

# Economic Overview – August 2017

## EXECUTIVE SUMMARY

The Bank of Jamaica introduced its Foreign Exchange Intervention Trading Tool, B-FXITT pilot project on June 29, 2017, in which Authorized Dealers and Cambios must submit at least one bid for a minimum of US\$100,000 on a weekly basis. Under this new system there is a restriction

on the net open position of institutions' regulatory capital, which will see them holding a maximum of 20% or J\$8billion. Since then, the BOJ has conducted 4 standard sale operations. The BOJ reported, at its quarterly press briefing that the new tool appears to be settling down well. The Bank is currently designing the purchase side of the tool and will announce the date of implementation at that time. With this tool fully implemented, it will allow to bank to provide more timely and frequent updates to the official exchange rate and it anticipates that this will be implemented within the month. The BOJ also intends to separate out the non-cash rate for future reporting, which will provide additional information/transparency to the market.

### Summary Economic Indicators

	2017		
	May	Jun	Jul
12M PTP Inflation (%)	4.63	4.42	4.57
<b>Interest Rates</b>			
180D T-Bill (%)	6.10	6.13	6.13
Overnight Rate (%)	4.00	4.00	4.00
J\$/US\$ (EOM)	130.14	128.62	128.22
NIR (US\$B)	2,672.77	2,616.81	2,736.35

Locally, performance in key economic variables for the past month included:

- The employed labour force is trending upwards, indicating that more individuals are gainfully employed.
- Inflation for July 2017 was driven by the increase in the Air Fare as well as the continued increase in the price of Vegetables & Starchy Foods due to the prolonged effect of the May rains.
- Yields on Treasury Bills in August were lower on the 91-day, 182-day and 273-day tenors.
- The Jamaican dollar continued to appreciate against the USD in July to end the month at J\$128.22/US\$1.
- The trade balance deteriorated for the first four months of 2017 mainly due to higher imports expenditure relative to the higher level of earnings from exports.
- In July, the stock of Net International Reserves (NIR) increased to a level of US\$2.74B.
- The stock market continued to appreciate with the Main Market increasing 31.36% YTD.

Overseas, the US has imposed sanctions on **Venezuelan** president Nicolas Maduro as a consequence of the country's July 30<sup>th</sup> vote to form a constituent assembly, which the US had earlier denounced because of the popular view that it will eventually establish an autocratic government. **US & North Korea** relations are tense as the presidents exchange threats following North Korea's announcement of plans to launch missiles aimed at the waters off the coast of US territory, Guam.

**DOMESTIC ECONOMIC INDICATORS**

**Labour Market**

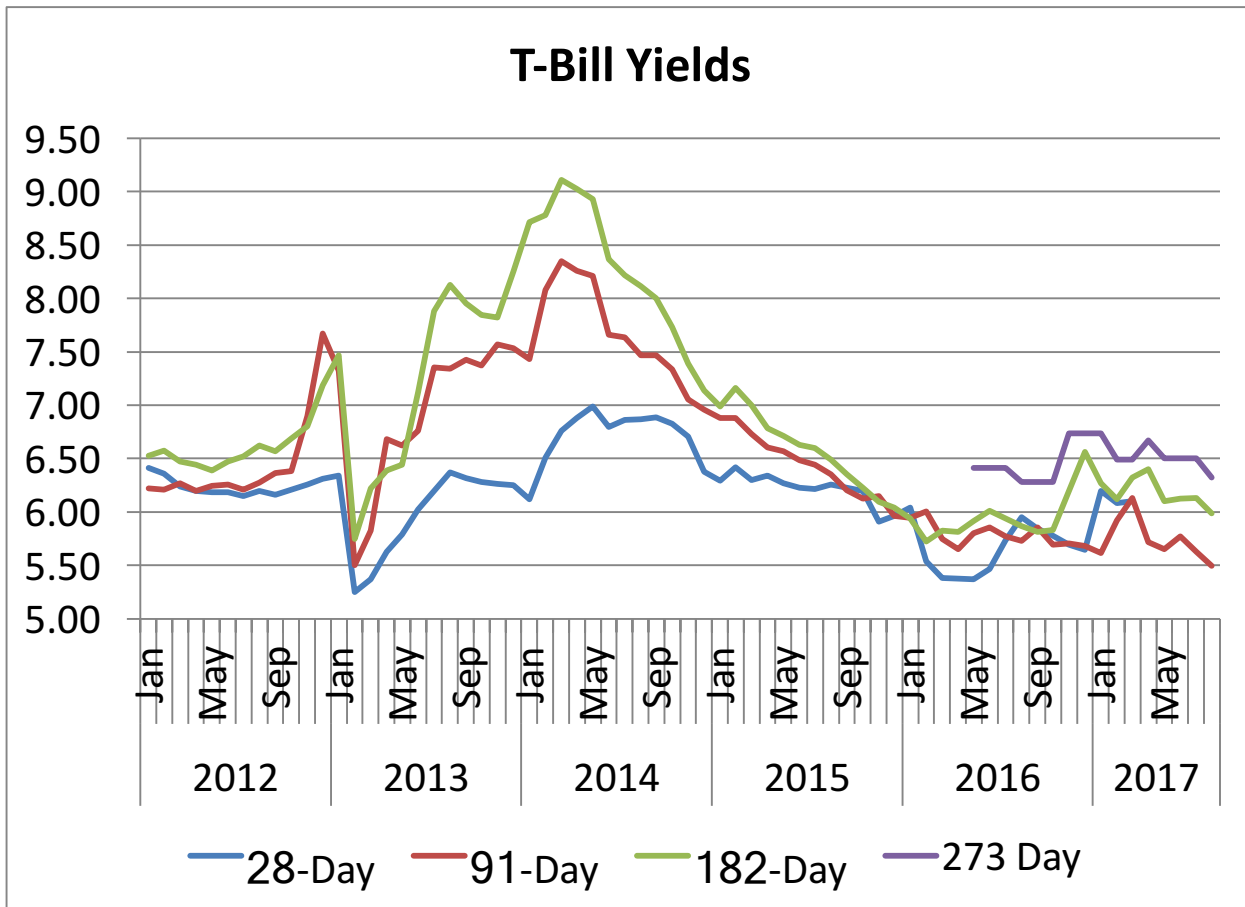
	2015		2016		2017		
	October	January	April	July	October	January	April
Labour Force	1,325,400	1,342,000	1,353,900	1,363,200	1,355,500	1,358,300	1,371,600
Employed Labour Force	1,146,800	1,163,800	1,169,000	1,187,000	1,180,800	1,185,700	1,204,800
Unemployed Labour Force	178,600	178,200	184,900	176,200	174,700	172,600	166,800
Outside the Labour Force	761,700	746,100	735,400	727,100	736,000	734,300	722,100
Unemployment Rate (%)	13.5	13.3	13.7	12.9	12.9	12.7	12.2



**Implications:** The employed labour force is trending upwards, indicating that more individuals are gainfully employed. With higher employment, consumer purchases should trend upwards, including the demand for loans. The April survey also reflected strong increases in employment in the industry grouping “Real Estate Renting & Business Activities,” which includes the Business Process Outsourcing (BPO) subsector.

**Interest Rates**

TENOR		28-Day		91-Day	182 Day	273 Day
Month	Instrument	T-Bill (%)	BOJ CD (%)	T-Bill (%)	T-Bill (%)	T-Bill (%)
	2017	Mar	6.10	5.00	6.13	6.32
Apr		N/A	4.75	5.72	6.40	6.67
May			4.75	5.65	6.10	6.50
Jun			4.75	5.77	6.13	6.50
Jul		N/A	5.63	6.13	6.50	
Aug			5.50	5.99	6.32	



## Inflation

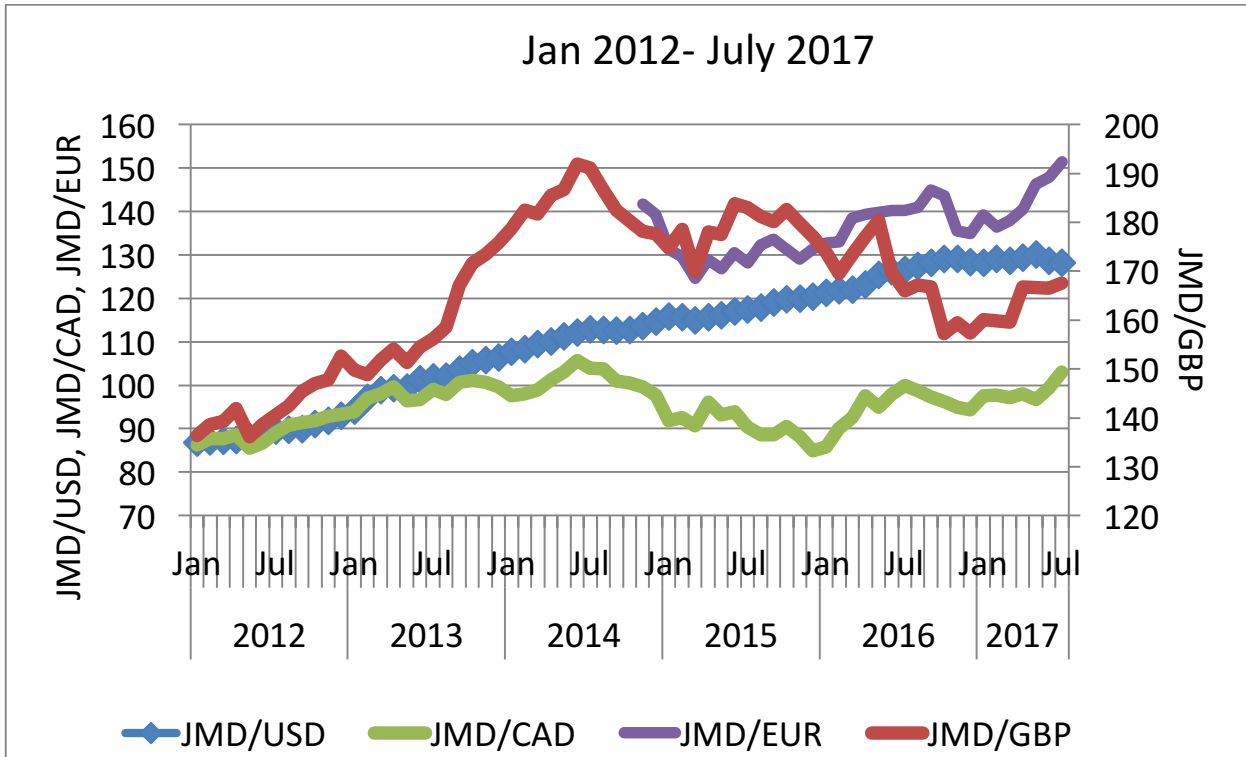
Year	Month	CPI Index	Monthly % Change	Calendar YTD % Change	Fiscal YTD % Change	12-Month Point-To-Point (%)
2017	Feb	237.8	0.3	0.6	3.7	3.6
	Mar	238.7	0.4	1.0	4.1	4.1
	Apr	239.3	0.3	1.3	0.3	4.8
	May	239.6	0.1	1.4	0.4	4.63
	Jun	241.2	0.7	2.1	1.0	4.42
	Jul	242.7	0.6	2.7	5.8	4.57

In July, the movement in 'Food and Non-Alcoholic Beverages' Division was again the main contributor to the increase in CPI. This is the second consecutive month and was as a result of the prolonged effect of the flood rains in May, which impacted agriculture significantly. The 'Vegetable and Starchy Foods' class in particular was the significant driver in the division. The other two divisions which saw the next largest movements were 'Alcoholic Beverages and Tobacco' and 'Transport' which increased due to respective increases in the prices of 'Spirits and Wines' and air fare. The 'Housing, Water, Electricity, Gas & Other Fuels' class was the only division to record a negative movement, which was due to a decrease in electricity rates. The effects on food prices of the May rains are expected to continue to be felt for a few more months before normalizing before the end of the fiscal year.

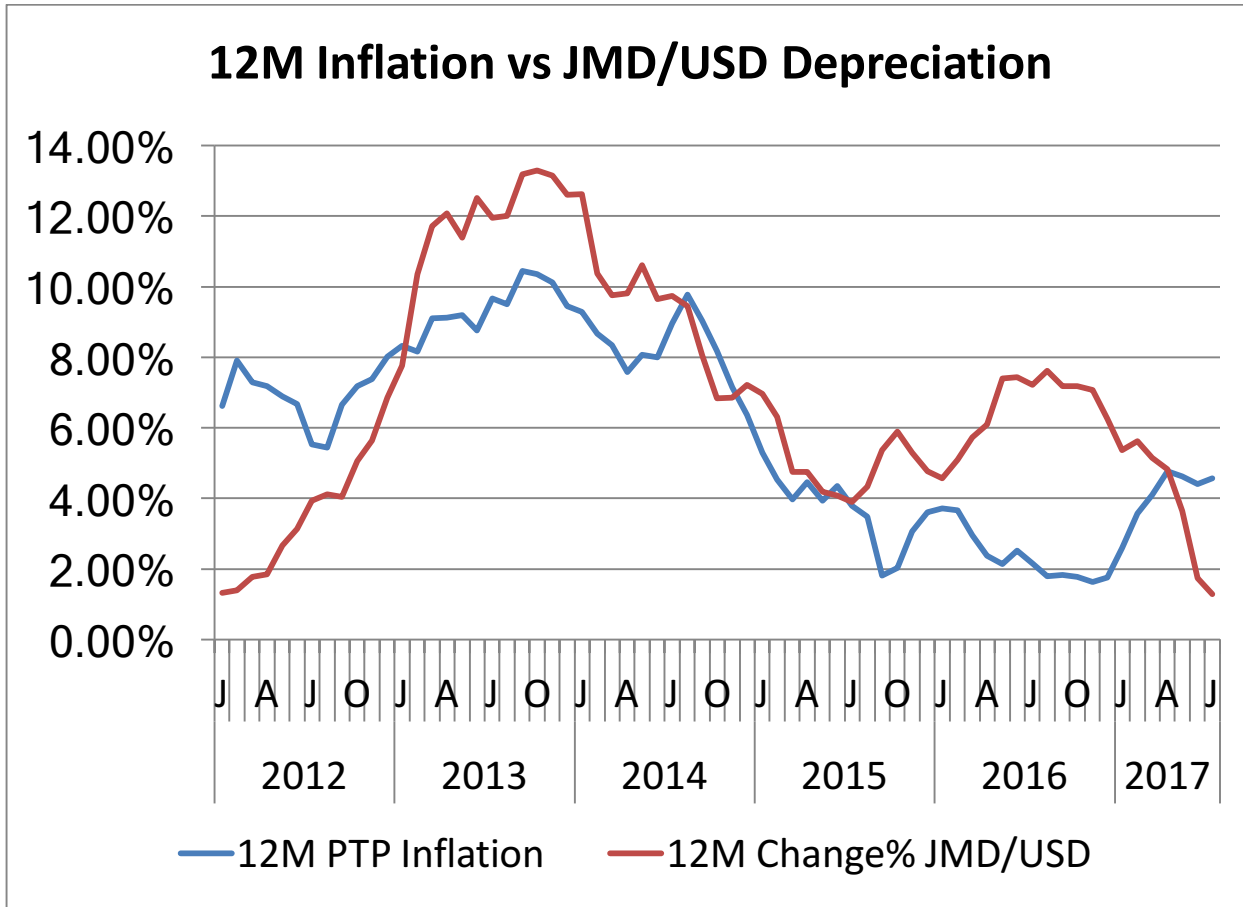
## Exchange Rates

	July 2016			July 2017				August <sup>1</sup>
	Rate per unit of FX	Change (%)		Rate per unit of FX	Change (%)			Rate per unit of FX
		1-Month	12-Month		1-Month	12-Month	YTD	
JMD/USD	128.56	-0.14	-7.22	128.22	0.31	-1.30	-0.17	128.40
JMD/GBP	166.01	2.31	10.26	167.54	-0.57	-0.91	-6.04	165.57
JMD/CAD	99.99	-2.12	-9.62	103.09	-3.59	-3.00	-8.42	100.85
JMD/EUR	140.19	0.08	-8.53	151.38	-2.27	-7.39	-10.88	150.48

<sup>1</sup> Rate on August 15, 2017



Year	Month	Inflation – 12M PTP	Depreciation – 12M JMD/USD
2016	July	2.14	-7.22
	August	1.79	-7.62
	September	1.83	-7.18
	October	1.78	-7.18
	November	1.64	-7.08
	December	1.77	-6.25
2017	January	2.59	-5.37
	February	3.57	-5.62
	March	4.10	-5.15
	April	4.77	-4.83
	May	4.63	-3.64
	June	4.42	-1.74
	July	4.57	-1.30



**Implications:** The Bank of Jamaica (BOJ) implemented its Foreign Exchange Intervention Trading Tool, B-FXITT pilot project on June 29, 2017. Since then, the BOJ has conducted 3 standard sale operations, with a 4<sup>th</sup> underway at the date of writing this report. The BOJ reported, at its quarterly press briefing, that the new tool appears to be settling down well. The Bank is currently designing the purchase side of the tool and will announce the date of implementation at that time. With this tool fully implemented, it will allow to bank to provide more timely and frequent updates to the official exchange rate and it anticipates that this will be implemented within the month. The BOJ also intends to separate out the non-cash rate for future reporting, which will provide additional information/transparency to the market.

### External Merchandise Trade

Jan-Apr 2017	US\$Million			% Difference
	2017	2016	Difference	
<b>Expenditure on Imports</b>	1,712.8	1,432.3	280.4	19.6
<b>Earnings from Exports</b>	441.8	392.0	49.9	12.7
<b>Trade Balance</b>	-1,270.9	-1,040	-230.6	-22.2

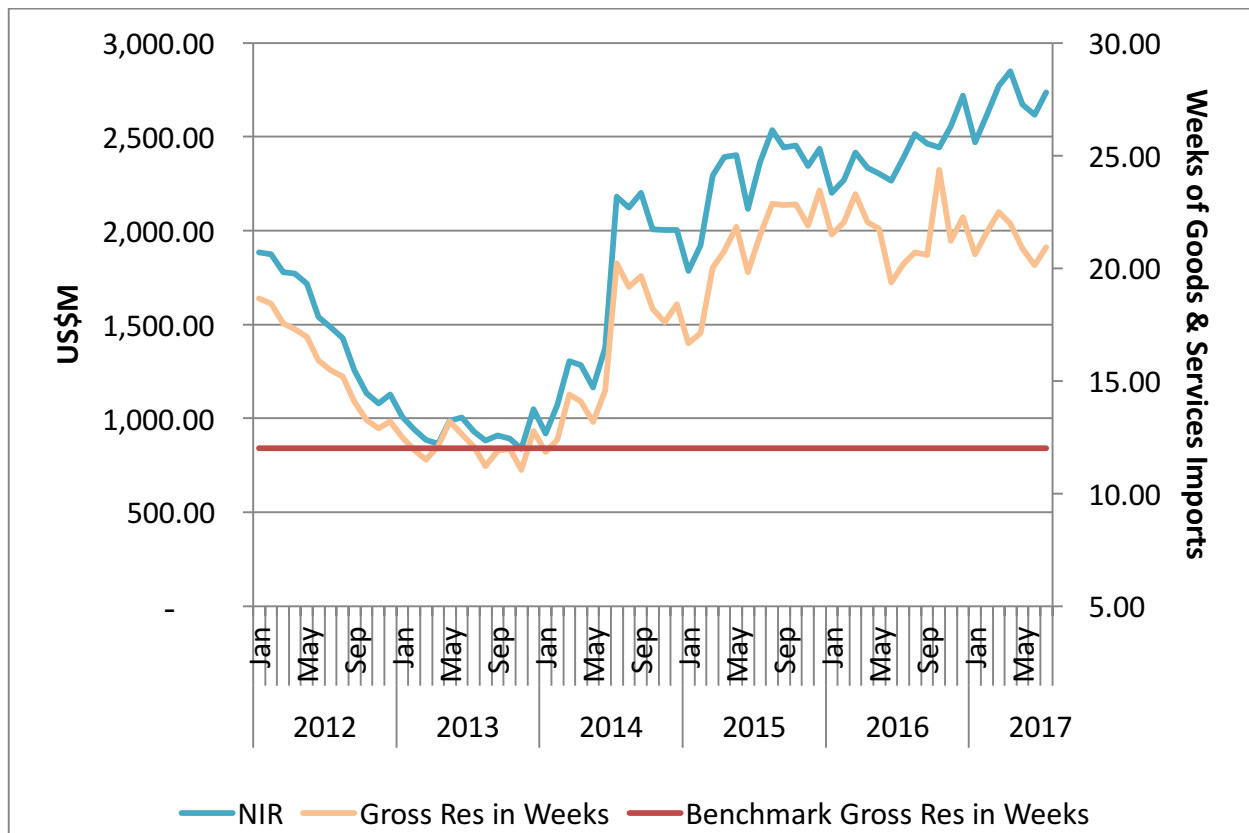
The trade balance deteriorated for the first 4 months of 2017 mainly due to higher imports expenditure relative to the higher level of earnings from exports.

The BOJ now estimates that the current account deficit for FY2016/17 was 2.5% of GDP vs 1.9% for the previous fiscal year. This is mainly due to higher expenditure on oil imports related to the relatively higher price for oil in the markets.

**Implications:** Non-traditional exports are increasing at a faster rate than traditional exports; however, the total exports are not increasing at as fast a rate as imports. This has resulted in the current account deficit for the quarter outweighing that of the same period last year. In order for the deficit to be improved or sustained, the rate of increase in importation needs to be slowed with a simultaneous acceleration in our rate of increase in exports.

### Net International Reserves

NET INTERNATIONAL RESERVES					
Year	Month	Stock (USD M)	Monthly Δ (USD M)	Gross Reserves in Weeks of Goods Imports	Gross Reserves in Weeks of Goods & Services Imports
2017	Feb	2,615.26	145.84	37.23	21.59
	Mar	2,769.17	153.92	38.78	22.49
	Apr	2,848.87	79.70	37.93	21.98
	May	2,672.77	-176.10	36.03	20.88
	June	2,616.81	-55.96	35.44	20.54
	July	2,736.35	119.54	35.86	20.93



**Implications:** With this significant increase in the NIR level, the BOJ's is maintaining its ability to defend the currency since the reserve levels exceed that of the benchmark.

### GOJ Fiscal Operations

JMD Million	Fiscal Year Apr-Jun 2017		
	Provisional	Budget	% Deviation
<b>Revenue &amp; Grants</b>	125,842.1	118,080.2	6.6
<b>PAYE</b>	12,905.3	13,857.5	-6.9
<b>Companies (ex Bauxite/Alumina)</b>	11,145.9	8,385.0	32.9
<b>GCT (Local)</b>	21,677.0	21,322.6	1.7
<b>GCT (Imports)</b>	18,942.8	18,326.5	3.4
<b>Custom Duty</b>	8,909.2	8,353.0	6.7
<b>Expenditure</b>	124,242.8	125,743.1	-1.2
<b>Interest</b>	29,037.6	32,089.4	-9.5
<b>Capital Expenditure</b>	5,205.8	5,204.4	0.0
<b>Fiscal Surplus</b>	1,599.4	-7,662.9	120.9
<b>Primary Surplus</b>	30,637.0	24,426.6	25.4

**Implications:** The year is off to a strong start fiscally. Recent revelations of outsized phone bills for the Finance Minister are troubling, but are not sufficient to derail the fiscal programme. May rains and the attendant infrastructural damage island wide have highlighted that major expenditure will need to take place in order to rehabilitate roads, etc. Although there is some contingency provision in the budget, it's won't yet be known whether this provision is adequate.

### Stock Market

Stock Market Summary –August 16, 2017								
Index	Value	% Change					Avg Annual % Change	
		Daily	WTD	MTD	YTD	1 YR	5 YR	10 YR
<b>JSE Market Index</b>	252,576.32	0.97	0.78	3.94	31.36	57.25	38.80	16.82
<b>JSE Select Index</b>	7,695.96	1.07	0.97	1.17	20.18	39.21	42.83	19.19
<b>JSE All Jamaican Composite</b>	277,217.25	0.97	0.78	3.94	31.92	55.34	43.58	18.77
<b>JSE Junior Market Index</b>	3,157.46	-1.20	0.24	0.06	21.74	46.43	74.16	N/A
<b>JSE USD Equities Index</b>	186.15	-0.04	-1.12	1.30	13.16	24.64	N/A	N/A



## **OVERSEAS ECONOMIC NEWS BITES**

### ***Latin America & the Caribbean***

The US has imposed sanctions on **Venezuelan** president Nicolas Maduro as a consequence of the country's July 30<sup>th</sup> vote to form a constituent assembly, which the US had earlier denounced because of the popular view that it will eventually establish an autocratic government. In exchange for stakes in its oil reserve assets, the government has turned to its ally, Russia, for cash and credit. Russia retaliated against the US Bill sanctions by ordering that 755 US diplomats leave the country by September 1<sup>st</sup>.

### ***North America***

The US Senate has passed a bill which will impose sanctions on Russia, Iran and North Korea and also restrict the President's ability to loosen these imposed sanctions. It is anticipated that this Bill will create tension between US and Russia and also consequences from the EU.

Data released shows that US GDP increased by 2.6% in the 2<sup>nd</sup> quarter, up from 1.2% in the first quarter. This was due to an increase in consumer spending of 2.8%.

**US & North Korea** relations are tense as the presidents exchange threats following North Korea's announcement of plans to launch missiles aimed at the waters off the coast of US territory, Guam.

### ***Europe***

Mark Barnier, the EU's top Brexit negotiator, is doubtful that talks about the future relationship between UK and the EU can begin in October due to unresolved divorce issues. Among these are financial settlement, citizens' rights and the Ireland border.

According to the head of Britain's financial markets regulator, the LIBOR will be replaced by 2021 because it is the belief that a rate based on the judgement of banks is unsound. However, banks will continue to send rates until the substitute comes into effect. The Reference Rates Committee met on August 1<sup>st</sup> to discuss a timeline for the rollout of the **LIBOR** replacement, which will be published daily beginning in the first half of 2018. The recommended rate is a broad repo rate.

The **UK's** trade deficit increased by GBP 0.1billion in the quarter ended June from the previous quarter to GBP 8.9 billion, due to closely matched increase in exports and imports.

### ***Asian Pacific***

Annualized economic growth in Japan accelerated to 4% in the June quarter, outstripping economists' forecasts of 2.4% growth. The major factor in driving the expansion was domestic demand, which rose 1.3%.

**Sources:** Statistical Institute of Jamaica (STATIN), Ministry of Finance and the Public Service (MOF), Bank of Jamaica (BOJ), Jamaica Stock Exchange (JSE), Jamaica Observer, Bloomberg, TorontoSun, Reuters, CNBC, Fox Business, EU Observer (Brussels), The Guardian (London)

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