

Standard and Poor's Credit Ratings Upgrade

On September 27, 2019, Standard and Poor's Global Ratings (S&P) **raised Jamaica's long-term foreign and local currency credit ratings on Jamaica to B+ from B while at the same time the ratings agency viewed the outlook as stable.**

S&P advised that the stable outlook reflects that the sovereign's fiscal path is likely to remain consistent in spite of the expiration of the Stand-by Arrangement (SBA) with the International Monetary Fund (IMF). The ratings agency expects relatively high primary balance surpluses, resulting in gradual reduction in debt stock and interest burden, and improvements in reserves. S&P expects Jamaica growth momentum to continue modestly, with improvement in monetary policy and a push towards a more flexible exchange rate.

S&P stated that a higher growth rate coupled with strengthening and effectiveness in monetary policy could lead to ratings upgrade over the next few years. On the other hand, a ratings downgrade could follow if there is poor economic growth or weather-related shocks that weaken the sovereign's external position leading to higher foreign borrowing or a decline in reserves.

Summary of S&P's rationale for the upgrade

The ratings agency advised that the upgrade mirrors improvements in Jamaica's external liquidity. A stronger overall external position and continued adherence to the government's fiscal strategy bolsters the sovereign's resilience to external shocks.

S&P further advised that the sovereign's credit ratings are constrained by high debt levels and debt servicing costs which limit fiscal flexibility. The ratings agency stated that although there has been an uptick in real GDP growth, growth remains low and is limited by structural impediments. The government's commitment however to fiscal prudence fosters macroeconomic stability, including low inflation, and supports the sovereign's credit worthiness. Jamaica's external position has strengthened over the last 5 years and the level of indebtedness is falling while reserves are growing. S&P is of the opinion that Jamaica's policymaking stability and predictability are supported by the continuity and institutionalization of fiscal consolidation policy. In addition, ongoing changes in governance and mandate of the central bank could gradually improve Jamaica's current limited monetary policy flexibility.

Opinion

The market's perception of a sovereign's macro-fiscal performance and stability usually run ahead of ratings agencies' write-up. Thus the ratings upgrade by S&P does not come as a surprise to the market given where Jamaica's global bonds are trading relative to US Treasuries. This is further supported by the policy adjustments over the last 10 years and the improvements in macro-fiscal dynamics, including the reduction in the debt and debt servicing cost, and improvement in external liquidity. Real GDP growth has improved, but remains fragile due to structural impediments and weak linkages between some of the 'high' growth sectors, in particular Tourism and Mining & Quarrying, and the wider economy. The multiplier effect of these sectors on the economy is low, as only about one-third of the earnings flow back into the economy to meet working capital needs.

Alpart bauxite alumina plant is expected to be out of commission for at least 18-24 months to facilitate major upgrades. Accordingly we expect this to shave between 0.4% - 0.7% from the medium-term growth rate. Unlike S&P we envisage lower growth of around 1.2% per annum on average over the next 3 years. With the SBA coming to an end in November, like S&P we expect the government to maintain fiscal prudence and the central bank to strengthen its policy anchor in order to meet the inflation target, and intervene less in the foreign exchange market. The foreign exchange market is relatively stable now however external price shocks could lead to sharp depreciation of the domestic currency and in the process push domestic prices higher than the bank's upper target limit of 6%.

We will do a deep dive in S&P's ratings upgrade for Jamaica in subsequent duplication.

Sources:

Standards and Poor Ratings Agency

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

COPYRIGHT INFRINGEMENT

“Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money Market Brokers Limited or its affiliates (JMMB) and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide Web, or over any network, or local area network or otherwise) without written permission from JMMB.

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights.”

The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that

The main title 'MARKETCALL' is centered at the top of the page. 'MARKET' is in white and 'CALL' is in yellow. Below it, 'JMMB INVESTMENT RESEARCH' is written in white. The background of the header features silhouettes of people in a meeting, a globe, and various financial charts and graphs in shades of red, orange, and yellow.

MARKETCALL

JMMB INVESTMENT RESEARCH

any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

Disclosure Under The Securities Act

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.