



# EIU MONITOR

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# Main Highlights...

## Geopolitical

Page 1

- Russia/Ukraine war updates – 6 months on
- World divided on Russia's invasion of Ukraine
- Rising tensions between the US and China

## Trade

Page 5

- Trade trends in the major economies
- Trends in global trade

## Banking and Finance

Page 8

- Interest Rates
- Other developments

## Commodities

Page 12

- Energy
- Gold
- Global food prices

## Tourism

Page 15

- Global airlines' financial performance
- Caribbean developments

# Geopolitics

## Russia/Ukraine war updates - 6 months on

### Casualties

**9,000**

Ukraine Military Personnel Killed

**45,200**

Russia Military Personnel Killed or Wounded. (IMF, 2022)

### Largest refugee crisis since World War II

**13 Million**

Forced to flee their homes since the onset of the Russia/Ukraine war

**6.6 Million**

Ukrainian citizens internally displaced

**6.7 Million**

Refugees dispersed across Europe (Bloomberg, 2022)

- On September 2<sup>nd</sup>, 2022, Russia cuts off Nord Stream 1 gas exports to Europe indefinitely
- Putin threatens to do away with Ukraine grain deal
- EU sanctions on Russian coal commenced on August 10<sup>th</sup>, 2022

## THE US-MEXICO-CANADA AGREEMENT (USMCA)

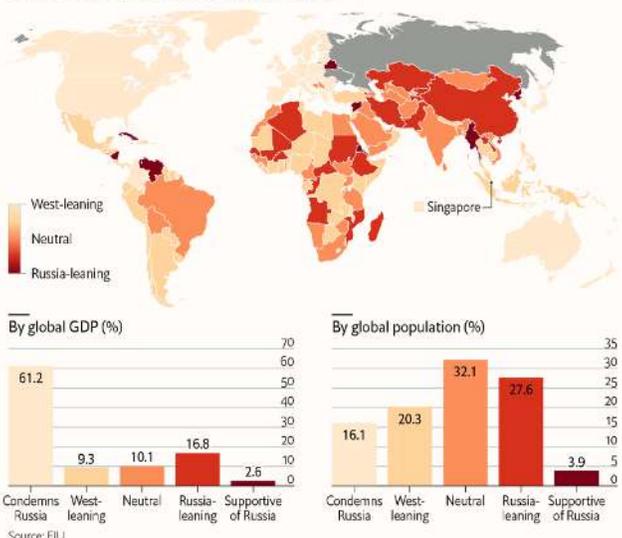
### US and Canada energy disputes with Mexico

- The US and Canada consulted with Mexico on July 20<sup>th</sup>, 2022 over discriminatory energy policies in Mexico that violate the provisions in the trade pact
- In Mexico, the state-owned oil firm, (Pemex) and the state-owned electricity company, Comisión Federal de Electricidad were given de facto market dominance since 2018

# Geopolitics

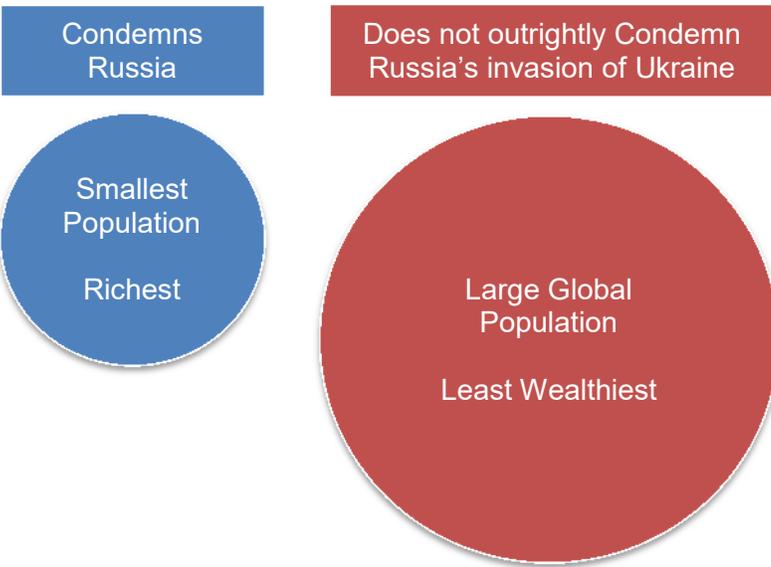
## World divided on Russia's invasion of Ukraine

Two-thirds of the world's population live in countries that are neutral or Russia-leaning regarding the war in Ukraine



## Rising tensions between the US and China

- In early August 2022 → China began a series of military drills around Taiwan in response to a visit by the speaker of the US House of Representatives Nancy Pelosi, to the island
- Moderate Risk → Both China and the US will want to avoid a direct confrontation
- Planned Chinese military exercises can disrupt regional trade flows, shipping lanes and air routes around Taiwan



# Geopolitics

## Middle-East diplomacy update



Source: EIU-UK

## TWO MAJOR MIDDLE EAST BLOCKS

- ISLAMIST (LED BY IRAN)
- GULF MONARCHIES (LED BY SAUDI ARABIA)

## Possible threats remain

August 5<sup>th</sup>, 2022



Israel launched air strikes in Gaza which resulted in the death of a Palestinian Islamic Jihad (PIJ) senior commander, several PIJ fighters and 2 civilians

August 7<sup>th</sup>, 2022



Egypt helped to mediate a ceasefire between Israel and Palestine. However, tensions will remain high

- Saudi Arabia and Israel are both still against Iran acquiring nuclear weapons
- Tensions between Israel and Iran will remain high
- Conflict between Syria and Lebanon threatens to escalate
- Conflict in Yemen continues

# Geopolitics

## Implications

- The cutting off of gas flows to Europe from the Nord Stream 1 pipeline can exacerbate the gas supply crunch in Western Europe ahead of the winter period. This can cause a further rise in global energy prices. Some European countries are already experiencing weak growth as many industries/businesses are reducing work hours to reduce energy consumption. Weak growth or contractions in Western Europe this year can result in negative spill-over effects for some tourism-dependent economies in the Caribbean.
- If Russia reverses course on the agreement to allow grain shipments from Ukraine, this can cause global inflation to accelerate significantly.
- A divided global stance on the Russia/Ukraine war and the possibility of mounting tensions between the US and China, creates uncertainty and this may constrain global economic growth as investors may delay key investments.
- Progressive diplomacy in the Middle East bodes well for the global oil market. Any rising tensions in that region could potentially negatively impact the production and export of oil from some of the top global oil producers<sup>1</sup>, such as Saudi Arabia (2), Iraq (6), United Arab Emirates (7), Iran (9) and Kuwait (10). Higher prices for oil could benefit net exporters of oil, like Guyana, but there is also the threat of rising inflation and weakened air travel due to higher air fares stemming from rising fuel prices.

*1 - Taken from the top 10 oil producers as at 2021*

# Trade

There are multiple ways in which goods and services are measured. The two most common methods involve measuring the amount / quantity of the good or service provided and measuring their monetary value. According to the United Nations Conference on Trade and Development (UNCTAD), over the last 18 months most of the growth in global merchandise trade was nominal. With nominal growth, the value of goods and services produced (or in this case traded) is measured and compared using the current cash value of the good or service i.e.: the dollar value of the product at the time it was measured. This approach does not take into consideration the impact of inflation. Hence, in the first quarter of 2022 (Q1 2022) the value of global trade was around 30 percent higher than the pre-pandemic levels of 2019, however the volume of trade (the quantity) increased by a much lower 6 percent. The divergence between the value and volume measures is due to rising inflation that has been a global phenomenon after the pandemic-inspired lockdowns of 2020.

**Merchandise trade in values and volumes (index 2019 = 100)**



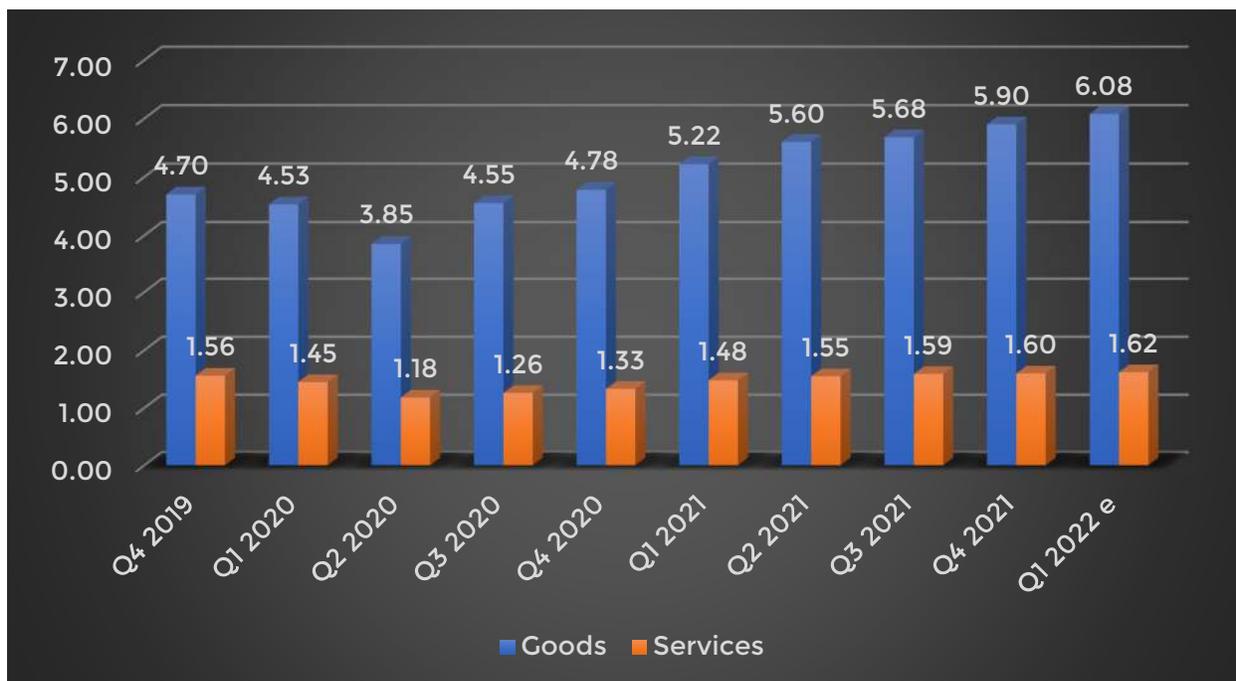
Source: Global Trade Update July 2022 - UNCTAD

While the value of global trade continued to increase through Q1 2022, its rate of expansion had slowed. Overall, the value of global trade reached a record level of about US\$7.7 trillion in Q1 2022, an increase of about US\$1 trillion compared to Q1 2021, and US\$250 million higher than Q4 2021.

Trade in goods and trade in services both grew during Q1 2022. Trade in goods reached roughly US\$6.1 trillion, a 25 percent increase compared to Q1 2021, and a 3.6 percent increase over the previous quarter. Trade in services totalled approximately US\$1.6 trillion, 22 percent higher than the same period a year earlier and a 1.7 percent increase over Q4 2021. Trade growth is expected to remain positive but continue to slow during Q2 2022.

# Trade

## Global Trade: Goods and services (US\$ trillions)



Source: UNCTAD

## Trade trends in the major economies

### Imports and exports of major trading economies

	Goods		Services	
	Q1 2022 compared to 2019 average		Q4 2021 compared to 2019 average	
	Imports	Exports	Imports	Exports
Brazil	30%	43%	27%	0%
China	35%	49%	8%	58%
India	37%	34%	16%	21%
Japan	20%	8%	5%	19%
Russian Federation	15%	38%	15%	0%
South Africa	19%	46%	15%	0%
United States	30%	17%	1%	8%
European Union	37%	12%	3%	10%

Figures in black represent increases, figures in red represent decreases

Source: UNCTAD

**Note:** The data in the above table refers to changes in value not changes in quantity

# Trade

## Key points

The countries with significantly higher exports of goods compared to imports, were generally major exporters of commodities such as food and fuel.

Most of the increases in exports of services were modest compared to that of goods, suggesting that the cost (and to a lesser extent quantity) of services did not increase as much as those of goods.

It is unlikely that the cost of services would have decreased from 2019 to 2021. The notable decline in the value of service imports in several countries, therefore suggests that the take-up of some services may have been reduced or deferred or locally available alternatives were found.

## Notable facts about global trade leaders

EU ➡ Largest importer and exporter of merchandise by value  
(Over the last 20 years)  
Top source of imports for 38 developing economies

China ➡ Largest export market for 35 countries.  
Top source of imports for 44 countries.  
Second-largest trading partner for developing economies  
(Over the last 20 years)

US ➡ Largest world importer.  
In 2021, it was the top source of imports for 28 countries and largest export market for 30 countries

EU, China and the US ➡ Top trading partners with 75 percent of countries

## Trends in global trade

The Russia/Ukraine war continued to put upward pressure on commodity prices in the second quarter of 2022, particularly those of energy and food. In the short term, because of the inelastic global demand for these commodities, the persistent high food and energy prices that result, will likely lead to continued rises in the value of global trade and the flattening or decline in the volume of global trade.

In addition to the disruption to trade caused by the war, the sanctions imposed on Russia added an additional layer of complexity to the global network of supply chains that were stressed and or bottlenecked since 2021. Consequently, concerted efforts to shorten supply chains, diversify suppliers and nearshore operations are regular features of global production and trade today.

## Implications

- Systems and business relationships endure because they have evolved into the most efficient and beneficial arrangement for all the involved parties. The disruptions to supply chains, production and transportation over the last year have made it necessary to develop alternative systems and relationships. Invariably, these alternative systems will be less efficient and more costly than what existed before. Regional states, like several developing countries across the world, may find themselves having to pay more for less varied or less preferable goods, at least over the short term.

# Banking and Finance

## Interest Rates

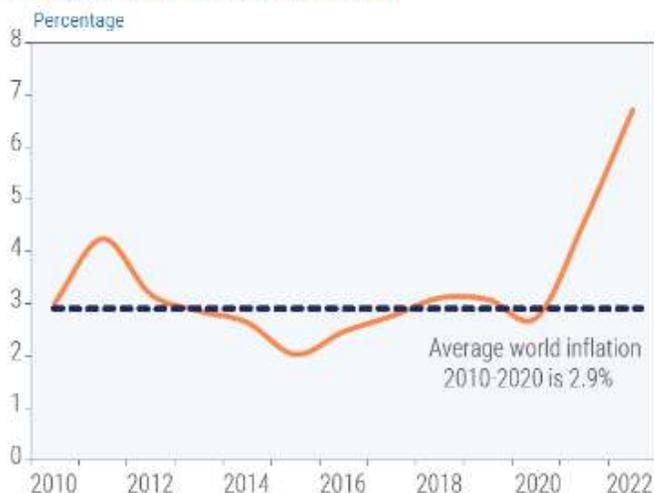
In 2022, historic inflationary pressures have been exerted on the global economy, forcing several leading central banks to rapidly tighten their monetary policy positions. In recent months, some economies have experienced the fastest rise in domestic interest rates in decades, as prevailing conditions compelled some central banks to lift rates, in some cases from historic lows. This has prompted concerns that significantly higher interest rates may plunge some economies into recession. Other central banks have chosen to prioritise the support for their domestic economies and have thus far, decided against significant interest rate hikes. Global inflation is projected to increase to 6.7 percent in 2022, twice the average of 2.9 percent recorded during 2010–2020 (Figure 1). Soaring food and energy prices are having knock-on effects on the rest of the economy, as reflected in the significant rise in core inflation in many economies.

## Trinidad and Tobago

In its most recent Monetary Policy Meeting held in June 2022, the Central Bank of Trinidad and Tobago stressed that the global economy is 'less upbeat' than it was when the year began, mainly due to the supply chain disruptions caused by the Russia/Ukraine conflict. This has added to the pressures previously faced due to the COVID-19 pandemic. The Monetary Policy Committee (MPC) has noted that higher international interest rates are already being reflected in US-TT interest differentials. Nevertheless, the MPC opted to maintain the Repo rate at 3.50 percent.

Figure 1

### Global annual inflation, 2010-2022



Source: UN DESA estimates and forecasts.

Note: Data for 2022 are projections. Data excludes the Bolivarian Republic of Venezuela.

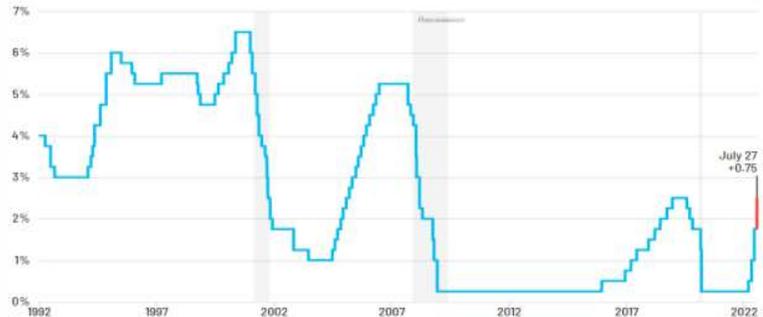


# Banking and Finance

## The United States of America



Figure 2 Federal funds target rate



Source: CNN

The Federal Funds rate was increased for the fourth consecutive time in July. The rate was increased by 75 basis points (bps) to 2.25-2.50 percent, with Americans facing inflation rates not seen since the 1980's. Figure 2 illustrates the changes in the Fed funds rate for the period 1992 to 2022. The 2022 rate increases were the sharpest over the 30-year period. With low unemployment, the economy no longer needs the historically accommodative stance adopted by the Fed during the pandemic.

## United Kingdom

Borrowing costs have reached their highest level since 2009 as the Bank of England (BoE) increased its policy rate yet again in August, this time by 50 bps to 1.75 percent. This was the sixth consecutive increase. As it relates to growth, the United Kingdom is projected to enter a recession in the fourth quarter of 2022, which could last for up to five quarters.



## Europe



The European Central Bank (ECB), the central bank of the 19 nations that share the euro, executed its first increase since 2011, raising its benchmark rate by a-larger-than-expected 50 bps in July. This ended eight years of negative rates as the bank endeavours to ease inflationary pressures. The rates were kept low previously, to deal with the region's sovereign debt challenges as well as to help mitigate the effects of the COVID-19 pandemic. The ECB's deposit rate is now 0 percent, the main refinancing operations rate is 0.5 percent, and the marginal lending facility is at 0.75 percent.

# Banking and Finance

## China

China has focused its monetary policy on supporting domestic economic growth thus far for 2022. The People's Bank of China (PBOC) held its key rates for corporate and household loans steady at its July fixing. However, the PBOC continues to monitor central bank policy actions abroad and stands ready to protect against any negative spillovers. In response to the strengthening dollar, the reference rate for the domestic currency, the yuan, was set at a higher level than previously expected.



## Japan



The Bank of Japan (BoJ) has held true to its commitment to aid the domestic economy's recovery from the COVID-19 pandemic by maintaining ultra-low rates. During its July meeting, the bank decided to maintain its key short-term interest rate at -0.1 percent and 10-year bond yields around 0 percent. The BoJ cut its 2022 GDP growth forecast to 2.4 percent from the 2.9 percent it projected in April 2022. The revision was based on the slowdown of global economic activity and persistent supply chain issues due to the prolonged war in Ukraine.

## Other developments

- US President Joe Biden has announced plans to cancel up to \$10,000 in student debt for Americans who earn less than \$125,000 annually. The announcement comes after increasing pressure from certain sections of the Democratic party and months of internal debate. The University of Pennsylvania estimates that the initiative will cost the government \$300 billion.
- In late August, the Reserve Bank of India (RBI) removed restrictions previously imposed on American Express in April 2021. The company was prohibited from onboarding new customers in India because it was not in compliance with rules that require foreign card networks to store domestic payments data only in India to facilitate unrestricted access by the associated regulatory authorities. Mastercard was also subject to similar restrictions.
- On August 25<sup>th</sup>, Citigroup announced its decision to wind up its consumer and commercial banking operations in Russia. The move is in line with sanctions imposed on Russia as a result of its invasion of Ukraine and will affect 2,300 of Citi's 3,000 employees in the country.

## Implications

- Higher interest rates are likely to restrict economic activity in the economies in which they are implemented.
- The strengthening of the US dollar will make that country's exports relatively more expensive and its imports cheaper.
- Higher international rates hold severe consequences for developing countries, including pushing up the cost of debt financing, increasing the value of outstanding foreign debt and exerting downward pressure on their currencies.

# Commodities

## Energy

- Energy prices increased markedly in the second quarter of 2022, heavily influenced by the fall-out of the ongoing Russia/Ukraine war.
- They eased notably in the first few weeks of the third quarter however (Figure 3), with growing fears of a global recession and weaker energy demand in China, due to major lockdowns that formed part of its COVID-19 response.
- Russian output recovered strongly as the Asian market provided a valuable outlet for crude rejected by the West. However, it may be more difficult to find substitute buyers when the planned EU ban on most Russian crude begins in December 2022.
- Global consumption of petroleum and liquid fuels increased by 0.9 million barrels per day (b/d) year-on-year (y-o-y) to 98.8 million b/d in July 2022 (EIA).
- At the end of July, US natural gas inventories were 12.5 percent below the five-year average (EIA).

## Gold

- Gold prices were determined by strong opposing forces in the second quarter, with monetary policy tightening in the US slightly outweighing the effects of high inflation and economic uncertainty due to the conflict in Europe.
- Higher US interest rates caused the dollar to strengthen, resulting in a 0.4 percent fall in gold prices to US\$1,870.58 per troy ounce in the second quarter of 2022 compared to the previous quarter.
- Nevertheless, with real interest rates still negative and the prospect of recession constraining policy rate increases, gold remains attractive to investors.
- Continued uncertainty due to ongoing geopolitical tensions will also be supportive of elevated prices.

### Opposing pressures on Gold prices

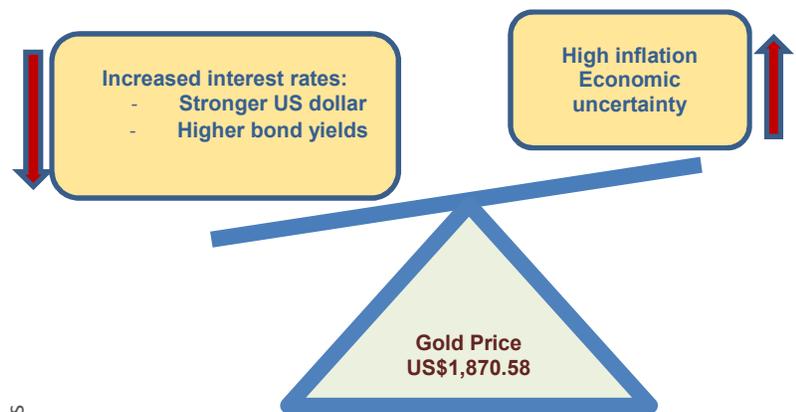
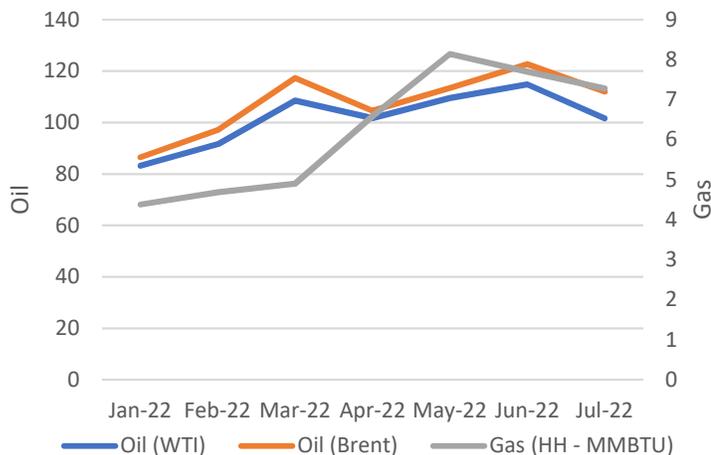


Figure 3: Energy Prices



Source: EIA

# Commodities

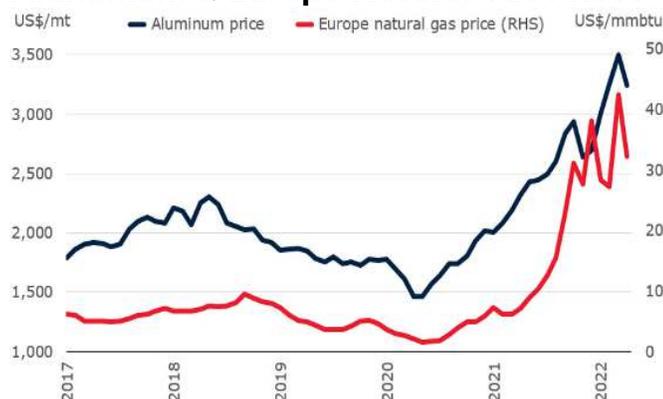
## Global food prices

- In July 2022, the Food and Agriculture Organisation's (FAO) food price index registered its steepest monthly decline (8.6 percent) since October 2008 but was still 13.1 percent above July 2021 levels. This was the fourth successive monthly decline.
- Declines were recorded in the prices of all major food commodities with cereals and vegetable oils posting the largest falls.
- The price of all cereals captured by the index fell, with wheat sliding 14.5 percent, even as it remained 24.8 percent above July 2021 levels. The decrease in cereal prices was due to the prospect of an increase in available grain stocks as a consequence of the agreement with Russia to unblock Ukraine Black Sea ports, as well as increased supplies from other producer nations due to seasonal harvests.
- While vegetable oil prices fell by 19.2 percent, the decreases in dairy, meat and sugar were comparatively tame at 2.5 percent, 0.5 percent and 3.8 percent, respectively.
- Despite these encouraging developments, global food prices are expected to remain well above 2021 levels for some time.

## Metals

- After reaching record highs in March, metal prices eased in the second quarter of 2022, as demand was dampened by major lockdowns in China.
- Although weaker global economic growth may exert further downward pressure in late 2022, historically low inventory levels may help to keep prices elevated.
- Surging energy prices have caused European aluminium and zinc production to contract in the first half of 2022, given the significant fuel requirements of smelting. The fall occurred despite record high prices for both products.

### Aluminium & Europe Natural Gas Prices



Sources: Bloomberg; London Metal Exchange; World Bank.  
Note: Last observation is April 2022

Figure 4: FAO Food Price Index (% chg.)



Source: UNFAO

# Commodities

## Implications

- Although the fall in commodity prices would provide some relief to households and businesses, major contractions are required for prices to return to the levels recorded in the first half of 2021. With much of the factors responsible for spiraling prices still in play, gradual easing of inflationary pressures is more likely.
- Commodity producers are expected to continue to benefit from healthy revenue flows despite some moderation heading into 2023. This though will come at the expense of many, as high prices, including for energy, will impose further hardship on several industries, governments and families.

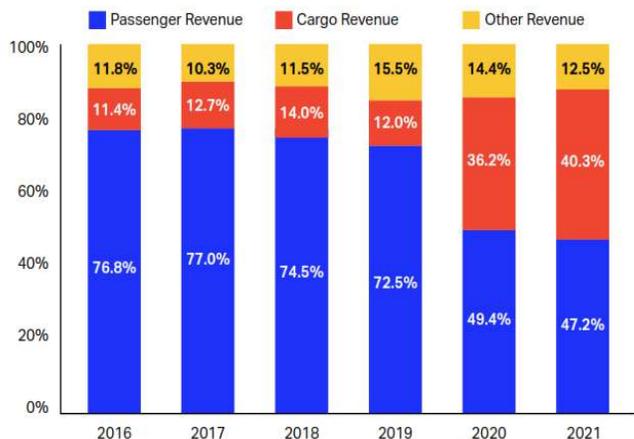
# Tourism

## The global airline industry

Activity in the global airline industry is a strong indicator of the health of the tourism sector. During the COVID-19 pandemic, public sector support as well as the thrust in air cargo shipments played an instrumental role in preventing widespread bankruptcy in the airline industry. Cargo's share of total airline revenue more than tripled between 2016 and 2021, going from 11.4 percent to 40.3 percent of total revenue (Figure 5).

- Notwithstanding the relatively slow pace of recovery to date, the Asia/Pacific region is expected to register the fastest growth in outbound passengers over the next two decades, compared to other regions (Figure 6). The region is expected to add 2.5 billion additional passenger journeys per year by 2040, at an average annual growth rate of 4.5 percent.

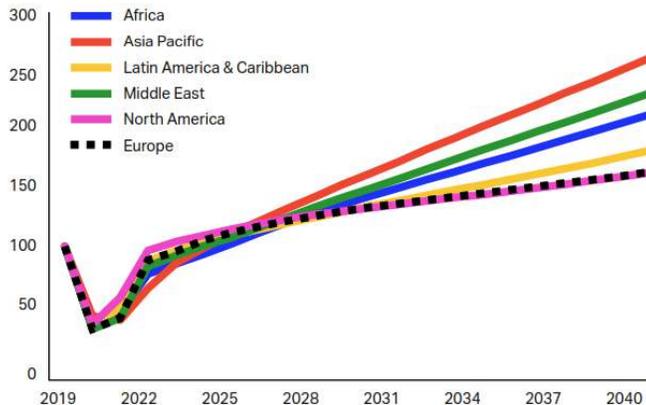
**Figure 5: Airline Revenue by Source 2016 - 2021, % of total**



Source: IATA Economics

- Global air travel is expected to return to 2019 levels by 2024 and to expand substantially over the next two decades. Between 2019 and 2040 it is forecast that air passenger numbers will increase at an average annual rate of 3.3 percent, rising to 7.8 billion passenger journeys per year at the end the forecast period.

**Figure 6: Passengers per Region, 2019 - 2040, indexed 2019=100**



Source: IATA Air Passenger Forecast

## Global airlines' financial performance

The airline industry is expected to record an improved financial performance in 2022 compared to 2021, despite continued losses.

# Tourism

- North America is expected to continue to be the strongest performing region and the only region to return to profitability in 2022. Supported by the large US domestic market and the opening of additional markets worldwide, including the North Atlantic, net profit is forecast to be \$US8.8 billion in 2022.
- In Europe, the Russia/Ukraine conflict will continue to disrupt travel patterns within Europe and between Europe and Asia/Pacific. However, the war is not expected to derail the industry's recovery. A net loss of \$US3.9 billion is forecasted for 2022.
- For Asia/Pacific airlines, strict and enduring travel restrictions (notably in China), along with an uneven vaccine rollout, have caused the sector's recovery to lag to date. As the restrictions lessen, travel demand is expected to increase rapidly. Net losses in 2022 are forecast to decline to \$US8.9 billion.
- In Africa, lower vaccination rates have restricted the region's air travel recovery. However, some acceleration is likely to occur this year, which will contribute to an improved financial performance. Net losses are forecasted to be US\$0.7 billion in 2022.
- Traffic volumes in Latin America recovered robustly in 2021, supported by domestic markets and relatively fewer travel restrictions in several countries. The financial outlook for some airlines nevertheless remains fragile and the region is expected to record a net loss of \$US3.2 billion this year.

## Caribbean developments

- Discussions are taking place within CARICOM regarding the establishment of a new regional air carrier.
- Dominica's new international airport will be completed and operational by 2026.
- Delta, American Airlines, Air Canada and British Airways have either added or relaunched their services to various Caribbean destinations.
- During the months of July and August, Jamaica, St. Kitts and Nevis, St. Lucia and Grenada all successfully held their Carnival celebrations. This, coupled with Anguilla, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, St. Kitts and Nevis and the US Virgin Islands adjusting or completely removing their COVID-19 restrictions, resulted in an uptick in intra-regional travel for the period.

## Hotel Construction industry

The June to August period saw the announcement of several new construction projects in the Caribbean:

- ANI Private Resorts unveiled plans for a second development in Anguilla. The 15-suite estate will be located on Shoal Bay and is planned for a 2024 opening.
- A new US\$45 million hotel will be constructed at Liliendal, Greater Georgetown, Guyana by Pasha Global and Blue Bridges Inc. By the end of the first phase of construction, in 2024, some 150 hotel rooms will be added to the country's room stock. The second phase of construction will be completed by 2025 where another 350 to 500 rooms will be added.

# Tourism

- Dream Hotel Group announced plans to bring Cas en Bas Beach Resort to St. Lucia in 2023. The Cas en Bas Beach Resort will comprise two contemporary low-rise buildings and will feature multiple food and beverage venues.
- Sandals is set to add 25 new rooms to Sandals Halcyon Beach Resort in St. Lucia, comprising 20 beachfront, two-story villa rooms and five Rondoal suites.
- Sandals Regency La Toc will also see the introduction of a village comprised entirely of 20 Rondoal suites.
- The Government of St. Vincent and the Grenadines signed a contract for the construction of a state-funded, 92-room Holiday Inn Express and Suites. NH International (Caribbean) Limited was awarded the contract to build the EC\$52 million (US\$19.2 million) hotel.

## Implications

- There is an opportunity for the Caribbean to benefit from increased arrivals from the Asia/Pacific market due the strong growth projected in that region's outbound passenger journeys to 2040. Appropriate marketing programmes could prove quite useful.
- Ongoing and new hotel construction projects will help to expand the Caribbean's room stock, which will in turn enhance the long-term growth prospects of the tourism industry.