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Republic Bank

Main Highlights…

Republic Bank

Geopolitics

Focus on the Pacific region

The Pacific region is an important part of the global economic structure, and this importance is only expected to increase in the coming years. The region is home to three of the world's largest economies: China, India and Japan. It is projected that by 2030, it will contain two thirds of the global middle class, and by 2040 the Pacific region will account for more than half of the global economy.

The region is not as clearly defined as others, with the main structural categorisations being Asia-Pacific and Indo-Pacific. There is significant overlap between the two categorisations, and they may sometimes (mistakenly) be used interchangeably. However, there are differences between the two.

Table 1: Asia-Pacific vs. Indo-Pacific

Asia-Pacific	Indo-Pacific
The term 'Asia-Pacific' is associated with the part of Asia that lies in the Pacific Ocean.	The Indo-Pacific is an integrated region that combines the Indian Ocean, the Pacific Ocean, and the landmasses that surround them.
It is a proposed idea and is supported by Asia's Pacific powers as they sought a term to describe their common region.	It is an evolving concept, and most analysts see it as an idea that may shift power and influence from the West to the East.
The Asia-Pacific has three major constituents-- north-east Asia, south-east Asia and Oceania (Southwestern Pacific).	Its geographical expanse is undefined, however, it is said to range from the coast of East Africa, across the Indian Ocean, to the Western Pacific, including countries like Japan and Australia.
It is an economic conception rather than a security-related notion. Since the late 1980s, the zone has been experiencing rapid economic growth and is popularly termed as the zone of emerging markets.	It is both a strategic as well as an economic domain comprising important sea-lines of communication. It is associated with maritime security and cooperation.
Asia-Pacific region reportedly contains the 51 countries / territories listed in Table 2.	According to some reports, the list of Indo-Pacific countries consists of 40 of the Asia-Pacific members, excluding Afghanistan, American Samoa, Cocos Island, French Polynesia, Guam, Hong Kong, Macao, New Caledonia, Norfolk Island, Tokelau, Wallis and Futuna.

Source: What is the difference between the Indo-Pacific and the Asia-Pacific?

<u>Note:</u> Some of what seems like fluidity in the membership of these groups may be due, in part, to circumstances whereby some countries may be included, excluded or just not considered, based on the nature of the matter being dealt with. For example, Japan is excluded from investment strategies focused on Asia because, as the only developed economy in Asia, companies in that country will be found in developed market indexes alongside the stocks of Europe, the US and Canada.

Geopolitics

Table 2: Asia Pacific Countries

Afghanistan	American Samoa	Australia	Bangladesh	Bhutan	Brunei	Cambodia
China	Cocos Islands	Cook Islands	Fiji	French Polynesia	Guam	Hong Kong
India	Indonesia	Japan	Kiribati	Laos	Macao	Malaysia
Maldives	Marshall Islands	Micronesia	Mongolia	Myanmar (Burma)	Nauru	Nepal
New Caledonia	New Zealand	Niue	Norfolk Island	North Korea	Pakistan	Palau
Papua New Guinea	Philippines	Samoa	Singapore	Solomon Islands	South Korea	Sri Lanka
Taiwan	Thailand	Timor-Leste	Tokelau	Tonga	Tuvalu	Vanuatu
Vietnam	Wallis and Futuna					

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Geopolitics

Interesting exercise:

When you have finished reading this edition of the Monitor, check to see which of the countries above participated in the recently concluded Paris 2024 Olympic Games.

With great power comes great … coercion

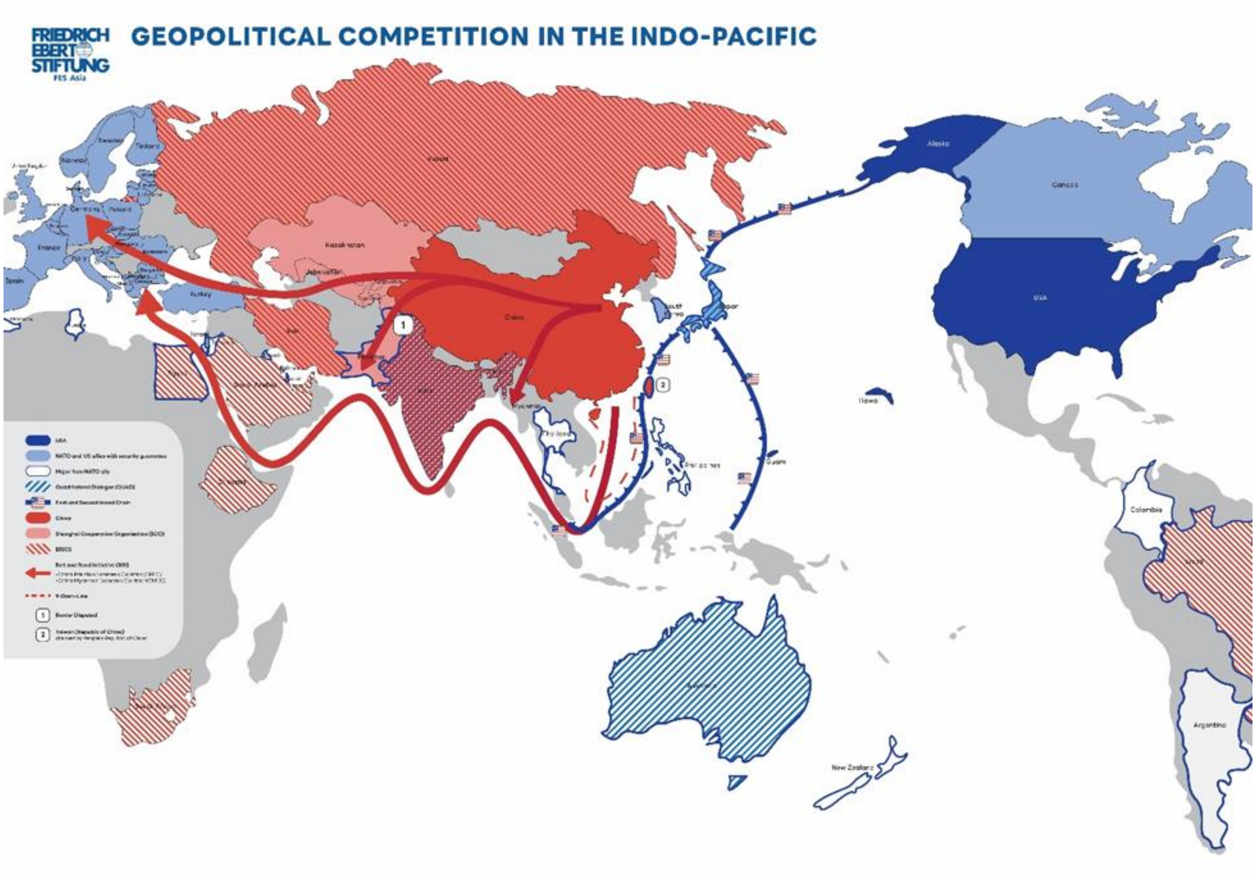
To some observers, the evolving global order is drifting towards creating U.S. and Chinese (and perhaps Russian) spheres of influence. Many strategically important states (middle powers) are being wooed by Washington and Beijing. But this isn't what these states wish for. Unlike the neatly delineated camps that characterised the Cold War, success today lies in constructive multi-alignment. Both US and China are also acutely aware of this dynamic and are quick to emphasise that they are not asking countries to pick a camp. However true this may be, as these two great powers pull further apart, with every passing conversation about global supply chains, sourcing of technology, and military spheres of influence, it becomes difficult for these middle powers to see great power messaging as anything but presenting them with an either-or choice.

Geoeconomics, or the application of power politics by economic means, is essentially an extension of traditional geopolitics. It is a contest waged via global trade and investment rather than on a traditional battlefield. Countries have been increasingly participating in this form of active economic intervention by applying sanctions, export controls, and subsidies, while developing investment-screening mechanisms and data-localisation measures. In general, there is a growing concern about the security risks posed by economic interdependence in terms of sovereignty and economic resilience.

The new geopolitics and geoeconomics of Asia have many layers and patterns including those that are overlapping and contradictory. China has an overarching concern that the presence of the US military and its allies in the Indo-Pacific island chains can cut off its trade and supply routes. From Beijing's geostrategic vantage, its actions can be read as attempts to break out of this perceived encirclement. Westward, the outreach extends through the Belt and Road Initiative, aiming at the European market. Its side-arms in Pakistan (China-Pakistan Economic Corridor - CPEC) and Myanmar (China- Myanmar Economic Corridor - CMEC) are seen as ways to bypass the potential chokepoint in the narrow Strait of Malacca, and secure access to energy supplies around the Persian Gulf (see Geo-Political Competition in the Indo-Pacific map). Its eastern expansion through a military presence in the South China Sea, is presumed to be with the long-term goal to push and build the strategic depth in the Western Pacific.

China's neighbours feel threatened by these advances. On the other hand, the United States not only perceives China as a competitor for global and regional hegemony, but as the first military force on par since the Japanese attack on Pearl Harbour to press forward into the Pacific, approaching American positions on Guam, Hawaii and even the US West Coast. Consequently, Washington has started to shift its diplomatic and military footprint in the Indo-Pacific. With continued attempts to de-risk the world's two biggest economies, Washington is increasing pressure on allies in Europe and Asia (major non-NATO allies) to follow suit.

Geopolitics



Source: New Geopolitics of Asia - FES Asia Editorial

How these geopolitical competitions evolve will depend not only on the two great powers, but the interaction of many players in the regions. Further, a number of elections in 2024 could have a significant impact on the strategic postures of key players. Given the shift of the economic and political centre of gravity into the Indo-Pacific, the developments in this region will likely be felt around the world.

Geopolitics

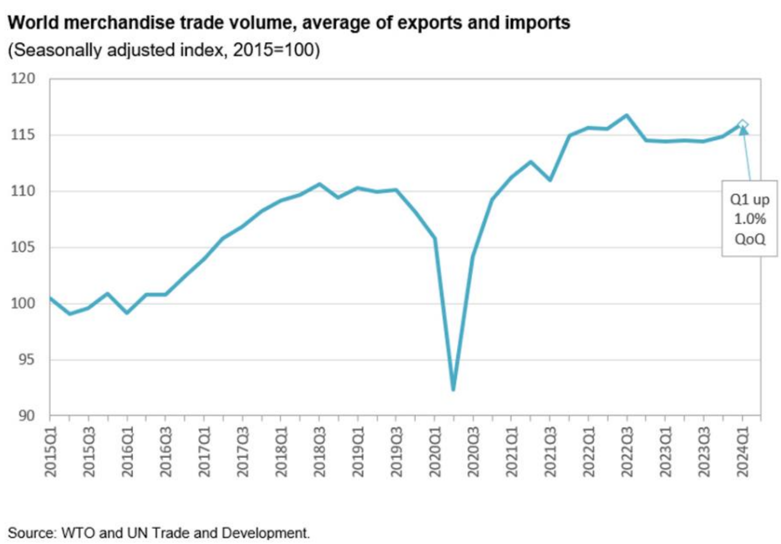
Implications

- If they have not yet done so, regional states should establish a unit dedicated to covering, analysing and reporting on geopolitical developments regionally and internationally.
- Where possible and practicable, this information should be shared discreetly with fellow CARICOM members to aid in informed and cohesive decision-making.
- Regional leaders must ensure that their agencies are as knowledgeable and informed as possible, so they know the true costs and potential implications of grants, loans, concessions, investments, partnerships, trade agreements or gestures of goodwill, received or entered into. The best chance small, developing countries have to chart their own course, is to read and understand the games being played.

Trade

According to the World Trade Organisation (WTO) merchandise trade volumes expanded by 1.4 percent in the first quarter of 2024 compared to the same period a year ago and was 1 percent above fourth quarter 2023 levels (Figure 1). This development came after a 1.2 percent contraction for all of 2023 and has generated a fair amount of optimism regarding the rest of 2024. Global trade is expected to expand by 2.6 percent in 2024. Most regions recorded increased trade volumes during the first quarter. Notwithstanding the increase in volumes, the value of global merchandise trade was down 2 percent between January and March, suggesting a fall in import and export prices.

Figure 1: World Merchandise Trade Volume



Unfortunately, both the volumes and value of merchandise trade in Europe contracted during the quarter, with data from the European Commission indicating that the Euro area's exports and imports decreased by an average of 2.8 percent and 12.1 percent, respectively during the period. These declines continued a trend which dates back several quarters (Figure 2). With imports falling faster than exports, the region recorded a €57.5 billion surplus in first quarter 2024.

Trade

Figure 2: Growth of Euro Area Exports & Imports (% chg.)

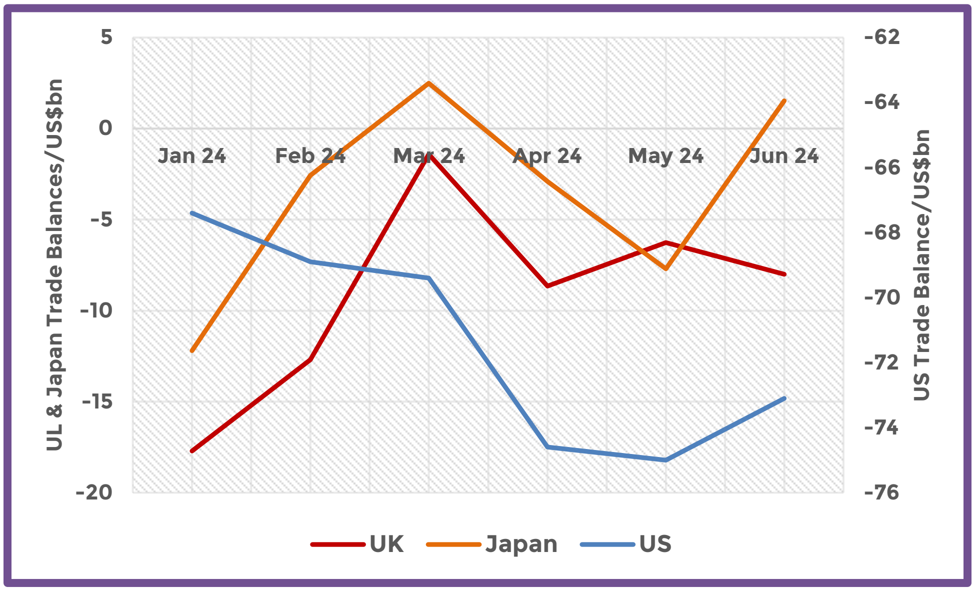
Source: European Commission

Meanwhile, China continued to register a string of trade surpluses, posting a record surplus in June (US$99 billion). This stoked concern among several nations that exports from China could eventually hurt domestic firms. In response, several governments including the US, EU, Brazil, India and Turkey have moved to increase existing tariffs and/or impose new ones on products manufactured in China.

Unlike China, several of the leading global economies recorded frequent / recurring trade deficits in the first half of 2024, with the US and the UK posting deficits of US$73.1 billion and £6.23 billion, respectively in June (Figure 3).

Trade

Figure 3: Trade Balances for Leading Economies (US$bn)



Sources: BoE, US Fed, BoJ

Other Developments

- In July, the European Union (EU) imposed a provisional 37.6 percent tariff on electric powered vehicles (EVs) made in China, after the trading blocs' investigations found that the cars were being subsidised by the Chinese government. The move was meant to protect domestic EV production. On August 9th, China requested a WTO consultation, claiming that the tariff violated the organisation's rules and the EU's findings lacked factual and legal basis. For its part, the EU is confident its actions were in line with WTO guidelines and vowed to continue its probe.
- This follows similar action, announced by the US in May, to increase existing tariffs and to impose new ones on several Chinese products including EVs and other high-tech products, aluminium and medical equipment, some of which took effect from August 1st, 2024.
- India and Sri Lanka are in negotiations to expand their free trade agreement, which came into force in 2000. The current arrangement is focused exclusively on goods and both nations have been in talks for years to expand it to a Comprehensive Economic Partnership Agreement (CEPA) to incorporate services, investment and other areas of economic corporation. The India-Sri Lanka Free Trade Agreement (ISFTA) has generated an encouraging increase in trade between the two countries, with India's exports to Sri Lanka growing from US$500 million in 2000 to over US$4 billion in 2023 and imports from the country rising from US$44 million to US$1.4 billion.

Trade

- The EU and Mercosur (Brazil, Argentina, Uruguay, Paraguay and Bolivia) appear much closer to a trade deal, after several years of negotiations. The two trading blocs reached a political agreement for a trade deal in 2019 but have yet to finalise the arrangement due to several contentious issues. Having made notable progress in resolving the issues, the ratification of the trade agreement may be imminent. The deal will create a market of 780 million people. The EU is Mercosur's largest trading and investment partner, with EU firms holding an estimated €330 billion in investments in the South American trading bloc.

Implications

- The expansion / ratification of the ISFTA and the EU-Mercosur trade agreements augur well for the related economies and could help to boost global trade. When operationlised, these deals are expected to support employment, investment and economic growth in the participating nations.
- A growing number of countries are adopting a protectionist stance in response to perceived unfair practices by China and other countries. While the desire to protect domestic industries is understandable, protectionist policies can result in unintended consequences, such as retaliatory actions and reduced economic growth.

Banking and Finance

Global Developments

- Global economic activity cooled slightly to 3.3 percent in 2023, from 3.5 percent in 2022.
- Global average annual inflation fell from 8.7 percent in 2002 to 6.8 percent in 2003. This easing in inflationary pressures led to the slowing of policy rate increases in advanced economies in the second half of 2023.
- Global growth is projected to remain at comparable levels in 2024 (3.2 percent) and 2025 (3.3 percent).
- As it was in 2023, growth in advanced economies is expected to be 1.7 percent in 2024 with a slight increase to 1.8 percent projected for 2025.
- Real GDP growth in emerging markets and developing economies is expected to average 4.3 percent in 2024 and 2025.
- Growth in Latin America and the Caribbean (LAC) is expected to be 1.9 percent in 2024 before increasing to 2.7 percent in 2025.

Table 3
Projected GDP Growth (% change) - Major Economies

Country / Region	Projected GDP Growth in 2024 (%)
World	3.2
United States	2.6
United Kingdom	0.7
Japan	1.0
China	5.0
Brazil	2.5
EU	0.9
LAC	1.9

Source: IMF World Economic Outlook Update, July 2024

Banking and Finance

Monetary Policy Updates

- As global inflation eases, central banks around the world are expected to reduce their policy rates heading into 2025.

- Some of these institutions, in both developed and emerging markets, have already started cutting rates, while many more are forecasted to follow.

- The continued slowdown in growth could force the US Fed to cut rates sooner than expected.

- A surprisingly weak US employment report for July, rattled global stock markets and raised concerns in some quarters that the Fed has kept rates too high for too long. Notwithstanding the growing expectation that the Fed will begin to lower interest rates in September, hopes of a soft landing (when inflation returns to the Fed's target without a recession) are being replaced by fears of a recession.

US – Federal Reserve

Remained unchanged in July for 8 consecutive meetings at 5.0 – 5.5 percent

UK – Bank of England

Cut from 5.25 percent to 5 percent in August

EUROPE – European Central Bank

Cut from 4 percent to 3.75 percent in June

Japan – Bank of Japan

Remained unchanged at 0.1 percent

Banking and Finance

China – People's Bank of China

Cut from 3.45 percent to 3.35 percent in July

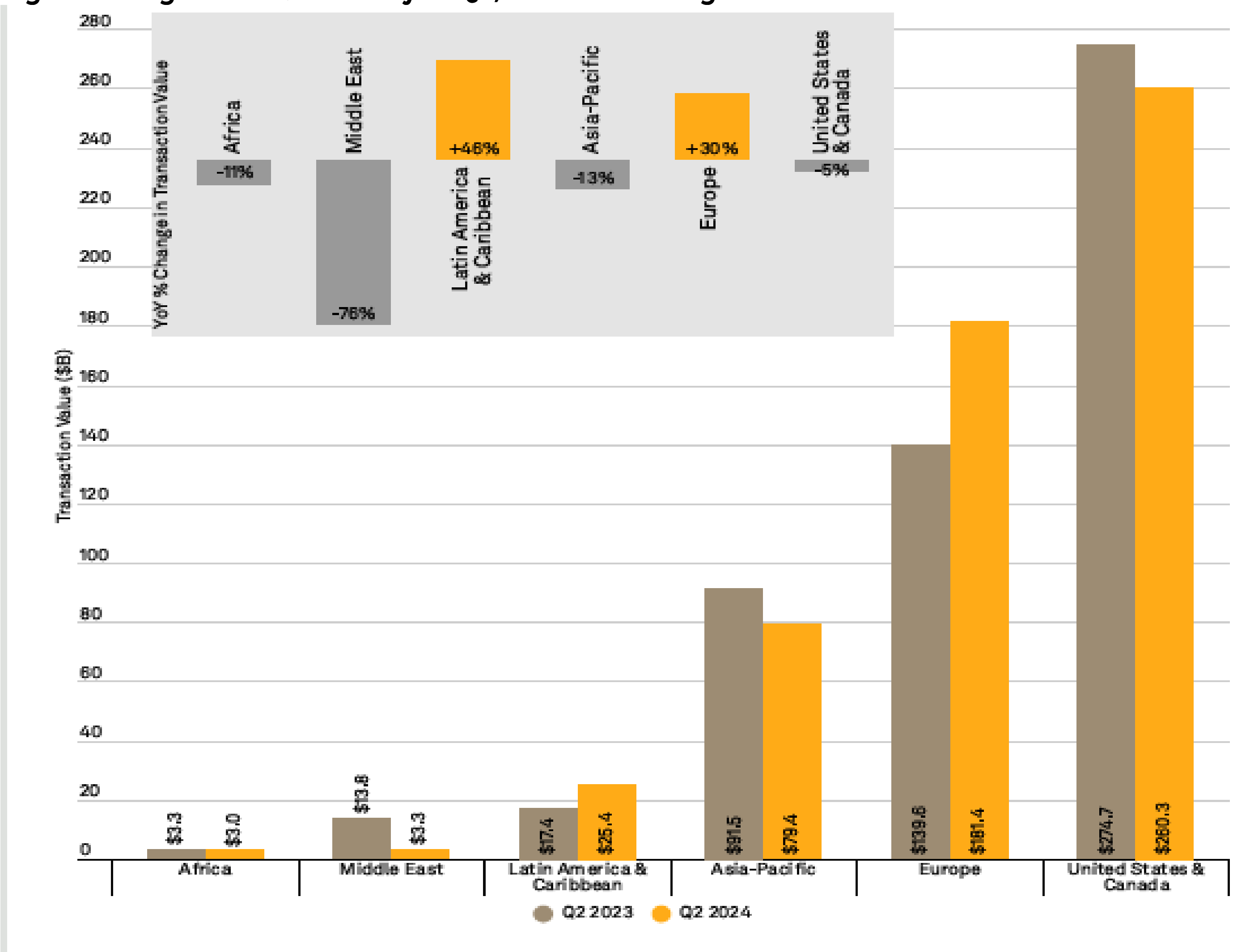
Brazil – Central Bank of Brazil

Remained unchanged in July at 10.5 percent

Mergers and Acquisitions

- Global second quarter M&A volumes fell marginally compared to first quarter levels, with $552 billion transacted in Q2 2024 compared to $555 billion in Q1.
- The US and Canada continued to lead regional M&A activity at $260 billion, a 5 percent decrease compared to the same period in 2023 (Figure 4). The US announced the largest deal with ConocoPhillips' acquisition of Marathon Oil Corp for a transaction value of $22.5 billion.
- Activity in Africa fell 11 percent to 3 billion when compared to $3.3 billion in Q2 2023.
- Dealmaking in the Latin America and the Caribbean region saw a 45 percent increase in Q2 with $25.4 billion in transactions compared to $17.4 billion in Q2 2023.
- The Financials sector saw the largest share of deals during the second quarter, with mergers and acquisitions over $91 billion, a 21 percent increase year-on-year (y-o-y) (Figure 5). One of the largest announced deals in the Financials sector for Q2 was Guolian Securities Co. Ltd, purchasing Minsheng Securities Co. Ltd in China for $17.0 billion.

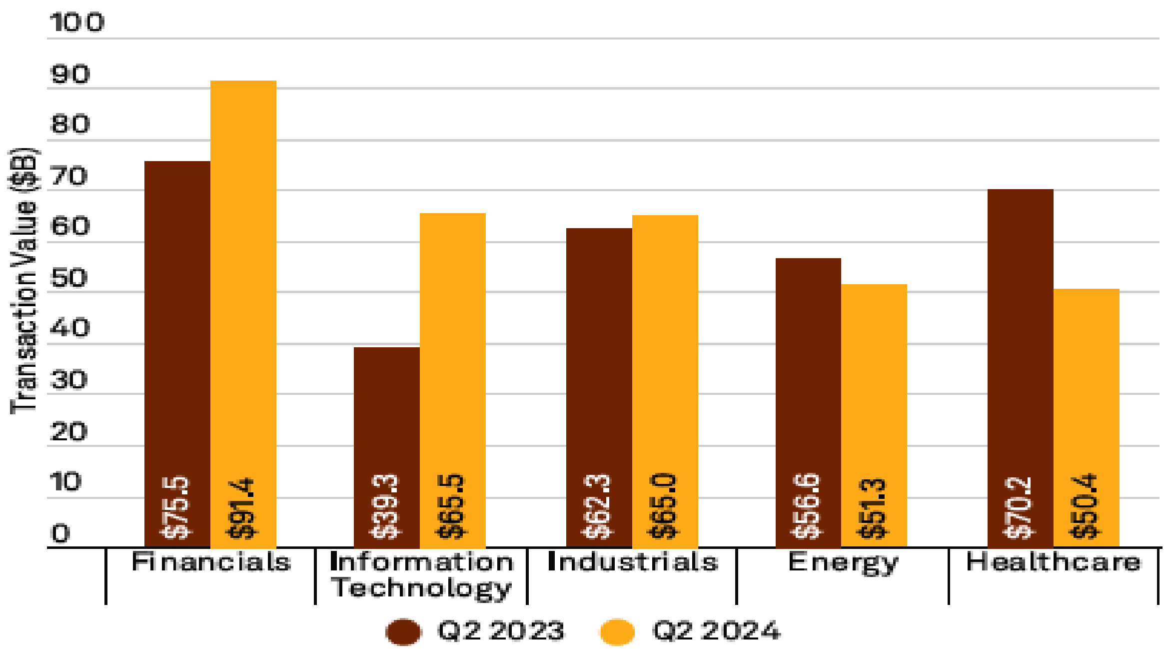
Figure 4: Regional M&A activity in Q2, with YoY Changes



Source: S&P Global, 2024

Banking and Finance

Figure 5: Sectors with the most Q2 M&A activity, 2024 vs 2023



Source: S&P Global, 2024

Implications

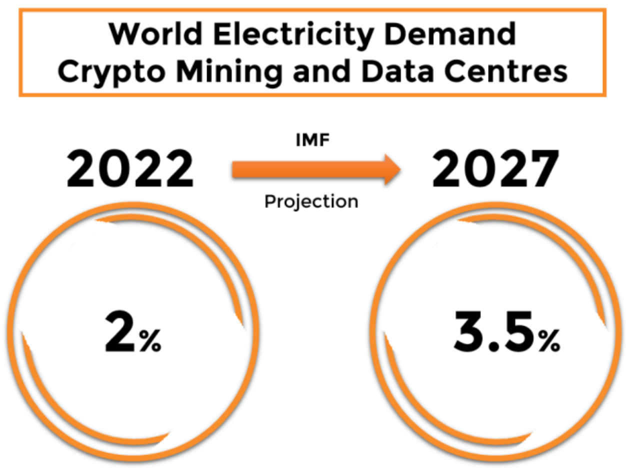
- With growing expectation that US interest rates will be lowered in the near future, regional central banks and policymakers will undoubtedly look forward to reduced pressure to maintain higher domestic interest rates to limit capital flight, and more leeway to reduce interest rates, if necessary, to spur domestic economic activity.
- Dealmakers will welcome long-awaited interest rate cuts, as they seek to fund acquisitions via loans. Higher interest rates squeeze returns.

Commodities

How AI and Crypto Technology are Impacting Global Energy Usage

"Crypto mining and data centres now account for 2 percent of global electricity usage and nearly 1 percent of global emissions…"
- International Monetary Fund
Carbon Emissions from AI and Crypto Are Surging and Tax Policy Can Help

Figure 6: World Electricity Demand Forecast for Crypto Mining



The rising global electricity usage for both artificial intelligence (AI) and the mining of crypto assets (Figure 6), highlights the critical role that energy plays in daily activities. Also, technological advancements do not always translate into more efficient energy usage. This is made evident by the fact that ChatGPT queries utilise 10 times more electricity than Google searches.

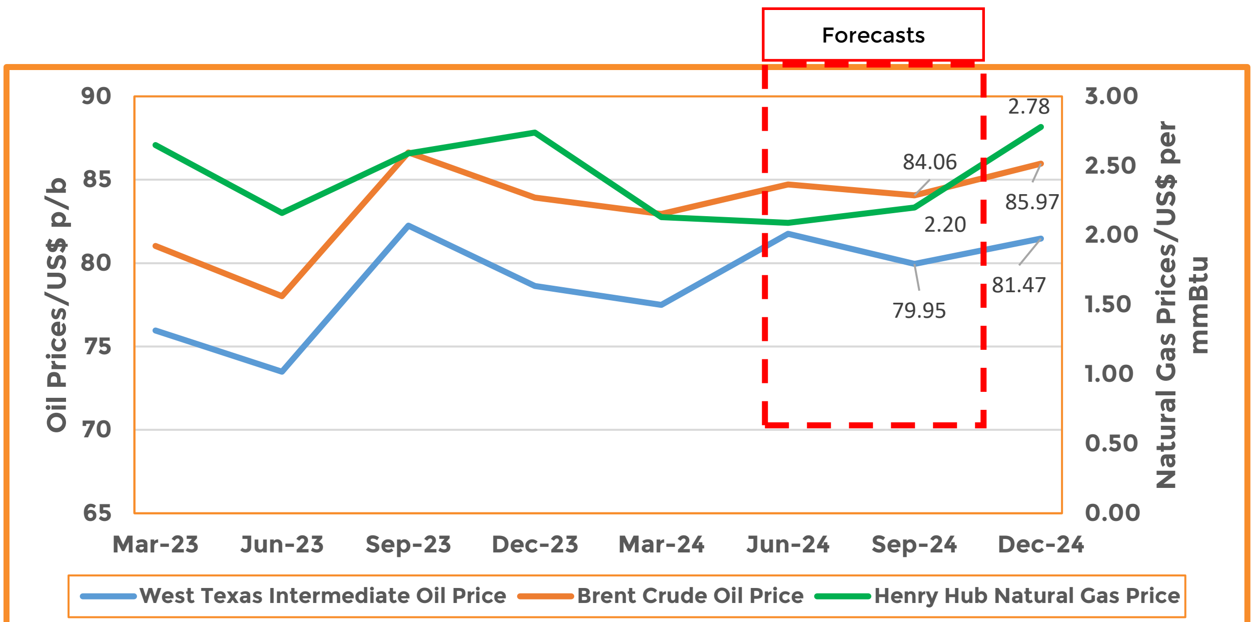
Global Energy Prices

In the second quarter of 2024, global oil demand increased by 870,000 barrels per day (bpd). This was mainly attributed to the US economy, where one-third of global gasoline is consumed. In the first quarter of 2024, oil consumption in advanced economies declined by 300,000 bpd when compared to the figure recorded in the first quarter of 2023. However, petroleum consumption grew by 190,000 bpd in the second quarter of this year due to the resilience of the US's services sector, which contributed to more miles driven and thus, bolstered the demand for gasoline.

According to the International Energy Agency (IEA), global oil demand is forecasted to increase by less than 1 million barrels per day (bpd) in both 2024 and 2025. Weak consumption in China is expected to be one of the main factors that will contribute to the subdued growth in global oil demand. With regard to global supply, the OPEC+ group will maintain production cuts until the end of this year but there are signs that non-OPEC countries' oil supplies could exceed demand, and thus cause an inventory buildup in 2025, which would exert downward pressure on prices.

Additionally, Russia's plan to extend its ban on gasoline exports until the end of the fourth quarter of 2024 could also impact the global supply. According to the Russian government, this decision was made to facilitate scheduled repairs at its refineries, as well as to maintain an adequate supply of fuel for local consumption. In light of these global developments, energy prices could increase moderately in the latter half of 2024 and into 2025 (Figure 7).

Figure 7: Global Energy Prices Forecasts



	2024^f	2025^f
WTI price (US$ p/b)	80.21	81.21
Brent crude price (US$ p/b)	84.44	85.71
Henry Hub Natural Gas price (US$ per mmBtu)	2.30	3.27

Source: US EIA
f-forecast

Metals Prices

Global Oversupply of Cobalt to Dampen Price

In recent years, global superpowers and highly influential corporations have heralded AI and crypto technology as the future of the world. However, the cost of progress can be great and at times cruel. For example, the mining of cobalt in the Democratic Republic of Congo (DRC) is a contentious issue because while this lustrous, silvery-blue metal drives the production of lithium-ion batteries, it is allegedly being mined under inhumane conditions.

According to S&P Global, the world's supply of refined cobalt is forecasted to grow by 15.8 percent y-o-y in 2024 and as a result, market prices for this metal will be relatively low this year. In 2021, there was a worldwide shortage of cobalt, which prompted mining companies to ramp up production in succeeding years. However, surplus production of cobalt is not the only factor driving the price reduction. Automakers are also seeking cheaper alternatives to protect their balance sheets and shareholder value, with the metal linked to human rights violations and environmental concerns.

Gold Prices to strengthen further by the end of 2024?

Global investors anticipate that the US Fed will effect at least one interest rate cut before the end of 2024. If this materialises, gold prices could rise even further by the end of December 2024. Prices have already breached the US$2,500 per troy ounce mark in 2024, hitting record highs in the process, on the prospect of lower US interest rates. A fall in US interest rates will depress bond yields and the value of the US currency, thus driving investors to gold. The other factor that could contribute to higher gold prices is central bank policy. Central banks across the globe are purchasing gold to diversify their reserves and reduce dependency on the US currency. With ongoing tensions in Ukraine and the Middle East, central banks are also using gold to hedge against geopolitical risks.

World Food Prices

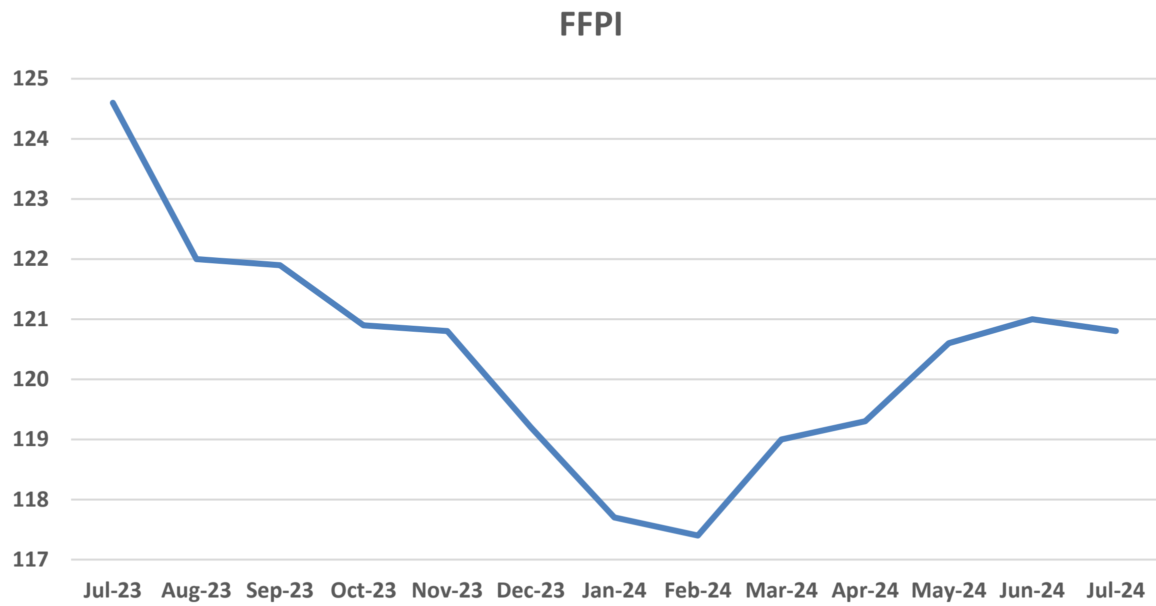
In the second half of 2023, global food prices trended down, but are now starting to increase. The Food and Agriculture Organisation (FAO) Food Price Index (FFPI) measures the monthly change in international prices of a basket of food commodities. The index increased steadily from 117.4 in February 2024 to 121 in June 2024 (Figure 8).

Commodities

Based on the trends of the five commodity groups price indices that constitute the FFPI, the upward trend in global food prices was mainly attributed to the gradual rise in Meat and Dairy prices (Figure 9).

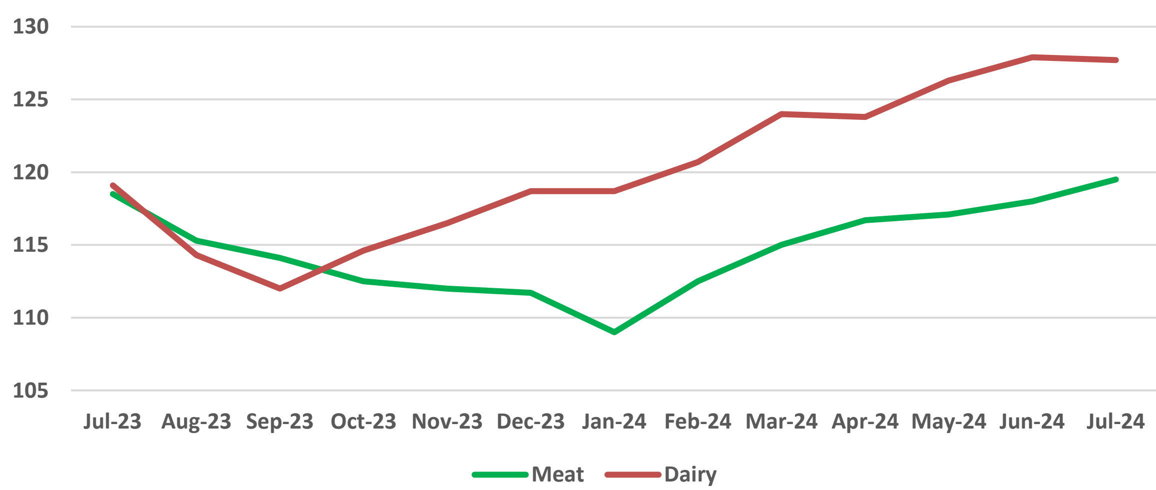
However, in July 2024, the FFPI fell from 121 to 120.8 given that the decline in cereal prices outweighed the increases in prices for vegetable oil, meat products and sugar. In July 2024, the price indices for dairy were unchanged compared to the previous month.

Figure 8: FAO Food Price Index



Source: Food and Agriculture Organisation of the United Nations

Figure 9: Dairy and Meat Price Indices



Source: Food and Agriculture Organisation of the United Nations

Implications

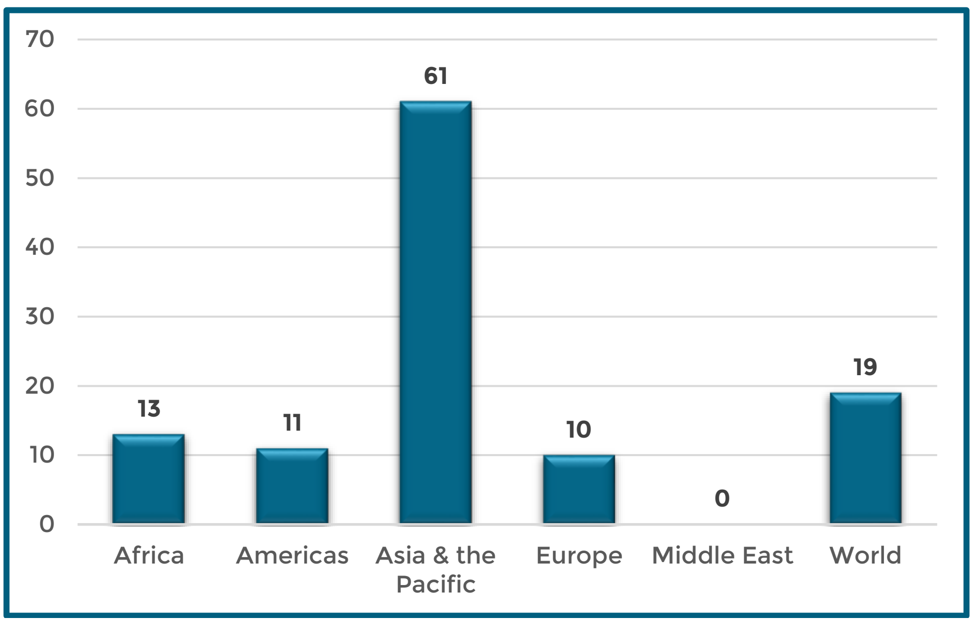
- Regional commodity-exporters like Guyana and Trinidad and Tobago could benefit from stronger global energy prices in 2025. However, this will negatively impact net importers of fuel, like the regional tourism-dependent economies, as these countries will have to pay more for imported fuel.
- Regional exporters of gold like Guyana and Suriname may record higher gold export earnings if gold prices increase in the latter part of 2024.
- The Ukraine-Russia and the Israel-Hamas conflicts may continue to put a strain on the global distribution of commodities, which could result in delays of shipments and higher costs for imported goods. Given the high food import bills for the regional territories, this could lead to higher inflation for the Caribbean.

Tourism

Recent Performance

- According to the United Nations' World Tourism Organisation (UNWTO), global tourist arrivals increased by 19 percent y-o-y in the first quarter of 2024 (Figure 10).
- Increased arrivals were recorded in all regions, except the Middle East which recorded a flat performance.
- The events related to the ongoing Israel-Hamas war, helped to limit the arrivals in the region.
- The strongest growth was recorded in the Asia and the Pacific regions (61 percent), with the North-East Asia sub-region expanding by 110 percent. The three other sub-regions in this group experienced a rise in tourist arrivals between 20 percent and 44 percent.
- Several other sub-regions recorded double digit growth including North Africa, Sub-Saharan Africa, Central America, North America and Western Europe (Figure 11).

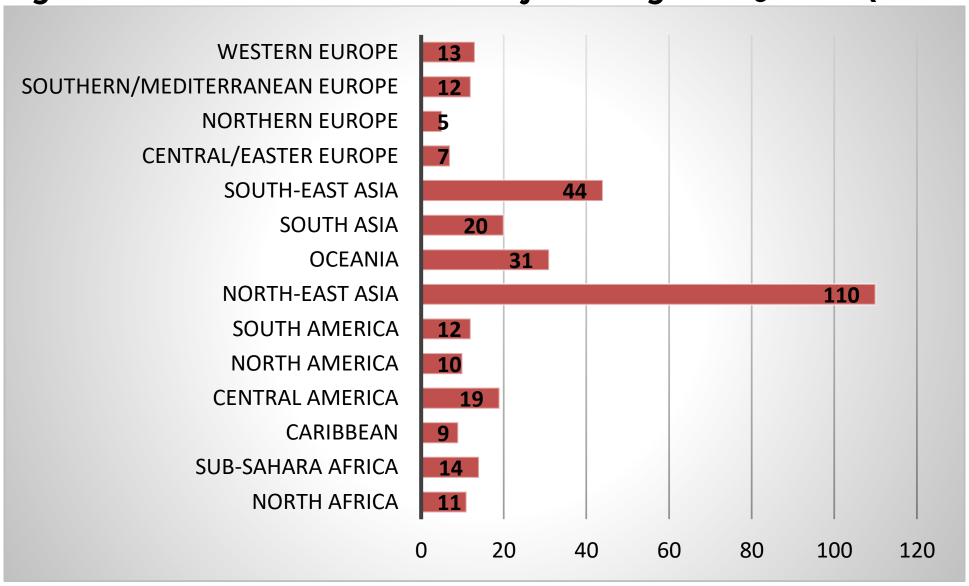
Figure 10: Tourist Arrival Growth by Region (Q1 2024)



Source: UNWTO

Tourism

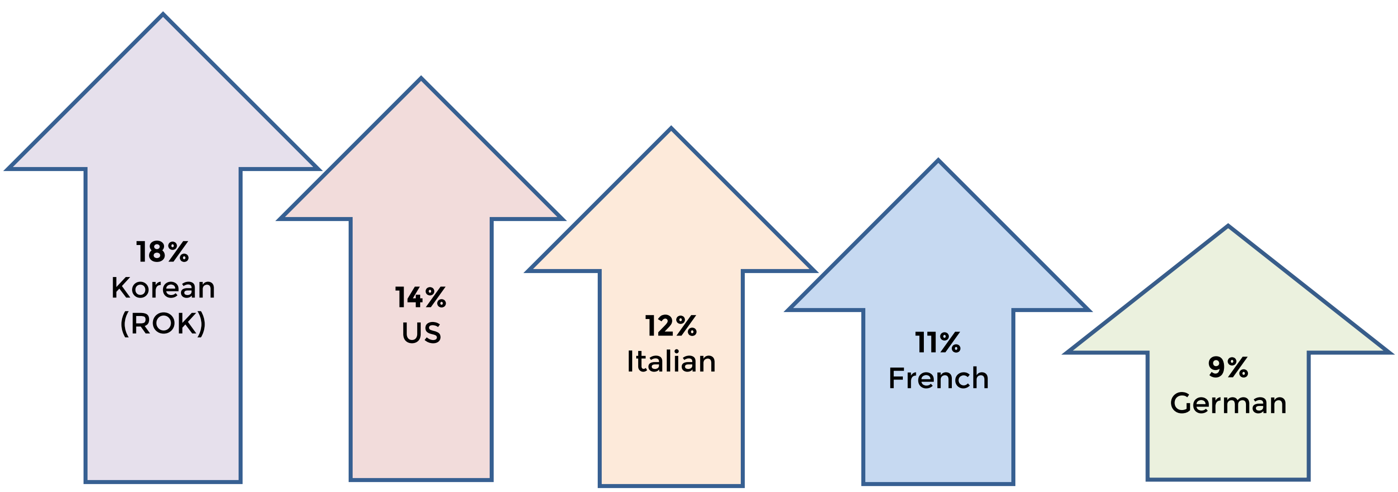
Figure 11: Tourist Arrivals Growth by Sub-region - Q1 2024 (% Change)



Source: UNWTO

- In terms of the major tourism source markets, available data indicate that demand remained upbeat during the first four months of 2024, with visitors from the Republic of Korea registering a brisk 18 percent expansion (Figure 12).
- Solid growth was also recorded in arrivals from the US, Italian, French and German source markets.

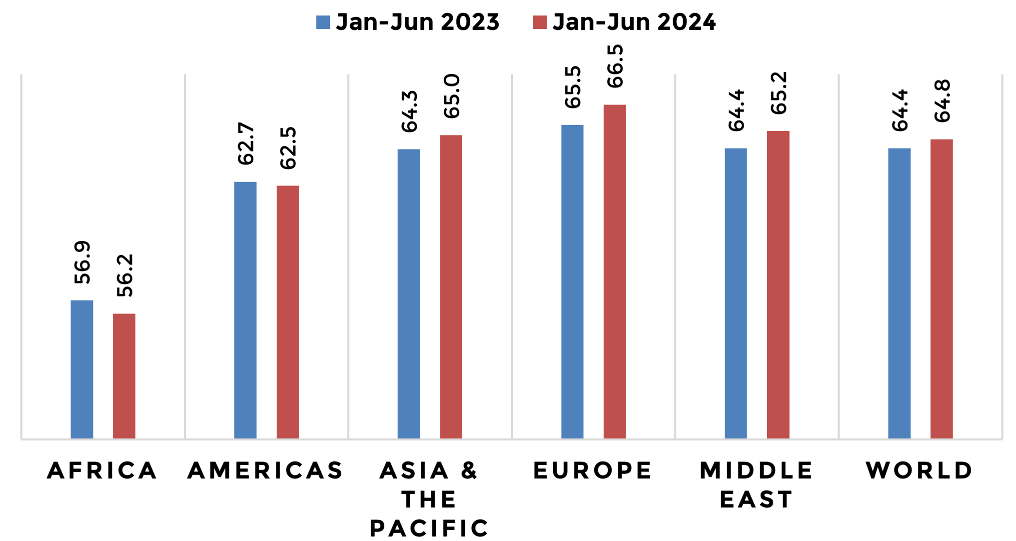
Figure 12: Tourist Arrivals by Source Market



Tourism

- The occupancy rates for the global tourism sector generally improved during the first half of 2024 when compared to the same period a year earlier.
- Global occupancy rates averaged 64.8 percent in the Jan-Jun 2024 period, slightly up from 64.4 percent in same period in 2023.
- However, the Americas and Africa registered marginal declines during the period (Figure 13).
- Within the sub regions, the Caribbean (71.2 percent) and Northern Europe (72.8 percent) had the highest average occupancy rates in the first half of 2024.

Figure 13: Occupancy Rates by Region



Source: UNWTO

Tracking the Post-Pandemic Recovery

- In the first quarter of 2024, global tourist arrivals were just 3 percent short of pre-pandemic levels, with varying performances among regions.
- While arrivals in Africa and Europe were 5 percent and 2 percent, respectively above 2019 levels, the figure in the Middle East exceeded pre-pandemic levels by an impressive 36 percent.
- With arrivals in the Asia and Pacific region still 18 percent below pre-pandemic levels in the first quarter, it is clear the considerable y-o-y growth (61 percent) recorded in the region was related to a low base, with its recovery trailing other regions.
- In terms of the sub-regions, North Africa (23 percent), Central America (15 percent) and Southern/Mediterranean Europe (12 percent) recorded the strongest growth relative to pre-pandemic levels (Table 4).

Republic Bank

Tourism

Table 4: Tourism Recovery by Region (Q1 2024)

Region	Q1 2024 vs. Q1 2019 (% chg.)
Africa	**5**
- North Africa	23
- Sub-Saharan Africa	-5
Americas	**-1**
- Caribbean	7
- Central America	15
- North America	-5
- South America	0
Asia & the Pacific	**-18**
- North-East Asia	-27
- Oceania	-15
- South Asia	-7
- South-East Asia	-11
Europe	**2**
- Central / Eastern Europe	-22
- Northern Europe	-2
- Southern / Mediterranean Europe	12
- Western Europe	7
Middle East	**36**
World	**-3**

Source: UNWTO

Short-term Outlook

- International tourist arrivals are expected to completely recover in 2024, although the figure in some sub-regions will likely continue to lag 2019 levels heading into 2025.
- The sector is expected to be supported by strong demand, enhanced air connectivity and the continued recovery of China and other major Asian markets.
- Challenges confronting the sector include the possible intensification of ongoing conflicts (Ukraine-Russia, Israel-Hamas etc.) and other geopolitical tensions, slower than expected growth in key source markets and the impact of climate change on global travel and vulnerable destinations such as small-island developing states (SIDS).

Tourism

Implications

- In addition to impeding the rate of growth in the global tourism industry, the prospect of an intensification of geopolitical tensions and / or slower than expected growth in key economies, could extend the recovery of the tourism sector in some countries. In this regard, affected destinations and regions may still be trailing 2019 arrivals levels heading into 2026.