



MONTHLY ECONOMIC BULLETIN

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November 25, 2014

October 2014 Issue

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The CEO'S Remarks

Recent news has come that despite continuing to meet the targets of the economic programme, under the IMF agreement, the country recorded a 0.8% decline in GDP for the quarter ended September 2014. This is not unexpected, as the drought conditions, as well as the impact of the Chickingunya (Chick-V) epidemic would have impacted negatively on productivity.

This reminds us of how fragile the economic realities are, as any unexpected event can cause damage to our economic prospects. We have always seen these unexpected events to possibly come from natural disasters primarily, such as hurricanes or floods. However, the recent Chick-V epidemic, and the threat of Ebola, has shown us that one of the more significant threats to the economy is in the area of health.

The debate over these two health issues, and efforts to address the Chick-V epidemic through clean up exercises, has revealed one well known but often ignored problem, that of the way we treat our environment. The recent clean up exercises has shown us that as a country we have mistreated our environment, as evidenced by the piles of garbage that has been removed, and demonstrates the fact that many of us have not taken personal responsibility for our environment. This lack of personal care has resulted in degradation of our environment and has resulted, and will continue to result in, significant costs to the country.

This lack of personal care can be extended further to how we treat with our own personal health.

In the first instance, it is my view that despite the poor communication and lack of proper co-ordination by the Health Ministry, in the preparation and response to Chick-V, much of the blame for the spread of the virus must be because of the fact that we have mistreated our environment, which has acted as breeding sites for the mosquito.

My own estimates show that Chick-V costs the country upwards of \$6.6 billion in foregone productivity, in addition to the direct health care costs. It is also estimated that the health care costs associated with non-communicable diseases is ap-

proximately 3 percent of GDP, or upwards of \$36 billion, which is in the most part avoidable through lifestyle choices.

The lesson here is that much of the significant costs associated with health, are totally avoidable and can impact positively on GDP growth, fiscal expenditure, and the balance of payments. And the only requirement of this to happen is a change in personal responsibility.

We are also seeing that commodity prices are declining, and especially oil prices, which have declined significantly in recent months. It is my hope that these sharp price reductions will be passed on to businesses and consumers as quickly as price increases were passed on in electricity and gas prices. If this is done then the country stands to benefit significantly in productivity and moderating inflation. We should also see a positive impact in the balance of payments, as oil imports is the largest charge on the import bill.

It is important however for us not to relax our efforts to decrease the price of energy, which is still relatively very high in relation to our trading competitors. It is important to remember that our competitors see the same fall in prices and so the relative efficiency in electricity production remains the important focus. We should, however, see relative improvement in competitiveness against oil producing nations such as Trinidad.

Even with the continued trade deficit improvement, it is important to note that much of the improvement has been caused by a reduction in consumption and exports. This highlights the fact that economic stability has come primarily through contracting the economy, which is not sustainable and therefore means that it is critical for us to focus on growth generating activities and policies. Without this being done, we will arrive at a situation where it is untenable to contract the economy any further, as it will led to economic and social disruptions.

All eyes must therefore be on growth, and fiscal policies that encourage an environment or growth. The largest obstacle to this remains the public sector bureaucracy, as the IMF recently identified and we have long ago identified at the PSOJ.

Global Economic Outlook

Global economic growth projections for 2014 and 2015 has again been lowered by the IMF. In its October 2014 edition of the World Economic Outlook, the fund projects that the world on average will grow by **3.3%** in 2014 and **3.8%** in 2015, and these figures represents a **0.1%** and **0.2%** reduction from the previous projections of **3.4%** and **4%** in its July report.

The expected lower growth is influenced mainly by weaker global activity in the first half of 2014. The report posits that growth in the world economy will remain uneven and that there are still a number of factors that pose significant risks to the health of the world economy.

Jamaica's economic performance will be influenced largely by what happens in the United States and other major economies in Europe, Asia and South America. In the midst of sluggish global growth the US has been performing relatively well in 2014 and is expected to continue on this path into 2015. The advanced economies are expected to grow on average by **1.8%** in 2014 and **2.3%** in 2015. The United States is expected to grow by **2.2%** and **3.1%** in 2014 and 2015 respectively. The United Kingdom is expected to grow by **3.2%** and **2.7%** over the same period.

Emerging Markets and developing Economies are expected to grow by **4.4%** and **5%** respectively in 2014 and

2015 while Latin America and the Caribbean (LAC) is expected to grow by **1.3%** and **2.2%** over the same period. The LAC growth projections for 2014 and 2015 reduced by **0.7%** and **0.4%** respectively. Interestingly, LAC and Japan were the economies with the largest growth reductions in 2014. Jamaica grew by **0.2%** in 2013 while LAC grew by **2.7%**. In the same year. The United States and the world grew by **2.2%** and **3.3%** respectively in 2013.

In 2014 Jamaica grew by **1.4%** (Q1), **1.8%** (Q2) and **-0.8%** (Q3). In view of this Q3 decline, due in part to the drought, the economy is expected to grow by between **1%** and **1.5%** for 2014. If this projection materializes, growth would be in line with LAC projection of **1.3%**. What are the expectations for growth in Jamaica for 2015? Jamaica economic growth for 2015 will be impacted by a number of factors, on the upside, resurgence in the US and Canadian economies will mean greater tourist arrivals, greater remittance flows and greater exports of bauxite and alumina.

On the down side export earnings will be impacted by continued expected declines in commodity prices. With a relatively weaker currency when compared to that of 2013, the value of export earnings from both traditional and non-traditional commodities will be further compromised. As in 2013, some export commodities had growth in earnings while other suffered significant declines.

| Real GDP Growth Rates of Selected Economies 2012 -2015 | | | | | |
|--|--------|------|------------|------|-----------------|
| Country | Actual | | Projection | | Country Average |
| | 2012 | 2013 | 2014 | 2015 | |
| The Bahamas | 1.0 | 0.7 | 1.2 | 2.1 | 1.3 |
| Barbados | 0.0 | -0.3 | -0.6 | 0.5 | -0.1 |
| Botswana | 4.3 | 5.9 | 4.4 | 4.2 | 4.7 |
| Canada | 1.7 | 2.0 | 2.3 | 2.4 | 2.1 |
| Guyana | 4.8 | 5.2 | 3.3 | 3.8 | 4.3 |
| Haiti | 2.9 | 4.3 | 3.8 | 3.7 | 3.7 |
| Jamaica | -0.5 | 0.2 | 1.1 | 1.8 | 0.6 |
| United States | 2.3 | 2.2 | 2.2 | 3.1 | 2.4 |
| Averages | 2.1 | 2.5 | 2.2 | 2.7 | |

Economic Highlights: October 2014

- General economic conditions in Jamaica remains relatively stable during the month of October 2014, even as the growth in real output contracted in the third quarter by an expected **0.8%** and the Jamaica stock market declined by **0.57%**.
- The stability is reflected in the major macroeconomic variables including inflation and the relative stability of the local currency. The contraction in the third quarter is very instructive as it reveals the delicate state of the economy with agriculture contributing on average of **6%** to real GDP
- The general health of the economy must therefore be supported by sound macroeconomic policies and a credible development agenda by the government. This highlights the need for the continued assistance from the International Monetary Fund (IMF), under the economic programme.
- In this regard, the Bank of Jamaica's Governor, Brian Wynter, has reported that the IMF team has confirmed that Jamaica's macroeconomic programme remains on track and that all targets under the programme for the July to September quarter were met. Following the approval of the IMF board, Jamaica can drawdown on **US\$68 million** under the Extended Fund Facility arrangement. The following are the major highlights for the month:
- ⇒ There were price reductions in **12 (60%)** of the commodities monitored for October 2014. The price of both crude oil indices fell in four consecutive months. The Brent and the WTI fell by **10.3%** and **9.6%** respectively; natural gas saw price increase of **1.2%**.
 - ⇒ The IMF's Fuel Energy Index fell by **9%**, while the Food and Beverage Index fell by **1%**. These price movements will continue to have a positive impact on Jamaica's price level through imports but negative impacts on exports and the BOP due to lower prices and weaker demand.
 - ⇒ The Governor reports that the Balance of Payments will continue improving. He reported that the current account balance contracted by **2.4%** to **8.4%** of GDP for the 2013/14 fiscal year. The central bank projects that the current account deficit will contract to **6.3%** of GDP in the current fiscal year.
 - ⇒ The Statistical Institute of Jamaica reports that total expenditure on merchandise imports for the period January to July 2014 was valued at **US\$3,465.2 million**, representing a decrease of **2.4%**, or **US\$86.4 million**, when compared to the **US\$3,551.5 million** recorded in 2013.
 - ⇒ On the other hand earnings from total exports for the same period were valued at **US\$851.9 million**, a reduction of **12.9%**, or **US\$126.7 million**, relative to the **US\$978.6 million** in 2013. The merchandise trade deficit for the first seven months of 2014 was **US\$2,613.3 million** compared to the **US\$2,573.0 million** in 2013.
 - ⇒ This resulted in a worsening in the trade deficit of **1.57%** over 2013. This current trend in the balance of trade will have direct implications on the stability of the local currency and the Net international reserve in coming months, if this trend continues.
 - ⇒ The stock of Net International Reserves (NIR) at the Bank of Jamaica was approximately **US\$2.0 billion** reflecting a decline of **US\$193.36 million** relative to the previous month. At end-October, the gross reserves at the Central Bank were sufficient to finance **25.74** weeks of goods imports, or **13.54** weeks over the international benchmark of **12** weeks of goods imports.
 - ⇒ This healthy NIR stock should be sufficient to bolster confidence in the ability of the BOJ to provide for-

Economic Highlights: October 2014

foreign currency for day to day transactions and hence preserve the relative stability of the Jamaican dollar.

- ⇒ The Jamaica Dollar appreciated relative the Great Britain Pound and the Canadian Dollar at end-October 2014 continuing the pace of the appreciation observed since end-July 2014. However, there was a break in the relative appreciation vis-a-vis the United States Dollar at end-October 2014 relative to the previous months. Consequently, these currencies ended trading at **JS\$112.76=US\$1.00, JS\$180.24=GBP£1.00 and JS\$100.58=CAD1.00.**
- ⇒ Inflation measured by the All Jamaica “All Divisions” Consumer Price Index (CPI) was **0.1%** for October 2014, reflecting a reduction of **2%** relative to September 2014. The monthly change in inflation brought the calendar-year-to-date change to **7.3%** and the FY-to-October inflation to **5.5%**. The 12-month point to point at the end-October was **8.2%**
- ⇒ The overall weighted average lending rate on local currency loans declined by **51 bps** to **16.91%** at end-September 2014 relative to end-August 2014. As a consequence, the spread on domestic currency loans narrowed to **14.86%** at end September 2014 relative to **15.21%** at end August 2014.
- ⇒ Similarly, interest rates on foreign currency loans for September 2014 increased by **15 bps** to **7.43%** relative to August 2014. As a result, the interest rate spread on foreign currency loans in commercial banks at the end of September 2014 increased by **0.13 bps** to **4.96%**.
- ⇒ GOJ Treasury Bills yields all declined for October 2014. Specifically, the yields on GOJ 30-day T-Bill fell by **6 bps** to **6.83%** relative to the outturn at the end-of the previous month. Similarly, the yields on the 90-day T-Bill and the 182-day T-Bill declined by **13 bps and 27 bps** respectively and currently stands at **7.34%** and **7.73%**.
- ⇒ For October 2014, there was an expansion of **J\$585 million (0.6%)** in the monetary base relative to the previous month resulting in in a monetary base of **J\$96.84 billion**. The multiplier declined from **2.82** at end-September 2013 to **2.65** at end September 2014. The reduction in the multiplier may have resulted from an increase in the currency-to-deposit ratio for the corresponding period.
- ⇒ Tourist arrivals climbed to **1,709,315** for the period January 2014 to October 2014, this represents a **3.1%**, or **50,765**, stopover arrivals more than the **1,658,550** which was recorded for the same period in 2013.
- ⇒ For the month of July 2014, gross remittance inflows were **US\$183.2 million**, reflecting an increase of **US\$12.6 million (7.4%)** relative to the corresponding month of the previous year. Net inflows amounted to **US\$160.5 million**, an increase of **US\$10.9 (7.3%)** relative to the corresponding period of 2013.
- ⇒ While the production and sale of bauxite and alumina fell in October 2014, with the exception of crude bauxite, all elements of the sector recorded positive movements for the period January to October 2014 when compared to the corresponding period of 2013. In particular, total bauxite production and sale increased by approximately 4%.
- ⇒ At the end of October 2014, there was market capitalization in the main JSE of **\$275.84 billion** when compared with the **\$275.097 billion** at end September 2014, a reduction of **J\$1.58 billion** or **0.57%**.

International Commodity Prices

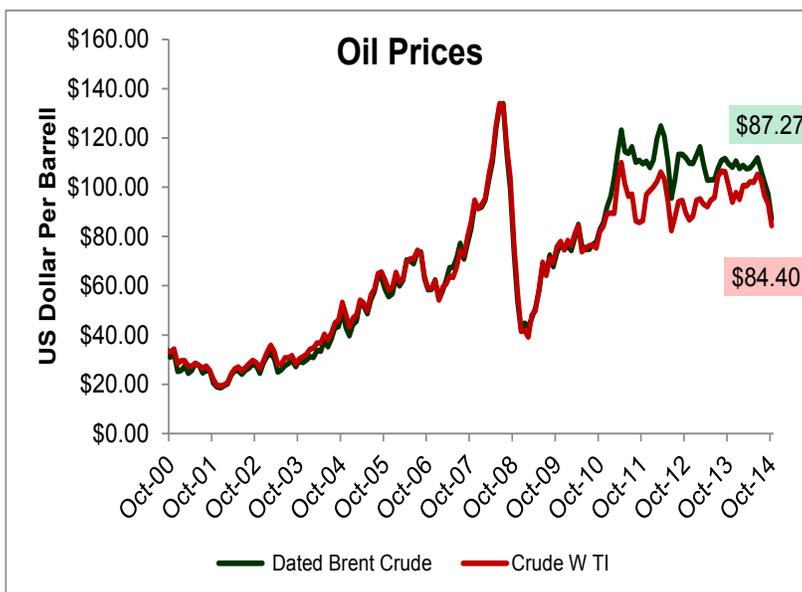
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Crude Oil Prices

Both selected benchmark crude oil indices decreased significantly in October 2014 in comparison to the previous month. The European Brent started the month at **US\$97.34** per barrel and ended at **US\$87.27** per barrel. This reflected a price reduction of **US\$10.07 (10.3%)** for the month. In October 2013 the sale price for the European Brent was **US\$109.48**, reflecting a price reduction of **US\$22.21 (20.3%)** when compared to October of 2014. Notably, over the last two years the price for this commodity has decreased by **US\$24.70 (22%)**.

The price per barrel of West Texas Intermediate (WTI) fell from **US\$93.35** at end August 2014 to **US\$84.40** at end of October 2014, a reduction of **US\$8.95 (9.6%)**. In comparison to October 2013, the price per barrel of the WTI has fallen by **US\$16.10 (16.02%)**. For October 2014 relative to October 2012, prices fell by **US\$5.12 (5.72%) per barrel**. The five year average monthly price for both crude oil indices are **US\$100.22** and **US\$88.54** per barrel, the Brent is currently **US\$12.95 (12.9%)** below while the WTI is **US\$4.14 (4.7%)** below the five year average price.

In the oil price highlights for April 2014, Organization of Petroleum Exporting Countries (OPEC) stated that the global demand for oil in 2014 will average **91.2 million barrels per day (mb/d)**, which is an increase of **1.14 mb/d (1.3%)** relative to 2013. The Non-OPEC oil supply forecast for 2014 is approximately **1.37 mb/d**. OPEC stat-



Data Source: IMF Monthly Commodity Prices

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International Commodity Prices

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ed that the growth in supply for 2014 will emanate from the United States, Canada and Brazil.

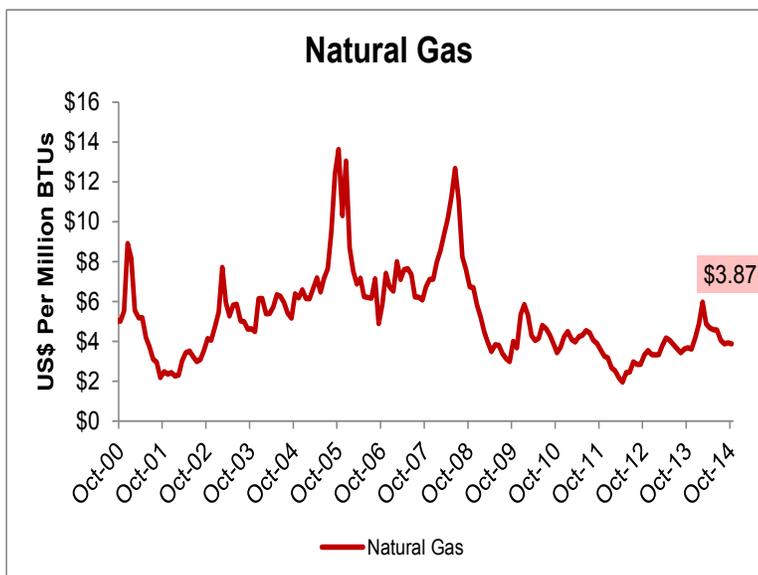
On the other hand, reductions in supply are expected from Norway, United Kingdom and Mexico. OPEC also stated that global oil prices are being impacted by slower economic growth in China, and lower demand for refined oil products amidst ample supply, which the organization believed has outweighed the supply disruptions and geopolitical tensions.

The price movements for October 2014 continued to be driven by a reduction in supply along the Gulf Coast and a reversal of global economic growth. Analysts believe that this will be moderated by the fact that the US is becoming more energy reliant.

The forecast for 2014 is for prices to decline in the last two months of the year and to continue falling into 2015. The United States Energy Information Administration's forecast was for prices to remain below **US\$120** per barrel and average **US\$100** for 2014. The latest numbers coming from the EIA projects the price of the WTI to be **US\$100.45** per barrel for 2014 and **US\$108.60** per barrel for the Brent. The average price for the first nine months are **US\$106.61** and **US\$99.82**, this suggest that prices movements to be mixed between WTI and Brent in the last quarter of 2014. In 2015 the prices are expected to be **US\$96.05** and **US\$105.00** per barrel, respectively, reflecting further reductions, which will have a positive impact on the prices of other derived commodities and local inflation.

Natural Gas

At end-October 2014, the price for natural gas moved from **US\$3.92** to **US\$3.88**, a reduction of **US\$0.05**



Data Source: IMF Monthly Commodity Prices

(**1.2%**) per thousand cubic meters. This increase marks the second consecutive month of increase in contrast to the sixth monthly decline since the beginning of 2014. For the period October 2013 relative to October 2014, natural gas prices increased by **US\$0.20 (5.45%)**.

Similarly, natural gas prices have increased by **US\$0.56 (16.73%)** per thousand cubic meters when prices of October 2014 are compared to October 2012. The five year average monthly price for natural gas is **US\$3.57** which indicates that current prices are **US\$0.30 (8.4%)** higher. These price movements are indicative of a higher demand for general fuels and alternative fuels including natural gas.

The United States Energy Administration (EIA) reports that natural gas stock builds continue to outpace historical norms. Natural gas working inventories on August 1 reached **2.39** trillion cubic feet (Tcf), that is **0.54 or 18%** below the level at the same time in 2013. Gas prices are currently **20%** below the previous five year average of 2009-2013 levels. The EIA expects that the Henry Hub natural gas spot price which averaged **US\$3.73** per MMBTU in 2013, will average **US\$4.46** in 2014 and **US\$4.00** in 2015. Douglas Westwood, energy busi-

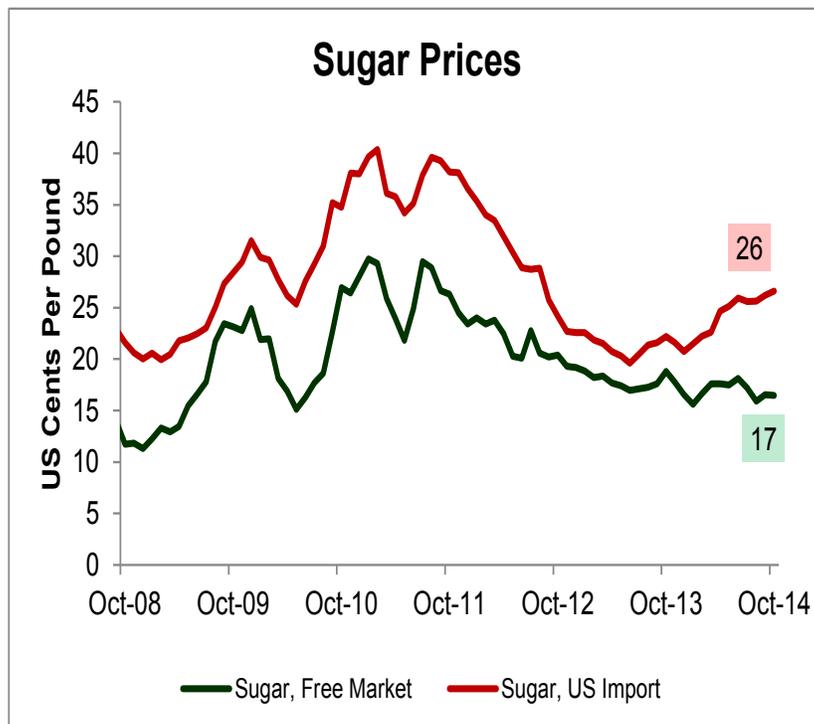
International Commodity Prices

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ness advisor stated that the liquefied natural gas market is on a rebound after the global meltdown. He also stated that global capital investment in this area will increase by approximately **US\$228.0 billion (109%)** between 2013 and 2017. According to Westwood, the LNG market is evolving and is being impacted (by a number of macroeconomic fundamentals and technological developments).

The forecasts for higher LNG demand were supported by large financial commitments which will result in greater supply from both North America and Australia. If this forecast obtains, more industries would have to use power fuelled by LNG, which would then result in decline in global demand for crude oil. This would likely cause a fall in global crude oil prices and production indices would be positively impacted. Nevertheless, this pronouncement is conditional on other factors such as the pace of global economic growth.

The positive development of the global economic recovery is good news for Jamaica and other Caribbean countries that are heavily dependent on developed economies such as the US, UK, China and Brazil for export opportunities, remittances and capital. However, there are also disadvantages, the most perilous of which is the impact of global demand for fuels on international energy prices. Even with the new sources of alternative energy, if the global demand continues to increase, both LNG and crude oil prices could rise to record levels in the next two to four years. The EIA's projection is for LNG prices to rise by **20%** in 2014 but will fall by **10%** in 2015. The



developments in these fuel sources should be of considerable importance to businesses in Jamaica and the Caribbean.

Sugar Prices

Both the Free Market Index and the US Import index had similar price changes for October 2014. The Free market Index fell by **less than one US cent (0.4%)**. On the other hand, the US Import Index increased by **less than one US cent (1.5%)**. Prices closed in October 2014 at approximately **US\$0.16** and **US\$0.27** per pound, respectively. For the period October 2013 relative to October 2014, the price of Free Market sugar decreased by **12.4%**, while US import prices increased by **20%**. The five year average monthly price for both sugar indices are **US\$0.22** and **US\$0.29**, respectively. This suggests that prices for both the Free Market and the US Import are **24%** and **9%** below their respective averages. The IMF projects that the price for the Free market and the US Import will increase by **8%** and **15**, respectively in 2014.

International Commodity Prices

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Rice

Relative to September 2014, rice prices for October 2014 fell by **US\$3.80 (0.9%)** per metric tonne. Similarly, prices fell from **US\$436.38** to **US\$432.70** or by **US\$20.57 (4.5%)** per tonne between October 2013 and October 2014. Experts believe that international rice prices will continue to remain low this year. There are a number of supply side and political factors that continue to influence prices. Higher than normal inventory levels, import duties in many of the major importing countries and over production in 2013 are just some of these factors. The Food and Agricultural Organization (FAO) forecasted that rice utilization, rice stock and rice production will increase for 2014 into 2015. As such, prices are expected to decline over the

same period. The IMF projects that rice prices will decline by **15%** in 2014.

Wheat

In October 2014, wheat prices increased by **US\$1.67 (0.7%)** when compared to September 2014 to close at **US\$245.39 per tonne**. Relative to October 2013, prices have fallen by **US\$80 (25%)** per tonne. A two year comparison of wheat prices shows a reduction in prices of **US\$112.81 (31.5%)**. The average five year monthly price for October is **US\$297.58**, this represents a reduction of **US\$52.19 (17.5%)** when compared to current prices. The reduction in oil prices and weather conditions will continue to play a significant role in wheat prices for the remainder of the year. The expected tighter supply of

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International Commodity Prices

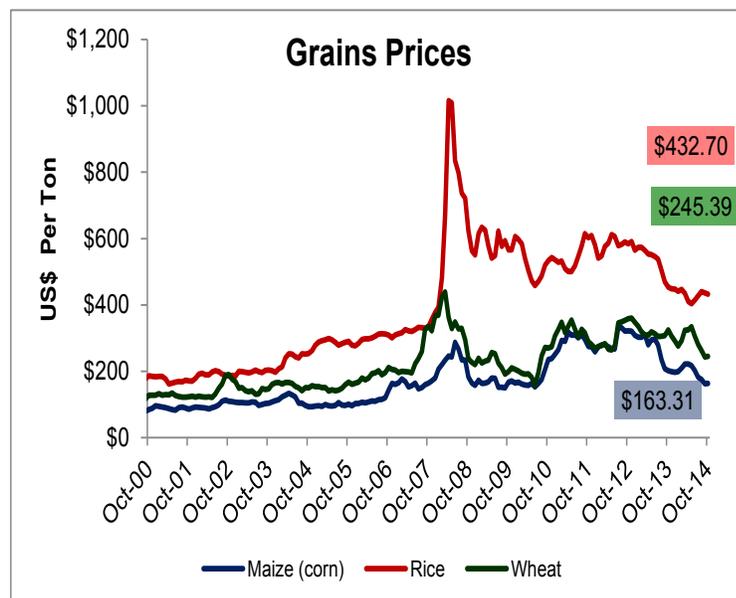
wheat for 2014 will not materialize as output in 2014 has soared much more than analysts had anticipated. This significant spike in yields should continue to impact prices negatively through the remainder of 2014 into 2015. The IMF projects that wheat prices will decline by approximately 18% in 2014.

However, developments in Ukraine and Russia are expected to continue to temper prices for the US market. In addition, rainfall experienced in March could have significantly improved yields of other competing commodities which continues to impact current wheat futures in the United States (AgWeb: 2014).

Corn Prices

Corn prices increased in October 2014 when compared to September of 2014 by **US\$0.25 (0.2%)** and closed the month at **US\$163.31** per tonne. Between October 2013 and October 2014 prices fell by **US\$38.42 (19.05%)**. A two year price comparison from October 2012 to October 2014 shows a total price decline of **US\$158.33 (49.23%)**. The five year monthly average for corn is **US\$239.43**, this means that current prices are **US\$76.12 (32%)** lower. The stability of corn prices in coming months will be conditional on good weather conditions, oil price movements and the political environment in Ukraine that accounts for **16%** of the global export market.

The harsh winter conditions have impacted planting acres in the US and hence corn futures have been increasing. Fertilizer prices are expected to decline, which should temper prices for the remainder of the year. The most significant driver of corn prices is the price of crude oil which has been declining over the past few



months. Experts predict that supplies will continue to increase given inventory levels and the size of acres under cultivation. The IMF projects that prices will fall by **14%** in 2014 relative to 2013.



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International Commodity Prices

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Soybean Prices

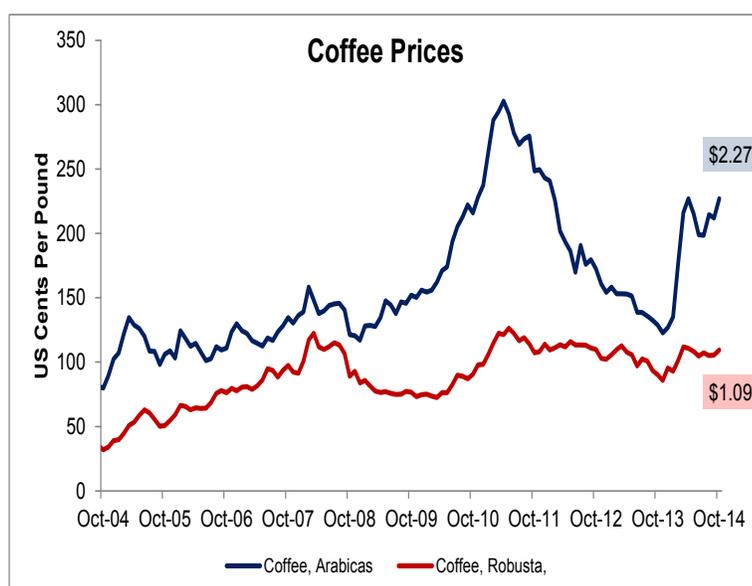
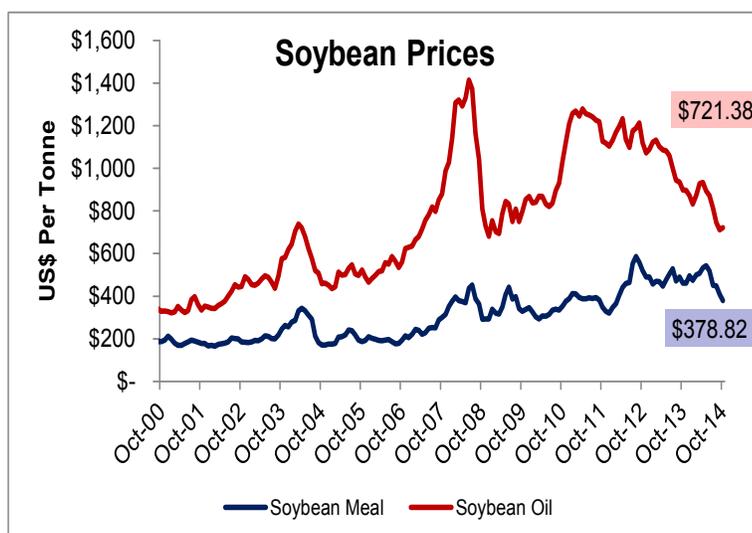
The prices of both soybean meal and soybean oil showed mixed results for October 2014. At the end of October 2014 the price per metric tonne for soybean oil material stood at **US\$721.38**. The price for Soybean oil material increased for October 2014 in comparison to September 2014 by **US\$9.65 (1.4%)** per metric tonne. The price per metric tonne of soybean oil materials decreased by **US\$176.28 (19.64%)** for the period October 2013 to October 2014. The five year average monthly price for Soybean oil is **US\$980.12**, which is **US\$258.74 (26.4%)** higher than current prices.

On the other hand, the price of soybean meal fell by **US\$30.28 (7.4%)** per metric tonne when October 2014 is compared to September 2014. For the period October 2014 relative to October 2013, the price of Soybean meal decreased by **US\$82.00 (18%)**.

A two year comparison for October 2012 to October 2014, shows that the price of Soybean meal fell by **US\$141.00 (27%)** per metric tonne. The five year average monthly price for Soybean Material is **US\$412.15**, **US\$33.33 (8.1%)** higher than current prices.

Coffee Prices

The price of the Arabica and the Robusta coffee had similar results in October 2014. The Arabica increased by **US\$0.15 (7.4%)** while the Robusta increased by **US\$0.04 (3.6%)**. In April 2011, coffee prices reached record levels of **US\$3.30** and **US\$1.21 per pound**, respectively. Since then, prices have fallen by **25%** and **10%** to **US\$2.27** and **US\$1.09** per pound respectively. The five year average monthly



price for both types of coffee are **US\$1.99** and **US\$1.01**, respectively. This implies that the current prices of the Arabica and the Robusta are **14.4%** and **7.8%** higher than the five year average prices.

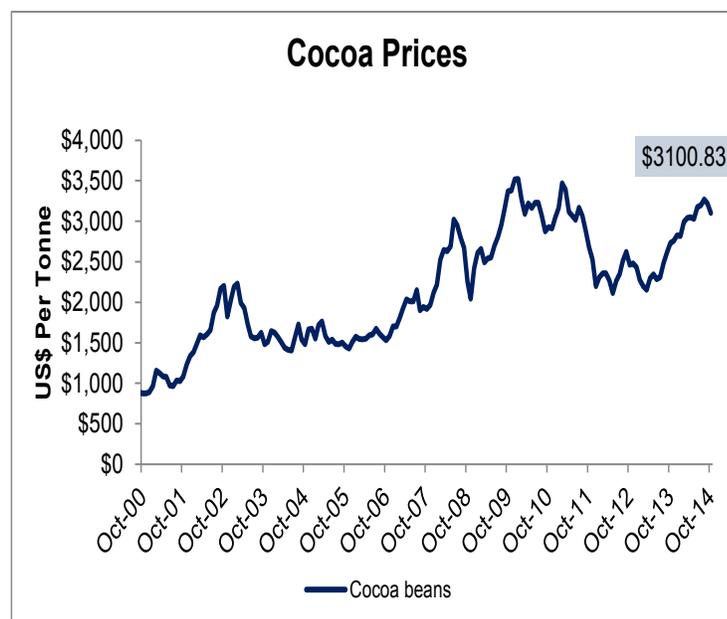
Experts believe that lower production in Brazil, Africa and Central America has been fuelling the upward price movements. This surge could be negated by production increases in Asia and other eastern countries. The IMF projects that the Arabica will increase by **4%** while the Robusta will decline by **12%** in 2014.

International Commodity Prices

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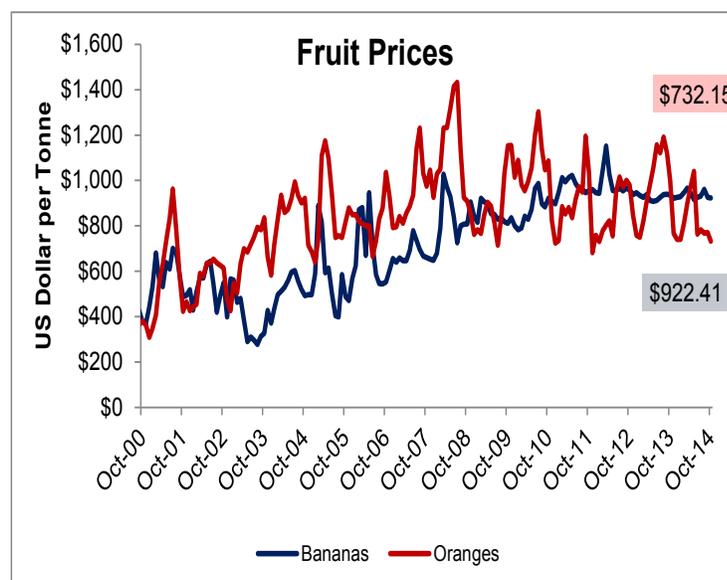
Cocoa Prices

In October 2014, Cocoa prices decreased by **US\$121.70** per tonne (**3.8%**) to close at **US\$3,100.83** per tonne. Relative to October 2013, prices increased by **US\$370.13 (13.2%)**. The two year price comparison shows that prices are higher by **US\$637.2 (26%)** when October 2014 is compared with October 2012. The five year average monthly price for cocoa is **US\$2,780.51**, this means that current prices are **US\$320.32 (11.5%)** higher. Experts at Rabobank believe that a third consecutive cocoa deficit will send prices skyrocketing. The analysts estimate a deficit of over **100,000 tonnes** which will send prices rising by over **12%** relative to 2013 prices. The IMF projects that prices will increase by **9%** in 2014 relative to 2013.



Orange Prices

Orange prices fell by in October 2014 by **US\$38.88 (5%)** to **US\$732.15** per metric tonne, relative to September 2014. Relative to October 2013, prices fell by **US\$265.11(27%)**. The five year average monthly price is **US\$965.86**, which indicates that current prices are **US\$233.71 (24%)** lower. Experts predicted that prices would have increased throughout much of 2014. These forecasts were mainly due to drought conditions in the world's largest producer, Brazil. Additionally, the impact of citrus greening disease in the state of Florida, which produces approximately **70%** of the Oranges in the United States, is also expected to boost prices. Currently, prices are expected to decline by **2%** in 2014.



Banana Prices

Banana prices moved in October 2014 to **US\$922.41**

per tonne. In this regard, prices decreased by **US\$3.00 (0.3%)**. For October 2013 relative October 2014, banana prices increased by **US\$14.41 (1.5%)** per metric tonne. A two year price comparison for October 2012 and October 2014 revealed that banana prices decreased by **US\$36.63 (3.82%)** per metric tonne. The five year average monthly price is **US\$939.28**, this means that current prices are **US\$17.00 (1.8%)** lower. The Food and Agricultural Organization of the United Nations (FAO) reported in the April issue that the global market for banana and its byproducts

International Commodity Prices

October 2014 Issue

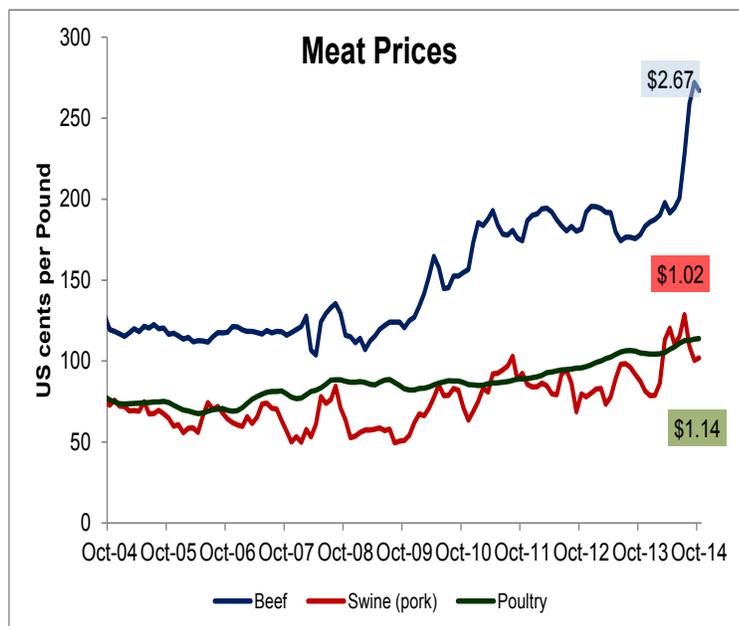
has undergone significant changes and will continue to evolve from an industry dominated by large players to one controlled by many players. The FAO reported that this will create many opportunities for further growth and development of the industry, but it will also create many new challenges for both old and new players. Most importantly, these new developments will impact the quality of the competition.

An analysis of the global banana industry shows that the combined market share of the world's three largest players Chiquita, Dole and Del Monte has fallen from **65%** in the 1980's to approximately **37%** in 2013. The FAO report showed that the combined market share of the top five players in the banana industry has fallen from approximately **70%** in 2002 to **44.4%** in 2013. The FAO also reported on the merger of Chiquita, the largest banana trading company in the world and Fyffes one of the main suppliers to the European market. The combined market share of the two companies is **18%**. However, the FAO stated that this should not be sufficient for the company Chiquita-Fyffes to be able to influence the market price of bananas.

The FAO reported that the banana industry sees a movement away from the traditional plantation ownership and production to the new post-production logistics. The IMF is projecting prices to fall by **4%** in 2014.

Beef Prices

In October 2014, beef prices fell to **US\$2.67** per pound, a reduction of **US\$0.05 (1.9%)** relative to September 2014. Relative to September of 2013, current prices are **US\$0.89** or **50%** higher than they were. The five year average monthly price is **US\$1.91** which tells us that current prices are **US\$0.76(40%)** higher.



Reports for March 2014, suggest that in the United States, inventories were down by **21%** when compared to last year. The decline in inventory levels was responsible for the higher than expected price increases. Two important developments that should be monitored in the next six months are the drought in Australia and greater demand in China and Asia. Experts at ABSA Agricultural trends believe that an end in the current drought situation will leave a supply gap in the beef market which will result in an increase in prices.

In the long term, it is expected that international prices will move in line with those of New Zealand and Australia. The second set of developments are those in Asia where the markets in both China and Indonesia are heating up for Beef and By-products. The IMF is projecting that beef price will fall by **2%** in 2014 relative to 2013.

Swine (Pork) Prices

In October 2014 the prices for pork decreased by **US\$0.01 (1.4%)** to close at **US\$1.05 per pound**. The price of pork was **US\$0.88 per pound** in October of 2013, which reflects a **US\$0.14 (16%)** price increase relative to October 2014. A

International Commodity Prices

October 2014 Issue

two year analysis of pork prices shows that current prices are **US\$0.22 (28%)** higher than they were in 2012.

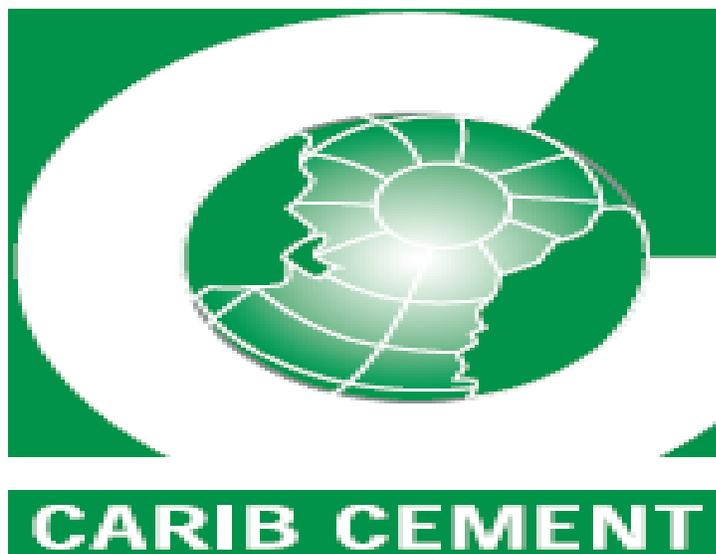
The five year monthly average price per pound for pork is **US\$0.88**, this means that current prices are **US\$0.15 (18%)** higher. In March, experts reported that pork inventories in the US were down by **11%** and was responsible for the increase in 2014 prices. Experts at the United States Department of Agriculture (USDA) reported that global pork production has increased by **1.8 million tonnes to 110.7 million tonnes for 2014** over the forecast given in November of 2013. This development was as a result of growth in china and Russia offsetting the reductions in the United States and the European Union. Projections by the IMF shows that pork prices will increase by **11%** in 2014 relative to 2013.

Poultry Prices

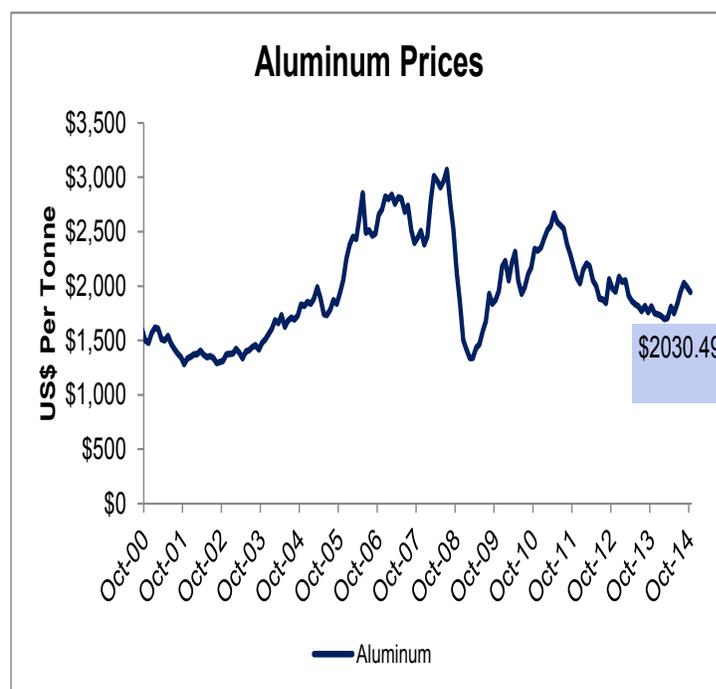
The price of chicken increased in September by less than a cent (**0.6%**) and ended at **US\$1.14per lbs**. Prices in September 2014 were approximately **US\$0.07 (7%)** higher than they were in September 2013. In September 2012, the price for poultry was **US\$0.95**, indicating that prices are **US\$0.18 (19%)** higher than they were two years ago. The five year average monthly price per pound is **US\$0.98**, this means that current prices are **US\$0.15 cents (15%)** higher. The IMF projects that prices will rise by **3%** in 2014.

Aluminum Prices

Aluminum prices decreased by **US\$42 (2%)** per tonne to close September 2014 at **US\$1990.43** per tonne. Relative



MORE THAN JUST CEMENT



Data Source: IMF Monthly Commodity Prices

to September 2013 prices increased by **US\$229 (13%)** per tonne. The five year average monthly price for aluminum is **US\$2,056.11** per tonne, this means that current prices are **US\$65.68 (3.2%)** lower.

International Commodity Prices

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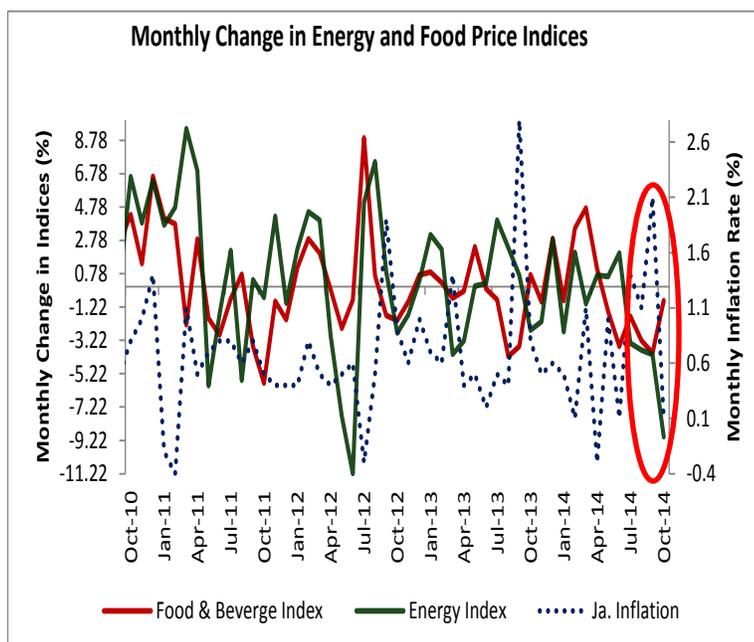
Impact of global prices on Jamaica

There were price reductions in **12 (60%)** of the commodities monitored for October 2014. The price of both crude oil indices fell in four consecutive months. The Brent and the WTI fell by **10.3%** and **9.6%** respectively; natural gas had price increase of **1.2%**. The IMF's Fuel Energy Index fell by **9%**, while the Food and Beverage Index fell by **1%**. The materialising decline in both fuel and food prices for latter part of 2014 into 2015 implies a moderation in import costs and hence pressure on the Jamaica Dollar should be continue to lessen through this channel in the last two months of 2014.

The graph shows the relationship between movements in commodity prices and movements in domestic inflation. An examination suggests that domestic inflation lags commodity prices by two months. This means that downward movements in the international price indices in October will be observed in Jamaica around the end of December 2014. In addition, inflation of **0.1%** for October would have been influenced by movements in commodity prices between July and August of 2014.

Experts forecasted a reduction in the price of fuels for the latter part of 2014. This is materialising. If this trend continues, inflation in Jamaica for 2014 could be similar to that of 2013. With the current inflation of **7.3%** for the first ten months of the 2014 calendar year, the expected low inflation for 2014 will most likely be realized. The impact of the drought and bus fare increases in September have dissipated and should not continue to influence prices. Price impulses should be in line with that of the global commodities and hence inflation for November and December should be relatively low.

| Commodities | Unit | Price | | Monthly Change |
|--------------------|------------|---------|---------|----------------|
| | | Oct-14 | Sep-14 | Per cent |
| Aluminum | Metric ton | 1946.19 | 1990.43 | -2.2% |
| Bananas | Metric ton | 922.41 | 925.41 | -0.3% |
| Beef | Pound | 266.93 | 272.13 | -1.9% |
| Cocoa beans | Metric ton | 3100.83 | 3222.53 | -3.8% |
| Coffee- Arabicas | Pound | 227.06 | 212.01 | 7.1% |
| Coffee- Robusta | Pound | 109.39 | 105.57 | 3.6% |
| Maize (corn) | Metric ton | 163.31 | 163.06 | 0.2% |
| Natural Gas | MMBTU | 3.87 | 3.92 | -1.2% |
| Dated Brent Crude | Barrel | 87.27 | 97.34 | -10.3% |
| Crude WTI | Barrel | 84.40 | 93.35 | -9.6% |
| Oranges | Metric ton | 732.15 | 771.03 | -5.0% |
| Swine (pork) | Pound | 101.90 | 100.53 | 1.4% |
| Poultry | Pound | 113.89 | 113.52 | 0.3% |
| Rice | Metric ton | 432.70 | 436.50 | -0.9% |
| Soybean Meal | Metric ton | 378.82 | 409.10 | -7.4% |
| Soybean Oil | Metric ton | 721.38 | 711.74 | 1.4% |
| Sugar | Pound | 26.71 | 27.10 | -1.4% |
| Sugar- Free Market | Pound | 16.48 | 16.54 | -0.4% |
| Sugar- US Import | Pound | 26.61 | 26.21 | 1.5% |
| Wheat | Metric ton | 245.39 | 243.72 | 0.7% |



Data source: IMF Monthly Commodity Prices

International Commodity Prices

October 2014 Issue

| Global Commodity Prices and Projections 2013-2015 | | | | | | | | | | | | |
|---|----------|--------|--------|--------|--------|-------------|--------|--------|--------|-------|-------|---------------|
| Commodities | Units | Actual | | | | Projections | | | | Q3/Q2 | Q4/Q2 | Annual Change |
| | | 2013Q1 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 | 2014Q4 | 2015Q1 | 2015Q4 | | | |
| Food | | | | | | | | | | | | |
| Cereals | | | | | | | | | | | | |
| Wheat | \$/MT | 321.4 | 307.8 | 297.1 | 296.2 | 232.8 | 242.7 | 248.9 | 259.7 | -21% | -18% | -18% |
| Maize | \$/MT | 305.1 | 199.5 | 210.1 | 207.2 | 181.8 | 180.1 | 183.7 | 182.4 | -12% | -13% | -14% |
| Rice | \$/MT | 570.7 | 449.9 | 440.7 | 350.8 | 374.8 | 376.3 | 323.0 | 337.0 | 7% | 7% | -15% |
| Barley | \$/MT | 239.4 | 157.3 | 162.7 | 226.8 | 239.5 | 241.5 | 226.2 | 240.9 | 6% | 6% | 48% |
| Vegetable oils and protein meals | | | | | | | | | | | | |
| Soybeans | \$/MT | 532.8 | 479.4 | 498.3 | 547.7 | 514.8 | 453.3 | 456.1 | 440.3 | -6% | -17% | -9% |
| Soybean meal | \$/MT | 464.6 | 472.5 | 493.3 | 543.2 | 518.2 | 446.8 | 443.2 | 421.2 | -5% | -18% | -9% |
| Soybean oil | \$/MT | 1119.2 | 889.2 | 877.9 | 891.4 | 850.9 | 855.5 | 863.6 | 875.6 | -5% | -4% | -3% |
| Palm oil | \$/MT | 780.3 | 789.4 | 813.7 | 761.9 | 748.0 | 748.6 | 760.7 | 770.7 | -2% | -2% | -8% |
| Fish meal | \$/MT | 1918.4 | 1542.2 | 1657.9 | 1763.8 | 1707.3 | 1680.4 | 1671.3 | 1337.1 | -3% | -5% | 1% |
| Olive oil | \$/MT | 4004.9 | 3656.6 | 3599.0 | 3602.3 | 3643.9 | 3679.6 | 3679.1 | 3766.7 | 1% | 2% | 2% |
| Groundnuts | \$/MT | 2091.8 | 2312.7 | 2380.6 | 2386.6 | 2327.0 | 2268.0 | 2198.0 | 2038.0 | -2% | -5% | -5% |
| Rapeseed oil | \$/MT | 1196.0 | 1012.8 | 980.3 | 1008.3 | 1000.8 | 994.6 | 927.0 | 885.0 | -1% | -1% | 1% |
| Meat | cts/lb | | | | | | | | | | | |
| Beef | cts/lb | 193.8 | 182.4 | 191.8 | 191.4 | 189.3 | 187.3 | 184.2 | 178.0 | -1% | -2% | -2% |
| Lamb | cts/lb | 97.1 | 116.4 | 124.1 | 132.3 | 133.6 | 135.1 | 131.8 | 134.6 | 1% | 2% | 9% |
| Swine Meat | cts/lb | 79.7 | 82.6 | 92.8 | 103.2 | 103.2 | 103.2 | 105.8 | 104.5 | 0% | 0% | 11% |
| Poultry | cts/lb | 100.2 | 104.7 | 104.7 | 107.3 | 109.7 | 108.2 | 112.2 | 117.4 | 2% | 1% | 3% |
| Seafood | | | | | | | | | | | | |
| Salmon | \$/kg | 6.5 | 6.9 | 7.8 | 7.6 | 7.6 | 7.2 | 6.7 | 6.0 | 0% | -5% | -7% |
| Shrimp | \$/lb | 11.3 | 16.6 | 17.1 | 18.1 | 18.0 | 19.0 | 18.3 | 17.8 | -1% | 5% | 11% |
| Sugar | | | | | | | | | | | | |
| Free market | cts/lb | 18.5 | 17.7 | 16.8 | 17.3 | 17.4 | 18.2 | 19.1 | 19.1 | 1% | 5% | 8% |
| United States | cts/lb | 22.0 | 21.5 | 22.4 | 24.9 | 25.6 | 25.8 | 26.2 | 26.5 | 3% | 4% | 15% |
| EU | cts/lb | 25.8 | 26.9 | 27.5 | 27.8 | 27.8 | 27.8 | 27.8 | 27.8 | 0% | 0% | 1% |
| Bananas | \$/MT | 932.6 | 928.1 | 947.1 | 945.5 | 915.1 | 905.4 | 911.1 | 871.0 | -3% | -4% | -4% |
| Oranges | \$/MT | 825.9 | 834.4 | 816.7 | 885.9 | 807.2 | 804.2 | 817.8 | 805.1 | -9% | -9% | -2% |
| Beverages | | | | | | | | | | | | |
| Coffee | | | | | | | | | | | | |
| Other milds | cts/lb | 154.8 | 126.1 | 175.8 | 206.5 | 178.7 | 183.2 | 185.9 | 185.8 | -13% | -11% | 4% |
| Robusta | cts/lb | 109.4 | 90.4 | 102.0 | 92.4 | 88.3 | 89.3 | 90.0 | 91.5 | -4% | -3% | -12% |
| Cocoa Beans | \$/MT | 2208.8 | 2770.1 | 2951.3 | 3164.7 | 3254.9 | 3211.3 | 3196.2 | 3144.2 | 3% | 1% | 9% |
| Tea 3/ | cts/kg | 319.1 | 234.2 | 247.9 | 223.4 | 209.0 | 206.0 | 212.0 | 225.0 | -6% | -8% | -17% |
| Agri. raw materials | | | | | | | | | | | | |
| Timber | | | | | | | | | | | | |
| Hardwood | | | | | | | | | | | | |
| Logs | \$/M3 | 157.6 | 174.0 | 182.0 | 190.0 | 191.9 | 188.1 | 190.0 | 191.9 | 1% | -1% | 3% |
| Sawnwood | \$/M3 | 278.4 | 304.3 | 297.0 | 295.6 | 287.0 | 283.0 | 297.0 | 277.0 | -3% | -4% | -5% |
| Softwood | | | | | | | | | | | | |
| Logs | \$/M3 | 157.6 | 174.0 | 182.0 | 190.0 | 191.9 | 188.1 | 190.0 | 191.9 | 1% | -1% | 3% |
| Sawnwood | \$/M3 | 278.4 | 304.3 | 297.0 | 295.6 | 287.0 | 283.0 | 297.0 | 277.0 | -3% | -4% | -5% |
| Cotton | cts/lb | 89.9 | 87.2 | 94.0 | 89.1 | 86.3 | 77.3 | 77.8 | 77.9 | -3% | -13% | -18% |
| Rubber | cts/lb | 143.1 | 114.6 | 102.1 | 102.2 | 101.9 | 103.1 | 113.5 | 112.0 | 0% | 1% | 1% |
| Hides | cts/lb | 86.0 | 103.1 | 107.6 | 112.3 | 106.9 | 105.9 | 113.4 | 105.9 | -5% | -6% | -2% |
| Metals | | | | | | | | | | | | |
| Aluminum | \$/MT | 2000.8 | 1767.5 | 1709.3 | 1798.3 | 1836.9 | 1866.4 | 1886.8 | 1947.7 | 2% | 4% | 9% |
| Energy | | | | | | | | | | | | |
| Spot Crude 1/ | \$/bbl | 105.1 | 104.5 | 103.7 | 103.5 | 105.8 | 103.6 | 101.8 | 97.7 | 2% | 0% | 0% |
| Natural Gas | | | | | | | | | | | | |
| US, domestic market | \$/MMBTU | 3.5 | 3.8 | 5.2 | 4.6 | 4.6 | 4.6 | 4.7 | 4.2 | 0% | 0% | -12% |

Merchandise Trade

October 2014 Issue

Correcting the persistent current account and hence Balance of Payment deficit in Jamaica is a central component of the current International Monetary Funds objective in Jamaica. Jamaica's problem arises because the country simply imports more than it exports, this therefore means that the deficit had to be financed primarily by debt. This then creates a vicious cycle of both high debt, chronic BOP deficit and instability in foreign exchange markets.

The prescription by the IMF along with the government is that alleviating the problem means on one front allowing the dollar slide to a point where the country could become more competitive. In short a devalued Jamaican dollar would mean higher import cost and hence buyers would give up some of this relatively more expensive imports and thus correcting the deficit. The data on merchandise trade is not in line with the implemented policy.

The statistical Institute of Jamaica reports that total expenditure on merchandise imports for the period January to July 2014 was valued at **US\$3,465.2 million**, this represents a decrease of **2.4%** or **US\$86.4 million** when compared to the **US\$3,551.5 million** recorded in 2013.

On the other hand earnings from total exports for the same period were valued at **US\$851.9 million**, a reduction of **12.9%** or **US\$126.7 million** relative to the **US\$978.6 million** in 2013. The merchandise trade deficit for the first seven months of 2014 was **US\$2,613.3 million** compared to the **US\$2,573.0 million** in 2013. This results in a worsening in the trade deficit of **1.57%** over 2013.

The decline in total exports by **12.9%** was due largely

by declines in both traditional and non-traditional exports. It is reported that the decline in exports was due to a combined fall in earnings from "Chemicals", "Crude Materials," "Food", "Mineral Fuels" and "Beverages and Tobacco". In general, total traditional exports which accounts for **55.7%** of domestic exports fell by **US\$25.5 million (5.3%)**, the sub components agriculture and manufacture fell by **24.6%** and **16%** respectively. Notably the exports of citrus, coffee fell by **59%** and **22.3%** respectively. In addition, mining and quarrying fell by **2%**.

Receipts from non-traditional exports accounted for **44.3%** of total domestic exports, earnings also fell by approximately **US\$91.2 million** or **20.2%**. The sub-component of "Food", "Beverages & Tobacco" and "Other Exports" fell by **5.3%**, **15.8%** and **27.4%** respectively. The reductions in the value of imports of **US\$86.4 million (2.4%)** is explained by reductions in the category of raw materials **6.7%**, this was moderated by increases in consumer goods **8.2%** and capital goods **8.1%**.

Simply put, solving the current account problem in Jamaica is a nightmare, firstly, devaluation implies lower earnings on exports but higher costs on imports. Secondly, the fall in global commodity prices means saving on imports but reduces the earnings on exports. This is further exacerbated by lower international demand for some commodities. This current trend in the Balance of Trade will have direct implications on the stability of the local currency and the Net international reserve in coming months.

Monthly Inflation and Treasury Bill Rates

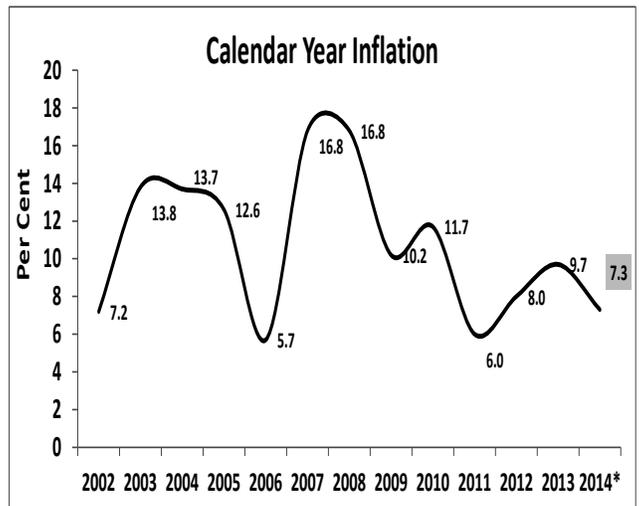
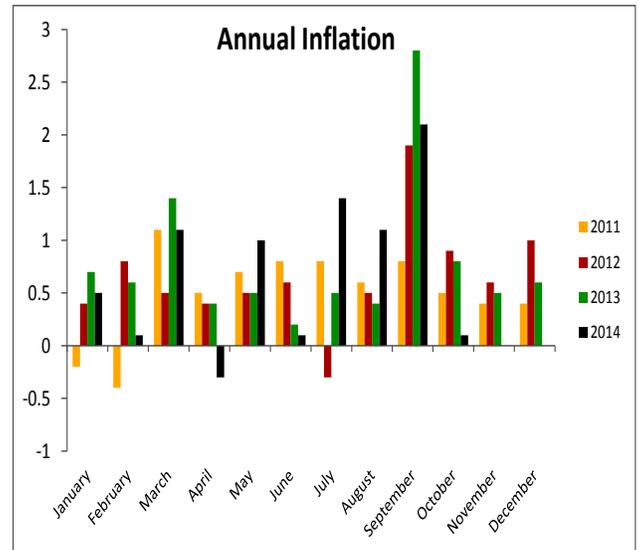
October 2014 Issue

Domestic Inflation Rate

Inflation measured by the All Jamaica “All Divisions” Consumer Price Index (CPI) was 0.1% for October 2014, reflecting a reduction of 2% relative to September 2014. The monthly change in inflation brought the calendar-year-to-date change to 7.3% and the FY-to-October inflation to 5.5%. The 12-month point to point at the end-October was 8.2%.

Inflationary pressures for October largely emanated from a 0.2% increase in the index for Food and Non-Alcoholic Division. There was also a 0.3% price increase in the Housing, Electricity, Gas, and other Fuels. The increases in this division was due mainly to increases in the subdivision of higher water and sewage charges. These marginal increases in the mentioned division were moderated by a 0.8% decline in the division of Transport. This fall in transportation cost reduction was due to a reduction fares caused by a reduction in fuel prices.

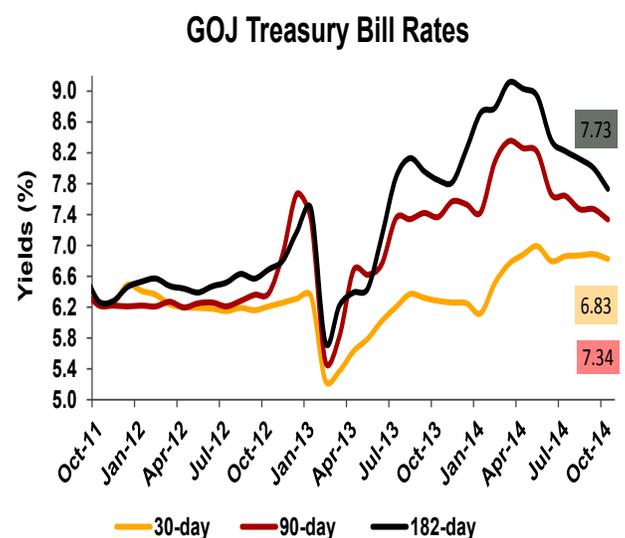
Consequently, inflation in all the three regional areas declined for the month of October relative to the September 2014. Inflation for the Greater Kingston Metropolitan area (GKMA), Other Urban Centers (OUC) and Rural Areas all rose by 0.1%.



*-inflation for the Calendar year to October 2014 (STATIN)

GOJ Treasury Bill Rates

GOJ Treasury Bills yields all declined for October 2014. Specifically, the yields on GOJ 30-day T-Bill fell by **6 bps** relative to the outturn at the end-of the previous month. Similarly, the yields on the 90-day T-Bill and the 182-day declined by **13 bps** and **27 bps** respectively. Relative to October 2013, yields on the 30-day T-Bills have increased by 55 bps while yield on the 90-day and 182-day fell by 3bps and 11 bps respectively. The decline in the yields on the 182-day tenor reflected a continuation of the trend decline observed since March 2014. This may be an indication of improved investor confidence and the outlook for economic performance over the medium to long term.



Data source: Bank of Jamaica

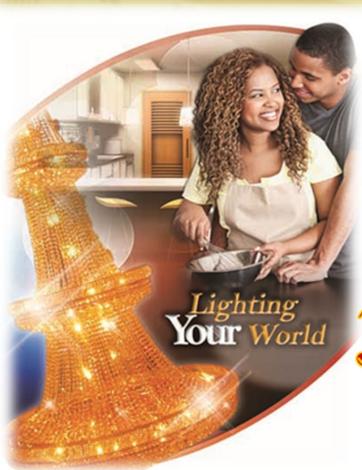
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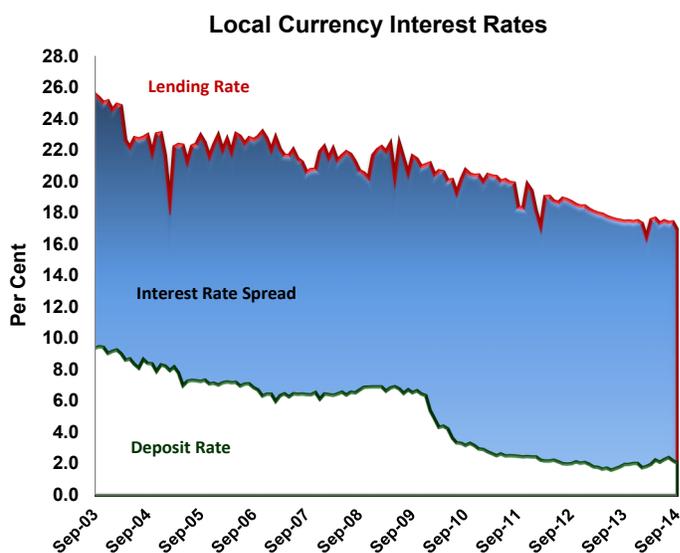
Monthly Interest Rates Update

October 2014 Issue

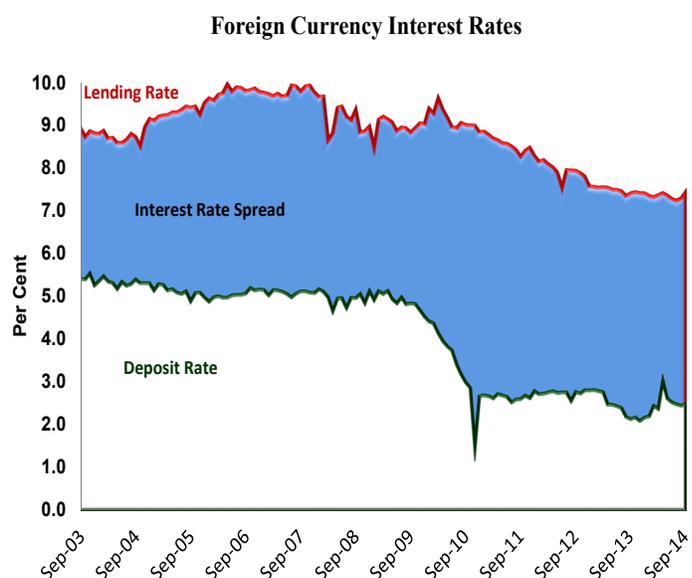
The overall weighted average lending rate on local currency loans declined by **51 bps** to **16.91%** at end-September 2014 relative to end-August 2014. This reduction followed the reduction observed in August 2014 and largely occurred in the context of a sharp contraction of **2.33 pps** in the rates charged on Personal Credit loans.

Rates on mortgages, commercial credit and Central Government also fell by **1bp**, **18 bps** and **28 bps** respectively. Despite the overall decline in rates, there was an increase of **1.70 pps** on loans to Local government and Other Public Entities. As a consequence, the spread on domestic currency loans narrowed to **14.86%** at end-September 2014 relative to **15.21%** at end August 2014.

Similarly, interest rates on foreign currency loans for September 2014 increased by **15 bps** to **7.43%** relative to August 2014. This change largely resulted from increases in the rates on commercial credit of **24 bps**. In contrast, Installment Credit, Personal Credit and Local Government and Other Public Entities had reductions on loan rates of **1 bp**, **1 bp** and **4 bps** respectively for the period. As a result, the interest rate spread on foreign currency loans in commercial banks at the end of September 2014 increased by **0.13 bps** to **4.96%**.



Data source: Bank of Jamaica



| Domestic Currency Weighted Loan Interest Rates (%) September 2014 | | | | | | | |
|--|-------------------|-----------------|-----------------|-------------------|-------|---------------|------------------|
| | Instalment Credit | Mortgage Credit | Personal Credit | Commercial Credit | LGOPE | Central Govt. | Overall A/W Rate |
| Monthly Change | 0.02 | -0.01 | -2.33 | -0.18 | 1.70 | -0.28 | -0.51 |
| Annual Change | -0.45 | -0.17 | -1.54 | 0.19 | 0.77 | -0.04 | -0.54 |
| End of Month | 16.41 | 9.76 | 23.48 | 12.85 | 11.35 | 10.10 | 16.91 |
| Foreign Currency Weighted Loan Interest Rates (%) September 2014 | | | | | | | |
| Monthly Change | -0.01 | 0.00 | -0.01 | 0.24 | -0.04 | n.a | 0.15 |
| Annual Change | -0.15 | -0.28 | 1.23 | 0.02 | -0.17 | n.a | 0.03 |
| End of Month | 8.46 | 6.74 | 17.03 | 7.08 | 6.18 | n.a | 7.43 |

Monthly Exchange Rates Update

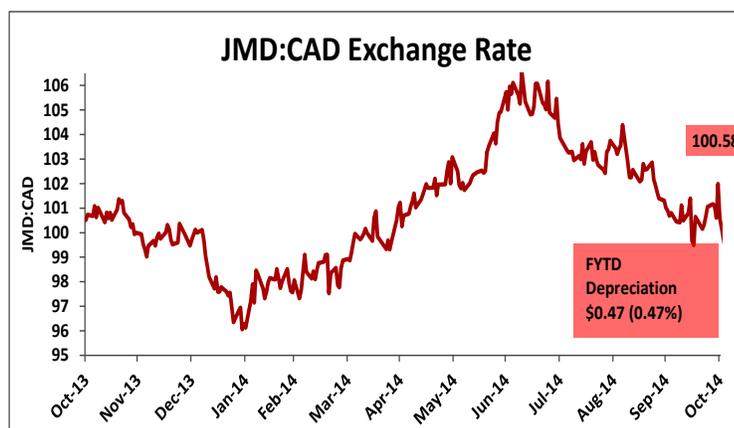
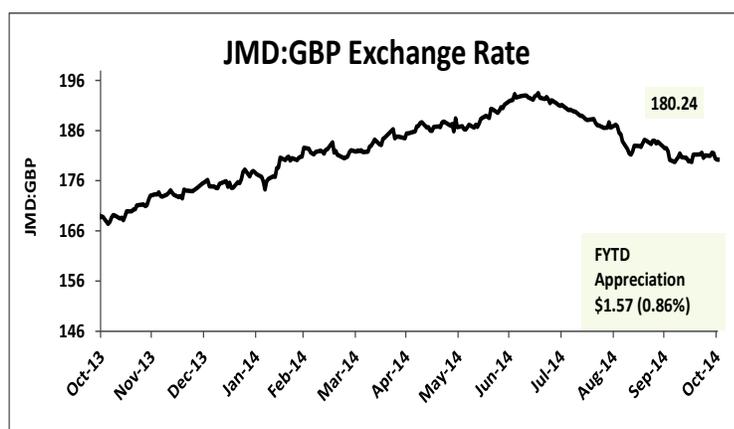
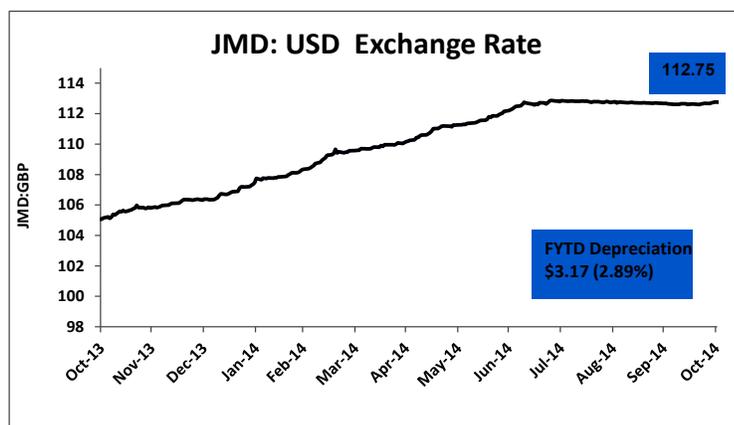
October 2014 Issue

The Jamaica Dollar appreciated relative to the Great British Pound and the Canadian dollar at end-October 2014 continuing the pace of appreciation observed since end-July 2014. However, there was a break in the relative appreciation vis-a-vie the United States Dollar at end-October 2014 relative to the previous months.

At end-October 2014, Jamaica Dollar depreciated vis-a-vie the US dollar relative to end-September 2014. This depreciation represents a break in the continued appreciation recorded since end-July 2014. Depreciation for the month may reflect an increase in user demand for US dollar in the context of increased spending for the Winter season.

On the other hand, the appreciation of the rate relative to the Great British Pound and the Canadian dollar continues to reflect the impact of the progressively successful performance of Jamaica under the EFF, particularly in light of the most recent successful performance for the September 2014 quarter. In addition, the movement in the rate has been largely responsive to the relatively high levels of Net International Reserves (NIR) at the Central Bank which continues to be boosted by disbursements from the International Monetary Fund (IMF) following each successful quarterly review.

Against this background, at end-October 2014, the value of the Jamaica Dollar depreciated by **J\$0.10 (0.08%)**, while the Dollar appreciated by **J\$2.24 (1.23%)** and **J\$0.43 (0.43%)** against the Canadian dollar and Great British pound, respectively. **12.76=US\$1.00**, **J\$180.24=GBP£1.00** and **J\$100.58=CAD1.00**, respectively.



| FX-Trends CYTD Changes | | | | | | |
|------------------------|----------|-------|---------|-------|---------|-------|
| | J\$/US\$ | % | J\$/GBP | % | J\$/CAD | % |
| CY-to-Oct-2014 | 6.37 | 6.0% | 4.50 | 2.6% | -0.32 | -0.3% |
| CY-to-Oct-2013 | 12.08 | 13.0% | 18.66 | 12.4% | 7.09 | 7.6% |
| FX-Trends CY Changes | | | | | | |
| CY 2013 | 13.40 | 14.4% | 27.03 | 18.0% | 2.71 | 2.9% |

Data source: Bank of Jamaica

Net International Reserves & Money Supply

October 2014 Issue

Net International Reserves

The stock of Net International Reserves (NIR) at the Bank of Jamaica was **J\$213.53 billion (US\$2,007.21 million)**, reflecting a decline of **J\$20.57 billion (US\$193.36 million)** relative to the previous month. The change in the NIR for the month was largely due to a reduction in the external holdings of currency and deposits of **US\$181.39 million** which was partially offset by a decline in liabilities of **US\$7.30 million** resulting from payments to the IMF.

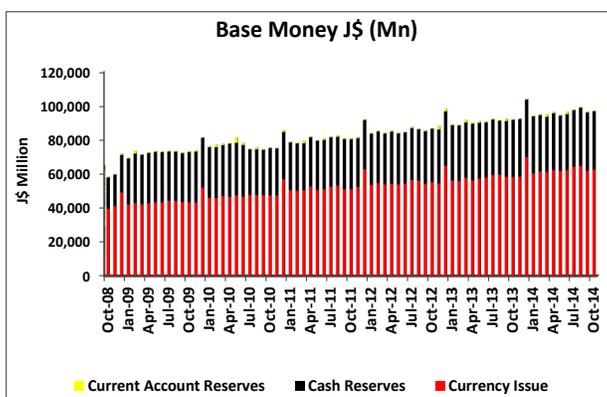
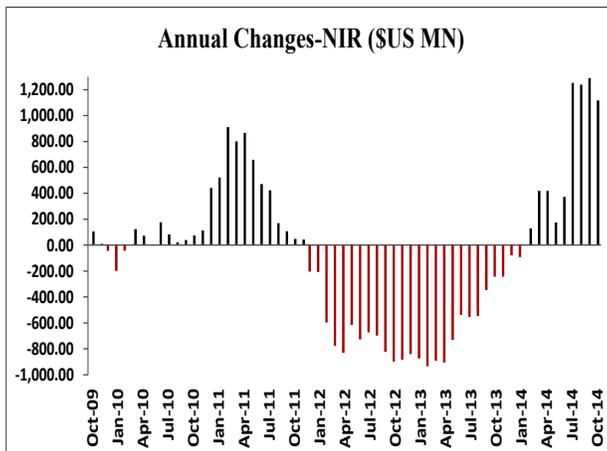
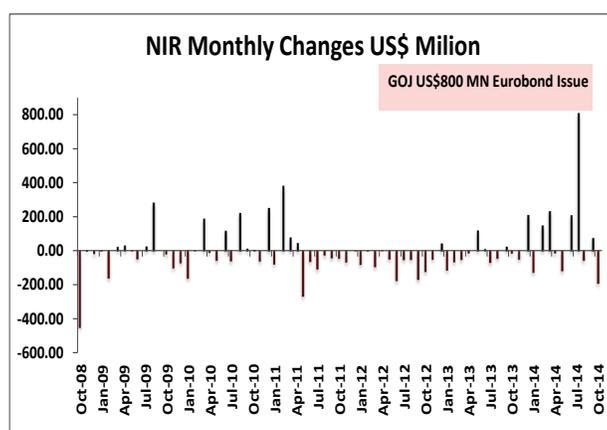
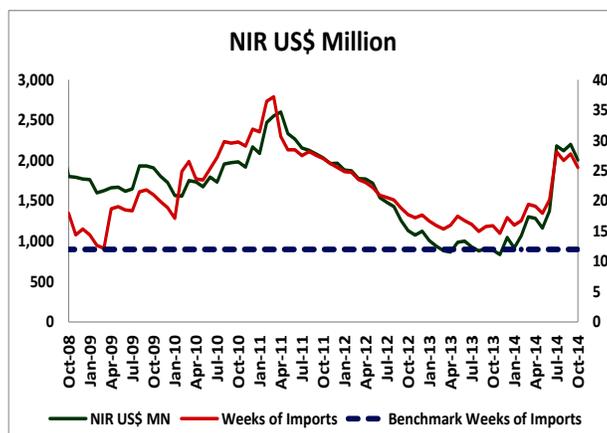
At end-October, the gross reserves at the Central Bank were sufficient to finance **25.74** weeks of goods imports which represents **13.54** weeks over the international benchmark of **12** weeks of goods imports.

Money Supply

For October 2014, there was an expansion of **J\$585 million (0.6%)** in the monetary base relative to the previous month resulting in a monetary base of **J\$96.84 billion**. The expansion in the base mainly reflected net currency issue of **J\$823 million**. However, the impact of this was partially offset by respective declines of **J\$182.0 million** and **J\$55.9 million** in commercial banks' current account balances and statutory reserves, respectively. The expansion in the base resulted from an increase of **J\$21.54 billion** in the Net Domestic Assets (NDA), which was partially offset by a decline of **J\$20.57** in the Net International Reserves (NIR).

The multiplier declined from **2.82** at end-September 2013 to **2.65** at end September 2014. The reduction in the multiplier may have resulted from an increase in the currency-to-deposit ratio for the corresponding period. This would have been brought about by a lower deposits as consumers dis-save and increase their preference for cash in the context of declining real disposable income and the relatively persistent weak economic environment.

For the same period, the monetary base increased by **J\$5.1 billion**



Net International Reserves & Money Supply

October 2014 Issue

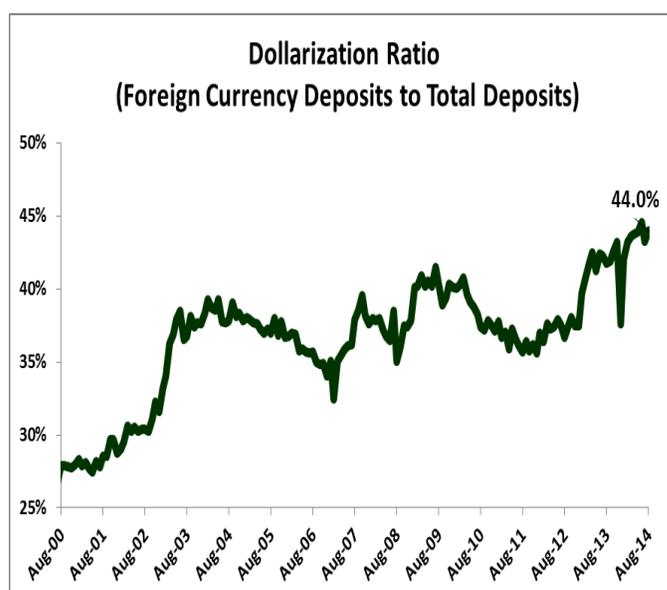
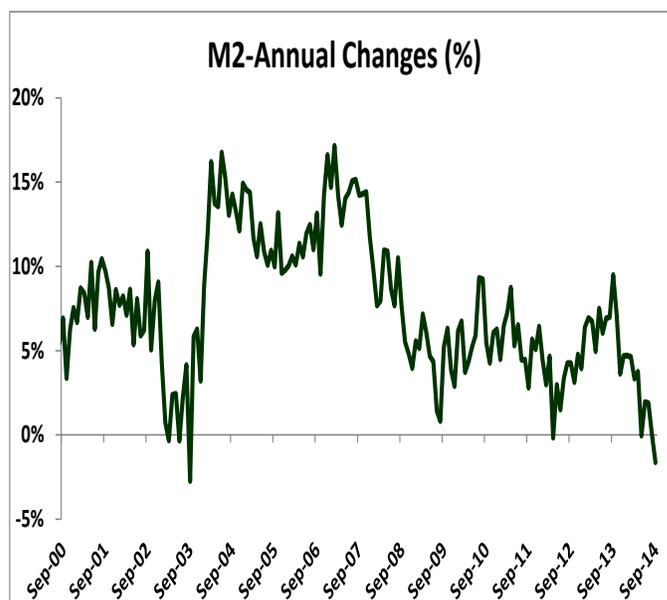
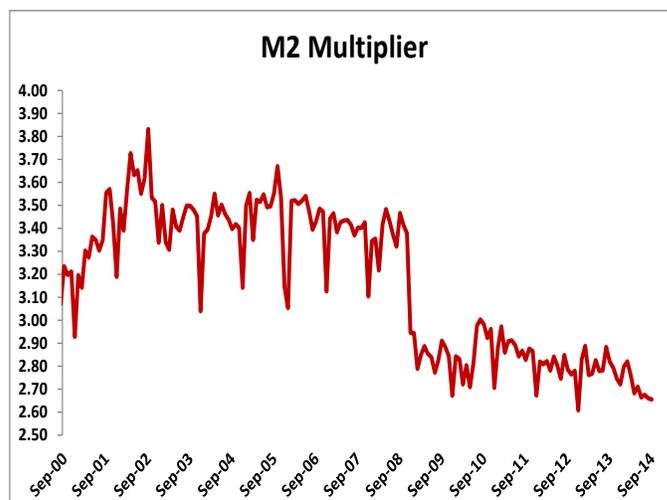
(5.6%). The reduction in the multiplier resulted in a contraction of **J\$4.24 (1.6%)** in the M2 measure of money supply at end September 2014 relative to 2013. The decline in the supply of broad money would have contributed to the observed increase in private sector credit for the period.

Dollarization Ratio

The dollarization ratio is the proportion of foreign currency deposits relative to total deposits in domestic financial institutions, in this case, the domestic financial institutions include only commercial banks. The dollarization ratio measures the extent to which citizens of Jamaica officially or unofficially use foreign currency as a legal tender for transacting businesses. Dollarization is an important indicator of currency substitution. Its presence is generally an indication that there is greater stability in the value of the foreign currency relative to the domestic currency.

While dollarization is not unique to Jamaica as a developing country, the adverse effect is that it may increase the volatility of money demand and impinge on the capacity of the Central Bank to conduct monetary policy. In addition, it contributes to the depreciation of the local currency. Finally, dollarization, is regarded as an obstacle to the conduct of monetary policy, given that in the presence of dollarization, domestic monetary policy is also impacted by foreign economic variables, therefore the Central Bank's autonomy is limited.

Against this background, there was a marginal uptick in the dollarization ratio to **44.0%** at end-August 2014 relative to **43.3%** at end-June 2014. This decline reflected the slow-down in the accumulation of total deposits in the commercial banking system. This may be reflective of consumers' dis-saving habits in the context of declining disposable income and the weak economic environment.



Tourist Arrivals

October 2014 Issue

Tourist arrivals climbed to 1,709,315 for the period January 2014 to October 2014, this represents a 3.1% or 50,765 stopover arrivals more than the 1,658,550 which was recorded for the same period in 2013. However, when compared to the same period in 2012 in which the total number of stopover visitors amounted to 1,655,529 current arrivals are up by 53,786 or 3.2%. For the current period January 2014 to October 2014, both categories foreign nationals and non-resident Jamaicans grew by 48,811 (3.2%) and 1,934 (1.7%), respectively.

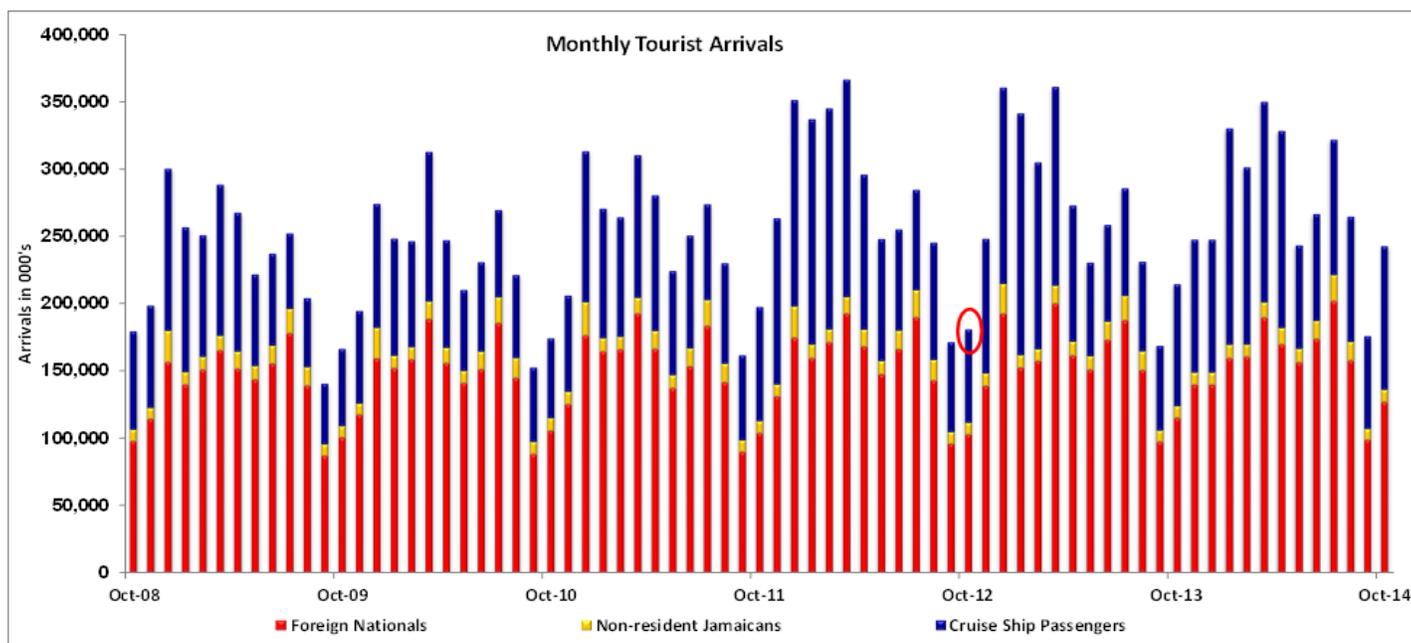
Stopover arrivals in October 2014 were 135,780. This represents an increase of 12,067 (9.8%) over the 126,663 which was recorded in October of 2013. When compared to the same period in 2012, which recorded 111,253 visitors, current arrivals were higher by 24,477 (9.8%).

The increased in stopover arrivals to Jamaica for October 2014 is also reflected in the marked increased from most destinations with the exception of the Latin America which had no change. Visitor arrivals from the United States, Canada, Europe, Europe, the Caribbean, Asia and

other countries increased by 6.8%, 18.6%, 15.7%, 2.1%, 31.1% and 7.7% respectively.

Cruise passenger arrivals increased significantly in October 2014 when compared to both arrivals for 2013 and 2012. Total arrivals in October 2014 stood at 106,813. This represents an increase of 16,046 or 18% when compared to 2013. In October 2012, the total arrivals stood at 69,582 this means that arrivals for October 2014 were greater by 37,231 or 54%.

The PSOJ is forecasting a relatively healthy 2014/15 tourist season for Jamaica. This forecast is due in part to the relatively strong growth in the major determinants of tourist arrivals to Jamaica; these include the overall growth in the US economy and improvement in rates of employment. The US economy is expected to grow by 3% in 2015 and this should have a very positive impact on the arrivals from the States. With the Stronger US economy, disposable incomes of Americans should increase; hence expenditure per visitor should also increase.



Remittance Inflows

October 2014 Issue

For the month of July 2014, gross remittance inflows were **US\$183.2 million**, reflecting an increase of **US\$12.6 million (7.4%)** relative to the corresponding month of the previous year. Remittance inflows for the July were above the average inflows of **US\$164.7 million** for the previous five corresponding periods.

The growth in total remittance inflows largely reflected increases of **US\$7.5 million** in flows through remittance companies and an additional **US\$5.1 million** in inflows from other remittances.

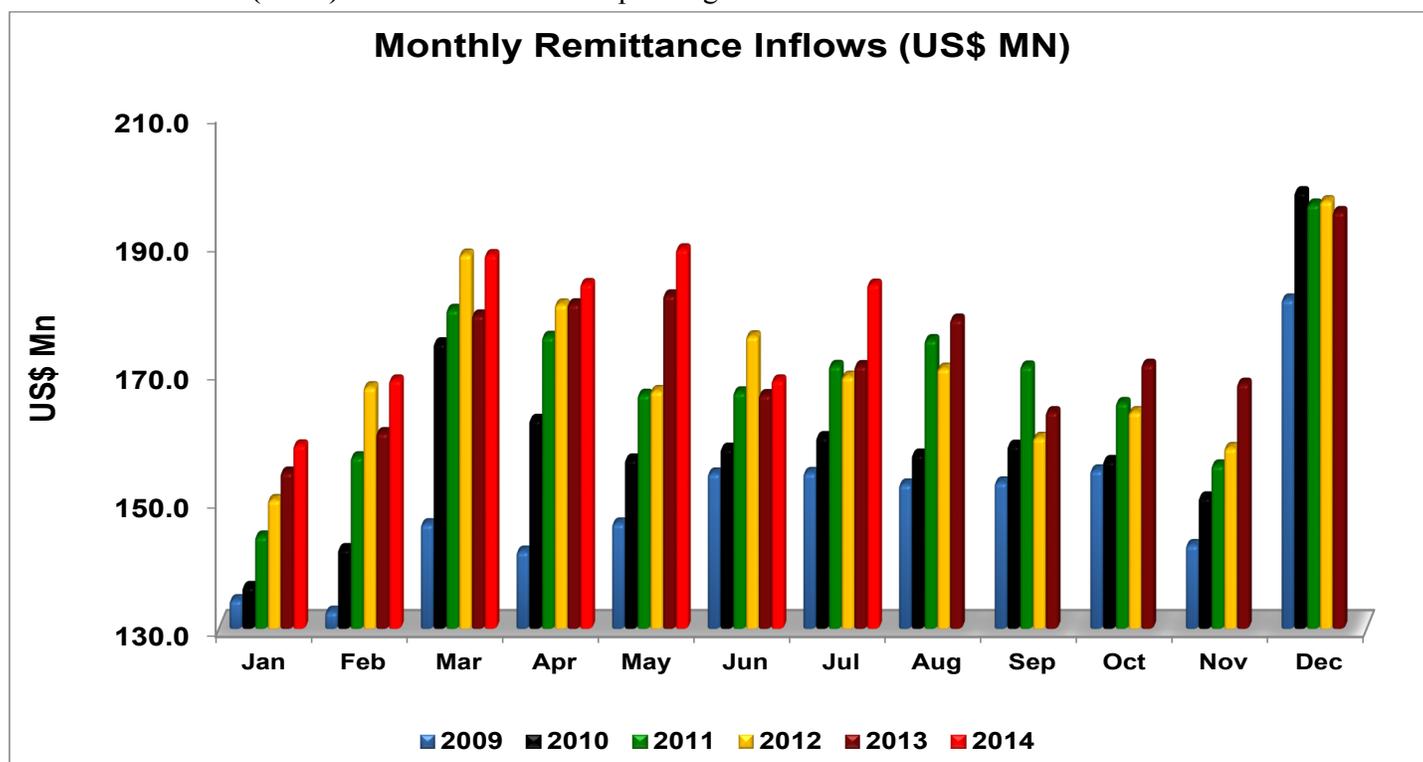
The increases in gross remittance inflows was moderated with the contraction in outflows resulted in net inflows of **US\$160.5 million**, an increase of **US\$10.9 (7.3%)** relative to the corresponding period of 2013.

The uptick in remittance of month of July contributed to the total net remittance of **US\$1,109.4 million** for the January to July period. This reflected an increase of **US\$60.9 million (5.8%)** relative to the corresponding

period of the 2013. Over the same period gross remittances amounted to **US\$1,238.3 million**, this represents an increase of **US\$47.6 million or 4%**.

Findings from the *National Survey of Remittance Recipients, 2010* showed that remittance inflows to Jamaica has a strong relationship with trends in earnings in key sectors in which Jamaican workers are employed in the US (Health and Leisure). Notable, there has a pattern of reduction in flows in both earnings in the Leisure and Hospitality sectors in the US and gross remittance inflows from the US to Jamaica, prior to 2013.

Similarly, there has been a co-movement between the growth in average weekly earnings in Leisure and Hospitality sector and the pickup in gross remittance inflows for the period. There was a similar relationship pattern with the Education and health sector, which has strengthened in recent years.



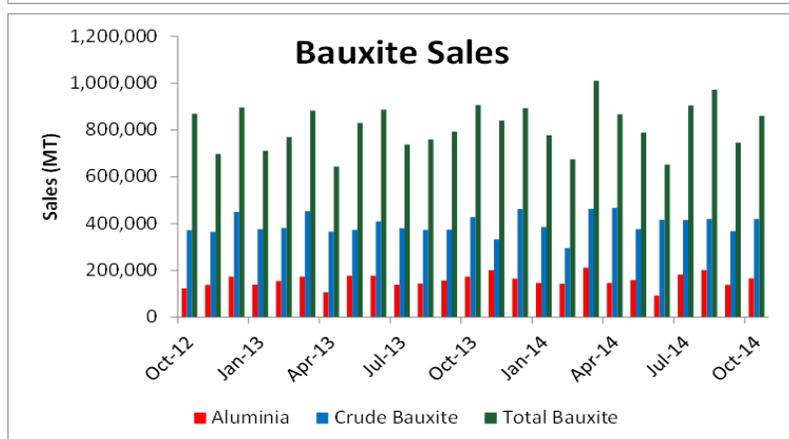
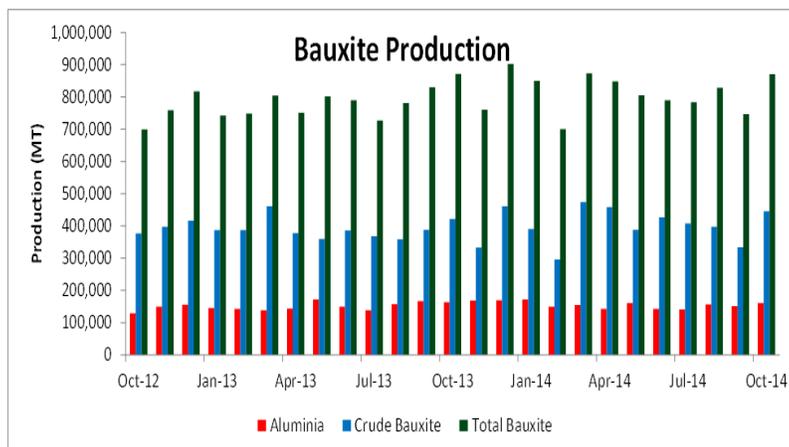
Domestic Bauxite and Alumina Production

October 2014 Issue

For October 2014, the production of Alumina was **160,553 tonnes**, representing an increase of **9,358 (5.8%) tonnes**, relative to September 2014. This brought an annual change in alumina production to a reduction of **2,234 tonnes (1.4%)**. For the month, the sale of alumina increased by **28,809 tonnes (17.3%)** relative to September 2014. Similarly, alumina sales fell by **6,685 tonnes (3.9%)** in comparison to October 2013. Year-to-date, alumina exports have increased marginally by **12,209 tonnes (0.8%)**.

The production of crude bauxite, which is bauxite mined for exports as well as total bauxite, the sum of bauxite mined for exports and bauxite converted to alumina increased in October 2014 relative to September 2014 by **112,237 tonnes (25%)**. Similarly, total bauxite for September increased by **124,134 (14%)**.

The sale of crude bauxite for October 2014 increased by **61,712 tonnes (12.2%)** relative to September 2014. On the other hand the sale of crude bauxite fell by **8,622 tonnes (2%)** when October 2014 is compared with the corresponding period in 2013. In addition, the sale of total bauxite fell by **47,136 tonnes (5.2%)** for the month of September 2014 relative to September 2013. During the month of October sales of crude increased by **114,218 tonnes (13.2%)**.



| PERIOD | PRODUCTION | | | SALES | | |
|--------------|------------|---------------|---------------|-----------|---------------|---------------|
| | ALUMINA | CRUDE BAUXITE | TOTAL BAUXITE | ALUMINA | CRUDE BAUXITE | TOTAL BAUXITE |
| MONTH | | | | | | |
| 2014 | 140,359 | 408,327 | 783,710 | 156,859 | 414,952 | 836,117 |
| 2013 | 138,674 | 367,853 | 727,180 | 137,720 | 380,108 | 736,867 |
| % Chg. | | | | | | |
| 2014/13 | 1.22 | 11.00 | 7.77 | 13.90 | 9.17 | 13.47 |
| 2012 | 152,103 | 404,300 | 781,838 | 105,686 | 401,642 | 664,302 |
| % Chg. | | | | | | |
| 2013/12 | -8.83 | -9.01 | -6.99 | 30.31 | -5.36 | 10.92 |
| Y-T-D | | | | | | |
| 2014 | 1,060,969 | 2,841,581 | 5,611,817 | 1,050,955 | 2,816,589 | 5,560,074 |
| 2013 | 1,029,935 | 2,727,722 | 5,383,961 | 1,062,612 | 2,738,626 | 5,479,997 |
| % Chg. | | | | | | |
| 2014/13 | 3.01 | 4.17 | 4.23 | -1.10 | 2.85 | 1.46 |
| 2012 | 1,056,170 | 2,734,900 | 5,465,744 | 1,005,702 | 2,708,993 | 5,307,716 |
| % Chg. | | | | | | |
| 2013/12 | -2.48 | -0.26 | -1.50 | 5.66 | 1.09 | 3.25 |

Source: Jamaica Bauxite Institute (JBI)

Stock Market Update

October 2014 Issue

The main JSE indices declined marginally in October 2014. In this regard, the main JSE market index declined on the last trading day in October 2014 by **532.07 points (0.74%)** and closed at **71,706 points**. In addition, the JSE Combined Index declined by **475.15 (0.65%)** and closed at and **73,559.561 points**. In contrast, the JSE Cross Listed Index traded firm and closed at **585.9 points** while the JSE Equities Index also held firm and closed the month at **1 30.42 points**.

Overall, the market activity for October resulted from trading in thirty three (33) stocks of which **11 advanced, 18 declined and 4 traded firm**. In total, **64,019,295 units** of stock were traded which had a total value of **\$346,080,267.08**

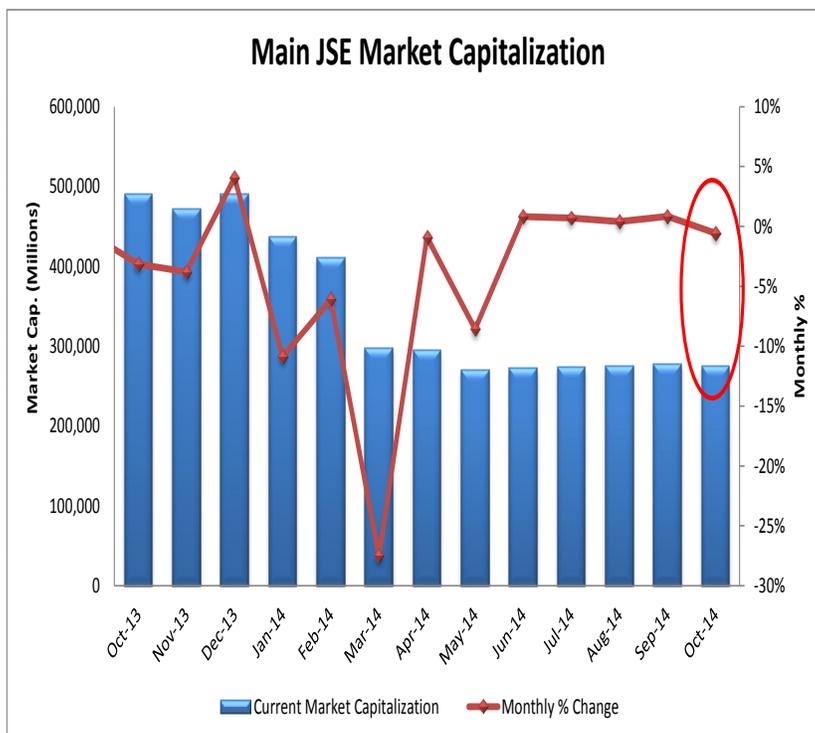
LIME was the volume leader with **20,825,205 units (32.53%)**. Desnoes and Geddes was second with **10,844,083 units (16.94%)** traded. In third was followed by Jamaica Money Market Brokers **8, 245,629 units (12.88%)**,

At the end of October 2014, there was market capitalization of **\$275.84 billion** when compared with the **\$275.097 billion** at end September 2014, a reduction of **J\$1.58 billion or 0.57%**.

The top three advancing stocks for the month of October were Radio Jamaica (**15.38%**), Ciboney Group (10%).

The stocks with the largest decline in prices were Kingston Wharves (**19%**), Supreme Ventures (**6.08%**), National Commercial Bank (**4.96%**)

For the calendar-year-to-date, the top four advancing stocks were, LIME (**75%**), Ciboney



Data Source: Jamaica Stock Exchange

Group (**60%**), Sagicor Real Estate X Fund (**9.56%**), and Hardware and Lumber (6.56%)

The marginal improvement in the main stock markets for September 2014 is indicative of an economy that is recovering under trying circumstances. The data suggest that investors are still tentative. There seems to be some momentum in the real estate market. This is evident from positive Y-T-D price movements in Hardware and Lumber (**6.56%**), Sagicor Real Estate X Fund (**9.56%**) and Trinidad Cement Limited.

This positive development is a definite sign that the general economic recovery is progressing slowly but positively. This gradual marginal recovery in the stock markets may continue into the early part of 2015, when the economy is expected to stabilize much more. It suggest that confidence is finally returning to the markets and this confidence is in line with confidence that the economy is moving in the right direction. The decline in the Main JSE for October is in line with the announce contraction of the economy of 0.8%, these movement may persist into November.

Previous Highlights: September 2014 Summary

October 2014 Issue

“In September 2014, the NIR increased by US\$79.08 million (J\$8.41 billion) to US\$2,200.57 (J\$234.10 billion). However, this increase in the NIR coupled with a reduction in the NDA of J\$10.94 billion resulted in a contraction of J\$2.54 billion in the monetary base.



BOJ's NIR

“Continued improvement in economic performance has been stimulating investor confidence in the ability of the BOJ to intervene in the FX market. In this context, there was a marginal appreciation of the Jamaica Dollar relative to the US Dollar, Canadian Dollar and Great Britain Pound.



Exchange rate largely stable

“Interest rates on GOJ Treasury bills showed mixed signals for the September 2014 auction relative to the August auction. Interest rates on the 30-day Tenor increased by 2bps, while rates on the 182-day declined by 12 bps. Rates on the 90-day tenor was unchanged.



30-day



182-day



90-day

“The weighted average lending rate on domestic currency loans declined by 3.44 pps to 13.94% for August 2014 relative to July 2014. Similarly, there was a decline of 0.20 pps in local currency deposit rates. Consequently, the spread narrowed to 11.73%.



Loan rate



Deposit rate



Spread

“Similarly, rates on commercial banks' foreign currency loans declined by 0.04 pps for July relative to June 2014. Contrastingly, deposit rates on foreign currency loans increased by 0.04 pps. The combined impact of these movements resulted in a decline in the spread to 4.75%.



Loan rate



Deposit rate



Spread

“Domestic inflation increased by 2.1% for September 2014 relative to 1.1% for August 2014. The increase for the month was reportedly due to the increase in Transportation cost in light of the increase in bus fares. There were additional inflationary impulses from the increase in tuition cost and the lingering impact of drought



Domestic Inflation

“The increase in domestic prices continues to be tempered by the impact of the reductions in international commodity prices. Specifically, both indices of crude oil showed significant declines for September 2014, resulting in a fall for the third consecutive month. There were also declines in the price of most grains monitored with the exception of rice. Both the IMF's Fuel Energy and Food and Beverage indices declined for the month. The materialising decline in both fuel and food prices for latter part of 2014 into 2015 implies a moderation in import costs and hence pressure on the Jamaica Dollar should be continue to lessen in the last two months of 2014.



Global Commodity Prices

Statistical Index: Major Macro-Economic Indicators

October 2014 Issue

| | Monthly Inflation | Saving Rate | Lending Rate | Exchange Rate | NIR | Gross Remittance Inflows | Tourist Arrivals | Oil Price-Brent | Oil Price-WTI |
|--------|-------------------|-------------|--------------|---------------|-------|--------------------------|------------------|-----------------|-----------------|
| Month | % | % | % | JS/US\$ | US\$B | US\$M | 000s | US\$ Per barrel | US\$ Per barrel |
| Jan-12 | 0.40 | 2.45 | 18.13 | 86.78 | 1.88 | 149.70 | 337,100 | 119.70 | 102.26 |
| Feb-12 | 0.80 | 2.25 | 17.13 | 86.91 | 1.87 | 167.24 | 345,007 | 124.93 | 106.15 |
| Mar-12 | 0.50 | 2.19 | 19.03 | 87.25 | 1.78 | 187.87 | 366,518 | 120.59 | 103.28 |
| Apr-12 | 0.40 | 2.19 | 19.04 | 87.33 | 1.77 | 180.11 | 295,858 | 120.59 | 103.28 |
| May-12 | 0.50 | 2.24 | 18.76 | 87.75 | 1.72 | 166.65 | 247,937 | 110.52 | 94.51 |
| Jun-12 | 0.60 | 2.14 | 18.65 | 88.48 | 1.54 | 175.16 | 255,121 | 95.59 | 82.36 |
| Jul-12 | -0.30 | 2.02 | 18.92 | 89.24 | 1.48 | 168.89 | 284,514 | 103.14 | 87.89 |
| Aug-12 | 0.50 | 2.00 | 18.84 | 89.73 | 1.43 | 170.13 | 245,204 | 113.34 | 94.11 |
| Sep-12 | 1.90 | 2.02 | 18.70 | 89.90 | 1.26 | 159.37 | 171,229 | 113.38 | 94.61 |
| Oct-12 | 0.90 | 2.14 | 18.53 | 90.64 | 1.13 | 163.37 | 180,835 | 111.97 | 89.52 |
| Nov-12 | 0.60 | 2.05 | 18.42 | 91.46 | 1.08 | 157.79 | 248,141 | 109.71 | 86.69 |
| Dec-12 | 1.00 | 2.10 | 18.44 | 92.65 | 1.13 | 196.18 | 360,494 | 109.64 | 88.19 |
| Jan-13 | 0.70 | 1.98 | 18.23 | 93.45 | 1.01 | 153.98 | 341,365 | 112.93 | 94.65 |
| Feb-13 | 0.60 | 1.82 | 18.09 | 95.66 | 0.94 | 160.11 | 304,889 | 116.46 | 95.30 |
| Mar-13 | 1.40 | 1.80 | 17.97 | 97.76 | 0.88 | 178.42 | 361,131 | 109.24 | 93.12 |
| Apr-13 | 0.40 | 1.67 | 17.92 | 99.55 | 0.87 | 180.15 | 272,891 | 102.88 | 92.02 |
| May-13 | 0.50 | 1.74 | 17.77 | 99.12 | 0.99 | 181.54 | 230,392 | 103.03 | 94.72 |
| Jun-13 | 0.20 | 1.61 | 17.66 | 100.82 | 1.00 | 166.03 | 258,535 | 103.11 | 95.79 |
| Jul-13 | 0.50 | 1.71 | 17.58 | 101.76 | 0.93 | 170.54 | 285,601 | 107.72 | 104.55 |
| Aug-13 | 0.40 | 1.81 | 17.53 | 101.94 | 0.88 | 177.77 | 231,205 | 110.96 | 106.55 |
| Sep-13 | 2.80 | 1.97 | 17.45 | 102.64 | 0.91 | 163.37 | 168,650 | 111.62 | 106.31 |
| Oct-13 | 0.80 | 1.97 | 17.48 | 104.65 | 0.89 | 170.75 | 214,430 | 109.48 | 100.50 |
| Nov-13 | 0.50 | 2.03 | 17.44 | 105.60 | 0.84 | 167.79 | 247,512 | 108.08 | 93.81 |
| Dec-13 | 0.60 | 2.04 | 17.49 | 106.15 | 1.05 | 194.50 | 247,512 | 110.63 | 97.90 |
| Jan-14 | 0.50 | 1.77 | 17.33 | 106.90 | 0.92 | 158.20 | 330,201 | 107.57 | 95.00 |
| Feb-14 | 0.10 | 1.85 | 16.45 | 107.93 | 1.07 | 168.30 | 301,276 | 108.81 | 100.70 |
| Mar-14 | 1.10 | 1.98 | 17.57 | 109.21 | 1.30 | 187.80 | 349,890 | 107.41 | 100.57 |
| Apr-14 | -0.30 | 2.26 | 17.66 | 110.16 | 1.29 | 183.30 | 328,304 | 107.88 | 102.18 |
| May-14 | 1.00 | 2.12 | 17.35 | 111.26 | 1.17 | 188.70 | 243,114 | 109.68 | 102.00 |
| Jun-14 | 0.10 | 2.29 | 17.50 | 112.20 | 1.38 | n.a | 266,550 | 111.87 | 105.24 |
| Jul-14 | 1.4 | 2.41 | 17.38 | 112.85 | 2.18 | 183.2 | 221,006 | 106.98 | 102.99 |
| Aug-14 | 1.1 | 2.21 | 17.42 | 112.74 | 2.12 | na | 171,486 | 101.92 | 96.38 |
| Sep-14 | 2.10 | 2.05 | 16.91 | 112.67 | 2.2 | na | 106,757 | 97.34 | 93.35 |
| Oct-14 | 0.1 | na | na | 112.76 | 2.01 | na | 135,780 | 87.27 | 84.4 |

| | |
|--|--|
| ACP— Africa Caribbean Pacific States | Loan – Average Loan Rate |
| BM – Base Money | M – Monthly Percentage Change |
| BP — Basis Points | M2 – Money Supply |
| CaPRI— Caribbean Policy and Research Institute | MT – Million tonnes |
| CARICOM— Caribbean Community & Common Market | N/A – Not Available |
| CARIFORUM— CARICOM and Dominican Republic | NIR – Net International Reserves |
| CPI – Consumer Price Index | OMO – Open Market Operation |
| CSME— Caribbean Single Market & Economy | P – Point-to-Point Percentage Change |
| EC— European Commission | R – Revised |
| EPA—Economic Partnership Agreement | S – Stopover |
| EU—European Union | Save – Average Savings Deposit Rate |
| FX Dep – Foreign Exchange Deposit | T-bill – 6-month Treasury Bill Yield |
| JCB – Jamaica Conference Board | Tourism – Total Tourist Arrivals |
| JCC – Jamaica Chamber of Commerce | WATBY- weighted average Treasury bill yield |
| KMA — Kingston and Metropolitan Area | WTO—World Trade Organization |
| KSA—Kingston and St. Andrew | OECD—Organisation for Economic Co-operating and Development (membership of 30 major countries) |
| WTI — West Texas Intermediate (Spot Oil Price) | |

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(No Cash Payment)

(Payment must be included with your order form)