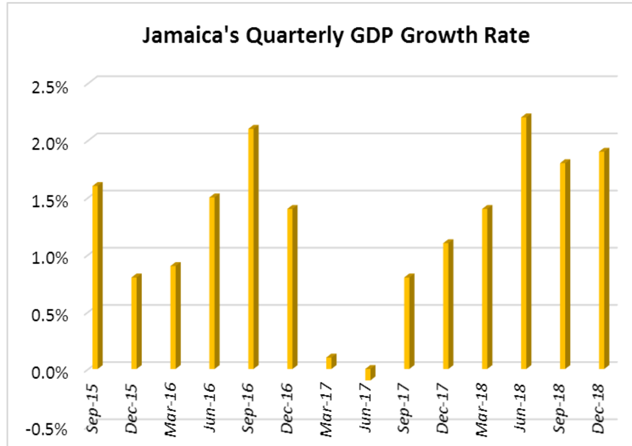
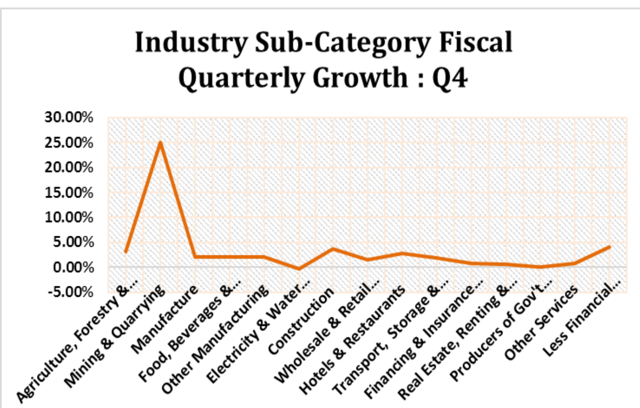
1st Quarter 2019 Economic Review - Jamaica

Gross Domestic Product (Real GDP)

For the quarter ended December 2018, real GDP grew by an estimated 2.0% relative to the corresponding quarter in 2017. The Goods Producing, and Services industries grew by an estimated 4.9% and 1.0%, respectively. When compared to the third quarter (3rd) of 2018, the economy declined by 0.8%. This led to preliminary estimates for the calendar year 2018 being a growth of 1.9%. The major contributors to the *Goods Producing* industry for the fourth quarter (4th) were Mining and Quarrying, Construction and Agriculture, Forestry & Fishing with growths of 25.0%, 3.7% and 3.1% respectively. The Mining & Quarrying industry's 25.0% growth resulted from an increase in alumina production of 30.8%. Alumina moved to 643.6 thousand tonnes in 2018, from 492.0 thousand tonnes in 2017. The growth in alumina was mainly due to the reopening of Jiquan Iron and Steel Company (JISCO) Alpart refinery. The Agriculture, Forestry & Fishing industry's growth of 3.1% was due to favourable weather conditions which contributed mainly to the higher levels of production. The Construction industry's increase of 3.7% due largely to higher levels of activities were recorded in building construction, civil engineering and building installation. The increase in building constructions was due to residential and non-residential construction, as there was an increase in housing starts and the construction of office space for commercial purposes. Civil engineering activities were impacted by the continued expansion of road infrastructure. Work associated with the Major Infrastructure Development Programme (MIDP) and the South Coast Highway Improvement Project were the major contributors to this growth.





All sub-categories of the services industry saw improved quarter over quarter performance with the exception of Electricity & Water Supply. The sub-categories estimated to have recorded the largest increases are Hotel & Restaurants, Transport, Storage & Communication and Wholesale & Retail Trade; Repairs; Installation of Machinery & Equipment which recorded increases of 2.8%, 1.9% and 1.6% respectively. The increased of 2.8% in the Hotels & Restaurants industry was due to improved performance of hotels & other short-stay accommodation and restaurants, bars and canteens.

The Transport, Storage & Communication industry's growth of 1.9% was driven largely by an increase in the *transport* sub-industry. The performance of this sub-industry was mainly influenced by growth in the total volume of cargo moving through the ports as well as a 3.8% increase in the total number of passengers travelling through both international airports.

The Wholesale & Retail; Repairs; Installation of Machinery & Equipment industry growth of 1.6% is reflective of the increase in imports of consumer goods as well as increased activity in the construction industry.

This growth, especially in the services industry, is inline with our projections due to the '5x5x5' growth plan initiated by the tourism ministry. The current roadwork improvement and housing developments will continue to add strong numbers to the GDP calculations as Jamaica's real estate industry remains buoyant given the low interest rate environment. The downside risks to the current growth projections remain in Jamaica's vulnerability to severe weather conditions. We maintain that GDP is projected grow between 1.5%-2.0% for the FY19/20.

Fiscal Accounts

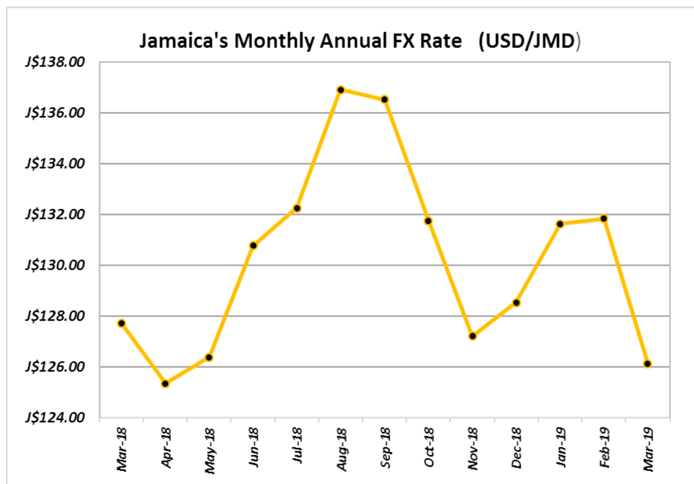
The Ministry of Finance (MIF) released the Central Government Operation results (Estimates of Revenue and Expenditure) for the April 2018 to February 2019 period. Revenue & Grants stood at J$545.02Bn or 1.5% above budget; for which Tax Revenue or "PAYE" continues to be the main driver. PAYE amounted to J$475.15Bn approximately 2.2% or J$10.1Bn above budget.

On the expenditure side, the Government continues to show fiscal discipline as expenditures were 2.2% less than budgeted at J$539.10Bn. Recurrent expenditure was 2.1% or J$10.78Bn less than budgeted at J$483.63Bn. Driven by lower interest rates on debt instruments as well as a lower debt balance, interest on domestic and foreign debt was 3.6% below budget. As a result, the government reported a fiscal surplus of J$5.92Bn compared to a deficit of J$14.21Bn that was budgeted.

The GOJ continues to run a primary surplus, which is a critical metric measured under the IMF's Precautionary Standby Agreement, which stands at J$124.96Bn; 14.3% or J$15.62Bn ahead of budget up to February. Jamaica is now two and a half (2 ½) years into the Precautionary Standby Facility, with 6 months to go and there is no need to draw down on and borrow funds from the IMF.

Foreign Exchange

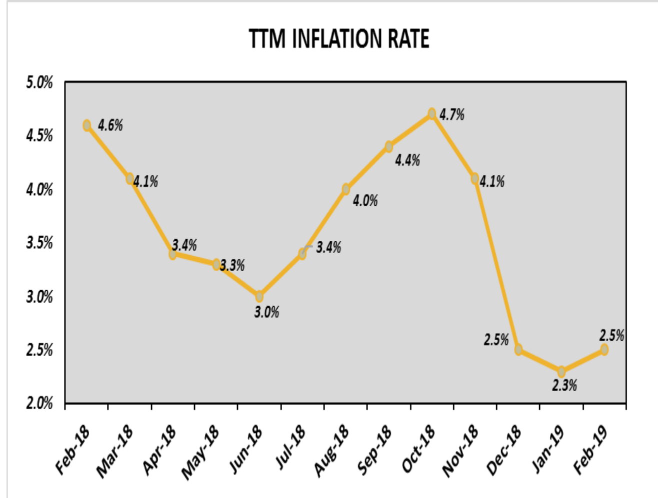
The JMD/USD foreign exchange (FX) rate as at the end of March 29, 2019 stood at J$126.46, representing a 1.59% appreciation, YTD (January 2, 2018: J$128.50). The local dollar has exhibited extremely volatility over the last twelve months and continued to experience excessive volatility during the first three months of the year. The sharp volatility in this quarter was due to large capital market transactions being conducted in the local market for which BOJ deemed to be a one-off influx of activity. BOJ viewed the larger macroeconomic liquidity to be currently stable with NIR reserves being at a high of US$3.08Bn. Due to this, during this heightened volatility, BOJ had a series of *flash sales* to quell the upsurge in demand for the foreign currency. The total amount sold to the market through *flash sales* was US$100Mn in the quarter. The series of flash sales subdued the spiking exchange rate volatility, which lead to the appreciation of the JMD at the end of quarter. The volatility in the currency will continue to be present in the market so long as Jamaica remains a net importer, but with the availability of B-FXITT, the BOJ will be able to effectively manage any short-term fluctuations that has the potential to impact the wider market.



Even with this short jolt of volatility within the given quarter, we maintain our projected 3% depreciation in the JMD over the medium term. This is derived from the midpoint of 5% relative to the 2% target inflation in the US. However, this level of depreciation could fall below our 3%-5% range if inflation continues to trend lower than projections as it has done for the first three months of 2019.

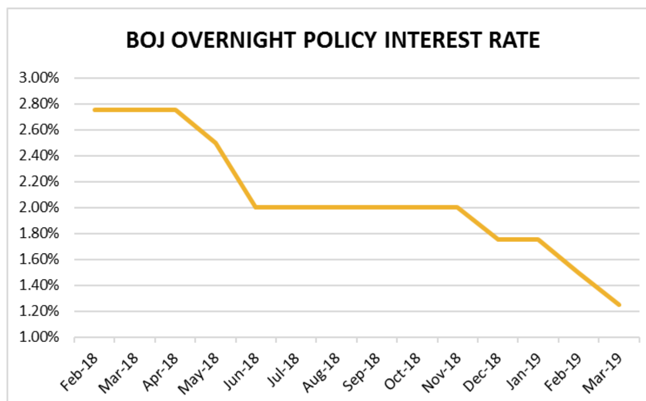
Inflation

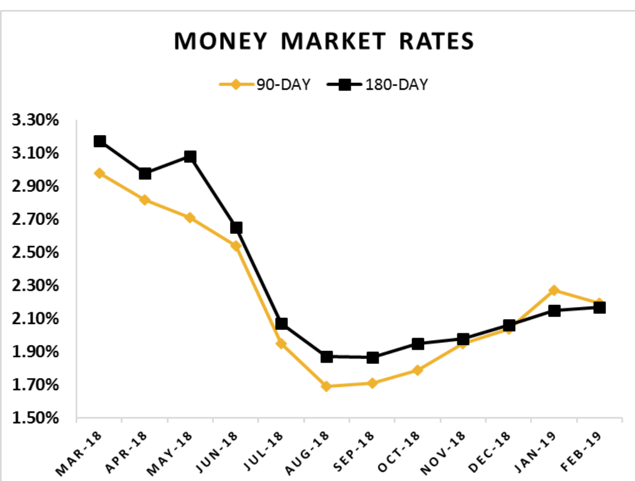
Trailing 12 month inflation at February 2019 stood at 2.4%, relative to 2.3% at January 2019 and 4.4% at February 2018. This represents the third consecutive month that inflation has been below the lower limit of the BOJ target band of 4.0% - 6.0%. Lower than expected inflation is largely reflected by lower prices for agricultural food crops and lower-than-projected pass-through of international oil prices to domestic energy costs. Recent improvements in economic activity have not been sufficient to push inflation within the target range as quickly as desired. The expectations of favourable weather conditions could result in moderate increase in agricultural prices which may keep inflation below the lower limit of the target band over the short to medium. However, moderate growth in domestic demand as well as a modest uptick in imported inflation could cause inflation to average out at 4.3% for the fiscal year 2019/20 then gradually approach BOJ's 5.0% mark by March 2021.



Interest Rates

BOJ lowered the rate offered on overnight placements in March for the second time in 2019 by 25 basis points to 1.25% and by 155 basis points since March last year. Lowering the policy rate to another historic low is aimed at stimulating the rate of expansion in private sector credit, which should lead to higher economic activity, in addition to inflation trending towards the target range of 4.0% - 6.0 % in the medium-term. The reduction in the policy interest rate was complemented by a reduction in the cash reserve requirement for deposit-taking institutions ("DTIs") by 300 basis points to 9% in March 2019. This reduction is expected to release J$16.8Bn to DTIs which will improve their ability to provide more credit to households and businesses at lower rates and on better terms.



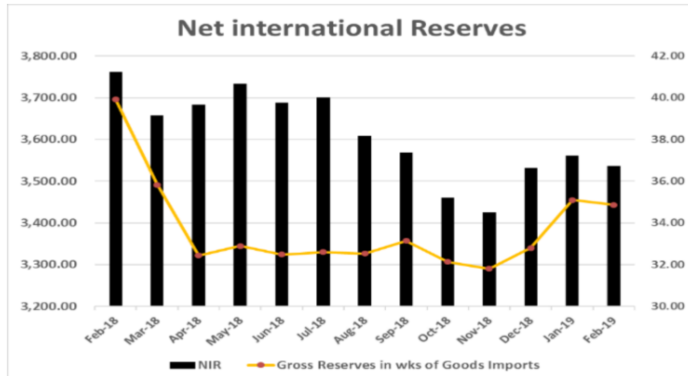


The move, which maintains the authorities' accommodative stance, follows the expectation that inflation will end close to middle of the 4%-6% target by March 2019. Interest rates are expected to remain lower over the short to medium term even with the divergence of monetary policies with our main trading partner.

Yields on the government T-bills continued its upward trajectory despite, the BOJ's rate decision was a 25 per cent reduction in the overnight rate to 1.25%. While Treasury yields continued to increase, the 90-day T-bill seemed more attractive than the 180-day T-bill as investors remain cautious about the long-term rate decisions. Yields on the 90-day and 180-day T-bills were 2.19% and 2.17% respectively as at February 2019.

Net International Reserve

The Net International Reserves (NIR) improved by US$10.27Mn as at March 2019, from US$3.07Bn to US$3.08Bn, over the same month last year and is US$170.73Mn above the projected US$2.91Bn NIR for the fiscal year 2018/19. The total amount due to the IMF was US$520.35Mn, US$62.0Mn less than the comparable figure last year (Mar-18: US$582.35Mn). February's reserves in weeks of goods imports stands at 34.86 weeks and remains above the weeks international benchmark of 12 weeks. However, given the NIR target was set by IMF, we anticipate BOJ will not intervene in the market as the current NIR is above the projected amount for the FY18/19.



Stock Market

The stock market started 2019 on a sluggish note. At the end of the trading period in March, the Main Market has grown by 2.23% while the Junior Market has fallen by 4.77%. The growth in the Main Market is similar to its growth in 2018 of 2.36% but the Junior Market is lagging far behind for the comparative quarter of 8.10%.

The Main Index stands at 388,277 as at the end of March 2019, compared to 295,372.02 in the corresponding period in 2018 while the Junior Market currently stands at 3,092.02 compared to 2967.78 in 2018. Overall market activity resulted from trading in 93 stocks of which 36 advanced, 51 declined and 6 traded firm. Market volume amounted to 1,931,283,368 units valued at over $19,814,500,378.98. Indies Pharma Jamaica Limited Ordinary Shares was the volume leader with 1,064,363,213 units (55.11%) followed by Fontana Limited with 99,519,935 units (5.15%) and Radio Jamaica Limited with 94,021,430 (4.87%).

YEAR-TO-DATE INDICES MOVEMENTS		
Market Indices	Closing Levels	% Change
JSE Main Market Index	388,276.91	2.23%
Junior Market Index	3,092.02	-4.77%

UNITS TRADED		
	Units Traded	%
JSE Main Market Index	1,064,363,213	55.11%
Junior Market Index	99,519,935	5.15%

YEAR-TO-DATE WINNERS AND LOSERS		
	Closing Price	% Change
Jamaicai Stock Exchange	J$16.94	65.11%
Supreme Ventures Limited	J$27.50	59.14%
CAC 2000 Limited	J$12.00	-29.08%
Sagicor Real Estate XFUND Limited	J$10.57	24.88%

Annualized performance of the stock market for the first quarter is line with the lower bound of the projections for the year (10% to 20%). With market multiples much higher than 5 years ago, stock market appreciation will be mainly driven by earnings growth in these listed companies. With the fundamentals of the economy continuing to point in the right direction, the expectation is that earnings growth will continue, and the stock market will continue to trend higher; even if a slower pace than last year. Furthermore, with the GOJ 2019 bond maturing in June, we anticipate the additional liquidity in the market could also be a catalyst for improved growth in the stock market as investors will seek securities to place the additional cash on hand. As such, we are maintaining our projections made at the beginning of the year that the ***stock market will grow within the 10-20% for 2018.***

Bond Market

The Federal Open Market Committee (FOMC) left interest rates unchanged at its March meeting, signalling no rate hikes for the rest of 2019, acknowledging global uncertainty and muted inflation pressures. Since the start of the year, the Fed has kept rates at a range of 2.25% to 2.5% to join major Central Banks that have remained dovish. Despite solid jobs reports in recent months and low inflation (below or around 2%), signs of tapering GDP have forced Central Banks to keep interest rates low. This has also been the case locally as the Bank of Jamaica lowered its policy rate while implementing other monetary and fiscal stimuli for the economy.

Bond Name	Dec-27-18	Mar-29-19	(Yield)	% Change
JAMAN 2019	J$102.50	J$101.20	2.64%	-1.27%
JAMAN 2021	J$109.25	J$108.25	5.10%	-0.92%
JAMAN 2022	J$122.28	J$122.00	3.29%	-0.22%
JAMAN 2025	J$113.22	J$115.00	4.82%	1.57%
JAMAN 2025	J$122.00	J$122.50	5.15%	0.41%
JAMAN 2028	J$107.70	J$112.25	5.05%	4.22%
JAMAN 2036	J$119.00	J$123.00	6.27%	3.36%
JAMAN 2039	J$115.75	J$120.50	6.20%	4.10%
JAMAN 2045	J$115.15	J$120.75	6.26%	4.86%

During the first quarter of the year, GOJ global bonds witnessed increased trading activities due to the anticipation of unchanged interest rates by the US Fed. Bonds on the lower end of the JAMAN witnessed declining prices while medium to long term bonds showed considerable price improvements due to an increase in demand as a result in the Fed holding on increasing rates. With investors likely to continue moving back towards risky assets over the short term, we expect prices to remain elevated barring any change in Fed policy.