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CAPITAL MARKETS LIMITED

Weekly Market GUIDE

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Week ending January 15, 2010

Jamaican Stock Market

Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Market Index	76,145.31	-6,771.97
All Jamaican Composite	65,782.71	-4,271.95
Jamaica Select Index	1,753.72	-117.02
JSE Cross Listed Index	866.61	-93.81

Most Active Stocks

	Units Traded	%
SVL	1,316,002,875	99.65%
SGJ	1,189,765	0.09%
CWJA	655,084	0.05%

Top Winners & Losers This Week

	$ Change	% Change
Winner: BRG	$0.10	8.33%
Winner: KWL	$0.14	5.47%
Loser: GHL	-$124.50	41.57%
Loser: JP	-$5.82	22.48%

Market Analysis and Commentary

March quarter earnings are expected to take a beating from the ongoing recession as well as government's debt exchange program which is expected to be completed in February. Financial institutions are expected to be the most significantly affected by this program and financial stock prices have begun to reflect this risk. As a result, financial stocks were featured prominently among last week's decliners with the local indices suffering their biggest declines since November 2008. The Main Index plummeted by 6,771.97 points (or 8.17%) as a 42% drop in Guardian Holdings helped to weigh down the index. The Composite and Select Indices fell by 4,721.95 points (6.70%) and 117.02 points (6.26%) respectively. Despite the reduction in domestic interest rates, a number of stocks could continue to head south as companies could see their earnings come under pressure from the ongoing recession and the retrenchment in consumer spending in the face of tax increases. While companies are expected to respond with staff cuts and other cost reduction strategies, this may not be enough to completely offset the impact on shareholder value.

On the other hand, GOJ global bond prices (which have maintained their CCC credit rating) do have some upside potential as interest rates decline and the IMF deal comes close to signing. Of note, the GOJ bonds are US$ denominated and yields comparable with the interest rate currently being offered on J$ instruments. This could lead to an increase in demand for these bonds.

Government Launched Debt Management Initiative

The government launched its debt management initiative (DMI) last week for which it is seeking 100% participation from GOJ debt holders. There are number of positives that should come from the program- not only relating to the significant amount of funding from multi-lateral organisations, but also in terms of cost saving. The government will be able to save some $42Bn from the exercise which would help to reduce the fiscal deficit and help to balance the budget by 2013/14. The DMI is part of a fiscal consolidation program which is a pre-condition to securing the US$1.25Bn Stand-by Arrangement with the IMF. While the Managing Director of the IMF issued a statement that an agreement in principle with the Government of Jamaica had been reached, securing the agreement is just the first major hurdle. The medium term macro-economic framework is likely to pose even a bigger challenge going forward.

Medium Term Macro-Economic Framework

The government has outlined a medium term macro-economic framework which includes reducing inflation, maintaining a flexible exchange rate and continued efforts to reduce domestic interest rates. This puts the BOJ in a position of pursuing, what we believe, are competing objectives. Higher taxes and pass through effects are likely to cause inflation to rise in 2010. The Bank of Jamaica noted that it expects inflationary pressures to increase in this fiscal year as a result of the taxes, falling in the 11.0% to 13.0% range. In our view, inflation levels could test the upper end of this range particularly if oil prices continue to rise on the back of a global recovery. The BOJ will need to keep inflation under control while attempting to bring interest rates down which will require it to keep monetary policy relatively loose. There is also the challenge of maintaining currency stability even as interest rates fall. We are careful to note that while US$ rates remain close to zero, expectations are that the Fed will begin to raise rates in the second half of 2010 which would further reduce the interest rate differential between J$ and US$ assets, thereby increasing the attractiveness of hard-currency assets. That said, we note that IMF funds should bolster the NIR and help support currency stability. Clearly, there is going to be a heavy reliance on the psychological impact of the improved reserves levels from the receipt of IMF funds, to keep the currency stable.

There also seems to be a very heavy reliance on lower interest rates to stimulate economic activity. Economic growth is expected to range between 0.6% and 1.9% from 2010/11 to 2013 under the medium term macro-economic program. Barring any external shocks, this could give a head start to growing our way out of the fiscal deficit.

J$ Money Market Rates

The local money market was highly liquid last week as just under $16Bn flowed to the market from GOJ bond maturities and interest payments. With the removal of BOJ Repos with tenures above 30-days, investors opted to stay liquid- demanding only shorter term investment. The rates in the market continued to re-adjust to reflect the recent reduction in BOJ repo rates and lower yielding instruments. As a result, overnight rates were being traded in the 5%-6% bracket, while 30-day rates were held between 9.50% and 10.50%. Roughly $8.73Bn will flow to the market this week from OMO maturities and interest payments.

Foreign Exchange Market

Selling	Close: 08/01/10	Close: 15/01/10	Change
J$/US$1	$89.66	$89.64	-$0.02
J$/CDN$1	$87.23	$86.83	-$0.40
J$/GBP£1	$143.24	$146.03	+$2.79

Despite the heavy demand for US$ throughout last week, the local dollar remained fairly stable. There were modest levels of US$ inflows emanating from a number of sectors. During the week the J$ traded as high as J$89.90/US$1.00 with a low of J$89.65/US$1.00. The weighted average exchange rate closed the week at J$89.64/US$1.00.

GOJ Bonds

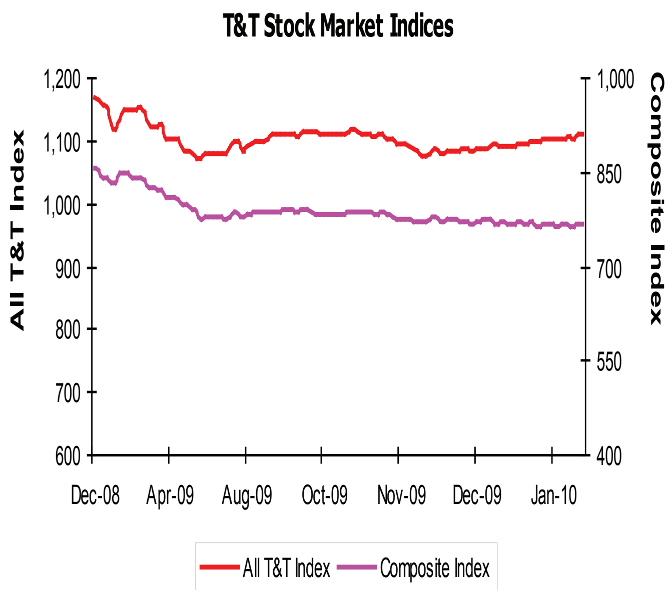
Jaman bond prices continued their march higher as the IMF signaled that they had reached a deal in principle with the Jamaican government after the launch of a local debt exchange program. Capjam 21 seemed to be the heaviest traded bond with at least 3 million nominal being traded at between 75.40 to 75.50. There were also trades in 17s at 95.75 and 39s at 74.15. There were offers on 2015s at 94 while Airj 15s were being bid at 92.50. With the strong support for the local debt exchange program, we expect further increases in global bond prices as persons try to acquire US$ assets at rates similar to what the new J$ bonds are being offered at.

Indicative Levels

	Bid	Offer	Offer Yield*
2011	100.000	102.000	10.06%
2012	92.000	96.000	12.88%
2014	91.000	96.000	11.61%
2015	93.000	95.250	10.17%
2017	94.000	97.000	11.23%
2019	82.000	86.000	10.36%
2022	102.125	106.125	10.71%
2025	83.000	86.000	11.15%
2036	75.000	79.000	10.95%
2039	72.750	75.750	10.73%

*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.

Trinidad & Tobago Update



Trinidadian investors were also looking to reduce their exposure to the Jamaican-based financial stocks following the proposed debt restructuring exercise and the anticipated impact on the companies' earnings. Five stocks ended on the downside, three of which will likely be affected by the GOJ debt restructuring exercise. With four stocks recording gains, both the Composite and All T&T Indices managed to increase last week. The Composite Index gained 0.94 points and the All T&T Index added 5.78 points. However the Cross-listed index declined by 0.41 points during the period.

Overall volumes were relatively high with 1.52Mn units valued at roughly TT$14.30Mn changing hands. Market capitalization increased by TT$86.71Mn to TT$70.84Bn.

EXCHANGE RATE:

Exchange Rate **TT$1/J$14.14**

PM Manning pulls reins on airline speculation

The Trinidad Guardian
Published: 15 Jan 2010

Prime Minister Patrick Manning lashed out at the media yesterday for speculating about the ongoing negotiations relating to the merger of Caribbean Airlines and Air Jamaica. Manning said Jamaica's Prime Minister, Bruce Golding, had made a statement on the project, and due to a confidentiality clause, he was unable to comment further, but he lashed out against media reports which he said continued to speculate on the cost and time frame for completion of the merger deal. Speaking at the weekly post cabinet briefing yesterday at the Diplomatic Centre, Manning said negotiations had reached a "sensitive" point and he did not want to railroad the process, as it can be a lost opportunity for both countries, as well as for the airline and tourism industries.

Manning said the Government saw the merger as an important development for the Caribbean region and he was giving the process every opportunity to succeed. On December 16, 2009 Golding and his delegation visited T&T to hold talks with then, acting Prime Minister, Lenny Saith, Trade and Industry Minister, Mariano Browne and Foreign Affairs Minister, Paula Gopee-Scoon to talk about the financial arrangements for Caribbean Airlines Ltd (CAL) and Air Jamaica. On December 17, in an interview with the Business Guardian, Chairman of CAL, Arthur Lok Jack said the proposal looked at the possibility of one airline for the Caribbean. Golding also told his parliamentary colleagues the proposal included the emergence of one carrier for the region.

"Caribbean Airlines has a view and a vision of one Caribbean and one airline serving the entire Caribbean. We have indicated to them that one Caribbean is wonderful and that is fine, but we are a tourist destination...tourism is part of our lifeblood," Golding told legislators. "I am satisfied that there is a full appreciation for that, and I am hopeful that we might be able to arrive at an agreement in short order that would relieve Jamaica of any further financial responsibility and preserve and protect those critical routes that are vital to us, both as a tourist destination, and protect those routes that are important for our Jamaicans living abroad and travelling abroad. "I am satisfied that based on the assurance that I was given yesterday (Wednesday) that our vision for it will be possible," he added.

International News

The Jamaican Government is not alone in its quest for alternative means to trim its budget deficit through the Banking sector. Though the move is not as drastic as a debt exchange programme in Jamaica, President Obama plans on placing a special tax on financial services companies in a bid to trim its spiraling budget deficit and recover funds from the bailout package implemented last year. Banking sector stocks were little affected by this announcement. In terms of the broader market, the Dow Jones Industrial Average Index hit a 52-week high on Thursday of last week. However losses at JP Morgan Chase & Co triggered an end of week slide in shares in the banking sector.

Data out of China showed strong export and import data. This initially spurred a rise in commodity prices but oil prices fell during the week because of growing concerns regarding Greece's deficit and speculation of a possible default. Additionally, China's Central Bank took its strongest step towards tightening monetary policy yesterday by increasing the bank reserve requirement ratio by 50 basis points. Meanwhile retail sales in the US proved to be much weaker than expected while small improvement in jobless claims did little to raise expectations in the stock market.

- Advanced retail sales were down 0.3% in December compared to the 1.3% gain registered in the month of November.
- Initial Jobless claims increased by 444K compared to the increase of 434K registered last week.
- CPI Index registered a 0.1% increase which was less than the 0.4% increase in November and less than the 0.2% expected from analysts.
- Industrial Production increased by 0.6% in line with analysts expectations.

U.S. Production and Confidence Climb, Prices Slow Share Business

Jan. 15 (Bloomberg) Production in the U.S. rose for a sixth consecutive month, consumers gained confidence and price increases slowed, indicating the economic recovery is being sustained into 2010 without generating inflation.
Output climbed 0.6 percent in December for a second month, according to figures from the Federal Reserve issued today in Washington. The cost of living increased 0.1 percent last month, less than the median forecast of economists surveyed by Bloomberg News, and sentiment reached a four-month high in January, other reports showed. Manufacturers may ramp up assembly lines in coming months to replenish stockpiles and meet rising global demand that's lifting profits at companies including Intel Corp. The rebound so far has soaked up a quarter of the excess capacity created by the worst recession since the 1930s, giving the Fed scope to keep interest rates close to zero through the first half of the year.

Obama Said to Consider Fee on Banks to Trim Deficit

Jan. 11 (Bloomberg) President Barack Obama is considering a fee on financial services companies for inclusion in the budget plan he's set to release next month as a way to cut the federal deficit, an administration official said.
Obama has vowed to halve the deficit, which was $1.4 trillion last year in part because of stimulus spending, the costs of war in Iraq and Afghanistan and bailouts of financial institutions and companies such as the automakers General Motors Co. and Chrysler Group LLC. The official declined to give specifics about the structure of the possible fee, which was reported earlier by Politico. The fee wouldn't amount to a transaction tax or a bonus levy, Politico reported, citing unnamed officials. As of Jan. 6, firms have repaid $122 billion in capital they received from the Troubled Asset Relief Program, according to Treasury Department figures. The total amount of capital injections from the government was about $205 billion.

China Trade Rebound Aids Global Economic Recovery

Jan. 11 (Bloomberg) China's exports surged in December and imports rose to a record in a stronger-than-forecast trade rebound that may lessen the case for governments to sustain stimulus programs this year.
Exports climbed 17.7 percent from a year earlier, the first increase in 14 months, and imports jumped 55.9 percent, the customs bureau said on its Web site yesterday. Year-on-year comparisons are affected by the tumble that began in late 2008, when the global credit crisis deepened.

Consumer Prices in U.S. Increased Less Than Forecast

Jan. 15 (Bloomberg) The cost of living rose less than forecast in December, indicating the economic recovery is showing few signs of stoking inflation. The consumer-price index rose 0.1 percent following a 0.4 percent gain in November, Labor Department figures showed today in Washington. Excluding food and energy costs, the so-called core index also increased 0.1 percent from a month earlier. Companies may have little success raising prices with unemployment projected to average 10 percent this year, the highest annual rate in seven decades. Federal Reserve policy makers have said they expect "subdued" inflation in coming months, allowing them to keep interest rates close to zero to help fuel growth.

NCB Capital Markets Ltd (formerly Edward Gayle and Co.) established in 1968 is Jamaica's oldest stockbrokers. The company became a part of the 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.