NCB Capital Markets Limited

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Market Guide

THIS ISSUE

Easing Global Food Prices Benefit Local Inflation Rate but Risks Remain

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"Do not save what is left after spending, spend what is left after saving."

- Warren Buffet

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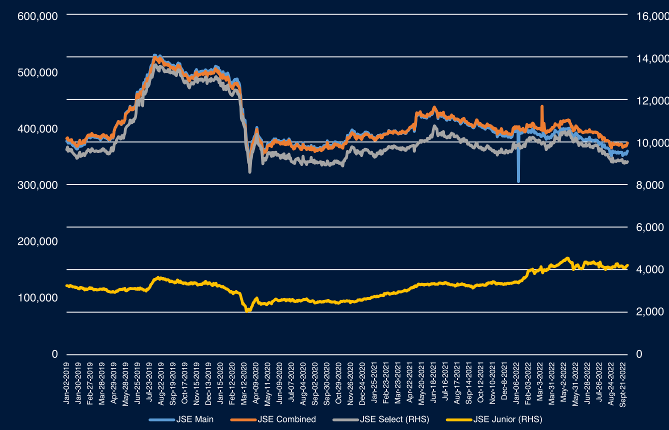
Easing Global Food Prices Benefit Local Inflation Rate but Risks Remain

Food prices—one of the prime drivers of global inflation—had been on the rise since late 2020 (See Graph 1). However, the Black Sea Grain deal[1], falling demand globally and improving weather conditions have provided some ease so far this year. Futures prices for grains have been falling since the Black Sea grain initiative provided a glimmer of hope for improved supply and lower prices in the coming months while improvements in weather have also helped to ease some supply pressures on key grains. According to the UN's Food and Agriculture Organization (FAO), the prices for some consumer staples have been falling since about June, including meat, sugar, vegetable oils and dairy. Together these factors resulted in the Food Cost Index from the United Nations declining for the seventh month in October (from 159.7 points in March 2022 to 135.9 points in October)- its lowest since January 2022[2]. Grain prices, however, have been volatile due to several factors including uncertainty around the Black Sea Grain Initiative, tighter grain supplies in the US market, lower production prospects in the US and the EU, along with adverse weather conditions in Argentina. Further, it is important to note that while prices have moderated somewhat, the index remains elevated relative to recent years (see Graph 1), and the soaring US dollar is making commodities more expensive for food-importing countries.

Given the developments in the international market, Jamaica has seen inflation moderate slightly since it peaked in April (11.8%), with the point-to-point rate now back within the single-digit territory. This, in part, reflects the decline in food prices being experienced in the global market as prices paid for food items continued to decline locally (food inflation is now 10.5% falling from a high of 14.7% in March 2022; Food makes up 37.4%[4] of the inflation basket). The most recent point-to-point inflation results (September 2021 – September 2022) showed the rate falling to 9.3%, below the 10.2% outturn for August, but still above the BOJ's target range of 4-6% for the 14th consecutive month. As the trend in Graph 2 indicates, in line with the consistent decline in global food prices seen in recent months, there has been a deceleration in food price increases locally. As a result, should global food prices continue to moderate, local food inflation could decline further as well as the overall inflation rate. However, the risks to the forecasts stem from the impact of local heavy rains on crop supply (vegetables, tubers, plantains, cooking bananas and pulses) and prices in 2022, the potential escalation of tensions between Russia and Ukraine and the uncertainty

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	363,087.41	+0.05%	-11.9%
Main Market Index	349,150.16	+0.27%	-9.5%
Select Index	8,789.52	-0.48%	-11.1%
Junior Market Index	4,073.54	-1.84%	+18.8%

WINNERS & LOSERS (FOR THE WEEK ENDED NOV 4, 2022)

	$ Change	% Change
PBS 9.75% Prefeerence Share	+$33.00	+30.8%
ROC	+$0.45	+19.7%
EPPLEY 7.5%	-$2.03	-27.5%
MTL	-$3.39	-15.0%

MARKET OVERVIEW

Of the nine major indices, three advanced, namely the main market, combined market, and USD equities, while the remaining six indices declined week over week. Market volume totaled 153,847,098 units valued at over $506,50Mn. While the volumes traded increased 20.8% week-over-week, the value declined 4.4% from $529.76Mn in the prior week. This can be explained by a general pullback from the market, as investors are positioning themselves to weather a potential slowdown. That being said, trading activities are expected to remain depressed in the coming weeks. The volume leaders for the week were Wigton Windfarm Limited (38,295,557 units +24.71%), GWEST Corporation Limited (21,123,409 units +13.63%), and Dolla Financial Services Limited (13,387,974 units +8.64%).

Overall 124 stocks were traded last week of which 55 advanced, 51 declined and 18 traded firm. The main advancer was Productive Business Solution 9.75% preference shares, which increased by 30.84%. However, it should be noted that the volumes traded for this stock were thin at just one unit traded. The other main advancers were ROC and SELECTF, as well as JMMBGL5.75C. Sagicor Select Funds Limited- Financial was also among the main market volume leaders for the week, with 13,327,187 unit volumes traded. The increase in price and high volumes traded was likely influenced by the announcement that the Board of Directors will consider the payment of an interim dividend on November 11, 2022. Despite its week-over-week appreciation, the stock price remains down by 6.0% since the start of the year.

1. The Initiative on the Safe Transportation of Grain and Foodstuffs from Ukrainian ports, also called the Black Sea Grain Initiative, is an agreement between Russia and Ukraine with Turkey and the United Nations made during the 2022 Russian invasion of Ukraine.

2. The index is down for a seventh month, its longest slump in nine years
3. Global Food Prices Hold at Nine-Month Low, Easing Strain on Households –Bloomberg - November 2022
4. STATIN

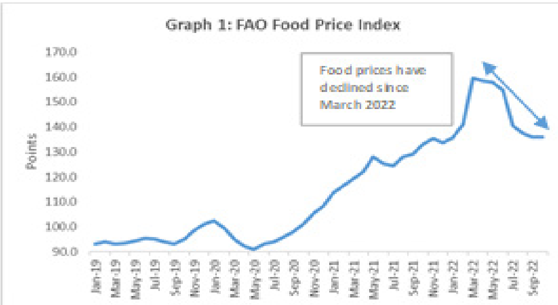
surrounding the crop-export pact between Russia and Ukraine.

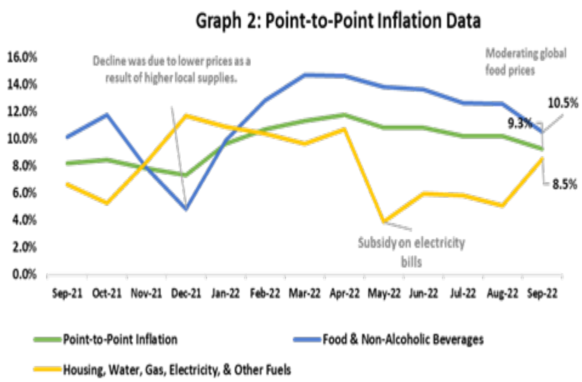
A softening in major inflation-inducing variables should influence a further reduction in Jamaica's inflation rate. The BOJ indicated that consistent with global consensus forecasts, commodity prices (oil and grains) are anticipated to continue falling for the remainder of the year. With that said, local inflation is expected to average between 8.0% to 9.0% over the next two years, assuming Russia-Ukraine tension does not deteriorate. Although the BOJ is projecting that inflation will fall within the target range of 4% to 6% by the December 2023 quarter, it is possible that inflation could remain outside the target range for a longer time.

With inflation still outside the BOJ's target range, this could prompt the central bank to continue its hawkish tone for the upcoming policy meeting on November 18. In recent weeks, other global central banks have sought to continue their fight against inflation by enacting additional rate hikes. The Bank of England, the US Fed, and European Central Bank, have all hiked their benchmark rates by a further 0.75% in recent weeks as stubbornly-high inflation continues to plague the global economy. As interest rates rise in the US, investors may opt to invest in these more appealing hard currency assets. This incentivises developing nations like Jamaica to use monetary policy to maintain the attractiveness of local assets and prevent capital flight. Moreover, Inflation expectations[5] also remain firmly outside the BOJ's target range of 4-6%. In BOJ's September Inflation Expectations Survey, it was noted that respondents expect point-to-point inflation to be 11.3% for the calendar year 2022 (December 2022). Expected inflation 12 months ahead is anticipated to be 11.7%, which reflects a decline relative to the August survey outturn of 12.6%, likely in response to the global consensus for further declines in commodity and food prices. The majority of respondents believe that the Bank's policy rate will be marginally higher over the next quarter. As such, the results of the inflation expectations survey could help inform further monetary policy decisions from the central bank given that elevated inflation expectations could continue to adversely impact businesses' pass-through of costs to consumer prices. However, the BOJ could pause rate hikes in 2023 as inflation finds a sustainable downward path from the highs of 2022.

....should global food prices continue to moderate, local food inflation could decline further as well as the overall inflation rate.

5. The essence of inflation expectations is that rising inflation makes people believe that prices will rise again in the future, causing them to demand wage increases and not delay purchases; businesses boost their prices to accommodate higher wages and demand, which drives up inflation





Foreign Exchange Market

The Jamaican dollar depreciated by 0.33% relative to the USD, week over week, with the USD selling rate moving from J$154.09 on October 28, 2022, to $154.60 on November 4, 2022. The BOJ intervened in the market with a total of USD$60Mn, which helped to stem the depreciation last week. This intervention was carried out to shore up supplies to meet the high demand for the US dollar. The increased demand for USD stemmed from retailers and wholesalers shoring up inventory levels in anticipation of the increased demand associated with the Christmas season. Consequently, the US$60Mn liquidity injection aimed to stabilize the market and help bring it toward equilibrium.

Selling	Close: 28/10/22	Close: 04/11/22	Change
J$/US$1	$154.09	$154.60	+$0.51
J$/CDN$1	$113.92	$113.44	-$0.48
J$/GBP£1	$178.16	$173.16	-$5.00

Global Bond Prices

On Wednesday, November 2, 2022, the Fed raised rates by 75 basis points for the fourth time in a row. The message from Fed Chair Powell last week was a downer for the market, which traded down last week. Powell's challenge was to signal a shift to a slower pace of hikes, without communicating that the Fed was close to done with the tightening campaign. He accomplished that by declaring rates would peak higher than officials expected in September, even as the Fed slows the pace of increases as it gets closer to that destination (Bloomberg). The point registered is that it is very premature to talk about pausing the rate hikes and that the Fed still has further action to take to get the policy rate to a restrictive level that is sufficient for getting inflation back down to the 2.0% target.
As a result of this, the Treasuries continued to be volatile, closing the week at 4.17%, up from the 4.02% reported on October 28, 2022.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	94.23	6.56%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	107.00	7.65%	BUY
MARFRIG 2026 (7.00%)	Ba2/ Positive	99.00	7.33%	BUY
BERMUD 2027 (3.72%)	A+/ Stable	98.00	4.24%	BUY

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.75	5.73%
	2039	109.00	6.89%
	2045	105.00	7.24%

*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 3rd of November, a total of J$13.9B was in the market, as represented by the BOJ's aggregated current balances, having declined by J$17B from J$26.1B on October 27th. BOJs intervention in the US market with sales of hard currency withdrew J$9.2B from the market last week contributing to the reduction in market liquidity. Agaisnt this background, JMD liquidity remains tight. Competition for cash among market players remained intense; consequently, rates are expected to remain elevated this week. Market players were mainly square this week, with very limited overnight lending.

The average yield from BOJ's competitive price auction increased to 8.15% relative to 7.68% in the prior week. The auction was oversubscribed. Bids received totaled J$24.24B relative to the offered size of J$19B. The highest bid rate for full allocation was 9.099%.

The USD money market remains stable and moderately liquid. Broker market demand for USD remains at 30-days and longer-tenured funds, with some brokers offering higher rates for one year funding to clients. The BOJ intervened in the FX market twice last week using its BFXIT tool offering US$30M in each instance. Both auctions were approximately two times oversubscribed.

Recommendations

Ticker	Closing Price (Nov. 7)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	$17.82	16.5x	15.6x	**BUY**
LAB	$2.51	15.7x	29.4x	**BUY**
GK	$86.74	10.4x	10.1x	**BUY**
TROPICAL	$2.73	21.3x	17.9x	**HOLD**
ELITE	$3.49	24.9x	29.4x	**BUY**

Dates to watch this week

International Local

November 2022

MON	TUE	WED	THUR	FRI
7	8	9	10	11
US Consumer Credit (Sep)	SOS AGM	Purity AGM	US Core CPI (MoM, YoY) (Oct)	UK GDP (YoY) (Q3)
ECB President Lagarde Speaks	BPOW AGM	CBNY AGM	JBG Dividend Payment ($0.36 per share)	UK Trade Balance (Sep)
	LUMBER AGM			

Regional News

IMF Projects Mexico's Economy Will Slow in the Near-term (Reuters)

The International Monetary Fund (IMF) on Friday forecast Mexico's economy will grow 2.1% in 2022 and 1.2% in 2023, saying "economic growth is expected to slow in the near term reflecting weaker U.S. growth and tighter global financial conditions." The IMF said in a statement that Mexico is well-placed to navigate a turbulent global environment due to "very strong" macroeconomic policies and policy frameworks. The fund also said it welcomed the "proactive approach" from Mexico's central bank, known as Banxico, in tackling inflation with interest rate hikes. In September, Banxico raised rates by 75 basis points to a record 9.25%.

Further rate hikes may be needed "for some time" due to uncertainty around inflation in 2023, the IMF said. Banxico board member Gerardo Esquivel told Reuters last month the bank was nearing the end of its rate hike cycle. The IMF also called Mexico's envisaged neutral fiscal stance in 2022 and 2023 "appropriate," while noting retail fuel subsidies had a "sizable" impact on the country's budget. 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.

Bahamas' Private Sector Credit Shrank 20% Pts Of GDP Pre-COVID (The Tribune)

The Bahamas' low pre-COVID economic growth coincided with bank credit to the private sector contracting by the equivalent of 20 percentage points of GDP. Moody's, in its full annual report on The Bahamas sovereign, said; "Credit to the private sector has been on a long-term declining trend for years, with credit to the private sector falling to around 45% of GDP by year-end 2019 from around 65% in 2010, although this figure climbed back to 58% in 2020."

On the other hand, "The IMF attributes the contraction in credit to more stringent lending standards, a low-growth environment keeping demand for credit low and a conservative lending stance from banks." Moody's asserted that the country will face the same structural obstacles to growth that have remained unaddressed for decades. "The low growth rate reflects a variety of factors, including competitiveness issues, infrastructure constraints, household debt overhang resulting in low credit growth, chronically high unemployment and sluggish tourism." Structural bottlenecks have prevented The Bahamas from diversifying its economy away from tourism (which comprised over 40% of GDP in 2019), and include issues related to global competitiveness and high energy costs. Infrastructure bottlenecks also limit growth. However, "The Government continues to pursue a number of initiatives to improve competitiveness, including the continued digitisation of public services and processes, as well as reforming the corporate insolvency regime to support improvements in the business environment," the rating agency added.

International News

US Inflation to Pose Fresh Test for Powell's Fed: Eco Week Ahead (Bloomberg)

The Federal Reserve gets fresh insight into its inflation challenge this week amid expectations US prices continued to rise at a stubbornly fast pace in the past month. The consumer price index report for October is scheduled for Thursday, and is set to have climbed 7.9% from a year ago, only a slight slowing from 8.2% recorded in September, according to the median forecast of economists surveyed by Bloomberg News. Strip out food and energy and the index likely edged down to a 6.5% result from September's 6.6% advance. That's still far above the 2% inflation the Fed targets based on a separate gauge. On a month-over-month basis, the core measure is projected to rise 0.5%, matching the average pace since October of last year and indicating the Fed has made little progress arresting rampant inflation with its series of jumbo rate hikes.

Fed officials, led by Chair Jerome Powell, raised their key interest rate on Nov. 2 by 75 basis points for the fourth meeting in a row. While they hinted at a potential willingness to slow the pace of increases when they next gather in December, that will ultimately depend on whether the outlook for inflation cools. Policy makers are already signaling that rates may peak at a higher level than previously assumed. The inflation surge certainly has implications for lawmakers as US voters go to the polls on Tuesday. Opinion polls suggest Democrats will lose control of the House of Representatives and possibly the Senate as well.

Canada's Government Tosses Fiscal Hot Potato to Central bank, Analysts Say (Reuters)

Canada's plan to spend an extra C$6.1 billion ($4.5 billion) in the next five months may undermine the central bank's effort to curb inflation, despite Finance Minister Chrystia Freeland's vow not to make the job of monetary policy harder, analysts said. Although the spending package unveiled by Freeland in a fiscal update on Thursday is relatively modest in scope and builds on existing federal stimulus measures and payouts to consumers promised by Canada's 10 provinces, it has raised concerns about stimulating an already-hot economy.

Scrutiny intensified on Friday after the government reported a whopping jobs gain in October, raising the prospect that the Bank of Canada would have to pull the trigger on a sixth straight outsized interest rate hike at its meeting next month. "I would have rather seen them totally toeing the line on spending, if not shrink it somewhat so that maybe we would have less by way of cumulative rate hikes going forward," said Derek Holt, vice president of capital markets economics at Scotiabank. Instead, "the onus is still squarely, fully, 100% on the Bank of Canada to tighten," he said.

Money markets are now leaning toward the BoC raising its policy rate by half a percentage point on Dec. 7, a move that would come on top of the 350 basis points worth of tightening it has already undertaken since March. The BoC's policy rate is seen peaking at 4.5% in early 2023. If interest rates rise more than previously forecast and stay elevated for longer, Freeland's growth outlook may also prove rosier than warranted, jeopardizing a tax revenue windfall that the Liberal government is banking on to fund spending and cut the deficit to 1.3%-1.8% of GDP this fiscal year, from the previous year's 3.6%.

Oil Stable Near $100 a Barrel as Dollar Weakens (Reuters)

Oil prices were stable on Monday, close to $100 a barrel as support from a weaker dollar and recovering Chinese crude imports met renewed demand concerns linked to China's stringent COVID containment approach. Brent crude futures were down 1 cent, or 0.1%, to $98.56 a barrel at 1444 GMT. U.S. West Texas Intermediate crude rose by 4 cents, or 0.04%, to $92.65. Both contracts dropped by more than $1 a barrel earlier in the session after Chinese health officials at the weekend reiterated their commitment to strict COVID containment measures, dashing hopes of a rebound in oil demand from the world's top crude importer.

Brent and WTI rose last week, climbing 2.9% and 5.4%, respectively on speculation about a possible end to COVID-19 lockdowns despite the lack of any announced changes. However, prices pared gains on stronger risk sentiment, news of recovering Chinese crude imports and the U.S. dollar weakening against other currencies, UBS analyst Giovanni Staunovo said. Both contracts remain well above $90 a barrel, with Brent hovering nearer $100.

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