

BOJ ADDS LIQUIDITY TO FX MARKET

Today Bank of Jamaica sold US\$30 million to Authorised Dealers and cambios via Bank of Jamaica's Foreign Exchange Intervention and Trading Tool (B-FXITT).

This "flash sale" auction, a feature of B-FXITT, follows a similar operation of US\$20 million conducted on 17 January 2019, both of which have been aimed at offsetting the effects of excessive daily volatility in the foreign exchange market in recent weeks.

Gross foreign exchange earnings flowing into the economy have remained buoyant and as such, on the macro level, there is no shortage of foreign exchange. There is information, however, that several firms are seeking to borrow funds in foreign exchange from the local capital market and this, combined with normal commercial demand, has led to increased demand and recent price movements in response.

These temporary gaps between demand and supply are normal in a market and with more than adequate foreign exchange reserves, Bank of Jamaica stands ready to address these gaps when required.

It must be noted that efficient intervention and oversight of the market rely on the information the Bank receives from foreign exchange dealers, who in turn depend on the information they receive from their clients. While this flow of information has been improving, a lot more improvement is still needed. More foreign exchange users need to give their dealers advance notice of their intention to buy or sell foreign exchange. This will enable both dealers and the central bank to have a more complete picture of evolving market needs and be in a position to act on this information.

In addition, businesses are being strongly encouraged to use forward contracts with their dealers to manage their foreign exchange transactions. Fluctuations in the rate can be inconvenient, but it is those very fluctuations which create the opportunity for using forward contracts to manage foreign exchange transactions more efficiently and to plan more long term.

Temporary supply and demand conditions aside, we must be reminded that as of 2017, contrary to what we have been accustomed to, we have a new foreign exchange market which behaves differently. It is no longer a market in which the exchange rate drifts in one direction only, and as long as prevailing economic conditions remain as

positive as they are, it is normal and to be expected that the exchange rate will keep fluctuating in both directions.