

# Market Guide

## THIS ISSUE

Jamaica's Tourism Sector Booms Despite Lag in  
Cruise Ship Recovery

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

"Opportunities come infrequently. When it rains gold, put out the bucket, not the thimble". ~ Warren Buffett

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## Jamaica’s Tourism Sector Booms Despite Lag in Cruise Ship Recovery

After the sharp COVID-19 induced decline, Jamaica welcomed a total of 1.46Mn visitors to its shores for the period January to June 2022<sup>1</sup>, a stark increase of 173.6% relative to the same period in 2021 (see Figure 1). Notably, of the total 1.46Mn visitor arrivals recorded, 1.17Mn or 80.3% were air stopover arrivals and the remaining 19.7% were cruise passengers. The U.S. was both the largest and best-performing market, accounting for 74.7% of air stopover arrivals for the period. The rebound in the sector has been bolstered by strong labour markets in source countries, the removal of many travel restrictions locally, improved airlift, as well as high levels of employment and pent-up demand for travel. Notably, global hotel occupancy has exceeded pre-pandemic levels consistently throughout the summer. For July and August 2022, hotels have seen a global occupancy average of 67% compared with an average of 64% over the same timeframe in 2019. This has been the same locally, with Summer 2022 being considered the best in Jamaica’s history. Furthermore, these positive trends indicate consistent consumer confidence when it comes to booking travel for future stay dates. This is laying a foundation for a strong Q4, where on-the-books data is already outpacing 2019 bookings.

Importantly, visitors’ on-

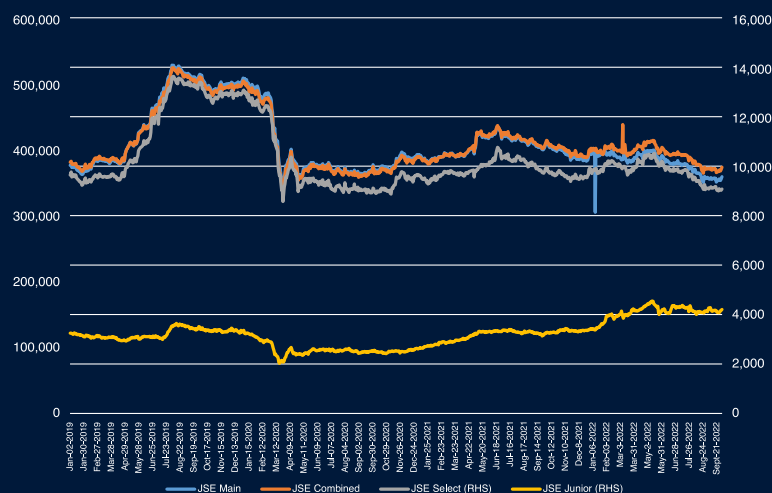
island spending totalled just over US\$1.50Bn for the period Jan to June 2022 versus US\$1.2Bn for H1 2021<sup>2</sup>, which positively impacted the speed of job recovery in the sector, other tourism stakeholders and industries such as agriculture, entertainment and manufacturing and distribution, which have close linkages to tourism. Although total arrivals, especially cruise passengers, remains below the pandemic level year to date (stop-over: -15.8%; cruise: -68.3%), the improvement in spending reflects an increase in average spend per visitor, and longer average stay in H1 2022, which rose to 7.9 nights compared to 7.5 nights in 2019. The average expenditure per visitor also climbed from US\$168 per night to US\$182 per night, according to statistics from the Jamaica Tourist Board. This is likely due to spending on entertainment, food and drinks, attractions and transportation. As such, the sector continues to contribute significantly to the rebound in the economy and was a key contributor to the 4.8% economic growth recorded in the June 2022 quarter with a 56.0% year over year rise in its real value added.

While the sector as a whole has seen strong recovery, cruise arrivals which accounted for 39.4% of total arrivals between January to June in 2019, is still 68.3% below its pre-pandemic

<sup>1</sup> Jamaica Tourist board

<sup>2</sup> Jamaica Tourism Sector Rebounds| CARICOM Business

### WEEKLY MOVEMENT IN INDICES



### MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	372,996.72	-0.86%	-7.0%
Main Market Index	358,760.10	-0.81%	-9.4%
Select Index	9,022.35	-1.39%	-8.7%
Junior Market Index	4,175.89	-1.27%	21.8%

### WINNERS & LOSERS (FOR THE WEEK ENDED OCT 7, 2022)

	\$ Change	% Change
JMMBGL7.25	+\$0.57	+21.7%
TTECH	+\$0.43	+16.8%
JMMBGL7.00NC	-\$0.47	-19.0%
PBS9.75	-\$20.50	-14.7%

### MARKET OVERVIEW

Last week, the JSE Combined Market Index declined by 0.86% as 71 of the 128 stocks that traded declined, while 46 stocks advanced, and 11 traded firm. Market volume totalled 125,364,506 units valued at over \$865,793,816.83. While the volumes traded increased 325% week-over-week, value declined 79% from \$4.04Bn in the prior week. The volume leaders for the week were Fosrich Company Limited (27,446,848 units or 21.76%), Spur Tree Spices Jamaica Limited (9,638,945 units or 7.64%), and TransJamaican Highway Limited (9,357,470 units or 7.42%). Last week Spur Tree announced that the Board of the Company has executed and entered into a Share Subscription Agreement and a Share Purchase Agreement with shareholders of CANCO on October 3, 2022. This will result in Spur Tree holding a 51% shareholding in CANCO. CANCO is an agri-processing company that trades as “Linstead Market Jamaica”. The company has several popular canned Jamaican foods including canned callaloo, ackee, and gungo peas. The increased activity and price (+3.68%) on the stock is possibly a reaction to this positive news.

Six indices declined, while the remaining three advanced. The top advancing index was the JSE USD Equities Index (+3.23%), which has increased for the past 3 weeks. PROVEN, and Productive Business Solutions, which gained 7.51% and 5.10%, respectively were the main contributors to the improved performance. The biggest decliner was the JSE Financial Index, which registered a 1.73% falloff, which largely resulted from a decline in the prices of large cap stocks such as Sagicor Group Jamaica Limited (-3.36%) and JMMB Group Limited (-4.99%).

level. There have been 286K cruise arrivals since the start of the year to June<sup>3</sup>, relative to none last year. The easing of COVID-19 related cruise travel restrictions and gradual lifting of vaccination requirements have supported the resumption of cruise travel. However, the sector is facing a much slower recovery relative to stopover travel. Cruise travel involves more densely congregated settings, which can allow viruses to spread easily among travelers on board. As such, the more general removal of restrictions and vaccination requirements have been slower than at hotels, which along with some cruise traveler reticence, is causing the slower rebound in the cruise industry. That being said, cruise travel is expected to pick up for the remainder of the year into 2023, as cruise lines started the 2023 wave season<sup>4</sup> early by dropping almost all of their COVID vaccination requirements. Since the removal, there has already been a surge in bookings. Further, there has been the addition of travel insurance which allows travelers to cancel their cruise for any reason — another outbreak, bad weather, not feeling well — and get anywhere between 50% and 75% of their nonrefundable prepaid expenses back. This can be especially attractive to travelers concerned about changing COVID requirements for cruises and those who might be worried about infection rates for COVID and other illnesses at international ports of call. Additionally, new laws have been created that may protect travelers, as cruise lines in some areas are required to provide refunds for canceled or delayed voyages<sup>5</sup>. These factors should aid in the rebound in the industry. Locally, the Tourism Minister expects the number of cruise visitors to Jamaica to reach 1.6Mn by the end of 2023, which

would put it back at its pre-COVID level.

With the cruise industry anticipated to reach 2019 levels by 2023, the local tourism industry is also expected to return to its pre-pandemic level; however, there are risks to the 2023 outlook from developments in the external environment. Stop-over arrivals are forecasted to reach pre-pandemic numbers by end 2022, and earnings should surpass the 2019 amount. The sector is projected to record 2.6Mn stopover tourists, not including cruise passengers<sup>6</sup>, and earnings of US\$4.2Bn exceeding pre-COVID-19 levels by \$500Mn to \$600Mn. Additionally, this strong recovery is expected to continue into 2023 with the Minister of Tourism, Hon. Edmund Bartlett indicating that Jamaica is on track to earn US\$4.7Bn in gross foreign exchange revenues, well before 2024. In addition to the support from relaxed restrictions, increased comfort with travelling, new destination flights, strong labour markets supporting disposable income, the growth in the sector will also be influenced by initiatives and investments in the sector. A Tourism Strategy and Action Plan (TSAP) has been developed to help boost the competitiveness of the destination and products, increase resilience, as well as develop and deploy mechanisms to promote innovation and entrepreneurship within the sector. Additionally, in a bid to boost cruise ship arrivals, Jamaica will be targeting three million cruise ship visitors by 2025. The Jamaica Vacations Limited (JAMVAC) would continue working closely with the Port Authority of Jamaica, the Jamaica Tourist Board (JTB), and the Tourism Product Development Company (TPDCo) to

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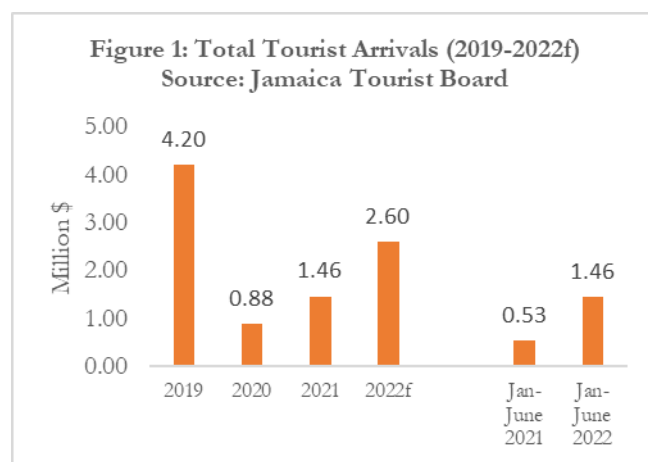
<sup>3</sup> Jamaica Tourist Board

<sup>4</sup> Wave season is a three-month period from (approximately) January 1 to March 31, when cruise lines and travel agents historically book the largest number of cruise cabins. It is also known as the time of the year when the cruise industry offers discounted rates

<sup>5</sup> Previously, cruise lines could keep your money indefinitely and force you to take a replacement cruise, even if they canceled

<sup>6</sup> The number of visitors to Jamaica is expected to reach 4.1Mn by the end of 2023, with 1.6Mn cruise passengers.

achieve this goal<sup>7</sup>. These investment activities bode well for the growth and development of the tourism sector. The sector is also expected to have spillover effects on other industries such as manufacturing, construction, and agriculture. However, a potential recession in source markets, could temper demand in the sector in 2023. Geopolitical tensions which have influenced high inflation and strong monetary policy actions through rate hikes, have increased the probability of a recession in key markets such as the US and UK within the next 12 months. If this occurs, there could be a downturn in external economic activity and demand for exports of services such as Jamaica's tourism product.



## Foreign Exchange Market

The Jamaican dollar depreciated by 0.87% relative to the USD, week over week, with the USD selling rate moving from J\$152.82 on September 30, 2022, to \$154.15 on October 7, 2022. Higher demand for the USD contributed to the depreciation. However, the BOJ intervened on Friday, October 7th with a liquidity injection of US\$30Mn to augment market supply of the USD. Further liquidity injections are expected for the coming week to help increase the supply of USD to the market.

Selling	Close: 30/09/22	Close: 07/10/22	Change
J\$/US\$1	\$152.82	\$154.15	+\$1.33
J\$/CDN\$1	\$112.94	\$113.06	+\$0.12
J\$/GBP£1	\$168.14	\$174.39	+\$6.25

7 Jamaica Targets 3 million Cruise Visitors by 2025 | Ministry of Tourism

## Global Bond Prices

Emerging market bonds traded lower last week on expectation that the inflation figures for September (to be released this week) will remain way above the Fed's target, prompting another aggressive rate hike. The inflation outturn for September is expected to be 8.1% easing only slightly from the 8.3% reported for August. Consequently, the Fed is expected to respond with another 75bps rate hike at its next meeting in November. Consequently, the S&P 500 fell 4% after the biggest 2-day rally since the beginning of the pandemic.

The 10-Year Treasury yield continued to trend higher to close at 3.89% from 3.83%, indicating continued selling on the longer end.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/Positive	96.50	6.05%	BUY
TPHLTT 2029 (9.00%)	BB/Stable	107.75	7.52%	BUY
MARFRIG 2026 (7.00%)	Ba2/Positive	100.50	6.84%	BUY
BERMUD 2027 (3.72%)	A+/Stable	96.50	4.63%	BUY

## GOJ Globals

The Jaman bonds also traded lower, reacting to the expectation of another 75bps rate hike by the Fed after September inflation is released later this week. The Jaman 2028 bonds traded between 104.50-105.50 with little to moderate local demand. The 2039s traded at 109.10- 110.10, while the 2045s, which were most impacted, fell 200 bps to trade at 106.90-108.10, with some sellers coming out on the long end. It is expected that volatility will persist in the coming months, and the aim is to remain liquid or on the shorter end of the curve in good quality credits, with a yield range of 6.00%-8.50%.

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	107.50	5.17%
	2039	112.50	6.73%
	2045	110.25	6.97%

\*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

As of the 6th of October, a total of J\$20.57Bn was in the market as represented by the BOJ's aggregated current balances. This represents a \$8.45Bn week-over-week decline in the aggregated closing current account balance for DTIs.

JMD liquidity remains tight, leading to continued high levels of competition for cash by market players. Consequently, rates are expected to remain elevated, especially considering the BOJ's recent 50bps hike in its policy rate to 6.5% on September 29th. Market players were mainly square last week, with very limited overnight lending. The average yield from BOJ's competitive price auction improved slightly to 7.54% relative to 7.41% in the prior week. Bids received totalled J\$21.5Bn relative to an offer size of J\$15Bn. The highest bid rate for full allocation was 8.15%.

The USD money market remains stable and moderately liquid, with broker market demand for USD remaining at 30-days and longer-tenured funds. The BOJ's intervention in the FX market last week, with the sale of US\$30Mn removed about J\$460Mn from the market.

## Recommendations

Ticker	Closing Price (Oct. 7)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$18.72	17.3x	15.5x	BUY
JMMBGL	\$37.91	6.4x	11.3x	HOLD
LAB	\$2.80	17.5x	29.8x	BUY
GK	\$88.82	10.6x	11.0x	BUY
TROPICAL	\$2.45	19.1x	18.7x	HOLD
ELITE	\$3.65	26.1x	29.8x	BUY

# Dates to watch this week

■ International ■ Local

October 2022				
MON	TUE	WED	THUR	FRI
10	11	12	13	14
Sagicor Jamaica Limited Dividend Payment (\$0.54)	UK Unemployment Rate (Aug)  US Inflation Expectations	UK GDP (MoM, YoY)  US Core PPI (MoM, YoY)	US Core CPI (MoM, YoY)	Ciboney Group Limited Annual / Extra-Ordinary General Meeting  International Merchandise Trade (STATIN)
		Seprod Limited Dividend Payment (\$0.50)		Blue Power Group Limited Dividend Payment (\$0.02)  Lumber Depot Limited Dividend Payment (\$0.052)

## Regional News

### Mexico's Shadow Bank Collapse Wipes Out US\$5 Billion (Bloomberg)

Over the past 17 months, there have been numerous defaults marking a collapse in Mexico's shadow bank or non-bank financial sector. A year into the pandemic, Panton, who was then a debt strategist in New York for Stifel, Nicolaus & Co., had warned that the math underlying Crédito Real SAB de CV didn't add up. Hedge funds and big banks had ignored him, instead backing the company, a rising star of Mexico's shadow banking industry, that borrowed cash from big-time foreign investors and cut smaller loans to low-income people and businesses. However, a revision was done in which the microlender admitted that its bad-loan book was 82% larger than it originally disclosed—just the type of issue Panton had cautioned about. The revision, combined with an accounting error revealed the same week by a smaller payroll lender called Alpha Holding SA de CV, (AlphaCredit), would eventually lead to the collapse of Mexico's alternative banking sector, a loss of nearly \$5Bn for foreign bondholders, and a series of debt restructuring battles in the country's opaque courts, undermining investor confidence in Latin America's No. 2 economy. Following this, Unifin, Mexico's largest shadow lender, defaulted in August 2022—just weeks after its chief executive

officer snapped at investors during an earnings call about how healthy the company was. The future looks bleak for Mexico's shadow lenders, according to Rafael Elias, a managing director for fixed income at BancTrust Investment Bank Ltd. The business depends on strong consumer spending, he says, which hasn't recovered in Mexico since the pandemic.

For now, investors in AlphaCredit, Crédito Real, and Unifin are hoping for restructuring deals that will pay some portion of the outstanding debt balances on bonds trading for pennies on the dollar. But the process is already proving arduous, with ever-shifting corporate leadership and cases proceeding through both US and Mexican courts.

### Sharp Improvement in Trinidad and Tobago Public Finances in 2022 (Fitch)

Fitch expects that the fiscal deficit in Trinidad and Tobago (T&T) will narrow markedly between 2021 and 2022, before remaining relatively modest in 2023. However, the forecast is for the shortfall to decrease from 8.7% of GDP in 2021 to 2.3% in 2022, before coming in only slightly wider at 3.1% in 2023. Most notably, there has already been a sharp swing in the fiscal position since the beginning of 2022.

In H1 2022, the fiscal balance came in at a surplus of TTD2.36Bn – the equivalent of around 2.8% of GDP on an annualised basis. This compares to a deficit of TTD6.16Bn (8.5% of GDP) in H1 2021. The turnaround has been driven by a sharp pick-up in revenue, which (on an annualised basis) has risen from 23.4% to 31.1% of GDP between H1 2021 and H1 2022 – a 57.6% rise in nominal terms. The improvement in revenue performance has been driven by higher global prices of oil and gas, as well as a jump in natural gas production.

However, with energy prices easing in the second half of 2022, T&T is unlikely to record a budget surplus over the year as a whole. Nonetheless, Fitch's projection for a budget deficit of 2.3% of GDP in 2022 represents a substantial improvement on the 2021 outturn of 8.8%. This would mark the smallest fiscal deficit recorded since 2013 and is well below the average shortfall of 6.8% of GDP experienced over the past decade. Importantly, based on these fiscal forecasts, government debt will ease from 75.1% of GDP in 2021 to 74.4% of GDP in 2022. The ratio is then expected to remain at a similar level in the subsequent years as the authorities continue to rein in expenditure.

## International News

[ECB to inflict pain as it hikes rates into next year, Lane says \(Reuters\)](#)

The European Central Bank could raise interest rates into next year, causing pain for consumers as it tries to depress demand that is now increasingly adding to sky-high inflation, chief economist Philip Lane said on Saturday. With inflation approaching double-digit territory, the ECB delivered two oversized rate hikes in July and September and promised even more action as even long-term price growth expectations are now moving above its 2% target. "We do think that this is going to dampen demand, we're not going to pretend this is pain-free," Lane told a conference. "Demand is now a source of inflation pressure, it was not six or nine months ago in the same way it now is." At 0.75%, the ECB's deposit rate is still too low as it continues to stimulate the economy, so the ECB's job is not yet done, Lane added.

Most economists estimate that the neutral rate, where the ECB is neither stimulating nor holding back growth, is between 1.5% and 2%. Markets however see the top of the rate cycle higher and investors now price in rates just above 2.5% next spring. Lane had argued for months that the current inflation is primarily due to the shock caused by expensive energy prices. Monetary policy is largely powerless against such supply shocks so the ECB was among the last major central banks to hike rates. But price growth has now broadened out and started to seep into all aspects

of life, while robust consumer demand is also driving prices. Although Lane said rates could continue to go up at each remaining meeting this year and may rise early next year, too, the ECB is keeping an open mind about where to stop and will decide meeting by meeting. Lane added that the Eurozone economy is likely to flatline over the winter months and a recession could not be ruled out given high energy prices and a shortage of natural gas. "If we think our base case is to barely grow, a technical recession - falling into a mild recession - cannot be ruled out," he said separately in an interview with Irish broadcaster RTE.

[Bank of England confirms pension funds almost collapsed amid market meltdown \(The Guardian\)](#)

Pension funds managing vast sums on behalf of retired people across Britain came close to collapse amid an "unprecedented" meltdown in UK government bond markets after Kwasi Kwarteng's mini-budget, the Bank of England has said. Explaining its emergency intervention to calm turmoil in financial markets last week, the central bank said pension funds with more than £1tn invested in them came under severe strain with a "large number" in danger of going bust. The Bank said a dramatic rise in interest rates on long-dated UK government bonds in the days immediately after the chancellor's mini-budget had triggered a "self-reinforcing" spiral in debt markets, putting the stability of Britain's financial system at risk. Had the Bank not intervened with a promise to buy up to £65bn of government debt, funds managing money on behalf of pensioners across the country "would have been left with negative net asset value" and cash demands they could not have met. The central bank said the meltdown was at risk of rippling through the UK financial system, which could have then caused "excessive and sudden tightening of financing conditions for the real economy".

Threadneedle Street (BoE) stepped in last week after a collapse in the pound to the lowest level against the dollar in history and as interest rates on UK government bonds rose to the highest level since the 2008 financial crisis. In a letter to the Commons Treasury committee explaining the intervention, the Bank's deputy governor for financial stability, Jon Cunliffe, suggested the largest market movements came after the chancellor's mini-budget. On the day the Bank raised interest rates on Thursday 22 September, he said the currency had been "broadly stable" and long-term interest rates – or yields – on government bonds rose by about 20 basis points. Only on the following day, when Kwarteng unveiled £45bn of unfunded tax cuts, did the Bank's market intelligence identify the first concerns from pension fund managers. Ministers had attempted to argue that the market turmoil reflected global factors. However, the Bank appeared to undermine this suggestion, publishing a chart highlighting a sharp rise in 30-year borrowing costs after the mini-budget that was not replicated in the US or the EU.

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