Capital Markets Limited

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Market Guide

THIS ISSUE

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"Risk comes from not knowing what you're doing." – Warren Buffett

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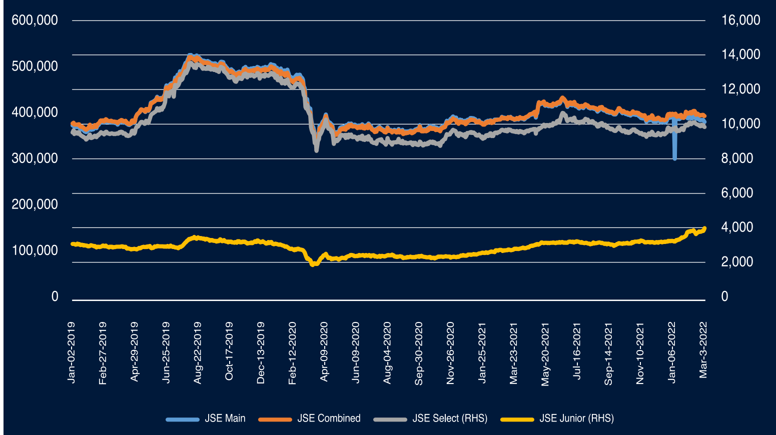
High Fuel Prices adds to Inflationary Concerns and could Threaten Growth

The price of fuel has seen significant increases as a result of increased global demand and more recently, due to Russia's invasion of the Ukraine and the resulting sanctions. In just a few months, oil prices have risen from as low as US$65 a barrel in August 2021 to a high of over $130 on March 7, 2022 causing fuel costs to surge, inflationary pressure to rise and prompting fears that global growth could slow significantly. Oil prices rose last year as the developed economies rebounded as high vaccination rates allowed them to relax restrictions thereby fueling greater economic activity. In recent weeks, the economic and political risks caused by the supply disruptions in the wake of Russia's invasion of Ukraine caused prices to surge. The sanctions, could mean a prolonged period with no supply from the World's 3rd largest producer of oil, which could mean even higher oil prices, unless they bring about an end to the conflict.

As an importer of the commodity, which is a key input in the production of fuels and electricity, Jamaica has seen fuel prices soar since last year. In particular, gas prices (both 87 & 90) have increased by 50%, while propane and butane increased by over 100% from their COVID-19 lows at the onset of the pandemic. Other petroleum products have shown increases ranging from 36%-70% over the period. Petroleum products locally are priced by Petrojam Limited, Jamaica's only petroleum refinery. Petrojam delivers Petroleum products; not crude, to the domestic market. Jamaica's petroleum product prices are indexed to the US Gulf Coast Reference Prices, which report on the prices of finished products. Petrojam's ex-refinery pricing arrangement is in keeping with the Government of Jamaica's policy that Petrojam must be the least cost option for the supply of petroleum and petroleum products to Jamaica on a sustained basis. A key element of this policy is that whenever price changes occur in the international market, they should be reflected in local prices. Similarly, changes up or down in GOJ taxes, logistics costs, financing costs and in the exchange rate also take effect immediately. Consequently, local fuel and energy prices have risen due to a combination of higher global demand, the weaker domestic currency, higher ad valorem tax on fuel as result of the increase in the price of fuel itself and shocks in the market. If these factors continue to persist, prices will rise further, spurring rising inflation and tighter monetary policy, which together may slow the expected growth in the economy.

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	411,108.35	+ 11,438.64	+2.86%
Main Market Index	400,871.25	+ 13,488.34	+3.48%
Select Index	10,048.47	+ 24.24	+0.24%
Junior Market Index	4,031.89	-136.27	-3.27%

WINNERS & LOSERS (FOR THE WEEK ENDED MAR 11, 2022)

	$ Change	% Change
MASSY	+$33.15	+34.9%
CHL	+$2.94	+32.7%
KLE	-$0.50	-17.9%
FESCO	-$1.32	-17%

MARKET OVERVIEW

Last week, seven (7) of the JSE indices advanced; however, the Junior Stock Market and the JSE USD Equities declined. The week over week improvement in the main market was driven by the appreciation of a few stocks, mainly, a 35% increase in Massy Holdings Limited ordinary shares. The 20:1 stock split that was effective on Thursday, March 10, 2022, resulted in a sharp increase in demand from retail investors, which drove up the price of the stock. Retail investors had previously shied away from the stock because of the large absolute value. Cargo Handlers Limited, which gained $2.94 (32.7%) to close at $11.92, and Mayberry Investments Limited, which gained $1.45 (24.4%) to close at $7.39 were the other stocks reporting big gains last week.

Retail gasoline and diesel prices soared to record highs in many countries across the world last week, prompting governments from Brazil to France to consider implementing or increasing subsidies or trimming taxes to shield consumers from the financial strain. The government of Jamaica indicated that a special provision of JMD $2 billion will be established to provide support to those most adversely affected and are unable to absorb the impact of the high gas and energy prices. A first consideration for central banks pondering their response to higher oil prices is to assess the persistence of their impact on inflation. Given that energy is a key intermediate good, its price impact could be widespread across sectors and over time, especially in the presence of sticky price and wage formation. It is anticipated that the rising fuel prices will influence the monetary policy of countries in the coming months as they endeavour to bring inflation down and anchor expectations, while balancing the risks to growth. Given that oil prices make up a very large portion of Jamaica's import bill, companies' input costs are set to rise, which in turn affects consumer prices. Consequently, further interest rate increases and open market operations are likely.

The period over which elevated prices persist, will depend heavily on how long the crisis lasts. If it proves protracted, analysts are predicting that disruptions to Russian oil flows could push oil prices to $150 or $155 per barrel by summer. This is expected to filter down locally and as a result consumers are expected to see further increases in domestic prices. When gas prices rise, it can be a drag on the economy—impacting everything from transportation and electricity costs to hiring practices. Gas is an important input for transportation, which directly impacts households, but also businesses that rely on logistics and transportation chains around the globe and therefore rising gas prices results in higher input and distribution costs. These increases in cost affect the distribution and manufacturing industry, the transportation industry, auto industry, electricity costs and retailers as they are now forced to pass on the higher expenses to consumers who in turn limit their discretionary spending. In addition to that direct effect on inflation, crude oil is a key ingredient in petrochemicals used to make plastic, so more expensive oil will affect the prices of many products made with plastic. That being said, the fall in oil prices from 109.33 late last week to $103.88 this week on Brent crude oil supports the view that a fast resolution to the conflict could result in a lower price. Oil prices are likely to moderate this week as investors have been digesting the impact of sanctions on Russia, along with Russia showing signs of negotiation towards ceasefire. Along with signs of negotiation, new lockdowns in China as a result of a surge in COVID-19 cases have contributed to a negative start to the week for crude oil. However, what is certain is that markets will remain volatile in the short term.

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Global Bond Prices

Last week, bonds across credit tiers and the maturity curve were under pressure and the 10-Year Treasury Yield was back above 2.0% ahead of the Fed's rate hike decision in the week ahead. At 2.034%, the 10-year Treasury yield has climbed 49 basis points since the start of the year and is 148 basis points above its all-time closing low of 0.52% in August 2020, but still 125 basis points below its 2018 peak of 3.25%. It is expected that bond prices and treasury yields will continue to fluctuate in response to market developments. The market continues to be driven by the state of the economy and geopolitical tensions as ceasefire talks between Russia and Ukraine broke down without any real progress.

The Fed will meet March 15-18, 2022 where it is the expectation of a 25-basis points rate increase, a less aggressive increase than previously indicated as the Fed weighs the potential drag of the Russian-Ukraine conflict, the sanctions imposed on Russia and the drag that these are likely to have on economic activity. The expected increase in the interest rate is expected to pressure bond prices, especially treasury yields, which will result in higher yields and as such, we expect a sell-off of emerging market bonds as investors adopt a flight to safety approach in the near term. However, we believe that this will be a buying opportunity for strong EM credits at the shorter end of the curve, including oil and gas producers that are likely to benefit from the current spike in prices.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	**BB-/ Stable**	**104.850**	**6.55%**	**BUY**
PETRO-RIO 2025 (6.50%)	**BB-/ Stable**	**100.000**	**6.12%**	**BUY**
GEOPAR 2027 (5.5%)	**B+/ Stable**	**97.000**	**6.22%**	**BUY**
NRG 2032 (3.88%)	**BB+/ Stable**	**99.000**	**4.00%**	**BUY**

GOJ Globals

Jaman bond prices followed the declining trend with the 28s, 39s, and 45s closing at lows of 108.60, 128.5 and 127.25, respectively.

Ticker	Maturity	Bid	Offer	Offer Yield*
JAMAN	2028	108.30	109.30	4.97%
	2039	127.0	129.00	5.38%
	2045	127.0	129.00	5.63%

*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	Tax Adjusted Yield
GHL	2026	7.00%	105.00	5.54%	6.47%
JBG	2028	6.75%	104.20	5.89%	6.79%
Seprod	2024	7.25%	103.55	5.78%	-

Foreign Exchange Market

The Jamaican dollar appreciated by 0.69% relative to the USD, week over week, with US$1 moving from a selling rate of J$154.97 on March 4, 2022, to J$153.91 on March 11, 2022. This appreciation was due to the increased selling of USD in the market to take care of tax liabilities.

Selling	Close: 04/03/22	Close: 11/03/22	Change
J$/US$1	$154.97	$ 153.91	-$1.06
J$/CDN$1	$121.05	$120.82	-$0.23
J$/GBP£1	$207.48	$200.92	-$6.56

Money Market

Liquidity in the market has continued on its downward trajectory since the start of the year, largely due to the actions taken by the central bank, to contain inflation. As at 10th March, a total of J$41.00B was in the market down from J$60.5Bn in the first week of January, with much of it held by DTIs. On March 15, 2022, STATIN is expected to publish the inflation rate for February, which is expected to remain elevated due to the continued transmission of high international commodity and shipping prices to domestic processed food, food-related services, and energy price inflation, as well as a recovery in domestic demand. If the inflation continues to trend outside the targeted range, it is expected that the central bank will continue to raise rates to stem its growth. The next Policy rate decision will be on March 29, 2022. The higher policy rate will continue to pressure JMD liquidity. Furthermore, in the near term as companies draw down on cash and near-cash to fund tax obligations JMD liquidity is also expected to decline.

The average yield from the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD increased to 6.29% up from 6.11% in the prior week. The highest bid for full allocation was 6.74999%. The bid to cover ratio, the ratio of bids made relative to the total issue size, increased to 1.56, up from 1.07 in the previous week. Despite this, the ratio lies below the 12-week average of 1.86, which underscores the tightening of JMD liquidity. The CD take up of J$13.5Bn represented an outflow of liquidity from the market in line with the BOJ strategy. Market players were mostly lending overnight, with some brokers offering as high as 4.75% – 5.75%.

The USD money market will remain stable. We anticipate USD liquidity to be fairly stable in the upcoming months. Whilst tourism inflows are unlikely to offset demand, remittance inflows continue to support USD liquidity. The BOJ's attempts to sterilize JMD liquidity through its B-FXITT auctions have led to selling approximately US$325.675M to the market so far this year. The central bank will likely continue to inject USD liquidity into the market in an effort to bring inflation back in line through greater currency stability. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 4.75% to clients.

Dates to watch this week

March 2022

MON	TUE	WED	THUR	FRI
14	15	16	17	18
	UK's Unemployment Rate (Jan)	Canada's Core CPI (YoY) (Feb)	EU's Core CPI (YoY) (Feb)	
	US's PPI (YoY) (Feb)		Bank of England Interest Rate Decision (March)	
	Consumer Price Index (Feb)			

International Local

Stock Recommendations

Ticker	Closing Price (March 11)	Current Recommendation
MAILPAC	$2.93	BUY
WISYNCO	$19.67	HOLD
FTNA	$9.86	HOLD
JBG	$29.46	HOLD
JMMBGL	$41.90	BUY
LASF	$3.48	SELL
AFS	$21.25	SELL
JAMT	$3.50	BUY
JSE	$17.03	HOLD
PROVEN (JMD)	$35.66	BUY
PROVEN (USD)	$0.23	BUY
SCIJMD	$15.10	BUY
LAB	$3.57	HOLD
SJ	$58.55	HOLD
SEP	$56.04	HOLD
SGJ	$35.39	HOLD
QWI	$0.95	HOLD
GK	$103.12	BUY
CCC	$71.29	HOLD
KEX	$8.00	HOLD

Regional News

Expert Predicts Dominican Republic's Inflation Will Reach 13% (Dominican Today)

The Dominican Republic Consumer Price Index (CPI) in 2021 reached its highest level since 2008, at 8.50%, and everything seems to indicate that this year it will surpass double digits. Inflation is expected to range between 12% and 13% by the end of 2022 assuming that the conflict between Russia and Ukraine will continue for at least four months, which will undoubtedly alter the macroeconomic framework of the country.

Antonio Ciriaco Cruz, an Economist, explained that the government must make a supplementary budget because, in the current one, the oil barrel is contemplated at US$62. In this sense, he explained that if, in the best-case scenario, the average price of oil is at US$90, the oil bill would increase by some US$2.4Bn in addition to the US$4Bn paid last year.

The bill could reach US$7 billion he noted. This is a difficult situation for countries like the Dominican Republic, which is a net importer of oil. The current Russia-Ukraine crisis is likely to push oil and natural gas prices higher and drive up import costs for key commodities such as wheat and corn, thereby contributing to higher levels of inflation. The expected rise in inflation for the Dominican Republic will have implications for consumers, businesses and the overall economy.

Bahamian Government To Support Economic Recovery In 2022, Then Pivot To Consolidation (Fitch Solutions)

Fitch anticipates that Prime Minister Philip Davis will prioritise short-term spending measures to bolster the Bahamian national vaccination campaign, which has lagged behind other Caribbean markets. As of February 23, 38.8% of the Bahamian population had been fully vaccinated, and an additional 3.3% had been partially vaccinated. This is well below vaccination rates in the Dominican Republic and many other major tourist destinations in the Caribbean. Additionally, Davis and the Progressive Liberal Party (PLP) will likely advance expansionary fiscal measures in the near term to support the economic recovery from the COVID-19 pandemic. However, In the longer term, the PLP government will likely shift fiscal policy towards consolidation due to wider deficits caused by the pandemic and a rising debt load.

Bahamas' real GDP contracted 14.5% in 2020; however, Fitch forecasts that growth will accelerate to 10.9% in 2022, from an estimated 1.5% in 2021. These forecasts suggest that the Bahamian economy will not fully regain its 2019 level of output until 2024. Notably, Davis said his government will take measures to contain rising prices caused by global inflationary pressures, such as supporting domestic agricultural production. The country's fiscal deficit widened to 11.4% of GDP in 2020, then modestly narrowed to 10.3% in 2021. Consequently, Fitch expects that the PLP government will likely pursue debt renegotiations with the IMF and other international creditors, though the fiscal adjustment would not likely begin until the Bahamas is nearing its pre-pandemic level of output.

Week Ahead: January Economic Activity Releases To Show Slowdown Across Latin America (Fitch Solutions)

This week, Fitch Solutions will be monitoring the January economic activity prints from Colombia, Peru and Brazil. Colombia and Peru were both regional outperformers in 2021 with real GDP growth rates of 10.6% and 13.3%, respectively, as fiscal stimulus fueled private consumption and robust external demand supported export growth. While December's economic activity prints (11.8% for Colombia and 1.7% for Peru) came in above expectations in both markets, they represented a deceleration from November. This is in line with Fitch's regional view that markets across Latin America will experience a slowdown as base effects fade, inflation continues to rise through H122 and central banks continue to raise interest rates. While the agency's 2022 real GDP growth forecast of 3.1% in Peru implies a return to the pre-pandemic trend, we expect Colombia to retain its outperformer status with a real GDP growth rate of 3.8%, as fiscal stimulus will support consumption over the coming quarters.

Fitch will also be watching the January economic activity release for Brazil, a market which has already shown signs of a more rapid slowdown. In December, economic activity grew just 1.3% y-o-y. While this surpassed November's print of 0.9%, it implied that GDP growth for 2021 was just 4.5%, below Fitch's estimate of 4.6%. The Brazilian economy has faced a series of headwinds since late 2021, including political uncertainty and a surge in inflation that spurred a world-leading rate hiking cycle by the Banco Central do Brasil, which has increased borrowing costs and dampened private consumption. These factors brought on a slowdown more quickly in Brazil than in its regional peers, and it forecast the Brazilian economy will remain an underperformer in 2022, with real GDP growth of just 0.7%.

International News

Fed to Start Rate Hikes With License to Turn Aggressive Later (Bloomberg)

The Federal Reserve will this week begin a multi-month campaign to conquer inflation that could see Chair Jerome Powell moving even more aggressively after Russia's war on Ukraine fanned prices further. Already pivoting to tightening monetary policy amid the fastest consumer price gains in four decades, Powell and colleagues now have to deal with the economic fallout of the war, which threatens to deliver the twin blows of weaker growth and even-quicker inflation. With a 25 basis-point hike near-certain on Wednesday after Powell took the rare step of publicly backing such a shift, futures markets show around 165 basis points of tightening this year, or the equivalent of at least six quarter-point increases.

There's certainly reason to be worried about inflation as Russia's invasion compounds the pressures ignited by the pandemic. The cost of food, fuel and metals has soared since the war began with gasoline alone at a record, while prices for many services were already higher. Eyeing the first rate increase since 2018, Powell has been given license to be hawkish by President Joe Biden, lawmakers across the political spectrum and many fellow Fed officials, as businesses and households become increasingly anxious to avoid the harm of 1970s-style price shocks that crimp their spending power.

World's Central Banks Set Policy for Economies Shaken by the War (Bloomberg)

Global central banks this week will offer the biggest collective assessment of a changed world since Russia's invasion of Ukraine sparked renewed supply disruptions and a sudden inflation shock for many economies. Among the eight members of the Group of 20 whose monetary officials are due to meet, the Federal Reserve's impending interest-rate increase is likely to steal the limelight. The others will display a kaleidescope of policy reflecting differing impacts from the conflict in a world economy already adjusting to surging prices. Decisions will range from another potential rate hike at the hawkish Bank of England, to the Bank of Japan's likely outcome of insisting on a continued easing stance. Those announcements follow in the wake of the European Central Bank's surprise decision last week to accelerate a wind-down of stimulus, leaving investors wondering what other shifts might be in store.

Russia seeks Indian investment in its oil and gas sector (Reuters)

Russia urged India to deepen its investments in the sanction-hit country's oil and gas sector, and is keen on expanding the sales networks of Russian companies in Asia's third-largest economy. Russia's economy faces its deepest crisis since the 1991 collapse of the Soviet Union, as the West imposes severe sanctions over Moscow's invasion of Ukraine. Some western allies have encouraged India to condemn Russia's actions in Ukraine, after New Delhi abstained from voting against Moscow, a long-standing arms supplier, at the United Nations.

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.