MAY 2024

BSP TREASURY & MARKETS MONTHLY MARKET PULSE

GLOBAL MARKETS

April highlighted that persistent inflation remains a key risk and has the potential to upset the rally in risk assets.
A resilient economic environment and the danger of escalation in the Middle East boosted commodity prices.

COMMODITIES

Cocoa futures sunk by as much as 27% in the last two sessions to below $8,500 per tonne, reaching levels unseen in five weeks.
Copper surged toward $4.6 per pound and briefly broke the threshold of $10,000 per tonne for the first time in two years.

FX MARKETS

The PGK/USD fell 20bps in April, the fastest monthly pace of depreciation seen since October last year. BPNG and the IMF are set to review developments around the PGK's rate of depreciation and the "crawling peg" in May.

MONEY MARKETS

Interest rates on Government Bonds and Treasury Bills continued to edge upwards with auctions mostly undersubscribed for the month of April.
BPNG indicated a shift to a monetary policy tightening bias.

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GLOBAL MARKETS

April was a tough month for both equity and fixed income markets. A combination of hot US inflation data and a first quarter US GDP print that while weak on first-glance, showed resilient private demand, fuelled market fears that central banks will not ease monetary policy as quickly as previously hoped. Both stock and bond markets responded negatively with global bonds falling 2.5% over the month while developed market equities fell 3.7%. Conversely, higher commodity exposure and increased investor interest in low valued Chinese equities helped emerging market equities deliver positive returns of 0.5% over the month.

The changing interest rate environment was particularly visible in interest rate-sensitive sectors, such as small caps and REITS. In April, small caps ended the month down 5.1% and REITS down 6.3%, both significantly behind the overall large-cap market return.

Fixed income markets also suffered from the change in rate expectations. In April alone, markets priced out one and a half rate cuts in the US this year and the timing of the first cut was pushed further out. 2-year Treasury yields rose 40 basis points (bps) to 5.0%, while 10-year Treasury yields rose 47bps to 4.7%.

A resilient economic environment and the danger of escalation in the Middle East boosted commodity prices. The Bloomberg Commodities Index increased 2.7% in April, ending the month as the top performing major asset class. A combination of rising energy prices, and lower interest rate sensitivity also supported the value segment of the equity market, which outperformed the growth segment on a relative basis.

GLOBAL MARKETS

In a difficult month for the asset class, European equities outperformed their US counterparts. The eurozone's flash composite PMI (purchasing managers' index) rose to 51.4 in April, significantly above the December recessionary level of 47.6, while the UK's composite PMI rose to an expansive 54. Improved growth prospects and inflation dynamics in the region were able to partially compensate for the headwinds of higher for longer interest rates and geopolitical risks.

The MSCI Europe ex-UK Index fell by only 1.5% in April, while UK equities, supported by the high share of energy and commodity companies, delivered positive total returns of 2.5% and ended the month as the top performing equity market.

The S&P 500 fell 4.1% over the month as valuations came under pressure from rising bond yields. The economic backdrop remains supportive to corporate earnings and the first quarter earnings season has seen companies broadly beat expectations, albeit against a low bar. Markets were, however, more willing than usual to punish companies that missed estimates as investors looked to see if earnings justified the last six months of valuation expansion.

Japanese equities gave up some of the gains that they had made over the last five months. Widening interest rate differentials between Japan and other developed market countries put downward pressure on the yen and increased investor concerns about the risk of imported inflation weakening domestic demand.

Eurozone inflation in April remained flat at 2.4% year on year, but the important services component fell 30bps to 3.7%. UK headline inflation also receded, although there are still concerns about the stickiness of some core components. A less inflationary environment, combined with the prospect of stable but slow growth in the euro area and UK, means that markets are more confident in the prospects for rate cuts from the European Central Bank (ECB) and Bank of England (BoE) than from the Federal Reserve. The first cut from the ECB is still expected over the summer though there are now only two cuts fully priced by year-end. The BoE is expected to cut a little later with the first cut now priced for September.

A less pronounced rise in euro bond yields led to the region's outperformance. This trend was evident in credit markets, where spreads remained stable in April due to the constructive growth outlook and euro high yield was the only major sector to avoid negative returns. In sovereign bonds, euro sovereigns outperformed US Treasuries and UK Gilts. The relatively high-growth periphery in the eurozone also performed better than core Europe.

FOREIGN EXCHANGE MARKETS

PGK/USD

Market turnover nudged slightly higher in April, seeing a minor 0.3% increase to finish off at K4.04 billion. The bulk of the activity in the FX market came around the middle of the month where we saw multiple large exporter inflows and BPNG intervention. Outstanding FX orders lodged in the market have remained high and look set to increase over the coming weeks, driven by dividend remittances and import & service payments.

The PGK/USD fell 20bps in April, the fastest monthly pace of depreciation seen since October last year. BPNG and the IMF are set to review developments around the PGK's rate of depreciation and the "crawling peg" in May. While potentially signaling a move away from the "crawl", BPNG were quick to advise not to read too much into the uptick in pace. As things are, the PGK is not expected to float any earlier than 2026.

PGK/AUD

During the month of April, the PGK/AUD saw a high of 0.4094 (22nd April) and a low of 0.3996 (10th April) closing the month at a rate of 0.4033.

AUD/USD

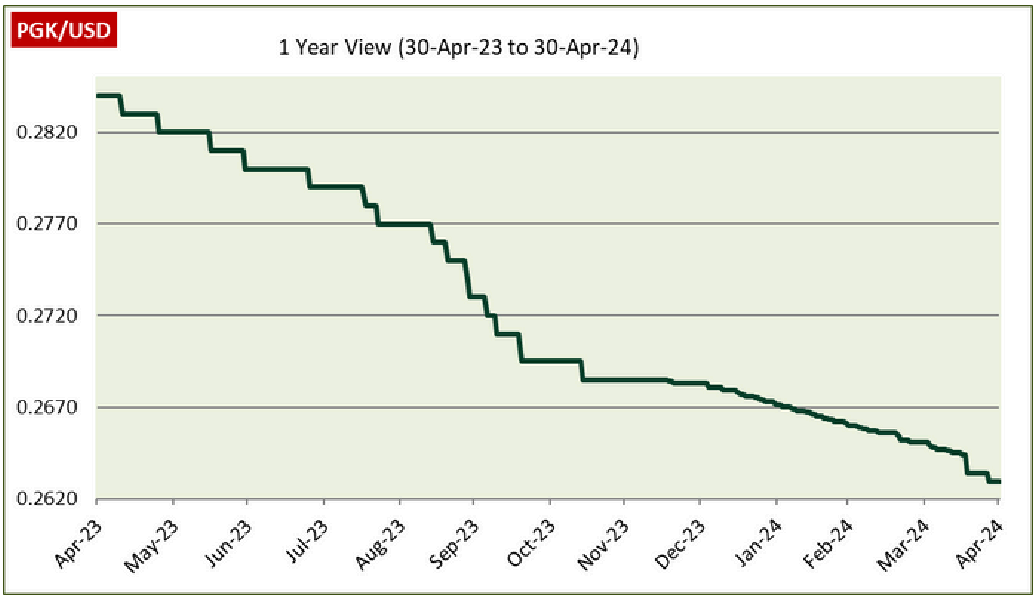
The AUD had a high of 0.6629 against the USD on the 09th of April while seeing a low of 0.6402 a few days later on the 16th of April. The Australian dollar's additional losses were fueled by corrective moves in commodity prices, where copper prices receded after reaching levels last seen in March 2022, while iron ore edged a tad higher above the $110.00 mark.

Regarding monetary policy, investors are anticipating a rate cut by the Reserve Bank of Australia (RBA) later in the year, especially after inflation figures released last week exceeded expectations. Market sentiment now indicates a 90% probability of a 25 bps rate cut in 2024, compared to the prior expectation from early April of a 50 bps easing. Furthermore, both the RBA and the Federal Reserve are expected to begin their easing cycles later than most of their G10 counterparts. Considering the Fed's commitment to tightening monetary policies and the potential for the RBA to initiate an easing cycle later this year, the likelihood of sustained AUD/USD gains is deemed limited at present.

Moreover, recent Chinese economic data has not provided clear signals of a robust recovery, which is crucial for supporting a significant rebound in the Australian dollar.

FOREIGN EXCHANGE MARKETS

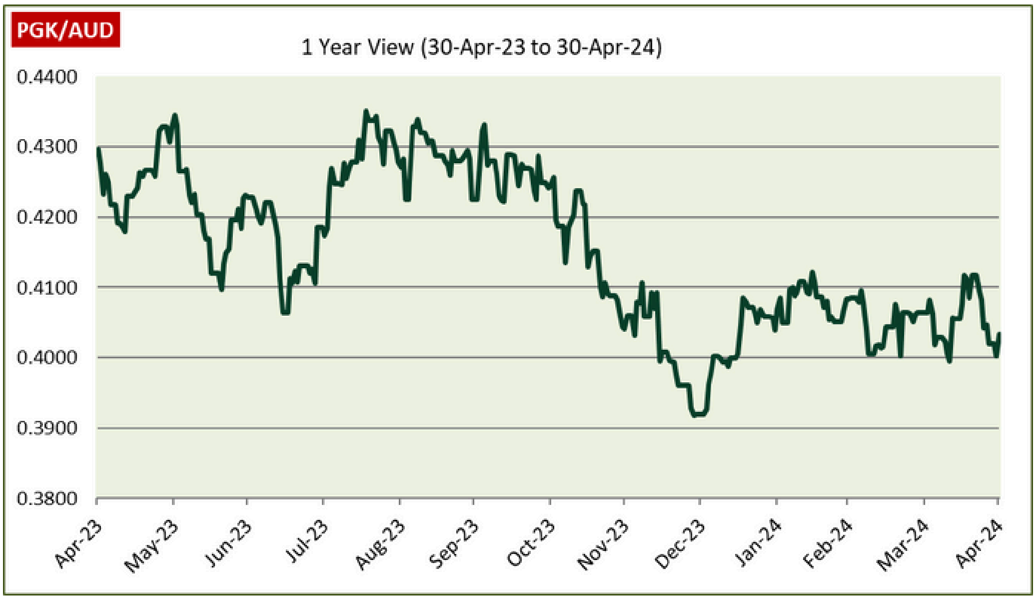
PGK/USD



PGK/USD

The PGK/USD rate depreciated by a total of 20bps in April, settling at 0.2629. BPNG and IMF will review the current "crawling peg" arrangement in May.

PGK/AUD



PGK/AUD

The PGK gained some ground against the AUD earlier in the month however moved down steadily towards the latter part of April, closing at a rate of 0.4033.

MONEY MARKETS

Interest rates on Government Bonds and Treasury Bills continued to edge upwards with auctions mostly undersubscribed for the month of April.

In the March 2024 Monetary Policy Statement, BPNG indicated a shift to a monetary policy tightening bias including a possible increase in the commercial banks' Cash Reverse Ratio (CRR) from the current setting of 10.0%.

This would reduce system liquidity and increase deposit and lending rates.

The Central Bank's shift to a tightening bias signals to the market, a concern of persistent and rising inflation driven by both internal and external factors.

Any changes to policy are expected to be implemented in the coming months.

Auction	Central Bank Bills					Treasury Bills					
Date	7	14	28	63	91	28	63	91	182	273	364
Previous	2.00								1.85	-	3.29
03-Apr-24	2.00								1.85	-	3.39
10-Apr-24	2.00								-	-	3.47
17-Apr-24	2.00								-	-	3.60
24-Apr-24	2.00								1.97	-	3.70
		-	-	-	-						
Movement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.12	0.00	0.41

COMMODITIES

Brent Crude Oil

Brent crude futures fell below $87 per barrel on Tuesday, following a 1.2% decrease in the previous session due to a stronger dollar and concerns that the Fed would maintain higher interest rates for an extended period, potentially impacting oil demand. April saw a decline in US consumer confidence to its lowest level since July 2022, while manufacturing activity in Chicago contracted at the strongest pace since November 2022. The market is now awaiting a response from Hamas leaders to Israel's phased truce proposal in Cairo amid continued attacks by Yemen's Houthis near the Suez Canal.

Natural Gas

US natural gas futures climbed to $2.06/MMBtu, the highest level in a week, driven by increased demand forecasts due to a rise in feedgas at Freeport LNG's export plant in Texas. LNG feedgas reached a three-week high of 12.9 bcfd on Monday, up from 12.2 bcfd the day before, indicating that at least one of the three liquefaction trains was back online after an outage. Freeport LNG, a major US liquefied natural gas export facility, has experienced multiple outages this year, with all processing units offline recently. Meanwhile, meteorologists predict above-average temperatures until May 11, followed by a return to near-normal conditions from May 12-14.

Gold

Gold fell to $2,310 per ounce on Tuesday, weighed by firmer dollar, as expectations grew that the Fed would have to maintain its rates restrictive longer after latest economic data from the US reconfirmed elevated inflation risks. The employment cost index, a key measure of wages for civilian workers, rose more than expected by 1.2% in Q1. Coupled with the previous PCE figures, the reading narrowed room for Federal Reserve to deliver interest rate cuts. Markets are currently betting on the first interest rate reduction by the Fed in November instead of September seen a day before. Elevated interest rates hurt the demand for non-yielding gold. Still, the bullion remains up nearly 3.5% on the month thanks to the safe-haven inflows and strong physical buying from central banks. Traders will now turn their attention to Fed's meeting and non-farm payrolls report this week to gain more clues about the rate path.

Copper

Copper surged toward $4.6 per pound and briefly broke the threshold of $10,000 per tonne for the first time in two years in London, as growing supply worries and bullish long-term demand spurred a fresh round of speculative buying. Although the current demand for copper remains subdued and the physical market is sufficiently stocked, a surge in demand over the next few years is expected, driven by increased production of electric vehicles. At the same time, production from current mines is expected to decline significantly. Cobre Panama, the world’s largest open-pit copper mine was suspended, Zambia's mines were hit by power cuts, and output in South America fell due to political protests. Also, lower margins for smelters in China, may lead to a 10% reduction in output this year. Finally, large costs of committing to new mines are driving industry players to attempt M&A activity with rivals instead of starting new projects, recently headlined by BHP’s attempt to buy Anglo American

COMMODITIES

Coffee

Arabica coffee futures have retreated to $2.25 per pound, stepping back from their recent peak of $2.50 reached on April 18th. This pullback is attributed to a strengthening US dollar and increased coffee inventories monitored by ICE, which have climbed to an 11-month high as of last Friday. Despite this, prices remain historically elevated, fueled by concerns over potential damage to coffee crops in Brazil's growing regions due to heavy rainfall. Additionally, the Vietnam Coffee Association has suggested a possible 20% annual decline in the country's coffee exports for the 2023/2024 period, alongside a corresponding 20% reduction in coffee production. This forecast, based on an estimated output of 1,472 MMT, reflects the lowest production level in four years, primarily due to drought conditions.

Cocoa

Cocoa futures sunk by as much as 27% in the last two sessions to below $8,500 per tonne, reaching levels unseen in five weeks, as investors liquidated their long positions to take advantage of higher margins. Meanwhile, supply pressures eased after a recent report from Nigeria, the world's fifth-largest cocoa producer, indicated that its March cocoa exports surged by 19% yoy to 22,199 metric tons. Cocoa prices have soared to record highs multiple times in recent months, with a year-to-date increase of over 100%, mainly attributed to poor harvests in key West African producing countries. Ghana, Côte d’Ivoire, Nigeria, and Cameroon, accounting for over 75% of global cocoa production, have experienced significant declines in crop yields attributed to factors including erratic weather influenced by El Niño, tree diseases, and insufficient investment.

Palm Oil

Malaysian palm oil futures plunged over 1.5% to trade below MYR 3,850 per tonne, halting gains from the prior two sessions while approaching their lowest level in nine weeks due to a fall in soybean oil on the Chicago Board of Trade. Meantime, crude oil prices fell further as fears of a wider conflict in the Middle East eased. Moreover, bets of lower exports mounted ahead of cargo surveyors' data later in the day. On the production side, the Southern Peninsular Palm Oil Millers Association estimated that palm oil output for April 1-25 rose 4.11%. In top buyer India, palm oil imports in the 2023/2024 marketing year are expected to be around 9.2 million tons, down from 10 million tons in the prior year. Capping the bearish traction were forecasts of declining palm yields in the face of hot and dry weather in Malaysia. Markets were closed for a holiday on Wednesday.

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