

Market Guide

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"Invest for the long haul. Don't
get too greedy and don't get too
scared" – Shelby M.C. Davis

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Food Security Challenges Threatening to Increase Inflation Risks and Soften Jamaica's Economic Outlook

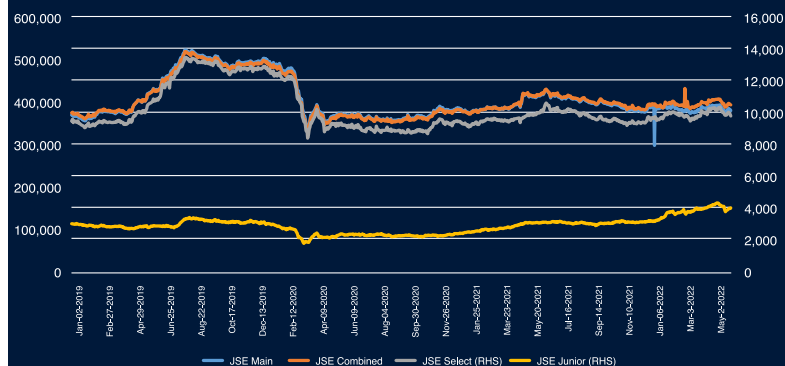
Although food security¹ issues were on the decline during the years following the 2008 financial crisis, challenges from the pandemic, climate change, and the unfolding war in Ukraine have put them on the rise once more. In 2021, global food prices rose to new heights as a result of a combination of factors, notably an uneven global economic recovery from the COVID-19 pandemic and widespread supply chain disruptions. What's more, sharp rises in energy prices, along with the reduction in supply caused by the aforementioned factors, are also compounding the rise in imported food prices. This is owing to the fact that energy is needed to transport agricultural produce, run the machinery and heavy equipment used in food production, and petrochemicals are critical to the production of synthetic fertilizers used in farming. Against this backdrop, domestic food price inflation in many low-income countries rose significantly, particularly those with weak currencies and a high reliance on food imports, in those where border closures, conflict, or insecurity disrupted trade flows, and where weather extremes severely curtailed food production/availability². These macroeconomic factors had a major impact on the purchasing power of the poorest households, many of which were still

experiencing job and income losses due to the pandemic. As such, it led to almost 40 million people facing emergency or worse conditions, across 36 countries. In addition to this, food prices are also being affected by climate change, which is causing drought conditions and reducing crop yields. Much of the western U.S. has been experiencing unrelenting drought since early 2020, which has coincided with record-breaking wildfires, intense and long-lasting heat waves, low stream flows, and dwindling water supplies in reservoirs. Consequently, the unfolding war in Ukraine and its repercussions on global food, energy, and fertilizer prices are likely to exacerbate the already acute food insecurity challenges. Since Ukraine (wheat, oats and sugar, among others) and Russia (oil, gas, among others) are major exporters of important commodities used in the production of food, the war has resulted in a drop in supply, which has sent prices soaring. This is also prompting other countries³ to safeguard their own supply of these produce such as wheat, by instituting bans on exports. These factors continue to fuel price increases and raise global and local inflation risks.

Being a net importer, Jamaica's dependence on imported products such as energy, fertilisers,

1. Food insecurity also referred to as food shortage, is a household-level economic and social condition of limited or uncertain access to adequate food. (USDA 2022)

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	398,229.79	-4,337.11	-0.7%
Main Market Index	386,530.90	-3,026.96	-2.4%
Select Index	9,968.33	-66.93	+0.9%
Junior Market Index	4,093.86	-169.28	+19.4%

WINNERS & LOSERS (FOR THE WEEK ENDED JUNE 10, 2022)

	\$ Change	% Change
MPCC	+US\$ 0.18	+15.0%
PAR	+\$0.24	+13.6%
EPPLEY	-\$9.46	-19.4%
JETCON	-\$0.22	-16.7%

MARKET OVERVIEW

Investor sentiment appeared to turn negative last week with 71 of the 118 stocks that traded across the JSE indices declining, while 29 advanced and 18 traded firm. Against this backdrop, all major indices declined, save the JSE USD Equity Index (+2.5%). The Junior Market index posted the largest decline of 4.0% led by the decline in Lasco Manufacturing Limited (LASM) stock price (-7.6%). LASM has the largest market capitalization among the decliners, consequently it would have had the greatest impact on the Junior Market Index. Additionally the depreciation of prices for firms such as Jetcon Corporation Limited (-16.7%), Everything Limited (-15.5%) and Dolphin Cove Limited (-12.8%) as well as others contributed to the decline in the index. There was no news released by these companies to support the depreciation seen over the week; however, all companies' stock prices would have rallied since their respective quarterly earnings releases in May. Therefore, the depreciation witnessed last week could likely be attributed to investors taking capital gains.

Overall the main advancer for the week ending June 10, 2022, was MPC Caribbean Clean Energy Limited USD which gained 15.0% on thin volumes to close at US\$1.38; only 0.1% of the total outstanding shares were traded. Notably, this movement was the first in the last 52 weeks. Ultimately the week over week growth in the USD Equities index was due to the volume leaders TransJamaican Highway Limited (TJH USD), whose stock price increased by 8.9%, Proven Investment Limited USD, which gained 0.1% and Sygnus Credit Investments Limited (SCI USD), which saw a stock price appreciation of 11.6%. Out of the three, TJH USD had the highest traded volume representing 76.7% of the total volumes traded during the week.

wheat, and other grains, etc. has already impacted sectors that are instrumental to its overall growth and recovery, such as tourism, agriculture, and manufacturing. While still maintaining favourable growth in profitability (in the case of the manufacturing sector), or exhibiting a more significant rebound (in the case of the restaurants, hotels and other tourism-related companies), higher direct costs was a consistent theme across these sectors in the March 2022 financial quarter. This is reflected in the sustained increase in the producer price index, lower margins in some instances, and slower pace of growth in net earnings. Therefore, an exacerbation of the global food crisis will likely result in even greater input costs. In response, companies will continue to pass on the higher costs to consumers to limit margin compression and safeguard their bottom-lines.

Although international bodies are trying to implement measures to alleviate the food security problems, if they prove unsuccessful, food prices are still likely to remain elevated. International bodies such as the World Bank⁴, the International Money Fund, and the United Nations are working together to provide policy advice, capacity development assistance, and financial support to catalyze and complement financing from other institutions. The aim is to assist countries in their efforts to rapidly improve social safety nets to protect vulnerable households from the imminent threat of hunger; and help members identify ways to safeguard food security without resorting to export restrictions. Locally, the Ministry of Agriculture and Fisheries, is actively pursuing opportunities to partner with regional and international stakeholders to transform Jamaica's food sector in a manner that will ensure the country can sustain itself. The

agriculture sector is slated to benefit from millions of dollars in support to bolster food security by strengthening the country's agricultural output and improving sustainability and resilience within the sector. However, these policy responses may not take effect immediately, which could leave the world and Jamaica grappling with the associated risks of inflation in the near-term. Although the Bank of Jamaica forecasts that inflation will peak in the range of 12.0% to 15.0% by June 2022, a proliferation and intensification of the current food security challenges through more export bans and increase in the price of other food staples such as rice⁵, could result in the rate peaking later than June.

Greater inflation risks will likely be accompanied by tighter monetary policy, which could soften economic growth, and lead to a potential increase in socio-economic challenges. Further spirals in inflation beyond BOJ's current expectations could result in more interest rate hikes to limit spending and investment and guide inflation back to its target range. However, this could depress the growth forecast and result in further downward revisions in economic growth below the current 2.5% projection. Higher inflation risks could also create social unrest, widen income-gaps, and increase crime and poverty levels, and create further volatility in local capital markets through lower stock valuations and greater falloff in bond prices.

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2. Global Report on Food Crises (2022)

3. The US-based International Food Policy Research Institute lists Argentina, Indonesia, Kyrgyzstan, Turkiye, Kazakhstan, and India among the "notable" countries that have responded to the war in Ukraine with export restrictions on foodstuffs.

4. World Bank today announced actions it plans to take as part of a comprehensive, global response to the ongoing food security crisis, with up to \$30 billion in existing and new projects in areas such as agriculture, nutrition, social protection, water and irrigation. This financing will include efforts to encourage food and fertilizer production, enhance food systems, facilitate greater trade, and support vulnerable households and producers.

5. Food prices have been on the rise in the past few months. And rice, a staple food in much of Asia, could be next, industry watchers said. The United Nations' Food and Agriculture Organization Food Price Index already shows international rice prices creeping up for the fifth straight month to reach a 12-month high, according to the latest May data published last week.

Global Bond Prices

US bond prices declined by a couple of points last week as US inflation rose to 8.6% for May, increasing by 1% and surpassing the 0.07% expected by the market. This marks the largest increase in inflation since December 1981. Core CPI increased 6.0% year-over-year, down from 6.2% in April, but still a long way from the Fed's longer-run inflation goal of 2.0%. Additionally, the Index of Consumer Sentiment for June hit the lowest level on record (50.2) dating back to 1978. This further sparked concerns that the Fed could pursue more aggressive policy actions to get inflation under control, which could push the economy into a recession. Those concerns were reflected in the Treasury market and on Friday the 10-yr yield jumped 11 basis points to 3.16%. The announcement also had ripple effects throughout the emerging bond markets based on the week-over-week decline of 2.3% in the EMBI Global Index for the week ending June 10, 2022. Furthermore, the Jamaican and Dominican Republic sovereign bond prices declined along the curve as volatility persisted throughout the week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALESA 2026 (7.75%)	BB-/ Stable	101.250	7.42%	BUY
PETRO-RIO 2026 (6.13%)	BB-/ Stable	97.700	7.00%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	96.250	6.06%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	88.500	7.59%	BUY

GOJ Globals

The Jamaican global bond prices declined along the curve, as volatility persisted throughout the week. The Jaman 28s, 39s, and 45s closed with bids of 105.1, 116.250 and 111.5, respectively.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	107.000	5.34%
	2039	117.750	6.27%
	2045	112.750	6.77%

*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	Coupon	Price	Yield
GHL	2026	6.75%	105.00	6.47%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Foreign Exchange Market

The Jamaican dollar appreciated by 0.5% relative to the USD, week over week, with the weighted average USD selling rate moving from J\$154.58 on June 3, 2022, to J\$153.87 on June 10, 2022. The appreciation reflects increased USD liquidity following the Bank of Jamaica's (BOJ) intervention in the latter part of May. Additionally, the BOJ has reduced lending and increased interest rates and as such, it has become more attractive to hold JMD. That being said, dealers are selling USD in exchange for JMD to capitalize on the gains to be had.

Selling	Close: 03/06/22	Close: 10/06/22	Change
J\$/US\$1	\$154.58	\$153.86	-\$0.72
J\$/CDN\$1	\$122.09	\$120.55	-\$1.54
J\$/GBPE1	\$192.70	\$192.85	+\$0.15

Money Market

On Wednesday, June 15, the latest inflation figure for May 2022 will be released by STATIN. It is widely anticipated that the rate will be higher than the previous 11.80% seen in April as the central bank has projected that inflation will peak within the range of 12.0% and 15.0% by June 2022. Consequently, we anticipate that by June 29th, if there is no improvement in the inflation rate, we will see BOJ increase the policy rate again by an estimated 50 – 100bps given that inflation is trending further away from their 4.00%-6.00% target, and food security challenges are also adding upward pressure.

Ultimately the BOJ's actions will put further pressure on already tight liquidity conditions. As JMD liquidity tightens, this will further lead to high levels of competition for cash by market players such as DTIs in order to maintain their liquid asset ratios. Therefore, rates are anticipated to remain elevated. As at the 9th of June, a total of J\$36.4B was in the market, highly concentrated amongst a few DTIs as represented by the BOJ's aggregate current balances. Though June 9th figure represents a 15.2% increase in market liquidity week over week, the liquidity levels are lower than the J\$46.4B seen at May 31 . Furthermore, due to the tight liquidity market players were mostly square last week, with very limited overnight lending.

In contrast, the USD money market will remain stable despite changes in market activity affecting liquidity. USD liquidity will continue to be supported by stable remittance inflows which remain above pre-pandemic levels. Year-to-date as April 2022 the figure stood at US\$1.12Bn which is stable relative to the corresponding period figure. Additionally, the BOJ's attempts to sterilize JMD liquidity through its B-FXITT auctions have led to it selling approximately US\$435.675M YTD to the market for 2022. The Central Bank is likely to continue to push USD liquidity to the market through BFXITT auctions in an effort to reduce JMD liquidity and bring inflation back in line. Broker market demand for USD remains at 30-days and longer tenured funds.

Dates to watch this week

June 2022				
MON	TUE	WED	THUR	FRI
13	14	15	16	17
SSLVC AGM	International Trade (Feb)	Local CPI (May)	KW AGM	JP AGM
GBP GDP (QoQ)	GBP Unemployment Change (Apr)	US FED Interest Rate Decision		EURO Core CPI (MoM) (May)
HONBUN Dividend Payment (\$0.028)		MASSY Dividend Payment (TT\$0.03)	GK Dividend Payment (\$0.48)	EPLY Dividend Payment (\$0.052)
			PJAM Dividend Payment (\$0.285)	

Stock Recommendations

Ticker	Closing Price (June 10)	P/E	Avg. Sector P/E	Current Recommendation
MAILPAC	\$2.79	19.9x	23.9x	BUY
WISYNCO	\$19.63	19.2x	18.4x	BUY
JMMBGL	\$42.95	7.3x	12.0x	HOLD
MASSY	\$93.81	13.3x	12.7x	BUY
JAMT	\$2.87	15.9x	23.9x	BUY
PROVEN (JMD)	\$37.02	11.3x	12.0x	BUY
LAB	\$2.92	24.2x	22.6x	HOLD
SJ	\$56.08	12.0x	12.0x	HOLD
SEP	\$71.16	25.0x	18.4x	HOLD
QWI	\$0.88	4.0x	12.0x	HOLD
GK	\$104.30	12.5x	12.7x	BUY
CCC	\$68.95	13.7x	17.4x	BUY
PanJam	\$64.54	9.4x	12.0x	BUY
KW	\$39.00	16.8x	17.4x	BUY
Lumber	\$3.10	11.5x	23.9x	BUY
Tropical	\$2.63	24.4x	23.9x	HOLD

Regional News

World Bank Predicts Slowdown In Caribbean Economies (Barbados Today)

The World Bank projected a slowdown in growth in the Caribbean, as it delivered a grim warning that many of the world's countries face recession. The financial institution's Global Economic Prospect report said the world economy was now headed toward "a protracted period of feeble growth and elevated inflation".

The World Bank is projecting 2.9% global growth this year, down from 5.7% in 2021, and credits the expected lack luster performance to Russia's invasion of Ukraine and the effects on key commodities, coupled with the fallout from the COVID-19 pandemic. According to the Bank, the unstable conditions have severely hit Latin America and the Caribbean (LAC) economies and expected economic growth in the region will slow to 2.5% this year and slow even further to 1.9% in 2023. Growth in the Caribbean is however projected at 6.9% in 2022 and 6.5% in 2023, helped by recovering tourism.

Notably, the region's growth forecast includes spillovers from weaker global growth, increased food insecurity and social unrest, continued higher-than-forecast inflation and financial stress. In addition, the war in Ukraine is having substantial effects on the region via higher commodity prices and weaker global growth. Further, in a context of slow growth and rising US interest rates, financial stress could take hold in some economies of the region, especially if policymakers are unable to credibly commit to reforms to sustainably boost growth. To reduce the risks, the World Bank said policymakers should work to coordinate aid for Ukraine, boost the production of food and energy, and avoid export and import restrictions that could lead to further spikes in oil and food prices.

Digital Currency Coming For Barbados, Rest Of Region (Barbados Today)

Barbados will be one of the first two Caribbean countries in which a common Central Bank Digital Currency (CBDC) is to be rolled out. The CaribCoin project, as it is being referred to, is a joint venture between Schröder, the Chief System Architect, and the Caribbean-based technology accelerator Abed Ventures.

Caribcoin would first be rolled out in Barbados and Jamaica and then other Caribbean countries. However, renowned regional financial and economic expert Marla Dukharan suggested that each country in the region could do well with their own digital currency, while adding that there was especially a need for a cross-border settlement system.

Pointing to some of the benefits of a digital currency, Schröder said it allowed for faster transactions and was more accessible, safe, sustainable and stable. It also presents an opportunity to create a Pan-Caribbean digital money, that can be used across the region. A common CBDC would also deliver seamless, faster and cheap payments, provide liquidity and enable a fast-track towards a CARICOM Single Market & Economy (CSME) without a need to replace national currencies but simultaneously enhance financial inclusion in the region.

International News

World Bank Slashes Global Growth Forecast To 2.9%, Warns Of 'Stagflation' Risk (Reuters)

The World Bank on Tuesday slashed its global growth forecast by nearly a third to 2.9% for 2022, warning that Russia's invasion of Ukraine has compounded the damage from the COVID-19 pandemic, and many countries are now facing recession. The war in Ukraine had magnified the slowdown in the global economy, which was now entering what could become "a protracted period of feeble growth and elevated inflation," the World Bank said in its Global Economic

Prospects report, warning that the outlook could still grow worse.

In a news conference, World Bank President David Malpass said global growth could fall to 2.1% in 2022 and 1.5% in 2023, driving per capita growth close to zero, if downside risks materialized. Malpass said global growth was being hammered by the war, fresh COVID lockdowns in China, supply-chain disruptions, and the rising risk of stagflation -- a period of weak growth and high inflation last seen in the 1970s. The bank forecast a slump in global growth to 2.9% in 2022 from 5.7% in 2021, a drop of 1.2 percentage points from its January forecast, and said growth was likely to hover near that level in 2023 and 2024. It said global inflation should moderate next year but would likely remain above targets in many economies. Growth in advanced economies was projected to decelerate sharply to 2.6% in 2022 and 2.2% in 2023 after hitting 5.1% in 2021. U.S. growth was seen dropping to 2.5% in 2022, down from 5.7% in 2021, with the Eurozone seeing a growth of 2.5% after 5.4%.

Negative spillovers from the war in Ukraine would more than offset any near-term boost reaped by commodity exporters from higher energy prices, with 2022 growth forecasts revised down in nearly 70% of emerging markets and developing economies.

Record Exports Help Shrink U.S. Trade Deficit (Reuters)

The U.S. trade deficit narrowed by the most in nearly 9-1/2 years in April as exports jumped to a record high, putting trade on course to contribute to economic growth this quarter. The sharp decline reported by the Commerce Department on Tuesday reversed March's surge and suggested that trade could be shifting back to a more normal pattern. The deficit widened, hitting successive all-time highs, as the United States' economy led the recovery from the COVID-19 pandemic global downturn.

"The deficit has widened on trend over the past two years because the U.S. economy has generally grown faster than most of its major trading partners over that period," said Jay Bryson, chief economist at Wells Fargo in Charlotte, North Carolina. "We look for trade to make a modest positive contribution to overall GDP growth in the second quarter."

The trade deficit dropped 19.1%, the largest decline since December 2012, to \$87.1 billion. This is below the expectations of economists polled by Reuters, which had forecast the trade gap shrinking to \$89.5 billion. In April, exports of goods and services increased 3.5% to an all-time high of \$252.6 billion. The broad increase was led by shipments of industrial

supplies and materials, which hit a record high amid rises in exports of natural gas, precious metals, and petroleum products. Exports of services also increased from \$2.4Bn to \$76.5Bn, lifted by gains in both travel and transport.

Imports of goods and services fell 3.4% to \$339.7 billion. Imports had been rising rapidly as businesses replenished inventories to meet strong domestic demand. However, with the Federal Reserve raising interest rates to combat inflation, demand is slowing. Inventories of some goods are also close to normal levels, reducing the need for imports. The drop in imports could also be the result of shutdowns in China as it battled new COVID-19 infections. Imports from China fell by \$10.1 billion, helping to narrow the goods trade gap with Beijing to \$34.9 billion from \$43.4 billion in March.

China's May Exports, Imports Seen Recovering as Supply Chains Restart (Reuters)

China's exports are expected to have expanded at a faster pace in May as factories reopened and supply chain disruptions calmed after Shanghai began to emerge from a lockdown, while imports also likely rose, a Reuters poll showed. The recovery adds to evidence the world's second-largest economy has begun to chart a path out of the supply-side shock that rocked world trade and global markets. However, China's trade outlook faces risks from factors such as high raw material costs, uncertainties from the Ukraine war and as recovering production overseas affects demand for Chinese goods.

Shanghai's COVID-19 lockdown, which officially ended on June 1, snarled logistics and regional supply chains but there are signs of a turnaround. Official data showed the average daily container throughput at the Port of Shanghai rose 7% in May from a month earlier. Exports in May likely grew 8.0% from a year earlier, accelerating from a 3.9% expansion in April, according to a median forecast in a Reuters poll of 28 economists. Imports were expected to have risen 2% year-on-year in May, the poll showed, likely driven by imports of raw materials and intermediate goods as domestic production resumed. That compared with flat growth in April. China's trade surplus is likely to have widened to \$58Bn from \$51.12Bn in April.

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