



# EIU MONITOR

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# Geopolitics

## US Foreign Policy

### Venezuela

- The *Venezuela Emergency Relief, Democracy Assistance, and Development (VERDAD) Act*, which was passed in 2019 to support Interim-President Juan Guaidó and the democratically elected National Assembly is due to expire in December 2023.
- The Act was meant to harmonise US policy initiatives in support of a negotiated and peaceful solution to the crisis in Venezuela. It authorises targeted sanctions for corruption, human rights abuses, and anti-democratic actions by the Maduro government and its allies. The VERDAD Act also seeks to provide increased humanitarian assistance.
- With those authorisations expiring in December 2023 and negotiations stalled, the Chairman of the US Senate Foreign Relations Committee announced plans to introduce a VERDAD Expansion Act when the senate reconvenes after the August recess. The Act would authorise and/or codify various forms of pressure on the Maduro regime if progress is not made in negotiations within six months of the bill's enactment. Congress could scale back, extend, or expand the scope of US sanctions on Venezuela.

### China

- Relations between Washington and Beijing have remained fraught. Consecutive visits to Beijing in June and July 2023 by US Secretary of State Antony Blinken, Treasury chief Janet Yellen and climate envoy John Kerry to meet Chinese leaders, including Xi Jinping, Premier Li Qiang and top diplomat Wang Yi, have been widely hailed as a

significant step to ease the tensions. These visits have ended with pledges to continue to communicate, but no concrete agreements, as relations between the two nations remain frosty.

- In August 2023, Minister of National Defence, General Li Shangfu vowed to strengthen military ties with several countries around the world, but unsurprisingly excluded the US.

### Taiwan

- In July 2023, the Biden administration announced a weapons aid package to Taiwan worth up to \$345 million, which is likely to anger China. The formal announcement did not include a list of the weapon systems being provided.
- In its 2023 budget, Congress authorised up to \$1 billion worth of Presidential Drawdown Authority weapons aid for Taiwan, which strongly rejects Chinese sovereignty claims. Beijing has repeatedly demanded that the US, Taiwan's most important arms supplier, halt the sale of weapons to the island.
- China considers Taiwan part of its territory and as such, continues to warn other nations against engaging Taiwan in bi-lateral relations. This development will do little to improve US-China relations.

# Geopolitics

## Russia/Ukraine/NATO

- Russia's invasion of Ukraine has strained its relations with the North Atlantic Treaty Organisation (NATO). NATO's expansion has long been a point of contention for Russian President Vladimir Putin, who claims Kyiv's accession would pose a threat to Moscow's national security.
- At the 2023 Vilnius Summit, allies agreed to further develop the Comprehensive Assistance Package (CAP) into a multi-year programme of assistance, to help rebuild the Ukrainian security and defence sector and transition Ukraine towards full interoperability with NATO. Allies also reaffirmed their commitment to allow Ukraine to become a member of NATO.

## Russia/Australia

Australia has blocked Russia from building a new embassy near its parliament citing a spying risk. Prime Minister Anthony Albanese said intelligence agencies had given "very clear security advice" on the move. Laws were specifically and rapidly drafted to halt construction after legal attempts to block the Canberra development failed. The Kremlin said it was "yet another unfriendly action" which Russia would "take into account" in the future.

## India/China Relations

- The leaders of India and China took the time to speak on the sidelines, during the recently concluded BRICS Summit and agreed to intensify efforts to expeditiously disengage and de-escalate tensions between their troops, who were locked in a standoff in certain friction points along the Line of Actual Control (LAC) in eastern Ladakh.
- India and China had previously held the 19<sup>th</sup> round of Corps Commander-level talks on August 13<sup>th</sup> and 14<sup>th</sup> with a focus on resolving pending issues at the standoff areas of Depsang and Demchok in eastern Ladakh.

# Geopolitics

## BRICS

- Expansion is on the agenda for the BRICS group, with 22 countries formally applying to be members. Foundation members, Russia and China, welcome the growth as countries, such as Iran, would increase China's influence and move the BRICS to a more anti-American accord. Russia, on the other hand, sees a bigger BRICS as a way of offsetting the Western alliance that currently exists. Regardless of their individual objectives, the bloc's growth prospective could see it potentially rivalling the G7.
- At the recently held 15<sup>th</sup> BRICS Summit, the bloc invited Saudi Arabia, Iran, Ethiopia, Egypt, Argentina and the United Arab Emirates to join. They will be formally admitted on January 1, 2024.
- Despite growing resentment for the US dollar's dominance among BRICS members, a common currency is not the current focus. Instead of a broader push towards de-dollarisation, BRICS members can choose to increasingly settle trade between each other in their local currencies.



Source: Getty Images

# Geopolitics

## Implications

- If Venezuelan authorities are subjected to an intensification of sanctions from the US, it is difficult to imagine a scenario where this does not increase the hardships faced by the wider population.
- The escalation of US sanctions would continue to negatively impact the Caribbean as these sanctions prevent regional states from trading with Venezuela, costing them access to cheaper oil through the PetroCaribe agreement. It could also affect Trinidad and Tobago's ability to continue negotiations on jointly developing the Dragon gas field.
- Given recent events, no major improvement in US-China relations is envisaged for the foreseeable future. In fact, both countries are expected to intensify their respective efforts to offset each other's foreign policy agenda.

# Trade

## Black Sea Grain Initiative



On July 17, 2023, Russia announced its decision to withdraw from the Black Sea Grain Initiative (BSGI). Since its launch in July 2022, this initiative helped stabilise global food prices as it facilitated the delivery of more than 32 million tons of grain and other commodities to countries that desperately needed food supplies.

## Japan supports BSGI



Japan is paying close attention to the ramifications of Russia's decision on the global food supply.

Through international organisations, Japan has demonstrated its support of Ukraine's grain exports and has been providing support to regions struggling with severe food shortages, including the Middle East and Africa. They also support the EU's "Solidarity Lanes" initiative to transport Ukrainian grain and food by land.

## Regional Trade Agreements (RTAs)

On July 2, 2023, the World Trade Organisation (WTO) reviewed the following RTAs:

**Free Trade Agreement between the member states of the Association of Southeast Asian Nations (ASEAN) and Hong Kong, China (Goods and Services)**

**Free Trade Agreement between the European Free Trade Association (EFTA) States (Iceland, Liechtenstein, Norway and Switzerland) and Turkey (Goods and Services)**

**Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Goods and Services - to aid Peru in gaining access to an economic bloc accounting for 13 percent of global GDP and 15 percent of world trade**

**Partnership, Trade and Cooperation Agreement between the UK and North Macedonia (Goods and Services)**

**Partnership, Trade and Cooperation Agreement between the UK and Serbia (Goods and Services)**

The next Committee Meeting on RTAs by WTO members is tentatively due for September 25 - 26, 2023.

## Regional Trade Policy Training



A WTO Regional Trade Policy Course is being hosted in Trinidad and Tobago in partnership with the University of the West Indies (UWI), St. Augustine for Caribbean WTO members and observers.

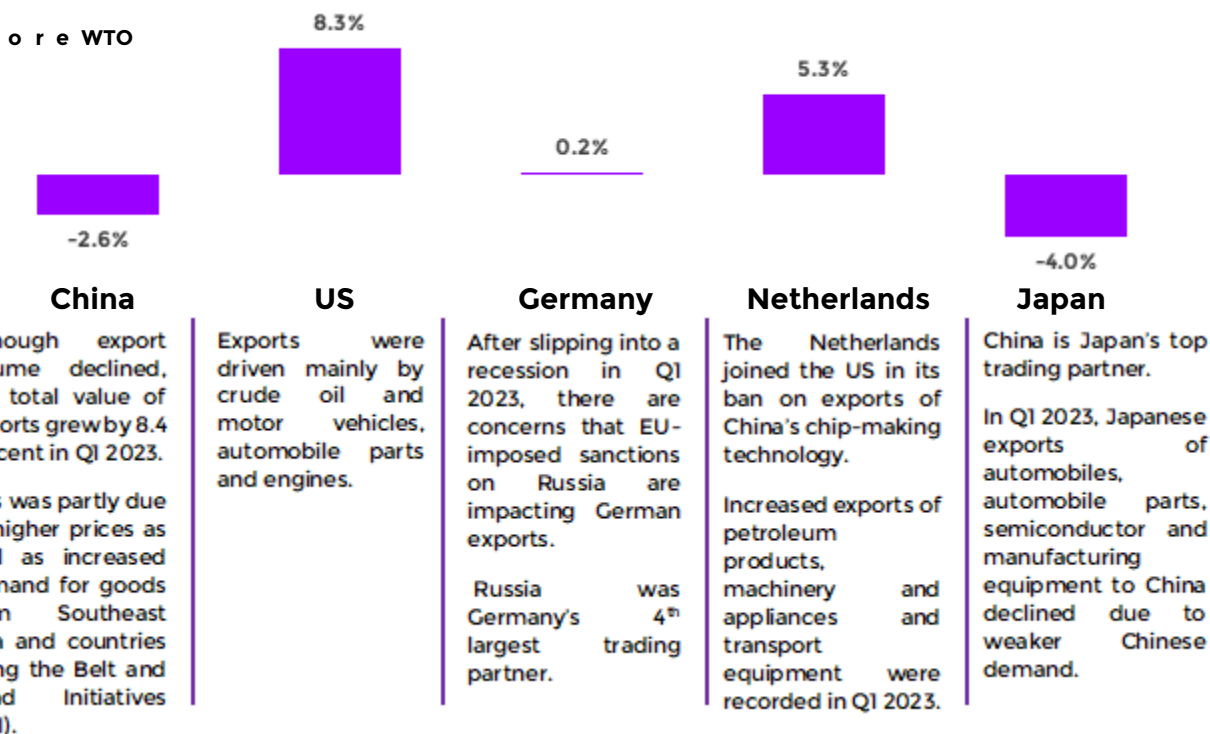
This training will run from July 17, 2023 to September 8, 2023 and will focus on:

- 1) The International Trading System
- 2) Regional Trade Policy Context and its linkages with the WTO agreements
- 3) Ways to strengthen, reform and modernise the multilateral trading system

# Trade

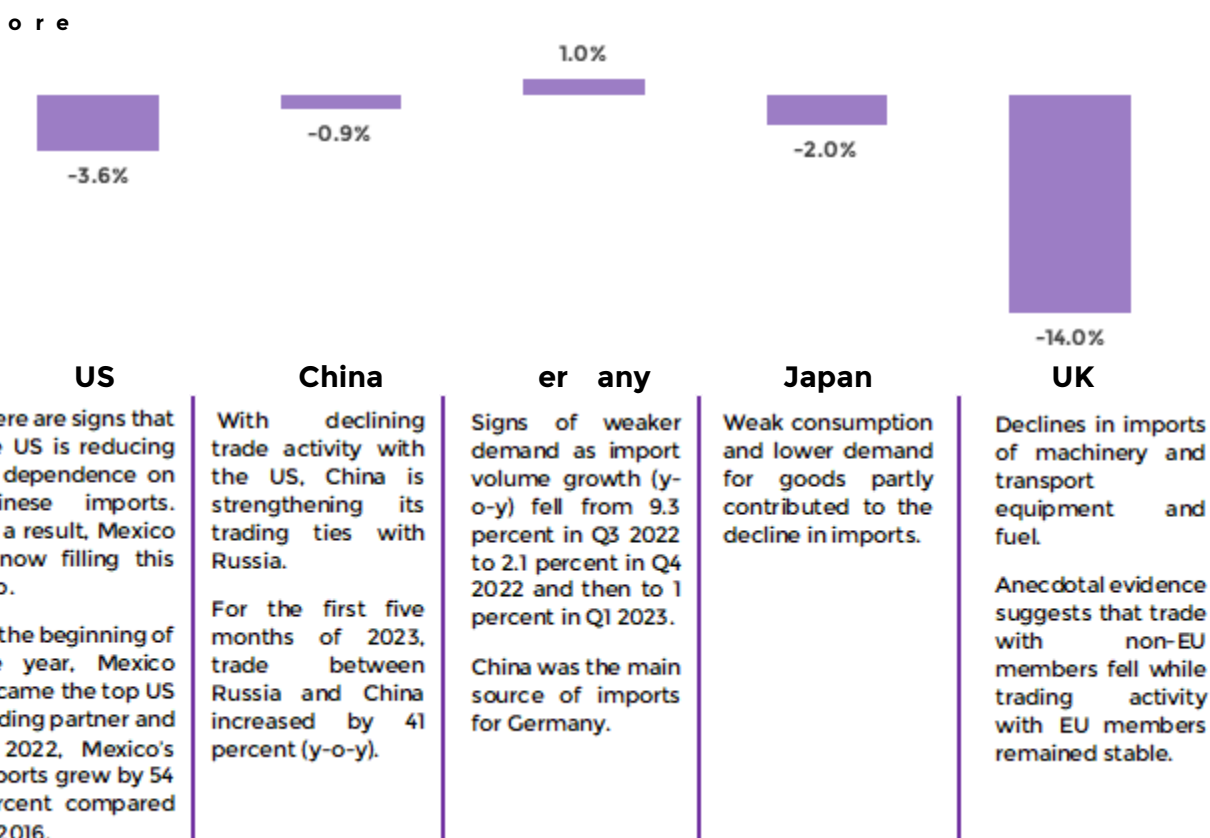
## Top Global Exporters (2022)

### Merchandise Export Volume Growth March 2023 (y-o-y)



## Global Imports

### Merchandise Import Volume Growth March 2023 (y-o-y)





# Trade



As at mid-May 2023 around 9.2 percent of global imports were affected by restrictive measures introduced since 2009 and still in force today.



For the period mid-October 2022 to mid-May 2023 the value of goods from Trade Facilitating Measures were 6 times more than the value of goods covered by Trade Restrictive Measures.

WTO members introduced 182 Trade Facilitating Measures which contributed to US\$703.7B worth of goods and 110 Trade Restrictive Measures which prevented the trade of US\$110.5B worth of goods.



The number of Pandemic-related trade restrictions that were still in place as at mid-May 2023.



WTO projects that global Merchandise Trade Volume will grow by 3.2 percent in 2024 following an expansion of 1.7 percent in 2023.

## Implications

- Export restrictions could lead to higher global food prices, which will negatively affect poorer and developing nations. The recent termination of the BSGI could further complicate efforts to enhance global food security.
- WTO training for Caribbean members may help to enhance the export capacity for the regional SME sector and potentially boost foreign exchange earnings for the Caribbean.
- Weaker demand for goods and services in some developed nations may inhibit export earnings for emerging and developing economies.

# Banking and Finance

## Multi-lateral Developments

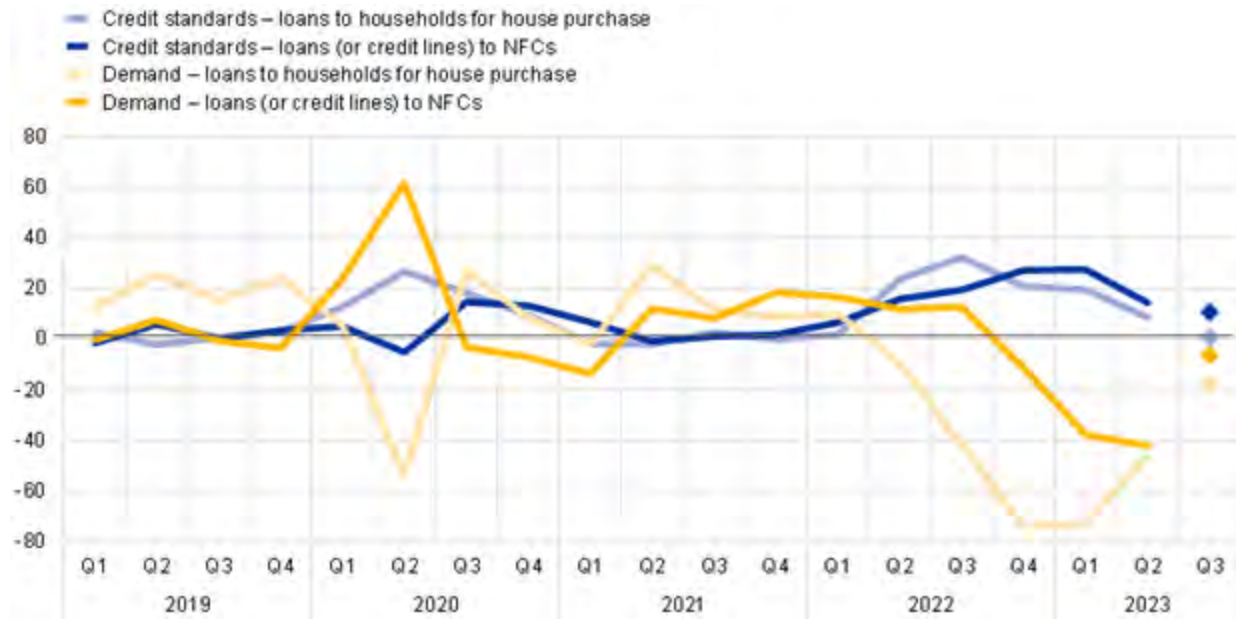
- In July, the World Bank (WB) announced plans to increase its lending capacity; a move it expects will generate economic growth, create jobs and thereby help millions to escape poverty. The WB revealed key elements of the strategy it will employ to accomplish this objective. These include:
  - I. To make its financing more widely available, the WB will introduce a portfolio guarantee programme where risk will be shared, and shareholders' guarantees will have more power. Shareholders will intervene when countries are unable to repay their loans.
  - II. The WB will raise hybrid capital from shareholders and other development partners.
  - III. The WB also intends to broaden the conditions under which it can rely on shareholders for callable capital to help it absorb more risk and increase its lending activity. Callable capital is a commitment by shareholders to make new funds available to the WB under specific circumstances.
- In June, the IMF accepted the equivalent of US\$1 billion in Chinese yuan from Argentina for debt repayment. This development is reflective of both the dire economic situation in Argentina, including its very low foreign exchange reserves and the increasing relevance of the yuan, amid efforts by specific nations to de-dollarise the global economy.

## Credit Crunch

- With rising interest rates, tighter lending conditions and slowing economic growth, businesses in many parts of the world are facing significant challenges accessing adequate levels of capital.
- In its second quarter 2023 Credit Conditions Index, the American Bankers Association indicated that credit conditions were expected to weaken in the second half of 2023 as economic growth slows.
- The European Central Bank's May 2023 lending survey revealed that credit standards had tightened to their highest level since 2011. Additionally, there was a 38 percent contraction in loan demand with 18 percent of the total being rejected loan applications, the highest level since 2015 (Figure 1).

# Banking and Finance

**Figure 1: Changes in Credit Standards and Net Demand for Loans to Non-Financial Corporations (NFCs) and Loans to Households for House Purchase**



Source: Getty Images

## North America

- In the US, the downgrade of 10 mid-sized banks by credit rating agency, Moody's in early August, caused significant concern among investors. Moody's cited rising funding costs, a possible further decline in deposits and a potential recession as major risks to the country's banking sector.
- The agency also placed some large banks on review for potential downgrade. This includes Bank of New York Mellon (BK.N), US Bancorp (USB.N), State Street (STT.N) and Truist Financial (TFC.N).
- This action came a few days after Fitch Ratings agency cut the US credit rating by one notch from AAA to AA+, citing a steady deterioration in governance standards in the wake of the 2020 January 6 insurrection and the recent debt ceiling stand-off in Congress.
- With \$1.5 trillion in commercial mortgage debt due by the end of 2025, there are rising fears that a real estate market crash is imminent in the US, with higher interest rates making it more difficult to refinance such debt.
- The situation is further complicated by tighter credit conditions and the decline in property values due to the remote work phenomenon, which combine to increase the possibility of a significant increase in defaults.
- This has stoked substantial concern in the financial sector, especially as some analysts estimate that the fall-out could rival the 2008 global financial crisis.

# Banking and Finance

## Europe

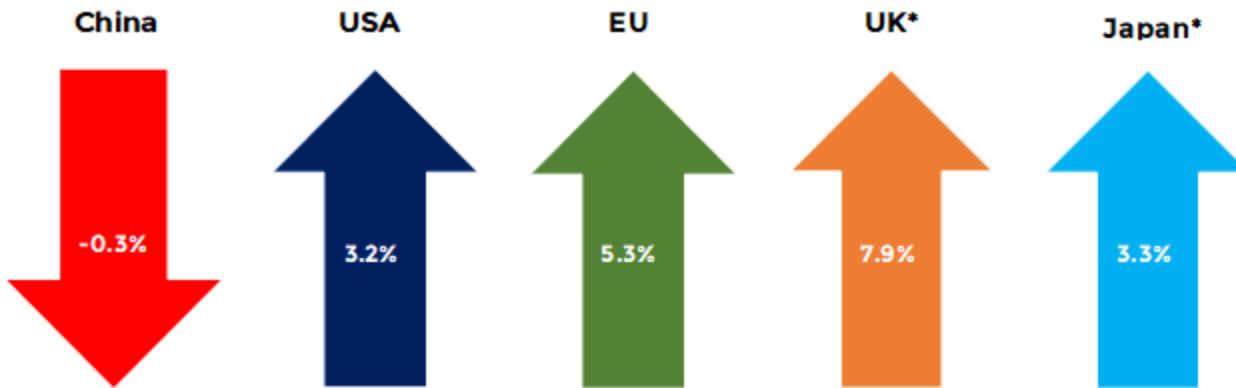
- Italian authorities approved a 40 percent one-off windfall tax on banks for profits earned from the high interest rate environment. The authorities chastised lenders for not passing on the benefit of higher rates to depositors.
- In August, five months after acquiring troubled Swiss lender Credit Suisse, UBS ended the 9 billion Swiss franc loss protection agreement and the 100 billion Swiss franc public liquidity backstop, with the operations of the bank now stabilised. The protections were put in place by the Swiss government in March 2023 when the acquisition occurred.
- In June 2023 Ms. Hafize Gaye Erkan, a Turkish-US citizen became the first female governor of the Central Bank of the Republic of Turkey. The new Governor is a graduate of Harvard Business School and adds to a very short list of women serving in similar roles globally.

## Asia

- Flipkart, an Indian e-commerce company, owned by WalMart, partnered with Axis Bank to provide "Documentless" loans, with repayment cycles ranging from six to 36 months on credit of up to 500,000 Indian rupees (US\$6,100).
- No documents are required to access the loans and approval can be as quick as 30 seconds.
- US-based private equity group, Bain Capital has revealed that a major objective of its agreement to acquire 90 percent of Adani Capital in July, was to tap into the underbanked segment of India's economy.
- Bain expects the acquisition to provide an important lending platform to the country's rapidly growing micro, small and medium enterprises sector.
- China's economy slipped into deflation in July, with prices 0.3 percent below July 2022 (Figure 2). This is a divergence from the experience of most other major economies and comes after several reports of stagnating prices, rising unemployment and slowing domestic production.

# Banking and Finance

Figure 2: July 2023 Inflation Rates



Source: BOC, US-BLS, BOE, ECB, BOJ  
\* Data for June 2023

## Implications

- The willingness of the IMF to accept the Chinese Yuan as debt repayment will likely provide further encouragement to China, Russia and other countries in their efforts to de-dollarise global trade and the wider global economy. While the dollar is expected to remain the dominant currency for the foreseeable future, reasonable success with this initiative could ultimately result in a fragmented global trade system, with divergent rules and standards. This may make overall global trade more complex and expensive.
- The emergence of a commercial mortgage crisis in the US represents a substantial risk to the global financial system, with the potential to kick off a global recession. This is especially the case if the impact on US banks is similar to that of the 2008 financial crisis.

# Commodities

## Food

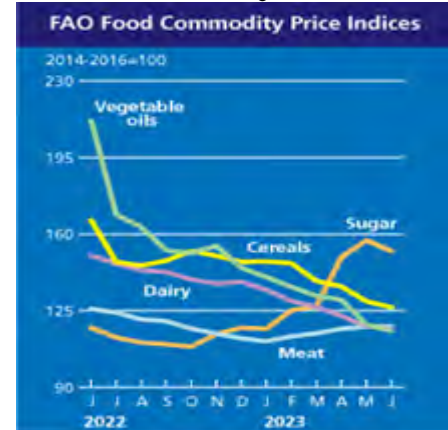
### Food Price Index and Monthly Changes



Source: F



### Food Commodity Price Trends



Source: F

The month-on-month decline in the index in June reflected drops in the indices for sugar, vegetable oils, cereals and dairy products, while there was no change in the meat price index.



#### Cereal Price Index

- Averaged 126.6 points in June, down 2.7 points (2.1 percent) from May and 39.7 points (23.9 percent) below its value a year ago.
- The month-on-month decline reflects a fall in the world prices of all major cereals. International coarse grain prices fell the most, down 3.4 percent since May.



#### Vegetable Oil Price Index

- Averaged 115.8 points in June, down 2.9 points (2.4 percent) from May and marking the lowest level since November 2020.
- The continued decline of the index was driven by lower world prices of palm and sunflower oils, more than offsetting higher soy and rapeseed oil quotations.



#### Dairy Price Index

- Averaged 116.8 points in June, down 1.0 point (0.8 percent) from May and 33.4 points (22.2 percent) below its corresponding value a year ago.
- The decline in June was again led by lower international cheese prices, reflecting ample export availabilities, especially in Western Europe, where milk production tracked seasonally higher, while retail sales were somewhat subdued.



#### Meat Price Index\*

- Averaged 117.9 points in June, unchanged from May, as increases in international quotations for poultry and pig meats were offset by declines in those for bovine and ovine meats.



#### Sugar Price Index

- Averaged 152.2 points in June, down 5.1 points (3.2 percent) from May, marking the first decline after four consecutive monthly increases.
- The June decline in international sugar prices was mainly triggered by the good progress of the 2023/24 sugarcane harvest in Brazil and sluggish global import demand, particularly from China, the world's second largest importer of sugar.

# Commodities

After nine consecutive months of decline, the United Nations Food and Agriculture Organisation's Food Price Index increased by 0.6 percent month-on-month (m-o-m) in April, driven by increases in the sugar and meat sub-indices. Nevertheless, the downward trend resumed in May and continued in June.

After the expiration of the Black Sea Grain Initiative on July 16<sup>th</sup>, Russia announced on July 17<sup>th</sup> that it would not renew the agreement until certain conditions are met. Brokered by the UN and Turkey, the agreement enabled Ukraine to export almost 33m metric tonnes of grain since August 2022. According to the International Monetary Fund, the absence of the arrangement could result in global grain prices increasing by 10-15 percent.

## Energy

Clean energy investment benefitted significantly from the global economic recovery from the slump caused by the Covid-19 pandemic and the response by many nations to the global energy crisis that developed in the wake of Russia's invasion of Ukraine. The war caused intense volatility in fossil fuel markets, with the related supply shortages and price spikes leading to an acceleration of clean energy programmes in many countries.

According to the International Energy Agency (IEA), it is estimated that around US\$2.8 trillion will be invested in energy in 2023, of which, more than US\$1.7 trillion is going to clean energy. This includes renewable power, low-emission fuels, nuclear, storage grids, efficiency improvements and end-use renewables and electrification. The remainder is expected to be directed to traditional fossil fuels. For every US\$1 spent on fossil fuels in 2023, US\$1.7 is expected to be spent on clean energy.

### Energy prices

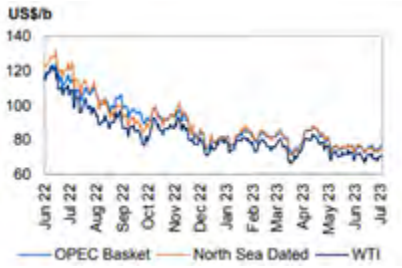
| Commodity           | Unit       | Monthly Averages |        |        | % Change<br>Jun 23/May 23 | Year-to-date |       |
|---------------------|------------|------------------|--------|--------|---------------------------|--------------|-------|
|                     |            | Apr 23           | May 23 | Jun 23 |                           | 2022         | 2023  |
| Energy              | Index      | 109.3            | 96.9   | 95.2   | -1.8                      | 151.9        | 105.8 |
| Coal, Australia     | US\$/mt    | 194.3            | 160.5  | 139.4  | -13.1                     | 297.9        | 201.1 |
| Crude oil, average  | US\$/b     | 82.5             | 74.1   | 73.3   | -1.2                      | 103.4        | 77.8  |
| Natural gas, US     | US\$/MMBTU | 2.2              | 2.1    | 2.2    | 1.7                       | 6.0          | 2.4   |
| Natural gas, Europe | US\$/MMBTU | 13.5             | 10.1   | 10.4   | 2.4                       | 32.1         | 14.1  |

Source: PEC

The energy price Index fell by 12.9 percent during the April-June 2023 period, with the largest decline being registered in coal prices. While US gas prices remained largely stable during the period, prices in Europe fell by more than US\$3, but were still more than US\$8 per million British thermal units (MMBTU) above US prices.

# Commodities

## Energy prices



On average, crude oil prices declined for the 2<sup>nd</sup> consecutive month in June by 1.2 percent, month on month.

Source: E

## Energy prices



Source: E

OPEC+, which accounts for approximately 40 percent of the world's crude oil production, has been reducing output since late 2022, in response to flagging prices. The surprise announcement of further cuts in April 2023 saw prices rise by about \$9 a barrel to above \$87 per barrel in the days that followed. However, the gains were not sustained. In response, in July, Saudi Arabia voluntarily cut its production by an additional one million barrels per day (bpd) to push prices up. In August, the country announced that cut will remain in place for a third month in September.





## Natural Gas

### U.S (Henry Hub)

- After 5 months of consecutive declines, prices increased by 1.3 percent in June. This was attributed to seasonal demand increases.
- Also attributable to ongoing cuts to US shale gas rigs and an increase in speculation activity in the futures market

### Europe

- Average Title Transfer Facility (TTF) price increased by 2.4 percent after a 5-month slide.
- Price rise due to increased demand as a result of a heatwave across the region, the permanent closure of one of Europe's largest gas fields located in the Netherlands and plant maintenance outages in Norway

## Metals

### Gold

Prices decreased by 2.5 percent in June, month-on-month

Prices were pressured by a stronger U.S dollar amid expectations of US interest rate hikes

### Aluminum

A decline in price of 3.5 percent in June, the 2nd consecutive monthly decrease

Price fall attributed to increased global output and softer demand in China

### Copper

Prices rose by 2.2 percent in June month-on-month after 4 consecutive months of decline, due to tighter supplies

### Lead

Prices increased by 1.9 percent, month-on-month in June, supported by the month-on-month increase in electrical vehicle sales and China's tax exemptions

### Nickel and Zinc

Prices for both commodities fell month-on-month in June.

Nickel prices fell by 3.4 percent for the 2nd consecutive month.

Zinc prices fell by 4.0 percent for the 5th consecutive month

The weakening of aluminum, nickel and zinc prices was partially offset by a rebound in copper, lead and iron ore prices.

# Commodities

## Implications

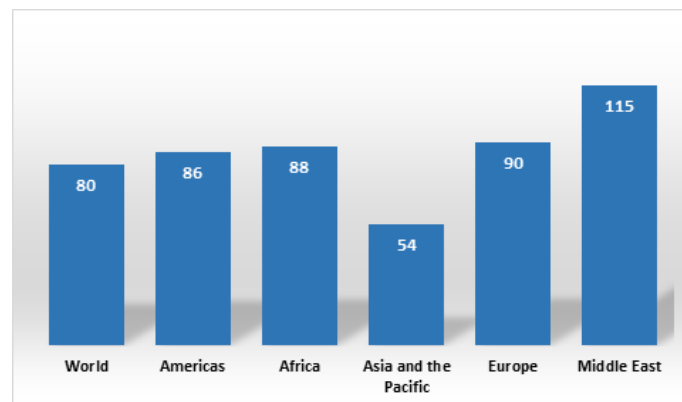
- The refusal by Russia to renew the Black Sea Grain Initiative and its destruction of a large portion of Ukraine's wheat supply may result in significant increases in wheat and grain prices globally, possibly beyond the levels projected by the IMF.
- As leading economies continue to tighten monetary policy and with slow GDP growth in China, global oil demand will likely be constrained in the second half of 2023.
- Exacerbated by global macroeconomic uncertainties, the diverse movement of metals prices highlights the mixed sentiment across industrial activity.

# Tourism

## Recent Performance

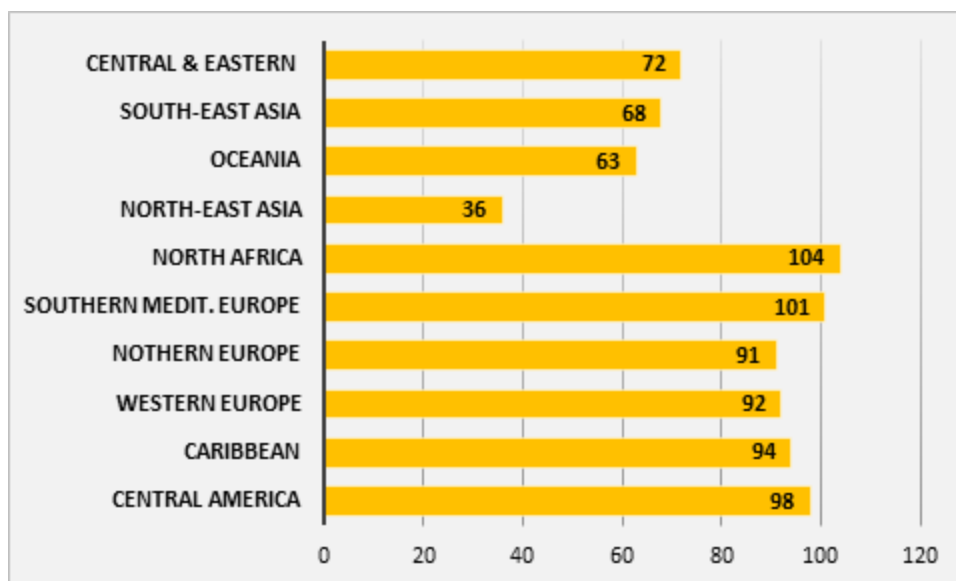
- According to data from the World Tourism Organisation (WTO), international tourist arrivals expanded by 86 percent year-on-year (y-o-y) in the first quarter of 2023, driven primarily by strong performances in the Middle East and Europe.
- After averaging 66 percent of pre-pandemic levels in 2022, arrivals rose to 80 percent in the first quarter, as the post-COVID recovery continued in most regions (Figure 3).
- The Middle East became the first region in which total arrivals were equal to or greater than pre-pandemic levels during an entire quarter; arrivals were 15 percent above first quarter 2019 figures.
- Europe's strong performance was driven by upbeat demand for intra-regional travel

**Figure 3: Tourist Arrivals Recovery by Region Jan-Mar 2023 as a % of Jan-Mar 2019**



Source: WTO

**Figure 4: Tourist Arrivals Recovery by Sub-region Jan-Mar 2023 as a % of Jan-Mar 2019**



Source: WTO

# Tourism

- Among the sub-regions, arrivals in both Southern Mediterranean Europe and North Africa were at or beyond pre-pandemic levels in the period January-March 2023.
- Encouragingly, the number of visitors to Central America, the Caribbean, Western Europe and Northern Europe were within single-digit range of 2019 figures.
- By comparison, the recovery in North-East Asia continues to substantially lag the global average (Figure 4).
- The pace of the recovery among Caribbean states has been mixed and as such mirrors global trends (Table 1).

**Table 1: Tourist arrivals in the Caribbean  
Jan-Apr 2023 vs Jan-Apr 2019 (%)**

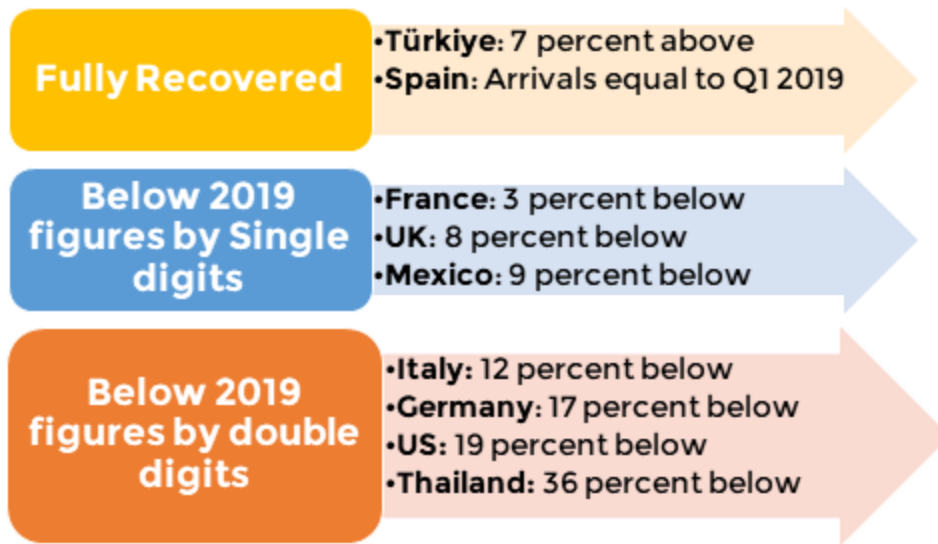
| Country                | % of 2019 |
|------------------------|-----------|
| Anguilla               | 106.0     |
| Antigua & Barbuda      | 98.4      |
| Barbados               | 85.2      |
| British Virgin Islands | 85.8      |
| Cayman Islands         | 83.6      |
| Cuba                   | 51.3      |
| Grenada                | 104.9     |
| Jamaica                | 94.3      |
| Caribbean              | 94.0      |

Source: CTO

- Of the top global destinations, Türkiye's recovery is furthest along, exceeding pre-pandemic levels by 7 percent in the first quarter of 2023.
- Spain's progress was second with arrivals equivalent to first quarter 2019 numbers (Figure 5).

# Tourism

Figure 5: Recovery of Top Tourism Destinations



- In terms of global demand for travel and tourism, available data reveal that arrivals from several key source markets were beyond pre-pandemic levels in the first quarter of 2023.
- Interestingly, arrivals from the Russian Federation were 10 percent above the figure recorded in the first quarter of 2019, suggesting reasonably upbeat effective demand, despite the ongoing war and its related events.
- Global arrivals from the US, Germany and Italy exceeded pre-pandemic levels by 10 percent, 13 percent and 14 percent, respectively.

## Short-term Outlook

- Global tourism activity is expected to grow further over the next 12 months, despite the challenging economic environment.
- Ongoing economic challenges may force many travellers to take vacations closer to home.
- The sector may be negatively affected by production cuts by OPEC+ which could result in a significant rise in fuel costs and consequently, airfare.
- The events associated with the Russia-Ukraine war remain key risks for the sector.
- The sector is unlikely to return to pre-pandemic levels before 2024.

# Tourism

## Implications

With the recovery of the tourism sector lagging the global average in several countries, it is likely that some of these destinations may not welcome tourists at similar totals to 2019 before 2025. This could cause global growth in 2023 and 2024 to register at lower percentages than previously envisaged. This situation could be intensified by additional price pressures emanating from OPEC+ production decisions and supply disruptions owing to the cancellation of the Black Sea Grain Initiative.

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