CAPITAL MARKETS
LIMITED

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Market Guide

THIS ISSUE

"Successful investment is about managing risk, not avoiding it."
— Benjamin Graham

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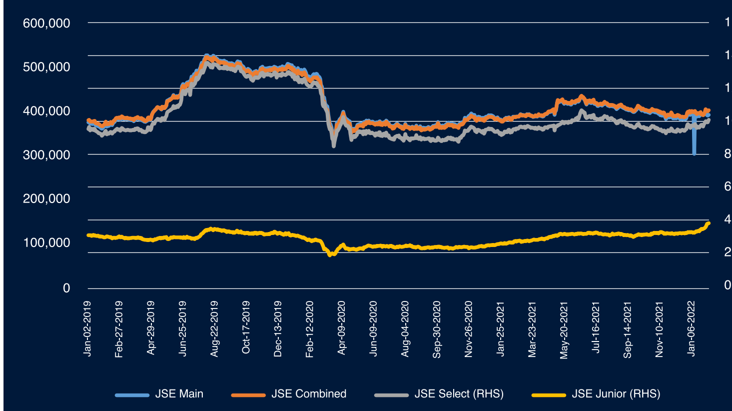
EM Sovereigns' Fiscal & Debt Positions Vulnerable to Exchange Rate, Inflation & Interest Rates

Most emerging market (EM) sovereigns saw their fiscal accounts improve in 2021 due to a rebound in business and economic activities and a decline in the high government support provided to vulnerable groups in 2020 at the height of the pandemic. The fiscal performance deteriorated in 2020 due to the economic recession and unprecedented financial response to support health systems and provide lifelines to vulnerable households and businesses. While most countries are expected to continue on the path to economic recovery and fiscal improvements in 2022 on the back of growth in developed economies and rising vaccination rates, exchange rate depreciation, rising interest rates, and persistent inflation are major downside risks. Economic activity across several countries has resumed, on the back of vaccination programmes, easing of COVID restrictions, the release of pent-up demand, and rising confidence; this is expected to support an improvement in fiscal and debt trajectory. The impact of the pandemic has been waning in two ways. Firstly, the severity of restrictions imposed to counter the spread of the virus is being relaxed against the background of limited fiscal space to accommodate extreme lockdown measures. Secondly, the businesses are learning to adapt to the new normal through digitalization and other means, which together with longer operating hours are positively impacting employment and household disposable incomes. Given the aforementioned factors, economic output in Jamaica is expected to continue to recover to 2.7% in 2022 from 2020 lows of -8.3% (see Table 1). This improvement in economic activity is also being supported by a recovery in the tourism sector and the rollout of vaccinations and recovery in the US and Europe - key source markets for tourism, exports, and remittances. The recovery in tourism is also expected to have spillover effects on other sectors, such as agriculture, entertainment, and manufacturing, as well as private demand through increased employment and higher disposable incomes. This projected economic improvement will help to drive Jamaica's modest

WEEKLY MOVEMENT IN INDICES



MOVEMENT IN INDICES

JSE Indices	Closing Levels	Weekly Change	YTD % change
Combined Index	406,890.41	+6,425.60	+1.4%
Main Market Index	396,802.02	-3,662.79	-0.2%
Select Index	10,263.82	+208.03	+3.9%
Junior Market Index	3,985.87	+289.93	+16.3%

WINNERS & LOSERS (FOR THE WEEK ENDED FEB 7, 2022)

	$ Change	% Change
FTNA	+$4.09	+51.45%
EFRESH	+$0.45	+43.27%
PJX	-$2.01	-22.16%
ISP	-$7.21	-19.49%

MARKET OVERVIEW

Last week, five JSE indices advanced, namely, the Junior Market Index, the All Jamaican Composite Index, the Select Index, the USD Equities Index and the Manufacturing & Distribution Index. However, the Main Index, the Combined Index, the Cross Listed Index and the Financial Index all declined. Retail investors were bullish on stocks such as Spur Tree Spices, Dolphin Cove, CPJ and Express catering and the demand would have influenced some of the market indices advancement over the last week. The main advancers were Fontana Ltd, which gained $4.09 (51.45%) to close at $12.04 and Everything Fresh Limited, which gained $0.45 (43.27%) to close at $1.49.

Table 1: Jamaica's Macroeconomic Variables

	2020	2021	2022	2023
GDP Growth (%)	-8.3%	4.6%	2.7%	2.4%
Fiscal Balance*	-4.9%	0.3%	0.3%	0.3%
Primary Balance*	3.0%	6.1%	5.6%	5.1%
Debt to GDP Ratio*	110.1%	100.7%	89.3%	81.8%

Sources: STATIN, IMF, MOF Fiscal Policy Paper
*Fiscal Year

fiscal surplus for FY2021/22, and beyond. While the GOJ may not be able to implement serious revenue-increasing measures or reforms, the overall fiscal picture should continue improving, primarily from the recovery of revenues, economic reopening, and the reduction in spending as government ends special support measures that were instituted to help some businesses and citizens challenged by the pandemic. Improvements in economic activity and revenues will factor into a reduction in the debt-to-GDP ratio, which is forecast to fall to 100.7% and 89.3% for FY2021/22 and FY2022/23, respectively. Furthermore, it is projected that improvements in the macro-fiscal position and the government's commitment to fiscal discipline in subsequent years will contribute to the downward trend in the debt ratio, consistent with meeting the revised debt-to-GDP target of 60.0% or less by FY2027/28.

Although COVID-19's economic impact is waning and fiscal performance has improved for some, evolving variants, exchange rate depreciation, rising inflation, and interest rates are a concern to governments' debt and fiscal outlook. The spread of COVID-19 and its variants could undermine the economic recovery, revenues, and any associated rise in demand for pandemic-related spending could challenge the fiscal and debt projections. Additionally, Central Banks are raising rates in response to elevated inflation, which will raise governments' debt burden. Inflation has been higher and more persistent than expected, as supply chain disruptions and port bottlenecks disrupt goods delivery, and, strong demand is pressuring food and energy prices as economies reopen. This has led EM Central Banks such as Jamaica, Brazil, Colombia and Mexico, and others, to hike policy rates. Owing to inflation persisting above its target, the Bank of Jamaica (BOJ) has been aggressively tightening monetary policy, raising interest rates by 200 basis points to 2.50%, with indications of more rate hikes to come. The BOJ's policy rate is projected to reach as high as 3.5% by end-2022. Given that 27.2% of the GOJ's debt is variable rate, the government is currently facing an increase in its interest burden due to the rising interest rate environment. The GOJ has simultaneously increased its budgetary allocation to debt servicing by $17.6Bn[1], to continue meeting its obligations, which will continue to support its fiscal health. However, while the GOJ is not expected to issue foreign debt in the near to medium-term, around 64.0% of the current debt is denominated in foreign currency. This will continue to expose the country to exchange-rate risk, especially as the currency is expected to continue a depreciatory trend against the US dollar. Further depreciation could slow the pace of reduction in the debt stock. In conclusion, as interest rates rise and the exchange rate continues to depreciate, the GOJ's interest burden on its variable rate debt could continue to rise, thereby increasing its debt servicing costs above current projections, and negatively impact the fiscal balance, debt payments, and the speed at which the debt to GDP ratio declines.

Manufacturing Sector Themes - Case Study Wisynco

Wisynco's December quarter results underscore the growth that is taking place in Jamaica's manufacturing sector. The sector has been in growth mode since

1 Minister Clarke outlined these plans in the Second Supplementary Estimates - 2022

... "Most emerging market (EM) sovereigns saw their fiscal accounts improve in 2021 due to a rebound in business and economic activities and a decline in the high government support provided to vulnerable groups in 2020 at the height of the pandemic.".

... "The BOJ's policy rate is projected to reach as high as 3.5% by end-2022."

its 5.7%[2] decline in 2020, reporting growth of 4.6% in Q3 2021, following growth of 12.9% and 1.1%[3] in Q2 and Q1 2021. This growth is also reflected in the performance of various manufacturing companies on the Jamaica Stock Exchange (JSE) including Lasco Manufacturing, Honey Bun, and the food division at GraceKennedy. Having navigated the challenges of the pandemic, including rising unemployment, the falloff in disposable incomes and the near halt in tourism activity, these companies, like many others are now being faced with additional challenges including global supply chain disruptions, the resulting rise in inflation and rising interest rates. These developments are impacting demand for their products and their cost of operation. As economies continue their recovery throughout 2022, there are a few key themes that we expect to see play out for manufacturing company stocks in 2022, especially those with a focus on consumer staples. These themes are: (1) strong revenue growth supported by economic recovery, (2) investments to improve efficiency and respond to growth opportunities and (3) input costs pressures, at least for the first part of 2022. These themes also played out in Wisynco's latest financial results.

Wisynco reported net profits of $2.13Bn for the six months ending December 31, 2021, a 38.1% or $586.34Mn increase relative to the corresponding period last year. The company's topline continues to see significant revenue growth bolstered by domestic and international demand. In fact, the company saw a 103% increase in exports for its second quarter ending December 31, 2021, relative to the same quarter of the prior year. Wider consumer acceptance of its products in key export markets was behind the robust export growth. Though its direct costs increased by 15.5%, owing to both higher input costs and increased business activity, the company's gross margin improved by 0.6pp to 35.2%, as revenue growth outpaced the growth of the direct expenses. While selling, distribution, and administrative (SD&A) expenses increased by 10.4%, its SD&A expense to sales ratio fell by 1.2 p.p reflecting management's control over its indirect costs. Wisynco also commenced the build-out of its North West Distribution Center in Hague, Trelawny, which is expected to be in operation by the end of March 2022. This center is expected to boost its distribution efficiencies.

Going forward manufacturing companies are expected to see increased demand supported by Jamaica's forecasted real GDP growth of 4.2%[4] for 2022 on the back of continued recovery in the tourism sector. This is expected to support higher employment levels and result in increased private consumption. Strong employment levels will drive growth in disposable incomes and consumption in the coming months. Furthermore, expectations for further relaxation of restriction bodes well for the demand from client segments that were adversely impacted by COVID. Though rising input costs are a concern, supply chain bottlenecks are expected to ease in second half of 2022, causing input prices to moderate. This should support better margins. Further, tourism activity is expected to continue to increase this year, which augurs well for demand from the sector.

2 Statista
3 Statin
4 Fitch Solutions

Foreign Exchange Market

The Jamaican dollar depreciated 0.54% week over week, with the US$ moving from a selling rate of J$156.78 on January 28, 2022, to J$157.63 on February 4, 2022. This depreciation was driven by strong demand and weak supply.

Selling	Close: 21/01/22	Close: 28/01/22	Change
J$/US$1	$156.78	$157.62	+$0.84
J$/CDN$1	$124.51	$124.10	-$0.41
J$/GBP£1	$211.16	$214.01	+$2.84

Money Market

Money market conditions were relatively tight last week as liquidity remained concentrated in just a few financial institutions. Market players were mostly lending overnight, with some brokers offering as high as 4.75% – 5.00%. The average yield from the Bank of Jamaica's (BOJ) competitive auction on its 30-days CD increased to 4.07% relative to 4.03% in the prior week. The highest bid for full allocation was 4.15%. A total of J$14.0Bn was offered in the auction, while the total bids received were J$23.2Bn.

As the BOJ seeks to guide inflation back within the target range of 4.00% - 6.00%, we anticipate further GOJ's auctions and/or B-FXITT actions in the coming weeks as it continues to sterilize the market to contract JMD liquidity. We also anticipate further rate increases in the coming months as the BOJ seeks to achieve its inflation target. The next policy decision announcement date is February 18, 2022.

For the upcoming quarter, the USD money market is expected to remain stable despite changes in market activity affecting liquidity. Broker market demand for USD remains at 30-days and longer tenured funds, with some brokers offering as high as 4.50% to clients.

Dates to watch this week

February 2022

MON	TUE	WED	THUR	FRI
7	8	9	10	11
	US Trade Balance (Dec)	U.S. OPEC Meeting	US CPI (YoY) (Jan)	Great Britain GDP (YoY) (Q4)
	Wisynco Annual / Extra-Ordinary General Meeting	Fontana Annual/ Extra-Ordinary General Meeting	PBS Annual/Extra-Ordinary General Meeting	Great Britain Trade Balance (Dec)
	CPJ Annual / Extra-Ordinary General Meeting			
	Jetcon Annual / Extra-Ordinary General Meeting			

International Local

GOJ Global Bond Prices

US 10-Year Treasury yields increased week over week from 1.775% to 1.923%. Of note, this peak came as the market reacted to the employment data released on Friday. The Nonfarm Payroll came out at 467k, despite being above the expected 125k, it was still below the previous month's number of 510k. This was accompanied by the average hourly earnings rising at a stronger MoM pace of 0.7% in January, above the expected 0.5% MoM gain. However, the unemployment rate increased to 4%, above the 3.9% recorded in December. The surge in the US bond yields is in anticipation that strong wage growth and better than expected labour market outcomes will encourage the Fed to tighten monetary policy more aggressively this year.

Inflation still remains a concern as the rising inflation rate environment reduces the value of a bondholder's coupon interest payments, thereby reducing their attractiveness. The uncertainty associated with the global pandemic and its impact on the financial markets also remains an area of concern and as such, it is expected that prices will continue to be subject to volatility.

Ticker	Maturity	Bid	Offer	Offer Yield*
JAMAN	2028	113.500	114.500	4.09%
	2039	137.000	138.000	4.74%
	2045	137.500	138.500	5.06%
NFE	2026		98.50	6.88%

*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.

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Local Corporate Bonds

Name	Maturity	Coupn	Price	Yield
GHL	25/9/2025	6.50%	103.90	5.34%
SEPROD	02/7/2031	6.75%	105.00	6.05%

Stock Recommendations

Ticker	Last Closing Price	Current Recommendation
MAILPAC	$3.29	BUY
WISYNCO	$19.31	HOLD
FTNA	$12.04	HOLD
JBG	$27.01	BUY
JMMBGL	$42.93	BUY
LASF	$3.05	SELL
AFS	$21.26	SELL
JAMT	$4.37	HOLD
JSE	$17.99	HOLD
PROVEN (JMD)	$32.87	BUY
PROVEN (USD)	$0.21	BUY
SCIJMD	$14.95	BUY
LAB	$3.33	HOLD
SJ	$53.24	HOLD
SEP	$60.33	HOLD
SGJ	$37.02	HOLD
QWI	$0.87	HOLD
GK	$103.03	BUY
CCC	$74.79	BUY
KEX	$7.99	HOLD

Regional News

Caribbean Development Bank (CDB) Projects Regional Economic Growth of 9.1% In 2022 (CDB)

The Caribbean Development Bank (CDB) is projecting gross domestic product (GDP) growth of 9.1% across its 19 Borrowing Member Countries (BMCs) in 2022, accelerating the region's economic recovery, which started in 2021. The favourable outlook is anchored by an expected surge in the GDP of commodity-exporting economies by an estimated 17.5% on account of strong growth in Guyana (47.5%), emanating from increased oil and gas production, and a resurgence in energy production in Trinidad and Tobago as supply-side constraints are alleviated. Higher international prices for crude oil should translate into revenue windfall.

Service-exporting BMCs are forecasted to gain momentum, growing at an average rate of 4.8%, reflecting the continued inflow of international visitors. are redoubling efforts to achieve debt sustainability despite extant challenges. Others are doing so outside of supported programmes but have established explicit fiscal anchors to function as platforms for macroeconomic policy frameworks." said CDB Director of Economics Ian Durant.

CDB To Create Financing Ecosystem To Rescue Regional Economies (Barbados Today)

The Caribbean Development Bank (CDB) says it is moving to create a "financing ecosystem" to support the rescue, recovery and repositioning of the economies of its borrowing member countries (BMCs) to meet immediate needs and propel long-term growth and development. President Dr Hyginus Leon said the institution will marshal financing for a range of innovative instruments that will enable its BMCs to reorder their economies for future growth and prosperity, even while continuing to navigate recovery amidst current challenges.

In order to attain the Sustainable Development Goals (SDGs) and the development needs, the region should approach their financing needs in a wholesome manner, addressing both the existing debt stock problem and flow financing for development. He further explained that "This would require a wide spectrum of financing instruments that is underpinned by a strong regulatory environment and a well-developed financial market infrastructure." Dr. Leon outlined several propositions, including contingent debt instruments to incentivise countries to undertake reforms to lower their debt risk, which will make future financing more affordable. He also recommended greater focus on fostering social resilience by leveraging digital technology to enhance health services, and to increase capacity by promoting problem solving, knowledge creation and innovation in regional education systems.

Caribbean intra-regional travel down by more than US$1 billion (Barbados Today)

The Caribbean Hotel and Tourism Association (CHTA) recommends a concerted effort by Caribbean government and private sector leaders to boost intra-regional travel, while fostering greater parity, clarity and consistency for travel noting the loss of over US$1 billion in 2021 due to a stagnation in travel between the region's destinations. President Nicola Madden-Greig, asserted that while international travel to the region has rebounded to 75% of pre-pandemic levels, intra-regional business and leisure travel has dropped to around 30%, with smaller Caribbean economies and small businesses hit particularly hard.

In an effort to revitalize sluggish local economies the CHTA has taken several steps including; increasing services to revive regional air travel, reducing COVID-19 testing costs, cutting testing time, and shrinking long isolation periods. The Association also made recommendations for an air travel tax/fee holiday or reduction. This recommendation is similar to that which was proposed to Caribbean leaders by Antigua and Barbuda's Prime Minister, who is leading by example with fee reductions for his country. Additionally, more uniform and consistent regional travel protocols would reduce traveler uncertainty, while health safety diligence and increased vaccinations were key to speeding up the return of local festivals and events, which are key elements of intra-regional travel.

Stimulating intra-regional travel would influence higher local spending, boost trade in local goods and services, increase government revenues and revitalize local economies. However, cost is a factor, an initiative by Caribbean leaders to lower travel fees or taxes, which amounts to almost 50% of ticket fee, would lead to greater intra-regional travel. Currently, it is more expensive to travel within the region despite the pandemic which led to a reduction in overall travel expense.

International News

Bank of England Hikes Rates In First Back-To-Back Rise Since 2004 (CNBC News)

The Bank of England (BoE) on Thursday imposed back-to-back interest rate hikes for the first time since 2004 and began the process of quantitative tightening. Markets had broadly expected the 25 basis point rate increase, which the Monetary Policy Committee voted for 5-4 and which takes the main Bank Rate to 0.5%, as the central bank strives to contain soaring inflation. Four members voted to increase rates by 50 basis points to 0.75%.

The Bank fired the starting gun on rate rises in December, hiking its main interest rate to 0.25% from its historic low of 0.1%. Since then, data has shown U.K. inflation soared to a 30-year high in December as higher energy costs, resurgent demand and supply chain issues continued to drive up consumer prices.

The BoE on Thursday also raised its inflation forecast to an April peak of 7.25% from the 6% projected in its December report.

The BoE stuck with past guidance to the market to expect quantitative tightening once the Bank Rate reached 0.5%, reducing its government and corporate bond purchase target by ceasing to reinvest maturing assets. A program of corporate bond sales is set to be completed no earlier than late 2023, which would fully unwind the central bank's stock of corporate bond purchases. In its report, the MPC said any further tightening of monetary policy will depend on the medium-term prospects for inflation.

Omicron Restrains U.S. Manufacturing; Supply Bottlenecks Slowly Easing (Reuters)

A measure of U.S. manufacturing activity fell to a 14-month low in January amid an outbreak of COVID-19 cases, supporting the view that economic growth lost steam at the start of the year. Institute for Supply Management's (ISM) index of national factory activity dropped to a reading of 57.6 last month, the lowest since November 2020, from 58.8 in December. A reading above 50 indicates expansion in manufacturing, which accounts for 11.9% of the U.S. economy. Economists polled by Reuters had forecast the index would drop to 57.5.

Makers of chemical products reported massive interruptions to their production due to supplier COVID-19 problems limiting their manufacturing of key raw materials like steel cans and chemicals. Similar sentiments were echoed by their counterparts in the fabricated metal products industry. Transportation equipment manufacturers complained that transportation, labour and inflation issues continue to hamper their supply chain and ability to service their customers and machinery manufacturers said they were constrained by transportation restrictions and a lack of supplier manpower. However, makers of nonmetallic mineral products are seeing light at the end of the tunnel, reporting that the supply chain crunch may be loosening a bit.