CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

Sticky Core Inflation Driving Expectations of "Higher for Longer" Policy Rates Globally

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

Capital Gain - An increase in the value of an asset resulting from the price appreciation of the asset over time.

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Sticky Core Inflation Driving Expectations of "Higher for Longer" Policy Rates Globally

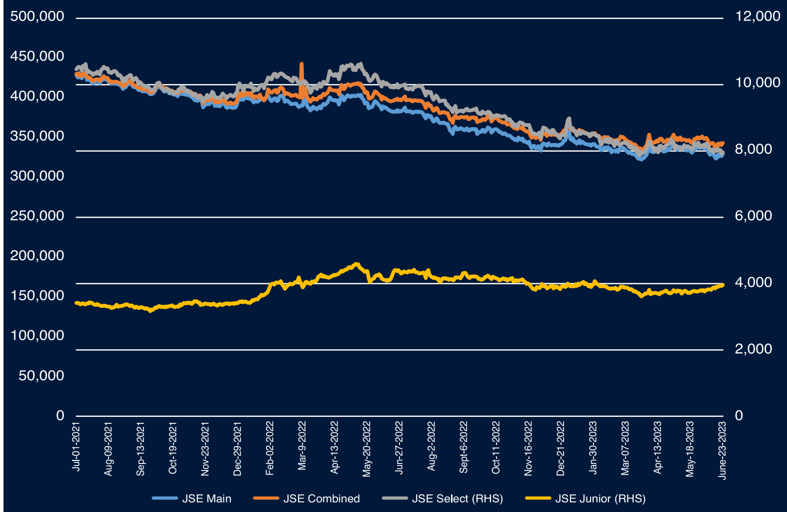
With inflation proving to be sticky in key economies across the globe, expectations are for interest rates to remain higher for longer, which will have negative implications for credit conditions and global default rates. Although inflation, which reached historic highs last year has generally been trending downwards, the pace of deceleration has been slower than expected, hence it has been deemed sticky. The stickiness is stemming from continued resilience in service demand, tight labour markets, and the still elevated core inflation[1]. The reopening of economies, in the aftermath of the COVID-19 pandemic, spurred strong demand particularly for services, leading to rapid declines in unemployment (see Figure 1) given robust demand for labour to work in service industries. The accompanying increase in disposable income along with the influx of cash from the stimulus cheques issued by some governments during the pandemic, caused a high level of spending, especially in the service sectors reflecting pent-up demand for tourism, entertainment and leisure for the most part. After over two years of being locked up at home, people have been embracing experiences over goods. However, the sharp interest rate increases by central banks to stem spending, have not massively tempered labour demand and hence expenditure and economic activity as expected. In fact, today, although there has been some easing, labour demand remains high resulting in job markets that have never seen unemployment this low in approximately 30 years (see Figure 1). This has caused core inflation to remain stubbornly high while headline inflation[2] eases (see figure 2). As such, it is expected that central banks will continue to sustain their high policy rates for longer, and even hike further as is forecasted in the case of the US and UK. These high rates have already resulted in elevated default rates among corporates and sovereigns, and could rise further among the riskiest of countries and corporates.

The main difference between core inflation and headline inflation is the fact that core inflation excludes food and energy-related price changes. With headline inflation vastly more volatile due to its inclusion of food and energy prices, many economies have benefitted from the fall in food and energy prices mainly due to the supply of commodities catching up to demand partially due to the economic slowdown, and the Russia-Ukraine war not having as negative of an effect on oil prices as opposed to the earlier stages of the war. These things have contributed to headline inflation declining more drastically than core inflation (see figure 2). Why is core inflation not falling as quickly? Using the US for example, while headline inflation was registered

1 Core inflation is the change in prices of goods and services, except for those from the food and energy sectors. Core inflation removes the CPI components that can exhibit large amounts of volatility from month to month.

2 Headline inflation is the raw inflation figure reported through the Consumer Price Index (CPI). The CPI determines inflation by calculating the prices on a fixed basket of goods.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	346,282.53	1.2%	-6.1%
Main Market Index	332,034.93	1.2%	-6.7%
Select Index	8,071.05	1.8%	-9.3%
Junior Market Index	3,984.23	1.1%	-0.1%

WINNERS & LOSERS (FOR THE WEEK ENDED JUNE 30, 2023)

	$ Change	% Change
MDS	+$1.79	+39.4%
CBNY	+$0.23	+35.9%
SOS	-$5.79	-20.0%
JMMBGL7.25C	-$0.61	-15.0%

MARKET OVERVIEW

The stock market maintained its positive momentum last week from the prior week, breaking the downtrend that occurred for the first half of June. Last week, trading activity resulted in the majority of the indices (8/9) advancing except for the JSE Cross-Listed index. The JSE USD Equities and the All Jamaican Composite Indices had the largest week over week (WoW) gains, recording upsides of 15.63% and 2.47% respectively. TransJamaican Highway USD (34.5%) and Productive Business Solutions USD (12.1%) primarily drove the performance in the USD Equities Index while the Composite Index was largely buoyed by Supreme Ventures Limited (+15.7%) and PanJam (+10.8%). There was no direct news to support the movement in these stock prices. The lone declining index, the Cross-Listed Index, was partially influenced by a 2.6% WoW decline in the price of Massy Holdings, however, there was also no news to support the movement.

Market activity resulted from trading in 127 stocks, of which 71 advanced, 43 declined, and 13 traded firm. Market volume amounted to 286,817,673 units valued at over $2,319,455,330.40. The volume leaders were JFP Limited with 103,334,501 units (35.85%), TransJamaican Highway Limited with 30,116,711 units (10.45%) and Wigton Windfarm Limited with 25,705,373 units (8.92%).

at 4% in May, core inflation rose to 5.3% in the same month, and averaged a 0.4% increase month-over-month since the start of 2023. That is, core inflation has been a lot more "sticky" than anticipated. We can also draw the same conclusion when looking at core inflation figures in the UK and Eurozone area[3], and Fitch has pointed to the same challenge in some Latin American countries. This issue is largely explained by the use of savings accumulated during the pandemic years of unprecedented government stimulus to bolster spending, and a strong rebound in disposable income. An extremely tight labour market (30-year lows in unemployment rates, see figure 1) continues to support elevated spending behaviour originating from numerous rounds of stimulus cheques distributed in 2020 and 2021. The progress made with core inflation, or lack thereof, means that some central banks have more work to do while others will keep interest elevated for a more protracted period of time to truly tame inflation. The US Federal Reserve for instance paused its policy rate increase in June to give itself time to assess the impact of the rate hikes to date and credit tightening stemming from banking stresses. However, it is forecasted to implement 2 additional 25 basis point hikes this year, as stronger-than-expected economic data underscored the need for more monetary tightening. In the UK rates are also slated to continue increasing as inflation figures have been more stubborn than peers, registering at 8.7% in May. Therefore, until inflation pressures abate and are reflected in lower core inflation, lower labour demand and reduced consumer spending, higher for longer will stay the hand of global central banks, including those in emerging markets, that want to cut rates. What does this mean for emerging market (EM) sovereign and corporate issuers?

This has and will continue to have negative implications for both sovereign and corporate credit quality as rates remain elevated. With interest near peak levels, companies are facing tighter lending conditions, including higher funding costs, and weather challenges. Borrowers that rely on short term funding and those with near term maturities are facing liquidity challenges and refinancing risks that have increased default risks for riskier companies. So far this year, Moody's has recorded 62 corporate defaults globally. North America had the highest concentration — split between 41 in the US and one in Canada — compared to just 16 over the same period last year. Europe has seen 11 defaults in 2023, followed by 7 in Latin America and two in the Asia-Pacific region. In May alone, 16 corporate debt issuers defaulted globally, up from 12 in April. These defaults come on the back of maturing debt that companies are finding hard to refinance due to their inability to afford more expensive interest costs given markedly higher market rates. In addition to the lower debt servicing capacity, companies are also finding it hard to source financing from lenders/investors because of the uncertain economic outlook and the adverse effect this could have on demand for their goods and services, their liquidity and hence ability to make debt payments if granted. Considering these factors, Moody's expects speculative-grade corporate defaults to climb to 4.6% by the end of the year — higher than the 4.1% long-term average — and peak at 5% by the end of April 2024, before easing to 4.9% in May[4].

Although inflation, which reached historic highs last year and has generally been trending downwards, the pace of deceleration has been slower than expected, hence it has been deemed sticky. . The stickiness is stemming from continued resilience in service demand, tight labour markets, and the still elevated core inflation

These higher credit risks are also being felt in emerging markets. As Latin American companies find it difficult to access credit, more companies are filing for bankruptcy[5] and missing debt payments[6]. JPMorgan increased its corporate default rate forecast for all emerging markets to 6% from 5.5%. These high-yield and often speculative-grade issuers are more susceptible to credit risk given that they often take on a more leveraged corporate structure. Additionally, they could experience top-line deterioration as revenue growth may slow in tandem with slower GDP growth in the EM region being affected by its main trading partners. This could weigh down EBITDA levels, making their debt payments consume a bigger portion of their profitability. As these factors reduce their ability to access debt for refinancing purposes, more companies could end up restructuring their debt. We could also see companies employing cost minimization strategies such as layoffs to tame administrative costs in an effort to maintain profitability and liquidity. Some EM companies and sovereigns will also allocate less funds towards capital expenditure to ensure adequate funds are available for debt servicing. However, while this can free up liquidity in the near term, if sufficient reinvestments are not made in subsequent years this could have negative long-term implications on their sustainable profits and

3 Their most recent core inflation figures have increased by 0.3% and 0.1% respectively (Trading Economies)

4 Bloomberg Markets News

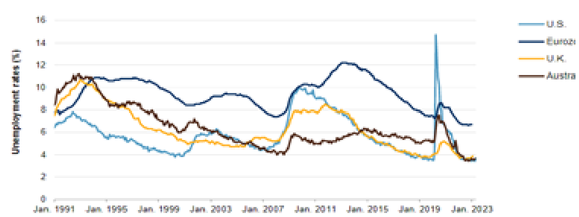
5 Brazilian retailer, Americanas filed for bankruptcy.

6 Non-bank lender Mexarrend missed payments due on local debt in January, while Digicel Group missed payments on its foreign debt.

economic growth.

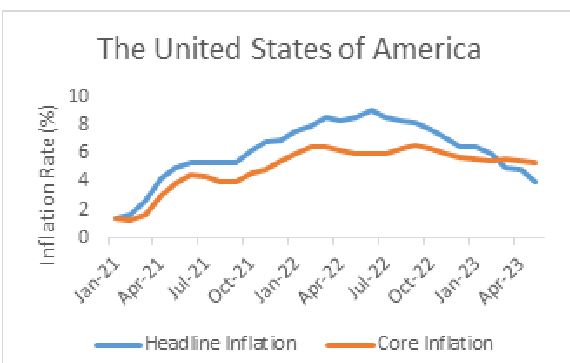
As the prospects of higher for longer interest rates results in increased risk of defaults, investors will have to pay greater attention to the expected performance of sovereigns and corporates so they can take actions to safeguard their portfolios. Companies and sovereigns without the financial flexibility and liquidity to ride out the current tight credit conditions in the higher interest rate environment will likely face credit downgrades. However, the opposite is also true. Investors have to be on the lookout for sovereign borrowers with stable or positive economic outlooks in spite of the uncertainties, and with the fiscal space to sustain their interest and debt payments. Similarly, it is best to invest in corporates with the market presence and strategic plans to sustain profitability, and adequate liquidity to meet short-term obligations. Further, include in portfolios EM sovereigns and corporates with proper debt management and access to credit markets to obtain financing, if needed to shore up liquidity or refinance debt.

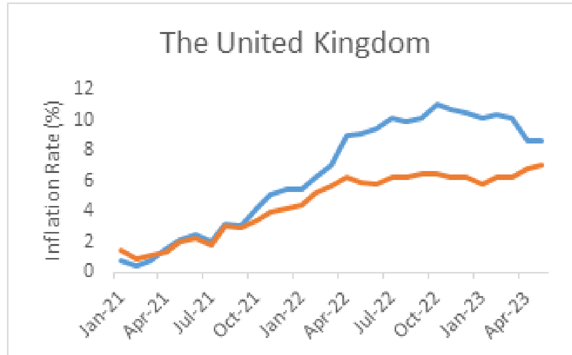
Figure 1: Labour demand points to need for more

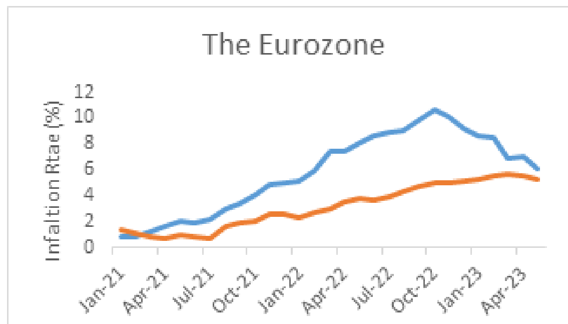


Source: S&P Global Ratings

Figure 2: Progression of Headline Inflation vs. Core Inflation between January 2021 – May 2023







Sources: Trading Economics, NCBCM Research

Foreign Exchange Market

The Jamaican dollar appreciated by 0.29% relative to the USD, week over week, with the USD selling rate moving from J$155.07 on June 23, 2023, to J$154.62 on June 30, 2023. This appreciation came on the back of two relatively large transactions done on Friday valued at $20Mn at an average of $153.15.

Selling	Close: 6/23/23	Close: 6/30/23	Change
J$/US$1	$155.07	$154.62	-$0.45
J$/CDN$1	$119.32	$117.52	-$1.80
J$/GBP£1	$195.89	$197.24	+$1.35

Global Bond Prices

Last week the global bond markets declined amidst the release of various key economic data. Firstly, personal income rose 0.4% in May, a tenth of a percentage point more than the 0.3% gain expected according to Bloomberg. The increase in current-dollar personal income in May primarily reflected increased compensation, personal current transfer receipts from Medicaid, and personal income receipts on assets via interest income. Consequently, consumer spending increased 0.1% in May, nonetheless, a tenth of a percentage point less than expected and following a 0.6% gain in April. Increased consumer spending was attributed to increased prices for services (+0.3%) and food (+0.1%), however, prices for goods (-0.1%) and energy (-3.9%) offset those increases. Year-over-year, consumer spending increased 6.0% and personal income rose 5.5%. Though this data showed inflation moving gradually in the right direction, it remains well above the Fed's 2% longer-term target.

Secondly, the third estimate for US Q1 GDP registered a strikingly large, upward revision to 2.0% from 1.3% (consensus 1.3%), as consumer spending proved to be stronger than estimated, while the GDP Deflator was revised down to 4.1% from 4.2% (consensus 4.2%). The key takeaway here is that the strength of the labour market continued to fuel consumer spending in the first quarter and helped forestall any recession-like trajectory in the U.S. economy. More recent data also proves that while experiencing slight falloffs the labour market remains robust. Data shows that initial jobless claims for the week ending June 24 decreased by 26,000 to 239,000 (consensus 266,000) while continuing jobless claims for the week ending June 17 decreased by 19,000 to 1.742 million.

These economic data releases did not bode well for the charge to reduce inflation and would likely support additional rate hike decisions by the Federal Reserve. This caused the markets to become more dovish towards the close of the week. Talks of one or more additional rate hikes loomed in the market and it was said by the Fed Chair that inflation may not return to 2% until 2025. Markets are pricing in an 89.3% chance of a quarter-of-a-percentage-point rate hike on July 26, which would lift the fed funds rate target to between 5.25%-5.5%, according to the CME FedWatch Tool. As the market remains highly volatile, this decline in prices is likely to rebound in the coming week(s). Investor actions will be influenced by various market commentaries and as additional data points are also factored into the Fed's next move.

The 10 Year Treasury closed the week softer resulting in an increase in yield to 3.82% from 3.74% as investors sold treasuries on the above news.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	96.25	6.20%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	106.25	7.74%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	97.75	4.41%	BUY
PRIO 2026 (6.13%)	BB-/ Stable	98.50	6.65%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	101.50	7.25%	BUY
DomRep (6.6%) 2024	BB/ Stable	101.50	3.81%	BUY
DomRep (5.88%) 2024	BB/ Stable	101.00	4.53%	BUY
DomRep (5.50%) 2025	BB/ Stable	101.00	4.82%	BUY
DomRep (6.88%) 2026	BB/ Stable	103.25	5.50%	BUY
DomRep (8.63%) 2027	BB/ Stable	107.00	6.50%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
DomRep (5.95%) 2027	BB/ Stable	100.50	5.79%	BUY
DomRep (5.50%) 2029	BB/ Stable	96.50	6.25%	BUY
DomRep (6.00%) 2033	BB/ Stable	95.00	6.71%	BUY
PYPL (2.85% 2029)	A-/Stable	90.75	4.78%	BUY
Jaman (7.63%) 2025N	B+/ Positive	104.50	5.39%	BUY
NFE 2025 (6.75%)	BB-/ Stable	96.50	8.53%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	92.50	9.23%	HOLD
FRICON (7.7%) 2028	B+/ Stable	81.50	12.79%	BUY
PROMERICA 2024 (9.70%)	B/ Positive	104.00	4.80%	BUY
BARCLAYS 2026 (5.75%)	A1/ Stable	99.00	6.10%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	99.50	7.19%	HOLD
UNICOMER 2026 (7.88%)	B+/ Negative	101.75	4.18%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	107.25	5.03%
	2039	122.25	5.82%
	2045	118.25	6.33%

*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.

Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Money Market

As of June 29th, a total of J$14.3Bn was in the market, as represented by the BOJ's aggregated current balances. The balance decreased by J$9.08Bn from J$23.40Bn week-over-week. The decline was due to general security settlements.

The average yield from the BOJ's competitive price auction increased again last week to 9.98% relative to 9.70% in the prior week and 9.40% in the week ending June 16 . This is likely due to the fact that neither GOJ nor BOJ have announced auctions for assets with longer tenures, and as such investors are taking advantage of the opportunity to lock in high yields for short tenors as few instruments offer steady dividend payments or offer attractive yields. The auction was oversubscribed with bids received totalling J$38.76Bn relative to an offer size of J$34.00Bn resulting in a bid-to-cover ratio of 1.14.

The highest bid rate for full allocation was 12.25%, which is a slight decrease from 13.50% in the prior week.

The next auction date for the Bank of Jamaica 30-day CD will be held on the 5th of July. We also anticipate that the GOJ will enter the market in late July based on their schedule for this fiscal year, and we await the announcement with the instrument and offer volume.

Last week's broker demand for JMD remained relatively moderate, particularly for short-term funds. Meanwhile, liquidity fluctuated in the USD money market week-over-week. Broker market demand for USD continues to increase for longer-tenured funds.

Dates to watch this week

International Local

JULY 2023

MON	TUE	WED	THUR	FRI
3	4	5	6	7
		CAR Dividend Payment ($0.21) FTNA Dividend Payment ($0.20)	BRG Annual/Extra-Ordinary General Meeting	CAD Labour Productivity (Q1) US Unemployment Rate (Jun)
		HONBUN Dividend Payment ($0.04)		CAD Unemployment Rate (Jun)

Recommendations

Ticker	Closing Price (July 4)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$18.11	14.3x	14.5x	BUY
GK	$77.23	10.3x	10.2x	BUY
IPCL	$2.10	9.1x	16.6x	BUY
JBG	$35.97	9.5x	14.5x	HOLD
ECL	$5.05	20.1x	26.4x	BUY
CAR	$8.02	10.7x	14.5x	BUY
CPJ	$10.77	17.3x	14.5x	BUY
KW	$28.01	14.7x	14.3x	HOLD
FESCO	$3.80	16.8x	16.2x	BUY
TJHUSD	$0.02	21.7x	20.3x	BUY
TJH	$2.43	18.2x	14.3x	BUY
KEX	$11.92	24.3x	20.7x	BUY
SALF	$3.00	18.8x	14.5x	SELL
INDIES	$3.30	22.0x	16.6x	HOLD

Regional News

IMF: Caribbean Needs More Than US$100 Billion For Climate Resilience, Adaptation (IMF)

The International Monetary Fund (IMF) says the Caribbean needs more than US$100Bn in investments for climate resilience and adaptation. The sum is equal to about one-third of the region's annual economic output. The Caribbean is the most exposed region to climate-related natural disasters. Moreover, with electricity largely generated using fossil fuels, energy prices in the Caribbean are among the highest in the world, highlighting the need for investment in lower-cost and lower-carbon energy production. In a publication this week, the multi-lateral agency ranked the Caribbean region as the most vulnerable to natural disasters. The region is estimated to have realized an average cost of loss and damage due to natural disasters, at about 2.5% of gross domestic product for the period 1980 to 2020, and is ranked just ahead of the Pacific region, with the average estimate of losses being just above 2% of GDP for the same period. The IMF says the Caribbean continues to experience a shortfall in climate financing, with the current level of private climate funding being woefully inadequate. It says there is progress, however, with several initiatives, including the issuance of blue bonds, combined with debt-nature swaps for debt service reduction, which opens fiscal space for nature conservation investments. With Caribbean countries having only been approved for about US$800Mn from climate funds such as the Green Climate Fund, Global Environment Fund, and Adaptation Fund, the IMF says much more support is needed.

Barbados To Get US$38Mn From IMF (IMF)

The International Monetary Fund (IMF) is to make available US$38Mn to Barbados after the island completed the first reviews of the Extended Fund Facility (EFF) and the Resilience and Sustainability Facility (RSF) arrangements with the Washington-based financial institution. The IMF said Barbados is implementing an ambitious homegrown economic reform and climate policy agenda aimed at strengthening fiscal sustainability, advancing structural reforms, unlocking the economy's growth potential, increasing resilience to climate change, and greening the economy. After successfully weathering a series of shocks in recent years, the Barbadian economy has recovered, with eight consecutive quarters of growth, and continues expanding in 2023 underpinned by an ongoing rebound in tourism and related activities. Notably, the fiscal balance has significantly improved (from -1.4% in FY2022/23 to an estimated 1.1% for FY2023/24), and public debt has been placed on a downward path, reaching 122.5% of GDP as of end-fiscal year 2022/23 (119.6% excluding IMF loans provided for balance of payments support) from 137.9% the previous period. In addition, international reserves have risen to US$1.6Bn as of end-March 2023 covering over 7 months of imports from US$1.5Bn in March 2022. Additionally, IMF's first deputy managing director and acting chair of the executive board, Gita Gopinath, in a statement issued, noted that the authorities are advancing their ambitious climate policy agenda to increase resilience to climate change and green the economy. Ongoing efforts to incorporate climate policy goals in the fiscal process, including by discussing climate change risks in the budget and enhancing public procurement, are welcome. The climate policy reforms are expected to help create an enabling environment that mobilises private sector investment in climate-related projects for the sovereign.

International News

Powell Says More 'Restriction' Is Coming, Including Possibility Of Hikes At Consecutive Meetings (CNBC)

Federal Reserve Chairman Jerome Powell talked tough on inflation Wednesday, saying at a forum that he expects multiple interest rate increases ahead and possibly at an aggressive pace. "We believe there's more restriction coming," Powell said during a monetary policy session in Sintra, Portugal. "What's really driving it is a very strong labour market." The comments reiterate a position taken by Powell's fellow policymakers at their June meeting, during which they indicated the likelihood of another half percentage point of increases through the end of 2023. Assuming a quarter point per meeting, that would mean two more hikes. Previous comments from Powell pointed to a possibility of the rises coming at alternate meetings, though he said Wednesday that might not be the case depending on how the data comes in. "I wouldn't take, you know, moving at consecutive meetings off the table," he said during an exchange moderated by CNBC's Sara Eisen. The question-and-answer session took place at a forum sponsored by the European Central Bank. Central to the Fed's current thinking is the belief that the 10 straight rate hikes haven't had time to work their way through the economy. Therefore, officials can't be sure whether the policy meets the "sufficiently restrictive" standard to bring inflation down to the Fed's 2%

target. “There’s a significant possibility that there will be a downturn,” Powell said, adding that it’s not “the most likely case, but it’s certainly possible.” Asked about banking stresses, Powell said the issues in March that led to the closure of Silicon Valley Bank and two other institutions did weigh into this thinking at the last meeting. Though Powell repeatedly has stressed that he considers the general state of the U.S. banking industry to be solid, he said the Fed needs to be mindful that there could be some issues with credit availability. Recent surveys have shown a general tightening in standards and declining demand for loans.

China’s Industrial Profits Tumble, Deepening Economic Gloom (Reuters)

Annual profits at China’s industrial firms extended a double-digit decline in the first five months as softening demand squeezed margins, reinforcing hopes of more policy support to bolster a stuttering post-COVID economic recovery. The 18.8% year-on-year slump in profits came on top of the 20.6% contraction in January-April and added to evidence of an economy that was losing steam on many fronts in May including retail sales, exports and property investment as the youth jobless rate scaled a fresh high of 20.8%. Last month alone, industrial earnings contracted by 12.6% from a year earlier, according to data from the National Bureau of Statistics (NBS) released on Wednesday. Profits were down 18.2% in April. “The still slow recovery in industrial profits pointed to sustained difficulties facing business operations,” said Wu Chaoming, deputy director of the Chasing International Economic Institute. The patchy recovery in the world’s second-biggest economy has prompted S&P Global, Goldman Sachs and other global agencies to revise down their China growth forecasts for this year in recent weeks. Many economists expect policymakers to deliver more support measures to stabilise the economy as it faces pressure at home and softening demand in its major overseas markets. To shore up the faltering rebound, China last week cut its key lending benchmarks for the first time in 10 months. It also unveiled a 520-billion-yuan package of a purchase tax break on new-energy vehicles through the end of 2027.

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