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NCB CAPITAL MARKETS LIMITED

Weekly Market GUIDE

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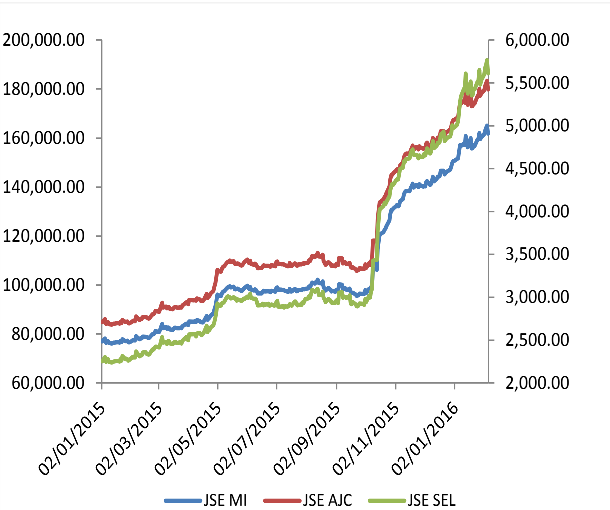
Jamaican Stock Market



Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Combined Index	171,129.99	-118.14
JSE Market Index	159,771.07	-891.60
All Jamaican Composite	177,514.21	-997.12
Jamaica Select Index	5,584.15	-5.96
JSE Cross Listed Index	499.06	-

Most Active Stocks

	Units Traded	%
RJR	17,561,657	27.99%
1834	17,307,267	27.59%
LASM	7,126,033	11.36%

Top Winners & Losers This Week

	$ Change	% Change
Winner: C2W	+$0.07	19.44%
Winner: ISP	+0.45	15.00%
Loser: KLE	-$0.57	35.63%
Loser: CBNY	-$0.06	26.09%

Market Analysis & Commentary

Stocks Fight On

Boxing Legend Muhammad Ali died recently leaving a rich legacy in the world of sports and inspiring quotes that many use in their everyday lives. One such quote, that if applied by local investors, would yield strong dividends, explains the inherent reward in taking risks. Investing in the local equities market has been a risky venture but investors continue to benefit, not only from the dividends received but gains they would have accumulated over the past year- and the fight continues. Following a strong 2015 where the JSE demonstrated a remarkable performance, it continued the uptrend for the first half of 2016 albeit at a slower pace relative to last year. Improvement in stock prices reflects the relatively low interest rate environment, which led to higher valuations. Also, buoyed by improving economic indicators such as low inflation, investors continue to show confidence in the Jamaican economy and the companies. The Junior Market returned the biggest knockout punch, delivering an impressive 23.7% increase since the start of the year. Main market stocks were also contenders having registered year to June returns in excess of 5%.

Expectations are that local stocks will continue to fight on given improving economic prospects and low interest rates. Further, incentives provided to junior market companies should lead to an increase in the number of listings. Following a change of administration in February, The Minister of Finance vowed to maintain the original income tax incentive in which companies will have 5 years in which no corporate taxes will apply, and pay half the applicable corporate tax rate for the remaining 5 years, providing that they remain listed for 15 years.

JSE Could See Listing of First Private Equity Vehicle

The Jamaica Stock Exchange could see the listing of its first private equity (PE) vehicle if Portland JSX Limited (PJX) successfully raises funds via an Initial Public Offer. The company has extended an Invitation for subscription of 111,818,182 ordinary shares for sale at $11.00. PJX is seeking to raise approximately J$1.23Bn to invest primarily as a limited partner in Portland Caribbean Fund II (PCF II).

This investment is quite novel and provides the opportunity for investors to achieve the potentially higher returns associated with PE transactions relative to other equity investments. Of note, the 8% hurdle is on the PCF II fund which is denominated in USD and as such, there is potentially higher return in JMD terms. Further, the structure of the vehicle adds liquidity to an otherwise illiquid investment as investors can enter and exit via an exchange. That said, PE investments carry very high risks and as such should be undertaken by investors who have the willingness and ability to absorb. In addition, special consideration should be given to the long time horizon (10 years) that is required for PE investment given the 'J-curve' effect whereby low or negative returns are reported in early years, followed by increased returns later as the PE firm manages portfolio companies towards exit. As such, investors should consider the opportunity cost of not having stable predictable distributions as they would with other equity investment. This is therefore suitable for very sophisticated investors with long term investment horizons.

Lower Operating Expenses Support Profit Growth for both Scotia Group & Scotia Investments

Both Scotia Group Jamaica Ltd (SGJ) and Scotia Investments Jamaica td (SIJL) reported an improvement in financial performance for the first half of the 2015/16 fiscal year ended April 2016 (H1 2016). Scotia Group posted net income of $4.98Bn, a 29.4% increase when compared to the corresponding 2015 period. Of this amount $4.88Bn (EPS: $1.57) was attributable to shareholders of the company. Meanwhile, Scotia Investments – which has previously struggled to grow its bottom line also registered a $3.93Mn (+0.9%) increase in net profit to $457.10Mn.
There were mixed results from the revenue streams for Scotia Group. A 6.6% growth in its loans portfolio and profitable spread management resulted in a 3.5% increase in net interest income after impairment losses of $11.79Bn. Other revenue streams – net fee and commission, insurance revenue, net gains on foreign currency activities improved by 12.9%, 1.1% and 11.6%, respectively. Overall, revenues from business segments such as Treasury, Retail Banking and Corporate Banking – which account for roughly 77% of total revenues – all registered year-on-year growth during the period. Scotia Group's total operating income was $18.25Bn, up from $17.09Bn in H1 2015.

However, revenues from Scotia Investments were not as positive as its parent. Growth in SIJL's asset under management supported the 10.8% increase in net fee and commission income to $598.83Mn while net gains on financial assets moved from $149.44Mn in H1 2015 to $202.95Mn. The 19.8% decline in net interest income after impairment eroded the gains in total non-interest income. As such, SIJL's total operating income declined by 5.5% year-on-year to $1.58Bn.

Management's strategic thrust towards operational efficiency bore fruit for both Scotia Investments and Scotia Group. With a significant reduction in salaries and staff benefits, property expenses including depreciation and asset tax across the two entities, total operating expenses were lower on both counts. Scotia Group's operating costs fell by 2.8% to $10.82Bn resulting in 5.8 percentage point improvement in its productivity ratio to 60.58%. On the other hand, Scotia Investments' operating expenses declined by 6.2% to $912.99Mn. SIJL's productivity ratio was just 82 basis points lower at 57.36% given the unfavourable revenue outturn.

Foreign Exchange Market

Selling	Close: 03/06/16	Close: 10/06/16	Change
J$/US$1	$125.56	$125.89	+0.33
J$/CDN$1	$96.11	$98.34	+$2.23
J$/GBP£1	$181.05	$181.08	+0.03

What started off as a relatively quiet week saw a gradual pick up later with heavy demand from end-users and brokers. The market opened the week at J$125.56 per US$ and traded as high as $126.10. The weighted average selling rate for the US$ on Friday, June 10 was J$125.89, a $0.33 depreciation relative to the prior week.

JMD Money Market

JMD market liquidity levels improved marginally week over week however, brokers continued to aggressively seek longer tenured funding. Interest payment inflows are expected this week on several GOJ Fixed Rate (FR) and Variable Rate (VR) instruments such as the GOJ FR 2030, GOJ VR 2025s and GOJ VR 2035s. Despite OMO maturities of J$5.5B, liquidity levels are expected to improve only slightly due to various tax obligations which are due for payment in the upcoming week.

GOJ Global Bonds

Jaman bond prices increased as confidence was high that the Fed will not raise rates at a meeting scheduled for June 15. Jaman 17's traded at 107.50, 25N's 112.30, 2028's 106.50 and 2045's at 107.

Indicative Bond Prices

	Bid	Offer	Offer Yield*
2017	107.000	108.500	2.11%
2019	108.000	109.250	4.68%
2021	110.000	112.000	5.88%
2022	128.000	130.000	5.34%
2025 (N)	112.000	113.000	5.76%
2025	120.000	121.500	6.18%
2028	104.000	105.000	6.15%
2036	115.000	116.000	6.99%
2039	111.000	112.250	6.92%
2045	107.000	108.000	7.21%

*NB: The rates quoted above are opening indicative levels on the international market and are subject to change as market conditions vary throughout the trading session. Additionally, the prices quoted to clients of NCB Capital Market Limited (NCBCML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

International News

The Debate over whether or not Britain should leave the European Union continue to take centre stage on the international scene. In the UK, the campaign for Britain to leave the European Union took a 10 percentage-point lead in a poll published late Friday, less than two weeks before the country votes in a referendum. The survey of 2,000 people by ORB for the Independent newspaper found 55 percent in favor of a so-called Brexit, up 4 points since a previous poll in April, with 45% for "Remain," down 4 points. It's the biggest "Leave" lead recorded by ORB in polls for the newspaper.

The pound slumped after the poll as doubt creeps into some investors' minds that Prime Minister David Cameron will be able to pull off the biggest political gamble in recent British history.

In the US, after data which showed concerns about the labour market, U.S. consumer sentiment deteriorated less than expected in June, adding to optimism over the strength of the economy. The University of Michigan's Consumer Survey Center report showed that consumer sentiment in June was 94.3, slightly below May's 94.7. The expectations surrounding inflation remains weak, with one-year expectations unchanged at 2.4 percent.

(Bloomberg) World Bank Cuts Global Growth Outlook as Rich Economies Stumble

The World Bank cut its outlook for global growth as business spending sags in advanced economies including the U.S., while commodity exporters in emerging markets struggle to adjust to low prices.

World gross domestic product will grow by 2.4 percent this year, an "insipid" pace that's unchanged from 2015 and down from the 2.9 percent estimated in January, the Washington-based development bank said Tuesday in its semiannual Global Economic Prospects report. Growth will pick up to 2.8 percent in 2017, the lender projected.

Downside risks have become more pronounced since the start of the year, with a range of challenges looming including deteriorating conditions in commodity-exporting economies, rising private-sector debt in large emerging markets and heightened policy and geopolitical uncertainties, according to the bank.

About half of the global downgrade was due to a 0.5

percentage point cut in the outlook for advanced economies, which are now expected to grow 1.7 percent this year, compared with 1.8 percent in 2015. The development lender cut its forecast for U.S. growth to 1.9 percent this year, down from 2.7 percent estimated in January.

Low oil prices have triggered a collapse in capital spending in the U.S. energy sector, while a strong dollar and weakening external demand have stalled export growth, the development bank said. The lender cut its growth outlook for Japan to 0.5 percent, down from 1.3 percent in January, amid weak consumer spending and exports.

Commodity prices have recovered this year, with oil rebounding by about one-third. Still, the World Bank notes the recovery has only partially reversed the sharp declines of recent years, and it expects oil prices to average $41 per barrel this year, down from a projected $51 per barrel in January.

The bank cut its outlook for growth in commodity-exporting emerging markets to 0.4 percent, down 1.2 percentage points from January, with countries from Angola to Venezuela struggling with exchange-rate pressures and falling fiscal revenue.

In some commodity-exporting, emerging economies, “credit to the private sector is now near levels that have in the past been associated with episodes of financial stress,” the World Bank said.

The World Bank left its forecast for China’s growth this year unchanged at 6.7 percent, while downgrading its forecast for Brazil to a contraction of 4 percent, compared with a projected 2.5 percent decline in January. The lender also cut its forecast for Russia to a contraction of 1.2 percent, down 0.5 percentage point from the start of the year.

(Bloomberg) China’s Economy Steadies Even as Investment Growth Slows

China’s economy steadied in May as factory production held up and consumers and the government offered support against diminishing growth in private investment, which has been hurt by declines in old-line industries such as coal.

Bloomberg’s monthly tracker for gross domestic product growth showed a 6.9 percent gain for May, little changed from April and comfortably within the leadership’s annual target for 2016. The gauge, updated after monthly data Monday, had swung from around 6.3 percent in the first two months of the year to 7.1 percent in March, when a lending spree juiced growth.

Industrial production rose 6 percent from a year earlier in May, matching economists’ estimates, National Bureau of Statistics data showed. Retail sales climbed 10 percent last month, while fixed-asset investment increased 9.6 percent in the first five months of 2016 -- missing all 38 economist forecasts and the slowest pace since 2000.

Combined with improving imports and moderating factory-gate deflation last month, the data suggest that policy makers have underpinned the near-term outlook with monetary stimulus and fiscal support, even as restructuring initiatives in some industries start to bite.

The data deluge contained a mixed bag of news, leaving little impetus for any swings in the yuan or Australian dollar in Monday trading. The Shanghai Composite Index was 1.7 percent lower as of 2:26 p.m. local time.

Among the positives, the surveyed unemployment rate edged lower in May, with 1.34 million jobs added in urban areas in the month, taking new jobs created in 2016 to 5.77 million. On the negative side, private fixed-asset investment slowed to 3.9 percent for the year to date.

Policy makers’ efforts to cool the property market took some steam out of that sector, with new-home sales growth slowing. Property investment growth, which in December hit a 15-year low, clocked a 7 percent pace for the first five months of the year, slightly weaker than the 7.2 percent rate for the first four months.

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbroker. The company became a part of the NCB Group in 1994 and a fully owned subsidiary in October 2002. In December 2002, the then Edward Gayle and Co. was merged with another NCB subsidiary, NCB Investments. The products distributed by this combined subsidiary cover the traditional money market product offerings (J$ and US$ Repos), primary dealer services, stock brokerage and investment advisory services. Edward Gayle was renamed NCB Capital Markets Ltd. in October 2003.

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