

Strong investor appetite for 364 Days T-bill continues into this week as trading tempo ramps up for less than 364 Days paper...indication of investor preference of term to maturity over returns.

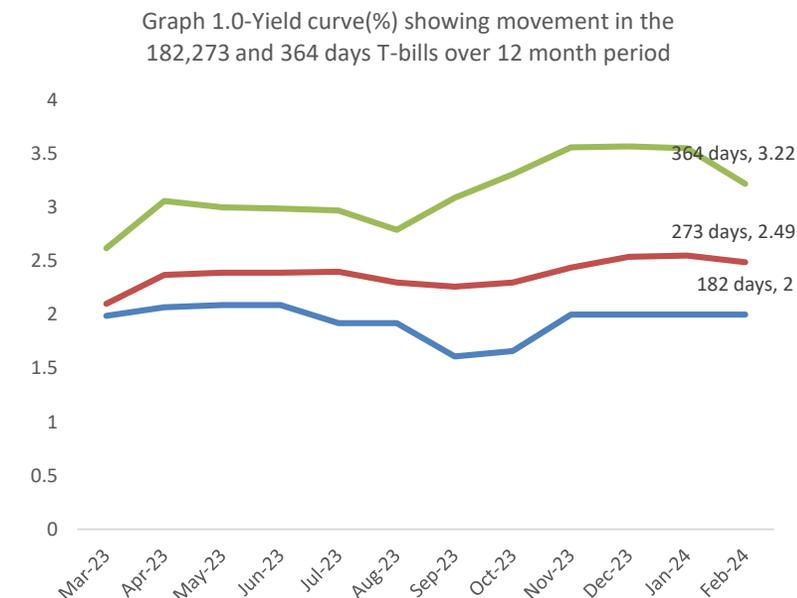
- A total of K 383.04m was offered in the T-bill auction this week. There was an oversubscription in the overall auction results by an aggregate amount of K 367.24m. The 364 day paper took more than 75% of the total issuance.
- Rates dropped across the board as investor demand for shorter securities remains high. Oversubscription continued from January into February trading. The investor appetite in 273, and 182 Days tenors trading tempo picked up, indicating investors timeline preferences. The 364 days paper shed 8 basis points compared to previous auction whilst the 182 days and 273 days papers shared similar sentiments losing 2 and 5 basis points respectively.
- **Graph 1.0** shows movement over a 12 month period for the 182, 273 and 364 days papers.
- The Central Bank notes that headline inflation is anticipated to remain low while core inflation to moderate, based on its assessment of economic fundamentals and broader macroeconomic indicators.
- The Kina Facility Rate (KFR) dropped by 50bps in February to 2.00%.
- It is being noted BPNG's increased intervention in the FX market has played a big part in system liquidity and the increase in auction rates across all tenors.
- The 2024 budget has a budget deficit of 3.3% of GDP, or PGK 3,983.6 million. Deficit balance of PGK 2,320.4m to be financed domestically through Treasury Bills, Bonds, and loans, and the remainder externally.

Table 1.0 – Previous auction results

Auction results 16 February 2024				
Terms	182 days	273 days	364 days	Total
W.A.Y -16/02/24	2.00%	2.49%	3.22%	
Amount on offer (K'm)	40	30	313.04	383.04
Bids received (K'm)	52	92	606.28	750.28
Successful bids(K'm)	52	60	353.04	465.04
Overall-Subscription rate (%)	1.30	3.07	1.94	1.96

Auction results 09 February 2024				
Terms	182 days	273 days	364 days	Total
W.A.Y -09/02/24	2.04%	2.54%	3.30%	
Amount on offer (K'm)	30	30	281.17	341.17
Bids received (K'm)	122	61	554.08	737.08
Successful bids(K'm)	70	40	361.17	471.17
Overall-Subscription rate (%)	4.07	2.03	1.97	2.16

Auction results 02 February 2024				
Terms	182 days	273 days	364 days	Total
W.A.Y -02/02/24	2.07%	2.60%	3.39%	
Amount on offer (K'm)	10	10	295.01	315.01
Bids received (K'm)	10	20	711.91	741.91
Successful bids(K'm)	10	20	390.01	420.01
Overall-Subscription rate (%)	1.00	2.00	2.41	2.36



- Term deposit rates for all tenors remained flat across the board for the week.
- The Central Bank continues to strengthen the monetary policy operational framework by intensifying efforts to mop up excess liquidity and adopt more effective short-term liquidity management instruments. One of the measures introduced by BPNG is the 7-Day Fixed Rate Full Allocation (FRFA) Central Bank Bill.
- The FRFA Auction is exclusive to authorized deposit takers, such as commercial banks, Savings & Loans Societies and Finance Companies. This week saw the fixed rate declined by 50 basis points to 2.00%, its specific requirements, and outcome is solely subjected to Bank of PNG's decision.
- The Central Bank Bill auction allocated K 2,247bn at a fixed rate of 2.00 % for the week in the FRFA. To improve the transmission of monetary policy, BPNG will continue to align its monetary policy instruments to better influence domestic market interest rates to respond to changes in the monetary policy rate, the KFR. As a result, the 7-day Central Bank Bill, the short-term liquidity instrument under the Fixed Rate Full Allotment auction continues to be offered at 2.00 percent.
- The September Treasury Bond issuance was held on the 23rd September 2023. Debt issuance were for 2, 3, 4, 6, 7, 8, 9 and 10 years with a total issuance amount of K 510.4m. Coupon rates declined on all the papers.
- Last GIS issuance was in September 2023. No further notice has come out on the issuance for 2024.

Table 2.0 – Financial institutions rates and short term government paper rates as at 16th February 2024

Issuer	Term & rates (Current)					Term & rates (Previous)					Change/movement				
	30	60	90	180	365	30	60	90	180	365	30	60	90	180	365
Commercial banks															
BSP	0.55%	0.55%	0.60%	1.05%	1.55%	0.55%	0.55%	0.60%	1.05%	1.55%	0.00%	0.00%	0.00%	0.00%	0.00%
Kina Bank	0.50%	0.75%	0.90%	1.15%	1.25%	0.50%	0.75%	0.90%	1.15%	1.25%	0.00%	0.00%	0.00%	0.00%	0.00%
Westpac (PNG)	0.50%	0.50%	0.50%	1.00%	1.00%	0.50%	0.50%	0.50%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ADIs															
BSP Finance (PNG)	0.10%	0.10%	0.15%	0.60%	1.10%	0.10%	0.10%	0.15%	0.60%	1.10%	0.00%	0.00%	0.00%	0.00%	0.00%
Credit Corporation (PNG)	0.85%	1.15%	1.50%	1.95%	2.35%	0.85%	1.15%	1.50%	1.95%	2.35%	0.00%	0.00%	0.00%	0.00%	0.00%
FinCorp	0.90%	1.15%	1.50%	2.00%	2.35%	0.90%	1.15%	1.50%	2.00%	2.35%	0.00%	0.00%	0.00%	0.00%	0.00%
Moniplus	0.75%	1.00%	1.25%	1.75%	2.00%	0.75%	1.00%	1.25%	1.75%	2.00%	0.00%	0.00%	0.00%	0.00%	0.00%
First Investment Finance	0.90%	1.10%	1.20%	1.20%	2.10%	0.90%	1.10%	1.20%	1.20%	2.10%	0.00%	0.00%	0.00%	0.00%	0.00%
Government Securities															
Treasury bills (W.A.R)			182	273	364			182	273	364	0.00%	0.00%	-0.03%	-0.06%	-0.09%
			2.00%	2.49%	3.22%			2.04%	2.54%	3.30%					
Central Bank															
Central Bank bills (W.A.R)	7	14	28	63	91	7	14	28	63	91	-0.50%	0.00%	0.00%	0.00%	0.00%
	2.00%	0.00%	0.00%	0.00%	0.00%	2.50%	0.00%	0.00%	0.00%	0.00%					

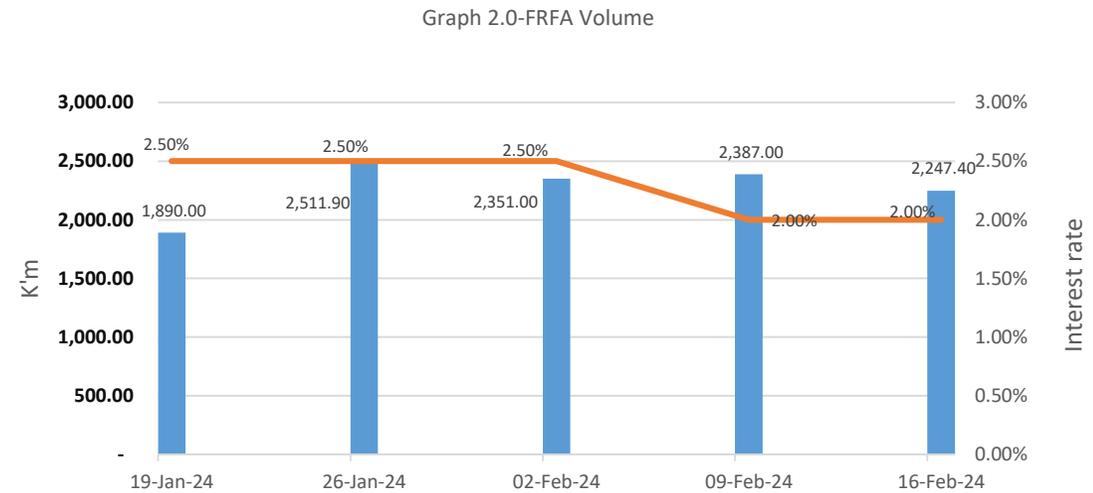
Table 3.0 – Long dated government paper rates – last auction results in September 2023

Issuer	Term (years)	Coupon	Term & rates (Current)								
			2	3	4	5	6	7	8	9	10
Treasury bonds (GIS)			4.40%	4.45%	4.60%	0.00%	5.10%	5.40%	5.50%	5.70%	5.76%
		Weighted Average Rates	3.93%	4.16%	4.49%	0.00%	4.99%	5.27%	5.42%	5.56%	5.74%
<i>Auction results from 23/09/23</i>											
Issuer	Term (years)	Coupon	Term & rates (Previous)								
			2	3	4	5	6	7	8	9	10
Treasury bonds (GIS)			4.40%	4.50%	4.70%	0.00%	5.20%	5.50%	5.60%	5.80%	6.00%
		Weighted Average Rates	0.00%	4.19%	4.35%	0.00%	4.98%	5.27%	5.43%	5.61%	5.76%
<i>Auction results from 23/08/23</i>											
	Term (years)		Change/movement								
			2	3	4	5	6	7	8	9	10
Treasury bonds (GIS)		Coupon	0.00%	-0.05%	-0.10%	0.00%	-0.10%	-0.10%	-0.10%	-0.10%	-0.24%
		Weighted Average Rates	3.93%	-0.03%	0.14%	0.00%	0.01%	0.00%	-0.01%	-0.05%	-0.02%

FRFA volume transacted dipped 6% from last week to K 2,247m. The 7 Days bill is fixed at 2% and aims to support economic growth by mopping up excess liquidity as inflation remains subdued

Table 4.0 – Volume of FRFA traded in 7 weeks

Date: 16/02/2024	Rates (%)	Bids Received
Central Bank	7 Days	K'000
Central Bank bills (W.A.R)	2.00%	2,247.00
Date: 09/02/2024		Bids Received
Central Bank bills (W.A.R)	2.00%	2,387.00
Date: 02/02/2024		Bids Received
Central Bank bills (W.A.R)	2.50%	2,351.00
Date: 26/01/2024		Bids Received
Central Bank bills (W.A.R)	2.50%	2,274.90
Date: 19/01/2024		Bids Received
Central Bank bills (W.A.R)	2.50%	2,511.90
Date: 12/01/2024		Bids Received
Central Bank bills (W.A.R)	2.50%	1,890.00
Date: 05/01/2024		Bids Received
Central Bank bills (W.A.R)	2.50%	2,238.90
Traded in 7 weeks K'000		15,900.70



- The T-bill Tap and T-bond Tap papers remain temporarily closed until further notice.

Table 4.0 – Long dated papers-BPNG Tbill Tap and BPNG Tbond Tap as at June 2023

Issuer		Term & rates (Current)			
Term (years)		2	4	8	10
BPNG TBOND TAP		CLOSED UNTIL FURTHER NOTICE			

Issuer		Term & rates (Previous)				
Term (Days)		63	91	182	273	364
BPNG TREASURY BILL TAP		CLOSED UNTIL FURTHER NOTICE				

¹ <https://www.bankpng.gov.pg/wp-content/uploads/2018/06/BPNG-TAP-FACILITY-TBILL-TBOND.pdf>

For more information on your bidding strategy, please contact the team on phone 309 8501 or email bcapenquiries@bsp.com.pg

Richard P La'a

Acting General Manager, BSP
Capital
Ph: +675 309 8513
Email: RLa'a@bsp.com.pg

Phoebe Endose

Manager-Funds Management
Ph: +675 309 8505
Email: pendose@bsp.com.pg

Michelle Koredong

Investment Analyst – Money Markets
Ph: +675 309 8507
Email: mkoredong@bsp.com.pg

Abigail Pepson

Senior Portfolio Analyst
Ph: +675 305 6149
Email: apepson2@bsp.com.pg

Darren Terupo

Investment Analyst-Funds Management
Ph: +675 309 8531
Email: DTerupo@bsp.com.pg

Disclaimer

This Research comprises general market information 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 information has been prepared for the use of the clients of the BSP Capital Limited (BSPCL) 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 report 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 report is based on information obtained from sources believed to be reliable, but BSPCL 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 BSPCL 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. BSP Capital Limited produces a variety of research products, recommendations contained in one type of research product may differ from recommendations contained in other types of research. BSPCL has established and implemented a conflicts policy at group level, which may be revised and updated from time to time, pursuant to regulatory requirements; which sets out how we must seek to identify and manage all material conflicts of interest. BSP Capital Limited, its officers and employees may have conflicting roles in the financial products referred to in this research and, as such, may effect transactions which are not consistent with the recommendations (if any) in this research. BSP Capital Limited may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case. BSP Capital Limited employees or officers may provide oral or written opinions to its clients which are contrary to the opinions expressed in this report.