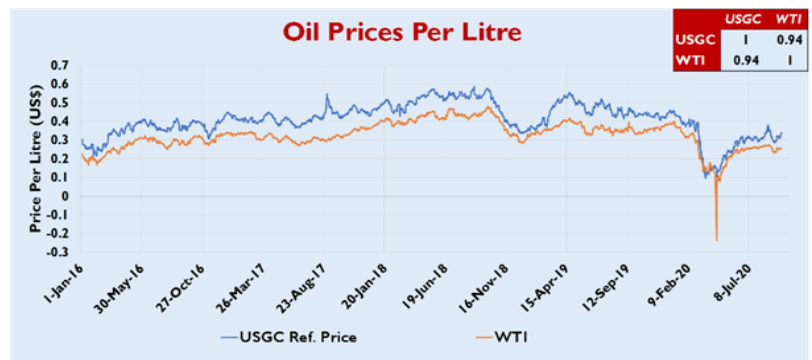


Demystifying the Changes in Local Gas Prices

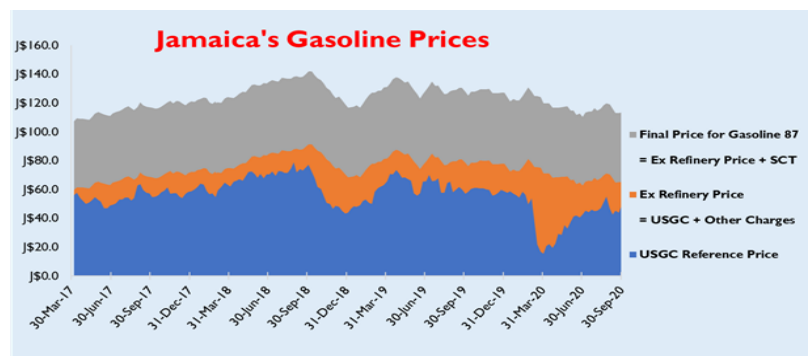
Oil may be considered the lifeblood of industrialized nations and has become the most important source of energy since the mid-1950s. In Jamaica, oil and its by-products underpin much of the country's productivity, as it is the main source of energy for the manufacturing sector and providing fuel for ground and air transportation. Consequently, fluctuations in oil prices on the world markets get a lot of focus locally and the price of oil ultimately plays an integral role in the propensity to spend, both on a micro and macro level.

Petrojam, Jamaica's only petroleum refinery, supplies a full range of domestic, transportation and industrial petroleum products to the Jamaican market and is 100% owned by the Government of Jamaica. The company uses the principle of import parity to determine its ex-refinery prices and the product prices published by the company are independent of Petrojam's production costs. According to the company, it must be noted that petroleum products are supplied to its customers locally, not crude oil and very often the failure to distinguish the two is a source of misinterpretation.

There are several grades of crude oil available on the world market including the popular West Texas Intermediate (WTI). The movement in the price of the WTI is very transparent and watched closely by many people. However, the US Gulf Coast (USGC) price is an appropriate pricing reference for petroleum products for several reasons including transparency and liquidity of the market. Notwithstanding, the movement in the WTI gives some indication of the USGC movements as shown in the graph above. As depicted, there is a strong positive correlation between the WTI and the USGC, with a correlation coefficient of 0.94.



Jamaica currently imports crude oil primarily from Trinidad, Mexico and Venezuela with the cost denominated in US Dollars. In addition to the cost for the product, other charges including freight, ocean losses, terminal fees are also incurred, plus the acquisition differential. The acquisition differential is the difference between the supplier's selling price and the USGC reference price, to which Jamaica's petroleum products are indexed. These costs combined are then included in the pricing formula to produce the ex-refinery price. The Special Consumption Tax (SCT) is then levied on the ex-refinery price per litre in the form of a special tax of approximately J\$37.50 for gasoline 87 for example and an ad valorem tax of 10% on the total to generate the final price for its gasoline and diesel products.



Critically, Petrojam's pricing mechanism includes "a cap" and "a floor" whereby the final price of its products are not allowed to rise or fall by an amount exceeding J\$3.00, in a given week. This mechanism is used to stabilize the market and isolate the local market from rapid movement in oil prices. For example, at the start of April when oil prices plummeted to negative territory, the USGC reference price decline by almost 74%. Notwithstanding the steep decline in the USGC, the final price of Gasoline in the week ended April 2, 2020, only saw a decline of approximately 6% when compared to the last week in December 2019. While we acknowledge that a depreciating Jamaican Dollar (JMD) could have erased some of the benefits of a reduction in prices, the currency only marginally depreciated over the period and therefore would not fully explain the movements in the final price.

While the pricing mechanism prevents wide swings in petroleum prices on a weekly basis, over time if price movements are persistently leaning to any one direction, the prices published by Petrojam are expected to gradually adjust. Take this year for example, up to the week ended September 24, 2020, the price of Gasoline 87 has seen about an 11% increase while the USGC has declined by approximately 27%. Therefore, once oil prices remain low, we could expect to see the benefits of the decline in oil prices. However, this is likely to be offset by a depreciating Jamaican Dollar given the reduction of foreign exchange flows due to coronavirus pandemic.

Date	September 24, 2020	April 2, 2020	December 26, 2019
USGC Ref. Price	\$43.97	\$15.59	\$59.88
JMD:USD	\$141.94	\$136.43	\$132.97
Ex Ref. Price	\$65.13	\$71.04	\$77.86
Diff (Ex Ref. – USGC)	\$21.16	\$55.45	\$17.98
SCT Special	\$37.78	\$37.78	\$37.78
SCT Ad-valorem	\$10.29	\$10.88	\$11.56
Final Price - Gasoline 87	\$113.20	\$119.70	\$127.20

Currency Markets

International Currency Market

Currency	9-Oct	2-Oct	DoD % Δ	WoW % Δ	YTD% Δ	YoY% Δ
EUR: USD	1.182	1.172	0.54%	0.91%	5.44%	7.77%
GBP: USD	1.304	1.290	0.80%	0.82%	-1.63%	6.84%
USD: CAD	1.313	1.330	-0.52%	-1.35%	1.06%	-1.54%
USD: JPY	105.620	105.290	-0.39%	0.31%	-2.75%	-1.73%

Local Foreign Currency Market

Currency	9-Oct	8-Oct	2-Oct	DoD % Δ	WoW % Δ	YTD% Δ
USD:JMD	147.16	145.72	143.96	0.99%	2.23%	11.01%
GBP:JMD	189.70	189.51	186.57	0.10%	1.68%	10.5%
CAD:JMD	113.39	112.00	109.04	1.24%	3.99%	13.2%

Global Interest Rates

Rates	9-Oct	2-Oct	DoD Δ bps	WoW Δ bps	YTD Δ bps	YoY Δ bps
10 Year US Treasury Bond	0.77%	0.70%	-2.00	7.00	-115.00	-81.00
10 Year UK Gilt	0.28%	0.25%	-1.00	3.00	-54.00	-18.00
GOJ 2025 Global Bond	4.17%	4.28%	0.00	-11.00	32.00	12.00
5 Year US Treasury Bond	0.33%	0.29%	-1.00	4.00	-136.00	-107.00
5 Year UK Gilt	-0.03%	-0.06%	0.00	3.00	-63.00	-29.00

Week in Review: Oct 5 - Oct 9, 2020

Local Equity Market

BEST AND WORST PERFORMERS

ADVANCERS

PURITY	31.25%
SOS	16.18%
CBNY	15.38%

DECLINERS

KEX	-18.26%
FOSRICH	-16.15%
EPLY	-15.91%

JSE Main Market activity (excluding preference shares) resulted from trading in 44 stocks of which 20 advanced, 21 declined and 3 traded firm. Market volume (excluding preference shares) amounted to 55,053,954 units valued at over \$358,164,308. JSE Junior Market activity (excluding preference shares) resulted from trading in 40 stocks of which 15 advanced, 22 declined and 3 traded firm. Market volume (excluding preference shares) amounted to 34,301,200 units valued at over \$86,957,428.

Global Equity Indices

Index	31-Dec	2-Oct	9-Oct	WoW % Δ	YTD% Δ	YoY% Δ
S&P 500	3,230.65	3,348.44	3,472.03	3.69%	7.47%	18.93%
Euro Stoxx 50	3,745.15	3,190.93	3,273.12	2.58%	-12.60%	-5.46%
MXWD Index	565.24	564.11	584.60	3.63%	3.43%	14.36%
JSE Main Market Index	509,916.44	368,099.75	371,394.93	0.90%	-27.17%	-26.83%
JSE Junior Market Index	3,348.97	2,567.42	2,502.49	-2.53%	-25.28%	-26.35%
JSE Combined Index	505,253.98	366,291.17	368,633.23	0.64%	-27.04%	-26.80%

Upcoming Week: Oct 13 - Oct 16, 2020

Country	Report	Period	Forecast	Prior
US	Claims	10-Oct	825,000	840,000
US	CPI MoM	Sep	0.20%	0.40%
US	Sentiment	Oct P	81	80
UK	Jobless Claims	Sep	--	73,700
JN	Production	Aug F	--	1.70%
JN	Industry	Aug	1.50%	-0.50%
FR	CPI YoY	Sep F	0.10%	0.10%

LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS J\$	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE
October 9, 2020					
JMMB Group Ltd (JMMBGL)	<p>Current Price \$29.71</p> <p>52 Week High \$48.50</p> <p>53 Week Low \$28.01</p> <p>WoW % 2.51%</p> <p>YTD % -36.18%</p>	<p>EPS \$3.44</p> <p>BVPS \$24.01</p> <p>T12M Div. \$0.49</p> <p>Div. Yield % 1.65%</p>	<p>ROE 14.33%</p> <p>P/E 8.63</p> <p>P/B 1.24</p>	<p>ROE 16.49%</p> <p>P/E 16.50</p> <p>P/B 2.22</p>	<p>JMMBGL is one of Jamaica's largest financial services corporations, entering the market in 1992 as the first Money Market Brokerage firm. The holding company, JMMB Group Limited, was formed as a parent to house the group of companies. To date, the JMMB Group Ltd. has extended its reach across the Caribbean, including the Dominican Republic and Trinidad and Tobago. The Group has over 316,000 clients and continues to grow steadily. We believe that in addition to its core businesses, key strategic partnerships such as the 22.2% stake in Sagicor Financial Corporation allows JMMBGL to achieve further diversification and increased profitability.</p>
Access Financial Services Ltd (AFS)	<p>Current Price \$22.08</p> <p>52 Week High \$41.98</p> <p>53 Week Low \$17.65</p> <p>WoW % -7.98%</p> <p>YTD % -35.93%</p>	<p>EPS \$0.72</p> <p>BVPS \$8.16</p> <p>T12M Div. \$0.49</p> <p>Div. Yield % 2.22%</p>	<p>ROE 8.83%</p> <p>P/E 30.65</p> <p>P/B 2.71</p>	<p>ROE 22.83%</p> <p>P/E 47.69</p> <p>P/B 2.38</p>	<p>AFS has experienced fluctuating results over the last four years, which has translated into less than steady growth in net profits. Due to the microfinance industry's importance in meeting the needs of the "unbanked", the industry has been in the focus of the government in recent times and is expected to face new regulations in the near term. Among others, the Microcredit Act tabled in parliament in 2019, is expected to curb the "excessive interest rates" being charged by microlenders. However, this and other regulations could likely make the industry less attractive and may ultimately lead to a slowing of funding flows to the vital MSMEs. The current coronavirus pandemic is another major downside risk that is already leading to a curtailment of economic activity in Jamaica. As AFS' loan portfolio is heavily skewed towards personal loans, we project that the company will struggle to grow its loan portfolio over the short to medium term due to the expected decline in loan demand and that its provision for credit losses will increase as its borrowers' creditworthiness becomes impaired.</p>
Seprod Ltd (SEP)	<p>Current Price \$55.53</p> <p>52 Week High \$59.00</p> <p>53 Week Low \$30.00</p> <p>WoW % 0.14%</p> <p>YTD % 8.93%</p>	<p>EPS \$2.29</p> <p>BVPS \$22.18</p> <p>T12M Div. \$1.00</p> <p>Div. Yield % 1.80%</p>	<p>ROE 10.32%</p> <p>P/E 24.27</p> <p>P/B 2.50</p>	<p>ROE 12.55%</p> <p>P/E 28.71</p> <p>P/B 3.17</p>	<p>With the onset of COVID-19, restaurants, supermarkets, bakeries and corner shops in communities have been forced to operate within restricted parameters or have completely shuttered. The restrictions being placed on some of Seprod's key customer groups are likely to lead to a depression in the consumption of the company's products, notwithstanding, that most of what Seprod manufactures and distributes are 'necessity items. Our estimate is that Seprod's revenues will contract by ~14% in FY 2020. As thousands of Jamaicans have lost their jobs, unemployment will likely increase in the short to medium term. Even in cases where jobs are retained, some employers have looked to salary cuts in keeping employees. With the expected reduction in income it is likely that the support for the company's "normal goods" will be low.</p>
Wigton Windfarm Ltd(WIG)	<p>Current Price \$0.77</p> <p>52 Week High \$1.15</p> <p>53 Week Low \$0.50</p> <p>WoW % -0.31%</p> <p>YTD % -21.38%</p>	<p>EPS \$0.05</p> <p>BVPS \$0.34</p> <p>T12M Div. \$0.00</p> <p>Div. Yield % 0.00%</p>	<p>ROE 15.89%</p> <p>P/E 14.10</p> <p>P/B 2.24</p>	<p>ROE 6.04%</p> <p>P/E 26.53</p> <p>P/B 1.20</p>	<p>We believe that Wigton Windfarm provides an advantage for investors in three main ways. The first is diversification, as it is an alternative energy investment which becomes more crucial in the midst of global warming. The second is an increase in medium to long term value driven by profitability. The third is liquidity as the availability of shares is wide and allows a tidy entry into or exit out of the investment. Wigton Windfarm has potential competition from MPC Caribbean and New Fortress Energy but they together form an ecosystem which is needed to move the Caribbean away from its reliance on Fossil Fuels, the 2nd most expensive item on Jamaica's import bill.</p>

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LOCAL STOCK RECOMMENDATIONS

COMPANY NAME	PRICE MOVEMENTS <small>Js</small>	STATISTICS	COMPANY VITALS	INDUSTRY VITALS	RATIONALE		
October 9, 2020							
Jamaica Broilers Group Ltd (JBG)	Current Price	\$26.00	EPS	\$1.15	ROE 8.33%	<p>Having been in operation for over sixty years, JBG has grown into an iconic brand in Jamaica and now has an increasing presence in the region. The Company's Jamaican operations continue to have a significant impact in the local marketplace through its Best Dressed Chicken and Hi-Pro divisions. However, the local market is mature with growth expected to be low in the medium term. With operations already firmly set in Haiti, JBG moved further to cement a stronghold and presence along the supply chain in the US with its recent acquisitions. In our view, these acquisitions and other inorganic initiatives are expected to be the catalyst for JBG's growth going forward.</p>	
	52 Week High	\$41.00	BVPS	\$13.83	ROE 12.55%		
	53 Week Low	\$21.00	T12M Div.	\$0.57	P/E 22.57		P/E 28.71
	WoW %	-0.77%	Div. Yield %	2.19%	P/B 1.88		P/B 3.17
	YTD %	-36.44%					
BUY							
Wisynco Ltd (WISYNCO)	Current Price	\$16.07	EPS	\$0.77	ROE 22.37%	<p>Wisynco's customers typically include restaurants, supermarkets retail and whole-sale outlets, schools and other food service outlets. As a result of the social distancing orders being enforced by the Government to curb the spread of the virus, the operations of the Company's customers base have been severely disrupted. We acknowledged, however, that the Company's strong brand presence in the food manufacturing and distribution sector, strong balance sheet and distribution network will go a far way to ensure that Wisynco remain resilient over the long-term. We believe that the Management's experience in distribution and the Company's investment in Innovation will be huge drivers of equity return over time. Notwithstanding, over the short to medium term (up to three years) Wisynco's profitability will be challenged as over 95% of the Company's revenues are generated locally and local consumer demand has declined and likely to remain subdued over the short to medium term. In our scenario, the Company is projected to return to pre-COVID state in the FY 2024/FY 2025.</p>	
	52 Week High	\$26.00	BVPS	\$3.46	ROE 12.55%		
	53 Week Low	\$11.50	T12M Div.	\$0.19	P/E 20.76		P/E 28.71
	WoW %	6.87%	Div. Yield %	1.18%	P/B 4.64		P/B 3.17
	YTD %	-31.06%					
HOLD							

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Mutual Funds

JN MUTUAL FUNDS

October 8, 2020



A member of the Group

JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
Global Diversified Income	J\$13.5491	-5.00%	-7.21%	2.69%
Global Equity	J\$14.0350	-18.73%	-22.38%	0.00%
Global Fixed Income	J\$12.6161	6.10%	5.28%	4.71%
Global Money Market (US\$)	US\$10.5311	3.23%	2.60%	3.77%
Global Fixed Income (US\$)	US\$10.5934	2.97%	2.49%	4.89%
Local Money Market	J\$10.9776	3.84%	3.19%	4.11%

	Global Money Market Fund	Local Money Market Fund	Global Fixed Income Funds	Global Diversified Income Fund	Global Equity Fund
Objective	To preserve capital whilst providing US dollar (US\$) money market returns	To preserve capital whilst providing Jamaican Dollar (J\$) money market returns	To achieve an attractive total return through capital injection and income growth. This is offered through two separate Funds: (i) A Jamaican dollar (J\$) and (ii) A US dollar (US\$) fund.	To provide long-term investment growth through exposure to a diversified range of asset classes.	To provide long-term capital growth and risk diversification.
Strategy	To invest in local and global money market instruments for safety, liquidity and yield.	To invest in local and global money market instruments for safety and liquidity and yield	To invest in regional, sovereign debt securities, local and international corporate bonds.	To invest in fixed income, high dividend yielding stocks, REITs and structured products	To invest in the shares of local and international companies which offer strong growth possibilities and consistent income

With a suite of six investment portfolios, each with a distinct financial profile, JN Mutual Funds offers a premium opportunity for investors to align their personal financial strategy with their goals, time horizons and risk profile.

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