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NCB CAPITAL MARKETS LIMITED

Weekly Market GUIDE

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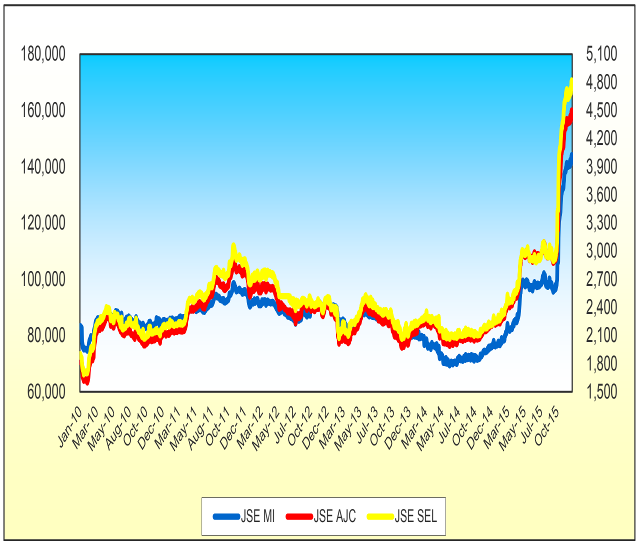
February 1, 2016

Jamaican Stock Market



Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Combined Index	170,840.11	+2,792.96
JSE Market Index	160,349.29	+3,642.73
All Jamaican Composite	178,155.67	+4,070.96
Jamaica Select Index	5,532.51	+109.30
JSE Cross Listed Index	499.06	-

Most Active Stocks

	Units Traded	%
CWJA	4,018,931	15.17%
NCBJ	2,959,752	11.17%
LASD	2,329,440	8.79%

Top Winners & Losers This Week

	$ Change	% Change
Winner: CCC	+$7.53	35.75%
Winner: PULS	+0.69	27.60%
Loser: MIL	-$0.53	10.86%
Loser: LASF	-$0.39	9.09%

Market Analysis & Commentary

The Jamaican financial system will see one of the largest inflows of funds in years in February.

This will come from several sources:

- Payment from Heineken to local shareholders of D&G following the takeover offer in November 2015. The total payment is expected to be the region of US$194Mn (or about JMD$23Bn) on February 4th.
- The repayment of principal totaling JMD$62Bn on the Government of Jamaica 7.25% 2016 Fixed Rate Bond Benchmark Investment Notes issued under the National Debt Exchange (NDX). This payment will be made on February 11th. Financial institutions are the largest holders of these bonds and as such will be the recipient of most of these funds.
- Maturity of BOJ 3.00% & 3.25% USD- Indexed Notes due 2016- US$57.7M (J$7B) between February 3rd and 9th.

The government is expected to issue bonds, that will absorb $15Bn, however, the net flow to the market is still significant. Such a large supply of funds entering the system over a short period will significantly increase market liquidity and have implications for interest rates and the exchange rate.

Interest Rates

Local interest rates have been trending downwards since 2010 following the Jamaica Debt Exchange (JDX). This has helped to reduce the government's interest cost and spur economic activity through private sector investments. An increase in liquidity will mean further reduction in interest rates as more money than usual is injected into the financial system.

Exchange Rate

While we expect local interest rates to decline further, a sharp reduction may be unlikely due to the divergence in monetary policy stance between the BOJ and the US Federal Reserve, and the implications for the exchange rate. As the Fed continues to increase its policy rates, the differential between local and USD interest rates will become smaller. As such, there may be little incentive for local investors to hold local currency assets and they could instead become more inclined to hold hard-currency assets. This could increase the pressure on the local currency. That said, the Bank of Jamaica noted that it will be vigilant in its efforts to maintain a stable exchange and will intervene in the market to augment USD supply if necessary given its strong Net International Reserves position.

National Commercial Bank (NCBJ) "Insures" Higher Profits

National Commercial Bank Jamaica Ltd (NCB) reported net profit of $2.40Bn (EPS: $0.97) during the first three months of its 2015/16 financial year (FY2015/16). This represents a 12.3% year-on-year increase when compared to the corresponding 2014 period. The notable performance was supported by strong outturn from the Group's Life Insurance & Pension Fund Management, Payment Services and Corporate Banking segments. The top performer was the Life Insurance & pension Fund Management division which recorded a 41% increase in net income. This was able to offset the $23.55Mn loss in NCB's Retail & Small Medium Enterprises segment. Net interest income moved up by 8.2% to $7.04Bn thanks to a 9.2% increase in loans and advances. Meanwhile, net fee and commission income was $38.6Mn (+1.5%) to $2.62Bn. Other operating income lifted total operating revenues to $12.68Bn from $11.96Bn in Q1 FY2014/15. Total operating expenses were $9.65Bn. Higher staff cost was the primary driver behind the 4.6% increase in total expenses. Notably, NCB's efficiency ratio deteriorated by 130 basis points to 76.1% due to higher expenses.

At its current price of $41.10 trailing EPS is 8.06X while P/B is 1.16X.

JMD Money Market

The Bank of Jamaica has announced three (3) new JMD issues for February. The Central Bank will offer a 1-year USD-Indexed Note with a coupon of 2.50% between February 1st and 4th. The BOJ will also issue two (2) Fixed Rate JMD CDs with a 6.05% coupon via competitive auction. The auctions are scheduled for February 2nd and February 4th with settlement on February 4th and February 8th, respectively.

JMD market liquidity levels continued to be highly constrained last week and are expected to remain low given the various instruments on offer by the BOJ in the upcoming week.

Foreign Exchange Market

Selling	Close: 22/01/16	Close: 29/01/16	Change
J$/US$1	$121.04	$121.37	+$0.33
J$/CDN$1	$84.71	$84.59	+$0.12
J$/GBP£1	$174.81	$170.16	-$4.65

Strong demand for the USD resulted in an acceleration in the pace of depreciation in the last trading week of January. Consequently, the BOJ intervened in the market twice on January 28th and 29th. On Friday, the dollar closed at J$121.37:US$1.00. This represents a week over week depreciation of $0.33 and a month-to-date depreciation of $0.95.

GOJ Global Bonds

Increasing interest rates in the US continues to impact Emerging Market bond trading activity. Jaman global bond trading activity was robust last week with the 2028 dominating as it has been since its issuance. The 28s traded at 99.40 while 17s traded at 108 and 25Ns at 106.85. The week closed with several buyers of Jaman 17s, and 25Ns.

Indicative Bond Prices

	Bid	Offer	Offer Yield*
2017	108.000	109.000	4.01%
2019	107.000	108.500	4.25%
2021	107.500	108.500	5.38%
2022	127.000	130.000	5.65%
2025 (N)	106.250	107.500	6.46%
2025	115.000	116.375	6.91%
2028	99.250	100.500	6.68%
2036	107.000	108.250	7.69%
2039	102.875	104.500	7.58%
2045	95.750	97.500	8.10%

International News

Following the decision by the US Federal Reserve to increase interest rates in December 2016, speculations are that further rate action could be delayed until mid-year as the US economy shows signs of a slowdown. This came on the heels of economic data release that showed that U.S. economic growth slowed sharply in the final three months of 2015 to a 0.7% annual rate. It was the weakest showing since a severe winter reduced growth to a 0.6% annual rate in last year's first quarter. Consumers reduced spending, businesses cut back on investment and the rising US$ coupled with global economic weakness resulted in a decline in exports. Lower consumer spending, which accounts for roughly two-thirds of the economy was the primary driver of the outturn last quarter. Consumer spending grew at an annual rate of just 2.2%, compared with a 3% rate in the previous quarter. Spending on both durable goods, such as cars, and nondurable goods, such as clothing, slowed. During 2015, the economy grew by 2.4%, matching the growth in 2014. Both years improved on a 1.5% increase in 2013. For 2016, economists have forecast another year of modest growth of around 2%.

Expectations are that China's economic troubles and sinking oil and stock prices could continue to dampen the US expansion. A part from consumer spending, another source of weakness last quarter was a drop in exports. It reflected in part a stronger dollar, which has made US goods more expensive and therefore less competitive on overseas markets. Cutbacks in business investment spending also weighed on growth. This fell at a 1.8% annual rate, with spending on structures down 5.3%.

(Bloomberg) Consumer Spending Cooled in December as Americans Padded Savings

Household spending cooled in December as Americans used gains in incomes to boost their savings. Consumer purchases were little changed after a 0.5 percent advance in November that was bigger than previously estimated, Commerce Department figures showed Monday. Incomes climbed 0.3 percent for a second month.

Household purchases moderated in the fourth quarter, contributing to a slowdown in the economy as businesses slashed investment and worked to pare down inventories. A spending rebound, powered by sustained job gains and low inflation, will be needed to reinvigorate growth in the coming

*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.

quarters.
Disposable income, or money left over after taxes, increased 0.4 percent in December from the prior month after adjusting for inflation. It grew 3.5 percent in 2015, the most in nine years. The saving rate in December climbed to 5.5 percent from 5.3 percent and matched the highest since the end of 2012.

The report showed the price index tied to consumer spending decreased 0.1 percent in December. From a year earlier, the gauge was up 0.6 percent. This inflation measure is preferred by Federal Reserve policy makers and hasn't met their target since April 2012.

Stripping out the volatile food and energy components, the price measure was unchanged from the month before and up 1.4 percent in the 12 months ended December.
Fed policy makers are keeping a close eye on inflation, the part of their dual mandate that's furthest from being accomplished. Inflation "is expected to remain low in the near term, in part because of the further declines in energy prices," officials said in a statement at the conclusion of a two-day meeting in Washington last week.

After adjusting for inflation, which generates the figures used to calculate gross domestic product, purchases climbed 0.1 percent last month after a 0.4 percent gain in November.

(Bloomberg) Euro-Area Factories Cut Prices as Deflation Risks Loom Large

Factories in the euro area slashed prices of goods by the most in a year in January, highlighting the deflationary risks that's keeping alarm bells ringing at the European Central Bank.

In its monthly manufacturing report, Markit Economics said price pressures "remained on the downside" and output charges fell for a fifth month. In addition, all countries in its survey reported declines, the first time that's happened in 11 months.

President Mario Draghi said the European Central Bank's stimulus policies will be reviewed in March as the region's inflation rate may drop below zero again because of oil's slump. Price growth has been slower than the central bank's goal of just under 2 percent for almost three years.
Inflation in the 19-country region accelerated to 0.4 percent in January, according to data last week, with the core rate rising to 1 percent. Still, that may only be a temporary reprieve.

Markit's headline Purchasing Managers' Index fell to 52.3 from 53.2, matching an initial estimate published last month. Among the region's largest countries, growth slowed in Germany and Italy, stagnated in France and accelerated in Spain.

Markit said its survey signals annual manufacturing output growth of just 1.5 percent at the start of the year.

(Reuters) German economic growth was probably minimal in fourth quarter, finance ministry says

German economic output probably increased only slightly in the fourth quarter of 2015, but leading indicators suggest Europe's largest economy will soon recover, the Finance Ministry said on Friday.

The Statistics Office is due to publish preliminary fourth-quarter gross domestic product data on Feb 12. Earlier this month, it said GDP grew by 1.7 percent in 2015, adding that the full-year figure pointed to growth of around 0.25 percent in the fourth quarter compared with 0.3 percent in the third.

In its monthly report, the finance ministry said slower growth from October to December was largely caused by weak industrial production, but rising orders suggested industrial output would pick up in the coming months.
Services had continued to contribute to growth at the end of 2015, it said.

The ministry said the external environment remained tough, with considerable geopolitical tension and a slowdown in some emerging markets like China, Brazil and Russia. It said the recent slump on China's financial markets may mean a slowing Chinese economy was weighing on the global economy more than had been expected until now. That may hold back German companies by reducing their sales prospects, the ministry said.

China's markets began the year with precipitous falls and a sharp depreciation in the yuan. Selling pressure has persisted as economic data confirmed slowing growth and deteriorating business conditions, weakening confidence in stocks.

Turning to the labor market, the ministry said that while refugees would be gradually integrated into the job market, their effect on employment would at first be minimal, and unemployment was likely to rise modestly over the course of the year.

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.