INVESTMENT AND SOVEREIGN RESEARCH

***SOVEREIGN*: Trinidad and Tobago : September-16-2020**

PLEASE SEE IMPORTANT DISCLOSURES IN THE APPENDIX

Ratings: Standard & Poor's, BBB-/Stable; and Moody's Ba1/Negative

SUMMARY

The global economy faces strong headwinds in the coming quarters because of the negative effect of covid-19 containment measures on consumption, production, and government revenues. We expected subdued hydrocarbon prices and domestic consumption to continue to weigh negatively on Trinidad and Tobago's economy for the rest of 2020 through to 2021 with risk tilted towards the downside. The economy is expected to contract by 5% in 2020 while the fiscal deficit and debt to GDP are expected rise to 8% and 71% respectively. An increase in the spread of covid-19 globally could push hydrocarbon prices further downwards due to lower consumption, while an increase in spread at the domestic level could force the government to restrict the movements of persons and restrict business activities. In either scenario growth would be further affected, undermining domestic production and consumption.

Table 1: SWOT Analysis

Strengths	**Weaknesses**
Leading oil and gas exporter in the Caribbean with large proven reserves and well developed physical infrastructure. Elevated real output over the years has led to massive welfare improvement and reduction in poverty. Large external buffers build up over the years from windfall hydrocarbon production, which includes foreign reserves and the Heritage Stabilization Fund.	High dependency on the energy sector makes the sovereign highly vulnerable to external price shocks. The two main political parties are heavily divided along ethnic lines. The opposition tends to be antagonistic towards policies of the government, which lower investor perception regarding policy continuity in the event of a change in government. High perception of corruption among public officials.
Opportunities	**Threats**
Reform of the non-banking financial sector and exchange rate regime coupled with renewed privatization of state assets could help to unlock higher levels of growth. Higher levels of investments in tourism and agriculture offer potential upside to not just improve growth, but also help to diversify the economy making less it susceptible to shocks.	Depressed energy prices could make the sovereign less attractive to investment in hydrocarbon projects over the medium term leading to lower growth, structurally high levels of unemployment and reduction in external balances. Increased in narco trafficking could lead to increase in violent crime which could destabilize the country if left unchecked.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Having contracted by 0.1% in 2019, we expect the domestic economy to decline by 5% in 2020 due to the ongoing economic fallout resulting from the global coronavirus (Covid-19) pandemic. We expect a gradual recovery in 2021, but downside risk abounds which may make recovery far less gradual and over a longer period. The decline in global energy prices and falling supply of natural gas feedstock have affected Trinidad and Tobago's economy, which heavily depends on energy. The economy has been further affected by the decision taken by the government in late March to close the borders and limit business activities to help curtail the spread of the virus. While this was largely successful in helping to curtail the spread of the disease, it had a deleterious effect on overall economic activity and employment. Over the period March-July, activities in the leisure, entertainment, and restaurants sector were constrained because of enforcement orders issued by the government for them to cease or limit operations. With the economy gradually re-opening since July, there has been a steep jump in the number of coronavirus cases locally sparking fear that the government may once again implement further lockdowns to arrest the problem. There is an increase in the number of persons testing positive for the virus since the borders re-opened.

Falling oil and gas output and exports will weigh negatively on growth over the next several months. This is further compounded by the reduction in energy prices. In the budget which was tabled in October 2019, the government was forecasting oil and gas prices of US$60 per barrel and US$3 per million British thermal unit (MMBtu) respectively. As at end-August, the prices for crude oil and gas were US$42.96 per barrel and US2.3 MMBtu, which were 28.4% and 30.4% lower, respectively, than figures presented in the budget. Relative to mid-2014, prices are structurally lower and are expected to remain relatively subdued for at least another 18 -24 months, based on the outlook for global growth and demand. We expect the world economy to rebound in 2021 from the slump in growth estimated at 4.1% in 2020. However, a second wave of covid-19 globally could put a damper on future growth.

Fiscal Accounts and Debt

For the budget cycle 2020/21, the government is programming a fiscal deficit of 4.6 (% of GDP). This is a marked reduction from the deficit of 7.2% of GDP recorded in 2017. However, owing to increased spending and low expected revenue intake, the fiscal deficit is expected to widen to 8% of GDP. In mid-March following the decision to close the borders and curtail business activities, the central government announced a fiscal stimulus package amounting to US$1.5 billion to help stabilize the economy. The measures announced, among others, included grant payments for up to three months

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

amounting to TT$1,500 to workers who lost their income because of covid-19. The government has also fast tracked tax refunds and provided grants to hotels amounting to $50 million to upgrade their premises.

The steep decline in the fiscal deficit runs counter to fiscal consolidation efforts of the government over the last two years. In 20018-20019 several measures were implemented to help boost revenue and reduce expenditure to reduce the deficit and debt to GDP. Among the measures implemented on the revenue side were strengthening the staffing and collection capacity at the tax collection agencies - Inland Revenue and Customs - to improve efficiency and minimize leakages. On the expenditure side, the government has initiated gradual cuts in subsidies to state entities and households. We expect debt to GDP to rise to 71% in 2020 occasioned by a sharp increase in the fiscal deficit and contraction in growth. The sovereign's debt dynamics is of concern and is a major influence in the fiscal consolidation measures that were undertaken in 2018 and 2019. The debt to GDP declined marginally to 56.9% in 2019 compared to 62.2% in 2018. It is however coming from a base of 30% in 2000.

The government has to exercise fiscal prudence to prevent the debt from becoming unsustainable. The sovereign could lose its investment-grade credit ratings from Standard and Poor's (S&P) if no actions are taken to address the debt issue and deterioration in the external accounts over the next 12 to 18 months. Moody's already rates the sovereign's debt as non-investment grade while Fitch does not provide ratings coverage on Trinidad and Tobago. A rating downgrade by S&P would lead to a higher cost of borrowing in the international markets and potential unwinding of TT assets by portfolio managers and pension funds that cannot hold non-investment grade debt. This would put further pressure on the fiscal accounts. The government issued a high proportion of its debt in the local market, which is relatively small. Elevated debt issuance by the government could crowd out private investments and put downward pressure on long-term growth.

Monetary Policy and Inflation

In March, the Central Bank of Trinidad and Tobago (CBTT) slashed the policy rate by 150 basis points to 3.5%. It is highly probable that the bank will undertake further cuts in Q4:20 into early Q1:21 to help steer domestic interest rates downwards to boost credit and consumption. Three variables are likely to help inform the CBTT rate guidance over the medium term. These include the state of the domestic economy, expectations regarding US policy rates, and domestic inflation.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

With the economy in recession, there is pressure on the fiscal and monetary authorities to help increase domestic consumption, investments, and growth. The central government is constrained to increase spending further due to the high debt burden and the potential impact unsustainable debt build-up could have on future borrowing costs. The CBTT is in a relatively better position than the fiscal authority to help steer growth as its policy tools would not have a similar effect on the debt.

Table 2: Selected Macroeconomic Indicators

Indicator	2015	2016	2017	2018	2019	2020 (e)	2021 (f)	2022 (f)	2023 (f)
Nominal GDP per capita, USD	17,808	16,191	15,952	16,269	15,841	14,396	14,840	15,390	15,060
Real GDP growth, % y-o-y	1.5	-6.0	-2.3	-0.2	-0.1	-5.1	2.2	2.7	2.9
Central bank policy rate, %	4.75	4.75	4.75	5.00	5.00	2.50	2.50	3.00	3.25
LCU/USD, eop	6.4	6.8	6.8	6.8	6.8	6.8	7.5	7.5	7.5
Total revenue, % of GDP	35.8	28.0	26.0	29.1	30.8	30.5	32.6	33.6	34.7
Total expenditure, % of GDP	38.5	35.6	33.2	31.9	34.0	41.4	40.8	40.0	39.1
Current expenditure, % of GDP	33.7	31.8	30.7	29.5	32.0	38.7	38.1	37.4	36.6
Capital expenditure, % of GDP	4.5	2.8	2.2	2.3	2.5	2.8	2.7	2.6	2.5
Budget balance, % of GDP	-2.7	-7.5	-7.2	-2.8	-3.2	-8.2	-8.2	-6.4	-4.5
Primary balance, % of GDP	-0.4	-5.0	-4.1	-0.2	0.3	-6.5	-4.3	-2.4	-0.5
Inflation, eop, % chg y-o-y	1.5	3.1	1.3	1.0	1.0	1.2	2.2	2.2	2.2
Current account balance,% of GDP	7.1	-4.4	5.5	5.8	5.3	-4.7	-3.7	-2.8	-3.4
Primary income balance, % of GDP	5.4	5.9	0.2	-3.4	-	-2.0	-2.0	-1.9	-2.3
Goods exports, % of GDP	46.8	37.2	42.8	46.5	38.6	25.4	26.6	26.8	28.0
Goods imports, % of GDP	30.9	31.8	29.2	29.3	27.4	22.6	22.5	22.3	23.4
Government domestic debt, % of GDP	41.4	45.5	45.1	45.0	42.5	53.3	53.4	51.5	48.8
Total government debt, % of GDP	50.5	60.0	61.0	62.2	61.9	71.0	71.0	68.7	65.3
Foreign reserves ex gold, USD	9,933	9,466	8,370	7,575	6,818	7,200	6,482	6,806	7,147
Foreign reserves ex gold, pct of GDP	41.2	43.0	37.8	33.5	30.9	32.7	33.8	33.7	33.7
Import cover months	15.8	16.0	15.6	13.7	13.5	16.8	16.6	17.5	17.8

Sources: Fitch connect and JMMBIR

The CBTT initiated a series of upward rate adjustments in 2014- 2019 on concerns about rising interest rates in the US and the fear of capital flight. However, with the Federal Reserve (Fed) cutting its policy rate to 0%-0.25% in March 2020, the interest rate differential between three months TT and US treasury bills moved into positive territory. It is likely that the Fed will keep its policy rate low through to 2021 and possibly beyond. US economic growth is expected to contract steeply in 2020 and will face strong headwinds in 2021 due to the covid-19 pandemic. Changes in the interest rate differential is one of the metrics closely watched by the CBTT. As the rate differential is likely to remain positive over the next 12-18 months, this will further strengthen the CBTT's hand to lower the policy rate.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

Another key variable that plays a role in the CBTT decision making process, is inflation. Although the central bank does not have an official mandate to maintain domestic prices within a specific band, it often conducts its monetary policy decision with inflation in mind. Subdued international prices and domestic consumption are likely to help keep inflation low over at least the next 18 months. In March, headline inflation was 0.4% and is expected to remain below 2% over the next 12-18 months because of the factors cited previously. This too will provide additional ammunition for the CBTT to cut the policy rate over the next 6 months.

External Account and the Domestic Currency

The current account is expected to move from a surplus of 5.3% of GDP in 2019 to a deficit of 4.7% in 2020 and is expected to remain in deficit over the medium term. In the 5 years leading up to the collapse in oil prices in 2015, Trinidad and Tobago maintained a healthy current account surplus (CAS) averaging 15.6% per annum over the period. Hydrocarbon and related products accounted for well over 80% of exports but have since diminished to 50% in 2019 owing to a combination of subdued prices and falling output. Investments in the oil sector have not matched pace with the maturation of existing infrastructure resulting in falling output, in particular in natural gas. This has negatively affected the production of some products, including methanol, which uses natural gas as a key input. Assessing the pipelines of investments in the industry, nothing indicates that higher levels of investments are expected over the medium term. The cost of developing additional offshore acreage makes some of these investments unattractive because of the current price outlook and the high cost of extraction, as some of these acreages are in deep waters. The repatriation of profits from oil companies remains relatively robust, as reflected in the decline in the primary income account and by extension the current account deficit.

Falling petro-currency inflows are partially offset by a reduction in capital investments in the industry and contraction in imports. This filters through to the foreign exchange market where shortages are pervasive. However, as the CBTT controls the value of the TT-dollar, it remains relatively stable throughout 2020. To ease pent up demand in the market, the CBTT periodically sells US dollars to the detriment of the foreign currency reserves. At the end of July, foreign reserves stood at US$7.2 billion, 5.2% lower than it was in June 2019. Reserves have fallen over the last three years. However, it subsided in Q2:20 because of lower levels of economic activity and falling imports resulting in reserves increasing 4.3% in June

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

when compared to December 2019. As the economy normalizes, pressure will increase for the TT-dollar to depreciate in the absence of an increase in exports. It is likely that the CBTT will allow for modest depreciation of the local currency as it did in 2016 to help ease conditions in the foreign currency market. Under this scenario, we expect a modest accumulation of reserves over the medium term. If however there is no shift in the policy status quo of the CBTT, reserves are likely to decline.

Outlook

The global economy faces strong headwinds in the coming quarters because of the negative effect of covid-19 containment measures on consumption, production, and government revenues. We expected subdued hydrocarbon prices and domestic consumption to continue to weigh negatively on Trinidad and Tobago's economy for the rest of 2020 through to 2021 with risk tilted towards the downside. An increase in the spread of covid-19 globally could push hydrocarbon prices further downwards due to lower consumption, while an increase in the spread at the domestic level could force the government to restrict movements and business activities. In either scenario, growth would be further affected, undermining domestic production and consumption.

The overall economic condition in Trinidad and Tobago is weak and is expected to remain relatively unchanged over the next 12 months. We expect fiscal slippage as the government increases spending to stimulate the economy in an environment where revenue intake is weak owing to low energy prices and a contraction in GDP growth. Adjustment in the currency peg is expected later down the road to preserve reserves (NIR) and help fend off a rating downgrade. Inflation is expected to remain weak, which will provide an opportunity for the CBTT to coordinate its policy with the fiscal authority to help stimulate growth. Further cuts in the policy rate are expected in 2020 and/or Q1:2021.

We expect the fiscal deficit to expand in 2020 and remain elevated in 2021, unravelling efforts to consolidate the fiscal accounts over the last two years. Debt to GDP is likely to expand to 71% in 2020 and remain relatively static in 2021. Thereafter it is expected to trend downwards. So far the government has committed to spend US$1.5 billion to help stimulate the economy and limit downward pressure on growth. However, as downside risk is high in the global economy, additional stimulus may be required to attenuate further fallout in growth. With minimal cuts expected in the budget under this scenario and contraction in revenues, the fiscal deficit would widen and debt to GDP increase.

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

We believe that the government will allow the TT-dollar to depreciate over the medium term. The global pandemic has exacerbated pressure on the external accounts, which has been in decline over the last five years due to a reduction in energy prices and curtailment in exports. The current account moved from a large surplus to a deficit and is expected to remain in a deficit over the medium term. Maintaining the peg will continue to weigh negatively on reserves, which have declined consistently over the last three years. Structural rigidities and high costs associated with tapping deep-water hydrocarbon acreage will weigh negatively on production in the coming years. Therefore, the CBTT is likely to adjust the peg to prevent further hemorrhaging of reserves and lower the risk of the sovereign losing its investment-grade ratings from Standard and Poor's. Moody's Investor service already rates the credit as non-investment grade. Losing the investment-grade ratings would lead to an increase in external borrowing costs, forcing the government to monopolize issuance in the domestic capital market.

We expect inflation to remain muted over the next year and a half due to weak external prices and domestic consumption. The risk is weighted towards the downside, as steeper contraction in global and domestic growth could push prices further downwards. On the flip side, an increase in global prices, including energy, could push prices higher. This risk however is low in our estimation based on how global conditions are expected to evolve over the next year.

It is our view that the CBTT will further reduce the policy rate to drive domestic economic activity. A confluence of global and domestic factors influence this view, including weak domestic growth and inflation, and the expectation that the Fed will maintain the current policy rate for the next year at least.

Sources: Bloomberg and Fitch Connect

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.

APPENDIX

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 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.