NCB CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

Dry Days Ahead: Are Drought Conditions a Threat to Jamaica's Inflation Trajectory?

"How many millionaires do you know who have become wealthy by investing in savings accounts?" - Robert G Allen

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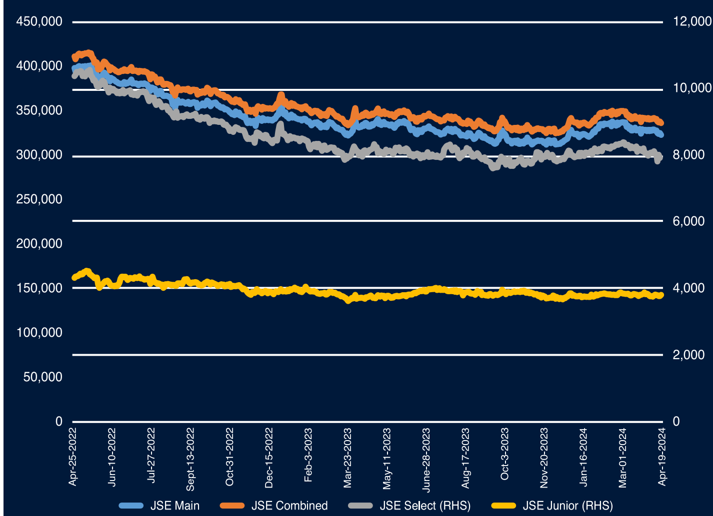
Dry Days Ahead: Are Drought Conditions a Threat to Jamaica's Inflation Trajectory?

Last week the Statistical Institute of Jamaica (STATIN) released the inflation print for March, which showed that inflation had fallen considerably largely on account of lower prices for agricultural produce. The recent data underscores, yet again, the significant impact that food prices, and more recently the prices of agricultural produce can have on the local inflation rate. It continued the gains made in February, marking two consecutive months of decline in consumer prices since the start of 2024. Of note, the 5.6% point-to-point inflation rate brought inflation back within the Bank of Jamaica's (BOJ's) target range of 4%-6%. This decline, together with the announced delay in the administered taxi fare rate increase paints a favourable picture of the path for inflation over the near term. However, though inflation pressures appear to be abating, there are still looming risks that could erode the progress made. After Monday's inflation release, the local news reported that drought conditions were spreading in western Jamaica, with Clarendon and St. Elizabeth the most recent parishes experiencing drought. It comes on the back of the experience of 2023, when drought conditions kept food prices elevated, despite the fall in imported food prices. It reminds us of the vulnerability of the country's agricultural production, and by extension inflation, to drought and climate change, especially with forecasts that the next 5 years are expected to bring the highest temperatures on record. Last year's record high and sweltering temperatures brought with it little rainfall and if those conditions should persist during the warmer months over the next five years, then local food price inflation could be a key driver of consumer prices and monetary policy over the medium-term. These developments show that there is an urgent need for investment in water storage infrastructure and climate-smart agricultural practices across the island to mitigate against the negative impact that this could have on agricultural production and local inflation.

After the rise in price figures in January, which was primarily driven by an increase in regulated transport fares, the average price paid for goods and services by Jamaican consumers fell in March 2024 as reflected in a 0.5% decrease in the All-Jamaica Consumer Price Index (CPI). The decrease was influenced mainly by a downward movement in the heaviest weighted index, the 'Food and Non-Alcoholic Beverages' division (-1.8%), amid lower prices for some agricultural produce such as tomato, yam, potato, cabbage, and carrot, though tempered by higher electricity rates and petrol prices. Overall, point-to-point inflation in March amounted to 5.6%, 0.6 percentage points below the 6.2% recorded in February. In response to the decline the BOJ, noted that the contraction (though anticipated) was larger than expected by its Monetary Policy Committee (MPC). Furthermore, the BOJ's Governor, Richard Byles, recently signalled for the first time that rate cuts could be on the horizon before the end of this year, particularly with the decision to delay the PPV rate adjustment that was slated for April 2024. That being said, any reduction in the policy rate would be contingent on the data in upcoming months from the global and domestic economic environments posing no excessive risk to Jamaica's inflation.

Despite the downtrend in inflation over the last two months, Jamaica's high vulnerability to climate change could erode these gains this year and even into the medium term. Between October 2022 and September 2023, rainfall in

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	335,158.42	-1.4%	-1.2%
Main Market Index	322,041.87	-1.4%	-1.1%
Select Index	7,889.63	-2.5%	-2.8%
Junior Market Index	3,794.14	-0.3%	-1.4%

WINNERS & LOSERS FOR THE WEEK ENDED APRIL 19, 2024

	$ Change	% Change
LAB	+$15.18	+15.21%
MFS	+$0.19	+15.08 %
FIRSTROCK	-$0.48	- 20.00%
Kingston Wharves Limited	-$4.37	-14.38%

MARKET OVERVIEW

Despite the improvement observed in the prior week's stock market performance, the momentum was not sustained last week as the market returned to its downward trend seen since the start of April across most major indices. Trading activity for the week ended April 19, 2024, resulted in 7 of the 9 major indices declining with the Select (-2.54%) and All Jamaican Composite (-2.08%) Indices experiencing the most significant declines. NCB Financial Group Ltd (NCBFG, -5.69%), the heaviest weighted stock in the JSE Select Listed Index, drove the decline, with Grace Kennedy Limited (GK, -0.42%) also contributing to the index's downturn, albeit to a lesser extent. Similarly, price movements in the two largest market capitalisation stocks for the All Jamaican Composite Index, NCBFG (-5.69%) and Sagicor Group Jamaica (SJ, -2.52%) would have influenced the overall index performance. While there were no recent developments this week to support the declines, GK announced that it purchased 60Mn units of shares in Spur Tree Spices (Jamaica) Limited, increasing its ownership to 20.18%. Of the two advancers, the JSE Cross Listed Index (+1.33%) saw the most significant increases, reflecting Massy Holdings Ltd. (MASSY, +2.26%) week-over-week (WoW) price appreciation. Massy reported that it completed its probe into allegations made by former Vice President, with the results stating that the overwhelming majority of the allegations were not found to be valid. Additionally, Massy mentioned that its board accepted the investigation's recommendations and intends to take action to implement the required changes, which may have been the reason behind its price movement.

Last week's overall market activity resulted from trading in 124 stocks, of which 46 advanced, 61 declined, and 17 traded firm. Market volume amounted to 56.41Mn units valued at over $477.31Mn. This reflects a 60.6% decrease in volume and a 7.2% decrease in value relative to the previous week ending April 12, 2024. Wigton Windfarm Ltd., Transjamaican Highway Ltd., and Stationery and Office Supplies Ltd. were the WoW volume leaders with 6.63Mn units (11.32%), 5.36Mn units (9.15%), and 4.90Mn units (8.36%) respectively.

Jamaica reached the lowest average in 30 years[1]. Moreover, record-breaking temperatures in July and August 2023 further exacerbated the situation causing agricultural production to decline and food prices to rise. Locally, the forecast is that the record-breaking temperatures recorded in Jamaica in 2023, will continue into 2024. The island is already beginning to experience this, given the unreasonably warm weather that it is now having. In fact, the warmer temperatures are forecast to persist over the next five years. The Rural Agricultural Development Authority (RADA) issued an advisory to farmers, warning them of the possibility of drought and instructed them to put in place alternative water sources for on-farm activities. In addition to this, the National Water Commission (NWC) has also begun to regulate water supply in some areas amid the threat of drought. The increased likelihood of little to no

rainfall and the pre-existing constraints facing the national water supply will reduce agricultural productivity. Notably, the 'Food and Non-Alcoholic Beverages' index in Jamaica's CPI weighs approximately 37.4% in the overall index, this is almost 3 times larger than the second heaviest divisions[2]. Given this, drought can put upward pressure on food prices and the index as dwindling water supply stunts the growth of various crops across the country. This would not only impact the price of produce but also meats, given that some crops such as corn and grass are used as feeds for cattle, goats, chickens, and other animals. The overall effect could be upward pressure on inflation this year and in the years to come.

Droughts are likely to become more frequent with the higher-than-normal temperature that is forecasted for Jamaica; therefore, there is an urgent need for investment in water infrastructure and climate-smart agricultural practices to be implemented as sustainable solutions to the problem of drought. According

Last year's record high and sweltering temperatures brought with it little rainfall and if those conditions should persist during the warmer months over the next five years, then local food price inflation could be a key driver of consumer prices and monetary policy over the medium-term.

to the World Meteorological Organization (WMO), these weather extremes will become the "new norm"[3]. The September 2024 issue of the Economy and Development Report (RED) report from the Development Bank of Latin America and the Caribbean (CAF) forecasts that "average temperatures will continue to rise, rainfall patterns will undergo increasing disruptions, and many parts of the [Caribbean] region will become drier." From all indications, Jamaica is set to be among the countries that are adversely impacted by higher temperatures and disruptions in rainfall patterns. These developments and the experience of recent years point to the need for a more structural solution to water security given its close link to food security and its impact on inflation through agricultural production. Jamaica's latest International Monetary Fund (IMF) agreement under the Resilience and Sustainability Facility (RSF) is a step in the right direction as authorities seek to strengthen physical and fiscal resilience to climate change (including drought). However, significantly more investments are needed to enhance the island's water storage infrastructure as a more sustainable solution to the trucking of water to drought-affected communities. These investments will be costly and will require policies to catalyse private and multilateral financing to augment government financing. However, given the outlook for temperatures and rainfall patterns, they are critical and urgent investments that must be made. There is also significant room for the investment in and promotion of climate-smart farming practices[4], among local farmers to protect local agricultural production, inflation, and overall economic activity from the vagaries of climate change.

In the fight against inflation, the long-term strategies to remediate the negative effects of droughts must be adequately considered if Jamaica intends to reach and stay within its 4%-6% inflation range. The heavy weighting of food in the CPI index coupled with other risks such as heightened geopolitical tensions in the Middle East and the possibility for OPEC+ production cuts and by extension fluctuating oil prices leaves the country open to excessive inflation risk. Though climate change and by extension drought cannot be controlled, there are essential measures that can be put in place to increase preparedness and mitigate against the negative impact that this could have on agricultural production and local inflation over the medium term. In the absence of the critical investments that are needed to create water and food security, local weather conditions may become a major driver of inflation and monetary policy in the near to medium term.

1 IMF, For The 2024 Article Iv Consultation And Second Reviews Under The Arrangement Under The Precautionary And Liquidity Line And Arrangement Under The Resilience And Sustainability Facility—World Bank Assessment Letter Update For The Resilience And Sustainability Facility, February 2024.

2 Transport Division and Housing, Water, Electricity, Gas, and other Fuels both have weights of 12.8%.

3 Forbes Magazine, Rampant Heatwaves Are A Growing Threat To Caribbean Food Security, September 2023

4 Mulching, drip-irrigation, precision irrigation, collecting rainwater, plating cover crops to keep the land permanently covered, crop rotation.

Foreign Exchange Market

At the close of the week ending April 19, 2023, it took 0.08% more Jamaican dollars to purchase one USD, as the local currency gave up marginal ground in trading activity. The weighted average selling rate for US$1 was J$156.35 at the close of trading last Friday. BOJ intervened in the market on the 18th and 19th of April with US$30Mn each, totalling US$60Mn; however, only US$51.75Mn of the eligible bids were allocated. This helped the Jamaican dollar recover from the lows it was trading at earlier during the week.

Selling	Close: 12/04/24	Close: 19/04/24	Change
J$/US$1	$ 156.18	$ 156.35	$0.18
J$/CDN$1	$113.46	$114.40	$0.95
J$/GBP£1	$194.60	$196.17	$1.57

Global Bond Prices

Last week, emerging market bond prices fell as investors reacted to new economic data, as well as Fed policymakers' comments, and assessed how it could influence the Federal Reserve's decision at its upcoming monetary policy meeting scheduled for May 1st. According to the US Department of Labor's weekly initial jobless claim data, the labour market remains resilient, with jobless figures at 212,000, below the forecasted 215,000 claims. Jobless claims have remained within the region of 194,000-225,000 since the start of the year, which is low compared to historical data. Investors are now looking ahead to next week's April job report to gauge the current standing of the continuously strong labour market.

Against that background, the U.S. 10-year Treasury yield closed higher last week moving from 4.585% to 4.635%, as investors reacted negatively to robust labour market conditions. Additionally, investors also assessed Friday's strike by Israel against Iran as well as the remarks from Federal Reserve officials about the state of the economy and monetary policy outlook. Fed officials have in recent days and weeks indicated that interest rates may remain elevated for longer than previously anticipated given the strong economy and uncertainty around the pace of disinflation. Chair Jerome Powell commented that there has been a "lack of further progress" on inflation so far this year and that it is likely going to take "longer than expected" to gain the confidence needed to lower rates, thereby dashing hopes for more than two cuts in 2024. The comments fueled questions about whether there may be fewer rate cuts than expected this year and whether they may begin later than anticipated. At this point, the Fed's guidance still stands for three rate cuts, with the upcoming May 1 meeting expected to provide further guidance. However, according to the CME FedWatch tool, markets are pricing about 39 basis points (bps) of Fed cuts for 2024, compared with an expectation of around six 25bps cuts at the start of the year. Traders now see September as the most likely starting point. Overall, investors will continue to listen intently for any clues on interest rate movements.

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	104.15	6.02%	BUY
BACR (5.75%) 2026	BBB+/ Stable	102.00	4.82%	BUY
BERMUD (3.72%) 2027	A2/Stable	97.25	4.80%	BUY
CHTR (4.20%) 2028	Ba1/Stable	95.00	5.65%	BUY
DOMREP (5.50%) 2025	BB/ Stable	101.25	3.80%	BUY
DOMREP (5.50%) 2029	BB/ Stable	97.80	6.03%	BUY
DOMREP (5.95%) 2027	BB/ Stable	101.00	5.55%	BUY
DOMREP (6.00%) 2033	BB/ Stable	96.90	6.46%	BUY
DOMREP (6.00%) 2028	BB/ Stable	100.00	6.00%	BUY
DOMREP (6.88%) 2026	BB/ Stable	102.75	5.20%	BUY
FRICON (7.70%) 2028	B+/Stable	90.50	10.53%	BUY
GM (5.40%) 2029	Baa2/Stable	100.99	5.19%	BUY
GS (5.798%) 2026	A/Stable	102.50	4.63%	BUY
GS (3.85%) 2027	A/Stable	98.60	4.40%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	103.75	4.39%	BUY
NFLX (5.88%) 2028	BBB/Stable	104.50	4.76%	BUY
NRG (3.88%) 2032	BB/Positive	86.75	6.03%	BUY
OPY (5.50%) 2025	Ba3/Stable	101.44	4.45%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	101.00	5.61%	BUY
PRMRPA (10.75%) 2028	B+/Positive	107.55	8.61%	BUY
PYPL (2.85%) 2029	A-/Stable	91.00	4.75%	BUY
SFC (5.30%) 2028	BB-/Positive	99.50	5.44%	BUY
TPHLTT (9.00%) 2029	BB/Stable	107.25	7.32%	BUY
TRAJAM (5.75%) 2036	BB-/Stable	92.00	6.70%	BUY
WBD (4.13%) 2029	BBB-/Stable	94.45	5.39%	BUY

Bonds	Currency Rating	Indicative Price	Yield	Recommendation
NRG (6.63%) 2027	BB/Positive	102.00	5.82%	HOLD
BANORT (5.75%) 2031	BB-/Stable	98.00	6.09%	SELL
CSOLNO (6.00%) 2027	B+/Stable	81.25	14.46%	SELL
PEMEX (5.35%) 2028	B+/Stable	88.25	9.07%	SELL

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	102.00	6.01%
	2039	115.40	6.32%
	2045	114.25	6.62%

*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
PBS	2025	6.50%	100.85	6.03%
BDHR	2027	8.15%	100.35	8.02%
SJPC	2032	8.85%	103.90	8.19%

Money Market

Last week, the JMD and USD money market remained moderately liquid, despite BOJ's intervention to sell USD, which removed JMD from the market. As of the 19th of April, a total of J$31.36Bn was in the market, up J$21.03Bn week-over-week (WoW), as represented by the aggregated current balances for deposit-taking institutions (DTIs). Furthermore, the BOJ intervened two times in the foreign exchange market via B-FXITT last week with a total of US$30Mn on each day. For the first B-FXIT intervention, the entire US$30Mn was allocated. However, the second B-FXIT intervention on April 19th had only US$21.7Mn allocated, despite US$55.1Mn in eligible bids. While not explicitly stated, it suggests that not all institutions met all conditions for participation. On the demand side, while still moderately liquid, we anticipate that broker demand for JMD will decrease in the coming weeks, due to the influx of JMD from the BOJ US-indexed note maturity. In the USD money market, broker market demand for USD remained moderately liquid, particularly for longer-tenured funds.

Demand for short-term instruments remains high as reflected in the increase in the bid-to-cover ratio for the most recent BOJ CD auction to 5.05, a significant increase relative to 1.09 the prior week. Investors continue to oversubscribe to the BOJ auction; bids received totalled J$37.8Bn relative to the offer size of J$39.5Bn; however, only $7.48Bn was allocated. The average yield from the BOJ's 30-day competitive price auction saw a decrease to 11.02% versus 11.90% in the prior week. The outturn was likely driven by March's inflation results, which saw inflation falling within BOJ's 4%-6% target range for the first time this year. This might have raised expectations that a rate cut could be closer on the horizon. The highest bid rate for full allocation was 14.00%, which fell from 14.29% in the prior week. The next auction date for the Bank of Jamaica 30-day CD is April 24th.

Additionally, the BOJ has announced an auction for a twenty-five (25) month CD with a coupon offering of 8.50% that is set to mature on June 10, 2026. The offer amount to the market totals JMD$14Bn. This auction will be used to refinance the US$80Mn two-year and six-month US-Index bond that is scheduled to mature on April 22nd. The objective of the auction is to contract the surplus of JMD liquidity that will be generated by this maturity. The auction will be held on April 22nd and settled on the 24th.

We anticipate that GOJ will enter the market in late April based on their schedule for this fiscal year, we await the announcement with the instrument and offer volume.

Dates to watch this week

International Local

April 2024

MON 22	TUE 23	WED 24	THUR 25	FRI 26
		- TJH Dividend Payment Date (J$0.0943 per share) - CHL Annual General Meeting	- QWI Annual General Meeting	- SEP Dividend Payment Date (J$0.605 per share)
			- US GDP (QoQ) (Q1) - US Initial Jobless Claims	- US Core PCE Price Index (MoM) (YoY) (Mar)

Recommendations

Ticker	Closing Price (April 22, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR JA	$8.95	12.3x	12.9x	BUY
CPJ JA	$8.88	11.2x	12.9x	BUY
ECL JA	$3.93	14.3x	16.2x	BUY
FESCO JA	$3.47	14.4x	14.8x	BUY
GK JA	$73.00	9.4x	15.9x	BUY
INDIES JA	$2.69	16.8x	13.9x	BUY
JBG JA	$31.98	6.7x	12.9x	BUY
KEX JA	$11.68	16.0x	16.2x	BUY
LASM JA	$5.22	8.9x	24.0x	BUY
PBS US	$1.59	26.4x	13.7x	BUY
SOS JA	$1.72	14.3x	14.8x	BUY
SVL JA	$23.39	25.5x	14.3x	BUY
SALF JA	$3.70	21.3x	12.9x	SELL

Regional News

IMF Sees Smaller Slowdown in LATAM, Caribbean Region This Year

The International Monetary Fund (IMF) upgraded its 2024 view for economic output growth in Latin America and the Caribbean to 2.0% from its January estimate of 1.9%, though it still expects a slowdown, the fund said on April 16 in its latest World Economic Outlook. The 2.0% GDP increase forecast for 2024 across the region compares to 2.3% in 2023 and a 2025 forecast of 2.5%. This is also above the World Bank's recent forecast of 1.6% growth in 2024 across the region. The overall slowdown in growth is due in part to smaller rates of growth in the region's largest economies. Yet Brazil's 2.2% growth estimate for this year is 0.5 percentage points higher than the January view.

Notably, Guyana is forecasted to lead the pack in 2024 with a growth of 33.9%, while Antigua and Barbuda will register the second-highest growth of 6.1%. Other noteworthy growth projections for 2024 include Jamaica (1.8%). Trinidad and Tobago (2.4%), Barbados (3.7%), The Dominican Republic (5.4%), The Bahamas (2.3%), Panama (2.5%), and Mexico (2.4%). Elsewhere in the region, the IMF expects Argentina's contraction to deepen to -2.8% this year from 2023's -1.6%, with annualised consumer inflation of just under 250%. Overall, for Central America, the estimate is for 3.9% output growth, compared to 4.2% last year, while the Caribbean is seen accelerating further to 9.7% in 2024 from last year's 8.3%.

~ IMF & NCBCM Research

US Reimposes Oil Sanctions on Venezuela as Hopes for a Fair Presidential Election Fades

The Biden administration on Wednesday reimposed crushing oil sanctions on Venezuela, admonishing President Nicolás Maduro's attempts to consolidate his rule just six months after the U.S. eased restrictions in a bid to support now fading hopes for a democratic opening in the OPEC nation. A senior U.S. official, discussing the decision with reporters, said any U.S. company investing in Venezuela would have 45 days to wind down operations to avoid adding uncertainty to global energy markets. Venezuelan authorities angrily dismissed the diplomatic rebuke, saying it fulfilled its commitments made in Barbados and accusing Washington of betraying a promise to lift all sanctions it said was made during secret negotiations between the two countries.

In October, the U.S. granted Maduro's government relief from sanctions on its state-run oil, gas and mining sectors after it agreed to work with members of the opposition to hold a free and competitive presidential election this year. Wednesday's actions essentially return U.S. policy to what it was prior to the agreement hammered out in the Caribbean island of Barbados, making it illegal for U.S. companies to do business with state-run oil producer Petróleos de Venezuela S.A., better known as PDVSA, without a specific license from the U.S. Treasury Department.

~ AP News

International News

Oil Prices Get Short-Lived Boost from Attack on Iran

Oil prices jumped overnight after explosions were reported near the Iranian city of Isfahan, but those gains dissipated Friday as officials sought to play down the latest escalation in Middle East tensions. Brent crude, the global oil benchmark, was down 0.4% at $86.8 per barrel, having earlier spiked more than 3%. US crude futures slipped 0.3% to trade at $82.50, also reversing earlier gains. Israel carried out a military strike inside Iran, a US official told CNN, a move that could push the oil-rich region deeper into conflict. The overnight attack on Iran and "the threat of retaliation to it" has increased the risk to the physical supply of oil, although the market response in European hours "suggests that some of that risk has already been priced in," Neil Shearing, chief economist at consultancy Capital Economics, wrote in a note Friday.

Oil prices have gained about 15% so far this year, driven higher by fear of a wider Middle East conflict, supply curbs by the Organization of the Petroleum Exporting Countries and expectations of stronger Chinese demand. The oil market's biggest fear is that a wider war could disrupt shipping through the Strait of Hormuz, a narrow waterway off Iran's southern border through which more than a quarter of global maritime oil trade flows each day. Iran is a big oil producer but exports most of its crude to China because of long-standing international sanctions. Still, a reduction in Iranian oil exports would have a "massive" impact on the global market as China would be forced to compete with other countries for supplies, according to Richard Bronze, co-founder of data firm Energy Aspects.

On Thursday, S&P Global Ratings cut the country's sovereign credit rating to A+ from AA- due to increased geopolitical risk from its war with Hamas and friction with Iran. "We expect a wider regional conflict will be avoided, but the Israel-Hamas war and the confrontation with (Iran-backed) Hezbollah appear set to continue throughout 2024," S&P analysts wrote.

~ CNN

UK Retail Sales Stagnate Despite Easing Inflation

British retail sales stagnated in March despite high inflation easing recently, representing the first time that they have not grown in monthly terms since December, the Office for National Statistics said on Friday. Economists polled by Reuters had mostly forecast sales volumes would increase by 0.3% on the month. However, the Office for National Statistics (ONS) said sales volumes showed no growth after rising by an upwardly revised 0.1% in February.

Rises in automotive fuel sales - which were the highest since May 2022 - and non-food store sales were offset by falls in food stores and online and other non-store retailers. Additionally, sales volumes excluding fuel sales were down 0.3% on the month. "What is clear is that the first quarter of the year has been disappointing for many retailers," said Lisa Hooker, leader of industry for consumer markets at PwC. "Lower inflation and the first 2% cut to National Insurance, which was felt in January's pay packets, has yet to translate into a sustained recovery in spending."

Sterling fell briefly against the U.S. dollar and the euro immediately after the retail figures were published. British consumer price inflation was its slowest in two and a half years in March although it fell by less than expected as motor fuel prices rose, tempering market expectations about the scale of Bank of England interest rate cuts this year. Friday's figures contrasted with some business surveys that showed a pick-up in retail sales in March. Sales volumes rose by 1.9% compared to the previous three months, the biggest such increase since mid-2021, boosted by a leap in sales in January.

~ Reuters

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