Chairman's Report April 2014

Executive Summary

Global economic activity continues to strengthen in 2014, following the improvements observed in the latter half of 2013 and the first quarter of 2014. Economic activity continues to be supported by expansions in advanced economies. In the April issue of the World Economic Outlook, the IMF reported a moderation in growth in the first half of 2014. In this context, the forecast for growth of 3.6% and 3.9% for 2014 and 2015 remain. Strong growth impulses are expected to emanate from the United States and the Euro Area. However, growth in Japan is expected to moderate as a result of modest fiscal drag. Growth is expected to remain robust in emerging and developing Asia and to recover somewhat in Latin America and the Caribbean. The IMF reported that the balance of risks to the growth forecast have largely improved relative to March due to improvements in Advanced Economies. However, important downside risks remain especially for Emerging Market Economies.

During May 5th - 16th 2014 the IMF's mission teams conducted a review of Jamaica's performance under the Extended Fund Facility. Upon conclusion, the mission chief reported that economic outlook is improving and the economic conditions have been recovering relative to the start of the programme. The important macroeconomic indicators such as GDP growth, inflation, the current account balance and the NIR have been moving in the right direction. The IMF mission chief reported that the monetary policy stance of the BOJ has been appropriate. He however, stated that greater emphasis be placed on the interest rate channel of monetary policy. Mr. Martijn suggested that going forward; the BOJ should exercise caution to contain inflation in the face of the depreciation and to restore adequate levels of reserves.

The Planning Institute of Jamaica reported a 1.6% growth rate in GDP for the March 2014 quarter. The report showed that the goods producing sector increased by 5.6%, while the services sector expanded by 0.3%. Growth in the goods sector for the quarter, largely reflected increases in Agriculture and Mining and Quarrying. The increase in the services industry predominantly reflected growth in Transport, Storage & Communication and Electricity, Gas & Water industries. Communications expanded due to competition which resulted in lower call rates. It is expected that in the short term growth in the economy is expected to continue due to improvements in Agriculture, Mining, Construction and Hotels and restaurants. The downside risks however are the beginning of the hurricane season and the effects of fiscal consolidation on the implementation of major projects. For the June quarter, GDP is projected to fall within the range of 0.5% to 1.5%.

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The Net International Reserve declined by US18.3 Million to close April at US1, 285.09 million. This decline in the NIR also marginally impacted the number of weeks of imports which now stand at 19.14 weeks which is 7.14 weeks over the benchmark of 12 weeks. In addition the monetary base expanded by J$1.5 billion (1.6%) and now stands at J$95.95 billion. The latest figures available for the money supply shows that the supply of money declined by 2.42% that is J$6.7 billion. The dollarization ratio, that is the proportion of foreign currency deposits relative to total deposits in domestic financial institutions increased marginally by 1% form 43% to 44% at the end of March 2014.

For the month of April, the Jamaica dollar depreciated by J$0.58 (0.53%), J$2.29 (2.32%) and J$3.69 (2.03%) relative to the US dollar, the Canadian dollar and the Great Britain Pound. The slower pace of depreciation in the Jamaica Dollar relative to the US reflected the continuing improvement in the current account deficit that has resulted in reduced pressure on the value of the currency. Depreciation relative to the Canadian dollar and the pound largely reflected higher demand given the Easter Holidays.

There were prices increases in fifteen of the twenty commodities on the international commodities market for April. Notably, both crude oil indices had upward price movements. However, natural gas, rice, bananas, beef and the Arabica coffee recorded price reductions for the month. The IMF's Fuel Energy Index increased by 0.73%, while the Food and Beverage Index increased by 1.18%. The monthly inflation rate in Jamaica declined by 0.3% in April 2014, this represents a fall of 1.4% relative to the inflation rate of 1.1% recorded for March. Inflation for April brought inflation for the calendar-year-to-date to 1.4%. and the 12-month point to point rate at end April 2014 to 7.6%. There were mixed movements on Government of Jamaica Treasury Bill rates for the month of April 2014. The yields on the 30-Day Treasury Bills increased by 12bps while yields on the 90-Day and 182 day Treasury bills fell by 9bps and 8 bps respectively.

General economic conditions improved in April 2014, this is reflected in the three consecutive quarters of positive real GDP growth, the improved NIR, the devaluing but relatively stable foreign exchange markets, slight improvements in the Current Acc ~~Balance of Payment,~~ relatively low levels of inflation amidst increase in price on the international commodities markets, the modest improvement in the business confidence, growth in the tourism sector and the positive movements in net remittance inflows. The~~s~~ developments are tells us that the economy is taking small steps in the right direction. On the downside, there are still many negative such as the movement in the currency, the large number of young people who are not working, the still high debt rate of the country, the general level of productivity and the high level of bureaucracy that renders domestically produced goods and services uncompetitive. The Jamaica Stock Exchange has also being performing badly over the last ~~month.~~ years

International Commodity Prices

Crude Oil Prices

Oil prices increased moderately in April 2014 when compared to March of 2014. Both of the selected benchmark crude oil indices recorded upward price movements. The European Brent started the month at US$107.41 per barrel and ended at US$107.88. This represents a price increase of US$0.47 (0.44%) for the month. In April 2013 the sale price for the European Brent was US$109.24, this is a price reduction of US$1.36 (1.2%) when compared to April 2014. In April of 2012 the price of the European Brent was US$120.59 per barrel. This is significant because over the last two years price for this commodity has fallen by US$12.71 or 10.5% per barrel. The price per barrel of West Texas Intermediate increased significantly from US$100.57 at end March 2014 to US102.18 at end April 2014, an increase of US$1.61 (1.60%). In comparison to April 2013, the price per barrel of the WTI has increased by US$10.16 (11%). In contrast, prices for April 2014 and April 2012 were relatively stable, with only a slight reduction of US$1.10 (1.1%) per barrel. These movements suggest that prices may be reverting to those that many analysts have forecasted for the latter part of 2014.

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 declared 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 stated that global oil prices are being impacted by slower economic growth in China, lower demand for refined oil products and ample supply which the organization believed has outweighed the supply disruptions and geopolitical tensions.

The price movements for April were driven mainly by the geo-political developments in Libya and Ukraine, a reduction in supply along the Gulf Coast, a reversal of global economic growth and weather conditions in the United States.

The forecast for 2014 is for prices to decline in the last two quarters 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. For this forecast to obtain, oil price would have to fall below the US$100.00 per barrel mark in some months of 2014.

Natural Gas

At end April 2014, the price for natural gas fell from US$4.88 to US$4.68, a reduction of US$0.20 (4.06%) per thousand cubic meters. This decline marks the second monthly decline since the beginning of 2014. For April 2014 relative to April 2013, Natural gas prices increased by US$0.51 (12.0%). Similarly, natural gas prices have increased by US$2.73 (140%) per thousand cubic meters when prices of April 2014 are compared to April 2012. These price movements are indicative of a higher demand for general fuels as well as alternative fuels such as natural gas.

Douglas Westwood, energy business advisor stated that the

liquefied natural gas market is on a rebound after the global meltdown. He 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 was to obtain, 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.

Forecast from the American Energy Association is for prices to increase in 2014 relative to 2013 and maintain this trajectory over the short term. This increase is expected to be driven by faster pace of growth in consumption in the industrial and electric power sectors and by growing demand for export at LNG facilities. This especially, as more persons move away from fossil fuels and seeks cleaner energy alternatives.

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 raise to record levels in the next two to four years. The developments in these fuel sources should be of considerable importance to businesses

in Jamaica and the Caribbean.

Wheat

In April 2014, wheat prices rose by US$1.38 (0.43%) in compared to March 2014 to close at US$324.93 per tonne. Relative to March 2013, prices have increased by US$16.19 (5.2%) per tonne. A two year comparison of wheat prices shows that an uptick in prices of US$58.61 (22%). These movements are indicative of a higher demand for wheat. Oil price movement and weather conditions will continue to play a significant role in wheat prices over the next 12 months. Experts forecast a tighter supply of wheat for 2014, which is expected to result in higher prices. However, developments in Ukraine are expected to temper prices for the US market. In addition, rainfall experienced in March may have significantly improved yields of other competing commodities which are already impacting current wheat futures in the United States.

Rice

Relative to March 2014, rice prices for April fell by US$24.68 (5.67%). Similarly, prices declined from US$553.73 to US$410.57 (25.9%) per tonne between April 2013 and April 2014. This reduction follows twelve (12) months of decline. Prices increased in only one month of the review period, February 2014. Experts believe that international rice prices will continue to remain low this year. There is 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) forecasts 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.

Corn

At end April 2014, corn prices increased for the fourth consecutive month. Despite this, prices have been volatile since November 2006 and are expected to remain on this path in the upcoming months. Corn prices increased in April 2014 when compared to March of 2014 by US$0.03 (0.01%) and closed the month at US$222.36 per tonne. Between April 2013 and April 2014 prices fell by US$57.91 (20.7%). However, between April 2012 and April 2013 prices increased by US$6.06 (2%). A two year price comparison from April 2012 to April 2014 shows a total price decline of 19%. The stability of corn prices 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.

Already, cold weather conditions have been impacting planting acres in the US and hence corn futures have been increasing. Fertilizer prices are expected to decline, which should temper prices over the course of the year. The most significant driver of corn prices is the price of crude oil which is expected to increase for the first half of 2014, then decline for the latter half. Experts predict that supplies will continue to increase given inventory levels and the size of acres under cultivation.

Soybean

The price for both soybean meal and soybean oil had three consecutive months of price increases. Soybean oil increased for April 2014 in comparison to March 2014 by US$5.56 (0.6%) per metric tonne. The price per metric tonne of soybean oil materials decreased by US$152.65 (14%) for the period April 2013 to April 2014. On the other hand, the price for soybean meal increased by US$26.94 (5.32%) per metric tonne when April 2014 is compared to March 2014. For the period April 2014 relative to April 2013, the price of Soybean meal increased by US$87.27 (19.6%) A two year comparison for April 2012 to April 2014, shows that the price of Soybean meal increased by US$93.01 (21.0%) per metric tonne. Crude oil price movements are expected to impact both soybean meal and soybean oil prices in the medium term. In addition, the supply and demand for other substitutes especially in China will continue to influence prices.

Sugar Prices

Both the Free Market Index and the US Import index by approximately 0.15% and 2 cents (8.92%) for April 2014 to close at US$0.18 and US$0.25 per pound, respectively. For April 2013 to April 2014, the price of Free Market sugar declined by 0.3%, while US Import prices have increased by 18.9%. For the period April 2013 relative to April 2012, both indices fell by 21.4% and 35.1%, respectively. The Food and Agriculture Organization (FAO) reported that sugar price indices averaged approximately 253.5 points in March 2014. The observed increases in prices arose in light of concerns of declining exports from Brazil and Thailand due to drought.

Coffee Prices

in Brazil, Africa and Central America has been fuelling the upward price movements. While the price of the Arabica increased by US$0.11 (5.06%) in April, the price of the Robusta Coffee fell by US$0.01 (1.09%) per pound to closed the month at US$2.27 and US$1.11 per pound, respectively. 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 9% to US$2.27 and US$1.11, respectively at end April 2014. Experts believe that lower production this surge could be negated by production increases in Asia and other eastern countries.

Cocoa Prices

In April 2014, Cocoa prices rose by US$8.94 per tonne (0.3%) to close at US$3,050.61 per tonne. Relative to April 2013, prices increased by 33%. 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.

Orange Prices

Orange prices increased in April 2014 by US$70.00 (7.8%) per metric tonne, relative to March 2014. This uptick in price movement was preceded by an 11% increase in March 2014 relative to February 2014. Relative to April 2013, prices fell by 1.1%. However, there was an increase in prices by 19.2% for April 2013 relative to April 2012. Experts predict that prices could continue to increase throughout much of 2014. These forecasts are due mainly 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.

Banana Prices

Banana prices fell in April 2014 to end four consecutive months of price increases. In this regard, prices declined by US$21.35 (2.21%) to close April at US$945.50 per tonne. In February 2014 and March 2014 banana prices rose by 2.19% and 1.91%, respectively. For April 2013 to April 2014 banana prices increased by US$33.27 (3.6%) per metric tonne. A two year price comparison for April 2012 and April 2014 revealed that banana prices fell by US$83.83 (8%) per metric tonne.

The Food and Agricultural Organization of the United Nations (FAO) reported in the April issue that the global market for banana and its byproducts 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 18.7%. However, the FAO stated that this should not be sufficient for the company ChiquitaFyffes to be able to influence the market price of bananas.

The FAO reported that the banana industry faces a movement away from the traditional plantation ownership and production to the new post-production logistics. This includes purchasing from producers, transportation, facilities to ripen fruits and marketing.

Beef Prices

In April 2014, Beef prices declined following six consecutive months of price increases. At end April 2014, the price per pound of beef fell to US$1.91, a decline of 7 cents (3.32%) relative to March 2014. In April of 2014, the price per pound of beef was approximately US$0.03 (0.1%) less than that of April 2013.

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. They expect that in the short term, the movement in international beef prices will be relatively flat. However, prices are expected to fall in the medium term. In addition, experts forecast are for higher prices coming out of both Australia and New Zealand over the medium term. In the long term, it is expected that international prices will move in line with those of New Zealand and Australia. The second development is those in Asia where the markets in both China and Indonesia are heating up for Beef and beef Byproducts.

Swine (Pork) Prices

In April 2014 the prices for pork increase by US$0.07 cents (6.29%) to close at US$1.20 per pound. The price of pork was US$0.78 per pound in April 2013, which reflects a US$0.42 (54%) price increase relative to April 2014. A two year analysis of pork prices shows that current prices are US$0.40 (51%) higher than they were in 2012. 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.

The forecast for global trade has been reduced by 400,000 tonnes to 6.9 million tonnes. This was due to Russia's restrictions on imports from the EU as well as tight supplies from the United States. A major factor impacting the market for pork is the Porcine Epidemic diarrhea (PED) which has significantly impacted pork estimates in a number of countries including both North and South America and Asia. Additionally, the African Swine Fever (ASF) was responsible for the trade restriction by Russia on imports from Europe.

Poultry Prices

The price of chicken increased in April by US$0.02 (1.92%) and ended at US$1.07 per lbs. Prices in April 2014 were approximately 4.6% higher than they were in April 2013. In April 2013 the price per pound for poultry was US$1.03; this reflects an increase of roughly 9.00 cents (10.0%) relative to April 2012. In April 2012, the price per pound for poultry was US$0.93, indicating that prices were US$0.14 (15%) higher than they were two years ago. Experts at the USDA reveal that the global production of poultry is still at record high but has declined from November of 2013 by 1.7 million tons to a stock value of 85.3 million. This was partially due to declines in China, Brazil, Russia and the United States. The report suggested that global trade in 2014 is virtually unchanged when compared to 2013 and that exports are set at 10.9 million tonnes.

Aluminum Prices

Aluminum prices rose by US$105.31 (6.2%) per tonne to close April 2014 at US$1,810.68 per tonne. Relative to April 2013 prices decreased by US$50.34 (3%) per tonne. The aluminum markets seem to be heating up somewhat because of increased demand in the auto-mobile industry. However, market experts still believe that prices will continue to fall throughout the year. This is due primarily to the level of global inventories and production plans for 2014. Current developments in Indonesia regarding the ban of mineral ore exports are expected to impact both the supply of bauxite and aluminum prices in the coming months. The growth in the scrap metal industry recycles significant amount of aluminum back into the supply chain.

Impact of global prices on Jamaica

There were prices increases in 15 (75%) of the commodities monitored for April 2014. Of great importance, ~~was~~ is the fact that both crude oil indices had upward price movements. However, natural gas, rice, bananas, beef and the Arabica coffee recorded price reductions for the month. The IMF's Fuel Energy Index increased by 0.73%, whiles the Food and Beverage Index increased by 1.18%. This coincides with depreciation of the Jamaica Dollar of 0.53%, 2.03% and 2.32% relative to the US Dollar, Great Britain Pound and the Canadian Dollar, respectively for the month of April.

Understanding the movements in international commodities prices and the relationship with the domestic exchange rate is critical for understanding inflation in Jamaica. Increases in commodity prices result in higher production cost, motivate exchange rate depreciation, result in higher rates of inflation and interest rates and induce a multiplier inflationary effect through the production process. Given the expected decline in both fuel and food prices for later part of 2014 into 2015, import costs should be tempered and hence pressure on the Jamaica dollar and local interest rates should also be reduced. as we approach the latter part of 2014

The graph shows the relationship between movements in international commodity prices and movements in domestic inflation. A cursory examination suggests that domestic inflation lags commodity prices by approximately two months. This suggests that movements in the international price indices in April 2014 should be observed in Jamaica around end-June 2014. In addition, inflation of -0.3% for March would have been influenced by reductions in international commodity prices between February and March 2014. Experts forecast a reduction in the price of fuels for the latter part of 2014. If this obtains, inflation in Jamaica for 2014 should be significantly lower than 2013.

The monthly inflation rate, measured by the All Jamaica "All Divisions" Consumer Price Index (CPI) declined by 0.3% for April 2014. This represents a fall of 1.4% relative to the inflation rate of 1.1% recorded for March. The decline in the rate for April brought inflation for the calendar-year-to-date to 1.4%. The 12-month point to point rate at the end of April 2014 was 7.6%.

Downward movement in inflation for the month resulted from a significant decline in the index of 3.8% for 'Housing, Electricity, Water Gas and other Fuels' relative to increases in other indices. The index for the 'Housing, Electricity, Water Gas and other Fuels' division declined as a result of a fall in the rate of electricity, represented by a fall of 7.5% in the index for the group 'Electricity, Gas and Other Fuels'. This reduction was however moderated by a 4.0% increase in the index for the group 'Water Supply and Miscellaneous Services Related to the Dwelling'. This uptick resulted from a rise in the water and sewage rates for the period.

Inflation in all the three regional areas declined for the Month of April relative to March. Inflation for the Greater Kingston Metropolitan area (GKMA), Other Urban Centers (OUC) and Rural Areas fell by 0.2%, 0.2% and 0.3%, respectively.

GOJ Treasury bill Rates

For April 2014, yields on GOJ 30-Day Treasury Bills increased by 12 bps while the yields on the 90-day and 182-day Treasury Bills declined by 9 bps and 8 bps, respectively, March 2014. These movements contributed to the increase in yields on GOJ Treasury Bills of 125 bps, 158 bps and 264 bps for the 30-day, 90-day and 182-day tranches for April 2014 relative to April 2013. The declining rates on the 90-day and 182-day for the month reflected an improvement in investor confidence and an improvement in the outlook for general economic performance over the medium to long term.

The overall weighted average lending rate on domestic currency loans increased by 112 bps to 17.57% at end March 2014 relative to 16.45% at end February 2014. This movement in the domestic currency loan rate occurred in the context of a an increase of 142 bps on rates on loans to the public sector, which was partially offset by a decline of 3 bps in rates on loans to the private sector. The weighted average domestic interest rates increase by 13 bps to 1.98% at end March 2014 relative to end February 2014. In this regard, the spread on domestic currency loans increased to 15.59% at end March 2014 relative to 14.60% at end February 2014.

Similar to local currency loan rates, there was an increased in the weighted average interest rate on foreign currency loans for March 2014 relative to February 2014. In this regard, the foreign currency loan rate increased by 5 bps to 7.35% from 7.30% relative to end February 2014. This resulted from an increase of 16 bps in the interest rates on loans to the public sector, which was partially offset by a decline of 2 bps in interest rates on loans to the private sector. In contrast, interest rates on foreign currency deposits declined by 41 bps to 2.6% from 3.02% in February 2014. The interest rate spread on foreign currency loans in commercial banks at end March 2014 was 4.75%, an increase of 46 bps relative to the spread of 4.28% at end February.

JMD: USD

At end April, the value of the Jamaica dollar was J$110.16=US$1.00, reflecting a depreciation of J$0.58 (0.53%) relative to end March. For the month of March the Jamaica dollar depreciated by J$1.23 (1.1%). The slower pace of depreciation recorded for the month of April reflects the continuing improvement in the current account deficit that has resulted in reduced pressure on the value of the currency. In addition, there has been a strong build up the net international reserves, resulting in improved confidence in the ability of the Bank of Jamaica to intervene in the market in the event of disorderly exchange rate movements. For the Fiscal year to April 30, the dollar depreciated by J$0.58 (0.53%).

JMD: CAD

For the month of April, the Jamaica Dollar depreciated by J$2.29 (2.32%) relative to the Canadian dollar to end at J$101.22=CAD1.00. The pace of depreciation for the month of April was much stronger that the depreciation of J$0.87 (0.9%) for March. The stronger pace of depreciation was due to excess demand for the Canadian dollar, particularly during the Easter holidays. Between April 2013 and April 2014, the Jamaica Dollar depreciated by J$3.22 (3.3%), moving from J$97.99=CAD1.00 to J$101.22=CAD1.00.

JMD: GBP

The Jamaica dollar depreciated by J$3.69 (2.03%) relative to the Great Britain Pound during April, to end trading at J$185.47=GBP£1.00. In contrast, the Dollar appreciated by J$0.79 (0.43%) relative to the pound in March. Between April 2013 and April 2014, the Jamaica Dollar depreciated by J$31.52 (20.47%). This continued depreciation of the Jamaica dollar relative to the pound was also reflective of excess demand. Given the improvements in balance of payments and the build-up in the NIR, the pace of the depreciation in the three major trading currencies may temper in the short to medium term.

Jamaica's Terms of Trade

The Bank of Jamaica reports that the value of Jamaica's exports relative to its imports, its terms of trade (TOT) improved in March 2014 relative to the last quarter in 2013. The terms of trade improved by 1.6 percent in the March 2013 quarter relative to the December quarter of 2013. This improvement is due mainly to a 3.4 percent increase in the Export Price Index (EPI) which was moderated by an increase of 1.8 percent in the Import Price Index increased.

The BOJ stated that the improvement in the EPI was due mainly to a 3.7 percent increase in the Tourism Implicit Price Index, which declined by 14.3 percent in the December quarter. It was reported that the increase in the TIPI was supported by higher expenditure for the March quarter. The increase in the IPI was attributable to higher international commodity prices.

Net International Reserves

At end April 2014, the stock of Net International Reserves (NIR) at the Bank of Jamaica was J$136.71 billion (US$1,285.09 million), a decline of J$2.0 billion (US$18.53 million) relative to March 2014. Similar to the corresponding period of 2013 the NIR declined by US$18.07 million. The fall in NIR for the month was due to a fall in foreign assets of J$2.4 billion (US$22.82 million) which was partially offset by a fall in foreign liabilities of J$455.89 million (US$4.28 million). At the end of April, the reserves were sufficient to finance 19.14 weeks of goods imports which represents 7.14 weeks over the international benchmark of 12 weeks of goods imports.

Monetary Base

The monetary base expanded by J$1.5 billion (1.6%) to J$95.95 billion for April 2014 relative to March 2014. The expansion in the base reflected currency of J$1.0 billion as well as an increase of J$1.1 billion in commercial bank's statutory cash reserves. The impact of these increases were however, partially offset by a decline of J$553.0 million in commercial banks' current account balances. The expansion in the base was due to an increase of J$3.5 billion in the Net Domestic Assets (NDA) which was partially offset by a decline of J$2.0 billion the NIR. The expansion in the Base for April is in contrast the contraction of J$239.0 million recorded for the month of March. This suggests that the Bank of Jamaica may have been responding to the complaints of tight Jamaica dollar liquidity conditions in the financial sector. Additionally, the increase demand for currency may be reflective of increased spending during the Easter holidays. In the upcoming months we expect a stronger increase in the monetary base, due to a build-up in the NIR.

Dollarization Ratio

The dollarization ratio is defined as 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 (primarily the U.S. Dollar) 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.

The ratio for March 2014 has increased marginally to 44% from 43% in February 2014 and 42% in March 2013. Financial dollarization has been on an upward trend since January 1999 when the ratio was 25% to 44% in March 2014.

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, and therefore the Central Bank's autonomy is limited for higher levels of dollarization.

Money Supply

For the month of March 2014, money supply measured by the sum of Jamaica. Dollar deposits and currency in circulation declined by 2.42% (J$6.7 billion) relative to February 2013. This movement brought the expansion in money supply for the fiscal year 2013/2014 to J$12.5 billion (5%).

Domestic Bauxite & Aluminum Production

For the month of April, the production of Alumina was 142,351 tonnes, representing a decline of 12, 231 tonnes relative to March. This outturn brought annual change in Alumina production to 1,100 tonnes (0.77%). For the month, the sale of alumina fell by 65,965 tonnes relative to March. Likewise, alumina sales declined by 38,718 tonnes (36.36%) in comparison to April 2013. The reduction in production and sale of alumina was reflected in lower shipments to destinations in Europe, Africa and a few Latin American countries. The impact of this was however countered by an increase in alumina exports to Canada. For the year-to-date, alumina exports increased by 145,192 tonnes.

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 fell in April relative to March. The production of crude bauxite fell by 14,310 tonnes while the total bauxite contracted by 25, 592 tonnes in the context of a decline in both the production of alumina and the production of crude bauxite. Meanwhile, the sale of crude bauxite increased by 3,531 tonnes while the sale of total bauxite fell by 143,757 tonnes for the month of April. For the year to date, the production of crude bauxite increased by 4,988 tonnes, while crude bauxite sales increased by 34,089 tonnes. Similarly, the production of total bauxite increased by 775,928 tonnes for the fiscal year, while the bauxite sales increased by 264,148 tonnes for the fiscal year to April 2014.

The Jamaica Stock Exchange

The main JSE indices predominantly declined for April 2014. In this regard, the main JSE market index, the JSE Combined Index and the JSE US Equities Index fell by 629.76 points (0.84%), 606.72 points (0.79%) and 11.18 points (9.52%), respectively. In contrast, the JSE Cross Listed Index remained firmed and closed the month at 585.90 points.

Overall market activity for April resulted from trading in thirty four (34) stocks of which 12 advanced, 15 declined and 7 traded firms. In total, 53,758,206 units of stock were traded during the month, which had a total value of $368,503,476.35. This resulted in market capitalization of $295.14 billion as at end April, a decline of 0.9%, relative to the market capitalization value of $297.80 billion as at end March 2014.

Similar to March, LIME was the volume leader for the month with 8,822,731.00 units (16.41%) traded. LIME was followed by Desnoes and Geddes Ltd., which traded 7,573,530 units (14.09%). Next in line was the Jamaica Money Market Brokers Ltd., which traded a total of 6,771,321 units (12.60%) for the month. The top four advancing stocks for the month of April were Ciboney Group Ltd. (57.14%), Hardware & Lumber (17.0%), and Sagicor Investments Ja. (9.99%) and Sagicor Group JA. (6.75%). The stocks with the largest decline in prices were Pulse Investments (21.05%), Kingston Wharves.

The main JSE has fallen by over 20% since May 20013 and May 2014, this significant fall has significant news about the general economic condition, the only problem is that this news is often difficult to decipher. In theory the stock market show represent general information about economic activities. However economist believe that the relationship is a lagging, that is the Stock market performance lags the changes in the general economic activities. If this piece of analysis holds true for Jamaica we should be seeing some upward movements in the stock markets in the near future.