

Russia-Ukraine: How does it change the outlook?



Russia-Ukraine: Three scenarios

	Supply shock (exc. gas) (BASE)	Lengthy supply shock (inc. gas) (NEGATIVE)	Rapid trade re-alignment (POSITIVE - <u>low probability</u>)
Scenario	Energy and commodity price spikes, with some physical supply disruptions	Complete Russian oil & gas supply cut-off; prolonged, widespread supply disruptions	Commodity prices remain elevated, but rapid trade flow re-alignment leads to earlier end to supply disruptions
Description	Sanctions and self-sanctioning leads to significant reduction in oil, some gas (LNG), and other commodity imports from Russia. Prices are persistently elevated, with supply disruptions lasting around <u>one year</u> , until alternative supplies are secured.	As in the base case, but Russian oil and gas supply is completely cut-off, either through official embargoes or Russian retaliation to sanctions. Trade re-alignment takes longer, leading to more persistent supply disruptions of <u>up to two years</u> .	Trade flows realign more quickly, shortening disruption to energy and other supplies to around <u>6 months</u> . The US and perhaps some OPEC countries raise oil output to fill the gap left by Russia, and/or Russian oil is bought by eg. China, freeing non-Russian supply to go to Europe. Same applies to other commodities.
Europe (eurozone/UK)	Much higher inflation (1.5-2pp higher than prior base), driven by energy (inc. electricity) prices primarily but also metals, food. Inflation surge hurts household purchasing power, weighing on consumption. Price spikes/supply disruptions lead to periodic industry stoppages. Government support partly offsets economic fallout, but cannot offset physical supply disruptions. GDP growth is 1-1.5pp lower than prior base case.*	Even higher inflation, with gas cut-off leading to government rationing measures that prioritise households and critical industries. Pressure on supply chains and shipping leads to trade flow realignment taking much longer, leading to more prolonged industry stoppages. All of this weighs on GDP, perhaps leading to a technical recession.	Inflation is still 1.5-2pp higher than prior base, but negative growth effects are less pronounced, with only limited industry stoppages. Growth quickly rebounds once supply disruptions ease.
US	Inflation c.2pp higher than prior base, with growth 0.5-1pp lower.	Inflation even higher, with growth 2pp lower vs prior base. Risk of a technical recession	Inflation 1-1.5pp higher than prior base, growth 0.3-0.5pp lower
ECB	Delay to rate hikes, with asset purchases potentially continuing for longer	Could step up asset purchases to stem spread widening, but high inflation a significant barrier to further easing	APP to eventually end this year, with rate hikes following soon after
Fed	Rate hikes follow base case, with upside risks to tightening	Rate hikes could be slowed in case of recession, but depends on precise growth/inflation mix	Rate hikes follow base case, with upside risks to tightening
Markets	<ul style="list-style-type: none"> -Risk sentiment: Cautious -Bund/US Treasuries rangebound for the coming months -EUR/USD: Move to 1.0 or perhaps below <p>Energy (2022-23 averages) Brent: USD 110-130/bbl WTI: USD 105-125/bbl</p> <p>TTF (m+1): 130-150/MWh TTF (y+1): 80-100/MWh</p>	<ul style="list-style-type: none"> -Risk sentiment: Very negative -Bund yields sharply lower/UST lower -EUR/USD: Potentially towards 0.82 (all-time low) <p>Energy (2022-23 averages) Brent: USD 130-160/bbl WTI: USD 125-155/bbl</p> <p>TTF (m+1): 150-200/MWh TTF (y+1): 100-150/MWh</p>	<ul style="list-style-type: none"> -Risk sentiment: Improving -Bund/UST yields rise -EUR/USD: 1.07 until signs of easing disruptions <p>Energy (2022-23 averages) Brent: USD 80-110/bbl WTI: USD 75-105/bbl</p> <p>TTF (m+1): 75-100/MWh TTF (y+1): 50-70/MWh</p>

Russia is a commodities powerhouse

Commodity (agri: 2022, metals: 2021)	Russia	Global	Share	World rank
- Wheat (production, mln tons)	75	781	10%	3
wheat export (mln tons)	33	197	17%	1
- Corn (production, mln tons)	15	1203	1%	10
corn export (mln tons)	3	177	2%	5
- Barley (production, mln tons)	18	146	12%	1
- Soybean (production, mln tons)	5	353	1%	8
- Bauxite (mine production)*	3100	140000	2%	5
reserves bauxite*	500000	32000000	2%	7
- Nickel (mine production)**	250000	2700000	9%	3
- Lead (mine production)*	210	4300	5%	4
- Gold (mine production)**	300	3000	10%	3
- Silver (mine production)**	1300	24000	5%	5
- Palladium (mine production)***	74000	200000	37%	2
- Platinum (mine production)***	19000	180000	11%	2
reserves share (Platinum Group Metals)***	4500000	70000000	6%	2
- Steel (raw steel)****	73	1900	4%	5
- Iron ore (mine production, usable ore)*	100000	2600000	4%	5
reserves crude iron ore*	14000	180000	8%	3
- Graphite (mine production)**	27000	1000000	3%	4
- Cobalt (mine production)**	7600	170000	4%	2
- Vanadium (mine production)**	19000	110000	17%	2
- Titanium (sponge production)**	27000	210000	13%	3
- Potash*	9000	46000	20%	2

*data in thousand metric tons

**data in metric tons

***data in kilograms

****million metric tons

2022	Ukraine	Global	Share	World rank
- Wheat (production, mln tons)	33	781	4%	6
wheat export (mln tons)	25	197	12%	4
- Corn (production, mln tons)	40	1203	3%	5
corn export (mln tons)	32	177	18%	3
- Barley (production, mln tons)	10	146	7%	3
- Soybean (production, mln tons)	3	353	1%	9

Source: International Grains Council

2021	Ukraine	Global	Share	World rank
- Alumina (refinery production)*	1700	140000	1%	11
- Graphite (mine production)**	17000	1000000	2%	6
- Titanium mineral concentrates: Ilmenite*	430	8400	5%	7
- Titanium mineral concentrates: Rutile*	13	630	2%	6
- Titanium & titanium dioxide**	5400	210000	3%	5
- Iron ore (mine production, usable ore)*	81000	2600000	3%	6
- Steel (raw steel)****	21	1900	1%	12
- Magnesium metal (smelter production)*	10	950	1%	7
- Manganese (concentrate)*	670	20000	3%	5
- Nitrogen (fixed) - ammonia*	2300	150000	2%	13
- Silicon production*	49	8500	1%	14

Source: USGS

*data in thousand metric tons

**data in metric tons

***data in kilograms

****million metric tons

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