Sagicor

POOLED INVESTMENT FUNDS

Economic Review
November 2014

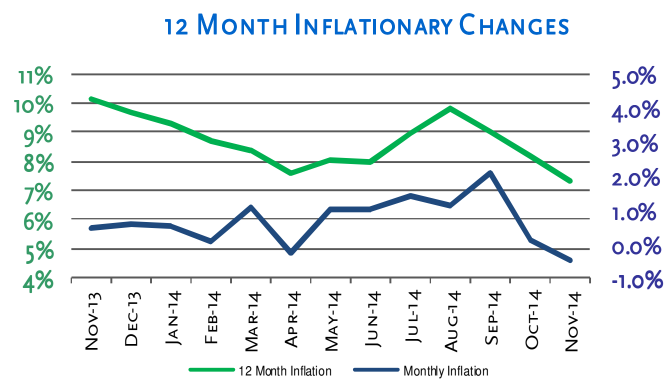
Key Financial Indicators	Nov-14	Dec-13	YTD Change	
Consumer Price Index	224.9	210.7	▲	6.7%
JSE Main Index	74,338.49	80,633.55	▼	7.8%
S&P 500 Index	2,067.6	1,848.36	▲	11.9%
180 Day T-Bill	7.39%	8.25%	▼	87 bps
J$ vs. US$	J$113.59	J$106.38	▲	6.8%
Stopover Arrivals	2.07M	2.01M	▲	3.0%
Aluminum Price	US$ 2,004	US$1,800	▲	11.3%

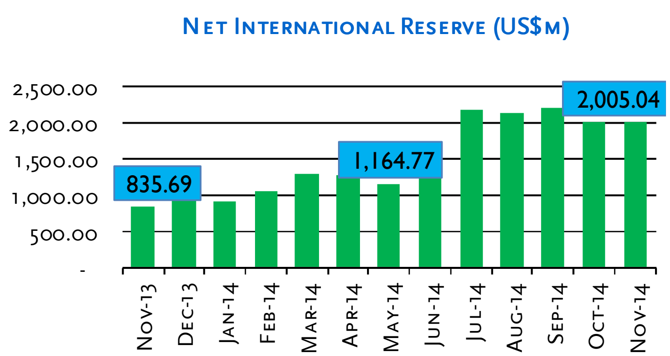
Since the middle of third quarter of 2014 there has been relative stability in the local financial markets. This improvement, if sustained, should translate to lower lending rates and encourage new investments in the productive sector and expansion in output. Increased Investment, either through borrowed sources or own account, is integral to expansion in economic activity.

While confidence in the local economy is improving, the pace of growth in loans from commercial banks slowed in the Q3 2014. Annual growth in the stock of commercial bank loans to the private sector decelerated to 4.8% as at end Q3 2014 from 9.6% as at end Q2 2014.

The government will be spending $739.6M less than what was approved for the 2014/15 financial year. This is outlined in the first Supplementary Estimates of Expenditure for the 2014/15 financial year, tabled in the House of Representatives on November 25.

The reduced planned expenditure is partly influenced by lower revenue collection. As tax collection continues to fall below anticipated levels, the GOJ has been able to finance its operations through receipts from alternative resources. The Government secured funding mainly from external sources during the September 2014 quarter. In particular, US$800.0 million was raised from the issue of a global bond in July and US$68.8 million was received in September from the IMF for budgetary support.





Inflation

12 MTH ↑ 7.4%

The Consumer Price Index (CPI) declined by 0.5% in November 2014, bringing inflation over the last 12 months to 7.4%, representing the lowest inflation rate since the start of 2014. Downward movement in the index for the three highest weighted divisions contributed to this. The index for the division 'Food and Non-Alcoholic Beverages' fell by 0.1%, and was mainly due to lower prices for vegetables. A reduction in the cost of electricity and lower rates for water and sewage were the key factors influencing the division 'Housing, Water, Electricity, Gas and Other Fuels', which moved down by 3.6%. Additionally, a decrease of 0.6% was recorded for the division 'Transport' due to lower oil prices on the international market.

Exchange Rate

12 MTH ↑ 7.4%

During November 2014, the J$ depreciated by 0.7% or J$0.82 to close the month at J$113.59 to US$1.00. Over the past 12 months the J$ has depreciated by 7.4% or J$7.78. This month saw the reversion to depreciation in Jamaica dollar vs the US dollar after two months of appreciation.

Short Term Interest Rates

12 MTH ↓ 43 BPS

The November 2014 T-Bill results reflected a 30-day T-Bill average rate of 6.71%, a 90-day yield of 7.05% and a 180-day yield of 7.39%. The 30-day T-Bill rate rose by 45 bps while both the 90-day and 180-day rates both declined by 52 and 43 bps respectively over the same time period.

Local Stock Market Performance

12 MTH ↓ 4.1%

During November 2014, the Main JSE Index advanced by 2,632.20 points to close at 74,338.49 points. Market volume amounted to 153M units valued at just over $1.4B, with 17 stocks advancing, 10 declining and 6 trading firm.

Net International Reserve (NIR)

12 MTH ↑ US$1.17B

The Net International Reserve at the end of November 2014 remained at approximately US$2.01B, with a slight drop of US$2M over the previous month. Over the last 12 months the NIR rose by US$1.17B. At current levels, gross reserves are adequate to finance 17 weeks of "goods and services" imports, which exceeds the 12 week benchmark. The reserves, over the past 12 months, have been supported by disbursement of funds from the IMF and World Bank as well as recent bond raise.

Tourism Arrivals

12 MTH ↑ 3.5%

Stopover arrivals in November 2014 totaled 157,737 persons, an increase of 6.2% over the 148,512 recorded in November 2013. Additionally, stopover arrivals from the US and European markets both increased by 7.6% and 15.1% respectively when compared to numbers for November 2013.

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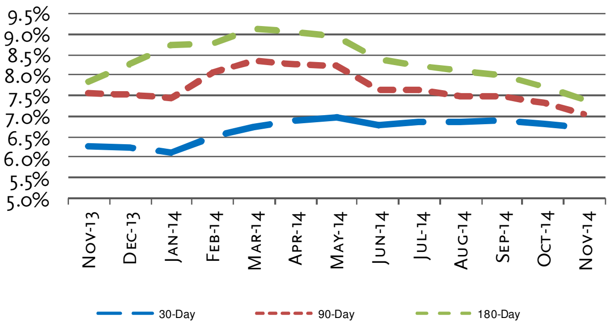
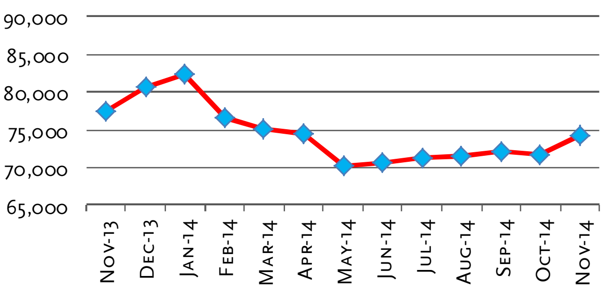
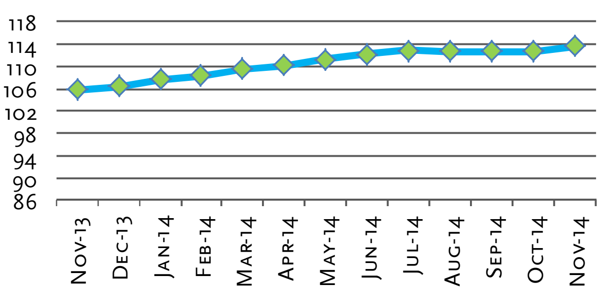


JSE Main Index Movements



J$ vs US$ Exchange Rate Movements



J$ FIXED INCOME

The 30-day repo rate ranged from 6.60% - 9.00%, relative to 7.00% - 9.00% from the previous month. Overnight traded in a range of 2.50% - 4.00%, however demand for overnight funds was relatively low. In addition to its regular 30-day CD, BOJ actions included the continuation of issues of special open market operation (OMO) securities and occasional interventions in the foreign exchange market. For the September quarter, these actions led to a net injection of $2.5 billion relative to the net injection of $12.4 billion in the previous quarter. The continued net injection of liquidity from BOJ's operations resulted in improvements in the overall liquidity conditions in the market and contributed to declines in selected market interest rates.

CPI bonds are an ideal addition to pension fund portfolios in order to incorporate guaranteed inflation protection in their investment mixes.

US$ FIXED INCOME

International credit rating agency, Fitch, has upgraded Jamaica's long term foreign currency and local currency Issuer Default Ratings (IDR) to "B-" from "CCC." The outlook was also upgraded to "Stable". Fitch stated the declining path of Jamaica's public debt/Gross Domestic Product (GDP) due to the National Debt Exchange coupled with an increase in primary surpluses and modest economic recovery contributed to the rating upgrade .

Over the past 12-months, the value of the J$ has declined by approximately 7% against the US$, and JSE Jamaica Global Bond Price Index increased by approximately 3%. As investors become more risk averse, the demand for emerging market debt has fallen, and this is directly affecting the market for GOJ Global bonds. Notwithstanding the continued improvement in remittance inflows, the supply of USD remains tight.

OUTLOOK

With continued devaluation of the local currency versus the US dollar as well as economic uncertainties, foreign currency investments remain the preferred selection by investors.

EQUITIES

The JSE Main Index has suffered an overall decline of approximately 4% over the past 12 months. However, over the past 6 months, the market has been showing signs of improvement as investor confidence improves. This is a reflection of the positive outlook for our local economy and by extension for the performance of listed companies.

OUTLOOK

While the current economic programme limits strong capital gains in the near term, there are several asset classes, primarily equities, that are attractively priced. These assets have the potential to provide above average returns over the medium to long term.

Stocks with limited downside risks are ideal investment options available to investors. These companies have robust business models that are able to withstand an adverse economic environment and are equipped to take advantage of new growth opportunities as they arise.

REAL ESTATE

As our local economy continues to show signs of improvement, we also continue to see increases in demand for real estate across all categories. Demand for low to mid-range residential properties has reflected the highest increase, and this is evidenced through an increase in demand for mortgage loans as well as in property developments in this market segment. One example is the Caymanas Estates development in St. Catherine. An upturn in demand for commercial real estate is also evidenced by an increase in commercial developments being undertaken in the Kingston and St. Andrew area, where specific demand tends to be focused on small to mid-range spaces averaging 500 – 2,000 sq. feet.

OUTLOOK

We expect the market for mortgage loans to remain highly competitive, with building societies and other lenders offering attractive rates and other incentives to the market, and this will have a positive impact on the real estate market.

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