NCB CAPITAL MARKETS LIMITED

August 15, 2022

Market Guide

THIS ISSUE

"Know what you own, and know why you own it." — Peter Lynch

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Are Falling Commodity and Shipping Rates Providing a Silver Lining Amid Recessionary Fears?

Expectations of recession in many major developed countries have taken the spotlight in recent weeks against the background of sustained high inflation, aggressive central bank policy rate hikes, declining consumer confidence, a downturn in risky assets and multiple yield curve inversions. In the US, the median probability of a recession over the next 12 months was 47.5% in July 2022, up from 30% in June, according to a Bloomberg survey of economists. Meanwhile, for regions like Europe economists see a higher 50-55% probability of recession, while in Asia they see a lower probability of 20-25%[1]. Amid these concerns, there appears to be a silver lining with the recent softening in shipping and key commodity prices. A fall in demand for goods, given increased inventory levels for major retail businesses, has led to a decline in shipping prices. In fact, major retailers in the US, such as Target and Walmart, have reported that their stock levels have risen disproportionately, which has caused them to scale back orders[2] and even mark down the inventory of durable goods. Commodity prices have also fallen on fears that a global recession could cause a reduction in production worldwide. The Russia-Ukraine deal to allow the shipment of key commodities like Oil and Wheat to augment supplies have also contributed to the decline in commodity prices. This softening in these major inflation-inducing variables, along with the declining inflation rate in the US and Jamaica, point to a possible peak in inflation. This begs the question - Will central banks halt their policy rate hikes? A halt in the policy rate hikes would mean more certainty around borrowing rates, which might just be a salve needed by business and consumer confidence. This could potentially encourage investment by businesses and more discretionary spending by consumers.

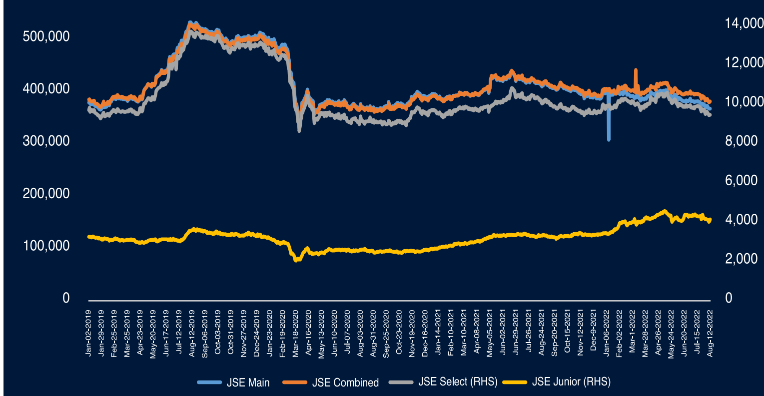
Though shipping and key commodity prices have increased year-to-date, they have all declined significantly from their respective peak prices[3] in early 2022 (see table 1). Oil prices have been trending down in recent weeks on account of fears of a recession that could weaken global demand for the commodity. Wheat prices have also fallen as more ships sail from Ukraine to bring grain exports into global markets following the Russian-Ukraine deal in late July 2022. This is a positive for economies, businesses, and consumers alike. Shipping costs are also cooling due to decreased demand and higher

1 Bloomberg

2 CNBC

3 Peak price date for Crude Oil was March 8,2022, the Peak Price date for Wheat was May 17, 2022, the Peak Price date for Lumber was March 3, 2022 and the peak price date for Shipping rates was January 28, 2022

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	380,712.84	-1.37%	-5.1%
Main Market Index	367,335.68	-1.50%	-7.3%
Select Index	9,475.14	-1.67%	-4.1%
Junior Market Index	4,142.42	-0.17%	20.8%

WINNERS & LOSERS (FOR THE WEEK ENDED AUG 12, 2022)

	$ Change	% Change
PBS 9.75% CR	+$47.05	+43.2%
AFS	+$4.78	+23.2%
FirstRockUSD	-$0.02	-26.9%
SRFJMD	-$2.18	-18.3%

MARKET OVERVIEW

Market activity last week continued to be reflective of investors mostly selling down their positions and the current seasonality effect as stock markets usually experience a summer lull, given that investors go on vacations during this time, causing slow market activity and a falloff in its performance. The sell-down could also be a result of investors seeking liquidity to participate in the One On One initial public offering which opened and closed last Friday. During the week, 121 stocks were traded of which 47 advanced, 62 declined and 12 traded firm. Against this backdrop, all major indices declined. The JSE Select index and the JSE Main Index posted the largest declines of 1.67% and 1.50%, respectively. The main decliners were First Rock Real Estate Investments Limited (26.9%) and Sygnus Real Estate Financial Limited (JMD) (18.3%). Overall the main advancer for the week ending August 12, 2022, was Productive Business Solutions Limited 9.75% Cumulative Redeemable shares, which gained $47.05 or 43.2%. This could be driven by added demand for the stock as the company is seeking to raise up to $2.6Bn in two preference share offers to support business expansion. Access Financial Services the other top advancer last week was up 23.2% or $4.78. Investor demand for the stock rose, as news got out on Dolla Financial Services Ltd.'s intentions to acquire AFS, which created a strong demand that caused upward price action.

inventory, but remain above the 2019 levels. Against this background, it would appear that shipping and key commodity prices have peaked. That being said, given that prices have been locked into existing supply contracts, the effect of falling commodity prices will likely not be immediate. However, the heatwave in much of the northern hemisphere is threatening all crops, including wheat as harvest time begins, which could claw back some of the current declines in prices. Additionally, forecasts for increased demand for Crude oil in 2023 might result in some upward pressure on oil prices[4] . However, the demand forecast was revised downwards for 2022 which may ease oil price pressures for the remainder of the year.

These variables have been the main drivers of global inflation in the first half of the year. Consequently, the softening in prices is also translating into slower increases in consumer prices in some developed and developing countries. In the US, the point-to-point inflation rate decreased to 8.5% in July, down from 9.1% in June, which is an indication that price pressures may have peaked. Similarly, locally, point-to-point inflation declined to 10.2% for July from 10.9% in June 2022. July's figure which was published on August 15, was in-line with expectations as the Bank of Jamaica indicated in its latest monetary policy report that the inflation rate was expected to reach its peak in June 2022. With the easing in commodity and shipping prices and inflation seemingly peaking, will central banks halt their policy rate hikes in the coming months? Given the increasing probability of a recession in the near term in many developed and developing countries, this move to halt rates may even be justified to stave off a downturn. The case for halting might be even stronger as other factors that contribute to inflation namely, food prices have been decreasing from high levels in recent months. The Food and Agricultural Organization has noted a 11.8% decline in global food prices for July relative to the peak price level in March. This decline in food prices has been reflected locally. Food prices in Jamaica have been declining over the last four months, albeit at a much slower pace than reported by the FAO as prices tend to be sticky downwards.

Now to answer the question posited earlier, although price pressures are easing, we don't hold the view that central banks will halt their rate hikes in the near term as inflation is still at historic highs. Despite positive signs last week that inflation could be easing, inflation in the US remains high and well above its target range of 2%. As such, the Federal Reserve is unlikely to pivot from its hawkish interest rate hikes until rates fall towards healthy levels. Similarly, with local inflation significantly above the 4-6% target range, the BOJ will likely continue its rate hikes to quell inflationary pressures and get the inflation rate back within its target range, including at its next policy rate decision announcement on August 18, 2022.

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...With the easing in commodity and shipping prices and inflation seemingly peaking, will central banks halt their policy rate hikes in the coming months?

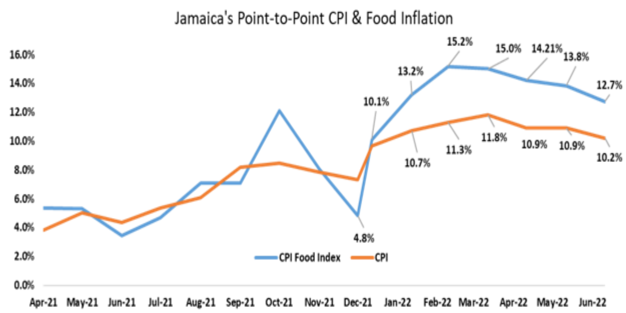
4 The IEA raised its forecast for oil demand for 2023, but reduced their forecast for 2022

Table 1: Shipping and Commodity Price Trends

Commodity/ Shipping Prices	Dec-31-2021	Peak 2022 Price	Current Price	Peak Prices Vs Dec 31-2021 (% Change)	Peak Price Vs Current (% Change)	YTD % Change
Crude Oil WTI	89	124	94	38.7%	-24%	5%
Wheat	279	438	338	57.4%	-23%	21%
Lumber	1,148	1,464	596	27.6%	-59%	-48%
Shipping Rates	9,293	9,806	5,956	5.5%	-39%	-36%

Source: Market Insider, EIA,Freightos Data

Graph 1: Jamaica's Point–to–Point Food Inflation



Source: STATIN

Foreign Exchange Market

The Jamaican dollar appreciated by 0.81% relative to the USD, week over week, with the USD selling rate moving from J$153.71 on August 5th to J$152.47 on August 12th. The appreciation was fueled by higher USD sales into the market as brokers compete for JMD in a tight market.

Selling	Close: 05/08/22	Close: 12/08/22	Change
J$/US$1	$153.71	$152.47	-$1.24
J$/CDN$1	$119.14	$119.52	+$0.38
J$/GBP£1	$184.27	$187.68	+$3.41

Global Bond Prices

Prices rallied in the global markets last week largely due to signs of disinflation seen in the Consumer Price Index (CPI) and Producer Price Index (PPI) supporting the inflation peak narrative. Total CPI was unchanged month-over-month and core CPI, which excludes food and energy, was up a smaller-than-expected, 0.3%. Importantly, the annual pace of total CPI moderated to 8.5% from 9.1%, while the annual pace of core CPI held steady at 5.9%, not moving higher as had been feared. PPI fell 0.5% month-over-month in July 2022, following a downwardly revised 1% rise in June and beating market forecasts of a 0.2% increase. It is the first decline in the PPI in over two years, mostly due to a 16.7% drop in gasoline prices. The PPI is up 9.8% year-over-year.

Investors relished the idea that inflation might have peaked, that the Fed might be able to temper the pace of its rate hikes, and that the U.S. economy, which learned in the week before that 528,000 positions had been added to non-farm payrolls in July, might be able to enjoy a soft landing. Various Fed officials attempted to downplay the idea of the Fed being ready to take its foot off the rate-hike pedal, not to mention pivoting in 2023 to a rate-cut cycle as there is a lot more room for inflation improvement and there needs to be a lot more improvement to convince the Federal Reserve that inflation is back under control, but the markets were seemingly more focused on the positives of the week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	BB-/ Stable	98.50	6.57%	BUY
Sagicor Fin 2028 (5.30%)	BB-/ Stable	96.00	6.14%	BUY
DOM REP 2033 (6.00%)	BB-/ Stable	94.75	6.70%	BUY
GEOPAR 2027 (5.5%)	B+/ Stable	92.50	7.53%	BUY
TPHLTT 2029 (9.00%)	BB	107.29	7.64%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	103.25	6.01%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	99.25	3.90%	BUY

GOJ Globals

The 10-year Treasury yield closed higher at 2.85%, while Jamaica and Dominican Republic bonds increased by several points along the curve as tabled below.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	109.5	4.63%
	2039	117.00	6.15%
	2045	116.50	6.33%

*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	6.75%	105.00	6.47%
JBG	2028	6.75%	104.20	5.95%
Seprod	2024	7.25%	103.55	5.70%

Money Market

Tight liquidity conditions in the JMD market are intensifying, leading to strong competition for cash by market players to maintain liquid asset ratios and stay sufficiently liquid (cash). As at the 11th of August, a total of J$5.6Bn was in the market, as represented by the BOJ's aggregate current balances, representing a 13.65% WoW increase. Consequently, rates are expected to remain elevated. Market players were mainly square last week, with very limited lending for one week, as high as 6.75% – 7.40%. The average yield from BOJ's competitive price auction remains elevated with the yield on its 30-day CD increasing to 8.64% last week relative to 8.06% in the prior week, rising for the sixth consecutive week. The CD auction was undersubscribed with the highest bid rate for full allocation and highest submitted bid rate both standing at 10.999%. The elevated BOJ CD rates have caused demand for higher rates in the market. Additionally, three of the Government of Jamaica's Benchmark Investment Notes were re-opened on August 10, 2022 of which two were undersubscribed. The total offer volume for the three notes was J$15Bn with allocated bids totaling J$10.5Bn. The average yields of the issuances ranged between 8.74%-9.98%. Three treasury bills totaling J$2.2Bn were also offered to the market of which all were oversubscribed. This could have been primarily due to the treasury bills being shorter-term instruments for which there is currently a preference in the market. Additionally, the total offer volume for the notes was J$15B which was significantly larger than that of the t-bills which was J$2.2B. The average yields ranged between 7.64%-8.42%. All these offerings took significant liquidity from the market as intended by the BOJ, especially in consideration of the BOJ USD-Indexed bond with a value of US$121,621,700, which matured the prior week.

In contrast, USD money market continues to reflect stability and a moderately liquid position. Broker demand for USD remains at 30-days and longer-tenured funds, with some brokers offering as high as 5.00% for one year to clients. Despite positive signs last week that inflation in the U.S. could be easing, inflation remains high and well above its target range, as such the Federal Reserve and Bank of Jamaica are unlikely to pivot from their interest rate hikes. However, markets have started to moderate their expectations for Fed rate hikes. Still, the positive data does not mean it is "mission complete". Key market strategists are of the view that the Fed is nowhere near putting the brakes and turning dovish on rate hikes, given the current data. Additionally, Fed officials have publicly declared their support of the rate hikes until inflation is subdued. With the rate hikes and the slowing U.S. economy along with reports of current liquidity strains in U.S. markets, USD liquidity locally could be adversely affected in the upcoming months. Improved tourism inflows and remittances along with BOJ's periodic intervention in the FX market have been supporting USD liquidity. The BOJ sold US$126.1Mn to the market in July; however, there has been no intervention since the beginning of August. It is expected that the BOJ will continue to intervene as necessary to maintain stability in the foreign exchange market. The BOJ is expected to announce its policy rate decision on August 18, 2022. It is anticipated that it will continue its rate hikes with the aim of quelling inflationary pressures and getting the inflation rate back within the 4.0%-6.0% target range.

Stock Recommendations

Ticker	Closing Price (August 12)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.06	16.7x	15.0x	BUY
JMMBGL	$43.95	7.5x	10.3x	HOLD
MASSY	$87.06	11.6x	11.5x	BUY
JAMT	$2.76	21.2x	12.0x	BUY
LAB	$2.89	20.6x	18.8x	BUY
SJ	$54.50	11.6x	10.3x	HOLD
SEP	$69.50	21.1x	15.0x	HOLD
QWI	$0.82	3.7x	10.3x	HOLD
GK	$96.42	11.5x	11.5x	BUY
CCC	$59.77	11.9x	17.7x	BUY
PJAM	$59.70	8.7x	10.3x	BUY
KW	$37.67	16.2x	17.7x	BUY
LUMBER	$2.88	11.1x	18.8x	BUY
TROPICAL	$2.66	20.8x	18.8x	HOLD
ELITE	$3.30	28.7x	15.8x	BUY

Dates to watch this week

August 2022

MON	TUE	WED	THUR	FRI
15	16	17	18	19
ROC Annual / Extra-Ordinary General Meeting	CAN CPI July (YoY)	GB CPI YoY (July)	BOJ Policy Announcement	
CPI (Point to Point)	GB Unemployment Rate (June)	KW Dividend Payment ($0.24)	CABROKERS Annual / Extra-Ordinary General Meeting	

Regional News

Mexico's July Inflation Seen At Highest Level Since 2000 (Reuters)

According to a Reuters poll, Mexican inflation in July will likely speed up again to a near-22-year high, fueling bets the country's central bank will continue to hike its key interest rate through the rest of the year. Notably, Mexico's central bank, which targets inflation at 3% plus or minus one percentage point, has raised its benchmark interest rate by 375 basis points over its last nine monetary policy meetings, to 7.75%. With annual core inflation, which strips out some volatile food and energy prices, forecast to reach 7.60%, the highest since late 2000, the market is expecting a further 75-basis-point hike at the bank's next rate decision scheduled for Thursday. Analysts are projecting that the total interest rate will hit 9.5% by the end of the year.

Major Hub Coming to Barbados (Barbados Today)

The Executive Board of the International Monetary Barbados will soon be home to a World Food Programme logistics hub which will make it easier for food supplies to be transported to Caribbean countries impacted by natural disasters. The programme will set up its hub giving it easy access to the runway, Barbados' network and the rest of the Caribbean. The main component of the hub will be a large warehouse that will allow the World Food Programme to pre-position food and other necessary supplies for the aftermath of a disaster.

The government plans to play a role in the logistics centre to benefit Barbadians and other Caribbean nationalities. Of note, after hurricanes Maria and Irma ravaged neighbouring nations, especially Dominica, it became evident that the program's presence in the region was inadequate. The hub can improve access to healthy foods in low-income or underserved areas by making it easier for farmers to offer their products in these areas by assuming costs associated with infrastructure and logistics. That said, Barbados stands to benefit as logistics hubs add value by lowering the costs of transportation, storage, and distribution of commodities from producer to consumer, boosting business competitiveness.

International News

The U.S. to Send $4.5 Billion More to Ukraine For Budget Needs (Reuters)

The United States will provide an additional $4.5 billion to Ukraine's government, bringing its total budgetary support since Russia's February invasion to $8.5 billion, the U.S. Agency for International Development said on Monday, August 8th, 2022. The funding, coordinated with the U.S. Treasury Department through the World Bank, will go to the Ukraine government in tranches, beginning with a $3 billion disbursement in August, USAID, the Agency for International Development, said.

It follows previous transfers of $1.7 billion in July and $1.3 billion in June, USAID said. Washington has also provided billions of dollars in military and security support. The Pentagon announced a $1 billion arms aid package on Monday, August 8th, 2022. Overall, the United States has contributed more than $18 billion to Ukraine this year. The new budgetary funds are to help the Ukrainian government maintain essential functions, including social and financial assistance for the growing poor population, children with disabilities, and millions of internally displaced persons, as the war drags on. However, it is important to note that the World Bank estimates that 55% of Ukrainians will be living in poverty by the end of 2023 as a result of the war and the large numbers of displaced persons, compared with 2.5% before the start of the war.

U.S. Spending Bill to Cut inflation, Deficit Over Time - Moody's (Reuters)

A sweeping bill passed by the U.S. Senate on Sunday, August 7th,2022, is intended to fight climate change, lower drug prices, raise some corporate taxes, bring down inflation over the medium to long term, and cut the deficit, rating agency Moody's Investors Service told Reuters on Monday, August 8th, 2022. The Senate on Sunday, August 7th,2022, passed the $430 billion bill, a major victory for President Joe Biden, sending the measure to the House of Representatives for a vote, likely Friday. They are expected to pass it and send it to the White House for Biden's signature.

The legislation, known as the Inflation Reduction Act, however, will not bring down inflation "this coming year or next year," said Madhavi Bokil, senior vice president at Moody's Investors Service. "We do think that this act will have an impact (of cutting inflation) as it increases productivity," she said, adding her horizon was two to three years. However, it was argued by the Republicans, that the bill will not address inflation, and have denounced it as a job-killing, left-wing spending wish list that could undermine growth when the economy is in danger of falling into recession. Nonetheless, Bokil mentioned that the spending bill was complementary to another bill recently passed by Congress, which aimed to subsidize the U.S. semiconductor industry and boost efforts to make the United States more competitive with China.

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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