



Economic Intelligence Unit

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Main Highlights...

Geopolitical

- 1 Uneven distribution of COVID-19 vaccines
- 2 Increased coups in Africa

Trade

- 3 US law blocks imports from China's Xinjiang region
- 3 Britain seeks new trade agreements since its departure from the EU
- 4 Latin America and the Caribbean (LAC) exports increased in H1 2021

Banking and Finance

- 5 Top 100 Asian banks increase Loan Provisions
- 5 Fintechs gaining ground on traditional banks

Commodities

- 6 Russia-Ukraine tensions pose a threat to Natural Gas Futures
- 7 Global food prices trended upwards during the pandemic period

Tourism

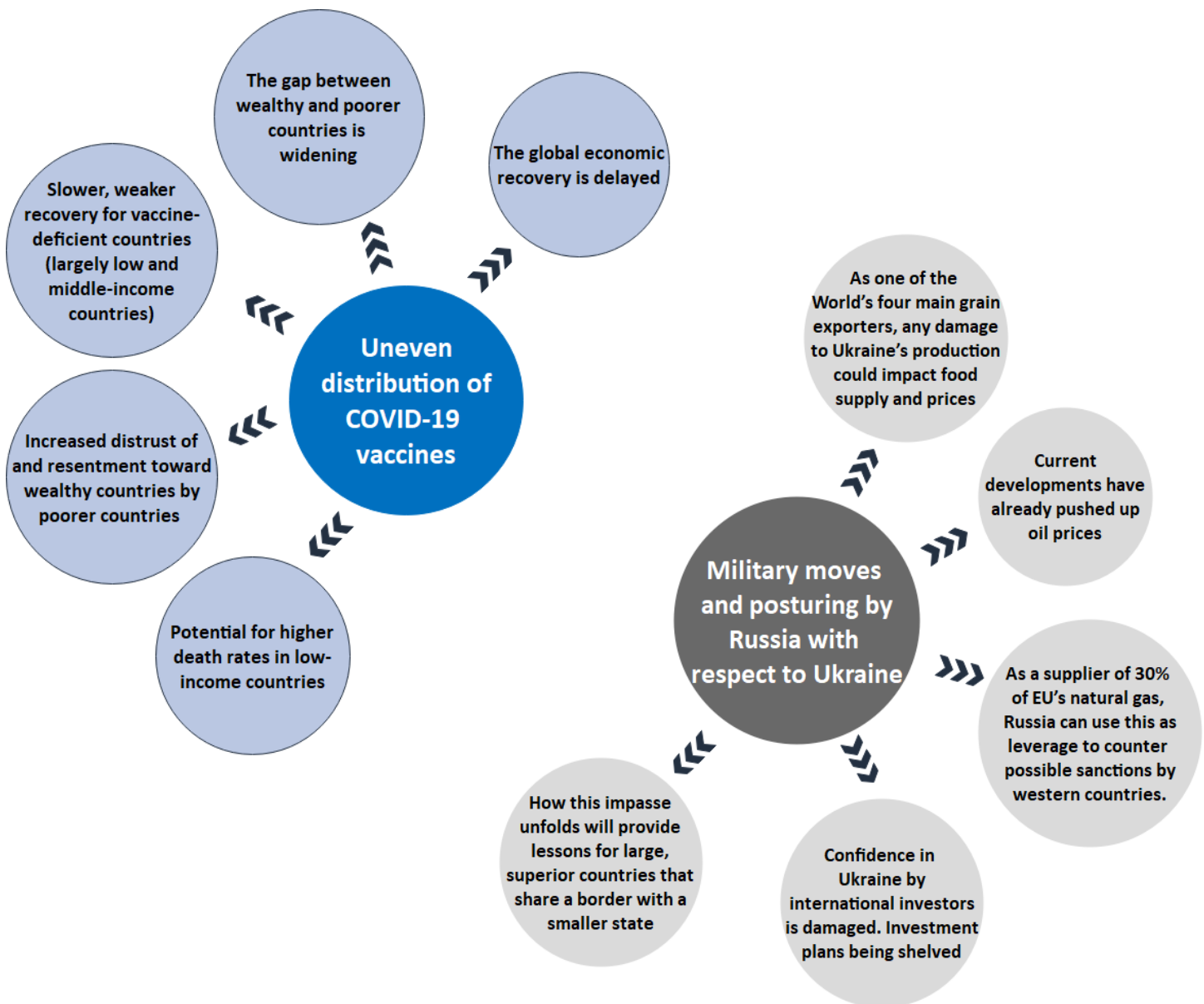
- 8 In 2021, global tourism was still below pre-pandemic levels
- 8 Moderate uptick in global tourism activity in H2 2021
- 9 Caribbean outperformed other sub-regions in 2021

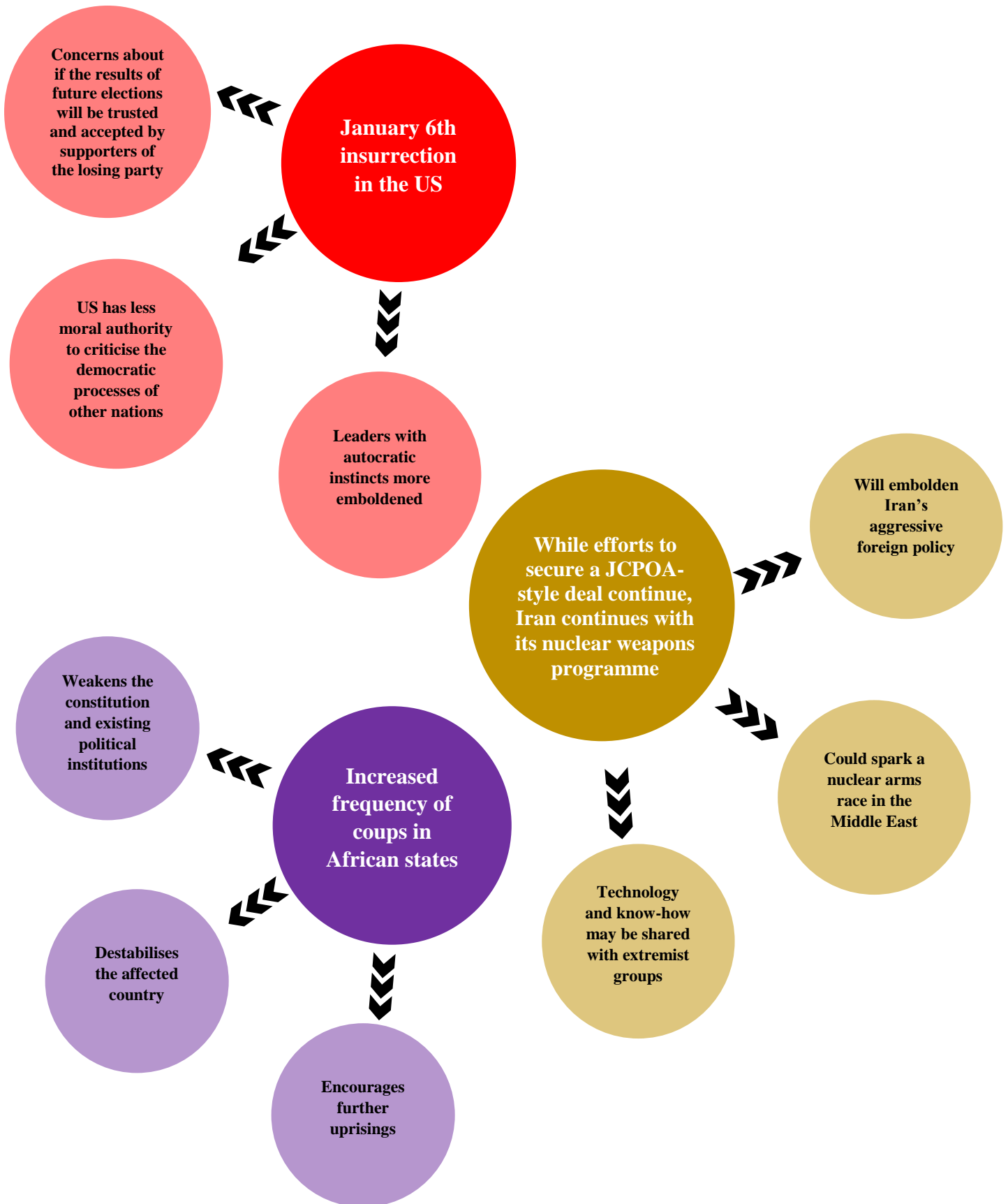
Geopolitics

Geopolitics: A study of the influence of such factors as geography, economics, and demography on the politics and especially the foreign policy of a state. (Merriam-Webster)

Geopolitics: Analysis of the geographic influences on power relationships in international relations. The word *geopolitics* was originally coined by the Swedish political scientist Rudolf Kjellén about the turn of the 20th century, and its use spread throughout Europe in the period between World Wars I and II (1918–39) and came into worldwide use during the latter. In contemporary discourse, *geopolitics* has been widely employed as a loose synonym for international politics. (Britannica)

Key Events of 2021

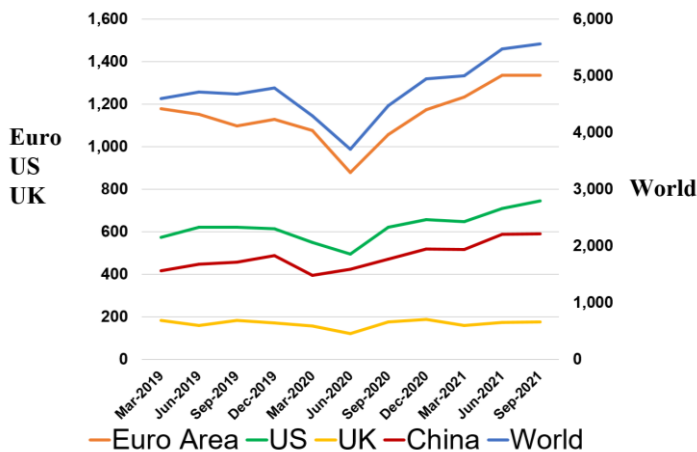




Trade

- Despite continued disruptions, global trade grew in 2021. In October 2021, the IMF projected an annual expansion in volumes of 10 percent.
- Most leading economies experienced a recovery in exports after a considerable dip in the middle of 2020 (Figure 1).
- Nevertheless, international trade continues to be impeded by supply bottlenecks, shipping and other logistical challenges, imposed by the COVID-19 pandemic.

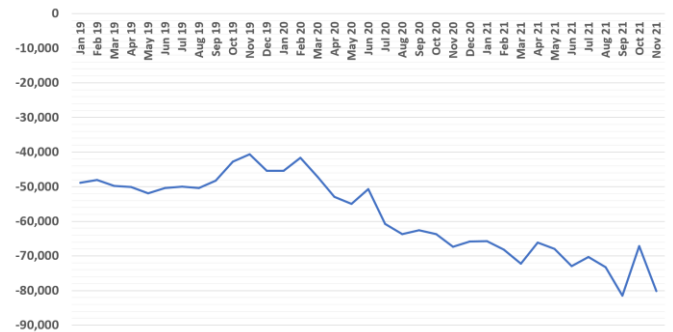
Figure 1: Exports (US\$ Billion)



Source: IMF

- According to the US Department of Commerce, the country recorded a trade deficit of \$80.2 billion in November 2021 (Figure 2). This was marginally below the record-breaking \$81.4 billion outturn of just two months prior.
- On December 23rd, President Joe Biden signed the Uyghur Forced Labor Prevention Act into law. The law blocks imports from China's Xinjiang region, unless it can be proven that the items were made without forced labor. The Chinese government have condemned the move, as it views the law as a violation of international law and an intrusion in China's internal affairs.

Figure 2: US Trade Deficit (US\$ Million)

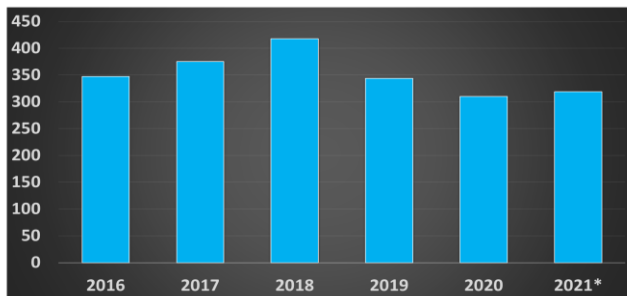


Source: US Department of Commerce

- The UK and EU continue negotiations to resolve the Northern Ireland trade dispute in the wake of BREXIT. Northern Ireland is the only part of the UK that shares a border with an EU state and is in the EU's tariff-free single market for goods. This has created a new custom border between Northern Island and the rest of the UK. In mid-January, Britain's Foreign Minister expressed confidence a deal could be struck.
- Britain continues its thrust to secure new trade agreements in the wake of its departure from the EU trading bloc. In December 2021, Britain and Australia signed a free trade agreement that eliminates most taxes on exports between both countries. A month later, talks began with India for a free trade agreement that is expected to boost trade between both countries.
- Japan experienced significant growth in both imports and exports in December 2021. Imports increased by 41 percent due mainly to surging oil prices, while the depreciation of the Yen facilitated a 17.5 percent rise in exports. The country recorded a 1.47 trillion-yen (US\$12.9 billion) trade deficit for all of 2021.

- With the rebound of global demand, China registered a massive \$676.4 billion trade surplus in 2021. In December alone, the surplus expanded by 20.8 percent to \$94.4 billion. For the first 11 months of 2021, its trade surplus with the US increased by 2.9 percent over the full year level for 2020 (Figure 3).
- The Regional Comprehensive Economic Partnership (RCEP) a trade agreement signed by 15 countries came into effect at the beginning of 2022. Included in the deal are China, Japan, South Korea, Australia, New Zealand and the 10 member-states of the Association of Southeast Asian Nations (ASEAN). RCEP is held as the largest trade agreement currently in existence. Its member states account for 30 percent of the global economy and a third of the world's population.

Figure 3: China's Trade Surplus with US



Source: US Census Bureau
* Jan – Nov

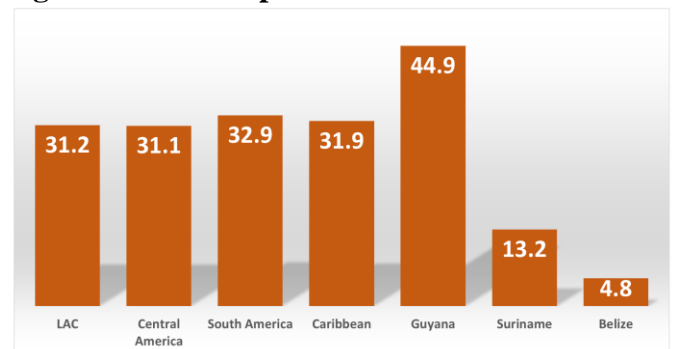
Banking and Finance

Global interest rates are expected to pick up in 2022

- The Global Economy began 2022 on a weaker footing than first expected. The International Monetary Fund (IMF) estimates that global GDP is projected to grow by 4.4 percent in 2022, down from its original estimate of 4.9 percent.

- According to the Inter-American Development Bank, exports from Latin America and the Caribbean (LAC) increased by 31.2 percent in the first half of 2021 (Figure 4). This was facilitated by robust demand, the easing of COVID-19-related restrictions and the progress of global COVID-19 vaccination campaigns. In the Caribbean, Guyana registered the strongest increase due to oil exports.
- On the other hand, LAC service exports contracted by 33.8 percent between January and June 2021, with traditional sectors such as travel and transportation, most impacted.

Figure 4: LAC Export Growth Jan-Jun 2021



Source: IMF

- Growing demand, supply disruptions/bottlenecks and increased freight costs, are driving price increases across the globe.
- In response to rising prices most leading economies are set to increase interest rates (Figure 5).

Figure 5:
Economic Indicators – Major Economies

Country / Region	Growth Projections 2022 (%)	Inflation Trends	Interest Rate Trends
World	4.4	Rising	Increasing in major economies
United States	4.0	Rising Reached 7% in 2021	0.0 – 0.25% Set to increase in March 2022
United Kingdom	4.7	Rising Set to reach 7.5% in April 2022	0.5% Set to increase in 2022
Japan	3.3	Rising Set to stay below 2% target in 2022	-0.1% Unchanged in 2022
China	5.2	Rising Set to reach 2.2% in 2022	Decreasing
Brazil	0.3	Rising Set to reach 5.2% 2022	10.75%
EU	4.0	Rising Set to reach 3.9% in 2022	-0.5% - 0.25% To remain stable
LAC	2.4	Rising	Increasing

Source: IMF and ECB

- Rising interest rates in major economies will increase the borrowing costs for developing countries, including Caribbean countries and also put pressure on them to increase their interest rates in order to avoid capital flight. Over the short term however, most Caribbean states are expected to remain focused on stimulating economic growth and as such are unlikely to increase rates.
- Caribbean banks will largely be guided by the actions of their respective central banks and as a result, will generally only increase interest rates following increases from their respective central banks.

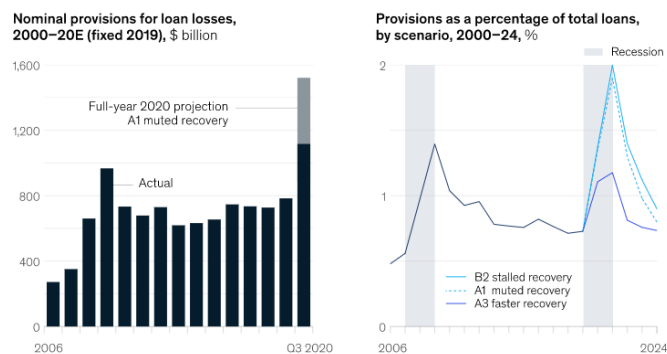
Banks profitability challenged by the COVID-19 pandemic

- The COVID-19 pandemic has tested the resilience of banks globally, with recovery in the sector expected to be uneven across regions.
- In the first half of 2021, the top 100 Asian banks increased their loan loss provisions by US\$125 billion, while provisions for the top 100 European banks increased by US\$25 billion.

- Conversely, for the same period, the top 100 US banks reduced their loan loss provisions by US\$24 billion with Canadian banks following suit.

Figure 6: Global Loan Loss Provisions 2000-2020

Globally, loan-loss provisions in the first three quarters of 2020 surpassed those for all of 2019, and by 2021 they could exceed those of the global financial crisis.



Source: McKinsey

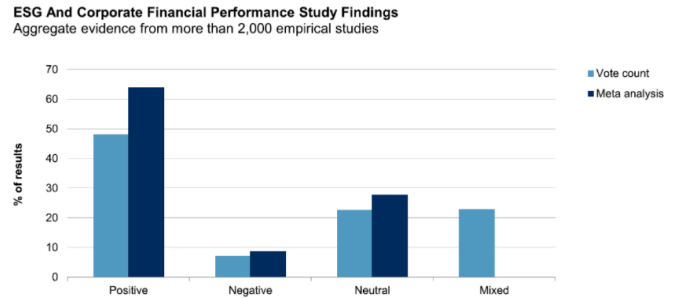
- Traditional banks in the US saw their income, as a share of GDP shrink from 4.6 percent to 3.85 percent between 2009 and 2021, while fintechs have become more established and mainstream.

Beyond profits: Banks and finance companies give increased focus to environmental and social issues.

- At the COP 26 Conference held in 2021, approximately 500 global financial services firms agreed to align US\$130 trillion, almost 40 percent of the world’s financial assets, with the goals set out in the Paris Agreement, including limiting global warming to 1.5 degrees Celsius by 2030.
- Since the initial signing of the Net-Zero Banking Alliance (NZBA) in April 2021, over 100 banks have signed on, representing 40 countries and over 43 percent of global banking assets.
- This speaks to the urgency felt by the global financial sector in addressing the climate emergency at the required scale, in order to achieve net-zero greenhouse gas emissions by 2050.
- At the regional level, the Caribbean Environmental, Social and Governance (ESG) Financing Summit (which was held during November 17-18, 2021) discussed the flow of climate financing to individual countries and the private sector alike and analysed its impact on the future of the region.

- It has been put forward that companies that integrate corporate ESG standards into their business activities, can improve their returns. This theory is rapidly spreading across markets worldwide.
- Sixty of the world’s biggest banks have provided US\$3.8 trillion in financing to fossil fuel companies between 2016 and 2020, however, with the push towards ESG standards, this trend is unlikely to continue.

Figure 7: ESG and Financial Performance



Source: S&P Financial Services

Commodities

Global Energy Forecasts

Figure 8: Global Energy Prices

	Q4 2021	Q1 2022
WTI	77.45	85.04
Brent	79.59	88.13
HHub	4.77	4.34

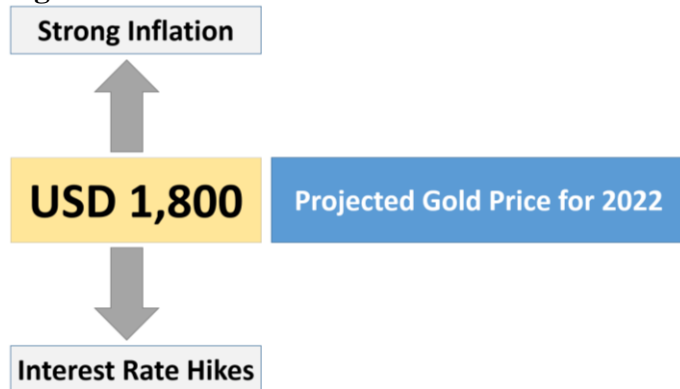
Source: US Energy Information Administration

- OPEC+ moves to unwind record supply cuts to help meet the growing global oil demand. Nevertheless, global energy prices are not expected to weaken in Q1 2022 (Figure 8).
- OPEC+ will continue its 400K barrels of additional oil per day in March 2022.
- Some OPEC+ members may struggle to meet the monthly output increases.
- Ongoing Russia-Ukraine tensions will impact natural gas futures, as Russia is the main supplier to the European market.

Gold

- The US Federal Reserve is preparing to raise interest rates soon.
- Some market experts expect the first rate hike to be in March 2022.
- Higher interest rates to place downward pressure on gold prices.
- High inflation may persist and subsequently place upward pressure on gold prices.
- The opposing effects of both interest rate increases and strong inflation will most likely keep gold elevated (Figure 9).

Figure 9: Gold Price Forecast 2022



Source: EIU-RBL Forecast

Global Food Prices

Figure 10: FAO Index 2019-2021

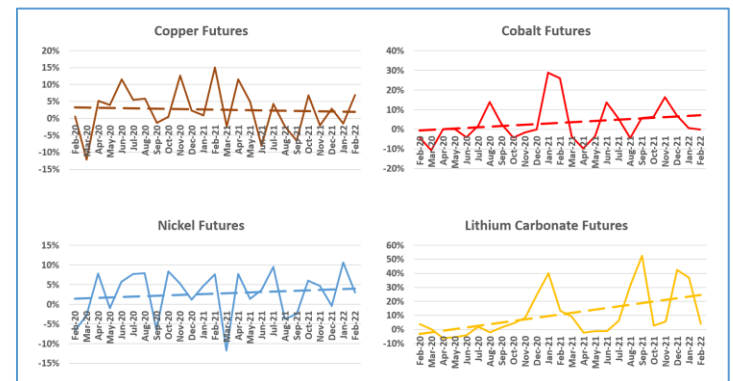


Source: Food and Agriculture Organization of the United States

- Global food prices have trended upward during the last three years (Figure 10).
- Mounting tension along the Russia-Ukraine border has driven wheat futures higher from US\$660.12 per bushel (p/b) in February 2021 to US\$763.40 p/b in February 2022, as both countries account for around 30 percent of global wheat exports.
- Maize export prices strengthened in January 2022 due to drought concerns in some major exporting countries¹.

Base Metals

Figure 11: Copper, Cobalt, Nickel and Lithium Carbonate Futures



Source: Investing.com

- Increased Electric Vehicle (EV) sales is fuelling demand for nickel, cobalt and lithium. This increased demand is driving prices for these base metals upward (Figure 11).
- EV sales doubled (105 percent increase) in 2021, to 6.36 million from 3.1 million in 2020.
- Pandemic restrictions also created supply bottlenecks and delays in cobalt shipments from the Democratic Republic of Congo².

1 – Maize is used as food as well as a key input for animal feed and other industrial products such as, biofuel, biodegradable foams, chemicals, plastics and adhesives
 2 – More than 70 percent of the world's Cobalt comes from the Democratic Republic of the Congo

Tourism

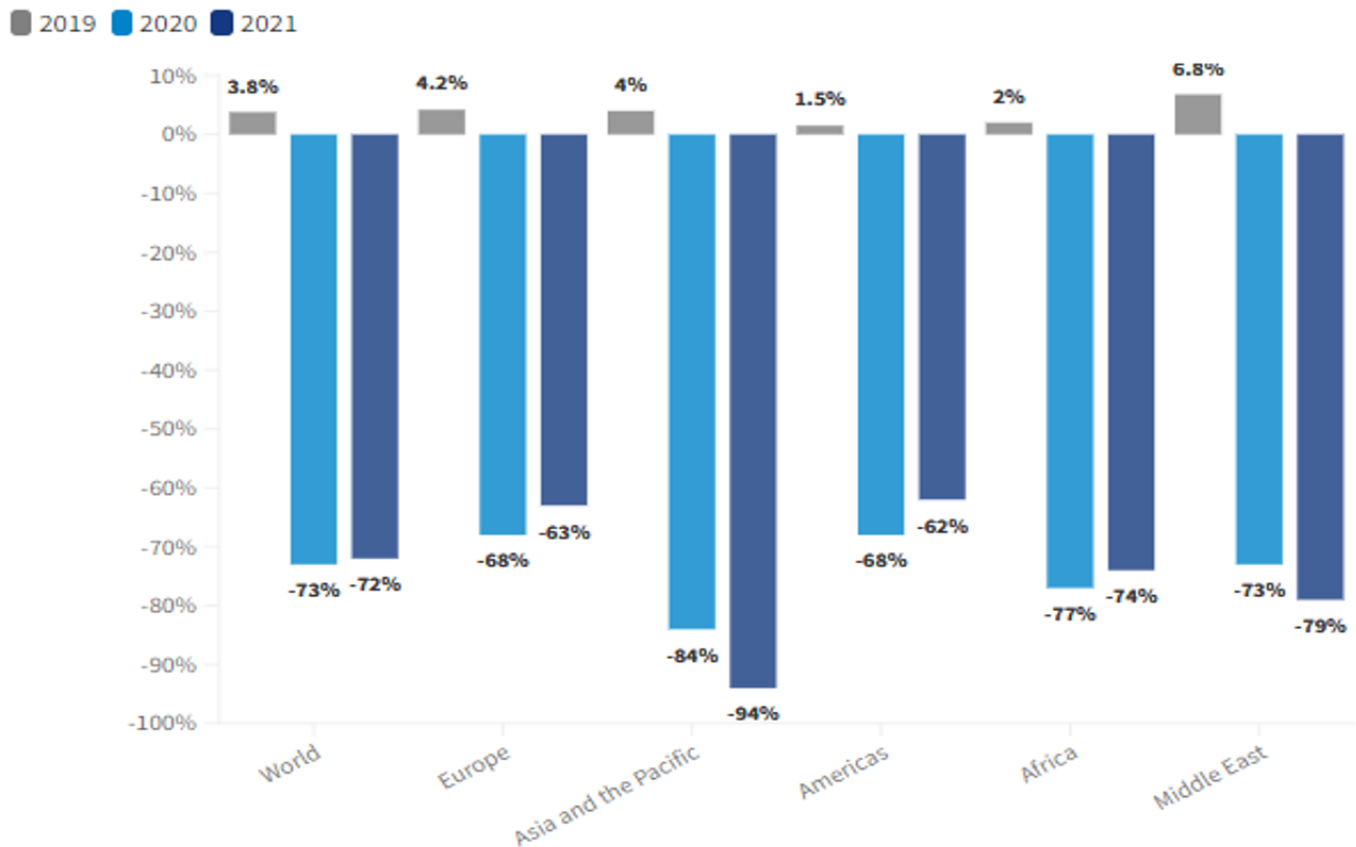
- Accounting for 10.4 percent of the global GDP (USD 9.2 trillion), 10.6 percent of all jobs (334 million) and charged with the responsibility of creating 1 in 4 of all new jobs across the world, Travel and Tourism was one of the world's largest sectors in pre-pandemic times.
- There was a moderate rebound in international tourism during the second half of 2021 despite international arrivals being down 62 percent in both the 3rd and 4th quarters compared to pre-pandemic levels.
- The road to recovery is slow, long and uneven across regions as there are variations

in mobility restrictions, vaccination rates, as well as traveller confidence.

- Global tourism recorded a 4 percent recovery in 2021, compared to 2020 (415 million versus 400 million). However, international tourist arrivals (overnight visitors) were still 72 percent below the pre-pandemic levels (Figure 12), according to preliminary estimates by United Nations World Tourism Organisation. The year prior, 2020, was the worst year on record for tourism, when international arrivals decreased by 73 percent.

Figure 12: Tourist Arrivals by Region

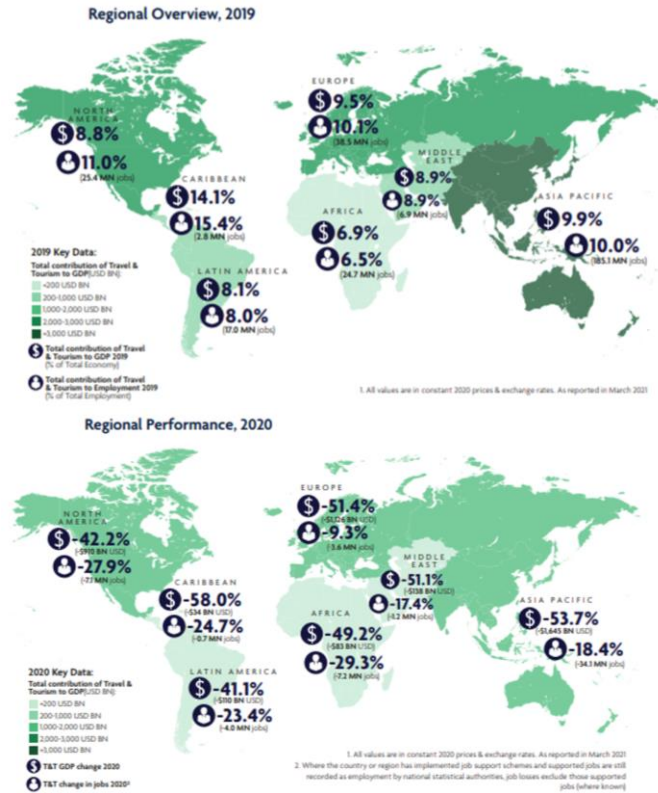
International tourist arrivals (% change)



Source: World Tourism Organization (UNWTO)

- Europe and the Americas recorded the strongest expansions in 2021. However, the regions were still respectively, 63 percent and 62 percent below pre-pandemic levels.
- By sub-region, the Caribbean posted the best performance, with very strong growth in a few destinations. However, arrivals remained well below 2019 levels. For instance, Southern Mediterranean Europe and Central America also enjoyed a significant rebound but remained 54 percent and 56 percent below 2019 levels respectively. Tourist visits to North America and Central Eastern Europe also climbed above 2020 levels.
- Meanwhile, in spite of an increase in arrivals in 2021 compared to 2020, Africa was still 74 percent below 2019's arrivals figures. Contrarily, the Middle East experienced a 24 percent year-on-year decline in arrivals in 2021. Arrivals in Asia and the Pacific were 65 percent and 94 percent below pre-pandemic levels, respectively as many destinations in those regions remained closed, for some time to non-essential travel.
- Figure 13 shows the total contribution of Travel and Tourism to GDP and to employment by region.

Figure 13: Travel and Tourism Contribution to GDP and Employment



Source: World Travel and Tourism Council

- As it relates to the Caribbean sub-region, out of the 26 destinations reporting international arrivals for 2021, growth was recorded in 14.
- Among the regional destinations with the strongest growth in arrivals were St. Maarten (133.8 percent) Saint Lucia (52.2 percent) and Curaçao (51.5 percent) which coincidentally were the only jurisdictions for which full-year data is available.
- There were increases in stay-over arrivals for countries such as Belize, Aruba, Bermuda, Jamaica, Antigua & Barbuda as well as Turks & Caicos, however, data was not available for the entire year.
- On the other hand, contractions were recorded in all other jurisdictions including Martinique, British Virgin Islands, Barbados and Montserrat which also didn't have data available for the entire year.