

Annya Walker  
AVP Research,  
Strategic Planning  
& Projects

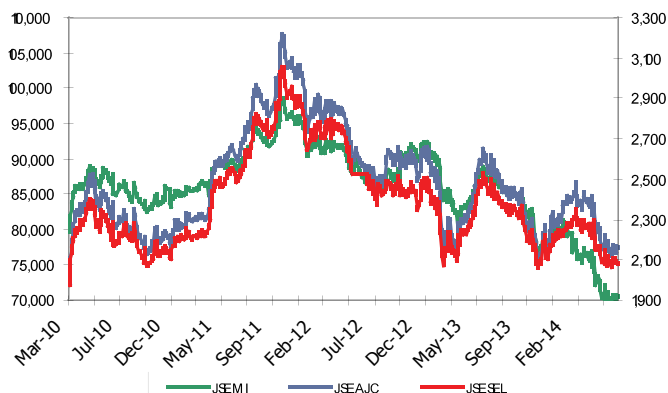
Simone Hudson  
Senior Research  
Analyst  
Tel: 935-2585  
hudsonsg@jncb.com

Shellon Williams  
Research Analyst  
Tel: 935-2749  
williamssp@jncb.com

Shaneka Wynter  
Research Analyst  
Tel: 935-2763  
wyntersy@jncb.com

January 5 2015

## Jamaican Stock Market



## Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Combined Index	78,839.88	+991.34
JSE Market Index	76,997.50	+1,065.62
All Jamaican Composite	84,805.09	+1,191.41
Jamaica Select Index	2,251.67	+37.66
JSE Cross Listed Index	585.90	-

## Most Active Stocks

AFS	135,343,173	90.88%
LIME	3,736,625	2.51%
SVL	3,184,334	2.14%

## Top Winners & Losers This Week

	\$ Change	% Change
Winner:MIL	\$0.31	20.67%
Winner:SALF	\$1.30	14.94%
Loser:GK	-\$1.57	-2.51%
Loser:DTL	-\$0.05	-2.33%

## Equity Market Round up and Outlook

Despite the passing successive IMF tests and positive signals from the Jamaican economy, investor interest in the local stock market remained subdued in 2014. End of year results indicated that the JSE Main index declined by 5.74%, while the Junior Market moved down by 9.37%. On the other hand major indices such as the All Jamaica Composite Index moved down by 2%, while the Jamaica Select Index inched up by 1.91%. The underperformance of the market was partially attributable to uncertainty regarding the strength of corporate earnings. With manufacturing and finance stocks comprising the majority of stocks listed on the equities market, negative developments in these sectors such as, quarterly real GDP contraction in the manufacturing sector, shrinking spreads in the financial sector and the reduction in the size of dividends paid by some companies, caused investors to shy away from the market. Additionally, the Jamaican Dollar depreciated by 7.79% during 2014 which weighed on investors' currency investment choices. Though there has been a boost in investor confidence, more and more investors are looking towards USD investments given the depreciation in the Jamaican Dollar. As such, with the local stock market only offering two USD stock options (Proven and the newly listed, Margaritaville stocks), USD equity investments in the local market were limited, which further contributed to weak overall activity.

The Junior Stock Market, which has seen significant activity in recent years, did not fare as well last year. There were only two Junior Market listings during 2014 which represented a decline over the six listings seen in the previous year. The slow-down in listings is due in part to the amendment to the tax incentive which took effect January 1st 2014. Based on the reform, companies listed on the Junior Market on or after January 1st 2014 are slated to benefit from relief of 100% of income tax payable in the first five years from the date of admission to the Junior Market. This differs from the original incentive where companies would benefit from 100% tax relief for the first five years of listing in addition to a 50% relief for another 5 years.

Despite positive economic indicators from the economy and improvements in corporate earnings which are likely to encourage investors to take a second look at the stock market, a robust rebound in the stock market may still be far way ahead. This, as investors will continue to seek hard currency investments so as to protect wealth as they anticipate further depreciation in the new year. Though trading for the next year may remain subdued, we anticipate that there will be marginal recovery in the stock

market as investors actively seek to acquire stocks that are undervalued and that have some value left in them.

#### Inflation-November

Data from the Statistical Institute of Jamaica (STATIN) indicate that the Consumer Price Index for November 2014 was 224.9 indicating a fall of 0.5% over the October 2014 index of 226.1. This movement represents the lowest month over month move in consumer prices since the start of the 2014 calendar year. Downward movement in the index for the three highest weighted divisions contributed to this outturn. The index for the division 'Food & Non-Alcoholic Beverages' declined by 0.1%, and was mainly due to lower prices for vegetables. A reduction in the cost of electricity and lower rates for water and sewage were the key factors influencing the division 'Housing, Water, Electricity, Gas and Other Fuels', which moved down by 3.6%. A decrease of 0.6% was recorded for the division 'Transport' due to lower oil prices on the international market. The movement in this month's index resulted in the calendar year-to-date inflation rate of 6.7% and the fiscal year-to-date of 5.0%. The point-to-point period stood at 7.3%.

On a forward looking basis it is expected that inflationary pressures could continue to ease given expectation that oil prices will remain low in 2015. To this extent, the divisions 'Housing, Water, Electricity, Gas and Other Fuels' and 'Transport' will likely see declines in subsequent months

#### Proven Acquires Stake in AFS

Mayberry Investments (MIL) recently monetized its stake in Access Financial Services (AFS), selling more than 100Mn units of its shares in AFS at a value of \$9 per share. The shares which were sold to Proven Investments should see MIL earning approximately \$955Mn from the transaction. With the purchase, Proven is now the largest shareholder in Access Financial, with a more than 49% stake in the micro lender. As a result of the transaction, Christopher Williams, CEO of Proven Investments was appointed to the Board of AFS.

The move by Proven to acquire majority stake in AFS falls in line with its strategy to delve deeper in the micro finance business, which is a highly sought after niche market in the loan industry. For the nine month period to September 2014, AFS saw a 20% increase in earnings to \$239Mn compared to \$199Mn in the corresponding prior year period. The annualized return on equity (ROE) for Q3 was 52%, an 8% increase over 2013. As at September AFS' net loan portfolio stood at \$1,122Mn, an increase of 25%. This resulted in a positive move in total assets to

\$1,373Mn, a 38% increase over total assets to \$997Mn as at September 2013.

#### JMD Money Market

JMD market liquidity levels were low at the start of the week due to continued pressure from tax payments that were due earlier in the month as well as increased demand as a result of the holiday season. However, JMD inflows improved as the week progressed with most brokers having excess short term liquidity at the end of the week.

USD market liquidity conditions remained relatively stable week over week with few brokers showing demand for longer tenured funds. There was no notable change in market rates.

#### Foreign Exchange Market

Selling	Close: 19/12/14	Close: 02/01/15	Change
J\$/US\$1	114.59	114.68	+\$0.09
J\$/CDN\$1	98.77	97.65	-\$1.12
J\$/GBP£1	179.06	176.31	-\$2.75

The week was relatively quiet for FX trading as the week was shortened by the holiday. Despite this, bids were high from brokers and end users, primarily in the energy sector. On Friday, the weighted average selling rate was J\$114.68:US\$1.00.

## GOJ Globals

Global bond trading activity was slow last week as the holiday season continued in earnest. The 19s and 25s traded small volumes at 108.15 and 106 respectively. The week closed with bids of 114.50 and 108.20 on the 17s and 19s. Trading in JMD denominated bonds was limited to retail size volumes.

## Indicative Levels - GOJ Globals

	Bid	Offer	Offer Yield*
2015	102.250	103.250	0.89%
2017	114.500	116.000	3.74%
2019	107.500	109.500	4.97%
2022	124.500	126.500	6.81%
2025	114.000	116.000	7.10%
2036	105.500	107.500	7.77%
2039	101.000	103.000	7.72%

## International News

Manufacturing moderated at the end of last year to a more sustainable pace of growth as U.S. factories adjusted to weaker overseas markets and steady demand from domestic customers. The Institute for Supply Management's factory index dropped to a six-month low of 55.5, less than forecast, from 58.7. In October, the reading matched a three year-high. Order growth slowed as some companies anticipated falling energy prices would allow them to receive goods and materials at a lower cost. While other customers scaled back capital spending plans with global markets cooling, production will probably hold up as employment gains and cheap gasoline boost consumer spending and the economy. More hiring and cheaper gasoline are helping drive Americans' purchases. Carmakers are among manufacturers poised to keep benefiting. U.S. auto sales rose to an annualized pace of 17.1M in November from 16.4M a month earlier.

### [Draghi Girds for Risk of Deflation With His Finger on the Bond-Buying Button](#)

Mario Draghi will this week get his first taste of one of the dominant challenges for the euro-area economy for 2015.

Consumer prices probably recorded the first annual decline in more than five years in December amid a slide in the cost of oil, aggravating concern at the European Central Bank that subdued inflation will become entrenched. With Italy in recession, French momentum lackluster and Germany struggling to leave a weak patch behind, policy makers are haggling over stimulus as governments drag their feet on economic reforms.

Inflation data on Jan. 7 may tip the scales in favor of large-scale sovereign-bond purchases when the ECB president leads a meeting of the Governing Council later this month. He said last week that the risk of deflation "cannot be entirely excluded," while others led by Bundesbank President Jens Weidmann favor holding off to allow previous measures to take effect.

"Downside surprises on inflation are far from over," said Jacques Cailloux, chief European economist at Nomura International Plc in London. "That's probably going to be the very important theme for the year."

### German Inflation

German inflation slowed to the weakest in more than five years in December, a sign that euro-area prices have started to de-

\*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 (NCBML) are adjusted to reflect the costs associated with completing the transaction on the respective client's behalf.

cline. The region's rate probably fell to minus 0.1 percent, according to a Bloomberg News survey. That would be the first drop since October 2009, when the economy was struggling to recover from a slump after the financial crisis. Core inflation is predicted to have held at 0.7 percent.

The Frankfurt-based ECB aims to keep inflation just below 2 percent, and Chief Economist Peter Praet said in an interview with Germany's Boersen-Zeitung last week that consumer prices may decline "during a substantial part of 2015."

Policy makers' analysis is complicated by the prospect of renewed political turmoil in Greece, which holds snap elections on Jan. 25, three days after the Governing Council meeting. The vote could deal power to opposition group Syriza, which wants to abandon the austerity measures and economic overhaul linked to the country's bailout agreements.

The euro weakened to its lowest since 2006 today amid concern Greece will exit the currency union. It had depreciated 0.8 percent to \$1.1911 at 2:11 p.m. Frankfurt time.

#### Greek Crisis

"I don't think a Greek crisis would be completely isolated," Alberto Gallo, head of European macro credit research at London-based Royal Bank of Scotland Group Plc told Bloomberg Television's Jonathan Ferro today. "This is a make or break year for Europe

Uncertainty about Greece's future threatens to weigh on a euro-area economy already struggling to pick up speed, leaving companies with little pricing power. The ECB forecasts inflation of 0.7 percent this year and 1.3 percent in 2016, with economic growth of 1 percent and 1.5 percent. "The danger of a deflationary spiral, I don't see that," said Holger Schmieding, chief economist at Berenberg Bank in London. "But regardless of this danger, with such a slow economy, with a very, very low core inflation rate, it's simply right for a central bank to add to stimulus."

#### China Bull Case: Where a Revival of Growth Could Spring in 2015

China's leaders aim to shift the economy from a reliance on investment and exports for growth to one where consumption and markets play a bigger role.

Economists and analysts are watching seven areas for quickening policy change that could bolster economic restructuring in 2015. They include a pick up in domestic demand, cheaper oil, energy-pricing reforms, improved welfare cover and a wave of privatizations.

Whether initiated by policy makers or generated by external events, these are areas most likely to spur a boost for the world's second-largest economy this year:

#### Domestic Demand Comes Alive

China's shift to consumption-led growth is part of a dramatic change that will offer "fantastic opportunity" to the developed world, says Stephen Roach, former chief economist at Morgan Stanley.

The nation's economic engine is shifting gears from being a producer of exports to being a consumer providing demand for the rest of the world, said Roach, now a senior fellow at Yale University's Jackson Institute of Global Affairs.

"2015 could well be the year when China demonstrates that it is very much in control of its destiny -- that it can contain the downside of a carefully engineered slowdown without succumbing to the dreaded hard landing that so many believe is inevitable," he said. "The domestic demand story is about to come alive in a way we have never seen."

#### Oil Tail Wind

The tumbling price of oil and other commodities has made China the "grand winner" of recent turmoil in world markets, enabling it to save on its bills for oil, coal and gas and to add to its strategic energy reserves on the cheap, says Kenneth Courtis, former Asia vice chairman at Goldman Sachs Group Inc.

The drop in energy prices will keep inflation low and producer prices negative, leaving lots of space to trim interest rates, said Courtis, chairman of Starfort Holdings.

"In the wildest dream of great news for the Chinese economy, no one could have dreamed of such a positive scenario," said Courtis.

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.

NCB Capital Markets Limited ("NCBCML") through its representative(s) has provided information to you on various financial products and services and investment opportunities for information and educational purposes only. While NCBCML has made every effort to ensure that the information provided to you is accurate and based on research and analysis that we have carried out or derived from sources that we believe to be accurate and reliable, NCBCML makes no representations or warranties about the accuracy, completeness or suitability for any purpose of the information published and will not be liable for any loss which you or anyone else may suffer in reliance on the information we have provided to you. This Report does not take into account the specific investment objectives, financial situation or particular needs of any specific recipient and therefore this Report should not be regarded by recipients as a substitute for the exercise of their own judgment or for obtaining advice directly from one of our investment advisors.

#### Important Disclosures:

The views expressed in this report are the views of NCB Capital Markets Ltd at the date of this report.

In accordance with Section 39 (I) of the Securities Act of 1993, NCB Capital Markets Limited hereby states that it is a subsidiary of NCB Jamaica Ltd. and to that extent may be regarded as interested in the acquisition or disposal of the shares of NCB Jamaica Ltd. However, the company acts in a proper and professional manner in making any recommendations regarding shares listed on the Jamaica Stock Exchange. Share prices may fluctuate and past performance is not necessarily a guarantee of future returns.