

# ▶ Market Guide

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"The big money is not in the buying and selling,  
but in the waiting." – Charlie Munger

February 20, 2024

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## Local and U.S. Inflation's Bumpy Path to Low and Stable Inflation

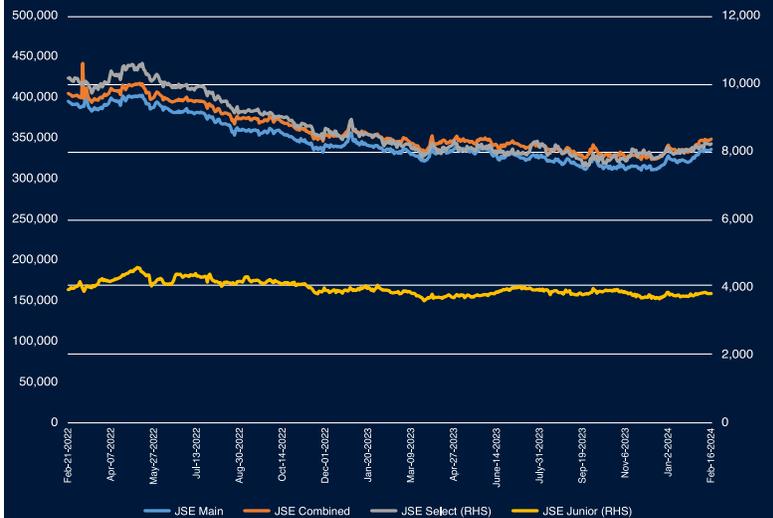
In the words of the late and great Bob Marley: "If she is amazing, she won't be easy." Similarly, the pursuit of low and stable inflation in both the Jamaican and U.S. economies has proven challenging for their central banks. Despite falling significantly from peak levels, inflation has remained outside the Bank of Jamaica (BOJ) and the US Federal Reserve's (Fed) target ranges, with the most recent numbers for January showing higher-than-expected inflation in both economies. Jamaica has flirted with the 4.0-6.0% target on three occasions in the past year and instead has remained outside the BOJ's target. The Fed has also struggled to regain its 2.0% target which has eluded its Central Bank since March 2021. Consequently, both have had to keep monetary policy restrictive, despite the risks to economic activity. In contrast, many Latin American (LatAm) countries, including Peru, Chile, Brazil, and Costa Rica, have experienced more steady declines in inflation in 2023. This has facilitated a relaxation of monetary policy as their economies had begun to feel the strain of tight monetary policy. These countries have undergone between 25 to 400 basis points worth of rate cuts since Q1 2023, reflecting confidence that inflation will continue to slow as consumer demand cools. In contrast, the U.S. and Jamaica are expected to maintain their rates for at least the first half of the year and potentially longer based on January's CPI data. Persistent price pressures make it harder for their central banks to bring inflation within targets and to begin to pursue monetary policy easing, including the reduction in policy rates.

U.S. consumer and producer prices for January rose higher than expected. Headline inflation increased 0.3% in January but fell to 3.1% year on year, from December's 3.4% annual gain. However, both measures were higher

relative to economist's forecasts of a 0.2% month-over-month increase and a 2.9% annual increase. Additionally, core inflation (excluding food and energy) climbed 0.4% over the prior month and 3.9% over the last year, which was above predictions of 0.3% for the month and 3.7% annually. Factors including a significant increase in shelter inflation and motor vehicle insurance costs were behind the higher than expected inflation numbers. Similarly, the producer price index (PPI) gained 0.3% last month and 0.9% year on year, exceeding expectations. Following the inflation data release, market pricing for Fed rate cuts shifted substantially. Expectations had been rising high that the Fed would use the easing inflation numbers as an incentive to cut interest rates aggressively this year. However, traders have had to pare back those expectations in recent days as inflation has shown unexpected persistence. According to the CME FedWatch tool, markets are currently pricing in a 34% possibility of a Fed rate drop at its May 1 meeting, down from 73% a month ago. Furthermore, if price pressures persist, the Fed may adopt a more hawkish stance, possibly delaying a rate-cut cycle toward the end of Q3 2024. Notably, there have been varying views on when rate cuts are deemed appropriate. Former Treasury Chief Lawrence Summer suggested the need for one more rate hike before cuts, while Atlanta Fed President Raphael Bostic highlighted the possibility of goods inflation rebounding.

Jamaica's inflation data has been more volatile, with point to point inflation rising 7.4% in January 2024 from 6.9% in December, well outside the BOJ's 4.0%-6.0% range. This marks the third consecutive increase, due primarily to upward movements in the indices for Food and Non-Alcoholic Beverages (+8.9%), and Transport (+9.5%). Despite a 0.7% decrease in

### WEEKLY MOVEMENT IN INDICES



### MOVEMENT IN INDICES

JSE Indices	Closing Levels	Week over Week (%)	YTD % change
Combined Index	348,365.56	+0.07%	+2.71%
Main Market Index	335,848.38	+0.18%	+3.12%
Select Index	8,222.13	-0.21%	+1.26%
Junior Market Index	3,798.77	-0.90%	-0.92%

### WINNERS & LOSERS FOR THE WEEK ENDED FEB. 16, 2024

	\$ Change	% Change
TTECH	+\$0.43	+20.87%
SALF	+\$0.59	+18.97%
PBS 9.75%	-\$17.94	-15.00%
SILUSD	-\$0.003	-15.00%

### MARKET OVERVIEW

Despite Valentine's Day falling in the week, investors didn't show much love for our local stocks with 4 of 9 JSE indices declining, relative to the previous week, where all 9 indices advanced. The main decliners were the JSE Cross-Listed Index and the Junior Market Index, which declined by 1.44% and 0.90%, respectively. The main contributor to the falloff in the Cross Listed Index was a 2.29% decrease in the share price of Massy, the largest capitalization stock in the index. This price movement likely reflects investors' negative sentiments toward the company's 5.20% reduction in earnings during the December quarter. The falloff in earnings was attributable to some structural changes that increased net expenses and non-recurring impacts on its P&L. The decline in the Junior Market Index was driven by a 4.01% decline in Fontana's share price and a 14.00% decline in the share price of ISP's. However, there was no news to support these declines as both companies reported stronger earnings, by 5.33% and 156.20% respectively, in their earnings releases last week. On the other hand, the main advancers were the JSE All Composite Index (0.47%) and the JSE Main Market Index (0.18%). The main drivers for the increases in these indices' value were JMMBGL and CCC, rallying 6.91% and 5.86%, relative to the prior week. JMMBGL Group released its Q3 financials, boasting a 274.90% increase in net profit attributable to its shareholders to the tune of \$14.90Bn. This was largely driven by a one-off gain on the acquisition of Ivri Holdings, a mid-size insurance company in Canada, by its associate company Sagcor Financial Company (SFC). The gain amounted to US\$434.7Mn to SFC and JMMBGL benefitted from a 23.44% share given its stake in SFC. Investors appeared to have also found favour with CCC after the company announced increased shipments to Turks and Caicos and I shared plans to further expand exports regionally.

Last week's overall market activity resulted from trading in 123 stocks of which, 68 advanced, 43 declined and 12 traded firmly. Market volume amounted to 121.95Mn units valued at over \$471.26Mn, a 13.7% increase in volume and a 20.5% increase in value relative to the week ending February 9, 2023. Transjamaican Highway Ltd., Wigton Windfarm Ltd. Ordinary Shares, and QWI Investments Limited were the week-over-week (WoW) volume leaders with 34.92Mn Units (28.67%), 20.73Mn Units (16.77%), and 13.74Mn Units (11.12%), respectively. Collectively these three made up more than 56% of trading activities in the market.

January for the 'Food and Non-Alcoholic Beverages' division, the annual change of 8.9% is likely linked to severe drought conditions witnessed in 2023 from which produce prices have still not normalised. Furthermore, inflation is also being affected by higher transportation costs due to a 19.0% hike in route taxi and hackney carriage fares implemented in October 2023, despite the 30.0% decrease in adult JUTC bus fares. The BOJ projects that inflation will likely range in the 6.0-7.0% between December 2023 and March 2025 quarters. This projection is based on a second round of PPV fares due in April 2024, expectations around future wage adjustments and higher prices for agricultural produce due to adverse weather conditions. Of note, surprises from external forces such as international oil prices, the impact of global geopolitical tensions, and local agricultural produce prices could all impact the inflation trajectory and BOJ's policy action.

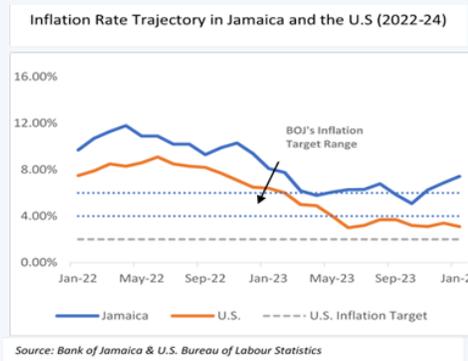
In contrast to the experiences of Jamaica and the U.S., LatAm countries have been more successful in taming inflation. Most Latin American countries had started their rate-cutting cycle by the summer of 2023, and given the trajectory, they were satisfied that they had brought inflation under control. In March 2023, Costa Rica's central bank became the first in the region to cut interest rates, followed by Chile, Brazil, Peru, Uruguay, Paraguay, and Colombia. This was made possible given that Latin American central banks began their rate hike cycles in early H2 2021, long before advanced economies like the U.S. (March 2022), the Eurozone (July 2022) and the United Kingdom (December 2021). Quicker action by the LatAm was taken given their lengthy experience with attempting

to achieve low and stable inflation. However, risks persist in the region as the Fed holds rates longer than expected could destabilise Latin American currencies and influence capital flight. It is difficult for central banks in emerging markets to decouple from US Federal Reserve policy, or other central banks in advanced economies, as this puts extra pressure on local currencies and capital outflows. Additionally, uncertainties still lurk in terms of global inflation and oil price trajectory, which could force the LatAm central banks to pause their rate cuts.

Despite relatively steady declines in inflation between H2 2022 and H1 2023, the United States and Jamaica have experienced volatility in their disinflation trajectories over the last seven and a half months. U.S. headline and core inflation has been higher than expected due to sticky housing inflation and auto insurance rates. Annual core inflation also overshoot expectations highlighting sticky prices in the services industry. In Jamaica, consumer prices have been affected by increased Public Passenger Vehicle (PPV) fares and increased prices for agricultural produce due ongoing effects of the prolonged drought in 2023. However, there are risks to the outlook. Potential risks for Jamaica's inflation rate include the prospect of a second round of PPV fare increases, spikes in agricultural price inflation due to continued adverse weather conditions, higher-than-expected wage adjustments, and external factors like uncertainties in international oil prices and other commodities. Meanwhile, the United States faces persistent challenges with elevated housing and core services prices, alongside the potential resurgence of food inflation in 2024.

**The BOJ projects that inflation will likely range in the 6.0-7.0% between December 2023 and March 2025 quarters.**

As a result, the United States and Jamaica may continue to battle with price pressures unique to their economic landscape. Furthermore, along with LatAm America, there are risks from the external environment, including oil prices and ongoing geopolitical tensions. After a long run with low and stable inflation, it is clear that in the post COVID world, central banks' quest to achieve low and stable inflation is proving to be a bumpy ride.



## Foreign Exchange Market

The Jamaican dollar remained relatively flat (week-over-week), with a slight movement from a selling rate of \$157.51 on February 9, 2024, to \$157.52 on February 16, 2024, due mainly to increased end-user demand for USD and limited supply. Notably, end users are resisting selling rates above J\$158.

Selling	Close: 09/02/24	Close: 16/02/24	Change
J\$/US\$1	\$157.51	\$157.52	\$0.01
J\$/CDN\$1	\$117.41	\$116.98	-\$0.43
J\$/GBP£1	\$199.93	\$197.86	-\$2.07

## Global Bond Prices

Based on data from the Bureau of Labour Statistics released last Tuesday, inflation is proving more persistent than projected in early 2024, despite projections for a faster pace of moderation throughout the year, and is tempering market expectations for rate cuts. US consumer prices rose more than expected in January. Under the surface, inflation remains mild in areas such as gas pricing and energy services; however, stubbornly high shelter prices weighed on consumers. Headline inflation increased 0.3% over the previous month and 3.1% year on year but decelerated from December's 3.4% annual gain. Meanwhile, core inflation (excluding food and energy) climbed 0.4% over the prior month and 3.9% over the last year. Similarly, the producer pricing index (PPI) gained 0.3% last month and 0.9% year on year, exceeding expectations. The core PPI, which excludes the volatile food and energy categories, increased 0.5% from the previous month and 2% from a year earlier, exceeding expectations.

Despite the troublesome inflation readings, the job market remains robust, driving treasury yields higher. First-time claims for U.S. unemployment benefits unexpectedly declined to 212,000 last week, down from 220,000 the previous week, reflecting the best result in more than a month. Economists had expected initial jobless claims to inch up to 220,000 from the 218,000 originally reported for the previous week. Initial claims fluctuated week to week, but have typically trended around the low 200,000s over the last several months, signalling sustained health in the labor market, which was supported by January job growth. Consequently, the week-over-week 10-year treasury yield climbed to 4.33% from 4.20%.

Bonds	Current Rating	Indicative Price	Yield	Recommendation
ALSEA (7.75%) 2026	Ba3/Stable	103.85	6.23%	BUY
BACR (5.75%) 2026	BBB+/Stable	103.50	4.26%	BUY
BERMUD (3.72%) 2027	A2/Stable	98.75	4.17%	BUY
CHTR (4.20%) 2028	Ba1/Stable	99.00	4.47%	BUY

Bonds	Current Rating	Indicative Price	Yield	Recommendation
DOMREP (5.50%) 2025	BB/ Stable	102.00	3.30%	BUY
DOMREP (5.50%) 2029	BB/ Stable	99.00	5.73%	BUY
DOMREP (5.95%) 2027	BB/ Stable	102.25	5.11%	BUY
DOMREP (6.00%) 2033	BB/ Stable	98.25	6.26%	BUY
DOMREP (6.00%) 2028	BB/ Stable	102.25	5.42%	BUY
DOMREP (6.88%) 2026	BB/ Stable	104.00	4.68%	BUY
DOMREP (6.00%) 2027	BB/ Stable	107.25	6.07%	BUY
FRICON (7.70%) 2028	B+/Stable	88.90	10.93%	BUY
GM (5.40%) 2029	Baa2/Stable	103.00	4.79%	BUY
JAMAN (7.63%) 2025N	BB-/Stable	104.00	4.59%	BUY
NFLX (5.88%) 2028	BBB/Stable	107.50	4.11%	BUY
OPY (5.50%) 2025	Ba3/Stable	101.70	4.39%	BUY
PRIOBZ (6.13%) 2026	BB-/Stable	100.75	5.77%	BUY
PRMRPA (10.75%) 2028	B+/Positive	108.00	8.56%	BUY
PYPL (2.85%) 2029	A-/Stable	92.75	4.32%	BUY
SFC (5.30%) 2028	BB-/Positive	98.30	5.76%	BUY
TPHLTT (9.00%) 2029	BB/ Stable	108.00	7.20%	BUY
TRAJAM (5.75%) 2036	BB-/Stable	90.50	6.88%	BUY
WBD (4.13%) 2029	BBB-/Stable	97.50	4.67%	BUY
BANORT (5.75%) 2031	BB-/Stable	98.25	6.04%	SELL
CSOLNO (6.00%) 2027	B+/Stable	74.75	17.29%	SELL
PEMEX (5.35%) 2028	B+/Stable	89.5	8.52%	SELL

## GOJ Globals

Ticker	Maturity	Bid	Offer Yield*
JAMAN	2028	103.85	5.41%
	2039	118.55	6.02%
	2045	116.65	6.43%

\*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.

## Money Market

Both the JMD and USD money market liquidity remained moderate last week. As of the 16th of February, a total of J\$18.43Bn was in the market, as represented by the BOJ's aggregated current balances. The aggregated closing current account balance fell by J\$12.01Bn from J\$30.44Bn on February 9, 2024. There were no BOJ interventions in the foreign exchange market via B-FXITT last week. On the demand side, broker demand for JMD remained moderately liquid for both short-term and long-term placements, while rates in the retail market have stayed consistent on JMD placements. Similarly, in the USD money market, there were minor fluctuations week over week; however, liquidity has been reasonable, with most brokers generally willing to accept long-term money.

Last week's demand for short term rates remains high. The BOJ CD auction, saw an increase in the average yield from 10.48% to 10.57%, as demand for money market instruments remains high and the auction was oversubscribed. Bids received totalled J\$42.8Bn relative to the offer size of J\$39Bn, which implies a bid-cover-ratio of 1.09. The highest bid rate for full allocation was 11.25%, increasing 26 basis points from the 10.99% in the prior week. The next auction date for the BOJ's 30-day CD will be held on February 21st.

## Dates to watch this week

■ International ■ Local

February 2024				
MON	TUE	WED	THUR	FRI
19	20	21	22	23
	CAD CPI (YoY) and (MoM) (Jan)	BOJ Monetary Policy Decision	AMG Annual General Meeting	Access Financial Services Dividend Payment (\$0.12)

## Recommendations

Ticker	Closing Price (February 19, 2024)	P/E	Avg. Sector P/E	Current Recommendation
CAR	\$8.60	10.0x	15.6x	BUY
CCC	\$57.88	8.9x	14.9x	BUY
CPJ	\$10.80	13.6x	15.6x	BUY
ECL	\$3.83	13.6x	20.3x	BUY
FESCO	\$3.79	15.7x	16.6x	BUY
GK	\$75.20	9.9x	10.1x	BUY
INDIES	\$2.63	16.7x	14.0x	BUY
IPCL	\$1.95	11.4x	14.0x	BUY
JBG	\$33.05	6.7x	15.6x	BUY
KEX	\$12.38	19.3x	20.3x	BUY
KW	\$29.75	14.3x	14.9x	BUY
LASD	\$3.87	8.5x	16.6x	BUY
LASM	\$4.95	8.5x	23.9x	BUY
MEEG	\$13.83	20.0x	20.3x	BUY
SGJ	\$45.58	8.2x	11.8x	BUY
SOS	\$1.70	13.6x	16.6x	BUY
SVL	\$26.25	22.4x	12.9x	BUY
TJH	\$3.19	10.3x	14.9x	BUY
TJHUSD	\$0.02	9.8x	12.6x	BUY
SALF	\$3.75	21.6x	15.6x	SELL

## Regional News

### Trinidad Confirms That Two Vessels Heading to Guyana Were Involved in Oil Spill in Tobago

The Trinidad and Tobago Coast Guard (TTCG) has confirmed that at least two vessels were involved in the oil spill incident that caused an oil spill impacting the sister isle of Tobago. In a statement, the Ministry of National Security said that even though investigations are ongoing, video footage and other information gathered by the TTCG have confirmed that the two vessels are a tug boat and a barge. According to the report, the TTCG is working with other local and regional agencies, including the Caribbean Community (CARICOM) Implementation Agency for Crime and Security (IMPACS), the Guyana Coast Guard (GCG), the Maritime Services Division, and IR Consilium, through consultant Dr Ian Ralby, to identify the vessels and their owners. Investigations have thus far revealed that the vessels appear to have been bound for Guyana. However, the Guyanese authorities have confirmed that neither vessel arrived as anticipated. It said that the spill appeared to be emanating from a wrecked barge, which was discovered lodged on a reef in the vicinity. The TTCG said it is also examining video footage supplied by the GCG of the barge, as it appeared to be sinking, and that it is using certain distinctive markings of the barge, to confirm its identity. The TTCG further stated that the barge was being hauled by the Solo Creed, a tug from Panama bound for Guyana. Satellite photography also shows the Solo Creed hauling an object on February 4 of this year. The National Coastal Surveillance Radar Centre (NCSRC) stated that it was able to use this information to follow the tug in Trinidad and Tobago waters while hauling an object. The NCSRC finally lost radar contact with both ships. Meanwhile, the Division of Education, Research & Technology (DERTEch) in Tobago has announced that while most schools in Tobago will reopen on Wednesday after Carnival, two will remain closed. It said this is due to ongoing air quality concerns stemming from the last week's spill incident. - *Caribbean Today*

### Latin America Relatively Insulated from Red Sea Trade Disruptions, But Still Vulnerable to Energy Price Spike

If the Israel-Hamas war was to expand into a regional conflict and have a meaningful impact on global oil prices, it would pressure inflation rates in Latin America and likely delay or reverse rate-cutting cycles. However, compared to other regions of the world, Fitch believes that Latin America is relatively insulated from the impacts of the ongoing disruptions to trade in the Red Sea. This is so, as virtually none of the region's trade travels through the Suez Canal or the Red Sea, as its major partners – the US, Europe, and Mainland China – are directly accessible across the Atlantic and Pacific oceans.

Notwithstanding, Latin America is vulnerable to a spike in oil prices due to a potential regionalisation of the Israel-Hamas

war. Furthermore, if a spike in oil prices were to happen, Latin America, like every other region in the world, would see a notable inflationary impact. Finally, Fitch does not expect much of a political impact in Latin America from the conflicts in the Middle East, despite divisions over the Israel-Hamas war. - *Fitch Solutions*

## International News

### China's central bank leaves key policy rate unchanged under the shadow of the Federal Reserve

China's central bank left a key policy rate unchanged as expected on Sunday when rolling over maturing medium-term loans, with uncertainties around the timing of an easing by the Federal Reserve limiting Beijing's room to manoeuvre on monetary policy. Beijing is attempting a careful balancing act to boost the economy at a time when evidence of continuing deflationary pressure necessitates additional stimulus measures. However, any aggressive monetary activity risks reinforcing depreciation pressure on the Chinese yuan and capital outflow. With investors now pushing back the start of the Fed monetary easing to at least the middle of the year from March, following the latest U.S. data, traders and analysts expect China could hold back rolling out imminent stimulus. The People's Bank of China (PBOC) said it was keeping the rate on 500Bn yuan (\$69.51Bn) worth of one-year medium-term lending facility (MLF) loans to some financial institutions unchanged at 2.50% from the previous operation. - *Reuters*

### Interest on National Debt Could Threaten U.S. Economic Stability

The Congressional Budget Office (CBO) director, Phillip Swagel, cautioned House lawmakers about the growing national debt and the potential existential threat it poses to the U.S. economy. The CBO's semi-annual report indicated that the U.S. yearly budget deficit is expected to increase by an estimated US\$1.0Trn over the next decade, reaching US\$2.6Trn in 2034. Net interest costs are predicted to surpass non-defense discretionary spending by 2024, climbing to 3.9% of GDP in 10 years. Swagel attributed the rising national debt to factors such as high interest rates, an ageing population, and increased federal healthcare costs. The projected debt is set to reach a record 116.0% of GDP by the end of 2034, potentially impacting social security benefits.

Republicans on the committee welcomed findings indicating that the Fiscal Responsibility Act of 2023 helped marginally reduce the deficit. The bipartisan bill, negotiated by former GOP House Speaker Kevin McCarthy, linked raising the debt ceiling with federal spending caps. Democrats, like Dan Kildee from Michigan, emphasised the need for changes to the tax code to generate more revenue and criticised previous tax cuts. - *CNBC*

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