demand from key consuming countries, particularly in Europe and North America, was weaker than anticipated. This reduction in demand, driven by factors such as economic uncertainties and changing consumer preferences, further exerted downward pressure on cocoa prices.

Additionally, market sentiment was impacted by reports of ample global inventories and concerns over future consumption trends. As a result, cocoa prices trended lower throughout July, reflecting the balance between the growing supply and the softer demand.

Palm Oil

Palm oil prices saw a significant uptick, driven by several key factors. Supply disruptions emerged as a primary influence, with adverse weather conditions, such as heavy rainfall and flooding, impacting production levels in major producing countries. These weather-related challenges led to concerns about reduced yields and delays in harvesting.

Simultaneously, global demand for palm oil remained strong, particularly from key markets in Asia and Europe, where the oil is widely used in food products, cosmetics, and biodiesel. The combination of constrained supply and steady demand contributed to the upward pressure on prices.

Additionally, market sentiment was bolstered by reports of lower-than-expected stockpiles and uncertainties surrounding future production prospects. As a result, palm oil prices experienced a notable increase over the month, reflecting the ongoing supply-demand imbalances and market dynamics.

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 Group Treasury | Treasury

Wayne Taylor
+675 3056512
Wtaylor@bsp.com.pg

Senior Markets Sales Manager | Markets

Egau Mulina
+675 305-6516
Emulina@bsp.com.pg

Senior Markets Sales Manager | Market

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

Liquidity Manager | Treasury

Lance Kila
+675 305-6514
Lkila2@bsp.com.pg

Liquidity Manager | Treasury

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

Interbank Dealer | Treasury

Hava Kasa
+675 305 6523
HKasa@bsp.com.pg

DISCLAIMER

This research is general advice and does not take account of your objectives, financial situation or needs. Before acting on this general advice, you should consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision. This research has been prepared for the use of the clients of the BSP and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient, you must not use or disclose this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. This research is based on information obtained from sources believed to be reliable, but BSP does not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. The BSP accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.