

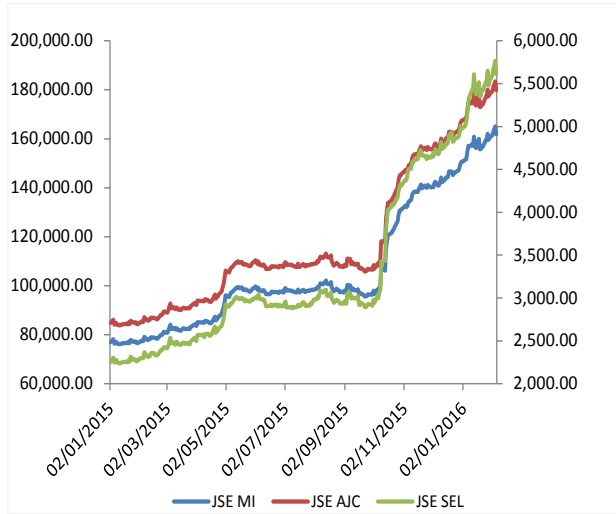
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June 27, 2016

## Jamaican Stock Market



## Weekly Movement in Indices

Indices	Closing Levels	Change
JSE Combined Index	170,643.26	-661.16
JSE Market Index	159,457.63	-274.97
All Jamaican Composite	177,163.66	-307.52
Jamaica Select Index	5,556.88	-16.85
JSE Cross Listed Index	499.06	-

## Most Active Stocks

	Units Traded	%
JSE	11,257,717	24.90%
LASM	5,804,586	12.84%
CWJ	5,792,083	12.81%

## Top Winners & Losers This Week

	\$ Change	% Change
Winner: CBNY	+\$0.09	60.00%
Winner: JSE	+1.65	8.57%
Loser: MDS	-\$0.75	18.75%
Loser: C2W	-\$0.07	17.07%

## Market Analysis & Commentary

### Brexit It Is!

On June 23rd 2016, the U.K. voted to terminate its European Union membership after more than 40 years. British citizens voted 52% to 48% to leave the EU in yesterday's referendum, a differential of more than 1Mn ballots, according to Bloomberg. The outcome has created a wave of uncertainty and the prospects for the UK and EU remain unclear. Of note, there are speculations that Brexit will trigger a flood of subsequent referendums given that Scotland, which is largely pro- EU, could make a decision to leave the UK, while other EU members may decide to follow the Brits as they contemplate the benefit and strength of the EU without its second largest economy. The results prompted Prime Minister David Cameron to resign and sent shock waves through financial markets. The pound dropped to its lowest level since 1985 and European stocks tumbled in light of the high level of uncertainty in the financial markets in the aftermath of the vote. Safe haven assets such as the yen dollar and gold surged.

Despite the vote, Britain's departure from the EU will not be immediate. It is expected that negotiation of the terms and the ultimate departure of Britain from the European Union should be concluded over the next two years. With other European nations, such as France and Italy now clambering for their own exit vote, the challenge for the EU will be how to prevent contagion in the aftermath of Brexit. The Union will need to ensure that Britain's exit look like an unattractive option, and preventing it from enjoying the benefits of EU membership once it has left.

One of the main concerns for Brexit opponents was the impact on the pound and economic activity. The Bank of England warned the currency may fall sharply with analysts on Wall Street bracing for as much as a 20% reduction. A continued loss of confidence in the region, could reduce consumer spending and foreign direct investment, tipping the U.K. into recession, an outcome that becomes increasingly probable particularly if the country's departure is not smoothly executed. Additionally, if businesses reduce investment or opt to relocate staff outside of the U.K., British business could be disrupted or worse, could result in hundreds of thousands of jobs lost. According to the U.K. Treasury, the shock of a Brexit will also cause severe strain on the UK's budget; policy makers are expected to raise taxes and cut spending as a result, to fill the gap. The IMF had already slashed

growth forecast for the UK to 1.9% in 2016 from 2.2%, however a new wave of uncertainty could trigger further cuts and or underperformance of this target.

The uncertainty relating to whether or not there will be a Brexit as well as the lack of any blueprint as to how, in practical terms, the U.K. could transition smoothly out of the EU has created global unease. The World Bank has posited that the added uncertainty from Brexit will result in a slowdown in global economic growth.

A declining British economy could also negatively impact Caribbean countries like Jamaica and Barbados. Jamaica, for example, benefits directly from the Britain via remittances and tourism. Remittances from Britain for 2015 were approximately US\$331.4 million, which represented 15% of total inflows for that year, and contributes approximately 8.5% of stopover arrivals. Barbados' tourism market is even more exposed, as 36% of its stay-over arrivals are from that source. Consequently, any fallout from Brexit could have adverse implications for foreign exchange earnings in these countries.

### **Recommendation for Asset Exposure**

Investors will need to make some adjustment to portfolio allocations in light of Brexit. Investors with exposures to international equities will see a decline in the value of these assets as the market continues to assess the Brexit impact. UK and European stocks and bonds are expected to fare the worst until there is some positive news on favourable trade negotiations or other external factors that could temper the fallout. It is expected that this comfort will come later on as the new leader will want to move to restore confidence as soon as possible.

### **Remittance Flows Increase 8% During the Month of February**

Net remittances grew by 8.0% or US\$12.0Mn to a total of US\$161.1Mn during the month of February 2016. This growth in remittances was driven by an increase of US\$12.3Mn or 7.3% relative to the corresponding month of the previous year. Gross inflows were above the average of US\$164.0Mn for the previous five corresponding periods.

For January to February 2016, net remittances amounted to US\$299.1Mn million, which represented growth of US\$2.6 million or 0.9% relative to the corresponding period of 2015.

For the period, inflows from the USA accounted for 64.6% of the total, while inflows from the UK contributed 14.3%. Britain's vote to leave the EU last week (Brexit), could result in reduced remittance inflows from the UK. With the pound falling to a 30 year low and possible negative implications for UK's economic growth and employment, remittance inflows from that source market are likely to weaken in the coming months.

### **Foreign Exchange Market**

Selling	Close: 17/06/16	Close: 24/06/16	Change
J\$/US\$1	\$126.07	\$126.35	+0.28
J\$/CDN\$1	\$97.28	\$99.19	+1.91
J\$/GBP£1	\$177.63	\$176.77	-0.86

The foreign exchange market remained relatively quiet throughout the trading week. With no intervention from the Bank of Jamaica, the dollar traded as high as \$126.65. On Friday, the weighted average selling rate was \$126.35/US\$1. This represents a depreciation of \$0.88 since the beginning of the month.

### **JMD Money Market**

JMD market liquidity levels improved marginally this week especially for overnight funding. However, brokers continue to aggressively seek longer tenured funding. Liquidity levels are expected to decline in the upcoming week as OMO maturities are estimated at only J\$4.8Bn.

## GOJ Global Bonds

The trading week started with most people keeping an eye on the Brexit vote, as Caribbean credits traded small to medium size volumes. The market was surprised with the outcome, however, the expected decline in Caribbean credits was largely unrealized as trading activity ground to a halt on Friday. Jaman 28s closed the week being offered at 105, the same level pre-Brexit, while 17s traded at 107 earlier in the week. We should see vastly greater activity next week as investors try to figure out the implications from this new development.

## Indicative Bond Prices

	Bid	Offer	Offer Yield*
2017	107.000	108.500	1.81%
2019	107.750	109.250	4.65%
2021	110.000	112.000	5.87%
2022	128.000	130.000	5.31%
2025 (N)	111.750	112.750	5.79%
2025	120.000	121.500	6.17%
2028	104.250	105.250	6.12%
2036	115.000	116.500	6.95%
2039	111.500	112.000	6.94%
2045	106.500	107.000	7.29%

\*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.

## International News

[\(Bloomberg\) U.S. Consumer Sentiment Fades at End of June on Economic Outlook](#)

American consumers became slightly more downbeat at the end of June than earlier in the month on concerns about the economy's progress even before possible repercussions from the U.K.'s decision to leave the European Union.

The University of Michigan's final index of consumer sentiment fell to 93.5, down from a preliminary reading of 94.3 and compared with 94.7 in May. The median projection in a Bloomberg survey called for 94.1.

While households remained upbeat about their current financial situations, they expected slower employment gains in the year ahead and a higher jobless rate as the economy cools. Results of the Brexit vote that hammered financial markets risk weighing more on sentiment and possibly consumer spending.

The measure of consumer expectations dropped to 82.4 in June from 84.9 a month earlier. So far, consumers remain optimistic about their current financial situations. Respondents voiced the most positive assessments about their finances since late 2000, Curtin said in a statement.

They were also sanguine about inflation. The expected inflation rate in the next year was 2.6 percent, up from 2.4 percent in May. Americans expected inflation to be 2.6 percent as well within five to 10 years, compared to 2.5 percent in May. The preliminary expected inflation for the longer term was 2.3 percent, the lowest the survey had ever recorded.

The proportion of Americans in a better financial situation held at 49 percent in June. While consumers expected nominal income gains of 1.6 percent for the remainder of the year, their expectations of incomes after adjusting for inflation were the most upbeat since January 2007.

The report's current conditions index, a gauge of consumer views on their personal finances, increased to 110.8 from 109.9 in the prior month. The preliminary figure was 111.7.

[\(Bloomberg\) Gold Extends Biggest Rally in Seven Years as Brexit Hits Markets](#)

Gold gained for a second day, adding to the biggest surge in

seven years on Friday, as the fallout from the U.K.'s decision to leave the European Union boosted haven demand.

Bullion rose as the pound extended a record selloff and European equities fell to the lowest since February. Gold jumped 4.7 percent on Friday as the referendum result caused turmoil across global markets, spurring a \$4.3 billion surge in holdings in bullion-backed funds, the most in four years.

Gold has rallied 25 percent this year, the most in at least three decades, as investors sought to protect their wealth and the U.S. Federal Reserve indicated it would keep interest rates low. Prices may reach \$1,424 an ounce by year-end, more than 7 percent higher than now, according to a Bloomberg survey of analysts and traders from New York to London conducted Friday. Goldman Sachs Group Inc. raised its outlook for gold over the next year by \$100 an ounce.

Gold futures for August delivery rose 0.3 percent to \$1,326 an ounce at 11:05 a.m. on the Comex in New York, headed for the biggest two-day gain since August 2011.

Investors are concerned even after Chancellor of the Exchequer George Osborne sought to calm markets. Prime Minister David Cameron announced his resignation on Friday, the opposition Labour Party has been thrown into chaos and Scotland is agitating for independence.

[\(Reuters\) Brexit to crimp Canadian growth, rate cuts back on table](#)

Canada's commodity-linked economy will suffer weaker growth because of Britain's vote to leave the European Union, which has put the prospect of Canadian interest rate cuts back on the table.

The vote is also seen delaying the ratification of a long-negotiated free trade deal with the EU, and fueling a housing market boom in Vancouver and Toronto that some worry is turning into a bubble.

Economists warned Brexit's biggest impact on Canada will come through its disruption of global trade and investment, which would weaken the price of oil and other Canadian exports.

That prospect drove the Canadian dollar down more than 2 percent on Friday, while Toronto's main stock index fell 1 percent and bond prices rose. Oil prices fell about 5 percent in New York.

Canada sold C\$16.6 billion (\$12.81 billion) of goods, or about 3 percent of its exports, into the UK last year, making it the biggest buyer after the United States and China. Canadian companies, including Bombardier, also have major investments there.

Canada's economy was already struggling to gain momentum after being pushed into a mild recession in early 2015 by the collapse of oil prices. The Bank of Canada cut interest rates twice last year to offset the damage.

Expectations of further policy easing had faded this year as oil prices pared some losses and Bank of Canada officials began to sound more optimistic. Lower borrowing costs could further lift Canadian property prices already at record highs, a trend has worried policymakers.

The vote could also pull global money out of real estate holdings in the United Kingdom and Europe and into countries seen as more stable.

[\(Reuters\) Mexico factory exports fall in May; Consumer Imports Edge Up](#)

Mexico's factory-made exports dropped in May, data showed on Monday, while consumer imports, excluding oil, rebounded after a slump. Manufactured exports fell nearly 2.7 percent in May from April in seasonally adjusted terms, national statistics agency INEGI said.

Mexico exports mostly manufactured goods like TVs and cars to the United States, and many shipments are parts used in American factories. Exports have been weak despite a sharp drop in the peso.

In May, the Mexico government dialed back its economic outlook for growth this year, pointing to slack U.S. industrial output. Mexico's central bank may soon raise interest rates to support a battered peso despite economic weakness.

Non-oil consumer imports rose 1 percent in May from April, bouncing back after two down months. Domestic consumption has helped buoy the Mexican economy, while exports and oil production have faltered.

Mexico posted a US\$1.031Bn trade deficit in May when adjusted for seasonal swings.

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