

Market Guide

THIS ISSUE

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A 10% decline in the market is fairly common—it happens about once a year. Investors who realize this are less likely to sell in a panic, and more likely to remain invested, benefitting from the wealthbuilding power of stocks
~ Christopher Davis

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Surprise OPEC+ Cut to Boost Oil Prices; Implications for Oil & Gas Bonds

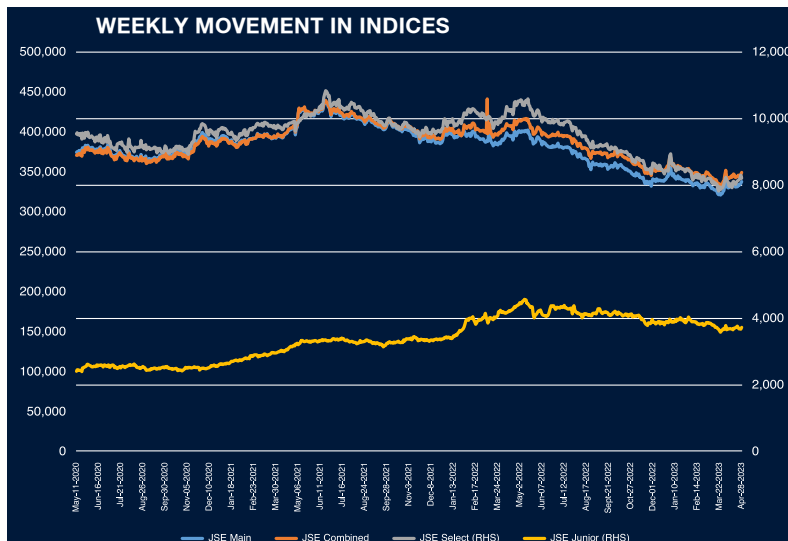
Energy markets had an extraordinary 2022, sparked by Russia's invasion of Ukraine and subsequent retaliatory action, but since then these markets have somewhat moderated due to depressed global demand. However, a fresh round of oil production cuts by the Organization of the Petroleum Exporting Countries (OPEC+)¹ will be a key tailwind for prices in 2023. On April 2, 2023, OPEC+ producers² declared an unexpected cut in oil production by roughly 1.66 million barrels per day (bpd). This reduction adds to the output cut of 2 million bpd that took effect in November 2022. It is estimated by Reuters that this will bring the cumulative reduction in oil output by OPEC+ to 3.66 million bpd, representing 3.7% of global demand³. These production cuts are however not expected to push oil prices back to last year's highs and should not warrant additional rate hikes by the Bank of Jamaica, as domestic inflation is forecast to remain on a downward trend. The voluntary output cuts were made as a precautionary measure aimed at supporting energy market stability. The banking crisis that erupted in March, and

continued with the failure of First Republic Bank in April, fueled greater concerns about the health of the global economy, which led investors to sell off riskier assets such as commodities. Oil prices fell to nearly \$70 per barrel, well below the all-time high of \$139 in March 2022. The sell-down was a reflection of expected reduced credit availability to households and businesses from banks, an extra headwind that will likely lead to slower economic growth and a lower trajectory for oil consumption from global recession concerns. With these factors influencing actions from producers to stabilize prices, companies that operate in the energy industry such as GeoPark, Heritage Petroleum, Petro Rio, New Fortress Energy, Pemex, NRG Energy, and Trinidad Generation Unlimited, are poised to benefit from a potential increase in oil prices. This could be in the form of better revenues, cash flows and debt repayment capacity than previously projected at the start of the financial year. This has positive implications for investors in the oil and gas (O&G) industry, but there is currently a disparity between responses to supply-demand fundamentals and macroeconomic concerns

1 On organization enabling the co-operation of leading oil-producing countries, in order to collectively influence the global market and maximize profit.

2 OPEC+ members include, Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

3 Why did OPEC cut oil production? Key reasons explained – Reuters – April 3, 2023



MOVEMENT IN INDICES

JSE Indices	Closing Levels	WoW % Change	YTD % Change
Combined Index	349,670.27	1.59%	-5.1%
Main Market Index	338,081.79	1.87%	-5.0%
Select Index	8,220.11	1.03%	-7.6%
Junior Market Index	3,737.92	-0.97%	-6.2%

WINNERS & LOSERS (FOR THE WEEK ENDED APR 28, 2023)

	\$ Change	% Change
JPS7	+\$88.48	+238.17%
JMMBGL7.50	+\$0.38	+38.38%
Eppley7.50	-\$1.93	-24.34%
MPC	-\$14.01	-16.24%

MARKET OVERVIEW

Last week's trading session resulted in the majority of the JSE indices (7/9) advancing, sustaining the positive trajectory from the prior two weeks as the inflation and interest rate environment improves, which could improve stock valuations. The index with the highest gain was the JSE Cross Listed Index (up 2.89%), followed by the JSE Manufacturing & Distribution Index (1.97%). The 3.53% week-over-week (WoW) increase in Massy Holdings Ltd (Massy), the largest market capitalization stock on the Cross Listed index (59.1%), contributed to the upward movement. Notably, Massy announced intentions to consider the recommendation for payment of an interim dividend at its meeting scheduled for May 10, 2023, which possibly contributed to the price rally. Positive movement in Guardian Holdings Limited (+2.38% WoW) also impacted the JSE Cross Listed index; however, there was no direct news to support the price increase. The positive movement in the Manufacturing and Distribution Index was partially credited to a +9.20% WoW movement in the stock price of Seprod; there was no news to support the price movement.

The main advancing and declining stocks for the combined market were Jamaica Public Service Co. Ltd 7.0% (238.17%) and Eppley 7.50% Pref Shares Due 2024 (-24.34%). The overall market activity was influenced by trading in 126 stocks of which 66 advanced, 52 declined, and 8 traded firm. However, volumes slowed significantly month over month as volumes amounted to 144,771,490 units valued at over \$709,193,025.59, relative to 972,395,473 units valued at over \$4,977,285,941.01 last month. The overall market volume leaders for the week were Transjamaican Highway Limited with 33,960,065 units (20.19%), Wigton Windfarm Ltd. Ordinary Shares with 19,925,886 units (11.85%) and First Rock Real Estate Investments Ltd (USD) with 19,368,000 units (11.51%).

that presents risks.

From the viewpoint of companies that operate in the oil and gas industry, the reduction in supply to boost prices is welcomed news and could mean better returns for bondholders. The output cut should support the price of oil, which has been declining since the Russia-Ukraine war-induced high due to recession concerns but remains well elevated by pre-pandemic standards. Taking the production cut into consideration, the US Energy Information Administration in its Short-term Energy Outlook (STEO) currently forecasts that its Brent crude oil spot price forecast is set to average about \$85/bl in 2023, up \$2/bl from the March forecast. Following the sector's robust performance in 2022 which allowed it to enter 2023 with its healthiest balance sheet, the supply cuts could foster better financial performance this year for energy companies than initially anticipated at the start of the year, if production and refining capacities at least remain in-line with projections. This could potentially mean better prospects for bondholders given these companies' improved capacity to repay debt, support capital reinvestments, and improve liquidity. Thus far, elevated energy prices and its impact on the sector's performance have supported investor demand reflected in total returns of between 20% and 70% on bonds in the energy sector between January 2022 and January 2023. This is relative to total returns on other commodity bonds such as agriculture (-25% and 30%), precious metals (0% and 20%), and industrial metals (-15% and 10%)⁴. With prices depressed on a year-over-year basis from investor concerns of slowing

global economic growth, the year-to-date, total return for the energy sector is less than last year, ranging between -15% and 5%⁵. However, this could improve with the higher price forecast, but there are risks that could stymie this improvement.

Elevated oil prices have favourable implications for investments on offer in the O&G sector; however, a disparity between supply-demand fundamentals and macroeconomic sentiments could prevent ascension to the forecasted price. If prices approach the forecast level from the current \$70s range, companies could benefit as noted above. This presents a unique opportunity for investors to pick up bonds of energy companies that saw prices fall off. With yields being attractive -the highest they have been in many years- investors are anticipated to gravitate towards such bonds before rates begin to fall, pushing up demand and prices. It is important that in choosing these bonds investors consider companies that are making sufficient investments to replenish reserves, increase their production capacity and diversify sources to combat the gradual shift to cleaner energy usage. Notably, while from a demand and supply basis, prices should increase, there has been price stagnation due to macroeconomic concerns, financial turmoil, prospective rate hikes, and a slower-than-expected pick-up in Chinese demand. These present risks to the price increase towards the forecast. However, there are current expectations that oil demand will increase in summer 2023. In its summer market outlook, OPEC expects global demand to rise by 2.5% in the second and third quarters.

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OPEC said a rebound in China's economy after the easing of pandemic restrictions and solid demand throughout the Middle East and Asia should help feed this summer's increased oil needs. China will likely account for about 40% of second-quarter demand gains and about a third of the third quarter's. Further, heightened mobility in the upcoming driving season in the U.S. is also expected to provide the usual additional demand for transportation fuels. However, any weakening in the economy on the back of ongoing monetary tightening measures by the Federal Reserve may offset some of this seasonal dynamic. If demand increases in alignment with the outlook, oil prices could rise towards the forecast and improve investor sentiments about assets in the O&G sector driving better returns.

4 Bloomberg

5 Bloomberg

Foreign Exchange Market

The Jamaican dollar appreciated by 0.35% relative to the USD, week over week, with the USD selling rate moving from J\$153.85 on April 21st 2023, to J\$153.31 on April 28th 2023. This appreciation was driven primarily by the intervention of the Bank of Jamaica in the market with \$60.0Mn during the week—\$40.0Mn on Monday and \$20.0Mn on Tuesday.

Selling	Close: 21/04/23	Close: 28/04/23	Change
J\$/US\$1	\$153.85	\$153.31	-\$0.54
J\$/CDN\$1	\$118.94	\$114.04	-\$4.90
J\$/GBP£1	\$191.72	\$192.72	+\$1.00

Global Bond Prices

Global bond prices declined week-over-week due to various occurrences, including data showing that growth in the U.S. slowed during the first three months of the year as interest rate hikes and inflation took grip of the economy. Growth is widely expected to weaken even further. U.S. Real GDP rose 1.1% on an annualized basis in Q1 2023, below the 2% estimates after increasing 2.6% in Q4 2022, but well above the negative growth reported in Q1 2022 (-1.6%). However, it is important to note that the deceleration in growth was not because of weak consumer spending, as people are still spending despite higher prices, and elevated inflation. The hit to growth came from the change in private inventories. Although weaker than expectations, the general view of activity across Q1 2023 remains one of resilience. While topline activity slowed from a more robust pace in Q4, growth remains positive, with consumers leading the charge despite a seemingly overly pessimistic sentiment by businesses cutting back more than necessary in anticipation of eventual weakness.

On a positive note, the Personal Consumption Expenditures (PCE) Price Index⁶, an inflation measure the Federal Reserve follows closely, cooled again in March (4.2%) relative to 5.1% in February. Nevertheless the PCE's March figure accelerated above its 3.7% estimate and from 1.0% in Q4 2022, with spending on goods and services up 6.5% and 2.3%, respectively. Of note, the index has held steady at persistently high levels at 4.6% year-over-year versus 4.7% in February. The stickiness of that component is deemed likely to keep the Fed on its rate hike path. Therefore, with the economy and, more importantly, consumers on solid footing coupled with still elevated inflation, there is little incentive for the Fed to cool against its fight to reinstate price stability. A rate hike is not only anticipated on May 3rd, but also beyond. There is now a 66% forecasted likelihood that

the Fed will raise rates again in June. Consequently, we anticipate continued volatility in global bond yields as rates remain elevated. As a result, the 10 Year Treasury closed at 3.42% ast week from 3.57% in the prior week.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
Sagcor Fin 2028 (5.30%)	BB-/Positive	98.00	6.25%	BUY
TPHLTT 2029 (9.00%)	BB/Stable	107.00	5.71%	BUY
MARFRIG 2026 (7.00%)	BB+/Stable	99.50	7.24%	BUY
BERMUD 2027 (3.72%)	A2/Stable	99.50	3.86%	BUY
PRIO 2026 (6.13%)	BB-/Stable	96.50	7.83%	BUY
ALSEA 2026 (7.75%)	Ba3/Stable	101.25	7.35%	BUY
DomRep (6.6%) 2024	BB/Stable	102.00	3.76%	BUY
DomRep (5.88%) 2024	BB/Stable	101.75	3.97%	BUY
DomRep (5.50%) 2025	BB/Stable	101.5	4.58%	BUY
DomRep (6.88%) 2026	BB/Stable	104.50	5.08%	BUY
DomRep (8.63%) 2027	BB/Stable	107.50	6.44%	BUY
DomRep (5.95%) 2027	BB/Stable	101.75	5.42%	BUY
DomRep (5.50%) 2029	BB/Stable	97.5	5.96%	BUY
DomRep (6.00%) 2033	BB/Stable	96.00	6.56%	BUY
PAYPAL (2.85%) 2029)	A-/Stable	92.50	6.51%	BUY
JAMAN (7.63%) 2025N	B+/Positive	104.75	5.27%	BUY
NFE 2025 (6.75%)	BB-/Stable	97.75	7.88%	HOLD
NFE 2026 (6.50%)	BB-/Stable	94.50	9.31%	HOLD
FRICON (7.7%) 2028	B+/Stable	74.65	14.84%	BUY
PROMERICA 2024 (9.70%)	B/Positive	104.00	7.73%	BUY
BARCLAYS 2026 (5.75%)	A1/Stable	103.00	4.75%	BUY

⁶ The PCE Price Index Excluding Food and Energy, also known as the core PCE price index, is released as part of the monthly Personal Income and Outlays report. The core index makes it easier to see the underlying inflation trend by excluding two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices.

GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	107.00	5.14%
	2039	124.00	5.68%
	2045	119.75	6.22%

*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 (NCBCLM) 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
SJPC	2032	8.85%	104.00	8.22%
BDHR	2027	8.15%	100.50	8.00%
PBS	2025	6.50%	101.00	6.13%

Money Market

As of the 27th of April, a total of J\$57.7Bn was in the market, as represented by the BOJ's aggregated current balances, up by J\$26.30Bn from J\$31.30Bn on April 21st. The aggregated balance also increased by J\$26.80Bn from J\$30.87Bn on December 30th. This signaled a notable increase in market liquidity. Consequently, last week's broker demand for JMD remained low, particularly for short-term funds and rates were stable.

In line with the improvement in liquidity and cooling of interest rates, yields on primary BOJ CDs and the government bond offer fell. The average yield from BOJ's competitive price auction decreased for the sixth consecutive week to 8.11% versus 8.32% in the prior week. The auction was oversubscribed, bids received totaled J\$46.4Bn relative to the offer size of J\$32Bn. Oversubscription will likely continue as investors aim to take advantage of elevated rates, before interest rates begin to decline due to falling inflation. The highest bid rate for full allocation was 8.25%, compared to 8.35% in the prior week. The Government of Jamaica also entered the market last week by reopening the GOJ 10.00% 2028 FR Benchmark Investment Notes, with offer volume of J\$9Bn. The auction was significantly oversubscribed with a bid-to-cover ratio of 3.9x. The reserve yield was 9.5%; however, the highest bid that was fully allocated was 9.089%. This is relative to a reserve yield of 10% and highest yield for full allocation of 10% when this instrument was issued in March 2023.

There were only minor weekly fluctuations in the USD money market. Liquidity has been steady, with most brokers generally willing to accept long-term money. Rates were stable. During the week, the BOJ intervened twice in the foreign exchange market via B-FXITT. A total of US\$60Mn was sold to the market, taking a total of J\$9.2Bn out of the market, which fueled a minor appreciation of the Jamaican dollar.

Dates to watch this week

■ International ■ Local

May 2023				
MON	TUE	WED	THUR	FRI
01	02	03	04	05
US Manufacturing PMI (Apr)	QWI Annual/Extra-Ordinary General Meeting	Fed Interest Rate Decision	US Trade Balance (Mar) CAD Trade Balance (Mar)	US Unemployment Rate (Apr) CAD Unemployment Rate (Apr)
CAD Manufacturing PMI (Apr)	SVL Dividend Payment (\$0.34 per share)	SRF Annual/Extra-Ordinary General Meeting	SJ Dividend Payment (\$0.72 per share) GHL Annual/Extra-Ordinary General Meeting	Interational Merchandise Trade (Dec 2022)

Recommendations

Ticker	Closing Price (May 2)	P/E	Avg. Sector P/E	Current Recommendation
WISYNCO	\$16.83	14.3x	11.4x	BUY
GK	\$78.02	11.0x	10.3x	BUY
ELITE	\$2.59	22.1x	16.6x	BUY
IPCL	\$2.08	9.0x	16.8x	BUY
JBG	\$36.45	9.6x	14.3x	BUY
ECL	\$5.01	20.0x	20.0x	BUY
CAR	\$9.79	12.5x	14.3x	BUY
CPJ	\$9.79	12.5x	14.3x	BUY
KW	\$33.06	17.5x	14.7x	HOLD
FESCO	\$4.17	19.6x	16.8x	BUY
PBS	\$1.75	41.5x	21.0x	HOLD
FONTANA	\$8.46	14.8x	16.8x	BUY
TJHUSD	\$0.01	21.7x	21.0x	BUY
TJH	\$1.76	19.9x	14.7x	BUY
KEX	\$11.37	23.2x	20.0x	BUY
SOS	\$15.75	15.3x	16.8x	BUY

Regional News

Petrobras Awaits Government OK To Drill At Mouth Of Amazon River (Reuters)

Brazilian state-run oil firm Petrobras said on Saturday that it is awaiting the government's stance on its request to drill a well at the mouth of the Amazon River Basin, following a technical recommendation by the country's environmental agency to reject the proposal. "We've complied with all the requirements, and we're waiting for the government's decision," said CEO Jean Paul Prates in a note, stressing the company is not pressuring for any decision.

Petrobras has for years been trying to open up a new exploration front on the coast of Amapa state in northern Brazil near Guyana, where Exxon Mobil has made important discoveries. However, a technical report from Brazil's environmental agency Ibama has advised against the request, citing discrepancies in environmental studies, inadequate measures for communicating with indigenous communities, and insufficiencies in Petrobras' plan to safeguard the region's wildlife. The technical report will serve as the basis for the environmental agency's ultimate determination on whether or not to authorize activities in the area.

Exxon Burns Brighter On Permian And Guyana (Reuters)

Exxon Mobil burned brighter in the first quarter, thanks to the Permian Basin and Guyana. The \$485n oil giant earned \$11.4Bn, or twice as much as it did the same period a year ago. Moreover, while the firm continued to shower its investors with cash, sending them \$8.1Bn, the company also increased production to 3.8Mn barrels of oil equivalent per day, a 4% rise from a year ago.

The first gusher came from Texas, where Exxon pumped 615,000 barrels a day from the shale basin. Guyana is quickly ramping up to be bigger. Last quarter, Exxon took 375,000 barrels a day from offshore, and it has a target capacity of 1.2Mn barrels by 2027, 20% more than the Permian. Still, there are risks. Shale wells quickly deplete, so the company may need to eventually top up in the Permian. Buying a rival like Pioneer Natural Resources might help, but not at the current price. Plus Guyana has risks. Its GDP grew 62% last year and is expected to grow 37% this year according to the International Monetary Fund. Such rapid change can bring political instability.

International News

JPMorgan Chase Bank, National Association, Columbus, Ohio Assumes All the Deposits of First Republic Bank (FDIC)

First Republic Bank was closed on Monday by the California Department of Financial Protection and Innovation, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. To protect depositors, the FDIC is entering into a purchase and assumption agreement with JPMorgan Chase Bank, National Association, Columbus, Ohio, to assume all of the deposits and substantially all of the assets of First Republic Bank. JPMorgan Chase Bank, National Association submitted a bid for all of First Republic Bank's deposits. As part of the transaction, First Republic Bank's 84 offices in eight states will reopened on Monday as branches of JPMorgan Chase Bank, National Association. Consequently, all depositors of First Republic Bank will become depositors of JPMorgan Chase Bank, National Association, and will have full access to all of their deposits.

Deposits will continue to be insured by the FDIC, and customers do not need to change their banking relationship in order to retain their deposit insurance coverage up to applicable limits. Customers of First Republic Bank should continue to use their existing branch until they receive notice from JPMorgan Chase Bank, National Association, that it has completed systems changes to allow other JPMorgan Chase Bank, National Association, branches to process their accounts as well. The FDIC and JPMorgan Chase Bank, National Association, are also entering into a loss-share transaction on single family, residential and commercial loans it purchased of the former First Republic Bank. The FDIC as receiver and JPMorgan Chase Bank, National Association, will share in the losses and potential recoveries on the loans covered by the loss-share agreement. The loss-share transaction is projected to maximize recoveries on the assets by keeping them in the private sector. The transaction is also expected to minimize disruptions for loan customers.

The FDIC estimates that the cost to the Deposit Insurance Fund will be about \$13 billion. This is an estimate and the final cost will be determined when the FDIC terminates the receivership.

Fed In Stride To Pole-Vault 5% Policy Rate, Then Perhaps Catch Its Breath (Reuters)

The Federal Reserve kicks off a two-day policy meeting on today that is likely to push the U.S. central bank's benchmark overnight interest rate to its highest level in nearly 16 years, hitting a potential plateau that will test the economy in a way not seen since the onset of the financial crisis in 2007. This will mark the Fed's second straight meeting convened in the aftermath of a major U.S. bank failure, with JPMorgan's Federal Deposit Insurance Corp-brokered takeover of First Republic Bank on Monday the latest evidence that the central bank's historically fast run-up in interest rates is being felt in the financial system and potentially beyond it.

Global central banks are all now edging their way towards a possible stopping point for rate increases after aggressively tightening credit conditions to tame the worst outbreak of inflation in 40 years. The Fed's meeting will be followed with expected rate increases by the European Central Bank on Thursday and the Bank of England next week. But the U.S. central bank is furthest along in the process, and may signal that this week's rate increase is the last, at least for now. A pause could allow time to see how the economy adjusts to higher borrowing costs and tougher banking conditions, and whether inflation falls.

Much remains unsettled. The economy is showing signs of ongoing strength as well as signs of a slowdown. Inflation has been edging down, gradually, with the main price index the Fed watches still more than double the central bank's 2% target. Bank lending has stabilized after a roughly 1.7% drop in mid-March after the failures of Silicon Valley Bank and Signature Bank, but a survey of lending officers to be presented at this week's meeting is expected to signal tighter conditions ahead.

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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