

**Our Bank.  
Our People.**



# Pacific economic and market insights

DECEMBER QUARTER 2020



**2021**

# Key trends at a glance



## GLOBAL ECONOMY TO RECOVER

- Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand by 4% in 2021, but remain more than 5% below pre-pandemic projections.
- As 2020 came to a close, the forces behind currency movements turned more from political drivers, to macro-economic fundamentals.



## COMMODITY PRICES RECOVER FROM LOSSES IN Q4-20

- Upward momentum continued in the final quarter of 2020, as the market continued to experience a rebound from the lows reached in March and April.
- Gold prices fell -2% in the 4Q-20, ending its eight quarter winning streak, as the strong recovery in China as well as hopes of vaccine rollouts improved investor sentiment, diminishing the precious metal's appeal as a safe haven.
- Copper prices gained 10% in the final quarter, heading into 2021 at multi-year highs.
- The price of Arabica coffee pulled back by -4% in Q4-20, with price pressure coming from a supply glut and a weakening currency in the world's leading producer of Arabica beans, Brazil.



## PNG ECONOMY TO REBOUND IN 2021

- Economic growth in 2021 is projected to recover to 2.5%, however recovery will remain lacklustre as the country faces strong headwinds from the COVID-19 crises. Despite a limited number of cases, the combination of the supply and demand shocks greatly impacted not only government finances and external balances but consumption and investment.
- As of 21st December, there were 761 COVID-19 cases and nine (9) Covid-19 deaths reported in PNG.
- The Dec-2020 level of foreign exchange reserves increased to K9.3b (US\$2.65m), reflecting inflows from loans from the Australian government, ADB and dividend payments to the Government from the OK Tedi mine ... a material increase over the Sep-2020 level of K7.1b (US\$2.03m).
- The Kina depreciated against all major currencies in Q4-2020.
- Oil Search is expecting that 2021 will continue to be another challenging year, however they are focused on maintaining operational discipline, which resulted in a record annual PNG LNG production in the fourth quarter of 8.8 MT.



## CHALLENGING ECONOMIC GROWTH FOR THE SOUTH PACIFIC

- As the pause in global tourism persists, prospects of a recovery in the Pacific sub-region remain vague, particularly as the promise of any meaningful travel bubble depends on the confidence of a containment of COVID-19.
- The sub region is expected to recover by 1.3% in 2021, contingent on how quickly travel and trade restrictions can be resolved, as projected by ADB's December Report. Fiji, Solomon Islands and Vanuatu economies are expected to experience a modest rebound despite having gone through an economic contraction in Q4-20.



## REAL GDP GROWTH

	2020	2021
	-19.8%	+1.0%
	-6.0%	+1.0%
	-2.7%	-6.5%
	-7.0%	-15.4%
	-3.5%	-10.7%
	-9.8%	+1.0%

# BSP's economic and market views



**Robin Fleming**

Group Chief Executive  
Officer

## With 2020 being a difficult year for individuals and businesses, what are you hopeful for 2021?

- *Dealing with the implications of the COVID-19 global pandemic was both a major challenge and a significant achievement, with our customers and BSP responding positively to a difficult year. The travel and movement restrictions put in place in all countries in which BSP operates, had financial implications for many of our Corporate and Retail customers and BSP was able to respond with support packages of varying terms and periods for affected customers. For example, BSP reduced its PNG lending rate by 1% (100bps) across all variable rate products and every new fixed rate product after April 1, 2020 and was the only bank in PNG to do this across all its lending products.*
- *However these assistance measures cannot continue indefinitely. Accordingly, BSP like many PNG businesses, is looking forward to the Porgera mine agreement between Barrick and the government being resolved. A successful conclusion of Porgera negotiations will provide immediate foreign exchange relief.*
- *We are also looking forward to Total and the government confirming Papua LNG will be progressing in early 2021, notwithstanding the P'nyang expansion project remains subject to further negotiations with Exxon. The confirmation of Papua LNG will permit businesses to commence planning for the future LNG related activity.*
- *A significant resource project such as the Wafi-Golpu (K18.4b) will provide substantial economic benefits to Morobe in construction, contracting, retail and support services sectors as well as increased employment and importantly provide a counter balance to future economic activity that will be in Port Moresby and Gulf once the PNG LNG Project Commences.*
- *Finally, the global roll out of COVID-19 vaccinations during 2021, will permit some degree of normalcy to international travel, which will provide much needed support for the hotel and airline industries and will improve the ease of doing business in PNG and across the Pacific.*
- *Given the above, BSP is expecting a much improved 2021 on the back of these major projects proceeding in the near term.*

# BSP's economic and market views



**Peter Beswick**

Group General Manager –  
Corporate Bank

## What were your key takeaways from the recent PNG Business Council PM breakfast?

- *Positive developments announced by our Prime Minister Hon. James Marape at the recent PNG Business Council PM breakfast with commitments only weeks away on Porgera and Papua LNG. Meetings are scheduled for Q1 with Barrack Niugini Ltd on the mine reopening and with Total on Papua LNG commencing as a standalone project without alignment of P'nyang.*
- *The government has also committed to working with the PNG Business Council on their coronavirus strategy of Rescue, Recover & Rebuild;*
- *We expect these announcements will have a strong impact on all sectors of the economy from micro SME, SME and large corporates alike;*
- *The Government's SME program is also gaining significant traction with BSP applications at K66.5 million and K29.2 million approved or pending approval. SME's have long been accepted as the engines of economic growth & development and this program will see further positive contribution to PNG's business activity & economic growth in 2021.*

## What local trends are you seeing in early 2021?

- *With the Moderna, Pfizer and AstraZeneca vaccines out globally, ongoing success of the Government's initiatives & Australia's recent K374 million commitment for COVID-19 vaccinations in PNG, business confidence has bounced from Q4 2020;*
- *We are seeing a number of lending applications in the Retail, Agriculture, Infrastructure and Digital sectors.*



**Rohan George**

Group General Manager –  
Treasury

## What themes do you see emerging in the foreign exchange market in the March Quarter 2021?

- *Foreign exchange liquidity will tighten in the 1<sup>st</sup> Quarter 2021. FX inflows are expected to fall by 13% (including increased BPNG FX intervention) and 20% (excluding BPNG FX intervention), from levels enjoyed in December Quarter 2020.*
- *Reduced FX inflows from the Barrick (Porgera mine shutdown), OTML (due to lagged effects of the December fire shutdown), government businesses and state owned authorities (strong end of year FX inflows), are likely to be partially offset by increased FX intervention from BPNG.*
- *The Kina is likely to continue its gradual fall against the U.S. dollar (10 bps/month), while persistent Australian dollar strength will see larger falls in the Kina/Australian dollar cross rate.*

## How should Corporate and Retail customers manage volatility in foreign currency inflows?

- *While outstanding BSP customer FX Orders have fallen 35% in the past 12 months, reduced exporter volumes will see outstanding FX orders in the market increase in both size and volume.*
- *Time to FX order execution will lengthen, from 1- 3 weeks enjoyed in the December Quarter 2020.*
- *To manage reduced FX liquidity, businesses should place FX orders (with correct paperwork), as soon as possible, ensure orders are cash backed whilst awaiting execution, tax clearance certificates are current and reflect the expected FX order execution time.*

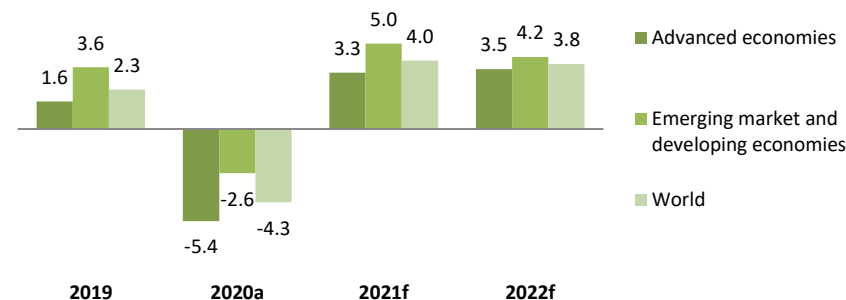
# Global growth outlook

Based on the World Bank's projections, global economic growth is expected to expand by 4.0% in 2021, after shrinking by -4.3% in 2020. Global growth is envisioned to moderate down in 2022 to 3.8%, weighed down by lasting damage from COVID-19.

## GLOBAL GROWTH OUTLOOK

- Following a collapse last year caused by the COVID-19 pandemic, global economic output is expected to expand by 4% in 2021, however it will remain more than 5% below pre-pandemic projections.
- The recovery across emerging markets and developing economies is anticipated to be more muted, averaging 3.5% in 2021-22, as the pandemic's lingering effects continue to weigh on consumption and investment.
- Advanced economies are projected to recover, with growth reaching 3.3% and 3.5% in 2021 and 2022 respectively, on the back of pandemic containment, aided by widespread vaccination and sustained monetary policy accommodation, which is expected to more than offset the partial unwinding of fiscal support.

## GLOBAL GROWTH OUTLOOK



Source: World Bank, January 2021.

## IMF AND ADB ECONOMIC OUTLOOK – REAL GDP GROWTH

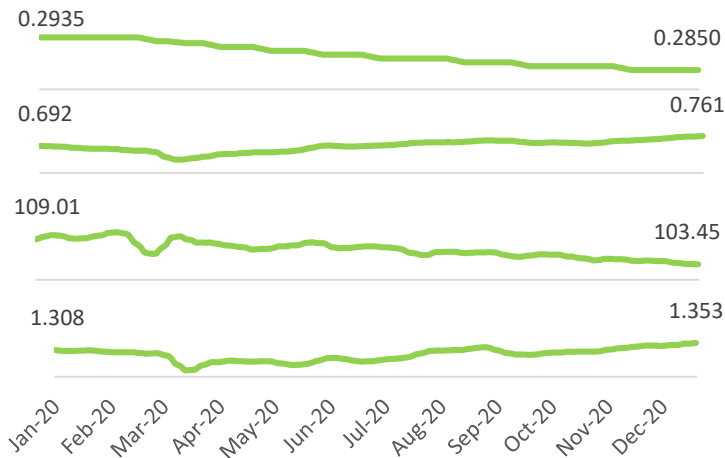
Market	IMF Prior Forecast [April- 20]		IMF Current Forecast [October- 20]		IMF – change		ADB – Prior forecast (September- 2020)		ADB Current Forecast (December- 2020)		ADB - change	
	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f	2020f	2021f
USA	-5.9%	4.7%	-3.40%	5.10%	2.5%	0.4%	-5.9%	4.7%	-3.40%	5.10%	2.5%	0.4%
China	1.2%	9.2%	2.30%	8.10%	1.1%	-1.1%	1.2%	9.2%	2.30%	8.10%	1.1%	-1.1%
Australia	-6.7%	6.1%	-2.90%	3.50%	3.8%	-2.6%	-6.7%	6.1%	-2.90%	3.50%	3.8%	-2.6%
PNG	-1.0%	2.9%	-3.30%	1.20%	-2.3%	-1.7%	-2.90%	2.50%	-2.90%	2.50%	0.0%	0.0%
Fiji	-5.8%	7.0%	-21.00%	11.50%	-15.2%	4.5%	-19.80%	1.00%	-21.00%	11.50%	-1.2%	10.5%
Solomon Islands	-2.1%	3.8%	-5.00%	4.50%	-2.9%	0.7%	-6.00%	1.00%	-5.00%	4.50%	1.0%	3.5%
Samoa	-3.7%	0.5%	-5.00%	-1.50%	-1.3%	-2.0%	-5.00%	-9.70%	-5.00%	-1.50%	0.0%	8.2%
Tonga	-1.2%	1.2%	-2.50%	-3.50%	-1.3%	-4.7%	-3.00%	-8.00%	-2.50%	-3.50%	0.5%	4.5%
Vanuatu	-3.3%	4.9%	-8.30%	4.30%	-5.0%	-0.6%	-9.80%	1.00%	-9.80%	1.00%	0.0%	0.0%
Cook Islands	N/A	N/A	N/A	N/A	N/A	N/A	-7.00%	-15.40%	-7.00%	-15.40%	0.0%	0.0%
Cambodia	-1.6%	6.1%	-2.80%	6.80%	-1.2%	0.7%	-4.00%	5.90%	-2.80%	6.80%	1.2%	0.9%
Lao	0.7%	5.6%	0.20%	4.80%	-0.5%	-0.8%	-2.50%	4.50%	0.20%	4.80%	2.7%	0.3%



# Foreign Exchange Reserves outlook

As 2020 came to a close, the forces behind currency movements turned more from political drivers, to macro-economic fundamentals, i.e. monetary policy signals being communicated by major central banks as well as the accompanying fiscal policy taken by governments. PNG's FX reserves increased significantly in the 4Q-2020, with further support likely in the short to medium term.

## USD FOREIGN EXCHANGE TRENDS



- The kina depreciated against the US\$ by 2.9% in 2020 closing out the year at 28.5 cents. High import demand continue to exert downward pressure on the kina exchange rate against the USD.



- The AUD continued its upward trend into the New Year against its US counterpart. Contributing to this trend is the Fed's dovish position while the RBA's rhetoric has been relatively restrained and optimistic. At the same time, China's strong recovery also provides support.



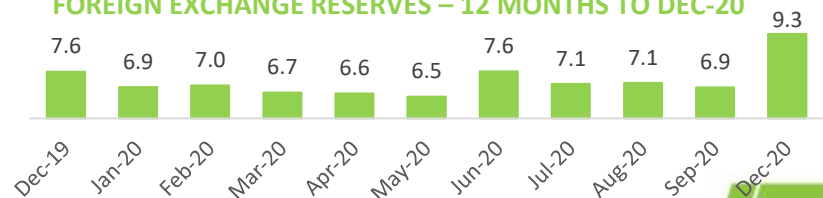
- Analysis of the JPY will focus primarily on the behavior of the US\$. Which, in turn, is waiting for additional fiscal stimulus from the Biden administration - strong hopes of this stimulus have somewhat negated the strengthening trend seen in the 4Q-20.



- The Pound stabilised when Brexit risk reduced, towards the end of the quarter. Investor nervousness and Pound volatility increased in the lead up to post-Brexit trade talks between British and European politicians. Once the post-Brexit trade talks concluded, volatility reduced and the Pound stabilised.

- Throughout 2020, BPNG continued to intervene on the supply side of the FX market to help meet the demand for foreign currency. Encouragingly, low interest loans and increased commitment from international bodies, as well as dividends from exporting SOE's have served to bolster reserves. For example, inflows of loans from the Australian government (US\$100m), ADB (US\$500m) and dividends from Ok Tedi (US\$113m). A look ahead into 2021 is promising, for instance Japan has committed to a K1billion low interest loan to help finance PNG's Budget deficit. Further, the government has provided assurances regarding multibillion kina resource projects [Wafi-Golpu US\$5.4b, Papua LNG US\$13b, Pasca Offshore US\$525m], with PM James Marape stating "We expect that [within the 1Q-21], full maturity of these projects would be seen as far as projects agreements are concerned." Finally, there is a strong political will to have Porgera re-opened in the 1H-21.

## FOREIGN EXCHANGE RESERVES – 12 MONTHS TO DEC-20

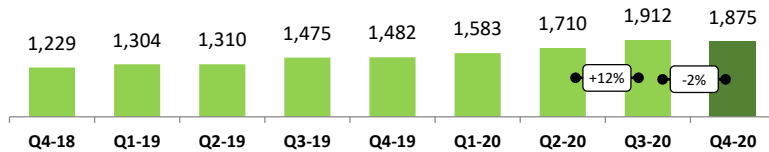




# Commodity price trends

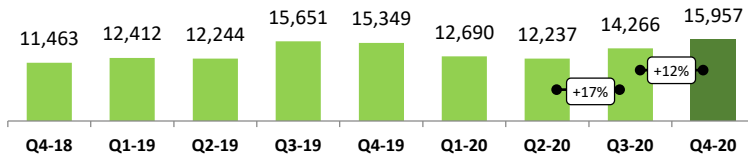
Upward momentum continued in the final quarter of 2020, as the market continued to experience a rebound from the lows reached in March and April. The price action in Q4-20 turned losses for the year into gains. Going into 2021, the low interest rate environment coupled with a falling US\$ as well as the solid recovery expected from China are reinforcing factors for commodities.

## GOLD – AVERAGE QTR PRICE [US\$/toz]



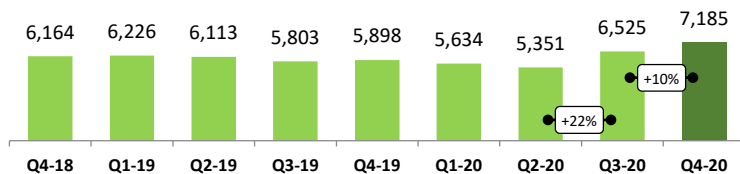
- Gold prices fell 2% in the 4Q-20 ending its eight quarter winning streak as the strong recovery in China as well as hopes of vaccine rollouts improved investor sentiment diminishing the precious metal's appeal as a safe haven.

## NICKEL – AVERAGE QTR PRICE [US\$/mt]



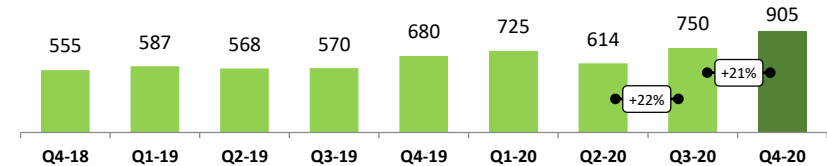
- Nickel prices increased by +12% in the Q4-20, with many investors speculating on the potential of the metal in electric vehicle batteries.

## COPPER – AVERAGE QTR PRICE [US\$/mt]



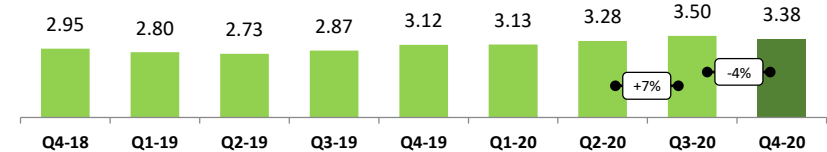
- Copper prices gained 10% in the final quarter, heading into 2021 at multi-year highs. Industrial activity and infrastructure investment, as well as economic recovery in developed economies should serve to buoy prices.

## PALM OIL – AVERAGE QTR PRICE [US\$/mt]



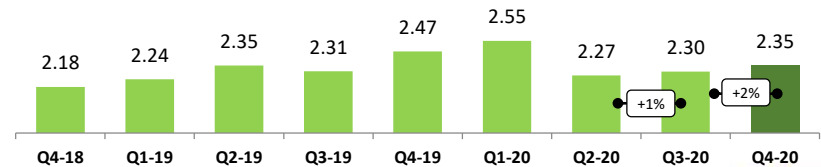
- Palm oil prices shot up +21% in Q4-20. The higher price reflects forecasts of lower production in 1Q-21. Further, high prices of competing vegetable oils are also providing support.

## ARABICA COFFEE – AVERAGE QTR PRICE [US\$/kg]



- The price of Arabica coffee pulled back -4% in Q4-20 with price pressure coming from a glut of supplies and a weakening currency in the world's leading producer of Arabica beans, Brazil.

## COCOA – AVERAGE QTR PRICE [US\$/kg]



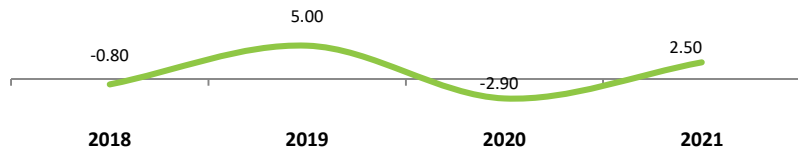
- Cocoa prices ticked up +2% in the 4Q-20 bolstered by the rise of the British Pound against the US dollar given London is a global hub for physical pricing. The pound rallied as Brexit finally occurred at the end of 2020.



# PNG's economic outlook

Economic growth in 2021 is projected to recover to 2.5%, however recovery will remain lacklustre as the country faces strong headwinds from the COVID-19 crises. Despite a limited number of cases, the combination of the supply and demand shocks greatly impacted not only government finances and external balances but consumption and investment.

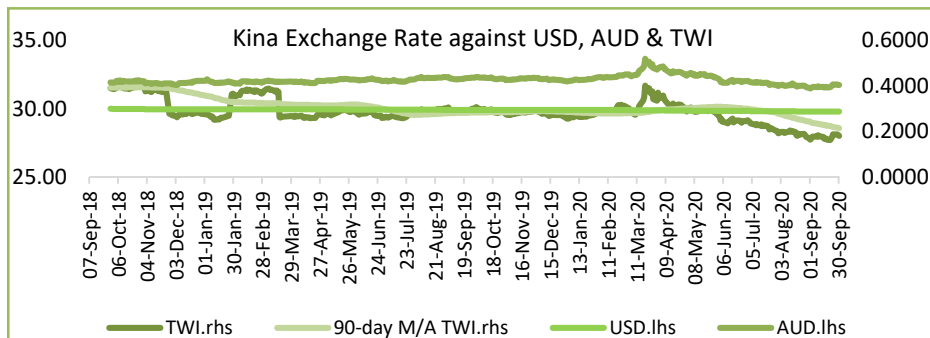
## PNG'S GDP GROWTH OUTLOOK



- Economic growth in 2021 is seen to recover to 2.5% however growth will remain lacklustre given the anticipated impacts of the Covid-19 pandemic on the economy. Ensuring quality of expenditure is fundamental for meaningful fiscal stimulus.

## FOREIGN EXCHANGE

- The level of foreign exchange reserves increased to K9.3b (US\$2.65m) reflecting inflows of loans from Australian government, ADB and dividend payments to the Government from the OK Tedi mine, an increase as of Dec 2020 from the level of foreign exchange reserves as at the end of Sept 2020 of K7.1b (US\$2.03m).
- The average daily kina exchange rate depreciated against all major currencies.



Source: BPNG MER Sep-2020 published 27.01.2020, ADB PEM Dec 2020, Post Courier Jan 22, 2021

## COVID-19 UPDATE

- As of 21<sup>st</sup> December 2020, there were 761 COVID-19 cases and nine (9) Covid-19 deaths reported in PNG. During the period of the 14<sup>th</sup> to the 20<sup>th</sup> December there were 36 new cases. A total of sixteen out of twenty two provinces have reported COVID-19 cases to date.

PNG PROVINCES	CONFIRMED CASES	COVID-19 Cumulative Report Results (@21-December)	
NCD	361	CUMULATIVE REPORT	
Western	204	Cumulative NAT Tests	37,361
West New Britain	124	Cumulative cases	761
East New Britain	13	Cumulative Deaths	9
Eastern Highlands	13	Cumulative ICU Admissions	9
Western Highlands	10		
Central	9		
New Ireland	8		
Morobe	6		
East Sepik	3		
Enga	3		
Milne Bay	2		
West Sepik	2		
Southern Highlands	1		
ARoB	1		
Hela	1		
<b>TOTAL</b>	<b>761</b>		

Source: PNG COVID-19 Website – Situation Report #52





# PNG's resource projects update

PNG's resource sector currently accounts for 23.9% of Government revenue. This revenue is obtained from a range of sources, such as corporate tax, salaries and wages and dividend contributions, as well as a variety of indirect sources, including the income tax of the thousands of individuals employed within the sector. Given the significance of its contribution to the economy, Government and industry collaboration is essential for mutually beneficial outcomes.

## OIL SEARCH Q4-20 REPORT

- Oil Search's Q4-20 report has highlighted that their new strategy focuses on delivering full value and enhancing their appeal to stake holders through building resilience to lower and uncertain commodity prices. Oil Search is expecting that 2021 will continue to be another challenging year however they are focused on maintaining operational discipline, which resulted in a record annual PNG LNG production in the fourth quarter of 8.8 MT.
- On the 11<sup>th</sup> November the PNG Parliament passed the remaining six amendments to Acts required to implement fiscal stability in accordance with the intent of the Papua Gas Agreement. The government noted its intent to support the progress of the P'nyang gas field discussions.

## COMPARATIVE PERFORMANCE

PRODUCTION ( <sup>'000 boe unless noted</sup> )	QUARTER END			FULL YEAR	
	Dec-20	Sep-20	Dec-19	Dec-20	Dec-19
PNG LNG PROJECT	6419	6554	6295	25723	24994
PNG OIL PRODUCTION ( <sup>'000bbbls</sup> )	564	6754	337	2619	1571
OTHER PRODUCTION	78	70	374	676	1382
TOTAL PRODUCTION	7061	7298	7006	29017	27947
TOTAL SALES	7181	7546	7920	28388	27785
SALES (US\$million unless noted)	QUARTER END			FULL YEAR	
	Dec-20	Sep-20	Dec-19	Dec-20	Dec-19
TOTAL OPERATING REVENUE	259.5	189	446.7	1074.2	1584.8

## RESOURCE PROJECT UPDATES:

- The PNG government and BNL (Barrick Niugini Limited) have agreed in principle that PNG will take a major share of equity under the new arrangements, thus BNL will retain operatorship and there will be a fair sharing of the economic benefits.
- The construction phase of the K18.4 billion Wafi-Golpu copper and gold project in Morobe Province situated in Northeast Coast of PNG, is set to begin after the Government granted it an environment permit at the end of January-2021. The construction phase alone, to be undertaken by the developers Harmony Gold Mining Company Limited and Newcrest Mining Limited, is expected to cost K17.26 million. An injection of close to US\$5billion (K17.2billion) into the economy is expected over a five year period for the construction of the infrastructure.

## LNG PRICING

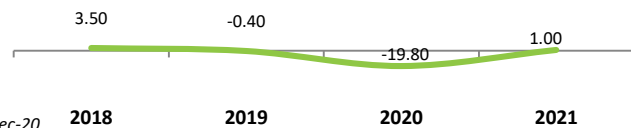
- The average oil and condensate price realized during the fourth quarter was US\$40.35 per barrel, up 10% on the prior quarter. The average realized LNG and gas price increased 41% to US\$5.99 per mmBtu in the fourth quarter, due to strengthening oil prices and improving North Asian LNG spot market prices.
- These recent price improvements are expected to improve the probability of PNG's projects progressing in the near future.

Source: Oil Search Q4-Results; Post Courier 280121, The National 280121, Post Courier 191020-Business, Deloitte economic review PNG Chamber of Commerce Oct 2020

# South Pacific's economic outlook

The sub region is expected to recover by 1.3% in 2021, contingent on how quickly travel and trade restrictions are resolved, according to the ADB's December Report. The economies of Fiji, Solomon Islands and Vanuatu are expected to recover in 2021, but remain below 2019 levels. Samoa, Tonga and Cook Islands are expected to continue to struggle, with travel bans and different forms of containment measures remaining in place.

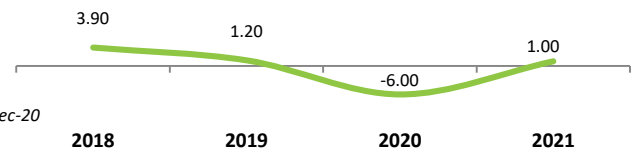
## FIJI



Source: ADB, Dec-20

- Fiji's economy is expected to stage a modest rebound in 2021, although GDP is not expected to return to pre-pandemic levels until 2022.

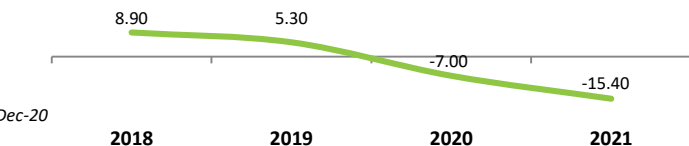
## SOLOMON ISLANDS



Source: ADB, Dec-20

- Solomon Islands Real GDP Growth is forecast to grow by 1.0% in 2021, as reported by ADB. It records a decrease from the last reported number of -6% in Q4-20.

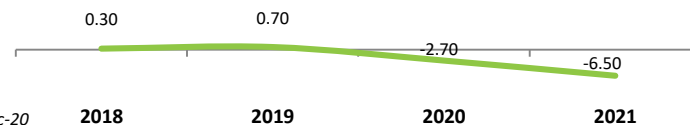
## COOK ISLANDS



Source: ADB, Dec-20

- Cook Islands economy is estimated to have declined by -7.0% for fiscal year 2020. According to IMF and ADB, despite travel restriction being eased in January 2021, the ADB anticipates that GDP would decline by -15.4% in 2021. The contraction is expected to impact employment and household incomes.

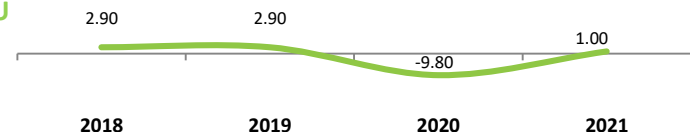
## TONGA



Source: ADB, Dec-20

- Tonga's economic growth is forecast to contract by -2.7% in 2020 and decline further by -6.5% in 2021 as tourism remains off limits.

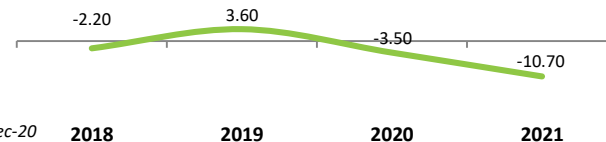
## VANUATU



Source: ADB DEC, 2020, EIU 2021

- While Vanuatu has only one confirmed COVID-19 case, its tourism-reliant economy has been experiencing a sharp contraction due to international travel restrictions as well as the impact of Cyclone Harold. However real GDP is forecast to recover to 1% in 2021, following an estimated decline of -9.8% in 2020.

## SAMOA



Source: ADB, Dec-20

- Samoa's Economic growth will remain weak in 2021, since travel restrictions will continue to weigh on the tourism sector.



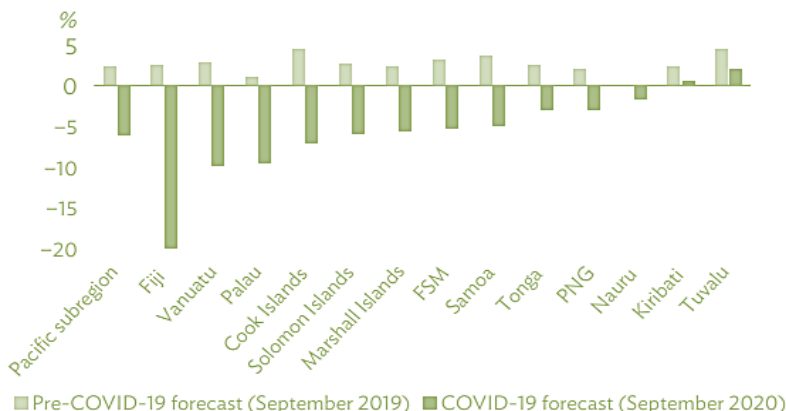
# South Pacific's COVID-19 recovery

As the pause in global tourism persists, prospects of recovery in the Pacific sub-region remain vague particularly as the promise of any meaningful travel bubble depends on the confidence of the containment of COVID-19. Encouragingly, while stimulus measures are being doled out at unprecedented levels, the pandemic has also forced governments to recognize the need to tackle deeper-seated structural problems.

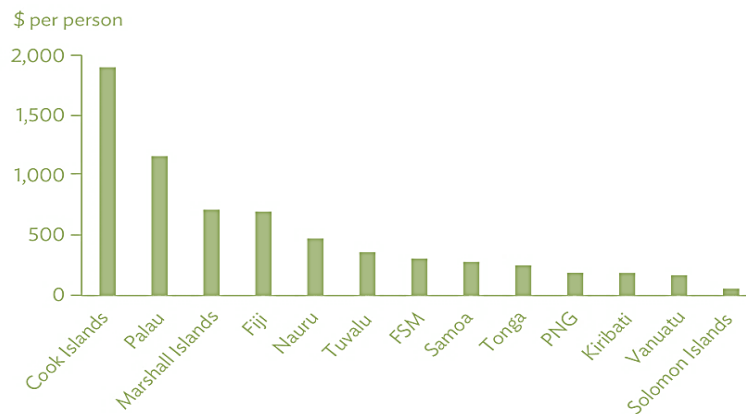
## COVID-19 IMPACTS ON PUBLIC DEBT

- With global tourism in a state of dormancy, Pacific destinations continue to receive minimal numbers of international travelers. Over the April to September 2020 period, monthly tourist arrivals in the Pacific declined by 99% to 100% year-on-year. Prospects for recovery remain uncertain, with plans for potential travel bubbles and other similar arrangements stalled by lingering health and safety issues.
- Anticipating the adverse impact of COVID-19 on the economy and people, Pacific Island Governments quickly mobilised countercyclical measures geared toward mitigating risks that are associated with the impact of COVID-19 on livelihoods and businesses.
- Constrained by a lack of fiscal space, governments need to tread a fine line between providing additional stimulus to support recovery and keeping debt sustainability indicators in check. Particularly given normal revenue recovery from economic growth may not be enough to support ongoing spending needs.

## PRE-COVID-19 FORECAST (SEPTEMBER 2020)



■ Pre-COVID-19 forecast (September 2019) ■ COVID-19 forecast (September 2020)



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