NCB CAPITAL MARKETS LIMITED

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Market Guide

THIS ISSUE

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"Behind every stock is a company. Find out what it's doing." – Peter Lynch

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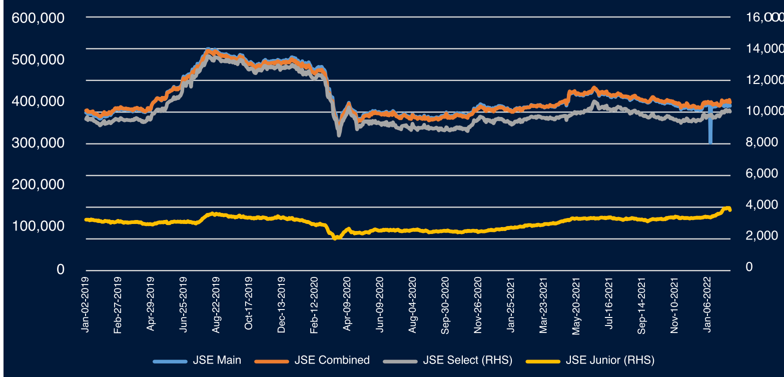
Inflation Risk Continues To Be A Central Theme For 2022

Data on the movement in consumer prices so far in 2022 shows that inflation risk will remain a central theme this year, with economies reporting higher and even record levels of inflation. Some of the factors fueling the movement in consumer prices include the global recovery in demand and the disruptions it has created in supply chains, which are driving up input costs. Rising energy prices[1] and imported inflation are also major factors that are expected to continue to fuel the increase in domestic prices. Importantly, the persistent increases in prices have begun to feed through to higher inflation expectations and wage demands. Consequently, it has increased the risk of Central Banks in both developed and emerging economies implementing more aggressive monetary policy action, including sharper increases in their policy rates. While this will help to cool inflation, it is making credit more expensive and could slow the economic recovery.

For its part, on Friday, February 18, the BOJ increased its policy rate to 4.0%, the highest rate since July 2017, after January data showed that inflation continued to climb outside the BOJ's target range. Jamaica has been recording a steady increase in consumer prices since May 2021 and since August 2021 inflation has climbed outside the BOJ target range. For January 2022, the All-Jamaica Consumer Price Index (CPI) increased by 0.6%, and the point-to-point inflation rate for the 12 months to January 2022, was 9.7%, the highest since August 2014. This is significantly higher than the 7.3% reported in December 2021 and kept inflation outside the BOJ's target range of 4% to 6%, for a 6th consecutive month. The BOJ had projected that inflation would breach its target range for the next 8-10 months[2] . January's inflation outturn was driven by increased petrol prices and increased tourism activity as individuals from source markets seek to release pent up demand for travel. Higher prices in the Food and Non-Alcoholic Beverages (9.9%), Transport (13.8%) and Housing, Water, Electricity, Gas and Other Fuels (10.9%), divisions were the main contributors to the acceleration in inflation over the 12 month period. These increases were driven by higher prices for fuel along with other imported and local commodities.

As a result of the increased inflation risk, the BOJ's Monetary Policy Committee (MPC) on February 18, 2022, increased its policy rate by 150 basis points to 4.0%. This is a 275bps

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	404,420.26	-5,872.11	-1.43%
Main Market Index	395,213.78	-4,941.19	-1.23%
Select Index	10,194.25	-91.40	-0.89%
Junior Market Index	3,874.34	-141.10	-3.51%

WINNERS & LOSERS (FOR THE WEEK ENDED FEB 7, 2022)

	$ Change	% Change
TROPICA	+$0.24	+16.4%
SIL	+$0.40	+12.9%
RJR	-$1.12	-26.1%
138SL	-$1.73	-23.6%

MARKET OVERVIEW

Despite some strong earnings results from listed companies, almost all JSE indices declined last week, with only the JSE USD Equities Index advancing. The main advancers were Tropical Battery Company Limited which gained $0.24 or +16.4% to close at $1.70 and Sterling Investments Limited which gained $0.40 or +12.9% to close at $3.50. Throughout the week a host of companies released improvements in earnings including main market companies like JMMB Group (+ 115.1%), Barita Investment Limited (+4.9%) and RJR Limited (+ 62.6%). With the reopening of the economy in the December quarter combined with demand from the peak Christmas season, most companies have seen improvements in earnings so far this season. Despite the positive earnings results, the combined index started to decline on Tuesday, February 15, 2022, following Monday's announcement of the higher than expected inflation outturn of 9.70% for January 2022. Main market stocks like Radio Jamaica Limited and 138 Student Living were the major decliners. The decline in most of the indices is likely due to jitters from investors, as some may have feared the impending BOJ policy decision in light of the higher-than-expected inflation outturn.

increase since it started tightening its monetary accommodation in September. The direction of this policy action falls in line with the BOJ's December 2021 inflation expectation survey, where the majority of respondents anticipated a further increase in the interest rate at the February policy announcement. In the survey participants also indicated that they expect inflation for the 12 months ahead to be 9.8% up from the 8.9% anticipated in the November survey. It is expected that consumer prices will continue to see upward pressure in the face of rising oil prices, which is being compounded by increased geopolitical risks caused by the Russia Ukraine crisis. Furthermore, rising inflation in major source markets for imports, such as the US, will filter through to local inflation. The recent rains and floods in several parishes could also weigh on agricultural supply, driving up prices. The BOJ noted that the inflation forecast for the next two years assumes the continued lagged impact of higher international commodity and shipping prices, continued recovery in domestic demand and seasonal agricultural price changes. While more aggressive policy action should help to drive inflation back within the target range, the higher rate will further raise borrowing costs, limiting investment, as well as consumer spending and could temper the pace of recovery in the economy this year.

The local economy is on a growth trajectory that is expected to continue in 2022 driven by the continued tourism rebound. The PIOJ released its economic report for the October-December quarter, indicating that the economy grew 6.0%, driven by a 7.8% and 0.4% increase in the Services and Goods Producing Industries, respectively. The PIOJ projects that real GDP will grow within the range of 5.0% to 7.0% during January– March 2022 and the IMF has projected a 2.7% growth for 2022. Continued easing of restrictions and greater demand for tourism from individuals in our source markets as the Omicron wave wanes is expected to support a continued rebound in economic activity. Lower local unemployment rates also augurs well for disposable incomes and growth in private consumption and growth in the economy. That being said, aggressive interest rate increases may temper the pace of recovery.

The point-to-point inflation rate for the 12 months to January 2022, was 9.7%, the highest since August 2014.

As a result of the increased inflation risk, the BOJ increased its policy rate by 150 basis points to 4.0%.

1 The average price for a barrel of Brent crude oil duly fell from US$64 (£47) in 2019 to US$42 in 2020. It has since rallied to an average of US$71 in 2021. For 2022, the EIA expects oil prices will remain near current levels, averaging $70/b and Henry Hub spot prices for LNG are expected to average $3.79/MMBtu.

2 This starts from December 2021

Dates to watch this week

February 2022

MON	TUE	WED	THUR	FRI
21	22	23	24	25
GBP Producer Manufacturing Index (Feb)	US consumer confidence (Feb)	EURO Consumer Price Indices (YoY) (Jan)	Producer Price Index (STATIN) – For January 2022	EURO Consumer Confidence (Feb)
			Producer Price Index (STATIN) – For January 2022	

International Local

Foreign Exchange Market

The Jamaican dollar appreciated by 0.73% relative to the USD, week over week, with 1$US being sold at a weighted average rate of J$156.79 on February 18, 2022 down from a weighted average selling rate of J$157.94 one week earlier. The appreciation was driven by an increase in liquidity as a result of BOJ's intervention in the market, with a total offer of USD$140 million for the week. In the Bank of Jamaica's policy rate decision, the bank announced that it will pursue stronger measures to contain Jamaican dollar liquidity expansion and to maintain stability in the foreign exchange market. Against this background, the BOJ is likely to increase its sales of foreign exchange to the market to help support exchange rate stability. As such, US liquidity is likely to increase, which should lead to an appreciation in the JMD over the near term.

Selling	Close: 11/02/22	Close: 18/02/22	Change
J$/US$1	$157.94	$ 156.79	-$1.15
J$/CDN$1	$118.83	$124.87	-$1.47
J$/GBP£1	$209.87	$212.11	-$2.42

Money Market

For the month of January, the All-Jamaica Consumer Price Index (CPI) increased by 0.6%. January's outturn meant that point-to-point inflation was 9.7% in the 12 months to January 2022, up from the 7.3% reported in December 2021. Against the background of the faster pace of increase in consumer prices, the BOJ announced its decision to increase the policy interest rate by 150 basis points to 4.00% per annum effective February 21, 2022. The Bank indicated its intention to pursue stronger measures to contain Jamaican dollar liquidity expansion and to maintain stability in the foreign exchange market and contain inflation expectations. The action by the central bank is expected to drive tighter liquidity conditions in the money market in the coming months. Last week demand for liquid assets from Deposit Taking Institutions (DTIs) continued to result in tight JMD money market conditions. As at 17th of February, a total of J$44.8B was in the market, highly concentrated amongst DTIs. Week over week this represents a 16.4% or a J$8.8B decline, which further highlights the lower liquidity levels in the financial markets even among DTIs.

Money market liquidity is likely to decline further in the coming week exacerbated by the BOJ policy actions as it seeks to guide back inflation back with its target

target range. Additionally, as tax season is approaches, companies will need cash to meet their tax obligations, which could put additional strain on JMD Liquidity in over the next month.

Global Bond Prices

The U.S. Treasury market was hit by a renewed round of selling as sharply rising European bond yields underscored the growing hawkish chorus among the world's major central banks in the face of surging inflation. Renewed selling pressure swept across the U.S. bond market, where the 10-year Treasury yield rose as much as 7 basis points to 1.85%. The 30-year yield also rose as much as 7 basis points to 2.18%. Furthermore, Global bond funds posted their biggest cash outflow in nearly two years in the week ended Feb. 16, as surging inflation levels fanned bets that U.S. interest rates would be hiked more aggressively this year. Investors dumped global bond funds worth $56.63 billion in their biggest weekly net selling since March 25, 2020, Refinitiv Lipper data showed. Investors feared larger-than-anticipated U.S. interest rate hikes this year after data last week showed consumer prices in January saw the biggest year-on-year increase in four decades.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	BB-/ Stable	105.200	6.48%	BUY
NFE 2026 (6.50%)	BB-/ Stable	98.750	6.82%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	98.000	5.97%	BUY
NRG 2032 (3.88%)	BB+/ Stable	99.000	4.00%	BUY
PRIOBZ 2026 (6.13%)	BB-/ Stable	101.350	5.76%	BUY
SRF 2028 (5.3%)	BB-/ Stable	104.500	4.47%	BUY

The escalation of tensions between the Ukraine and Russia also contributed to negative market sentiment last week. According to the US government, Russia has rounded up over 190,000 personnel, including troops, National Guard Units and Russian-backed separatists, in and around Ukraine. This is considered the most significant military mobilization since World War II. Russia has denied a possible attack and has labelled it as "hysteria and propaganda". In an effort to quell the tension and resolve the conflict, President Vladimir Putin had requested a "sit down at the negotiating table"; however, the government in Kyiv refused. Given the uncertainty, the market reacted negatively, resulting in investors fleeing to safety assets. As such, Treasury prices rose (yields declined) and global bond prices fell (yields rose).

GOJ Globals

In line with the general risk off sentiment in the market, Jaman bond prices decreased week over week. The Jaman 28s, 39s, and 45s closed with bids of 112.50, 136.70 and 136.45 respectively.

Ticker	Maturity	Bid	Offer Yield
JAMAN	2028	112.50	4.16%
	2039	136.70	4.73%
	2045	136.45	5.15%

*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
GHL	2026	7.00%	105.00	5.54%
JBG	2028	6.75%	104.20	5.89%
Seprod	2024	7.25%	103.55	5.78%

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	$3.02	BUY
WISYNCO	$19.99	HOLD
FTNA	$10.14	HOLD
JBG	$30.48	BUY
JMMBGL	$42.20	BUY
LASF	$3.67	SELL
AFS	$20.00	SELL
JAMT	$3.70	HOLD
JSE	$17.00	HOLD
PROVEN (JMD)	$32.14	BUY
PROVEN (USD)	$0.22	BUY
SCIJMD	$15.13	BUY
LAB	$3.54	HOLD
SJ	$53.98	HOLD
SEP	$63.20	HOLD
SGJ	$35.14	HOLD
QWI	$0.85	HOLD
GK	$98.36	BUY
CCC	$71.05	BUY
KEX	$7.97	HOLD

Regional News

DomRep's Trade With The U.S. Reaches US$16.8Bn (Dominican Today & NCBCM Research)

The consolidated figures for the year 2021 demonstrate the strength of the economic relationship between the Dominican Republic and the United States, with increases in almost all areas, including remittances, trade, and tourism.

The United States was by a large margin the largest issuer of foreign investment received by DomRep from January to September of last year. Foreign direct investment (FDI) from the US reached US$1,021Mn, 41% of the total investments captured in that period, which is the highest percentage in a decade.

From January to December 2021, the exchange of goods between the two countries reached a record of US$16.79Mn, an increase of US$4.00Mn in relation to 2020, for a year-on-year rise of 32%. Exports represented US$6,347Mn last year, 20% more compared to 2020, and 14% compared to the volume of 2019. The high inflows of FDI in the Dominican Republic and growing trade relationship will continue to contribute to job creation and employment, technology transfer and overall higher economic growth for the nation.

Bahamas Tourism's 'Very Big Deal': 13% Of Visitors Are Back (The Tribune)

The reopening of the Bahamas tourism market accounted for 13% of the nation's pre COVID-19 visitor base. Canada's decision to drop its advisory against "non-essential" travel and ease border restrictions, which takes effect at the end of February, will pave the way for The Bahamas' second largest source market to properly visit this country once again. The move by Canada, which comes days after the United Kingdom (UK) removed its own COVID-related restrictions on overseas travel by its citizens, immediately gives The Bahamas access to its two most important source markets after the US, following a near two-year period of travel bans and general disruption.

President of the Bahamas Hotel and Tourism Association's (BHTA), Robert Sands, elucidated that these "may be the first of many dominos that are going to be falling in source markets to improve tourist inflows to the island". Additionally, with the Omicron-induced case surge continuing to dissipate, this is a strong justification for the US health authorities to upgrade The Bahamas from a 'Level 4' "avoid travel" advisory to as high as 'Level 2' "moderate risk".Given that the tourism sector is a main contributor to export earnings, employment and economic growth in Bahamas, the resumption of travelers to The Bahamas, will aid in the country's economic recovery. The country is expected to grow by 8.0% in 2022 (IMF).

International News

Retail Sales Surge 3.8% In January, Much More Than Expected Amid Inflation Rise (CNBC News)

Consumer spending bounced back sharply in January as rising inflation and a post-holiday surge kept cash registers ringing, the Commerce Department reported Wednesday. Retail sales for the month rose 3.8%, much better than the 2.1% Dow Jones estimate. The numbers are not adjusted for inflation; the 0.6% rise in the consumer price index for the month helped push a reversal from the 2.5% sales decline in December, which was revised lower from the initially reported 1.9% drop.

On a year-over-year basis, retail sales overall rose 13%, pushed higher by a 33.4% surge in gasoline station sales and a 21.9% burst in clothing stores. The numbers came with the economy facing the worst inflation in 40 years, which helps feed into the retail sales numbers. The Federal Reserve is expected to enact multiple interest rate hikes this year to combat rising prices, with markets looking for the central bank to boost its benchmark short-term borrowing rate by perhaps half a percentage point in March.

In nominal terms, real spending increased at a 3.3% annualized pace from October 2021 through January 2022, according to Capital Economics. However, the firm cautioned that, when adjusted for inflation, real spending actually declined at a 6.8% pace during the period.

'Few Places To Hide': Investors Seek Shelter As Stocks, Bonds Fall Together (Reuters)

Declines in bonds and stocks are sending investors into defensive products such as credit swaps, convertibles and even cashs they seek refuge from the market's recent gyrations. BlackRock Inc's iShares iBoxx $ Investment Grade Corporate Bond ETF has fallen by nearly 7% year-to-date to its lowest level since April 2020, as expectations of higher interest rates and persistent inflation dim the allure of bonds across the fixed-income spectrum. That is in line with losses across major stock indexes, which have also been hit by worries of tighter Fed policy. The S&P 500 has dropped 7.3% year-to-date and the Nasdaq Composite is down by about 11%.

The side-by-side tumbles have dealt another blow to a decades-old strategy that relied on a mix of bonds and stocks to take the sting out of equity declines, with bond prices ideally moving higher during periods of stock market volatility. The search for defensive products comes amid worries of more volatility across asset markets, as an expected 150-175 basis points in rate increases over the next year threatens to further buoy bond yields and weigh on stock valuations. For some investors, anticipation of more wild swings in asset prices has heightened the appeal of credit swaps, which are used to insure against the risk of corporate defaults.

Record Job-Switching Rates Are Pushing U.S. Inflation Higher, Chicago Fed Study Finds (Reuters)

The unprecedented level of job switching seen last year, as the U.S. labour market rebounded from the pandemic, gave workers more leverage to ask for better pay and played a role in pushing inflation to its highest level in decades, a new study suggests. An increase in the share of people who searched for jobs while they were employed helped boost inflation by about 1 percentage point throughout much of last year, according to a paper released on Monday by the Chicago Federal Reserve. That suggests job-switching at times accounted for roughly 20% of the price growth seen in 2021.

Leonardo Melosi, a senior economist for the Chicago Fed and a co-author of the report noted that workers' propensity to search for another job is an important driver of inflation. People who search for new work while they still have a job can end up with higher salaries - and more spending power - after switching jobs or receiving a raise from their current employer, the researchers said. Job switching took off last year as job postings soared and the number of people quitting reached record levels. Nearly 4 million Americans on average quit their jobs each month last year - often in search of better pay or more flexibility.

Fed officials are under greater pressure to combat higher inflation after data released last week showed that consumer prices posted their largest annual gain in 40 years. Watching what happens to the trend some analysts have dubbed the Great Resignation could offer a hint on the future path of price increases.

If job-switching dies down as the pandemic recedes, that could help to ease inflationary pressures. But if people continue to change jobs in search of better pay or new opportunities, those inflationary pressures could continue, researchers said. Still, labour market turnover will not be the only factor influencing inflation, as supply-chain disruptions and other factors are larger drivers.

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokerage. The company became a part of the National Commercial Bank (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.