LEADING ECONOMIC INDICATORS

Sagicor Investments

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LOCAL UPDATES December 2014

MARKET REVIEW

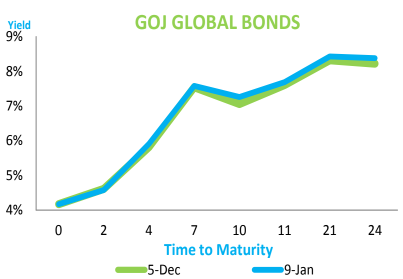
T-Bill Results

Tenure	Oct-14	Nov-14	Dec-14
3 month	7.34%	7.05%	6.96%
6 month	7.73%	7.39%	7.14%

Bond Market

Jamaica's sovereign bond spread on the secondary international market has continued to remain relatively stable, particularly since the US$800 million 2025 7.625% bond which was issued in July 2014.

Further, the external bond issuance should enable the GOJ to comfortably repay other large maturities due in June and July 2015.



JSE Stock Market

	December	YTD
Main Index	↑ 2.7%	↓ 5.3%
USD Index	↑ 4.8%	↑ 45.8%
Junior Index	↑ 0.1%	↓ 9.2%

DECEMBER
Main Market

Advance: Decline	18:7	
Volume Leader	LIME	
Big Winner	KPREIT	↑ 87.5%
Heavy Loser	GLNR	↓ 15.0%
Market Cap. (Main & Junior Market)	$322.9 B	↑ 3.1%

KEY INDICATORS
December 2014

	Period	YEAR 2014	YEAR 2013	Change	Trend
CAPITAL MARKET INDICATORS					
6 month T-Bill	Dec	7.14%	8.25%	111 bps	↓
30-day BOJ Rate	Dec	5.75%	5.75%	Same	↔
FX Rate	Dec	$114.66	$106.38	7.8%	↑
JSE Main Index	Dec	76,353	80,634	-5.3%	↓
KEY MACRO-ECONOMIC INDICATORS					
Inflation (Y-o-Y)	Dec	6.4%	9.7%	330 bps	↓
Tourist Arrivals	Jan-Nov	1,867,052	1,807,062	3.3%	↑
NIR (US$M)	Dec	$2,001.97	$2,150.77	($148.80)	↓
Fiscal Deficit (J$B)	Apr-Nov	(24.7)	(24.9)	0.2	↑
Real GDP Growth	Jul - Sep	-1.40%	0.40%	-180bps	↓
Unemployment	Jul	13.8%	15.4%	-160 bps	↓
Net Remittances (US$M)	Jan - Sep	1,431.20	1,348.80	82.40	↑
Trade Deficit (US$M)	Jan - Sep	(3,284.30)	(3,257.30)	(27.00)	↓

Commentary

- Economic activity is slowly picking up with expansions recorded in the agriculture and manufacturing (particularly sugar production and petroleum refining) industries. These results are complemented by the steady performance in tourism.
- Financial market conditions are stable; however, credit growth has slowed. Local money markets are fairly liquid and interest rates have fallen-off. Rates on GOJ T-Bill 180-day closed the year at 7.14%, down from a high of 9.11% as at end Q1 2014.
- Likewise, 30-day rate in the private money market traded in the range of 6.3% - 6.7%, at the end of the year relative to 9.0% –13.0% during Q1 2014.
- Although business confidence has improved from its lows in 2013, there are no clear signs of a strong rebound in either investment or growth. Without more tangible improvements in jobs and growth, there is a risk that public support for the reform process may prove difficult to sustain.
- Additionally, revenue shortfalls, disruptions in external financing (including from PetroCaribe), and inability to contain the government wage bill could undermine the fiscal position.
- The strengthening in the global economy, in particular the acceleration of growth in the USA, could partly influence the prospect for Jamaica. This is in addition to the lower oil prices which will lower inflation expectations and improve cost savings to the country.
- The strengthening in the US economy should drive the increased demand for Jamaican products, primarily Tourism. The improved Tourism prospects are in addition to increased level of remittances, which could have two impacts: (i) increasing foreign exchange flows; (ii) augmenting domestic demand.

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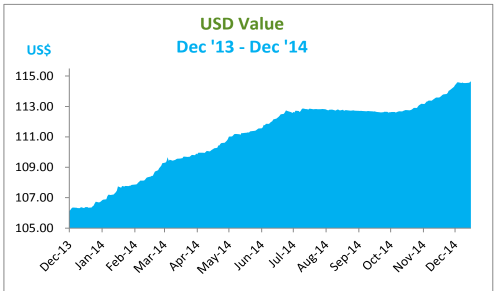

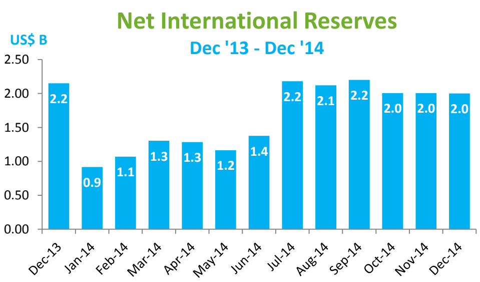

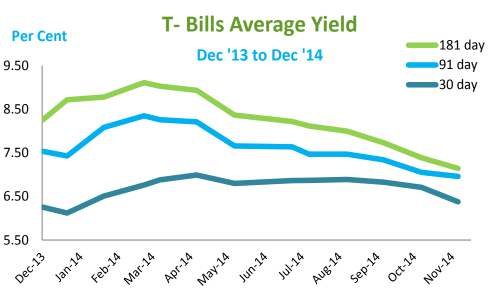

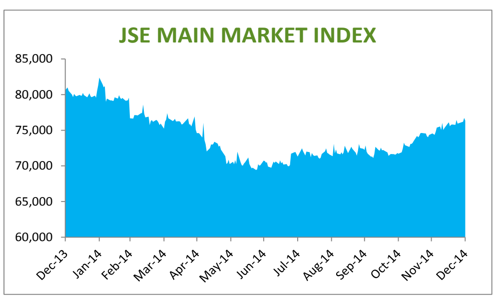

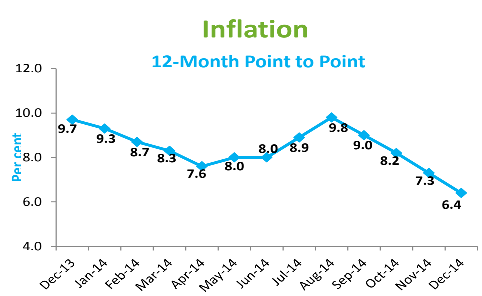

Foreign Exchange: At the end of December 2014 the BoJ's weighted average selling rate (WASR) closed at J$114.66 for the US dollar. This represented a Calendar Year (CY) depreciation of 7.8% and has helped improve the competitiveness of Jamaica's exports. The valued of the JMD depreciated 14.4% for CY 2013.

The tempered pace during 2014 reflected the easing in demand for USD, particularly from portfolio investors. This was complemented by BOJ's market intervention on several occasion to augment the supply.

The market signal from the central bank actions, along with the improved investor confidence, alleviated the build up in demand and slowed the rate of depreciation of the local currency.

Net International Reserves: The gross foreign reserves as at December 2014 amounted US$2.5 billion up 36% over the value at the end December 2013. This resulted in the NIR position (which is the difference between the gross foreign assets and liabilities) of US$2.0 billion.

The higher reserves position was sufficient to cover approximately 18 weeks of import surpassing the international benchmark of 12 weeks. The strengthened reserved position largely resulted from the US$800.0 million bond issue by the GOJ in early July 2014.

Additionally, the build-up in the NIR reflected a deliberate strategy undertaken by the BOJ, which included the offering of attractively priced instruments as well as purchase of USD assets from a few institutions.

Interest Rates: The central bank maintained its policy stance with the main interest rate unchanged at 5.75% as inflation outcome continued to be within expectations. Notwithstanding, at the end December 2014,the average yield on the 30 day increased by 13bps, while the average yields on 90-day and 180-day Treasury bills fell by 58 bps and 111 bps relative to December 2013. The average yields December 2014 were 6.30%, 6.96% and 7.14%, respectively.

Since the highs recorded in March 2014, market interest rates have been on the decline. This resulted from BOJ's net injection of liquidity which has improve the market conditions and influenced the decline in selected market interest rates.

Stock market Performance: The value of the JSE Main Index as at December 2014 76,353 points a CY decline in value of 5.3%. The continued fall off in the index occurred despite solid performance from several listed companies. However, with improving confidence in the local economy, market performance should begin to improve in the medium term.

Inflation & Outlook: Despite significant economic shocks over the past two years, inflation remains in single-digit territory, and has generally trended downward over between over the period.

CY 2014 inflation was 6.3%, reflecting a slowing in the pace relative to end-December 2014. The ability to maintain single digit inflation is partly attributable to the inability of firms to pass on to consumers the impact of the exchange rate depreciation. This is in addition to the improved efficiency in the agriculture sector.

Inflation for GOJ FY2014/15 is projected to fall within the range of 7.0% to 9.0%.

Within the context of stable inflation, real economic activities for FY 2014/15 is projected to expand within the range of 0.0% to 1.0%. This is expected to be positively influence by the slow but continuing global economic recovery as well as the anticipated strengthening of confidence levels.