

Market Guide

THIS ISSUE

Local Manufacturers and Distributors Benefit from Falling Freight Prices but Signals Softening Consumer Demand

Foreign Exchange Market Summary

Money Market Update

Stock Recommendations

The stock market is a device for transferring money from the impatient to the patient ~ Warren Buffet

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Local Manufacturers and Distributors Benefit from Falling Freight Prices but Signals Softening Consumer Demand

Freight prices have steadily declined from their pandemic highs as port congestion is easing in the face of normalizing demand, the reduction in COVID-19 cases, and the end of China's zero COVID policy. Some of the world's largest carriers have signalled the end of a period that brought record profits for shipping lines. Maersk, one of the world's largest container shipping firms and a company that is widely used as a barometer for global trade, reported that it experienced a fall in Q4 2022 earnings but posted the best full-year 2022 result in its history. However, it expects EBITDA to plummet to between \$8Bn and \$11Bn in 2023 from 36.81Bn in 2022. This is a general theme for shipping companies, that would have benefitted from the record high freight costs during the pandemic. However, local manufacturing and distribution companies are benefitting from reduced shipping costs. Shipping costs would have soared in the last two years due to supply chain disruptions which would have weighed on companies' margins. Now that shipping costs appear to be normalizing, many local companies are reaping the benefits. However, along with the easing of supply chain pressures, the reduction

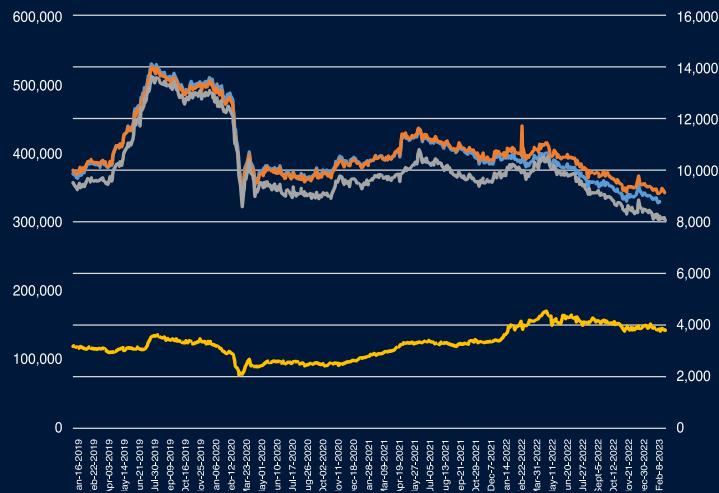
in global shipping prices is being attributed to lower consumer demand, which presents a major risk to the sector and the economy.

With normality returning to the shipping space, several indices have seen a major fall off in prices as demand softens. The lower global demand witnessed in the past couple of months has been reflected in Freightos Air Index rates ex-China to North America and Europe which were down about 40% in November and December of 2022, relative to a year ago. Prices and hence indices continue to fall with the Drewry World Container Index¹ for example decreasing by 3% week over week to \$1,806 per 40-foot container as at March 9, 2023 and dropping over 80% when compared with the same week last year. It is 31% lower than the 10-year average of \$2,691, indicating a return to more normal prices, but remains 31% higher than average 2019 (pre-pandemic) rates of \$1,420. The Baltic Exchange's main sea freight index² also indicates a falloff in prices in 2023, with a price of \$1,424 as of March 10, 2023, down from a 5-year high of \$5,542 in October 2021. Global ocean freight rates also dropped 13.3% month-on-month in January, their largest ever drop, according to freight

1 Drewry tracks the freight costs of 40-foot container via eight major routes, including spot rates and short-term contract rates

2 The Baltic Exchange Main Sea Freight Index (created by the London-based Baltic Exchange) measures the cost of shipping goods worldwide, providing a benchmark for the price of moving the major raw materials such as coal and steel by sea

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	343,189.05	-1.73%	-6.9%
Main Market Index	330,441.27	-1.67%	-7.2%
Select Index	8,067.71	-1.85%	-9.3%
Junior Market Index	3,806.27	-2.22%	-4.5%

WINNERS & LOSERS (FOR THE WEEK ENDED MAR 10, 2023)

	\$ Change	% Change
JPS7	+\$38.29	+87.32%
FIRSTROCK	+\$0.01	+16.67%
PAL	-\$1.97	-42.09%
PBS (USD)	-\$0.38	-19.96%

MARKET OVERVIEW

Last week most JSE major indices declined, erasing the two consecutive weeks of upward movement for all but the JSE Main Market, Manufacturing and Distribution and Composite Indices. Trading activity for last week resulted in all major indices falling except for the JSE Cross Listed Index. The JSE USD Equities Index and the JSE All Jamaica Composite Index saw the most significant declines of 9.77% and 2.49%, respectively. The 1.54% and 1.05% week-over-week (WoW) fall in the share prices of Proven Group Limited (PROVEN) and TransJamaican Highway Limited (TJH), respectively, contributed to the drop in the USD Equities index. There was no news to support the falloff in prices. The JSE Cross listed Index, which was the only index to report gains (2.41%), was largely buoyed by the price for Guardian Holdings Limited (GHL), a large market capitalization stock that saw a +5.64% week-over-week price movement. There was no news to support the upward trend in GHL stock price. The main advancing and declining stocks for the overall market were Jamaica Public Service Co. Ltd 7% (87.32%) and Palace Amusement Co. Ltd. (-42.09%), respectively.

Overall market activity last week resulted from trading in 126 stocks, of which 34 advanced, 82 declined, and 10 traded firm. Market volume amounted to 114,706,781 units valued at over \$1,486,115,899.62. The overall market volume leaders were Wigton Windfarm Limited Ordinary Shares with 23,419,175 units (20.36%), Jamaica Broilers Group with 13,263,064 units (11.53%), and JMMB GROUP 7.25% VR JMD CR Preference Shares with 10,513,873 units (9.14%)

rate and market analyst Xeneta. This was the fifth consecutive month of falling prices, with Xeneta adding there was “little sign of change ahead, in what looks like a challenging year for carriers”. Global air cargo demand also continued to fall, with an 8% month-on-month drop. Local manufacturing and distribution companies are benefiting from the decrease in freight prices as it means reduced costs to ship their raw materials and goods into and out of the country, which contributes to higher gross margins. Of the 6 main market manufacturing and distribution companies on the Jamaica Stock Exchange, 67% would have seen lower direct costs as a percentage of revenues based on their latest financial results. These led to higher gross margins. Seprod for example, saw gross margin increase from 24.9% to 26.0% for FY 2022 over 2021, while JBG³ and Wisynco saw margins increasing from 20.7% to 24.2% and from 35.2% to 35.5% respectively. Seprod would have reported that for 2022, the company began to reverse the increases in prices as lower-price commodities and shipping costs begin to work their way into their inventory replacement cost. On the junior market 71% of the distribution companies and 50% of manufacturing companies reported lower direct costs as a percentage of revenues. This also resulted in higher gross margins for these companies such as Tropical (increasing from 29.7% to 33.1%), Indies⁴ (increasing from 65.1% to 70.0%),

LASD⁵ (increasing from 16.8% to 17.4%⁶), Fosrich (increasing from 39.8% to 42.7%), PTL⁷ (increasing from 31.3% to 34.1%) and DTL⁸ (increasing from 19.2% to 25.2%⁹). While not all of this improvement in margins can be attributed to lower shipping costs, with some companies highlighting operational efficiency, and higher revenues as additional reasons for improved margins, it is evident that this cost reduction bodes well for companies’ margins.

The reduced direct costs aided by a reduction in shipping cost is welcomed news for most businesses but it might be pointing to a more concerning issue. The reduction in shipping costs is being affected by the global slowdown in demand and recession fears. As such, while lower costs support manufacturing and distribution company margins, falling demand will have a contrasting effect. Demand dynamics are being negatively affected by high interest rates which have reduced the supply of money in the economy and pushed individuals to save rather than spend, while still elevated inflation¹⁰ lowers disposable income and limits purchasing power. This coupled with the general uncertainty surrounding the macroeconomic outlook has left people more cautious of discretionary spending. The WTO goods trade Barometer¹¹ indicates that import demand is expected to soften further as growth slows in major economies for different reasons such as high

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energy prices stemming from the Russia-Ukraine war that will squeeze household spending and raise manufacturing costs, and monetary policy tightening that will hit interest-sensitive spending in areas such as housing, motor vehicles and fixed investment. While the days of soaring rates are believed to be over, it will take some time before they return to optimal levels. Further, despite the US GDP growth of 2.7% experienced in the 4th quarter of 2022, many economists and CEOs, expect a recession may still be on the horizon this year, which would negatively impact economic activity in Jamaica, given the US is Jamaica’s top trading partner. Therefore, while Jamaica’s 2023 growth forecast¹² is positive and companies are seeing higher margins, risks exist.

3 Jamaica Broilers Group Limited

4 Indies Pharma Jamaica Limited

5 Lasco Distributors Limited

6 9 Months Financial Performance Ended December 31, 2022

7 Paramount Trading Jamaica Limited

8 Derrimon Trading Company Limited

9 12 Months Financial Performance Ended December 31, 2022

10 Jamaica saw its inflation rate drop to 8.1% in January 2023 from a high of 11.8% reported in April 2022, while in the US, the inflation rate is 6.4% for the 12 months ended January 2023 down from 9.1% reported in June 2022

11 A composite leading indicator for world trade, providing real-time information on the trajectory of merchandise trade relative to recent trends

12 3% for 2023 -IMF

Foreign Exchange Market

The Jamaican dollar appreciated by 0.34% relative to the USD, week over week, with the USD selling rate moving from J\$154.07 on March 3, 2023 to \$153.55 on March 10, 2023. This change is mainly driven by an increased supply of USD to the market as individuals convert USD to JMD in order to cover tax expenses as we approach the Government of Jamaica's March 15 tax filing deadline.

Selling	Close: 03/03/23	Close: 10/03/23	Change
J\$/US\$1	\$154.07	\$153.55	-\$0.52
J\$/CDN\$1	\$113.39	\$111.32	-\$2.07
J\$/GBP£1	\$183.73	\$185.83	+\$2.10

Global Bond Prices

Last week, the US economy witnessed the second-largest financial institution failure in history. Silicon Valley Bank (SVB), a state-chartered commercial bank, plummeted on concerns about its capital position after experiencing high cash burn from its clients and the uncertainty it has created about a potential contagion effect in the banking industry. On Wednesday of last week, SVB announced it had sold more than \$20Bn worth of low-yielding bonds and reinvested the proceeds in assets that delivered higher returns and would sell \$2.25Bn in new shares to shore up its balance sheet. This, in turn, triggered a panic among key venture capital firms, who reportedly advised companies to withdraw their money from the bank. Following this, the company's stock cratered on Thursday, dragging other banks down. By Friday morning, trading in SVB's shares was halted, and it had abandoned efforts to raise capital or find a buyer quickly. Following the fallout, the Federal Deposit Insurance Corporation (FDIC) took control of SVB and Signature Bank¹³ while trading has been halted for First Republic Bank¹⁴ as its shares tanked 70% in the pre-market trading on Monday fueling more fears that large financial institutions were at risk. Silicon Valley Bank's decline stems partly from the Federal Reserve's aggressive interest rate hikes over the past year. During that time, banks loaded up on long-dated, seemingly low-risk Treasuries when interest rates were near zero. However, analysts believe the bank's collapse is unlikely to set off the domino effect that gripped the banking industry during the financial crisis of 2008-09. "The system is as well-capitalized and liquid as it has ever been," Moody's chief economist Mark Zandi said. "The banks now in trouble are much too small to be a meaningful threat to the broader system." Notably, a systemic problem is unlikely, considering investors were not leaving much to chance

and fled from equity to the safety of Treasuries while they speculated.

In more favourable news, job creation decelerated in February but was still more robust than expected, despite the Federal Reserve's efforts to slow the economy and bring down inflation. Nonfarm payrolls rose by 311,000 for the month above estimate, and the unemployment rate also increased to 3.6%, above the consensus of 3.4%, amid an uptick in the labour force participation rate to 62.5% highest level since March 2020. The results suggest that the employment market is still hot. However, Fed Chairman Jerome Powell told Congress last week that recent metrics show inflation is back on the rise, and if that continues, he expects rates to increase to a higher level than previously expected. Powell specifically noted the "extremely tight" labour market as a reason why rates are likely to continue rising and stay elevated. He also indicated that the increases could be higher than the February hike. The key takeaway from the reports is that while unemployment numbers remain strong, the mixed U.S. jobs report eased some worries about big rate hikes. Further, the Silicon Valley matter might keep the FED away from a 50bps move later this month.

The market had a dovish response with global bond prices remaining flat week-over-week. However, at the end of the trading week, SVB's failure drove some level of fear through the market with the 2 and 10 Year Treasury both closing 27 basis points lower at 4.59% and 3.69% respectively, from the prior week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagicor Fin 2028 (5.30%)	BB-/ Positive	99.00	5.52%	BUY
TPHLTT 2029 (9.00%)	BB/ Stable	106.75	7.65%	BUY
MARFRIG 2026 (7.00%)	BB+/ Stable	101.65	6.41%	BUY
BERMUD 2027 (3.72%)	A2/ Stable	97.50	4.43%	BUY
PRIO 2026 (6.13%)	BB-/ Positive	96.25	7.45%	BUY
ALSEA 2026 (7.75%)	Ba3/ Stable	101.00	7.43%	BUY
DomRep (6.6%) 2024	BB-/ Stable	102.00	4.21%	BUY
DomRep (5.88%) 2024	BB-/ Stable	101.75	4.21%	BUY
DomRep (5.50%) 2025	BB-/ Stable	101.50	4.65%	BUY
DomRep (6.88%) 2026	BB-/ Stable	104.45	5.18%	BUY

¹³ Signature was a commercial bank with private client offices in New York, Connecticut, California, Nevada and North Carolina, and had nine national business lines including commercial real estate and digital asset banking

¹⁴ First Republic Bank (FRC), which serves some companies in the venture world and also targets high-net worth clients from the tech industry.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
DomRep (8.63%) 2027	BB-/ Stable	106.75	6.71%	BUY
DomRep (5.95%) 2027	BB-/ Stable	101.25	5.58%	BUY
DomRep (5.50%) 2029	BB-/ Stable	96.00	6.32%	BUY
DomRep (6.00%) 2033	BB-/ Stable	93.50	6.91%	BUY
PYPL 2029 (2.85%)	A-/Stable	88.0	5.03%	BUY
Jaman 2025 (7.63%)	B+/ Positive	104.50	5.52%	BUY
NFE 2025 (6.75%)	BB-/ Stable	98.75	7.31%	HOLD
NFE 2026 (6.50%)	BB-/ Stable	94.50	8.33%	HOLD

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	104.25	5.58%
	2039	120.40	5.93%
	2045	116.25	6.49%

*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.

Money Market

Last week, market liquidity, as represented by the BOJ's aggregate current balances, declined by \$4.6Bn week-over-week to J\$17.9Bn as at March 9th. However, money market rates generally remained unchanged on JMD placements for shorter tenures; the only change was the rate on 365 days placements, which increased 25 basis points, bringing to an end two consecutive weeks of decline. Brokers have JMD to lend for all tenures.

Relative to last week, the average yield from BOJ's competitive price auction increased to 10.44% versus the 9.95% in the prior week. The auction was undersubscribed with bids received totalling J\$23.8Bn relative to the offer size of J\$25Bn. The highest bid rate for full allocation was 15%.

The USD money market remains stable and reasonably liquid. There was no BOJ intervention in the foreign exchange market via B-FXITT last week.

Local Corporate Bonds

Name	Maturity	Coupon	Price	Yield
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Dates to watch this week

■ International ■ Local

February-March 2023

MON	TUE	WED	THUR	FRI
13	14	15	16	17
US Consumer Inflation Expectations	US Core CPI (YoY, MoM) (Feb)	US Core PPI (YoY, MoM) (Feb)		International Merchandise Trade (STATIN) (Nov 2022)
PROVEN Dividend Payment Date	US CPI (YoY, MoM) (Feb)	TROPICAL Annual/ Extra-Ordinary General Meeting		UK Inflation Expectation
	UK Unemployment Rate (Jan)	Consumer Price Index (STATIN) (Feb 2023)		CAD Industrial Product Price Index (IPPI) (YoY, MoM) (Feb)

Recommendations

Ticker	Closing Price (Mar. 13)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$17.64	14.9x	14.6x	BUY
LAB	\$2.52	16.8x	19.6x	BUY
GK	\$82.81	11.7x	10.3x	BUY
ELITE	\$2.89	24.7x	22.0x	BUY
IPCL	\$1.91	25.1x	22.0x	BUY
JBG	\$36.65	9.6x	14.6x	BUY
ECL	\$5.40	35.0x	19.6x	BUY
CAR	\$8.13	10.5x	14.6x	BUY
CPJ	\$9.82	12.6x	14.6x	BUY
KWL	\$31.94	16.9x	5.4x	HOLD

Regional News

Brazil Fiscal Framework To Include Rule To Track Spending (Reuters)

Brazil's finance chief, Fernando Haddad, said the government's eagerly awaited fiscal framework would include a new rule to monitor spending without addressing public debt in his remarks last Friday ahead of unveiling the rules backed by President Luiz Inacio Lula da Silva later this month. Haddad stressed that investors need a long-term horizon to commit to projects in the country, which he believes the fiscal framework will offer. The fiscal framework is a set of budget guidelines designed to balance government revenue and expenditures. Haddad said public debt needs to be monitored but that a debt target is unworkable because it would cause constraints to what he described as the "harmonization" of government spending policies and borrowing costs set by the central bank.

The rules follow Lula's securing of congressional approval for a multi-billion reais spending package that bypasses a constitutional spending cap, in line with one of the leftist leader's campaign promises. On Thursday of last week, Brazil's planning and budget minister, Simone Tebet, said that the new fiscal rules would address concerns to eliminate the budget deficit, stabilize public debt, and include investments backed by Lula that promote economic growth.

Panama Gives Canada's First Quantum Go-Ahead To Operate Port Terminal (Reuters)

Panama's Maritime Authority has lifted a suspension on First Quantum Minerals' operations at the port of Punta Rincon, which the Canadian company uses

to export copper concentrate from its key Cobre Panama mine. The Panamanian government and First Quantum said they had agreed on the final text for a new contract on the operations of Cobre Panama, which accounts for about 3.5% of the country's gross domestic product and, at full capacity, can produce more than 300,000 tonnes of copper per year. About 60% of the copper concentrate exported through Punta Rincon is destined for factories in China, and the rest is exported to other markets, including Spain and Germany.

However, Panama will continue to benefit from this operation as the Panamanian unit of Canadian miner First Quantum Minerals agreed with Panama's government to increase royalty payments at its flagship copper mine. Minera Panama, which is majority owned by First Quantum Minerals, has agreed to pay \$375Mn a year to state coffers from the Cobre Panama mine, which is one of the world's largest copper producers.

International News

Analysis: As Banks Shake, Markets Hear The Sound Of Peaking Rates (Reuters)

Investors scrambled to pull down global rate expectations on Monday and abandoned bets on the Fed upsizing its rate hikes next week, reckoning the most prominent American bank failure since the financial crisis will make policymakers think twice. On Sunday, the U.S. administration took emergency steps to shore up banking confidence, guaranteeing deposits after withdrawals overwhelmed Silicon Valley Bank and closing under-pressure lender Signature Bank in New York. However, markets remained fragile, with European bank stocks tumbling over 5% on Monday

and U.S. banks set to open lower. Further, anticipating that the Federal Reserve will be reluctant to hike next week while the mood is febrile and delicate, bond markets rapidly repriced interest rate expectations. Futures pricing implied just a 50% chance the Fed would hike borrowing costs by 25 basis points next week - a massive shift from last week when markets briefly bet a 50 bps move was more likely. "We have a big data print tomorrow with CPI (inflation), and unless market turmoil continues and leads to a tightening in financial conditions, then the Fed will do 25 bps," said Mark Dowding, chief investment officer at BlueBay Asset Management.

Signature Bank Becomes Next Casualty Of Banking Turmoil After SVB (Reuters)

State regulators closed New York-based Signature Bank (SBNY.O) on Sunday, the third largest failure in U.S. banking history, two days after authorities shuttered Silicon Valley Bank (SIVB.O) in a collapse that stranded billions in deposits. The Federal Deposit Insurance Corporation (FDIC) took control of Signature, which had \$110.36 billion in assets and \$88.59 billion in deposits at the end of last year, according to New York state's Department of Financial Services. Signature's failure followed Silicon Valley Bank's Friday shutdown, the second largest in U.S. history behind Washington Mutual, which collapsed during the 2008 financial crisis. All of the depositors of Signature Bank and Silicon Valley Bank will be made whole, and "the taxpayer will bear no losses," the U.S. Treasury Department and other bank regulators said in a joint statement.

Notably, The FDIC established a "bridge" successor bank on Sunday, enabling customers to access their funds on Monday. The FDIC said that Signature Bank's depositors and borrowers would automatically become customers of the bridge bank. U.S. officials said Silicon Valley Bank customers would have access to their deposits starting today. The federal government also announced actions to shore up deposits and try and stem any broader fallout.

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