

Market Guide

THIS ISSUE

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“Investing puts money
to work. The only
reason to save money
is to invest it.” ~ Grant
Cardone

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More than Half a Dozen Rate Hikes to Drive Global Inflation Fight

Global Central Banks continued raising interest rates last week in a fight against high inflation. Inflation rates ranging from Switzerland's 3.5% to nearly 10% in the United Kingdom, while easing, have remained stubbornly higher than their target ranges. The rebound in demand since the pandemic subsided and economies reopened, supply chain disruptions and high fuel and other commodities prices in the wake of Russia's invasion of Ukraine, have driven global consumer prices higher. However, there have been some improvements in recent weeks. Oil prices¹ are at their lowest levels since January 2022 on fears of a recession, and other drivers of inflation, although still elevated, are showing signs of easing. The U.N. Food and Agriculture Organization's global food price index has fallen for five consecutive months, but as at August, it remains 23% above its value a year ago (138.0 points), due to large year-on-year increases in the prices of cereals and vegetable oil, as well as dairy products. Further, while there are some signs of easing in supply chain conditions², material shortages, trucking and shipping capacity restraints continue to keep

supply chain pressures elevated. In light of these factors, global Central Banks have sustained their aggressive rate hikes in a bid to slow consumption and quickly reduce the pace of inflation. Although these inflation-inducing factors are exogenous to the Jamaican economy, the effects have filtered through given the country's heavy dependence on imported goods. Similar to the trend seen globally, local inflation has eased but remains outside the Bank of Jamaica's target range. As such, we believe the pending monetary action will see the BOJ administering an additional rate hike when it meets this week.

Central Banks Unleash 525 Basis Points Rate Hikes in Inflation Fight

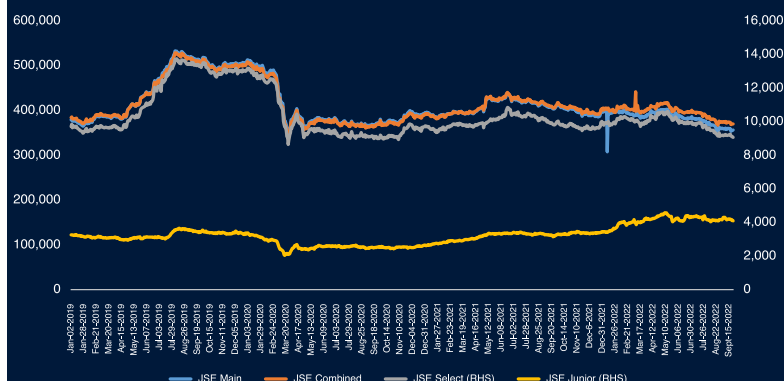
Major Central Banks have stepped up their fight against inflation, unleashing another 525 basis points (bps)³ of hikes in a pivotal week in which policymakers sustained their focus on bringing inflation back within their respective targets. The US Federal Reserve lifted its benchmark interest rate by 75bps to a range of 3.00%-3.25%. This came after the US Consumer Price Index rose 8.3% in August (see Figure 1) from a year earlier, falling only marginally

1 Oil tumbled as much as 5.7% to \$78.73 a barrel on September 23, the lowest intraday level since January 11.

2 In August, the Global Supply Chain Pressure Index run by the New York Federal Reserve fell for the third straight month in a row, taking it to the lowest level since January 2021. The bank's index, which incorporates data on shipping costs, delivery times, backlogs and other statistics into a single measure, is down 57% since its peak almost 18 months ago, though it still remains significantly above levels seen just before the start of the pandemic.

3 US Federal Reserve (75bps), BoE (50 bps), Bank of Indonesia (50 bps), Sweden (100 bps), Philippines (50 bps), South African Reserve Bank (75 bps), Swiss National Bank (75 bps), and Norges Bank (50 bps).

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	369,822.91	-0.86%	-7.8%
Main Market Index	356,098.21	-0.67%	-10.1%
Select Index	9,071.49	-1.45%	-8.2%
Junior Market Index	4,100.11	-2.52%	19.6%

WINNERS & LOSERS (FOR THE WEEK ENDED SEPT 23, 2022)

	\$ Change	% Change
JMMBGL7.00NC	+\$0.55	+28.2%
CAC	+\$1.34	+19.3%
ICREATE	-\$1.24	-36.1%
EPLY7.50	-\$1.90	-24.1%

MARKET OVERVIEW

Last week, all major indices declined, with the JSE USD Equities Index and the JSE Manufacturing & Distribution Index posting the largest declines of 4.83% and 2.81%, respectively. Last week's performance was underpinned by thin volumes, and depressed queues. The decline in the indices was also reflective of a falloff in the prices of large cap stocks. During the week, 118 stocks were traded of which 46 advanced, 67 declined and 5 traded firm. The main decliners on the stock level were Icreate Limited (-36.1%) and Eppley 7.5% Pref shares due 2024 (24.1%). Overall the main advancer for the week ending September 23, 2022, was JMMB Group 7% VR Cumulative Redeemable Pref shares which gained \$0.55 or 28.2% to close at \$2.50. Behind was CAC 2000 Ltd., which gained \$1.34 or 19.3% to close at \$8.30.

compared with 8.5% in July. Although lower, this is significantly above its target of 2%. Inflation remained elevated given rapidly rising costs for rent, health care, restaurant meals and goods such as furniture offsetting most of the relief consumers were feeling at the fuel pump. Projections show the US Fed rate rising to the 4.25%-4.50% range by the end of this year and ending 2023 at 4.50%-4.75%.⁴ Further, at its September meeting, the Fed downgraded its GDP forecast to 0.2% in 2022 from 1.7% in June⁵. In light of the Fed showing little signs of stepping back from its aggressive rate hike stance, the US stock market has declined⁶ and Goldman Sachs has cut its year-end 2022 target for the benchmark S&P 500 index by about 16% to 3,600 points. Additionally, the JP Morgan EMBI+⁷ fell 2.5% last week and JP Morgan projects that it will decline by 7.1% for 2022.

The Bank of England (BoE) and other central banks also raised rates in a similar fashion. In an attempt to combat rising prices, the BoE hiked interest rates by 50 bps to 2.25% on September 22, less than the market expectation of 75 bps. UK's point to point inflation edged down slightly to 9.9% in August, from the 10.1% recorded in the 12 months to July, and the first downward move since September 2021. Despite the decrease in the headline rate, inflation remains at nearly five times the 2% target. Nevertheless, the trajectory echoed a similar path to the US inflation and could be a sign that inflation might have peaked. Lower pump prices for petrol and diesel drove the decline; however, the benefit of lower fuel costs was

largely offset by rising food bills. In other regions where inflation continues to breach Central Banks' target range, Indonesia, Sweden, the Philippines, and South Africa, rates were lifted. A 75bps increase to 0.5% by Switzerland's Central Bank ended the era of below-zero interest rates in Europe⁸. Norway, the first big developed economy to kick off a rate-hiking cycle last year, also raised its benchmark rate by 50bps to 2.25% owing to elevated inflation, while also stating that future hikes could be more gradual. Norway could be the first Central Bank to signal that the interest rate peak is near. However, other Central Banks such as the Fed and BOE have projected a more protracted tightening cycle than previously forecasted, with higher peak rates. This has increased recessionary fears and investor risk aversion in financial markets causing asset prices to decline.

Food Prices Keep Local Inflation High but Softening in Variables Point to Inflation Peak

Consistent with global inflation news, food prices continue to keep inflation rates elevated in Jamaica. According to STATIN, the point to point inflation for August stood at 10.2% (see Figure 2) driven by higher food prices⁹, which is primarily due to imported inflation. While steady month over month, the inflation rate is still firmly outside of the BOJ's 4% to 6% target range for the 13th consecutive month. That said, the global and local economies should benefit from the recent fall in commodity prices on fears that a global recession could cause a reduction in production worldwide. The softening in these major inflation-

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4 The terminal rate was raised to 4.4% for 2022, from an estimate in June of 3.4%, and is projected at 4.6% for 2023, up from 3.8%.

5 The growth estimate for 2023 was also lowered to 1.2%, down from a projection of 1.7%.

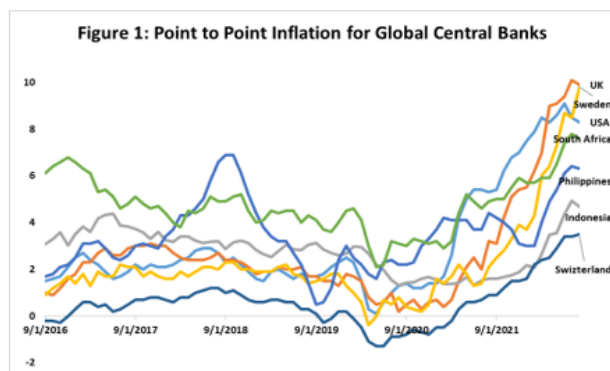
6 The day after the Fed's announcement, the Dow closed down 108 points, 0.4%, at 30,076, the Nasdaq Composite lost 153 points, 1.4%, to 11,067 and the S&P 500 declined 32 points, 0.8%, to 3,758.

7 The J.P. Morgan Emerging Markets Bond Index Plus (EMBI+) tracks liquid, US dollar emerging market fixed and floating-rate.

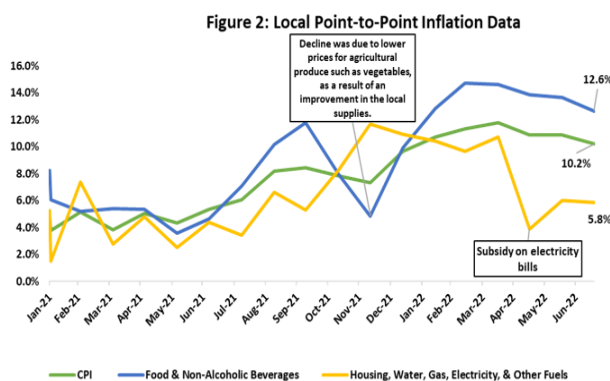
8 Bank Indonesia raised rates by 50 basis points to 4.25%. Sweden raised rates by 100bps to 1.75% and warned of more to come over the next six months as it gets to grips with surging inflation. The Philippines' raised by 50 basis points to 4.25%. The South African Reserve Bank hiked its repo rate by 75bps to 6.25% from 5.5%. The Swiss National Bank (SNB) raised its policy rate on by another 75bps from -0.25% to 0.5%.

9 The following divisions contributed to elevated inflation: 'Food and Non-Alcoholic Beverages' (12.6%), 'Transport' (15.2%) and 'Restaurant and Accommodation Services' (19.1%).

inducing variables, along with the declining inflation rate in the US and Jamaica, point to a possible peak in inflation. The Bank of Jamaica continues to expect that, consistent with global consensus forecasts, commodity prices (oil and grains) will continue to fall in the remainder of the year, and that local inflation will average 8.0% to 9.0% over the next two years, as long as tensions between Russia and Ukraine do not escalate and inflation among Jamaica's trading partners falls. The BOJ is projecting inflation to fall within the target range of 4% to 6% by the December 2023 quarter. However, there is a small risk stemming from the impact of the heavy rains on agricultural crops and prices. Nevertheless, the MPC will continue to closely monitor global and domestic economic developments and is prepared to pause its monetary policy tightening if the incoming data continues to reflect a downward track for inflation. That being said, given that inflation continues to breach the BOJ's target range, we could see the BOJ raise its policy rate at its next announcement on September 29th.



Source: Bloomberg



Source: STATIN

Foreign Exchange Market

The Jamaican dollar appreciated by 0.03% relative to the USD, week over week, with the USD selling rate moving from J\$152.74 on September 16th, 2022, to

J\$152.69 on September 23rd 2022. This marginal appreciation continues to be influenced by the Bank of Jamaica's intervention in the market with a total of US\$60.0Mn during the week of September 12th, which increased the supply of USD in the market.

Selling	Close: 09/09/22	Close: 16/09/22	Change
J\$/US\$1	\$152.74	\$152.69	-\$0.05
J\$/CDN\$1	\$116.69	\$114.13	-\$2.56
J\$/GBPE1	\$174.35	\$167.45	-\$6.90

Global Bond Prices

On September 21, the Federal Open Market Committee (FOMC) voted unanimously to raise the target range for the fed funds rate by 75 basis points to 3.00-3.25%, as expected. Following the announcement and the Fed's admission that rate hikes could continue in 2023, the summary of economic projections showed a noticeably higher terminal/peak rate of 4.60%, from 3.80%, which was higher than the market anticipated. There are currently two monetary policy decisions remaining for 2022 which are scheduled for November 2 and December 14. Additionally, Russian President Putin is ramping up his war effort in Ukraine by calling for a "partial" mobilization of 300,000 reservists, while also threatening that Russia would use its nuclear weaponry if provoked. Together these developments resulted in the falloff of bond and equity prices as market risk aversion rose. Dominican Republic and Jamaica bonds responded in tandem trading several points lower and trading activity was relatively low. The 10-Year Treasury yield continued to trend higher to close at 3.69% from 3.45% reflecting the policy rate hike as well as the expectation for the policy rate to increase again before the year ends.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
PETRO-RIO 2026 (6.13%)	B+/ Positive	93.25	8.28%	BUY
Sagicor Fin 2028 (5.30%)	BB-/Stable	97.00	5.93%	BUY
DOM REP 2033 (6.00%)	BB-/Stable	84.5	8.25%	BUY
TPHLTT 2029 (9.00%)	BB/Stable	107.50	7.58%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	101.00	6.68%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	97.25	4.42%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	105.25	5.44%
	2039	111.0	6.69%
	2045	111.50	6.71%

*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%	104.00	5.75%

Money Market

Though there was an increase in the aggregate balances held by DTIs, JMD liquidity remains tight and as such, the market continued to see high levels of competition for cash by market players in order to maintain liquid asset ratios and stay sufficiently liquid. Therefore, rates are expected to remain elevated. As at the 22nd of September, a total of J\$29.68B was in the market, and was held primarily by a few DTIs as represented by the BOJ's aggregated current balances. The aggregated closing current account balance for DTIs increased by J\$11.1B (59.74%) week-over-week, moving from J\$18.58B on September 15th. Market players were mainly square last week, with very limited overnight lending.

The average yield from BOJ's competitive price auction continued its downward trend to 7.56% relative to 7.74% in the prior week. Bids received totaled J\$40.26B relative to an offer size of J\$22.5B, with the highest bid rate for full allocation standing at 7.75%. We believe that the downward trend in the average yield is as a result of conservative bids by institutional investors with a demand for this type of security as we approach the end of a quarter. Institutional investors usually try to bid conservatively near the end of the quarter to ensure an allocation in order to meet their regulatory ratios.

In August the Bank of Jamaica raised its policy rate to 6.00%. This came after a decline in inflation to 10.2% in July from 10.9% in June. Inflation remained at 10.2% in August. Although it appears that inflation has plateaued, it is still outside the BOJ's 4.0% to 6.0% target range. As a result, to bring inflation down further, it is anticipated that the BOJ will implement another rate hike when it announces its policy rate decision on September 29, 2022. This is expected to keep money market liquidity tight.

The USD money market remains stable and moderately liquid. Broker market demand for USD funding remains at 30-days and longer-tenured funds. There was no intervention from BOJ in the FX market last week.

Recommendations

Ticker	Closing Price (September 26)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$17.54	16.2x	15.5x	BUY
JMMBGL	\$39.91	6.7x	10.9x	HOLD
MASSY	\$82.01	10.9x	10.9x	BUY
LAB	\$2.86	17.9x	22.0x	BUY
OWI	\$0.74	3.4x	10.9x	HOLD
GK	\$91.89	11.0x	10.9x	BUY
TROPICAL	\$2.60	20.3x	18.7x	BUY
ELITE	\$3.63	25.9x	20.7x	BUY

Dates to watch this week

September 2022				
MON	TUE	WED	THUR	FRI
26	27	28	29	30
RJR Dividend Payment (\$0.02)	US Conference Board Consumer Confidence (Sep)	LASF Annual / Extra-Ordinary General Meeting EPLY Annual / Extra-Ordinary General Meeting	US GDP (QoQ) (Q2) CAN GDP (MoM) (Jul)	GB GDP (QoQ) CA Budget Balance (YoY) (Jul)
	LASF Annual / Extra-Ordinary General Meeting	DTL Annual / Extra-Ordinary General Meeting RJR Annual / Extra-Ordinary General Meeting LASM Annual / Extra-Ordinary General Meeting CFF Annual / Extra-Ordinary General Meeting	BOJ Policy Rate Decision JSE Annual / Extra-Ordinary General Meeting DCOVE Dividend Payment (\$0.40) MIL Dividend Payment (\$0.28)	JPS 7% "B" Dividend Payment (\$0.035) JPS 5% "C" Dividend Payment (\$0.025) JPS 5% "D" Dividend Payment (\$0.025) JPS 6% "E" Dividend Payment (\$0.03)

Regional News

Barbados Issues World's First Pandemic-Protected Bond (Reuters)

Barbados has issued the world's first government bond with a clause allowing payments to be suspended in the event of another global pandemic, a move expected to attract interest from dozens of other countries ravaged by the COVID-19 crisis. The country's new bond - finalised in a deal with bankers on Wednesday - is likely to leave an even bigger imprint, especially with smaller, tourism-dependent countries that were pushed to the brink of economic collapse during the COVID-19 pandemic.

The bond, to be repaid over the next 15 years, will be the first to allow a government to suspend its payments, if another outbreak similar to COVID-19 happens. Payments can be suspended for up to two years at a time and twice if necessary, but it cannot be cancelled altogether. Most notably, credit guarantees provided by the Inter-American Development Bank

and an organisation called The Nature Conservancy (TNC) means Barbados can borrow more cheaply, saving itself between \$40-\$50 million compared to its replaced old bond. That money will be used specifically for protecting and rehabilitating the surrounding Caribbean Sea, according to the terms of the deal, making it what is known as a 'blue bond'.

PEMEX Recovery Derailed by High Government Take Despite Strong Oil Prices (Fitch Ratings)

Fitch Ratings reported that Petroleos Mexicanos (PEMEX) has failed to leverage elevated oil prices to strengthen itself and evolve into a sustainable, reliable energy company due to a stubbornly high government take, via taxes, royalties and other measures, including consistent government support. Saverio Minervini, Head of Latin American Energy, Utilities, and Natural Resources Corporates noted that "PEMEX faces a mountain of maturities in a higher rate environment that will further squeeze its profitability and ability to effectively invest. This will pressure the government to provide further support through an equity injection or to lower its take from the company."

Notably, Pemex's 'BB-' rating is three notches below Mexico's (BBB-/Stable) due to weak government support, which to date has been insufficient and uncertain. For PEMEX to be upgraded, the company's Standalone Credit Profile would need to improve to 'b' from 'ccc-'. This could only be achieved through a combination of massive debt repayment or a significant reduction in the government's take from the company.

Mexico's government has financially supported PEMEX by cutting its effective tax rate, injecting more capital into the company and devoting a greater share of public investment toward PEMEX and energy-related projects. However, the support has been insufficient and has not improved the company's credit profile. The continued need for fiscal resources has led to a negative notch adjustment for the sovereign rating assessment, as the support is likely to negatively affect public finances. However, Fitch does not expect further deterioration of the sovereign rating in the near term due to PEMEX's financial position.

International News

Bank of England Raises Rates To 2.25%, Despite Likely Recession (Reuters)

The Bank of England raised its key interest rate to 2.25% from 1.75% on Thursday and said it would continue to "respond forcefully, as necessary" to inflation, despite the economy entering a recession. The BoE estimates Britain's economy will shrink 0.1% in the third quarter - partly due to the extra public holiday for Queen Elizabeth's funeral - which, combined with a fall in output in the second quarter, meets the definition of a technical recession.

Economists polled by Reuters last week had forecast a repeat of August's half-point increase in rates, but financial markets had bet on a three-quarter-point rise, the biggest since 1989, barring a brief, failed attempt in 1992 to support the sterling. The BoE move follows the U.S. Federal Reserve's decision on Wednesday to raise its key rate by three-quarters of a percentage point, as central banks worldwide grapple with post-COVID labour shortages and the impact of Russia's invasion of Ukraine on energy prices. The BoE now expects inflation to peak at just under 11% in October, below the 13.3% peak it forecast last month before Liz Truss won the Conservative Party leadership and became Britain's prime minister with a promise to cap energy tariffs and cut taxes.

Fed Raises Rates By 0.75 Percentage Points For Third Time In A Row (Financial Times)

On Wednesday September 21, 2022 the Federal Reserve raised its benchmark interest rate by 0.75 percentage points for a third consecutive time and signaled its intention to keep monetary policy tight as it tries to hit the brakes on the overheating US economy. The Federal Open Market Committee lifted the federal funds rate to a new target range of 3.0% to 3.25% following its two-day policy meeting, advancing its most aggressive monetary tightening campaign since the early 1980s.

Following the rate hike, the committee noted that if inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures, the committee said in a statement on Wednesday following the rate rise. In addition, the committee said that it anticipates that ongoing increases in the target range will be appropriate. The US central bank also published an updated "dot plot" compiling Fed officials' individual interest rate projections until the end of 2025, which reinforced their commitment to a "higher for longer" approach. The projections signaled further large rate rises this year and no cuts before 2024.

Officials have more directly acknowledged the economic costs associated with their efforts to tackle inflation, penciling in higher unemployment and lower growth. In June, policymakers projected that as inflation falls closer to the Fed's target of 2.0%, growth would slow to only 1.7%. Most economists now expect the US economy to tip into a recession next year.

The rate hikes have also impacted investor sentiments. Investors have responded to the Fed's more hawkish tone by pushing US government bond yields to their highest level in over a decade. The two-year Treasury, which is most sensitive to changes in the policy outlook, is trading around 4.0%, having hovered at roughly 3.0% at the start of August. The yield on the benchmark 10-year note also recently rose above 3.5% for the first time since 2011.

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