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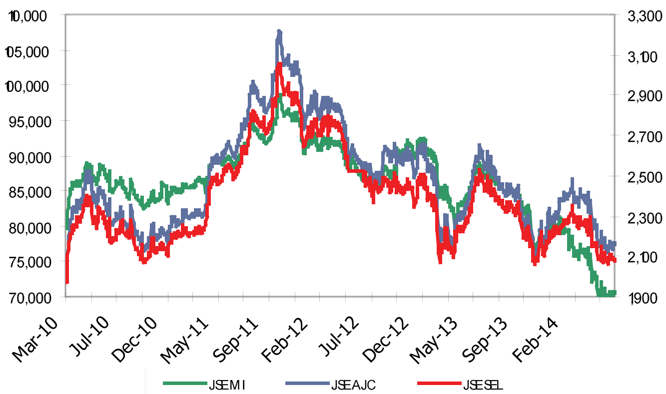
Weekly Market GUIDE

September 21 2015

Jamaican Stock Market



Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Combined Index	100,036.86	-1,158.41
JSE Market Index	96,895.19	-1,254.79
All Jamaican Composite	107,242.12	-1,402.30
Jamaica Select Index	2,942.81	-52.03
JSE Cross Listed Index	499.06	-

Most Active Stocks

X FUND	473,864,187	95.68%
CPJ	3,737,576	0.75%
DG	3,216,724	0.65%

Top Winners & Losers This Week

	$ Change	% Change
Winner: PULS	$0.05	+14.29%
Winner: SIJL	$3.60	+14.75%
Loser:HL	-$0.49	-28.00%
Loser:KW	-$0.60	-8.45%

Government Outperforms Tax Revenues, Deficit Targets

Following the revenue measures introduced at the start of the financial year, the government continues to see an improvement in tax revenue receipts for the fiscal year to July 2015. Tax revenues stood at $127.22Bn and have increased by 14.0% relative to last year. Most importantly tax receipts have outperformed the budgeted target by 2.4%. This is encouraging particularly in light of historical track record of underperformance which the IMF highlighted in prior reviews. There were some challenges in "Production & Consumption" as that tax category recorded a shortfall, but "Income & Profits" and "International Trade" exceeded budget. The difficulty will be in maintaining this strong performance in a fairly weak economic environment.

Although other revenue sources were below projections and weighed on total revenues, the government remains on track to meet its fiscal deficit target of 0.2% for the 2015/16 fiscal year. In fact, as at July, the fiscal deficit was $17.4Bn or 31.7% better than the budgeted $25.5Bn for the period. This was achieved mainly through expenditure cuts-primarily on capital spend. As it relates to recurrent expenditure, wages and salaries, a critical element of the current IMF program were also under budget.So far, 75% of the public sector workers have accepted the government's wage offer. If, the remaining 25% accept, then meeting the 9.0% wage to GDP target in 2017 will be less challenging. At $154.05Bn, total expenditure was 5.0% below budget.

The primary balance target (revenues less non-interest expenditure) also remains in check. The primary balance for the year to July was $27.8Bn, which is above the $23.7Bn the government set out to achieve.

The government will be challenged to maintain the current positive performance especially in an election year. With the economy still reeling from low demand and severe drought conditions, there is very little expectation as it relates to stronger revenue performance. That said, the government will need to keep a lid on expenditure to offset any shortfall in revenues.

Dry Weather Scorches Food Prices in August

The Consumer Price Index for August 2015, increased by 0.8% month-over-month and moved to 229.0. This increase bore the impact of persistent drought conditions on agricultural produce in the island. The heaviest weighted division- 'Food and Non-Alcoholic Beverages' touched an all-time high for the second month in a row. The dry weather has resulted in lower produce supply and higher prices for 'Vegetables and Starchy Foods' which moved up by 8.5% during the month. Consequently, 'Food and Non-Alcoholic Beverages' recorded the highest point-to-point movement among the indices. However, lower oil prices brought the cooling effect and translated in declines in the 'Housing, water, Electricity, Gas and Other Fuels' and 'Transport' indices which tempered the rise in food prices. The 'Housing, Water, Electricity, Gas and Other Fuels' division recorded a decrease of 2.3% due to lower electricity rates. The 0.5% fall in the 'Transport' division was due to lower petrol prices and a reduction in airfares. For the calendar year-to-August, the inflation rate was 2.2%, while the fiscal year-to-date and point-to-point inflation were 2.8% and 3.5%, respectively

Local Stock Market

Trading on local equities was relatively quiet last week which is typical of the summer and back to school periods. Decliners outnumbered advancers 14 to 9 and set the pace for the overall falloff in all of the major indices. The JSE Combined Index declined by 1.14%, the JSE Main Index declined by 1.28% while the Cross Listed Index closed relatively flat at 499.06.

A total of 484,984,030 units traded valued at over J$3.38Bn.

JMD Money Market

With very low liquidity, JMD money market conditions remain tight. This tightness however was exacerbated by the BOJ's intervention in the foreign exchange market last week. OMO maturities of approximately J$3.3B this week, is not expected to provide much ease in current conditions.

Foreign Exchange Market

Selling	Close: 11/09/15	Close: 18/09/15	Change
J$/US$1	118.68	118.82	+$0.14
J$/CDN$1	89.56	90.32	+$0.76
J$/GBP£1	183.09	184.11	+$1.02

With supplies inadequate to meet demand, the Bank of Jamaica intervened in foreign exchange market activity on the second day of the trading week. The Central Bank sold USD at a rate of J$118.7216 for resale at J$118.7716. Following the intervention, the market cooled, with low end user demand and weak broker demand. At the close of the week, the weighted average selling rate was J$118.82 which represented a $0.14 depreciation over the prior week.

GOJ Globals

Trading activity was low key last week as the market awaited the Fed's rate decision. Following the announcement on Thursday, there was increased demand for the Jaman Global 2028s and 2045s, however there were very few sellers. While the decision by the US Federal Reserve to maintain low interest rates could send some investors back in search for higher yielding assets, adverse developments in China and other parts of the world could result in fewer investors being willing to take on Emerging Market risk at this time. This could result in a falloff in emerging market bond trading activity in the near term.

Indicative Levels - GOJ Globals

2017	111.500	112.500	3.24%
2019	110.000	111.000	3.76%
2021	108.000	109.000	5.28%
2022	126.500	128.500	6.12%
2025	108.500	110.500	6.06%
2025	119.000	121.000	6.39%
2028	101.500	102.500	6.45%
2036	112.000	114.000	7.18%
2039	108.000	110.000	7.10%
2045	99.500	100.500	7.83

International News

The highly anticipated meeting of the US Federal Reserve was held on September 17th, where decisions centered on the much debated timeline for the increase in interest rates ("the liftoff"). The FED rejected the idea of an increase this month as the domestic economy, while strengthening is not robust and there are growing uncertainties abroad, particularly in China. The latest economic reports continue to confirm that the US economy remains far from robust, with a lingering "underutilization" in the labor market, and sluggishly low inflation running below the Committee's longer run target of 2%. Coupled with growing concerns of contagion from "recent global economic and financial developments," there was little, if any, evidence to suggest or justify the US economy could support a rising rate environment at this time. Given these guidelines, it is likely that the timing for liftoff will be largely determined by changes in these factors going forward.

In the statement, the Fed continued to suggest the economy is expanding at a "moderate" pace, on par with the characterization of activity in June and July. While positive, an expansion described as simply adequate, is a far cry from the robust assessment one would expect from a Fed presumably gearing up to end an era of historically low rates. In the past, the Fed's first rate increase was more widely anticipated and less controversial partly because there appeared to be a general consensus among market participants of the underlying strength in activity. This time around, the US economy only appears to be ready for rising rates if you cherry pick the labor reports and ignore the inflation data. With US interest rates to remain unchanged for a while longer, this gives emerging market bonds an extension to their life-line.

Yellen Pause Ups Pressure on Draghi as Global Pessimism Mounts

After the Federal Reserve chair held off from a U.S. interest-rate increase amid concerns that world growth will weaken, her counterpart at the European Central Bank may give clues on the need for further stimulus for the euro area. Draghi and other Governing Council members will make public appearances this week, while data releases will show whether the currency bloc is succumbing to, or shaking off, the gloom.
Like the U.S., the euro area is stuck with stubbornly low inflation. Unlike Yellen, Draghi can't yet rely on domestic demand to lift prices. Whether because the Fed's delay leads to a stronger euro, or because of the drag of emerging markets,

*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.

economists see it as increasingly likely that the ECB will be called on its pledge to boost its 1.1 trillion-euro ($1.3 trillion) bond-buying program if needed.

The ECB's optimism that a home recovery coupled with stronger external demand would steer inflation back to the goal of just under 2 percent is now being replaced by concern that a structural shift has beset the world economy. Executive Board member Peter Praet, the institution's chief economist, said in an interview published over the weekend that policy makers "won't hesitate to act" if it they reach that conclusion.

Draghi's lieutenants have been reinforcing that message since the Fed's rate decision last week. Benoit Coeure, the ECB's markets chief, said in a speech in Paris on Friday that prospects for growth in the euro area have "clearly weakened," and aren't helped by a euro that's now strengthening against the currencies of its main trading partners.
The single currency has gained more than 3 percent in trade-weighted terms since mid-July and almost 4 percent against the dollar. European bonds jumped after the Fed's Sept. 17 decision to keep its benchmark rate at a record low.

Treasuries Slip With Emerging Assets as U.S. Stocks, Oil Advance

Global markets don't know what to make of the Federal Reserve anymore. After the Fed's decision last week to stand pat on interest rates sent bond yields tumbling and snuffed out equity rallies in Europe and the U.S., officials' comments over the weekend fueled a reversal. Treasuries and emerging-markets stocks fell Monday, while financial shares led U.S. stocks higher. Gains in European equities were tempered by a rout in Volkswagen AG, after the carmaker admitted to cheating on U.S. air-pollution tests.
Three Fed policy makers argued over the weekend for lifting rates this year, countering bets by many traders that the central bank will wait, as they suggested continued improvement in the domestic economy overshadowed concerns about global conditions.

Interest-rate futures now give a 22 percent chance of an increase at the Fed's October meeting, and a 47 percent probability of a move by December, according to data compiled by Bloomberg. San Francisco Fed President John Williams, a policy centrist who has worked closely with Chair Janet Yellen, said Sunday that "in my mind, it was a close call" to delay a rate rise at last week's Federal Open Market Committee meeting.

The Standard & Poor's 500 Index climbed 0.4 percent at 12:17 p.m. in New York, rebounding from a post-Fed selloff. The gauge trades at 16.7 times its members projected earnings, near the lowest level since October.
Among stocks moving Monday, energy shares led gains with a 1 percent advance as crude jumped past $46 a barrel in New York. Financial shares, which sank on Friday, added 0.7 percent.

Health-care companies were the only group of 10 in the S&P 500 to retreat, sliding 0.9 percent. Democratic presidential candidate Hilary Clinton said some "price gouging" in the prescription drug market is "outrageous." She is expected to release a drug pricing proposal tomorrow.
In Europe, the Stoxx 600 climbed 0.9 percent following its worst drop in two weeks. All industry groups rallied except carmakers. Volkswagen led auto stocks lower after admitting to systematically cheating on U.S. air pollution tests for years.

China's Bonds Decline Amid Signs Economy Not as Weak as Thought

China's sovereign bonds dropped as signs Asia's largest economy isn't as weak as it may look damped expectations for another interest-rate cut.

The yield on government bonds due May 2020 rose one basis point to 3.17 percent in Shanghai, after touching a three-week high earlier, according to Chinabond data. The yield on the notes due July 2025 climbed one basis point to 3.34 percent. The cost of one-year interest-rate swaps, the fixed payment to receive the floating seven-day repurchase rate, increased two basis points to 2.48 percent.

The Ministry of Finance sold 26 billion yuan ($4.1 billion) of 20-year debt at 3.74 percent in a twice-a-year auction on Monday. The coupon rate offered was the lowest since 2006, according to data compiled by Bloomberg.

A preliminary Purchasing Managers' Index for manufacturing will rise to 47.5 for September from 47.3 in August, according to the median estimate in a Bloomberg survey before data due Wednesday. Fifty is the dividing line between expansion and contraction.

The benchmark seven-day repo rate, a gauge of interbank funding availability, dropped one basis point to 2.37 percent, a weighted average from the National Interbank Funding Center shows.

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