



WEATHERMEN
CAPITAL ADVISORS LIMITED

Investment Report - January 2024

Corporate Finance | Funds Management | Investment Advice | Trustee Services | Stockbroking

Table of contents



Section	Topic	Page
1.0	Executive Summary	3
2.0	Global economic update	4
3.0	Domestic economic update	6
4.0	Commodities	7
5.0	Currency updates	8
6.0	Equities	9
7.0	Money markets	10
	Disclaimer	

1.0 Executive Summary



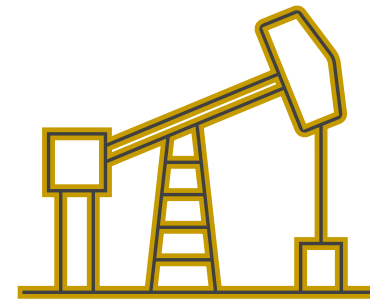
Global Economy set to accelerate

As the global economy tends to recover slowly from post pandemic, continued challenges in inflation, increasing global interest rates, depreciation of the Kina against the US Dollar, appreciation against the Australian Dollar and recent geopolitical tensions have reinforced the need for the Government to undertake a strategy geared towards improving debt and fiscal sustainability avoiding debt distress.



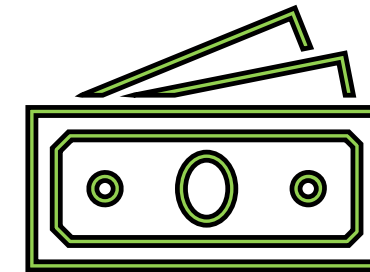
Resource sector to drive domestic growth

PNG's economy is performing well, with the International Monetary Fund (IMF) estimating that the real GDP will grow by 5%, whilst World Bank forecasts GDP growth to decelerate to 4.5%, a 0.6% drop from 2023. Meanwhile, ADB is forecasting GDP growth to accelerate from 2% in 2023 to 2.6% in 2024. However, execution remains with the government to focus on discretionary spending, improve governance and focus on key economic projects to generate an upward trajectory from a growth perspective.



Commodity Forecasts remain stable

After three years of extreme volatility, commodities prices are set to broadly stabilise in 2024. However, adverse weather conditions, escalating geopolitical tensions and soaring shipping costs are among the risks to watch, according to Economist Intelligence Unit.



Currency set to regain strength

Reuters reports highlighted that most emerging-market currencies are set to regain their recent strength later this year after some near-term paralysis as expectations of interest-rate cuts by the U.S. Federal Reserve keep the dollar in check, a Reuters poll found. These currencies have popped higher in the past few weeks, driven by market bets for aggressive rate cuts by the Fed this year, dragging down U.S. bond yields. Those bets have eased somewhat in the first days of 2024, but only slightly.



Sluggish Growth for Equities

The 2024 Market Outlook report by J.P. Morgan Research suggests that the macroeconomic backdrop of sluggish growth and stubborn inflation is expected to cloud the forecast for equities in advanced and emerging markets.



Money Market Expectations

International Bonds: Long-term yields on advanced-economy government bonds were volatile in 2023, reflecting shifting expectations about the path of future interest rates and sizable movements in term premia.

PNG treasury Bonds The 2024 budget has a budget deficit of 3.3% of GDP, or PGK 3,983.6million. Deficit balance of PGK 2,320.4 to be financed domestically through Treasury Bills, Bonds, and loans, and the remainder externally.

2.0 Global economic update



Growth expected to slow due to tight monetary stances as well as escalating tensions in the middle east and Europe...

GLOBAL GDP GROWTH

The World Bank has predicted the global economy to slow to 2.4% in 2024, due to tight monetary policy and the escalating conflict in the Middle East, a weakening Chinese economy, and climate-related disasters. Developing economies are projected to grow just 3.9%, whilst in the advanced economies, growth is set to slow to 1.2% this year from 1.5% in 2024.

GLOBAL ECONOMIC RESILIENCE

The Western supporters of Ukraine, domestic political trends, particularly in the US, will encounter a more difficult sustainable unity over further funding and military support, as a result of the Ukraine war been at high intensity. Consequently, sanctions and export controls on Russia will continue to pose compliance challenges for international business in 2024. Meanwhile, the Israel-Hamas conflict is likely to decelerate in early 2024 following further deteriorate of Hamas and mounting international pressure on Israel. Media reports highlight that the conflict has not had substantial impacts on the global economy. However, the targeting of international shipping in the southern Red Sea by Yemen's rebel Houthi movement continues to threaten temporary disruption of global supply chains

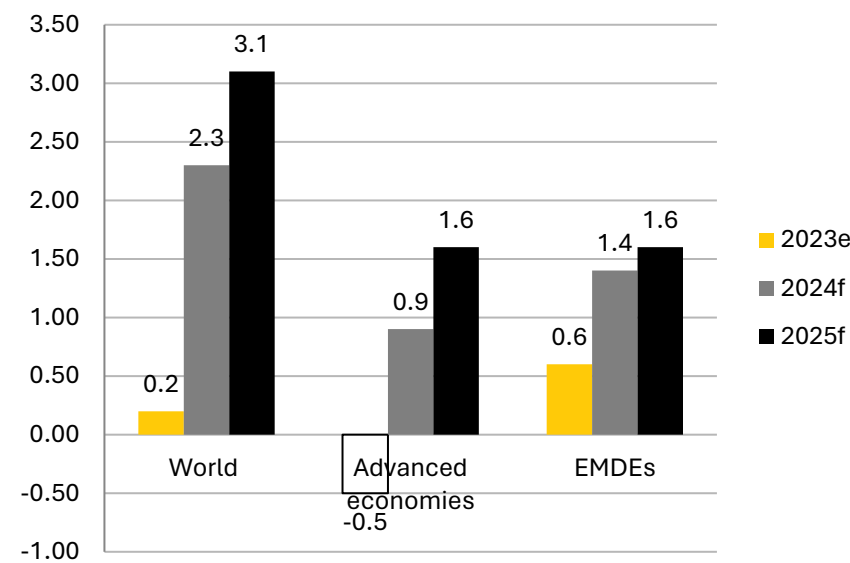
TRADE OUTLOOK

According to the World Bank, global trade is anticipated to rebound and grow by 2.3% in 2024, aligning with the projected expansion in global output. Services trade has continued to recover from the effects of the pandemic, but at a slower pace than previously expected.

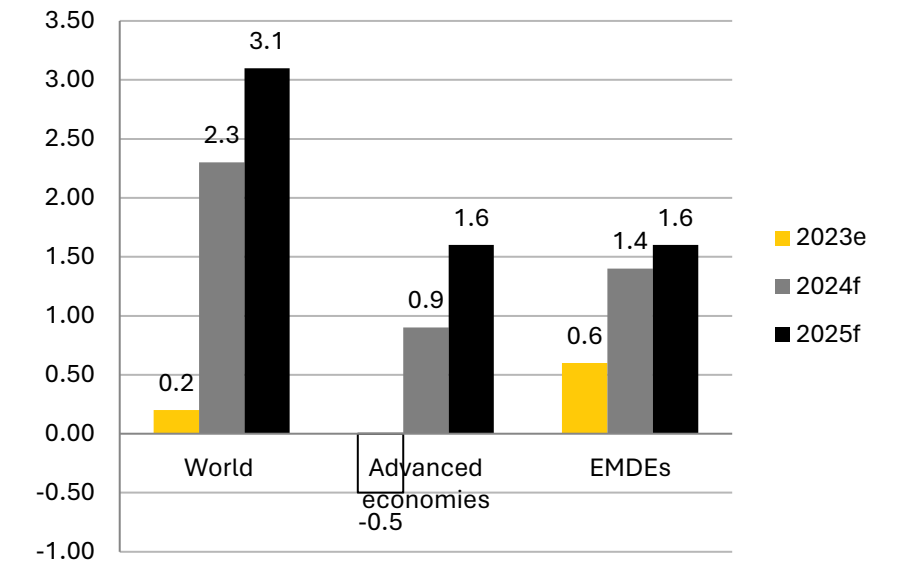
GLOBAL INFLATION

Global headline and core inflation have continued to decline from 2022 peaks. Nonetheless, inflation remains above target in most advanced economies and about half of inflation-targeting EMDEs.

Global GDP growth rate



Trade outlook



2.1 Other investment themes



Other investment themes, that are weighing on investment decisions...

GLOBAL ELECTIONS

Business experts advise that companies should continue to monitor security and operational impacts during election periods, as well as the impacts of the election of less stable coalitions or populists, as there will be more than 40 parliamentary and presidential elections scheduled to take place in 2024. According to media sources, the US elections in November will particularly impact geopolitical risk this year as countries and companies hedge against potential political instability. Companies are therefore encouraged to ensure risk analysis and monitoring functions are sufficiently resourced during the year.

ENVIRONMENTAL ACTIVISM

Climate-related activism is a growing concern for companies and will continue to be as the effects of climate change become more visible. 2024 is likely to set new records for global temperatures due to the hangover from strong El Nino conditions. Companies should anticipate a rise in disruptive direct action, such as interruptions of conferences/meetings, targeting of senior management's homes, transport and infrastructure blockades, as well as property destruction. The sectors at highest threat continue to be those involved in energy, extractives, transportation, tech and construction. Governments will also remain a key target for activists.

GEOPOLITICAL REGULATORY COMPETITION

Analysis report on control risks website suggests that companies will need to closely monitor regulatory developments if they want to understand how geopolitical competition will play out in 2024.

Further analysis indicated that despite the recent diplomatic rapprochement, US and China remain committed to the strategic competition. This competition will mainly play out in the regulatory sphere, with both the US and China using trade restrictions, export controls and subsidies to protect what each side considers critical national security sectors. Meanwhile, media sources have also highlighted that while the EU will continue to lean politically towards the US, regulatory measures will be used to find a balance between "de-risking" its relationship with China and advancing economic relations with Beijing. Significant sectors where geopolitical regulatory competition will play out include defence, semiconductors, tech, data protection, critical minerals, aerospace and climate, according to Senior Analyst Tobias Wellner.

ENERGY RESOURCE NATIONALISM

With 2025 climate deadlines approaching, decarbonisation goals, energy security strategies and green industrial policies will continue to drive investment into renewables in 2024, according to the resource economists. Media reports have highlighted that the rising demand for critical minerals will improve prospects for the mining sector – and inspire further bouts of resource nationalism as producing countries look to benefit. Meanwhile the US and Europe will make further efforts to defend their automotive industries against Chinese competition this year. Green energy generation, electrification and supply chain self-sufficiency are all areas in which governments will seek to further develop industrial policies, according to analysts.

3.0 Domestic economic update



Budget approved, delivery and execution pending...

MIXED SIGNALS FROM DEVELOPMENT PARTNERS...

According to the IMF PNG's economy is performing well, with the International Monetary Fund (IMF) estimating that the real GDP will grow by **5%**, whilst World bank forecasts GDP growth to decelerate to **4.5%**, a 0.6% drop from 2023. Meanwhile, ADB is forecasting GDP growth to accelerate from 2% in 2023 to **2.6%** in 2024. There is a mixed assessment of the domestic economy.

With the above mentioned we believe the economy is expected to see a sideways movement before any positive turn, this is mainly due to the resource projects remaining mostly in hibernation.

GDP GROWTH DRIVERS

In the recently National budget 2024 the revenue assumptions were underpinned mostly by the resource sector. Despite global and domestic political disruptions, the economy is expected to be driven largely by the resource sector, one being the reopening of the Porgera gold mine.

NIU PORGERA

The 2024 National Budget growth forecast assumes that the resumption of the Porgera Gold Mine will occur in the second quarter of 2024, with production commencing in the second quarter of this year...accordingly, the operations is projected to contribute 1.3% to the overall real 2024 National Budget. Any further delay will have a downward effect on the growth forecast.

PAPUA LNG

In 2024, Papua LNG is said to produce around at 5.6 million tonnes with a capital investment of over US\$10 billion (about K36 billion). This should translate to shared benefits of state, province, district, landowners with a planned long-term fund for future generation. The Oil & Gas sector is projected to grow by 0.6% in 2025, before remaining stagnant for the outer years as PNG LNG moves towards producing at its nameplate capacity, and oil production reserve is depleted.

WAFI-GOLPU

It is anticipated that the signing of the Mining Development Contract for the Wafi-Golpu resource project in Morobe Province will be done in the first quarter of 2024, according to the Mineral Resources Authority. The project will see an investment of US\$5.8 total CAPEX + US\$2.8 billion CAPEX to commercial production

OK TEDI MINE

Ok Tedi Mining Limited dividend revenue has been a key component for the Government's 2024 annual budget over the last 31 years and is expected to be going forward.

In a period of FX unavailability, the producing mines and petroleum projects in PNG LNG, Ok Tedi, Lihir and the other smaller ones have continued to provide that much needed FX to process trade flows. We should also note that revenue assumptions are subject to specific risks, as well as global prices.

GOVERNMENT FINANCING STRATEGY FOR DOMESTIC MARKET

Nonetheless, the plan must be implemented, that also includes reducing government debt and improving prudent management of public finances, the financing of 2024 Budget deficit will be implemented in line with the Government's medium term debt management strategy and its 13-year Budget Repair Plan with the aim of improving the Government's debt portfolio. The budget deficit was estimated at 3.3% of GDP with 41% to be financed externally and the balance of 59% to be raised domestically.

REVENUE CONSOLIDATION, INCREASE EXPENDITURE DISCIPLINE and RETURN TO BUDGET SURPLUS

Ultimately, the plan is to consolidate revenue maintain discipline on discretionary spending and focus on key economic areas including health, security and infrastructure.

Macroeconomic indicators		2017	2018	2019	2020	2021	2022	2023	2024
		Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
Economic Growth									
Total real GDP	(%)	2.20	- 0.30	4.50	- 3.20	- 0.80	5.20	2.70	5.30
Non-mining real GDP	(%)	1.50	4.00	1.60	- 0.40	3.80	5.20	4.50	4.70
Inflation									
Year average	(%)	5.40	4.70	3.60	4.90	4.50	5.30	3.50	5.00
Interest rate									
Kina Facility rate	(%)	6.25	6.25	5.88	3.50	3.00	3.13	3.33	3.33
Treasury bond (3-year yield)	(%)	9.70	9.00	10.50	9.00	9.00	-	4.70	4.70
Mineral prices									
Gold	US\$/oz	1,258.00	1,270.00	1,392.00	1,770.00	1,800.00	1,801.00	1,918.00	1,973.00
Copper	US\$/tonne	6,166.00	6,517.00	6,006.00	6,170.00	9,308.00	8,819.00	8,501.00	8,285.00

Source: DoT - 2024 Budget Vol - 1

4.0 Commodities



Commodities will be subject to volatility driven by global demand and supply and other investment themes but are projected to increase...

	CURRENT	TRADE	STATUS UPDATES	▲
	PRICE	FORECAST		[30 JAN,24]
Crude Oil USD/Bbl	75.71	80.97	Since the start of the year 2024, Crude Oil increased 6.31 USD/BBL or 8.81%, according to Trading economic analysis on commodity price. Accordingly, Crude Oil is estimated to trade at 74.81 USD/BBL by the end of Q1-24. we estimate it to trade at 80.97, as the year ends.	8.81%
Natural Gas USD/MMBtu	2.12	3.28	Natural gas decreased 0.24 USD/MMBtu or 10.48%, according to analysts. Natural gas is expected to trade at 2.78 USD/MMBtu going towards the end of Q1-24 and is estimated to trade at 3.28 in 12 months time.	-10.48%
Gold USD/t.oz	2037.19	2158.85	Gold decreased 25.14 USD/t oz. or 1.22% and is expected to trade at 2089.21 USD/t oz. by the end Q1-24,, according to expectations from Trading Economics analysts.. Looking forward, it is estimated that Gold will be traded at 2158.85 as we approach the end of 2024.	-1.22%
Copper USD/Lbs	3.91	4.14	According to trading on a contract for difference (CFD) that tracks the benchmark market for this commodity, copper increased 0.03 USD/LB or 0.67% as the year began. Accordingly, Copper is expected to trade at 3.93 USD/LB by the end of this quarter and analyst highlighted that it is expected to trade at 4.14 at the end of the year.	0.67%
Coffee USD/Lbs	194.05	214.91	At the start of the year 2024, Coffee increased 5.70 USD/lbs or 3.03%. Coffee is expected to trade at 196.79 USD/lbs by the end of Q1-24. Analyst estimated that Coffee will be trade at 214.91 in 12 months time.	3.03%
Cocoa USD/T	4822.00	4561.03	Cocoa increased 609 USD/MT or 14.51% since the beginning of 2024, according to trading on a contract for difference (CFD) that tracks the benchmark market for this commodity. Cocoa is expected to trade at 4304.33 USD/MT by the end of this quarter, according to Trading Economics global macro models and analysts expectations. Looking forward, we estimate it to trade at 4561.03 in 12 months time.	14.51%
Rubber USD Cents / Kg	152.90	164.37	Rubber decreased 4 US Cents/kg or 2.56% in January 2024, however it expected to increase its trade at 157.97 US Cents/kg by the end of Q1-24, according to Trading Economics global macro models and analysts expectations. Rubber is estimated to trade at 164.37 in the year ends.	-2.56%
Palm Oil MYR/T	3798.00	3315.59	Palm Oil increased 127 MYR/MT or 3.41% since the beginning of 2024 and is expected to trade at 3570.70 MYR/MT by the end of Q1-24 and is estimated to trade at 3315.59 in 12 months time., according to Trading Economics global macro models and analysts expectations.	3.41%

Source: www.tradingeconomics.com

5.0 Currency updates



Emerging-market currencies to hold most recent gains vs. dollar, according to Reuters



USD has pulled back in recent weeks, guided lower by the upper limit of what appears to be a falling wedge, a bullish pattern. This technical formation could be validated if prices manage to break resistance at 1.0870. In such a scenario, we could see a move towards the 50-day simple moving average at 1.0920, followed by 1.0950, according to the Federal open market committee.



The daily FX reported that the Australian dollar depreciated past \$0.657, hitting its lowest levels in a week as a surprisingly soft inflation reading spurred bets for an earlier cut in domestic interest rates. The Reserve Bank of Australia is widely expected to hold rates steady at next week's meeting, while markets see around a two-thirds chance of a rate cut in June and are fully priced in for a move in August. Externally, the aussie also remained under pressure from stronger-than-expected US economic data that countered bets on early rate cuts from the Federal Reserve.



Reports of traders are now net-long NZD/USD for the first time since Dec 21, 2023, according to Reuters. Traders are further net-long in the month of January 2024, thus the combination of current sentiment and recent changes gives us a stronger NZD/USD-bearish contrarian trading bias.



According to Trading Economics, the USDPGK increased 0.0028 or 0.07% to 3.7538 on Monday February 12 from 3.7511 in the previous trading session. Historically, the Papua New Guinean Kina reached an all time high of 3.80 in January of 2024

6.0 Equities



Trading during Jan was subdued small volumes changed hands, with modest gains from BSP, KSL and STO from prior month...

According to J.P. Morgan Research, the outlook for equities in 2024 is clouded by slow global growth and stubborn inflation. The report estimates earnings growth of 2-3% for the S&P 500 with a price target of 4,200, with a downside bias. Meanwhile, the U.S. continues to command a quality premium over other markets, given its sector composition and cash-rich mega-cap stocks.

Research equity reports have also highlighted that equity investors may benefit from casting wider nets in 2024 and opportunities are expected to emerge in Japan, emerging markets, health care, and artificial intelligence.

US DOW JONES

The Dow Jones Industrial Average (DJIA) had its best month last year in November 2023, returning 8.7%. The current price of the DJIA as of February 5, 2024, stood at 38,380.12. In the third quarter of 2023, Dow reported net sales of \$10.7 billion, which was a 24% decline compared 12 months prior.

ASX 200

Accordingly, ASX remains committed to creating enduring value and maintaining a level playing field for all participants. Operating revenue: \$1.0 billion, down 1.2% from the previous year. Earnings before interest and tax (EBIT): \$635.6 million, down 7.8%.

PNGX

The domestic bourse was quiet as always with BSP and KSL advancing 9.5% and 8% respectively at the month's close. Others remained unchanged with STO's ending the month at K35.46 a share. The listed companies are expected to provide annual performance reports in the following weeks, that should provide direction as to the where the markets trend. With the lower yielding environment, we expect stocks to provide that yield for investors.

PNGX Close	Dec-23	Jan-24	Chg. (K)	Chg. (%)
BSP	13.70	15.00	1.30	9.5%
CCP	2.00	2.00	-	0.0%
CGA	SUSPENDED		-	
COY	0.02	0.02	-	0.0%
CPL	0.79	0.79	-	0.0%
KAM	0.90	0.90	-	0.0%
KSL	2.50	2.70	0.20	8.0%
NEM		145.00	145.00	
NGP	0.69	0.69	-	0.0%
NIU	-	-	-	
SST	35.46	35.46	-	0.0%
STO	19.23	19.24	0.01	0.1%

Source: PNGX; WCAL

7.0 Money markets



Yields from the money market remains subdued with upside in the near term...

As interest rates have risen to combat inflation, investors flocking towards government and corporate bonds have boosted prices in 2023 resulting in lower yields. This follows a disappointing 2022 when bonds fell in tandem with equities and failed to provide the defensive attributes that investors prize. Even as inflation starts to fall, fixed income remains an attractive asset class for next year, in particular sovereign debt: Government bonds can also outperform during periods of geopolitical risk, which has been a key agenda in recent times.

We have noted that the domestic bourse auctions have been oversubscribed at an average 2.7x indicating excess liquidity in the system. The treasury rates have dropped more than 50% to current levels of 3.44%. This is expected to remain for the immediate term but maybe expected to increase as soon as the trapped liquidity due to the unavailability of FX is repatriated.

Auction results 26th January 2024

Terms	182 days	273 days	364 days	Total
W.A.Y 26/01/24	2.04%	2.59%	3.44%	
Amount on offer (K'm)	20	10	237	267
Bids received (K'm)	40	20	646.23	706.23
Successful Bids (K'm)	20	10	355	385
Overall Subscription	2.00x	2.00x	2.73x	2.65

Source: BPNG; WCAL

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