# Weekly Market GUIDE

NCB CAPITAL MARKETS LIMITED

Annya Walker
AVP Research, Strategic Planning & Projects

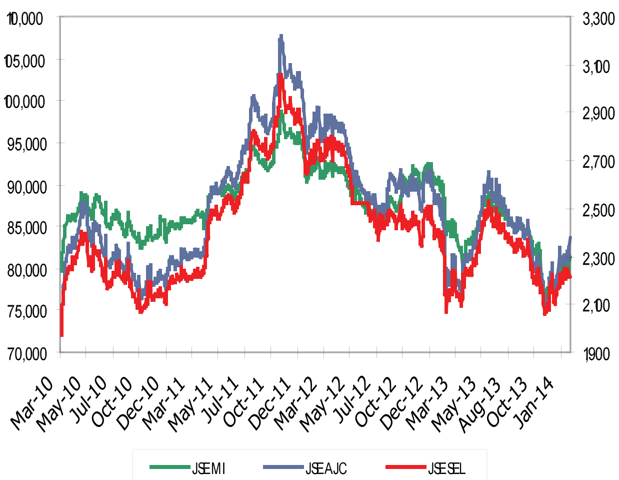
Simone Hudson
Senior Research Analyst
Tel: 935-2585
hudsonsg@jncb.com

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

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

April 7th 2014

## Jamaican Stock Market




### Weekly Movement in Indices

| Indices | Closing Levels | Change |
|---|---|---|
| JSE Combined Index | 79,181.14 | +825.65 |
| JSE Market Index | 76,683.73 | +747.62 |
| All Jamaican Composite | 84,453.52 | +835.60 |
| Jamaica Select Index | 2,273.63 | +17.69 |
| JSE Cross Listed Index | 585.90 | - |

### Most Active Stocks

| | Units Traded | % |
|---|---|---|
| LIME | 7,212,286 | 36.18% |
| SGJ | 2,530,582 | 12.69% |
| SVL | 1,211,327 | 6.08% |

### Top Winners & Losers This Week

| | $ Change | % Change |
|---|---|---|
| Winner: LIME | $0.07 | 17.07% |
| Winner:SEP | $2.00 | 18.18% |
| Loser:C2W | -$0.15 | -25.00% |
| Loser:GLNR | -$0.07 | -5.83% |

## Government Tables FY2014/15 Budget Expenditure

Last week the government presented a budget of $539.35Bn for FY2014/15, with $404.65Bn earmarked for recurrent expenses and $134.69Bn for capital spending. This represents a modest $39Bn or a 7.7% increase over the $500.70Bn revised Supplementary Estimate for FY2013/14. However, after taking into account our projected inflation rate, within the range of 8% to 9.5% this year, this represents a decline in expenditure in real terms. Of the $539.35Bn which is being budgeted, approximately $233Bn, or 43 cents out of every dollar will go towards servicing the debt, while $160Bn has been earmarked for the payment of wages. This means 73 cents of every dollar will go towards debt servicing and wages, which leaves very little to be spent on infrastructural developments or growth inducing projects. This tight budget also suggests that there is little or no room for deviation from expenditure target and puts the government in a difficult position given that it is banking on economic growth to meet its revenue targets. The current path of cutting expenditure to enhance performance with the goal of meeting its primary balance target is unsustainable, and as such a stronger revenue performance is necessary. The challenge is that revenue growth will be hard to come by in the current state of economic weakness. Evidence of the difficulty in meeting revenue target was brought into greater perspective in the last financial year when the government relied on tax advances to make up for the revenue shortfall.

Of note, Capital A, which represents projects funded by the Government of Jamaica, has been reduced from $120Bn to $109.2Bn. However, Capital B projects which are capital expenditures or projects funded by the Government of Jamaica and external agencies are projected to increase from $23.4Bn to $25.4Bn. The government has also set aside contingency allocation of $20.5Bn to cover a number of wage commitments including salary arrears, health sector reclassification, the $25,000 annual payment to civil servants under the 2012/15 heads of agreement, as well as outstanding electricity payments and provision for general consumption tax on central government purchases.

The Finance Minister also announced expenditures relating to housing solutions where an estimated 2,000 more houses will be completed this year by The National Housing Trust at a projected cost of $30Bn. As it relates to the public transportation, tax payers will subsidize a larger portion of the expenses relating to the government operated, Jamaica Urban Transit Company. This as, the government is proposing to allocate $3.1Bn to the JUTC, up from $1.9Bn last year.

Remittances-January

Net Remittances started off the 2014 calendar year on a 5 year high with US$137.8Mn in net proceeds flowing to Jamaica. This represents an increase of US$8.0Mn or 6.2% relative to January 2013. Continued growth in GDP and increased consumer spending in the US and Canada resulted in higher employment numbers in retail and hospitality & restaurant sectors which often times employs people from the diaspora. Remittances from the US saw the highest jump among the source countries. As such, total inflows for January 2014 were US$US$158.2Mn, which was above the average of US$143.6Mn for the previous five corresponding periods. Meanwhile, for the 2013/14 fiscal year to January, net remittances were US$1,530.9Mn, an increase of 4.3% relative to the corresponding period of the last fiscal year. This growth reflected an increase in gross inflows and a contraction in outflows. Continued improvement in the economies of source countries such as the US and UK which are expected to have economic growth of 2.5% and 2.4%, respectively will likely augur well for net remittance growth for 2014. Additionally if other advanced economies are able to meet their unemployment rate numbers for 2014, we could see remittance highs throughout the year.

## JMD Money Market

JMD market liquidity continued to be tight last week with brokers competing aggressively for the limited supply of funds. Liquidity conditions are expected to improve significantly this week due to interest inflows from various GOJ bonds ($3.1B) and the maturity of a BOJ US$ Indexed Note (JMD equivalent of US$90M ~ J$10B). The GOJ 2018 VR, GOJ 2020 VR and the GOJ 11.00% 2024 FR BMI Notes will pay interest this week of $822M, $1.3B and $994M, respectively. These inflows will boost JMD liquidity significantly; however, it is highly likely that the Bank of Jamaica will take steps to constrict liquidity levels.

Moderate liquidity levels continue to be observed in the USD market, with low demand being observed from a few brokers for longer tenured funds.

## Foreign Exchange Market

| Selling | Close: 28/04/14 | Close: 04/04/14 | Change |
|---|---|---|---|
| J$/US$1 | 109.56 | 109.70 | +0.14 |
| J$/CDN$1 | 98.87 | 99.96 | +1.09 |
| J$/GBP£1 | 182.07 | 181.68 | +0.39 |

The BOJ intervened once in the market last week at $109.65 for resale at $109.70. Volume is estimated at US$25Mn. The intervention of the Central Bank lessened the pressure on the greenback. On Friday the dollar closed at a weighted average selling rate of $109.70, which represented a $0.14 week on week depreciation.

## GOJ Globals

Trading activity slowed in Jaman bonds last week with 36 and NROCC dominating activity. NROCC traded at 107.55 and 36s at 102.30 respectively while 19s traded at 106. Trading in local currency bonds was limited to retail investors.

## Indicative Levels - GOJ Globals

| | Bid | Offer | Offer Yield* |
|---|---|---|---|
| 2014 | 101.500 | 103.500 | 3.80% |
| 2015 | 103.750 | 105.750 | 3.81% |
| 2017 | 113.750 | 115.750 | 5.20% |
| 2019 | 105.500 | 107.500 | 5.95% |
| 2022 | 124.250 | 126.250 | 7.16% |
| 2025 | 112.000 | 114.000 | 7.42% |
| 2036 | 100.000 | 102.000 | 8.30% |
| 2039 | 93.000 | 95.000 | 8.49% |

## International News

The unemployment rate in the US held firm at 6.7% in March. However the job market experienced a milestone as private employment exceeded the pre-recession peak for the first time, indicative of the kind of progress that Federal Reserve officials have been looking for. Payrolls excluding government agencies rose by 192,000 workers after a 188,000 gain in February that was larger than first estimated. That brought the job count to 116.1Mn, beating the January 2008 high of 116Mn. Retailers, construction companies and health-care providers were among those taking on additional staff as the world's largest economy shook off the effects of a harsh winter weather that curbed growth at the start of the year. Based on the data, the US central bank is likely to keep trimming stimulus at a measured rate and interest rate increases remain on the horizon.

Over in Canada, employment rebounded in March, climbing almost twice as fast as economists projected. This was led by government workers. Employment rose by 42,900, the most in seven months, following a decline of 7,000 in February. The jobless rate fell to 6.9% from 7.0%. Canada's dollar rose after the report added to signs of modest economic growth, including rising exports and home sales.

### World Bank trims China, East Asia 2014 growth forecasts

(Reuters) - The World Bank trimmed its 2014 growth forecast for developing East Asia but said the region's economies were likely to see steady growth in the next couple of years, helped by a pick-up in global growth and trade.

The Washington-based development bank expects the developing East Asia and Pacific (EAP) region to grow 7.1 percent in 2014 and 2015, down from the 7.2 percent rate it had previously forecast for both years.

Growth in 2016 is also seen at 7.1 percent, staying slightly below the 2013 growth rate of 7.2 percent, according to the World Bank's latest East Asia and Pacific Economic Update report issued on Monday.

"For East Asia, we believe that the drivers of growth are going to be increasingly from the external front, because of the recovery in advanced economies," World Bank East Asia and Pacific chief economist Bert Hofman told reporters.

In its report, the World Bank said improving global trade would offset headwinds from the tightening of global financial

*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.

markets.

Emerging markets, including those in Asia, had been roiled by capital outflows from around May to September last year as investors began positioning for the U.S. Federal Reserve to start tapering its monetary stimulus.

While financial markets in the East Asia Pacific region have shown a muted reaction to the Fed's actual decision in December to begin scaling back its quantitative easing, the possibility of capital flow reversals remains a concern for developing countries in the region, the World Bank said.

The prospects for a normalization of U.S. policy rates will put upward pressure on interest rates and could trigger more sizeable capital outflows from weaker economies, as well as make debt management more difficult in countries where leverage has risen, the bank said.

"Vigilance on capital flows remains warranted," Hofman said, although he added that most of the capital flows in East Asia were now from foreign direct investment rather than portfolio flows, making them less volatile than in the past.

CHINA GROWTH

The World Bank trimmed its 2014 growth forecast for China to 7.6 percent, from 7.7 percent previously. It kept the 2015 growth forecast for China steady at 7.5 percent, down slightly from 7.7 percent actual growth in 2013.

The new 2014 outlook reflected "the bumpy start to the year," it said, noting that China's industrial production and exports had been weak in the January-February period.

"While the growth rate of industrial production has slowed, and exports contracted in the first two months of 2014, the trend is nevertheless strengthening, and we expect quarterly growth to rise at midyear as external demand from the high-income countries solidifies," the World Bank said.

Among Southeast Asian economies, the biggest changes in the World Bank's economic forecasts were for Thailand and Myanmar.

It cut its forecast for Thailand's economic growth to 3.0 percent in 2014 and 4.5 percent in 2015, from its previous forecasts of 4.5 percent and 5.0 percent, respectively.

## ECB models trillion euro asset purchase program

(Reuters) - The European Central Bank has modelled the effects of buying a trillion Euros of assets to ward off deflation, a German newspaper reported on Friday, a day after the ECB's president said radical policy action might be needed.

ECB President Mario Draghi said on Thursday the central bank had achieved unanimity that asset purchases, also known as quantitative easing, might be needed to tackle inflation if it proved persistently low.

On Friday, shortly before the German newspaper report appeared, Draghi's deputy, Vitor Constancio, said euro zone central bankers had had no discussions of how these asset purchases might be conducted.

However, the report in the Frankfurter Allgemeine Zeitung implied that the purchases would need to be of a massive scale to have much impact on prices in the 18-member currency bloc, sending the euro to a five-week low against the dollar.

The newspaper said one ECB model showed 1 trillion euros ($1.37 trillion) of asset purchases spread over a year would boost inflation by just 0.2 percentage points, while another model pointed to a 0.8 percentage point uplift.

An ECB spokesman declined to comment on the details of the report, which is the first to mention a specific sum being considered by the central bank.

"As the Governing Council said yesterday, it is unanimous in its commitment also to use unconventional instruments. The relevant Committees of the Eurosystem will continue their reflections on the various scenarios that will be made," he said.

The lack of detail to date about how the ECB might conduct quantitative easing has made several economists wary about the prospects of it being deployed soon, saying the hurdle to buying government debt remained high.

The newspaper also quoted someone whom it described as a central bank insider as querying whether such purchases could be made of private-sector assets alone.

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.