

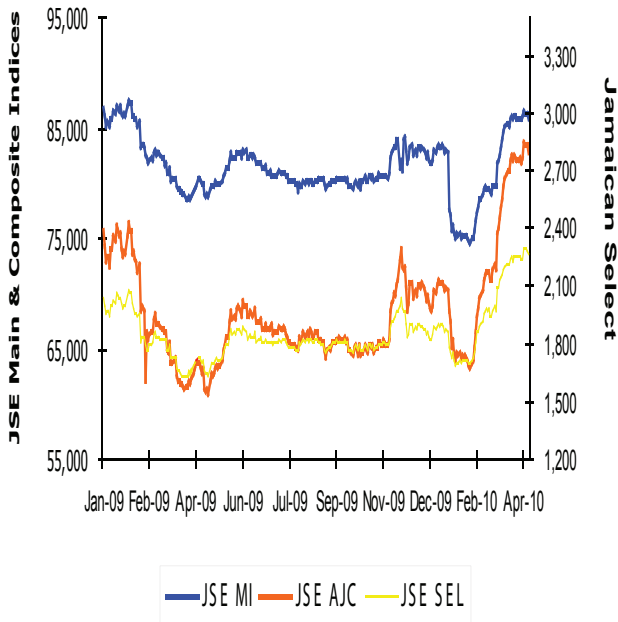
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Week ending April 9, 2010

## Jamaican Stock Market



## Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Market Index	85,846.21	-607.15
All Jamaican Composite	82,737.95	-930.03
Jamaica Select Index	2,269.50	-23.15
JSE Cross Listed Index	848.92	-0.85

## Most Active Stocks

	Units Traded	%
CCFG	3,352,732	33.51%
DG	1,035,348	10.35%
MIL 12%	823,700	8.23%

## Top Winners & Losers This Week

	\$ Change	% Change
Winner: CCMB VP	\$0.15	10.71%
Winner: CWJA	\$0.03	6.52%
Loser: PAL	-\$8.00	13.33%
Loser: SDBG	-\$2.40	10.66%

## Market Analysis and Commentary

All the local stock market gauges recorded declines last week as market activity slowed to a crawl. Just 10Mn units traded (valued at \$94.99Mn) with three stocks accounting for 52% of overall volumes. They were Capital and Credit Financial Group (33.51%), Desnoes & Geddes (10.35%) and Mayberry Investments 12% preference share. Despite the 15 to 13 advance to decline ratio, the JSE Main Index declined 607.15 points or (0.70%); The All Jamaican Composite Index fell by 930.03 points or (1.11%) and the Jamaica Select Index slipped 23.15 points or (1.01%).

### Increase Compliance Instead of Increased Taxes

Listed companies were spared the usual tax increase this time around as the government kept its promise of no new taxes in the budget presentation for the FY2010/11. The \$503.9Bn in expenditure will largely be funded by way of *revenues & grants* of \$326.3Bn and borrowings of \$176.3Bn. The aim is for a 6.5% fiscal deficit in the current fiscal year, and thereafter a gradual reduction towards a balanced budget by the FY2013/14.

With the exception of the increase in property taxes, which was announced in March and took effect on April 1st 2010, no new taxes were announced to help plug the fiscal shortfall.

To meet the projected revenue uptake of \$326.3Bn (up 8.5% from FY2009/10), the Minister of Finance will be focusing on increasing tax compliance and broadening the tax net. This has been a theme of the administration since 2007, and the success of efforts this fiscal year will depend on the actual measures put in place to combat this problem. In this context, the Minister stated that Cabinet has examined and deliberated on a number of proposed amendments to the GCT and Income Tax Acts, aimed at strengthening compliance and the enforcement capabilities of the Tax Administration. These proposed amendments along with other legislative changes are expected to complement the work now being done by the tax authorities, who will further intensify their enforcement actions against delinquent taxpayers in the 2010/11 fiscal year. That said, revenue collection will be challenged by the non-recovery in key sectors and ongoing recession in the domestic market given higher unemployment and reduced consumer spending.

The Government is expected to borrow approximately \$176.3Bn (down from \$301.5Bn last year) to close the financing gap. Of this, \$118Bn will be sourced from the domestic market and \$58.3Bn from the external market. Of note, domestic borrowing declined from \$186Bn in FY 2009/10 as significant support from multinationals have enabled the government to decrease its reliance on the domestic market for funding. This is likely to support the

low interest rate environment following the Jamaica Debt Exchange, and help to keep a lid on debt servicing costs which now accounts for 47% of this year's budget (down from 60% last FY).

A recurring theme in the Finance Minister's presentation was the Government's aim to address the country's fiscal challenges and facilitate long term growth as well as meet the quarterly performance targets outlined by multinationals. However the question is: How credible is this budget in view of the ongoing weaknesses in the economy? In our view, the cut in overall expenditure as well as the increase in multi-national support to Jamaica, is expected to ease some of the fiscal burden in the current year. However, the real challenge the government is likely to face relates to achieving the expected 8.5% increase in Revenues and Grants this year in the context of a weak economy that is projected to eke out 0.6% growth this fiscal year. We note efforts to increase tax compliance which, if successful could lead to an increase in income from profits. However, there could be a sharp falloff in inflows from PAYE and consumption which could temper the overall impact on revenue receipts. This could also impact government's ability to keep its promise of no new taxes in the current year.

## NIR Increased in March

At the end of March, the Net International Reserves increased to US\$1,751.88Mn, or \$192.17Mn higher than it was at the end of February. This is the equivalent of 18.61 of goods and services imports. The outturn for the month was aided in part by the increased inflows to the foreign exchange market, which eliminated the need for Central Bank intervention during the month.

## J\$ Money Market

The JMD broker market remained moderately liquid week over week. The Bank of Jamaica continued its secondary sale of GOJ FR and VR instruments to Primary Dealers. The offer for sale closed on April 8, 2010. With the lack of GOJ Offers, such offers are expected to continue on days where OMO inflows are significant. **This week, OMO maturities and interest payments should total roughly \$21.90Bn.**

## Foreign Exchange Market

Selling	Close: 01/04/10	Close: 09/04/10	Change
J\$/US\$1	\$89.40	\$89.19	-\$0.21
J\$/CDN\$1	\$88.21	\$88.35	+\$0.14
J\$/GBP£1	\$135.50	\$136.12	+\$0.62

Last week, demand for hard currency was particularly weak as end-users were still recovering from the impact of tax payments made in the previous month. At the same time, US\$ supplies continued to improve with inflows from a wide-cross section of sectors. As a result, there was continued revaluation of the local currency with the selling rate falling as low as US\$89.00/J\$1 during the review period. The local currency gained \$0.21 last week and the weighted average exchange rate was J\$89.19/US\$1 at the close of weekly trading.

## GOJ Bonds

Jaman bonds continued to be in high demand as the local market was awashed with USD liquidity. Bond supply remains restricted resulting in price appreciation for almost all bonds. There were small trades on the 17s and 19s at 115.30 and 102, respectively. The Euro denominated bonds also saw some action with the 12s trading at 106 while the 14s traded at 106.5. High liquidity levels and continued tight USD supplies should support further increases in bond prices.

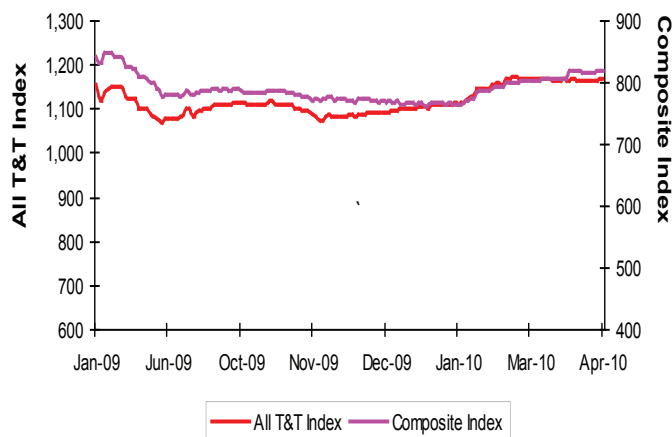
## Indicative Levels

	Bid	Offer	Offer Yield*
2011	106.000	109.000	3.22%
2012	103.000	106.000	7.98%
2014	103.000	106.000	8.81%
2015	106.000	108.000	7.11%
2017	113.500	116.000	7.68%
2019	105.500	103.000	7.54%
2022	136.000	139.000	6.76%
2025	106.000	108.000	8.32%
2036	100.000	102.000	8.31%
2039	95.000	97.250	8.25%

\*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

T&T Stock Market Indices



Angostura Limited and National Enterprise Limited were the only stocks advancing on the Trinidad & Tobago Stock Exchange this week. The stocks gained 21% and 1.4% respectively which resulted in an increase in the Composite and All T&T Indices. The 6.25% decline in National Flour Mills may have tempered the increase in the stock market gauges. The Composite Index gained 1.38 points to close at 819.10 and the All T&T Index advanced 2.87 points to end on 1,168.35 points.

Despite fewer transactions, market volumes rose from the 236,137 units recorded the previous week to 655,262 units. The corresponding market value was \$TT5.40Mn.

### Shareholders Advisory

#### CEMEX to Maintain its TCL Shareholding

TCL has received formal notification from CEMEX, through its subsidiary company, Sierra Trading, that it wishes to maintain its 20% shareholding in Trinidad Cement Limited. Shareholders were notified in two prior advisories that CEMEX had planned to dispose of its TCL shareholding as part of a debt restructuring programme and were informed about the action being taken by the TCL Board to protect their interests.

### EXCHANGE RATE:

Exchange Rate **TT\$1/J\$14.06**

### Economist: Higher oil prices would not impact T&T's deficit

The Trinidad Guardian (Published: 8 Apr 2010)

Economist Jwala Rambarran has said that although energy prices have been rising, it does not necessarily mean that the revenue for T&T will return to the 2008 levels. "There has been a decline in crude oil production in T&T, so the revenue intake will not be as high as and would not necessarily translate into the mid 2008 levels. Relative to last year's budget, there would be more revenue, but compared to 2008, there won't be as much," he said. Rambarran said the rise in oil prices would not impact on the deficit that exists.

"If the Government keeps spending at this pace, then the deficit level would remain the same. Maybe there was a slight decline in the construction sector, like in housing sector, but there is nothing else to suggest that they would spend less in other areas," he said. On Tuesday, oil price reached an 18-month high of US\$86.84 a barrel. Last year, Government based the budget on a conservative oil price of US\$55 a barrel. Tony Paul, managing director, Association of Caribbean Energy Specialists (AECS), believes that an increase of the price of oil is good, but the decline in the production of oil needs to be factored in. "The impact of the high oil prices will be good because it means increased revenue, but the reality is that oil production is down in T&T," he said.

Paul said another question needs to be raised: How long will these prices last? "There is a possibility that prices can remain over US\$70 a barrel, but you have to ask yourself: how long it will last? It all depends on the day-to-day movement of the market," he said. Energy Minister Conrad Enill is optimistic about the rising energy prices on the international market. "I am optimistic about the higher energy prices. It will mean more revenue for T&T. Incrementally, there will be money for the country," he said. He said Petrotrin will also benefit from the higher price of oil. "As a producer, Petrotrin will benefit from what is happening on the market. Remember, prices are a function of what happens in the market and we see what is taking place in the market," Enill said.

## International News

After the bull run in global equities last year, there was a considerable slowdown in gains in the first quarter of 2010, with the S&P and the Dow recording gains of 5.4% and 4.1%, respectively. The slow down in advances reflects lingering concerns regarding the strength of the global recovery, and sovereign debt and fiscal challenges in Europe.

We anticipate a moderation in the pace of gains in global equities for the remainder of 2010. This outlook reflects the slow recovery in most of the major global economies and some uncertainty regarding whether the recovery can be sustained post the withdrawal of fiscal and monetary support. Weaknesses in the labour market including elevated unemployment levels, and still tight consumer credit will restrict any meaningful improvement in disposable incomes and recovery in consumer demand in the near term. As such, corporate earnings will be constrained in 2010. With valuations already above what many analysts consider to be fair value, equity market gains maybe limited until there are signs that the recovery in the major markets is on firmer footing.

This week economic data in the US market was largely positive with pending home sales finally showing some upward movement offering the first hint that buyers are trying to make use of the second round stimulus before its expiration in April. The ISM non manufacturing report for March also proved to be strong.

Despite news that some of Greece's banks are tapping into government aid and Fitch's downgrade of the country's credit rating to the lowest investment grade, US stock market indices closed the week at their 52- week highs.

- ISM Non-Manufacturing Index increased to 55.4 from 53.0 in the previous month
- Pending Home sales jumped 8.2% from a 7.6% decline last month
- Initial jobless claims rose to 460K from 439K

### Europe Economy Unexpectedly Stalled in Fourth Quarter

April 7 (Bloomberg) Europe's economy unexpectedly stagnated in the fourth quarter as companies cut spending more than previously estimated. Gross domestic product in the 16-nation euro region remained unchanged compared with the third quarter, when it rose 0.4 percent, the European Union's statistics office in Luxembourg said today. It had previously reported a fourth- quarter expansion of 0.1 percent. Corporate investment dropped 1.3 percent instead of the 0.8 percent estimated earlier. The European economy is now showing signs of rebounding from its end-of-year relapse as the global recovery prompts companies to step up investment and offsets some concerns that Greece's fiscal crisis will hurt the euro region. While unemployment

is at an 11-year high, economic confidence improved in March and the region's services and manufacturing growth accelerated to the fastest pace since August 2007.

### Jobless Claims in U.S. Increased Heading into Easter

April 8 (Bloomberg) More Americans unexpectedly filed claims for jobless benefits last week, a jump that may in part reflect difficulty in seasonally adjusting the data ahead of the Easter holiday. Initial jobless applications increased by 18,000 to 460,000 in the week ended April 3, Labor Department figures showed today in Washington. The week leading up to Easter and the two weeks that follow are traditionally a volatile time for claims, a Labor Department analyst said, making it difficult to discern the underlying trend in applications. Easter is a difficult period to adjust for seasonal factors because it's a floating holiday that doesn't come at the same time each year, the government analyst said. Additionally, a state holiday in California on March 31 also complicated the tabulation of the data, he said.

### EU Says it's ready to Aid Greece as Fitch Cuts Rating

April 9 (Bloomberg) European Union officials said they are ready to rescue Greece if needed as Fitch Ratings cut the country's credit rating to the lowest investment grade and economists at UBS AG said that a bailout may be imminent. Germany restated its opposition to below-market rate loans to Greece as officials in Brussels hammered out details to the framework calling for joint EU-International Monetary Fund aid. European Central Bank policy makers planned a teleconference tonight, two people familiar with the matter said. The premium investors demand to buy Greek 10-year bonds instead of German bunds jumped to 442 basis points yesterday, the highest since the introduction of the euro. Prime Minister George Papandreou has said borrowing at those levels is unsustainable. Greece will need to seek emergency funding now to make debt repayments of more than 20 billion euros (\$27 billion) in the next two months, UBS economists said in a note.

### Canada's Dollar Trades at Parity for First Time since July 2008

April 6 (Bloomberg) Canada's dollar traded equal to the U.S. currency for the first time since July 2008 on the back of the rising price of crude oil and the prospect of higher interest rates. Canada's dollar, dubbed the loonie for the aquatic bird on the C\$1 coin, last traded at par with the greenback on July 22, 2008, 11 days after crude, the country's biggest export, reached a record \$147.27 a barrel. Oil traded near a 17-month high. Canadian employers added 25,000 jobs in February, the third straight monthly gain, according to the median of 21 forecasts in a Bloomberg survey.

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