

Market Guide

THIS ISSUE

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Above Target for the Next Two Years

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"Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard." — Warren Buffett

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Local Inflation Dips but Expected to Remain Above Target for the Next Two Years

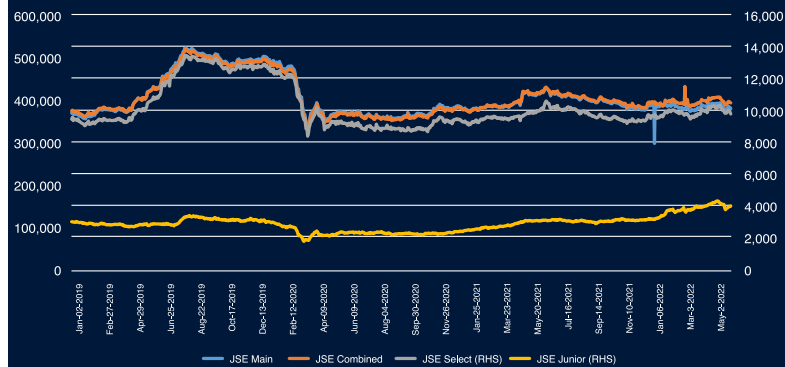
While local inflation eased in May, June's figures may not follow suit as global price pressures persist. According to recent data released from the Statistical Institute of Jamaica (STATIN), the Consumer Price Index (CPI) increased by 0.3% for May 2022, reflecting primarily a 7.7% increase in 'Restaurant and Accommodation Services' division. Higher prices in the 'Food and Beverage Serving Services' group were the main drivers of the increase in the division. An increase of 0.4% for the heavily weighted division 'Food and Non-Alcoholic Beverages' also contributed to the upward movement in consumer prices. The increase within this division was primarily a result of increased prices for flour, bread, rice, and chicken. May's inflation was also impacted by price movement in the 'Transport' division which increased by 0.8% due to higher petrol prices. However, the overall rate of inflation was moderated by a 3.0% decline in 'Housing, Water, Electricity Gas and Other Fuels' division, due largely to a decline in the index for the group 'Electricity, Gas, and Other Fuels'. The 12-month point-to-point inflation rate was 10.9%¹ (see Figure 1), which is below April's 11.8% outturn, but above the BOJ's target range for the 10th consecutive month. Inflation remained elevated, due to high global energy and food-related

costs as supply chain woes, drought conditions and the Russia-Ukraine war continue to reduce global supplies of these commodities and keep prices elevated.

Against this background, consumer prices could rise further in June as various global developments continue to keep inflation risks skewed to the upside. There are ongoing developments surrounding the war on Ukraine and drought conditions in key markets that are depressing supplies of agricultural commodities and have resulted in export bans for key commodities by some countries to ensure that they have adequate supplies for their citizens. Further, supply chain issues are still impacting food and energy which make up the lion's share of the consumer basket. Collectively called the "breadbasket of the world", Russia and Ukraine, together account for just under 33% of global wheat exports and 20% of global corn exports; wheat and corn are staple food items for a very large percentage of the world population. Since the war began in March 2022, wheat prices and corn prices have jumped by 50% and 30% respectively². What's more, higher energy prices are also compounding the rise in imported food prices because energy is needed to transport agricultural produce and run the machinery and heavy

1. STATIN - June 15, 2022
2. Capital Economics - June 2022

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	394,523.44	-3,706.35	-3.7%
Main Market Index	381,528.21	-5,002.69	-1.6%
Select Index	9,927.35	-40.98	+0.4%
Junior Market Index	4,202.44	+108.58	+22.6%

WINNERS & LOSERS (FOR THE WEEK ENDED JUNE 17, 2022)

	\$ Change	% Change
DOLLA	+\$1.31	+131.0%
SSL	+\$1.48	+80.4%
EPPLEY 7.5%	-\$1.23	-17.0%
KEX	-\$1.40	-16.6%

MARKET OVERVIEW

Prices closed lower relative to last week as market prices continue to pull back due to the negative sentiment surrounding the risks to the economic outlook due to ongoing headwinds such as rising interests rates and still high inflation. Of the stocks that traded, 58 of the 119 stocks traded declined, 50 advanced and 11 traded firm. Consequently, all major indices, except for the Junior Market Index (+2.65%), declined week over week. The USD Equities Index posted the largest decline of 4.29%, led by the falloff in the price of Proven USD (4.17%) and TJH USD (-16.3%), which are among the top three contributors to the index's performance based on market capitalisation. The main decliners for the week were Eppley 7.5% preference shares (17.0%) and Knutsford Express Services Limited (16.6%). This depreciation in prices likely reflects investors taking capital gains as well as the general pull back in prices as overall market volume remains low. On the other hand, the increase in the Junior Market Index can be ascribed to the 131% price appreciation of Dolla Financials to \$2.31 on Friday, following its listing on June 15, 2022. Other major advancers for the week included SSL Venture Capital (80.4%), iCreate Limited and (14.4%) and MPC (13.2%).

equipment used in their production. Furthermore, petrochemicals, made from crude oil, are critical to the production of synthetic fertilizers used in agriculture. As such, big swings in energy prices have been associated with corresponding moves in fertilizer and agricultural commodity prices. Consequently, the rise in energy prices caused by the war itself helped to push up global food prices. A review of commodity prices for June has not shown any notable ease thus far. The price of Brent in June is averaging \$126.46, up 10.7% from the \$113.34 recorded in May. Similarly, the West Texas Institute (WTI) Price is averaging \$118.83 for June, 8.5% above the May figures³. Additionally, while agricultural commodities such as corn (0.5%) and wheat (-0.7%)⁴ have been relatively flat since the beginning of June, producers may continue to pass on increased costs to consumers. As a result, imported inflation could continue to filter through to the local consumer basket and keep inflation numbers elevated for the short term, possibly reaching as high as 15.0%⁵. However, June's inflation may benefit from several factors. These are the appreciation in the JMD currency and a decline in shipping costs. An appreciation in the Jamaican dollar (1.4% since June 1) renders imports cheaper and exports more expensive and is a benefit to inflation. Moreover, shipping costs have declined and as of June 17, 2022, the price to ship a container stood a \$7,098, an improvement from May 2022 (\$8,466).

As net importers, such as Jamaica, continue to grapple with high inflation due to the current dynamics in the world commodity markets, inflation is expected to continue overshooting the BOJ's inflation target in the short term, resulting in further monetary policy tightening to bring it under control. Considering the dynamics in energy markets, the transmission of higher

international commodity prices to domestic processed foods, food-related services, and energy inflation is possible. These factors are expected to continue driving inflation expectations which rose to 12.8% in April's Survey from 12.1% in the prior survey. Ultimately, we expect that breaches will continue, with the BOJ projecting successive breaches of the target over the next two years. As BOJ approaches another monetary policy decision (June 29th), an additional increase in the policy interest rate is not yet off the cards. Against the background of higher BOJ rates, which are driving up borrowing costs coupled with inflation reducing the disposable incomes and weighing on demand, it begs the question of, to what extent will these factors weigh on economic growth and employment this year, and possibly into the next. It is quite possible that the Planning Institute of Jamaica could make a downward revision to its economic growth projection as the higher interest rate environment weighs on economic activity, as banks have begun to increase lending rates. At the same time, high inflation is reducing disposable incomes, weakening demand, and eroding gains that have accrued as a result of the economic reopening.

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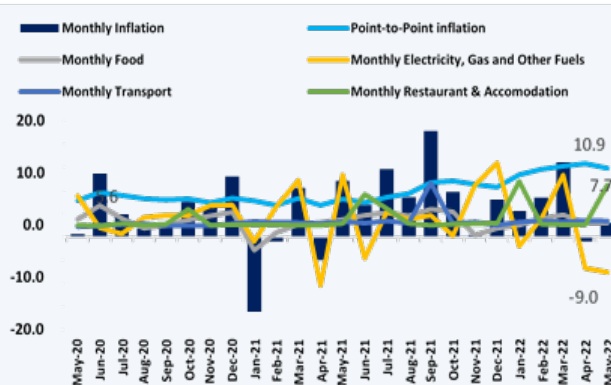
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3. Country Economy – June 2022

4. Wall Street Journal and Yahoo Finance

5. This is the upper range of the BOJ's near-term forecasts.

Figure 1: Trend of Local Inflation



Sources: BOJ, STATIN NCBCM Research

Foreign Exchange Market

The Jamaican dollar appreciated by 0.76% relative to the USD, week over week, with the USD selling rate moving from J\$153.87 on June 10, 2022, to J\$152.71 on June 17, 2022. This appreciation was due to high USD liquidity and high JMD demand to carry out various obligations as BOJ continues to reduce its lending of JMD to the market.

Selling	Close: 10/06/22	Close: 17/06/22	Change
J\$/US\$1	\$153.87	\$152.71	-\$1.16
J\$/CDN\$1	\$120.55	\$117.56	-\$2.99
J\$/GBP£1	\$192.85	\$185.82	-\$7.03

Global Bond Prices

Last week, the Fed opted to raise rates 75bps, signaling a growing fear of inflation, adherence to market pressure and seemingly less concern for the rising risk of recession. Previously, Fed officials had been clear that a 75bps increase was not on the table; however, with the latest rise in headline consumer prices on June 10, 2022, a more aggressive approach to rate hikes is apparently back on the table. After raising rates, a total of 75bps combined in March and May, the latest June hike marks the largest increase since 1994. Going forward, the market is anticipating a second-round 75bps increase at the July FOMC meeting. Additionally, the 10-yr yield jumped from 3.16% to 3.23% and traded as high as 3.498% during the week. This resulted in investors adopting a very dovish stance which resulted in a selloff of EM Bonds.

The Fed also projected a slowdown in the economy and indicated targeted rate range of 1.5% and 1.75%. Whereas in March the Fed expected the federal funds target rate to end this year at 1.9%, it now expects the funds rate will end the year at 3.4%. It sees modest action next year that will lift the funds rate to 3.8% from the March forecast of 2.8%, and an easing in monetary policy in 2024, to 3.4%. The Fed sees the longer-run federal funds rate steady at 2.5%. The shift in the Fed's rate projections suggests officials now believe they can get inflation back under control with a front loaded rate rise campaign, and if their inflation forecast holds for a big moderation in price pressure by next year. That said, the story of the Fed for some time has been one of it blowing its inflation forecasts and getting surprised by the persistence of price pressure gains (Wall Street Journal).

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA 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
GEOPAR 5.5% 2027	B+/ Stable	93.000	7.29%	BUY
TPHLTT 9.00% 2029	BB/ Negative	106.75	7.74%	BUY

GOJ Globals

The Jamaican bond prices declined along the curve, in line with the selloff of EM bonds following the 75bps increase in the Fed Funds rate. The Jaman 28s, 39s, and 45s closed with bids of 101.65, 107.65 and 102.00, respectively.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	101.65	6.17%
	2039	107.65	7.08%
	2045	102.00	7.60%

*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%

Money Market

Despite inflation dipping in May, it remains elevated at 10.9% and is still well above the BOJ's target range. As such, we anticipate that for its June 29th meeting, the BOJ will increase the policy rate as it continues its push to curb inflation. This increase will likely carry the policy rate to 5.5%.

These actions by the BOJ will continue to reduce JMD liquidity, which is already tight. As JMD liquidity continues to tighten, this will intensify competition for cash by market players such as deposit taking institutions (DTIs) in order to maintain their liquid asset ratios. Against this background, market rates are anticipated to remain elevated. As at 16th of June, a total of J\$15.96Bn was in the market as reflected in the BOJ's aggregate current balances, representing a 56.2% falloff from the J\$36.4Bn that was in the market on June 9th. Owing to this, market players were once more mainly square last week, although some players were liquid due to maturities on their portfolios. The average yield from the Bank of Jamaica's (BOJ) competitive auction also remains elevated; however, it continued to decline for the second week to 7.30% relative to 7.48% in the prior week. The highest bid for full allocation was 7.50%.

On the other hand, the USD money market will remain stable despite market activity changes, including the 75bps increase from the Federal Reserve. Stable inflows from remittances and additional BFXITT auctions by BOJ to sterilize JMD liquidity will support stability in the market. It is our view that the BOJ will continue to bolster liquidity via BFXITT auctions as it seeks to bring inflation back within target. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.00% to clients.

Dates to watch this week

June 2022				
MON	TUE	WED	THUR	FRI
20	21	22	23	24
	Key Insurance AGM	TJH AGM	UK's Consumer Confidence (June)	FESCO Dividend Payment (\$0.01)
		UK's CPI (YoY) (May)		FTNA Dividend Payment (\$0.10)
		SALF Dividend Payment (\$0.055)		
		European Central Bank Non-Monetary Policy Meeting		
		Canada's Core CPI (YoY) (May)		

Stock Recommendations

Ticker	Closing Price (June 17)	P/E	Avg. Sector P/E	Current Recommendation
MAILPAC	\$2.71	19.4x	23.4x	BUY
WISYNCO	\$18.99	18.6x	17.7x	BUY
JMMBGL	\$42.07	7.2x	12.0x	HOLD
MASSY	\$91.97	13.0x	12.5x	BUY
JAMT	\$2.98	16.6x	20.6x	BUY
PROVEN (JMD)	\$37.65	11.5x	12.0x	BUY
LAB	\$2.82	20.1x	17.4x	HOLD
SJ	\$56.00	11.9x	12.0x	HOLD
SEP	\$70.51	24.7x	17.7x	HOLD
QWI	\$0.87	4.0x	12.0x	HOLD
GK	\$104.48	12.5x	12.5x	BUY
CCC	\$63.04	12.6x	18.9x	BUY
PanJam	\$65.47	9.6x	12.0x	BUY
KW	\$36.77	15.8x	16.9x	BUY
Lumber	\$3.28	12.1x	23.4x	BUY
Tropical	\$2.62	24.3x	23.4x	HOLD

Regional News

CBTT: Rising Fertiliser Prices Will Lead To High Cost Of Imported Food (Trinidad and Tobago Guardian & CBTT)

The Central Bank of Trinidad & Tobago stated that the supply-side stimulus to both food and core inflation in the twin island is anticipated to persist to the end of 2022. According to its latest Monetary Policy Report, rising fertilizer prices will lead to higher costs of imported food. The war in Ukraine has disrupted the supply of agricultural factor inputs such as potash fertiliser, and any resolution to reduce fertiliser application may result in lower crop yields which can elicit export restrictions from major food-exporting nations. Inflation remained relatively anchored at 4.1% in March 2022 (up from 3.9% in October 2021), but several supply-side factors such as high and rising international food prices and international transport delays had notable pass-through to domestic prices. Elevated energy and food prices and increased external demand as economies recover are expected to be the driving factor for inflation. Thus far the Central Bank of Trinidad and Tobago has kept its monetary policy stance unchanged with its short-term rate on its overnight collateralised financing to commercial banks, at 3.5%. Fitch Solutions expects the bank to raise the rate moderately to 3.75% as inflation rises.

World Bank Predictions Reassure Dominican Republic (Dominican Today)

Dominican Republic will be one of the few economies in Latin America that will experience growth this and next year. This statement was made by the Central Bank of the DR (BCRD) and supported by the World Bank, as it forecasts 5.0% growth for the country, while reducing forecasts for almost two dozen countries in its recent "World Economic Outlook". The International Monetary Fund (IMF) and the international risk rating agency Moody's have co-signed the excellent performance of DomRep, reaffirming that the country's prospects remain favourable with a similar GDP growth projection of around 5.0%. According to the BCRD, the economy achieved a growth of 5.8% in January-April 2022, and registered an increase of 4.7% in April alone. Growth in the first quarter of the year was 6.1% owing to the recovery of the hotels, bars, and restaurants sector.

However, the World Bank warns that "an aggravating factor of the damage caused by the COVID-19 pandemic, and the Russian invasion of Ukraine have exacerbated the slowdown in the world economy, which is entering what could become a prolonged period of low growth and high inflation." Notably, the danger of the economic situation that has prevented many countries from growing is that it increases the risk of stagflation (a period of high inflation combined with economic stagnation) with potentially damaging consequences for both middle-income and low-income economies. The Central Bank has preventively raised its monetary policy rate by 350 points, from 3.00 in December 2021 to 6.50 points in June 2022, to counteract domestic inflation. However, it is taking care not to cause an abrupt drop in economic activity and employment due to higher borrowing costs.

War Begins To Impact Food In Latin America (Dominican Today)

Global commodity inflation, aggravated by the war in Ukraine, threatens to leave 14Mn people in Latin America with challenges accessing food supply, almost 50% more than the current figure, the United Nations World Food Program (WFP) warned yesterday at a press conference. There are currently 9.7Mn people in this situation of food insecurity in 13 countries of the region. However, they are trying to alleviate food shortages with imports from regional producers such as Mexico or Argentina, said the organization's director for the region, Lola Castro. The region had suffered multiple crises due to climate change and adverse supply chain impacts of the pandemic, which put 17.7Mn people in a situation of food insecurity. By the end of 2021, the figure had dropped to 8.3Mn. However, implications of the current geopolitical issues on food supply are exacerbating the food security issues in the region. Although Russia and Ukraine do not export large quantities of grains and other foodstuffs to the region, the

generalized rise in food prices across the global market has severely affected many Latam countries, which in some cases are net importers of these basic goods.

International News

BoE Nudges Rates Up Again But Says It's Ready To Act Forcefully (Reuters)

The Bank of England stuck to its gradual increases in interest rates on June 15, 2022, as other Central Banks such as the US Fed, took more urgent action. It increased its Bank Rate by another 25 basis points even as it warned that Britain's economy would shrink in the April-June quarter. The Monetary Policy Committee voted 6-3 for the hike to 1.25%, the same breakdown as in May with the minority voting for a 50 basis-point increase. Britain's benchmark rate is now at its highest since January 2009, when borrowing costs were slashed as the global financial crisis raged. It was the fifth time the BoE has raised rates since December when it became the first major central bank to tighten monetary policy following the COVID-19 pandemic. The BoE continues to raise rates even though it has warned a sharp economic slowdown is coming, because consumer price inflation hit a 40-year high of 9% in April, more than four times the BoE's 2% target. The central bank has said that inflation would peak slightly above 11% in October when energy bills go up again. Britain's inflation surge looks set to last longer than in many other economies, partly reflecting its mechanism for domestic power tariffs but also because of the hit to trade. Further, a chronic lack of workers to fill vacancies is worrying the BoE because it could lead to a jump in wages that further feeds inflation. A fall in the pound in recent weeks, caused largely by rising interest rate expectations elsewhere, threatens to add to inflation pressure in Britain. The BoE said the sterling had been "particularly weak against the U.S. dollar".

Fed Says Commitment to Restoring Price Stability 'Unconditional' (Bloomberg)

The Federal Reserve said it would do what is needed to get prices under control, reiterating that price stability is necessary to support a strong labor market and calling its commitment to reining in inflation "unconditional." "The committee is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials," the Fed said in its semi-annual report to Congress released Friday. "The committee's commitment to restoring price stability -- which is necessary for sustaining a strong labor market -- is unconditional." The report, which provides lawmakers with an update on economic and financial developments and monetary policy, was published

on the central bank's website ahead of Chair Jerome Powell's testimony before the Senate Banking panel Wednesday and House Financial Services Committee a day later. Fed officials lifted their benchmark rate by 75 basis points this week -- the largest rate increase since 1994 -- and signaled that more hikes are coming as they combat an inflation rate at a 40-year high. Powell said the central bank could raise rates by 50 basis points or by 75 basis points in July, depending on what happens with inflation and the economy.

Policy makers decided on a more aggressive rate increase after an inflation report last week came in hotter than anticipated and some preliminary surveys suggested consumers' inflation expectations could be rising. Fed officials view keeping inflation expectations anchored as an important step to preventing price increases from spiraling out of control. The consumer price index rose 8.6% in May from a year earlier, according to data released by the Labor Department last week. Financial conditions tightened "significantly" this year as the Fed raised interest rates in response to higher inflation, with equity prices declining and corporate bond yields rising, the Fed said. Funding pressures also emerged in commodities markets after Russia invaded Ukraine, but the financial system remained "resilient," the central bank said. Recent strains in stablecoins and other digital assets shed light on the vulnerabilities for those markets, the Fed said. "The collapse in the value of certain stablecoins and recent strains experienced in markets for other digital assets demonstrate the fragility of such structures," the report said.

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.

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