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Geopolitics

Abraham Accords

These are a series of peace agreements between Israel and several Arab League countries, brokered by the US. For many years, these countries refused to recognise Israel, a stance which helped to perpetuate many years of Israeli-Arab Conflict.

The first agreement was struck between Israel and the UAE in August 2020 and marked the first Arab-Israeli normalisation since 1994, when Jordan and Israel signed a peace treaty. Abraham Accord agreements with Bahrain and Morocco were secured in 2020.

Sudan agreed to normalise relations with Israel in 2020 but will only move to make the deal official in 2023. This is particularly symbolic, since Sudan was the venue, three months after the Arab-Israeli war in 1967, where the Arab League vowed not to recognise Israel.

US Foreign Policy

After Venezuela's government and opposition signed an agreement to create a United Nations-administered fund to provide humanitarian aid to the country's citizens, the US eased some oil sanctions on the country. Consequently, Chevron is now allowed to resume limited oil extraction in Venezuela, which has the world's largest oil reserves. This move was also influenced by the effect of the Russia-Ukraine war on global supplies.

Already heightened US-China diplomatic tensions were significantly intensified in February 2023 after the US shot down what it said was a Chinese spy balloon off its east coast. Similar action was subsequently taken to destroy three unidentified objects in the ensuing days. In the wake of these incidents, the US imposed sanctions on six Chinese companies, which it said supports that country's aerospace programmes. China denied the spy claim, characterising the incident as an unintended entry of a civilian research airship. China also accused the US of multiple unauthorised breaches of Chinese airspace in 2022 alone.

Geopolitics

Although the agreements create opportunities for cooperation in security and other areas, the other Gulf States and Saudi Arabia continue to hold firm to the pre-existing Arab Peace Initiative (API). For such nations, the appeal of the Abraham Accords, would likely be enhanced, if it results in meaningful improvement in the Palestinian-Israeli dynamic.

Faced with a massive influx of illegal Cuban immigrants, the US decided to resume full visa and consular services at its embassy in Cuba in January 2023. This was the first time this was done since 2017, when a spate of unexplained health-related incidents among staff forced the US to drastically reduce the embassy's operations. The decision was taken partly to facilitate the safe and legal migration of Cubans, many of whom subject themselves to a dangerous voyage by sea in substantially over-loaded small vessels.

Russia-Ukraine war

In September 2022, Ukraine requested modern tanks from the West to capitalise on the gains it made in repelling Russian advances and to offset the mobilisation of additional Russian troops. There was understandably some initial hesitance by Germany and other countries given the risk of being drawn into the war.

Other Developments

In **Brazil**, after weeks of voicing displeasure with the result of the October 30th, 2022 election, thousands of former President Jair Bolsonaro's supporters rioted on January 8th, 2023. The insurgents attacked and inflicted significant damage on the symbols of the country's democracy and justice system namely, the Presidential palace, Congress building and the country's Supreme Court. Within hours the violent rebellion, which was intended to trigger a series of events that would return the far-right leader to power, was quelled and hundreds of rioters detained.

Geopolitics

Many tanks are expected to be delivered in the coming months. However, the long shipping time and the need for Ukrainian soldiers to first train with the new equipment, rule out a significant immediate impact. The US has also pledged \$2 billion in military aid including longer range weapons.

Since December, there has been a noticeable increase in mortar and artillery attacks by Russian forces on Kherson, weeks after it was recaptured by Ukrainian forces. The attacks also target several areas on the eastern front.

The ousting of President Pedro Castillo in **Peru** in December, ignited strong protest among his supporters, who were eventually joined by other groups that objected to government's aggressive response to the protestors. The ongoing disturbance has resulted in dozens of deaths, with 17 occurring on January 9th alone. Among the demonstrators' demands are the removal of replacement President Dina Boluarte and the conduct of fresh elections in 2023. Government has thus far resisted those calls. The demonstrations have disrupted Peru's tourism industry, negatively affecting operations at airports in the south of the country and resulting in the indefinite closure of Machu Picchu, the country's foremost tourist attraction.

The anarchy that followed the assignation of **Haiti's** Prime Minister Jovenel Moise continues to grow, with gangs exercising an unprecedented level of authority and engaging in terrifying levels of violence. They have conducted sweeping attacks on communities, politicians and journalists, carried out mass kidnappings and displaced large segments of citizens. The gangs even executed several police officers, with at least 10 occurring in the fourth week of January 2023. This drew angry demonstrations from citizens, current and former police officers, who demanded the removal of acting Prime Minister Ariel Henry and his government.

Implications

US-China relations are likely to deteriorate further before they improve. If the current situation results in a long sequence of sanctions and reciprocal measures, it will not only threaten global peace, but also impact global economic activity.

Despite the recent positive developments, US-Cuba and US-Venezuela relations will likely remain frosty for some time. Consequently, the economic challenges confronting both Latin American countries are expected to linger.

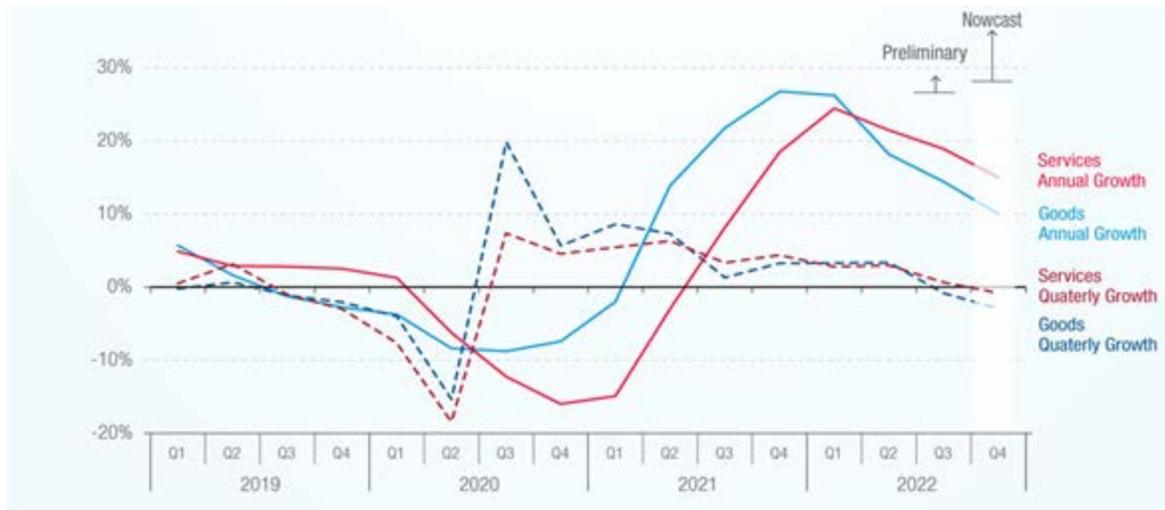
The situation in Haiti demands a substantial, multi-faceted intervention by a combination of countries, aid and multi-lateral agencies to pull the country from the quagmire of the health, economic, political, security and institutional crises that it currently faces. The longer it takes for the world to intervene in a meaningful way, the more drastic the remedial action that will be required.

Trade

Global Trade Growth (% change)

According to the United Nations Conference on Trade and Development (UNCTAD), the value of global trade for 2022 is estimated to have increased by 12 percent to a record of almost \$32 trillion. Trade in merchandise goods, or the value of material goods moving in and out of a country, rose 10 percent year over year, reaching \$25 trillion. Services trade also increased by 15 percent over 2021 to \$7 trillion.

Figure 1: Global Trade Growth



Source: United Nations

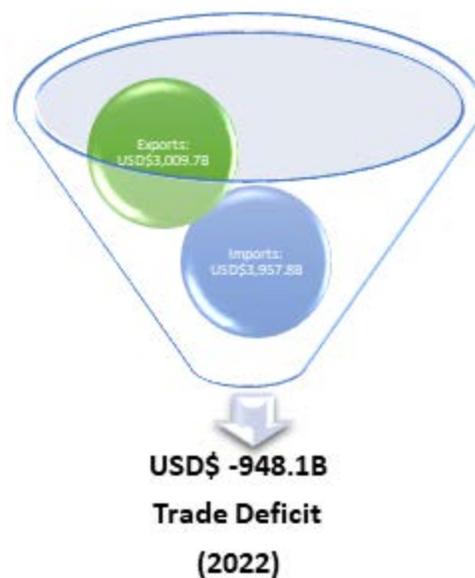
Figure 2: Regional trade growth in goods during Q3 2022



Source: United Nations

Trade

Figure 3: U.S. International Trade in Goods and Services 2022



According to the U.S. Bureau of Economic Analysis and the U.S. Census Bureau, the country's 2022 trade deficit of US\$948.1 billion was an increase of US\$103.1 billion from US\$845.0 billion in 2021. Exports were US\$3,009.7 billion, up US\$453.1 billion from 2021. Imports were US\$3,957.8 billion, up US\$556.1 billion from 2021. (see US International Trade in Goods and Services).

Figure 4: U.S. International Trade in Goods and Services



Source: US Bureau of Economic Analysis

Exports of goods increased US\$324.2 billion to US\$2,085.6 billion in 2022.

Exports of services increased by US\$128.9 billion to US\$924.2 billion in 2022.

Imports of goods increased by US\$425.7 billion to US\$3,277.3 billion in 2022.

Industrial supplies and materials increased by US\$160.9 billion.

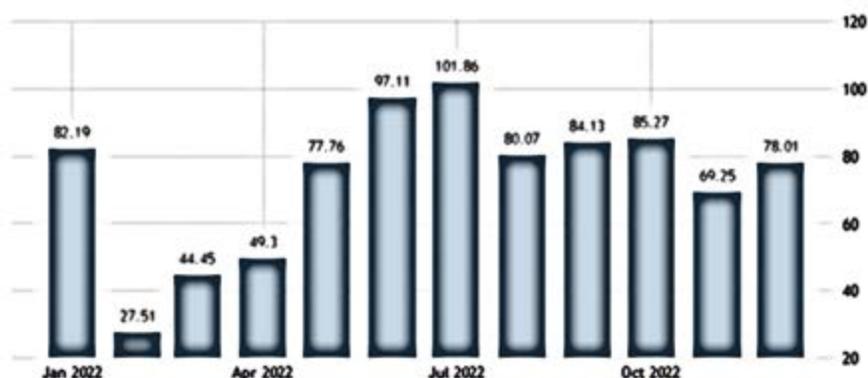
Capital goods increased by US\$103.5 billion.

Trade

China

In December 2022, China's trade surplus declined to US\$78.01 billion from a revised US\$93.21 billion in December 2021 and compared to market forecasts of US\$76.2 billion, as the country faced weakened global and domestic demand (see China's 2022 Trade Surplus by month). Exports recorded its largest decline in nearly three years of 9.9 percent, while imports experienced a decline of 7.5 percent, the third straight month of decrease. However, for all of 2022, there was a widening of the country's trade surplus by 31 percent year-on-year to US\$876.91 billion, the highest since records commenced in 1950, with exports rising 7 percent and imports increasing by only 1 percent.

Figure 5: China's 2022 Trade Surplus by month (US\$ Billion)



Source: Trading Economics, 2023

Other Asia

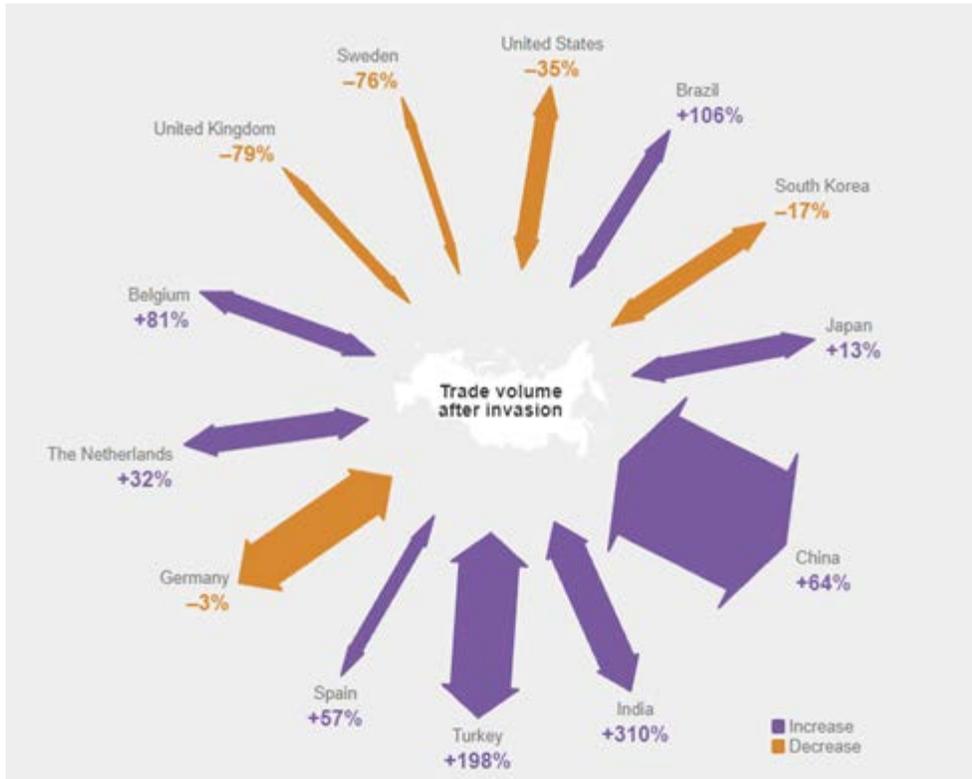
Asian growth was supported by strong goods exports since the onset of the COVID-19 pandemic however, that outlook may not be the same for global demand in 2023. Economies relying on services exports would be on the rebound as regional trade and tourism are revived.

Russia

In spite of efforts by the Western world to isolate the Russian economy, Russia's current account hit a record high in 2022, according to the country's central bank. The current account reached \$227.4 billion, up 86 percent from 2021. Due to the number of sanctions levied on Russia and the migration of Western firms due to its war with Ukraine, Russian imports fell sharply last year. However, the Kremlin was able to substitute much of its lost revenue from its oil and gas exports to Europe by switching to China, India and other Asian markets. According to Chinese customs data, trade between Russia and China hit a record high of \$190 billion last year.

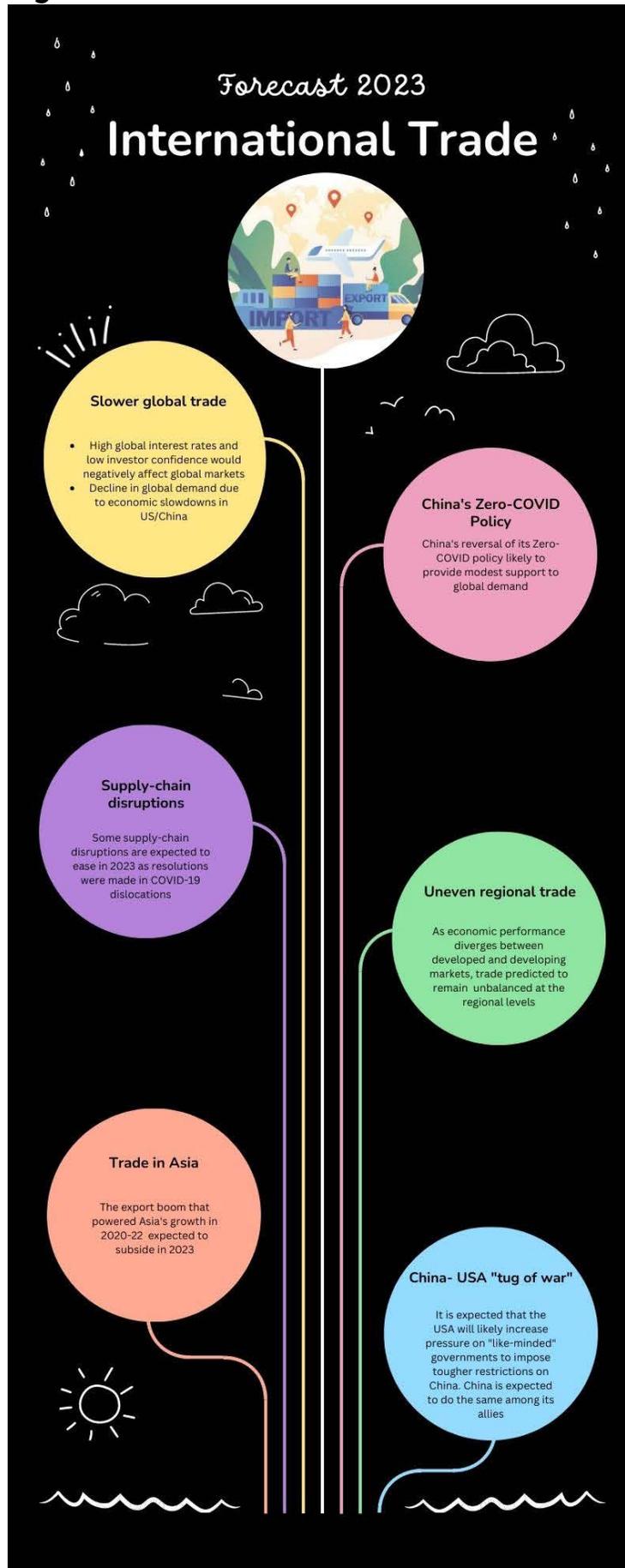
Trade

Figure 6: Russia's trade volume after invasion



Source: The New York Times, 2023

Figure 7: Forecast 2023 International Trade



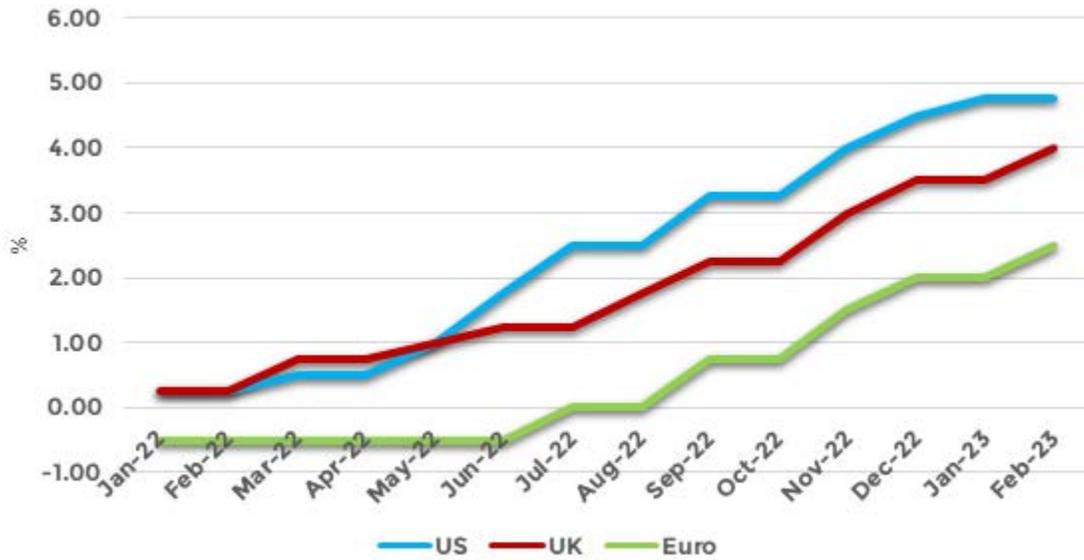
Implications

Elevated levels of consumer price inflation and low investor sentiment are factors that are expected to weigh heavily on business environment leading to a slowdown in global trade volumes in 2023. Growth in global trade volumes is projected to slow to its slowest pace of expansion in over a decade.

China's volte-face from its Zero-COVID policy will provide modest support to global demand; however, according to the Economist Intelligence Unit (EIU), Chinese factory demand for intermediate goods is expected to contract in 2023 based on the EIU's sedate outlooks for the EU and the US, which drive final demand for many Chinese exports.

Banking and Finance

Figure 8: Central Bank Interest Rates



Source: US FED, BOE, ECB

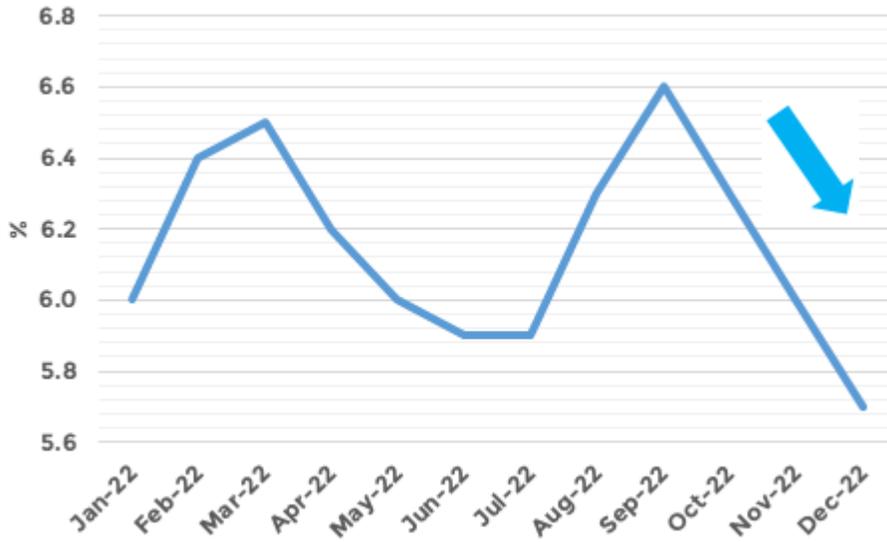
Major central banks (US Federal Reserve (US Fed), Bank of England (BOE), European Central Bank (ECB)) continued to raise policy interest rates in early 2023.

Figure 9: Magnitude of Policy Rate Changes



Banking and Finance

Figure 10: US Inflation



Source: US BLS

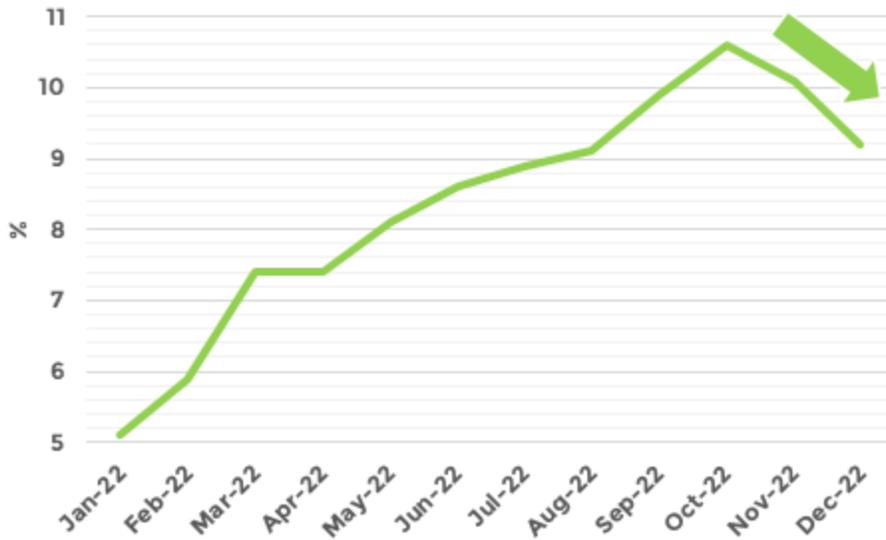
Figure 11: UK Inflation



Source: BOE

Banking and Finance

Figure 12: European Union Inflation



Source: ECB

Inflation Slowing?

During the period October 2022 to December 2022, the rate of inflation slowed in both the UK and European Union.

In the US, the dip in inflation started earlier, in August 2022.

Figure 13: Ghana MPC Rate Hikes

March 21 st , 2022	17 % from 14.5 %
May 23 rd , 2022	19 % from 17 %
August 17 th , 2022	22 % from 19 %
October 6 th , 2022	24.5 % from 22 %
November 28 th , 2022	27 % from 24.5 %
January 30 th , 2023	28 % from 27 %

Source: BoG

Banking and Finance

Key Developments

- Key policy interest rates continue to trend upward despite signs of slowing inflation in the US, UK and Euro
- US Fed Fund rate was increased at a slower rate.
- Policy makers in the US, UK and Euro have signaled that more interest rate increases may be needed in the coming months, notwithstanding slowing inflation.
- The US job market remains strong, with the unemployment rate hitting a 53-year low (3.4 percent) in January 2023
- High inflation and stagnant wages are creating significant public discontent in the UK prompting protest among train operators, teachers and nurses in January 2023
- After significant rate increases in 2022, Ghana's MPC continued that trend in early 2023

US FED TO MEASURE BANKS' EXPOSURE TO CLIMATE RISK

Bank of America

Citigroup

Goldman Sachs

JPMorgan Chase

Morgan Stanley

Wells Fargo

This exercise will gather both qualitative and quantitative information on risk management practices, risk metrics and data challenges.

WESTERN BANKS LEAVING RUSSIA

Western banks have been trying to sell off assets in Russia. However, Vladimir Putin has introduced a law which makes it mandatory for exit deals for banks/businesses from unfriendly countries to be approved by him.

For Western Banks, this may result in a depreciation of these Russia-based assets.

Banking and Finance

Germany's central bank boss Joachim Nagel, who is a member of the ECB rate-setting governing council, told *Börsen-Zeitung* that "further, significant rate hikes" were still needed because even after it raised its deposit rate to 2.5 percent on February 2nd, 2023, this did not yet seem "restrictive" to him.

Federal Reserve chair Jerome Powell has warned that the US central bank might have to raise interest rates more than investors expect because it will probably take a "significant period of time" to tame inflation given stronger labour market data. Powell's comments to the Economic Club of Washington on February 7th, 2023, were his first since data in the previous week showed a surprising jump in jobs growth in January 2023, which suggested the Fed might have to go further in its monetary tightening to cool down the economy.

Implications

Based on current trends, the US Fed, BOE and ECB will likely reduce the pace of their interest rate hikes in 2023.

However, the relevant monetary policy authorities in the Caribbean will still face pressure to keep pace with international interest rates and avoid capital flight.

The main downside risk of interest rate increases in the Caribbean is weaker economic growth as a result of reduced demand and investment.

Commodities

Crude Oil

Average crude oil prices rose by 3.0 percent in January 2023, after two consecutive months of decline.

China's relaxation of its COVID-19 policy exerted upward pressure on prices, ahead of the European Union's (EU's) import ban on Russian refined petroleum products, which was an element of their sixth package of sanctions.

Natural Gas

Henry Hub natural gas prices fell by a sharp 40.5 percent in January 2023, from December 2022.

Weaker demand, brought on by warmer than usual winter weather, weighed heavily on prices and led to considerable inventory build-up.

Natural gas prices in Europe also fell sharply in January following a small rally in the previous month.

Gold

Gold prices rose by 5.6 percent in January, propped up partly by demand from major central banks. Meanwhile, silver and platinum prices advanced by 1.4 percent and 4.2 percent, respectively, in the same period. Given their industrial applications, improved manufacturing activity in China resulted in increased demand for both precious metals.

Coal

Australian thermal coal prices receded by 16.1 percent in January, erasing all gains from the previous month. Prices rose in December 2022 on optimism of China's demand and increased demand for power generation in the EU, amid a ban on Russian coal imports.

However, warmer than usual temperatures in the EU weighed on demand for coal, while reported healthy inventories in China added more downward pressure on prices.

Commodities

Metals

The base metal index increased by 5.4 percent from December 2022 to January 2023.

Outside of China, improved macroeconomic conditions and lower energy prices, particularly in Europe, continued to support the demand for base metals, as did a weaker US dollar.

In January, aluminium prices increased for the fourth consecutive month by 4.2 percent. Demand for aluminium continued to improve, supported by lower energy prices and a weaker US dollar, while inventory levels continue to decline.

Average monthly copper prices rose for the third consecutive month in January, increasing by 7.9 percent. China's support to the property and construction sectors helped elevate copper demand. Meanwhile, outside of China, supply uncertainty continued to sustain upward pressure on prices as a result of disruptions to Chile's production.

Lead prices fell by 0.7 percent in January 2023 after three consecutive monthly gains, on weaker sales of electric vehicles, particularly in China.

Movement of nickel and zinc prices were mixed for the period November 2022 to January 2023. Nickel prices fell by 2.6 percent in January compared to the previous month on weaker demand for stainless steel, while zinc prices rose for the second consecutive month in January, increasing by 5.8 percent. Zinc prices were supported by the rise in iron ore prices (up by 9.3 percent) amid China's backing of the property and construction sectors.

Figure 14: Commodity Prices November 2022 - January 2023

Commodity	Unit	Monthly averages			% Change Jan 23/Dec 22	Year-to-date	
		Nov 22	Dec 22	Jan 23		2022	2023
Energy*	Index	139.4	130.9	119.3	-8.9	121.3	119.3
Coal, Australia	US\$/mt	342.2	379.2	318.0	-16.1	197.0	318.0
Crude oil, average	US\$/b	87.4	78.1	80.4	3.0	83.9	80.4
Natural gas, US	US\$/mbtu	5.3	5.5	3.3	-40.5	4.3	3.3
Natural gas, Europe	US\$/mbtu	35.7	36.0	20.2	-44.0	28.3	20.2
Non-energy*	Index	114.3	115.3	117.3	1.7	123.6	117.3
Base metal*	Index	109.5	114.8	121.0	5.4	133.2	121.0
Precious metals*	Index	131.3	138.1	144.9	4.9	139.1	144.9

Note: * World Bank commodity price indices (2010 = 100).

Source: OPEC Monthly Oil Market Report

Commodities

Outlook



-  Commodity prices are expected to decrease in 2023, in the face of slowing global demand. Nevertheless, prices are expected to remain at elevated levels.
-  Agricultural commodity prices will continue to be influenced by the effect of extreme weather phenomena and events surrounding the Russia-Ukraine war, including the Black Sea Grain initiative.
-  Oil prices are expected to average US\$85/b in 2023 as OPEC production (including Russia) falls by about 3 million barrels/day.
-  European natural gas prices will likely remain elevated due to ongoing sanctions on Russian gas supplies.
-  Increased global demand for LNG is projected to boost US natural gas prices.
-  Base metal prices are expected to remain volatile in 2023. Slowing global economic growth will cut demand for base metals, leaving a price floor that will be attributable to boosted construction and manufacturing in China.

Implications

Silver and platinum prices are expected to continue to increase in the coming months due to increased demand from China.

The EU's ban on Russian imports will continue to place upward pressure on petroleum products and coal prices. However, slowing global economic activity is expected to offset at least some of this pressure for much of 2023.

The Russia-Ukraine war may continue to indirectly impact the output of agricultural commodities in other regions, because of continued high fertiliser prices.

Tourism

What happened in 2022

Global tourism staged a strong recovery last year. Data from the United Nations World Travel Organisation (UNWTO) indicate that 917 million people travelled in 2022, double that of 2021, and equivalent to 62.6 percent of pre-pandemic levels. All regions registered significant improvement over their 2021 performances but still trail 2019. Similarly, according to the Organisation for Economic Co-operation and Development (OECD), tourism bounced back strongly in 2022, driven by pent-up demand and the lifting of travel restrictions. The recovery was described as fragile and uneven across countries however, with new challenges and twists presented by the economic slowdown and developments arising from Russia's war on Ukraine. Nonetheless, domestic tourism (people vacationing in their home country), is expected to recover to pre-pandemic (2019) levels this year.

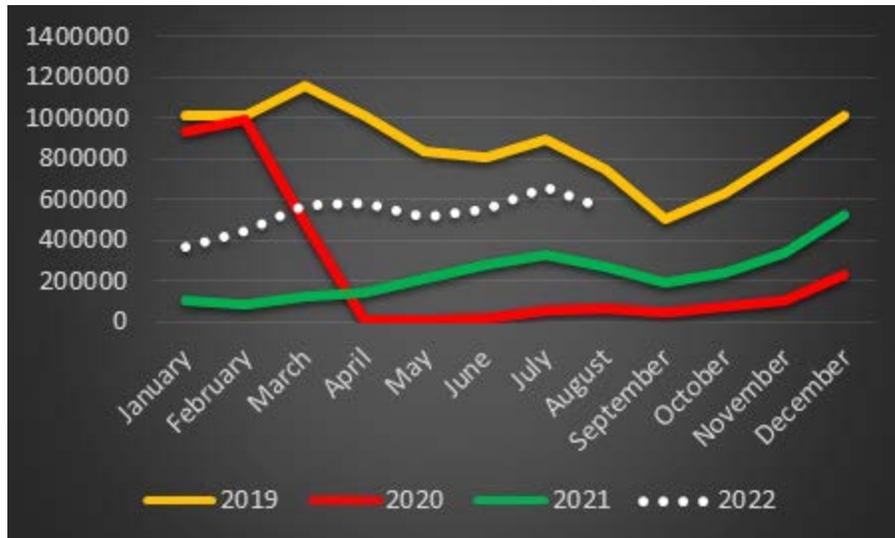
The Economist Intelligence Unit, EIU, indicated that global tourism grew by 60 percent in 2022 and will likely increase by 30 percent in 2023. Despite this encouraging growth, the consensus is that the full recovery of international tourism has been pushed further into the future, to 2025 or beyond.

The Caribbean Tourism Organisation (CTO), stated that 28.3 million tourists visited the Caribbean in 2022, approximately 52.4 percent more than in 2021, and equivalent to 88.6 percent of the 2019 figure, highlighting the Caribbean sub-region as having one of the quickest recovery rates globally. The US, with 14.6 million visitors (51.5 percent), was the top source market followed by Europe with 5.2 million arrivals (18.3 percent). Not surprisingly, the region's hotels also fared much better in 2022, with occupancy increasing to 60.7 percent from 4.4 percent the year before. Average daily rate (ADR) rose by 21.7 percent to US\$290.60, and revenue per available room (RevPAR) jumped by 66.4 percent to US\$176.46.

Regional arrivals increased each year since the nadir of 2020 (Figure 15). The Caribbean arrivals figure is an amalgamation of the arrivals of 14 territories, Anguilla, Antigua Barbuda, Barbados, British Virgin Islands, Cayman Islands, Cuba, Dominica, Grenada, Jamaica, St. Lucia, St. Kitts Nevis, St. Vincent and the Grenadines, Sint Maarten and Trinidad and Tobago. Following on from the season that began with the last quarter of 2021, arrivals for the first four months of 2022, though continuing to improve, were still significantly adrift of those of 2019. The gap narrows through the middle months of 2022, and though monthly figures for the last four months are not yet available, the 2022 arrivals trend appears to be tracking that of 2019, albeit with lower numbers.

Tourism

Figure 15: Regional stay - over visitors



Source: Caribbean Tourism Organisation (CTO)

Within the amalgamated figures, there is variation between countries in the extent of their recovery. Sint Maarten leads the region, while it appears that Cuba, which continues to grapple with multiple challenges, has the longest road ahead (Figure 16).

Figure 16: Arrivals - 2022/2019

Country	2022* visitors compared to 2019
Sint Maarten	115.6%
Jamaica	87.9%
Antigua Barbuda	85.8%
St. Lucia	81.2%
Anguilla	71.6%
Grenada	70.9%
St. Vincent and the Grenadines	63.8%
St. Kitts Nevis	57.7%
Barbados	57.0%
Dominica	56.9%
British Virgin Islands	54.2%
Trinidad & Tobago	50.9%
Cayman Islands	45.5%
Cuba	31.1%

Source: Caribbean Tourism Organisation (CTO)

Tourism

Future Trends

Solo travellers

Some small-group travel companies reported a noticeable increase in people booking solo trips, with the trend driven at least in part by millennials. Whether for solitude, relaxation, soul-searching, or wellness, one travel and hospitality news site found that the number of solo travellers reserving trips for 2023 was up 24 percent compared to 2019.

Business & Leisure

Combining business with leisure on a foreign trip is a growing phenomenon. At one end of the spectrum, the practice of taking a few extra days for leisure (often at your own expense) while on a business trip, is not new, but increased in popularity over the years. The widespread work-from-home arrangements implemented during the height of the pandemic undoubtedly served as a springboard for the growing work-from-roam movement. In this case, people opt to fulfill and execute their work commitments while living in an overseas destination of their choice. Recognising the revenue-generating potential of this trend, a number of countries, including Aruba, Barbados and the Cayman Islands implemented structures and concessions to attract these so-called digital nomads to their shores.

Vacation rentals

Depending on several factors, including taste, budget, logistics and the size of the travelling group, bed & breakfast (B&Bs) establishments have long been an alternative to established hotels. In recent years, vacation rentals, where houses with all the amenities, can be rented on a short-term basis, have grown in popularity. Whether managed by an international brand, a group of investors or individuals, vacation rentals undoubtedly syphon some potential business from both B&Bs and hotels.

Local experiences

Rather than the regular tourist fare, more travellers are desirous of greater engagement with, and a more immersive experience of, local culture and practices.

Sustainability

According to the World Tourism Organisation (UNWTO), sustainable tourism is defined as: "Tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities." Consequently, the term sustainable travel refers to the adoption of sustainable practices with the aim of minimising the negative impacts and maximising the positive effects of tourism. It is expected that eco-friendly travel options will find favour with more travellers, who, mindful of carbon emissions, will be looking to make their trips more sustainable. In tandem with this, tourists will favour activities and destinations which focus on local community uplifting and environmental sustainability. This is reflected in a poll conducted on behalf of Exodus Travels which showed:

Tourism

- 91% of travellers see the importance of taking ethical trips
- 56% believe in buying souvenirs from local merchants
- 44% want to support local businesses at their destination

Technology remains desirable

The benefits of technology at the back end, in terms of organisation and ensuring things go as planned, continue to be a key factor for tourists. Even with the growing appeal of more sustainable vacations and travellers wanting their trip to have a more 'back to basics' feel, as in a hut or an eco-friendly cabin, half still want phone and internet connection at their destination.

Implications

Clearly, and for most, encouragingly, the regional tourism sector is steadily returning to normal. However, should 'normal' be the goal? It has been clear for some time now, that Caribbean states need to diversify their tourism offerings, and this is being done in some instances. However, the trends identified above, despite being somewhat 'niche' and North American-centric, suggest that the region is falling further behind. Making the existing stock of hotels and resorts eco-friendly and more sustainable is a mammoth undertaking that will require significant resources and time, but it needs to be started post haste.

While this is taking place, regional governments can develop clusters or even communities of eco-friendly cabins with strategic linkages to local villages. The information is there, and the signs are clear. Regional states can dawdle at their own peril.

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