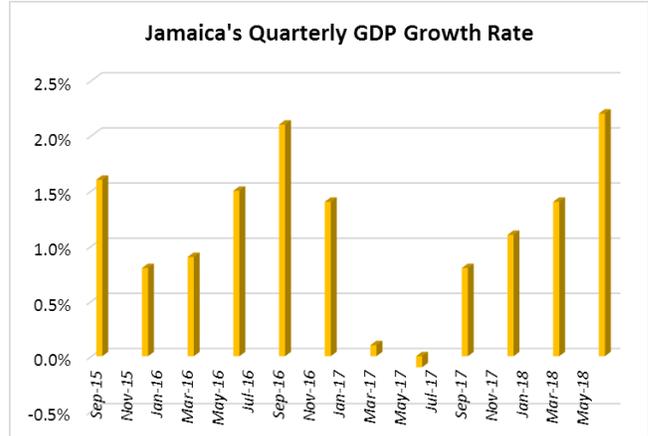


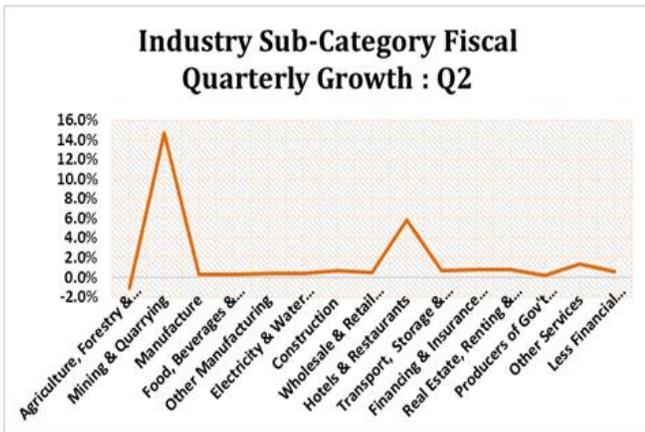
### 3<sup>rd</sup> Quarter 2018 Economic Review - Jamaica

#### Gross Domestic Product (Real GDP)

For the quarter ended June 30, 2018, real GDP by an estimated 2.2% relative to the corresponding quarter in 2017. This is the fastest quarterly growth since September 2016. The Goods Producing, and Services industries grew by an estimated 7.2% and 0.6%, respectively. For the second quarter of the 2018 calendar year, all industries improved relative to the corresponding quarter with the exception of the Producers of Government Services which remained relatively unchanged. The economy grew by 0.9% in the fiscal year 2018/19 when compared to the fiscal year 2017/2018.



There were higher levels of output for all Good Producing Industries with the main contributors being Mining & Quarrying; Agriculture, Forestry & Fishing and Construction sectors growing by 31.6%, 12.5% and 2.9% respectively. The Mining & Quarrying industry benefitted from an increase in the overseas demand for crude bauxite. The production of both alumina and crude bauxite recorded increases due mainly to the reopening of Jiuquan Iron and Steel Company (JISCO) Alpart refinery in the last quarter of 2017. The Manufacturing industry's performance was largely impacted by a 2.5% increase in the Food, Beverages & Tobacco sub-industry but Other Manufacturing sub-industry fell by 3.2%.



Finance & Insurance Services industry saw increases in all sub-industries; monetary institutions, other financial intermediation and insurance & pension funding. The average stock of loans and advances for commercial banks grew by 12.5% while the average stock of deposits grew by 15.5%.

Despite the decline in the labour force, the unemployment rate continued its downwards trend. Total employed labour force increased by 14,700 (1.2%) persons to 1.21M persons, while total unemployed labour force went in the same direction and increased by 2,600

persons to 131,500 persons over the same month in the previous period. This net decrease translated to a lower unemployment rate for April 2018 of 9.7% compared to 12.2% in April 2017.

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## Fiscal Accounts

The Ministry of Finance (MIF) released the Central Government Operation results (Estimates of Revenue and Expenditure) for the April to August 2018 period. Revenue & Grants stood at J\$229.97Bn or 2.8% above budget; for which Tax Revenue or “PAYE” continues to be the main driver. PAYE amounted to J\$207.86Bn - approximately 3.6% or \$7.2Bn above budget.

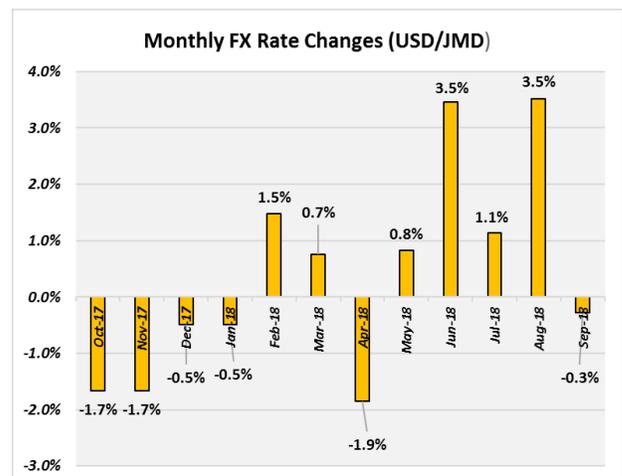
On the expenditure side, the Government continues to show fiscal discipline as expenditures were J\$5.94Bn or 2.4% behind budget at J\$243.28Bn. Recurrent expenditure was 3.9% or J\$8.78Bn behind budget at J\$218.85Bn. Driven by lower interest rates on debt instruments as well as smaller debt balance, interest on domestic and foreign debt was 10.9% below budget. As a result, the government reported a fiscal deficit of J\$13.31Bn compared to a deficit of \$25.42Bn 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\$42.09Bn; 22.7% or J\$7.79Bn ahead of budget up to August.

## Foreign Exchange

The USD/JMD foreign exchange (FX) rate as at the end of September 28, 2018 stood at J\$135.06, representing an 8.26% YTD depreciation when compared to 1.2% over the same period in 2017. The Jamaican dollar had a quarterly depreciation of 3.77% (July 2, 2018: J\$130.16).

The J\$58Bn bond redemption (GOJ 2018) in July 2018 resulted in a large J\$ liquidity injection into the market. With the expectation of the Fed rates hike in September 2018, in the context of portfolio conversion, investors may have switched from J\$ assets to US\$ assets because higher interest rate markets tend to attract foreign investment. With the Bank of Jamaica more focused on inflation targeting and using the currency movements to control the inflation rate, and the inflation rate currently within the band of 4-6%, we anticipate less stable depreciation in the currency and more volatility going forward. At the same time, we do believe that over time with the US Fed expected to continue raising rates next year, it will result in additional demand for hard currency by investors.



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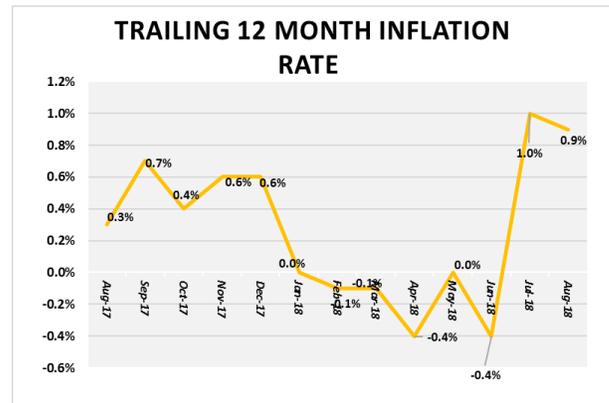
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### Net International Reserves

The Net International Reserves (NIR) has deteriorated by US\$110.39M as at September 2018, from US\$3.13B to US\$3.02B, over the same month last year. September’s reserves in weeks of imports stands at 19.45 weeks, which is well above the 12 weeks international benchmark. The relative volatility in the local currency over the last three months has led to the BOJ intervening in the market by selling USD to the market on a scheduled basis, with only one flash sale of US\$40Mn on August 24<sup>th</sup>, 2018. However, the BOJ will need to boost the NIR for the remainder of the fiscal year to meet their US\$4.00Bn target at the end of the of the fiscal year end 2018/19.

### Inflation

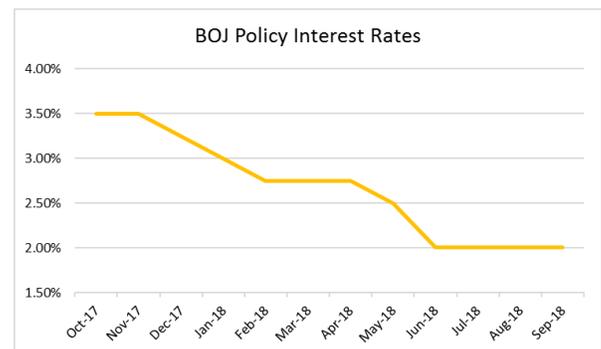
The YTD inflation rate is 2.8% which resulted in the inflation rate over the trailing twelve months being 4.3% at September 2018, below the 4.5% as at August 2017. The current TTM inflation is in line with BOJ’s target range of 4%-6%. Higher inflation was experienced in the previous year due primarily to the impact severe weather conditions had on the agricultural sector of the economy during the 3Q of the fiscal year. We forecast inflation to rise in the final quarter of the year as the government continues to use monetary policies to stimulate the economy. Bank of Jamaica (BOJ) anticipates inflation to reach the mid-point of their inflation target by March 2019.



The main upside risks to the inflation forecast are higher than expected increases in agricultural commodity prices, adverse weather conditions and stronger than anticipated demand conditions. However, the controlled pace of depreciation in the local currency by the BOJ will like to keep the inflation rate closing the year nearer to the middle of Central Bank’s 4-6% target range.

### Interest Rates & Money Market

For the second consecutive announcement, the BOJ maintained the policy rate at 2.00%. 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. The inflation rate is currently tracking at 4.3% and continues to show signs of picking up. Events that will support the BOJ’s expectation is further credit by lending institutions to small and medium enterprises (SME’s) which will help to spur economic activity.



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**While it may be premature to say the BOJ's policy rate has reached its "inflection point", with the Fed rate now between 2.00%- 2.25%, inflation moving higher, we do not expect the BOJ to reduce rates further with interest rates in the US expected to increase further over the next 12 months as the interest rate differential will continue to widen. With that said, there could be portfolio switching by investors towards US\$ assets despite the potential volatility in the FX market.**

## Stock Market

WEEKLY INDICIES MOVEMENTS		
Market Indices	Closing Levels	% Change
JSE Combined Index	366,471.54	16.62%
JSE Main market Index	358,320.11	17.20%
JSE All Jamaica Composite	393,277.29	17.20%
Jamaica Select index	9,932.07	9.20%
Junior Market Index	3,395.02	11.77%

UNITS TRADED		
	Unites Traded	% Change
Sagicor Real Estate Fund (XFund)	292,934,632	22.23%
Express Catering Limited (ECL)	174,057,689	13.21%
JMMB Group Limited (JMMB)	110,064,552	8.35%

WEEKLY WINNERS & LOSERS		
	Closing Price	Wow % Change
Stocks and Securities Venture Capital	J\$ 1.75	0.55%
Barita Investment Limited	J\$ 18.69	0.52%
Honey Bun (1982) Limited	J\$ 3.95	-0.45%
GWEST Corporation Limited	J\$ 2.05	-0.32%

The stock market has experienced significant growth and has become an equally important vehicle for equity financing. YTD growth for the main and junior market as at June 29, 2018 was 5.81% and 11.09% respectively but rose to 24.01% and 24.16% by the end of September.

Quarter over Quarter, the Main Index advanced by 52,583.75 points to close at 358,320.11 points. The JSE Combined Index advanced by 16.62% to close at 366,471.54 points while the Junior Market Index increased by 11.77% to close at 3,395.02.

Jamaica's Stock Exchange is the best performing stock exchange in the world over the last five years when measured by the performance of the indices.

The sluggish movement in the stock market earlier in the year was very unusual given the low domestic interest rates. The GOJ 2018 maturity in July 2018, injected J\$58Bn dollars into the market and could be

the reason for the sudden run up in the index, in such a short space of time. During the quarter, three companies were listed on the JSE, one on the junior market (Indies Pharma) and two on the main market (Stanley Motta and Sygnus Capital Investments) which helped mop up excess liquidity during the period. The year to date outturn is above our projections of annual growth between 15-20%

**With improved macroeconomic variables and increasingly positive prospects for the Jamaican economy, the stock market should continue to benefit through an expansion of listed securities, domestic participation and continued profitability of its listed companies. While we had forecasted growth in the region of 15-20% for the calendar year, we believe that the stock could possibly increase further in the last quarter of the year. As such we believe it will end the year close 25-30% higher than 2017.**

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## Bond Market

Bond Name	29-Dec-17	29-Jun-18	30-Sep-18	QoQ %Change
JAMAN 2019	J\$105.00	J\$102.00	\$ 102.90	0.88%
JAMAN 2021	J\$113.75	J\$107.50	\$ 109.25	1.63%
JAMAN 2022	J\$127.00	J\$122.00	\$ 123.00	0.82%
JAMAN 2025	J\$118.75	J\$112.50	\$ 115.25	2.44%
JAMAN 2025	J\$131.25	J\$123.00	\$ 125.00	1.63%
JAMAN 2028	J\$112.50	J\$107.00	\$ 110.50	3.27%
JAMAN 2036	J\$126.25	J\$118.50	\$ 121.00	2.11%
JAMAN 2039	J\$122.25	J\$112.50	\$ 118.50	5.33%
JAMAN 2045	J\$122.25	J\$111.75	\$ 117.75	5.37%

The Global bond market was eventful during the third quarter, with the Fed Chair curtailing future inflation from now based on the US economy heating up with a record growth of 4.2%. The recent 25 bps rate hike on September 26, which brought the Fed Funds rate within the target range of 2.00% - 2.25% triggered a falloff in EM bond prices. What has dominated the market however is President Trump instigating the current trade war among the major economies, especially China. President Trump had hit China with an import tariff and has threatened

that more measures against countries perceived as hurting US manufacturers are on the horizon. These actions taken by President Trump has resulted in IMF downgrading the world outlook. While the rate hike would have been priced into the market, we believe that these political events will result in even more volatility for bond prices.

During the third quarter of the year, GOJ global bonds saw heightened volatility due to the raising of interest rates by the US Fed. This however was seen across all emerging market bonds. Improved confidence stemming from the fiscal discipline being showcased by the GOJ, adherence to the targets set under the Precautionary Stand-By Agreement (PSBA) with the IMF, as well as the country's improving economic prospects resulted in an outlook upgrade by S&P from stable to positive. This positive attention has resulted in all the JAMAN bonds increasing QoQ<sup>1</sup> as investors, primarily locally, are now looking at JAMAN bonds as an attractive investment opportunity.

However, rising interest rates in the US as well as 'politicking' could result in volatility in prices over the short term. However, with S&P ratings agency changing the outlook to positive from stable, it is possible if the government continues to reduce the debt to GDP ratio that the country's credit rating could be upgraded. -

<sup>1</sup> Quarter over quarter

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