

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

Global markets were volatile due to heightened geopolitical tensions, fluctuating commodity prices, mixed U.S. equity performance amid interest rate concerns, and significant challenges for emerging markets from currency fluctuations and rising debt.

COMMODITIES

Coffee prices were volatile due to early supply concerns from adverse weather, stabilizing later with improved forecasts and demand adjustments, while cocoa prices surged early from supply disruptions but moderated as conditions improved.

FX MARKETS

Market FX turnover dropped to K4.3 billion, the lowest since May, with the PGK/USD rate declining by 16 points to 0.2567, Reflecting a 4% year-to-date decrease, while BPNG offered US\$125 million in FX auctions amid volatile exporter flows.

MONEY MARKETS

BPNG has updated its CRR policy to let banks withdraw up to 50% of their reserve within the month, with repayment by month-end required to avoid a 2.5% penalty. These changes aim to improve liquidity management with minimal impact on overall liquidity and rates, and BPNG will no longer offer overnight reverse repos.

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GLOBAL MARKETS

In August 2024, global markets navigated a turbulent landscape marked by heightened geopolitical tensions and economic uncertainties. The ongoing conflict in Eastern Europe and escalating trade disputes between major economies contributed to market volatility. These geopolitical issues, combined with concerns about potential disruptions in energy supplies, caused fluctuations in commodity prices. Oil prices, for example, saw a temporary spike before stabilizing, reflecting investor anxiety about supply chain disruptions.

In the United States, equity markets presented a mixed picture. While the S&P 500 and NASDAQ enjoyed modest gains, driven by strong earnings in the technology and healthcare sectors, broader market indices faced pressure. Investors were cautious about the Federal Reserve's signals of a possible interest rate hike aimed at curbing persistent inflation. This uncertainty led to increased market fluctuations and a general sense of apprehension among investors.

Emerging markets experienced significant challenges in August. Currency fluctuations and rising external debt created a difficult environment, leading to capital outflows as investors sought safer assets. Countries with high external debt levels struggled under the weight of increased borrowing costs and domestic inflation pressures. However, some emerging economies, especially those rich in commodities, found relief through rising global prices for key exports, which helped mitigate some economic hardships.

On the investment front, there was a discernible shift towards alternative assets. Investors sought stability in real estate, particularly in regions with stable economic conditions, and in precious metals like gold. This move was partly driven by the need to hedge against ongoing market volatility. Additionally, there was a marked increase in green investments, as both governments and corporations accelerated their commitments to sustainability, reflecting a broader recognition of the value of environmentally responsible investing in a volatile market.



FOREIGN EXCHANGE MARKETS

PGK/USD

In August, market foreign exchange (FX) turnover concluded at K4.3 billion, marking its lowest level since May and falling below K5 billion for the first time in two months.

The Bank of Papua New Guinea (BPNG) conducted three separate FX auctions during the month, offering a total of US\$125 million. This provision of FX supplies served as a stable source amid considerable volatility in normal exporter flows. While outstanding orders from prior to July have been cleared, the typical waiting times for FX transactions have seen only minimal improvement.

During the Business Advantage Conference held in Brisbane last month, BPNG Board Chairman Mr. David Toua reported that the average outstanding FX orders in the market remain at K1.2 billion per month, with order execution times reduced to 4-6 weeks. The increase in FX orders has been largely attributed to the lodgment of substantial capital orders by multinational corporations.

The PGK began the month at 0.2583 against the US dollar and concluded at 0.2567, reflecting a decline of 16 basis points. Year-to-date, the PGK/USD rate has decreased by 116 basis points, or 4%.

AUD/USD

Optimism towards the AUD was bolstered by the hawkish tone of last week's RBA Minutes, which revealed debate amongst members about whether to increase or maintain the cash rate target. The minutes made a case for a hike due to persistent inflation and market expectations of a few rate cuts later in 2024. Ultimately, it was determined that the current cash rate target was appropriately maintained. Policymakers also noted that a rate cut in the near future was unlikely, though future rate changes could not be ruled out. The RBA is expected to be the last of the G10 central banks to begin cutting rates. For now, swaps continue to reflect about a 90% probability of the RBA cutting rates before the end of the year; however, this remains subject to change based on incoming data.

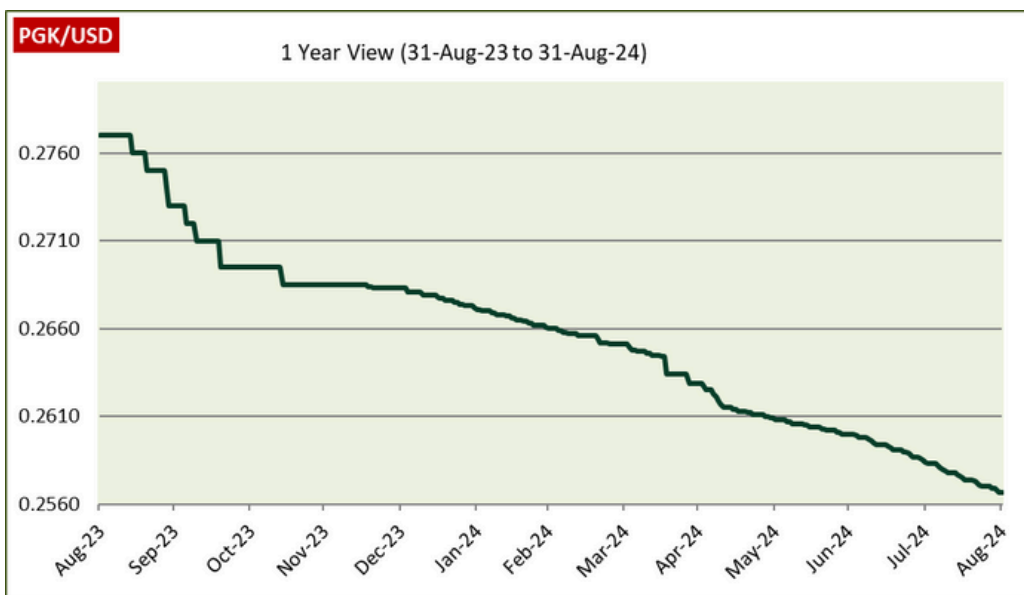
Despite expectations of near-term rate cuts by the Fed, the RBA's projected prolonged restrictive stance suggests that a stronger AUD/USD is more likely in the coming months. However, gains for the Australian Dollar may be capped due to the gradual and slow recovery of the Chinese economy.

PGK/AUD

The PGK reached a high of 0.4025 against the AUD early in the month (August 5, 2024), in line with USD strength against the AUD. However, interest rate differentials have allowed the AUD to regain much of its strength against the USD, resulting in the PGK closing at a low of 0.3773 against the AUD on August 30.

FOREIGN EXCHANGE MARKETS

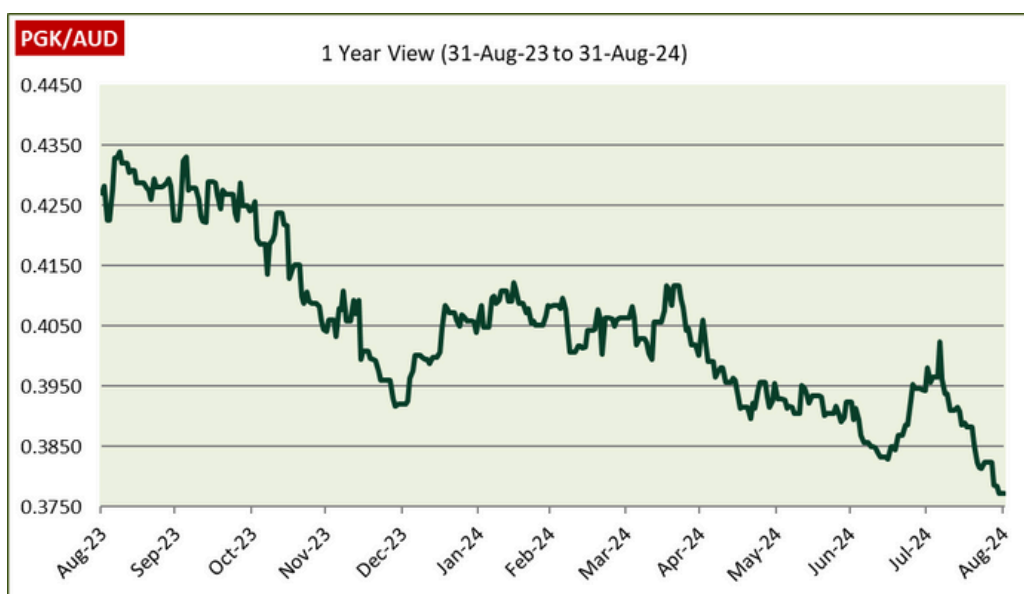
PGK/USD



PGK/USD

The PGK opened the month at 0.2583 against the US dollar and eventually closed at 0.2567 – representing a 16 point decline. Year to date the PGK/USD rate has fallen by 116 points overall i.e. by 4%.

PGK/AUD



PGK/AUD

The PGK saw a high of 0.4025 against the AUD early in the month (05 Aug 2024) supported by USD strength against the AUD.

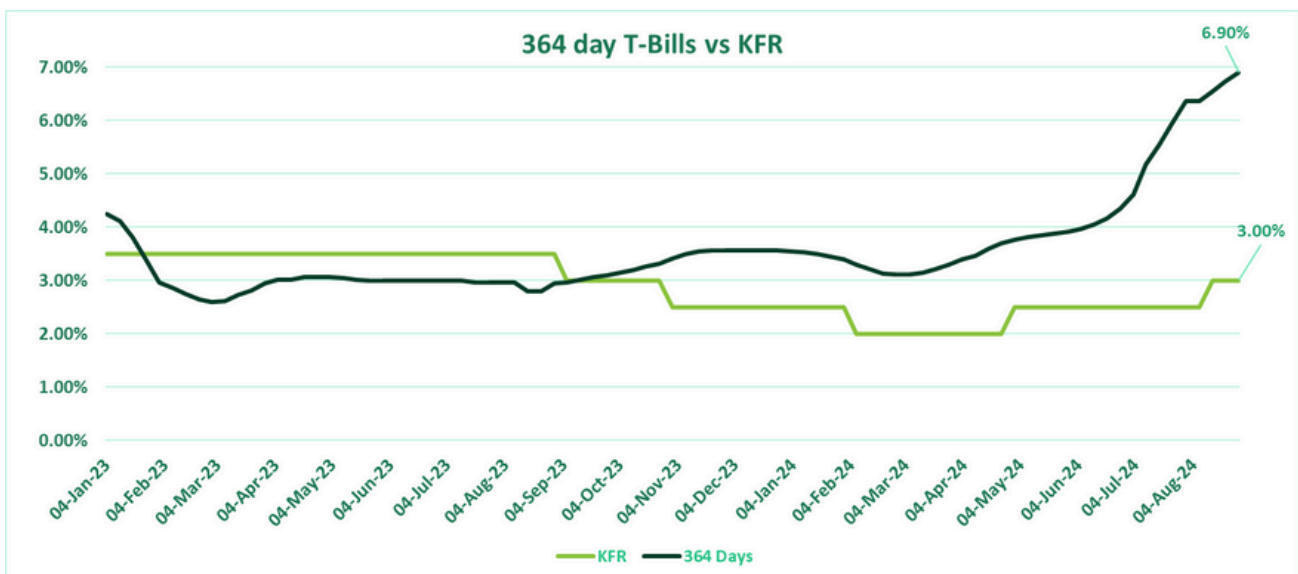
MONEY MARKETS

The weighted average rates (WAR) in the weekly Treasury Bill auctions have risen across all tenors. The latest WAR for the 364-day Treasury Bills stands just 10 basis points below 7.00%. Although several bids were accepted at the 7.00% rate, the total amounts were insufficient to elevate the WAR to that level.

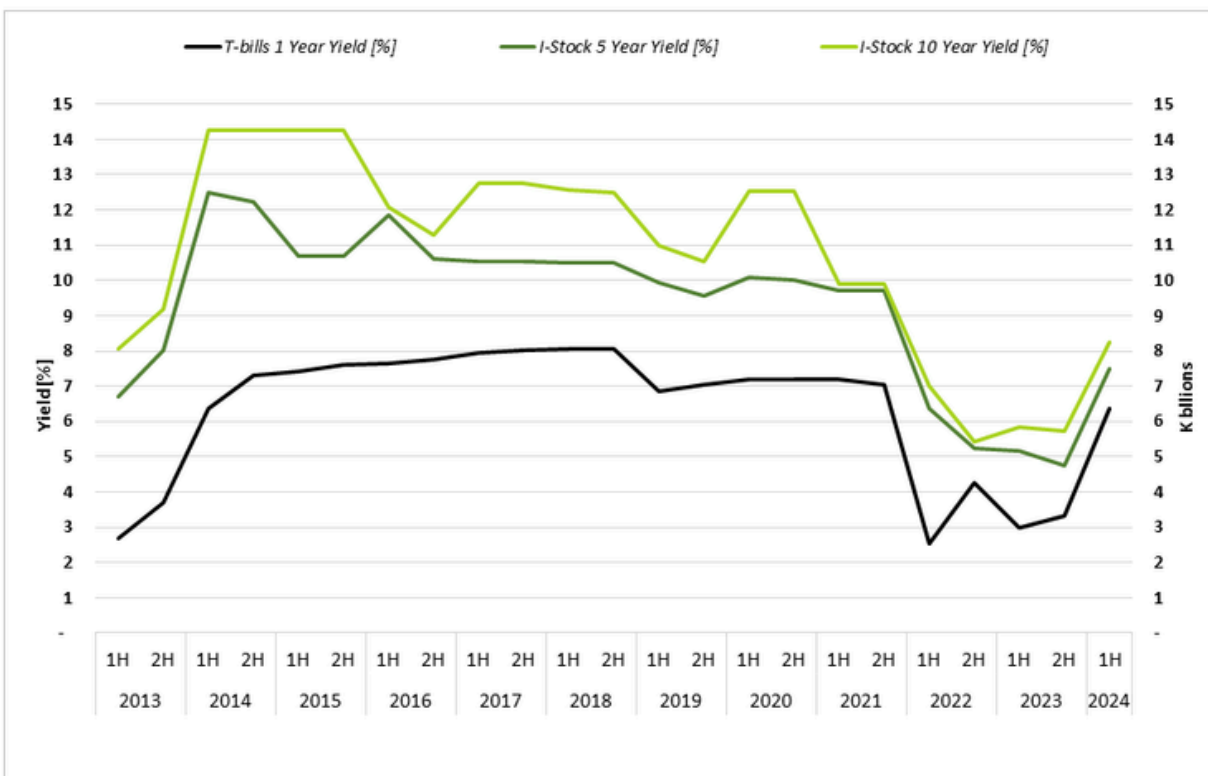
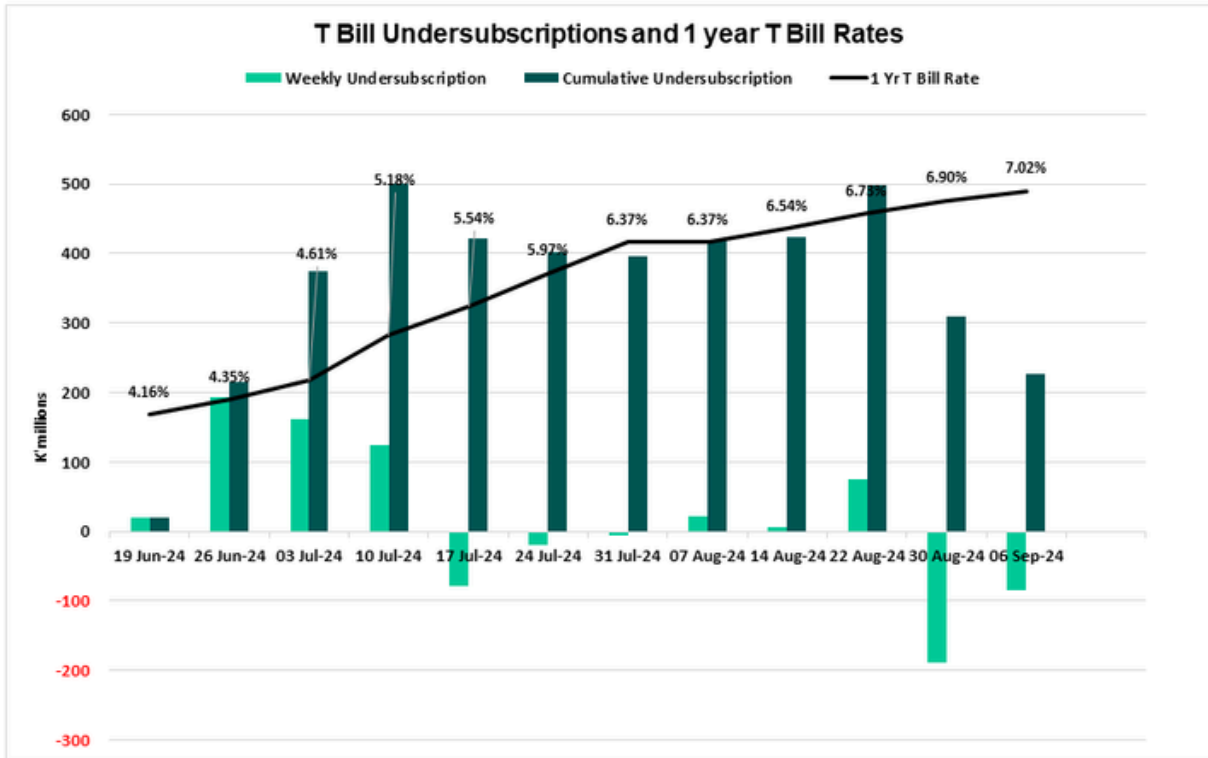
BPNG adjusted its cash reserve ratio (CRR) policy and short-term liquidity management strategies for commercial banks. These adjustments are anticipated to have a minimal impact on systemic liquidity and interest rates. The primary objective of the proposed changes is to enhance the ability of commercial banks to manage their daily liquidity more effectively.

Under the revised policy, banks will be permitted to withdraw up to 50% of their cash reserve requirement (currently 6% of total deposits) on an intra-month basis, provided that these withdrawals are repaid by the end of the month to maintain the average CRR minimum deposit. Failure to meet this requirement will result in a penalty of 2.5% above the prevailing KFR. Additionally, BPNG will not offer overnight reverse repurchase agreements to absorb surplus liquidity.

Auction Date	Central Bank Bills					Treasury Bills					
	7	14	28	63	91	28	63	91	182	273	364
Previous	2.50							3.42	4.80	-	6.37
07-Aug-24	2.50							3.54	4.80	-	6.37
14-Aug-24	3.00							3.54	4.80	-	6.54
21-Aug-24	3.00							-	4.82	5.35	6.73
28-Aug-24	3.00							-	4.91	5.40	6.90
		-	-	-	-						
Movement	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.11	0.13	0.53



MONEY MARKETS



COMMODITIES

Brent Crude Oil

In August 2024, Brent crude oil prices experienced a turbulent month, marked by significant volatility. Early in the month, prices surged due to fears of supply disruptions from escalating geopolitical tensions and unexpected production outages. However, as the month progressed, these gains were tempered by increasing global supply and easing concerns about immediate disruptions. Additionally, market sentiment shifted with fluctuating economic indicators and mixed signals from major oil producers, resulting in Brent crude oil prices stabilizing towards the end of the month, reflecting a complex balance between supply risks and demand expectations.

Natural Gas

Natural gas prices were notably volatile, influenced by fluctuating weather patterns and geopolitical tensions. Prices initially rose due to heightened demand from an unusually hot summer in key consuming regions and concerns over potential disruptions in supply chains. However, as the month progressed, prices moderated as supply levels recovered and forecasts indicated a return to more seasonal weather. The combination of these factors led to a stabilization in natural gas prices by the end of the month, reflecting a balance between short-term demand spikes and longer-term supply adjustments.

Gold

Gold prices exhibited a steady upward trend, driven by increased investor demand for safe-haven assets amid ongoing geopolitical uncertainties and economic volatility. Heightened concerns over inflation and potential interest rate hikes from major central banks further fueled interest in gold as a hedge against economic instability. As market fluctuations and geopolitical tensions persisted, gold prices reached new highs by the end of the month, reflecting its continued role as a preferred asset for risk aversion and portfolio diversification.

Copper

Copper prices experienced a decline, primarily due to weaker-than-expected economic data from major consumers like China, which dampened demand forecasts. Despite initial gains driven by supply chain disruptions and reduced inventories, the overall trend was downward as market concerns about slower global growth and potential oversupply outweighed these factors. Additionally, fluctuations in global trade policies and uncertainties surrounding industrial output contributed to the downward pressure on copper prices, reflecting broader economic uncertainties impacting the base metals market.

Iron Ore

Iron ore prices saw a modest decline, largely driven by slower-than-expected recovery in demand from key steel-producing regions, particularly China. Despite some initial support from supply disruptions and reduced inventory levels, the weakening in global economic activity and concerns over future steel production growth overshadowed these factors. Additionally, ongoing fluctuations in trade policies and environmental regulations contributed to price volatility, leading to a cautious market outlook and a slight decrease in iron ore prices by the end of the month.

COMMODITIES

Coffee

In August 2024, coffee prices were notably volatile, influenced by a mix of supply and demand factors. Early in the month, prices surged due to adverse weather conditions in key coffee-producing countries, which raised concerns about potential disruptions in supply. However, as the month progressed, improved weather forecasts and adjustments in production levels helped to ease some of these supply fears. Additionally, shifting consumer demand patterns and fluctuations in global trade further impacted market dynamics. By the end of August, coffee prices had stabilized somewhat, reflecting a balance between ongoing supply concerns and more stable demand forecasts.

Cocoa

In August 2024, cocoa prices experienced notable volatility, driven by a combination of supply disruptions and fluctuating demand. Early in the month, prices surged due to adverse weather conditions and logistical issues in major cocoa-producing countries, particularly in West Africa, which raised concerns about potential shortfalls in supply. However, as the month progressed, the market saw some stabilization as improved weather and increased production from key regions began to ease supply fears. Additionally, shifting consumer demand and market sentiment contributed to price fluctuations, leading to a moderated but still volatile cocoa market by the end of August.

Palm Oil

Palm oil prices exhibited significant fluctuations due to a mix of supply and demand factors. Prices initially rose sharply as adverse weather conditions in major producing countries, such as Indonesia and Malaysia, disrupted supply chains and led to concerns about reduced output. However, as the month advanced, prices moderated somewhat as production levels began to recover and inventory levels improved. Additionally, changes in global trade policies and shifting demand from key markets further influenced price trends. By the end of August, palm oil prices had stabilized, reflecting a balance between ongoing supply challenges and a gradual recovery in production.

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