STERLING SOCIAL

Top left. On November 5, 2014, Sterling Asset Management hosted its Wine and Conversation series. Seen from L -R: Chad Puryear and Ellis Phifer of Raymond James and Associates, Dr Wesley Hughes of the PetroCaribe Fund and Charles Ross, Sterling CEO.

Top right. On November 16, 2014, Sterling participated in the UWI CB 5K Run.

Bottom left. Sterling also donated $250,000 towards providing scholarships for needy students at UWI.

Bottom right. Sterling staff initiated a Food and Clothes Drive for wards of the Maxfield Park Children's Home for Christmas. Sterling CEO, Charles Ross also made a presentation of a laptop to a ward of the Home as part of the drive.

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2014 CHRONICLES OF VENEZUELA

by Marian Ross

Marian Ross

Venezuela has dominated emerging market news for the past 9 months. According to Bloomberg data, USD denominated Venezuelan bonds lost an average of 31% in 2014. This melodrama was prompted by a widely publicized report from two Harvard economists that predicted an almost inevitable sovereign default. Prices of bonds issued by the sovereign and the State oil producer Petroleos de Venezuela (PDVSA) fell sharply as a result. Their report cited a shortage of foreign exchange (as a result of decade long currency controls) and poor economic growth as the primary factors eroding the Government's ability to repay its debt.

The significant decline in oil prices further compounded the negative market sentiment. Oil accounts for over 95% of Venezuela's exports; the price of Venezuelan oil fell by more than 50% in 2014. In early September 2014 S&P downgraded Venezuela's credit rating from B- to CCC+. Their analysis cited a deteriorating economy and rampant inflation. In fact, it is projected that the Venezuelan economy will contract 3% in 2014 and by 1.5% in 2015. Consumer prices rose 63% in the 12 months through August 2014 and the minimum wage has been increased 3 times since the start of the year. Rising social unrest has also created unease among investors. The revenue generated from oil and tax income is quickly falling short of the massive current account and fiscal deficits that the Government is accumulating.

However, there are factors that are encouraging buyers to take advantage of what some deem to be an exaggerated market reaction. For example, Venezuela maintains the largest natural crude oil resources in the world. They have also demonstrated a willingness to honour their debt. On October 8th 2014, the country paid US$1.56 billion of Government bonds that matured and the State oil company Petroleos de Venezuela redeemed US$3 billion of debt that matured on October 28th, 2014. This temporarily provided a modicum of comfort to investors. Some speculators took the opportunity to purchase shorter dated debt at the steeply discounted prices on offer. However, this fleeting sense of security was short lived. Despite a

THIS ISSUE

THE TEAM

Charles Ross	*CEO*
Pamela Lewis	*Sales*
Kevin Richards	*Sales*
Lisa Minto	*Sales*
Judith Bloomfield	*Operations*
Eugene Stanley	*Trading*
Marian Ross	*Trading*

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2014 CHRONICLES OF VENEZUELA
Continued

series of public pronouncements on economic reform, President Maduro has not implemented any new policies or changes. In late 2014, he announced his intention to devalue the currency and increase the crude oil and petroleum products tax domestically; significant steps that would help to reduce the country's deficit. However, no action has been forthcoming. This week, Maduro announced that he has secured a loan of US$20 billion from China. Some analysts have published research reports supporting overweight positions in PDVSA, particularly at the shorter end of the curve and at price levels below potential recovery values. These analysts highlight the relative ease with which Venezuela could significantly improve its fiscal position. For example, reducing the size of oil and gas subsidies, devaluing the currency, reducing imports, and foregoing current expenditure on infrastructure projects and social spending. They also cite Venezuela's US$22.5 billion in foreign reserves. It is estimated that this is sufficient to cover about two years of overseas debt payments for the Government and PDVSA. However, some analysts feel that the political consequences of pursuing the necessary economic reform are too severe and that Maduro is unlikely to "take the bitter medicine".
Investors seeking to profit from the discounted prices would be well advised to stay short and be prepared for further price declines given the uncertainty around the direction of oil prices and Venezuela's political regime. On the other side of the trade, selling amidst market upheaval is usually ill advised, particularly if the potential recovery value in a default may be above the current market price.
Any Venezuela trade is a gamble, and investors should be prepared to withstand a potential loss or count each blessing as it may or may not occur.

Eugene Stanley

DESPITE POSITIVE SIGNALS, FIXED INCOME MARKET STILL REMAINS AT A STANDSTILL
by Eugene Stanley

The fortunes of the Jamaican economy remained much improved in 2014. Economic activity has picked up, evidenced by first and second quarter Gross Domestic Product (GDP) growth rates of 1.6% and 1.8%, respectively, as reported by the Planning Institute of Jamaica (PIOJ). There continues to be favourable performances under the 2013 Extended Fund Facility with the IMF evidenced by success in all quarterly tests to date. The rates of devaluation and inflation has slowed compared to outturns in 2013 and investor support for the government's external debt is evident in the ongoing recovery in the prices of GOJ's global bonds and the recent success in raising over US$800M on the international capital markets.

However, despite the aforementioned improvements, there remains the absence of an active secondary market for the trading of locally issued GOJ bonds as investors continue to shun the domestic debt which has been the target of the two debt exchanges to date. As a result and combined with increased open market operations by the central bank, Jamaican dollar (JMD) liquidity remains challenged although much improved since the latter part of May with the maturity of a local GOJ bond. Short-term Jamaican dollar interest rates remain elevated, but have been trending downwards. For instance, 30-day money market rates which averaged around 8% at the start of the year progressed to an average of around of 9% by the second quarter but in recent months have retreated to the 8% region. Additionally, given the absence of secondary market trading in GOJ's domestic bonds, there continues to be no significant deviation in yields on long term instruments and so 2-year to 30-year GOJ instruments continue to offer yields within the range of 7.50% to 12% respectively.

In the primary dealer market, with the exception of its monthly offers of Treasury Bills through the Bank of Jamaica (BOJ), the Ministry of Finance (MOF) has been absent from the domestic capital market since the execution of the last debt exchange in February 2013. This is consistent with the government's debt reduction commitment. With the absence of GOJ from the market, BOJ continues to offer short to medium term instruments on a monthly basis to regulate the flow of JMD. Notwithstanding its increased intervention in the primary market, BOJ continues to offer its 30-day instruments to manage daily JMD liquidity and has kept the rate at 5.75% since a 50bps reduction in February 2013. There also continues to be sporadic offers of commercial type offerings and private placements, as corporate borrowers seek to take advantage of relatively low interest rates and as investors seek to diversify their portfolio away from predominantly GOJ risk.

Treasury bill yields trended upwards for the first and second quarters of 2014 but have been trending downwards since the third quarter as a result of improving JMD liquidity conditions. 30-day T-bill rate started the year at 6.25% and peaked at 6.99% in May and following fluctuations thereafter, declined to 6.83% in October to record a year-to-date (YTD) increase of 58 basis points. The 90-day T-bill rate started out at 7.53%, increased to 8.35% by March and then steadily declined to 7.34% by October to record a year to date reduction of 19 basis points; while 180-day rate which began at 8.25% increased to 9.11% by March and then fell to 7.73% by October to post a year to date reduction of 52 basis points.

In the foreign exchange market, the Jamaican dollar has devalued against the US dollar for each month up to July but recorded modest appreciation in August and September of 0.1% and 0.06%, respectively, before reverting to a depreciation of 0.08% in October. The JMD started the year with a weighted average selling rate (WASR) of J$106.38 per US$1 and then eroded at a rate of 0.6% per month to record a year to date devaluation of 6.0% or a loss of $6.38 to $112.76 as at October 31. This is in contrast to a devaluation of 13% or a loss of $12.01 over the corresponding period of 2013. The Bank of Jamaica occasionally bought and sold USD into market to regulate the pace of devaluation of the JMD.

The Net International Reserves (NIR) commenced the year at a level of US$1.047 billion or 12.60 weeks of reserves of goods and services imports and fluctuated throughout the first half of the year before receiving an injection of US$800 million in July through a bond sale on the international capital market by GOJ to reach a level of US$2.12Billion or reserves of 20.21 weeks as at the end of July. The NIR further progressed over the ensuing months and closed the 3rd quarter at a level of US$2.2Billion or 19.52 weeks of imports. Year to date, the NIR has grown by US$1.15Billion which is in contrast to a decline of US$215 million over the corresponding period in 2013. It is however, expected to fall in October owing to the repayment of a GOJ international bond that matured during the month.

With respects to inflation, Jamaica has recorded an average monthly inflation rate of 0.79% which has resulted in a calendar year to date level of 7.2% as at the end of September compared to a level of 7.7% for a similar period last year. So far, the highest monthly rate at 2.1% was recorded in September and the lowest level of negative 0.3% was achieved in April. For the fiscal year to date, as at September, inflation is estimated at 5.4%, compared to 4.8% for the same period last year, and the point-to-point inflation rate was at 9.0% versus 10.50% for the corresponding period in 2013. Inflation ended calendar year 2013 at 9.7% versus 8% in 2012 and 8.3% for the fiscal year 2013/2014 versus 9.1% in fiscal year 2012/2013. The average annual inflation rate has been 10.70% over the last 5 years, with a high of 16.8% in 2008 and a low of 6.0% in 2011.

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Sterling Personality
Marva Chang

Marva Chang

Marva joined the Sterling family in April 2011 with over 25 years' experience in the fields of Accounting and Auditing. She has responsibility for the financial management and administration of the Company, and for ensuring compliance with regulatory and statutory requirements.
Prior to joining Sterling, Marva held a number of senior finance positions in the private sector including Deloitte & Touche, Salada Foods and Manpower and Maintenance Services Limited. Marva is a Fellow of the Association of Chartered Certified Accountants (FCCA) and a Fellow of the Institute of Chartered Accountants of Jamaica.