

Conflict Update

March 28th, 2022

Conflict Assessment

Ukrainians disrupt and derail Russian offensive as war moves to new phase - Just over a month after the first ballistic missiles slammed into Kyiv's international airport, the Russian campaign has been disrupted and derailed by stubborn Ukrainian resistance -- and in the last few days by agile Ukrainian counterattacks on several fronts.

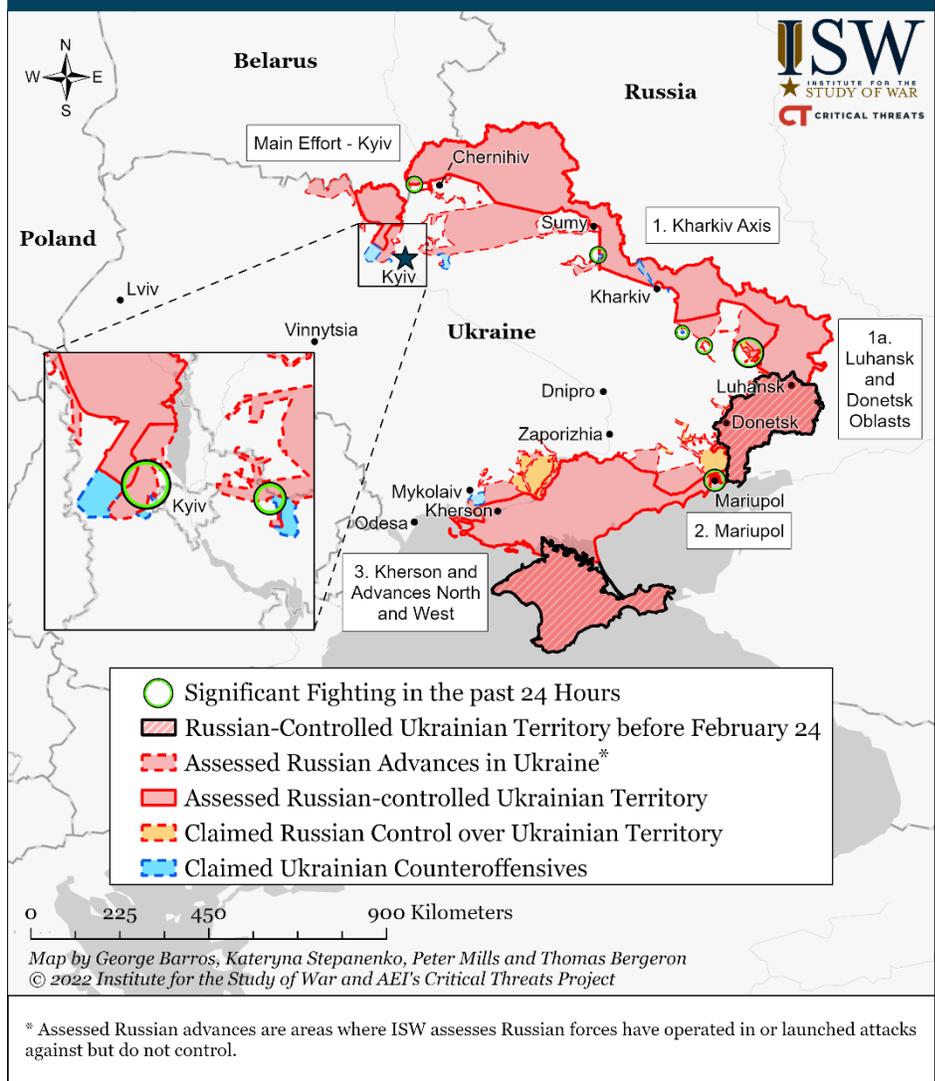
Russian forces retain considerable -- but not overwhelming -- numerical superiority. Their armored groups have struggled against Western-supplied anti-tank weapons and Turkish-made drones. Ukrainian air defenses have punched above their weight and are now being reinforced by thousands of US-made Stinger missiles.

In the last two weeks, there's been an uptick in Russian missile strikes, from Lviv in the west to Zhytomyr in central Ukraine and Mykolaiv in the south, with prime targets being fuel dumps, military depots and airfields.

South - The push towards the Russian-occupied city of Kherson is perhaps the most ambitious. After resisting attempts by Russian forces to take Mykolaiv -- a bridgehead for assaulting Odesa -- the Ukrainians launched devastating missile attacks against the Russian command at Kherson's airport

(killing a Russian general in the process, they say) and gained ground to the north of the city. This as civil disobedience in the city has frayed the nerves of Russian troops.

Assessed Control of Terrain in Ukraine and Main Russian Maneuver Axes as of March 27, 2022, 3:00 PM ET



North - Perhaps surprisingly, Ukrainian units have also gained territory close to the Russian border, around the cities of Kharkiv and Sumy. Kharkiv, just 30 miles from the Russian border, has been under almost constant attack since the first day of the invasion but remains in Ukrainian hands.

Belarusian Units – Increasing numbers of Belarusian soldiers are joining Ukrainian army units. They say they have joined so as to undermine the Lukashenko government. This is their way of resisting him and Russian influence in Belarus.

Russian troops ‘reluctant’ to engage in urban warfare due to heavy losses. The UK’s Defense Ministry said Saturday that Russian troops were “reluctant” to enter Ukrainian cities and fight in urban areas and were instead relying on continued indiscriminate bombardments and sieges.

Russian Dombas Referendum

We reported yesterday that the forced removal of some half million Ukrainians into the Russian mainland was a leading precursor to a Russian referendum – without Ukrainians voting against it – now the leader of east Ukraine separatist region says it may hold vote on joining Russia - Leonid Pasechnik announces ballot could take place ‘in near future;’

When Moscow invaded Ukraine, it claimed it needed to defend Lugansk and Donetsk regions.

The head of Ukraine’s Lugansk separatist region said Sunday it may hold a referendum on becoming part of Russia after Moscow sent troops into its pro-Western neighbor.

“I think that in the near future a referendum will be held on the territory of the republic, during which the people will... express their opinion on joining the Russian Federation,” Russian news agencies quoted Leonid Pasechnik as saying.

Containment

France - Has increased its ballistic missile submarine patrols for the first time in decades. For the first time in around 30 years, France has put three of its four ballistic missile submarines, or SSBNs, to sea at the same time, according to reports in the local media. Normally, just one of the Triumphant class SSBNs, each of which can be armed with up to 16 submarine-launched ballistic missiles (SLBMs), with multiple warheads, is on patrol at any given time. The significant uptick in French nuclear deterrence activity seems to be intended as a signal to Russia at a time of unprecedented tensions in Europe, including fears that nuclear weapons could be part of the Kremlin’s plans as its campaign in Ukraine stutters.

Turkey - Erdogan Calls on Putin to Make 'Honorable Exit' from Ukraine War. Turkish President Recep Tayyip Erdogan has said he will suggest to Russian President Vladimir Putin he find an honorable exit from Ukraine and end the war.

Speaking to reporters on a return flight from a NATO summit in Brussels, Erdogan said Turkey could not impose sanctions on Russia due to its energy needs and cooperation. “We are purchasing half of our gas from Russia,” Erdogan said. “We are building the Akkuyu Nuclear Energy Plant with Russia.”

Russian/US Calls being refused - Russia's top military leaders have been refusing calls from US defense officials since the invasion of Ukraine began.

Sweden and Finland train with NATO - With war next door, Finland, Sweden train with NATO. Nordic nations, whether NATO members or not, are used to cooperating closely. They share the same values, interests and cultures -- and the same neighbour to the east, Russia.

Zelenskyy says Ukraine ready to discuss neutrality status - During a 90-minute video address with Russian journalists, Ukrainian President Volodymyr Zelenskyy said his country is prepared to discuss adopting a neutral status as part of a peace deal with Russia.

Widening of Conflict

Russia conducts drills on territory disputed with Japan - Japanese media reported today that over 3,000 Russian troops are conducting military drills on Tokyo's Kuril islands. Russia calls the chain of four islands part of its Kuril chain, while Japan calls them part of its northern territory.

In its drills, Russia destroyed defense aircraft carrying troops and tested skills operating control systems of anti-tank guided missiles, according to the Russian news agency Interfax. Interfax did not say where on the islands Russia carried out the drills. This news comes days after Russia halted peace talks with Japan.

Russia withdrew from treaty talks and froze joint economic projects related to the islands on Tuesday. Russia and Japan have not formally ended World War Two hostilities because of their standoff over the islands, seized by the Soviet Union at the end of World War Two.

Putin Concerns

What It Would Take To Push Putin Out - A perfect storm must come together of deepening troubles on the battlefield in Ukraine, Kremlin insiders turning on Putin, popular opposition and (not least of all) ideas for what comes after, in order to push Putin out of power. More and more signs of all these factors are starting to show up.

Regime change in the short-term is still considered unlikely, with Putin exercising a 22-year grip on Russia's administrative and military power. Yet the military's failure to obtain a swift victory in Ukraine and growing domestic popular opposition to the invasion — both street protests and denunciation by many prominent business, cultural and intellectual figures — could loosen Putin's grip.

Fiona Hill, a former top U.S. government expert on Russia, said if the stalemate deepens in Ukraine: "you might then start to get a backlash from those people who are thinking this has not gone as they intended."

The prospect of Russia's Federal Security Service (FSB) launching a coup against President Vladimir Putin is growing every week, according to a Russian intelligence source.

British newspaper The Times, citing exiled Russian activist Vladimir Osechkin, reports a whistleblower "at the heart of Russian intelligence" has exposed discontent within Russia's security services over the stymied invasion of Ukraine.

"For 20 years, Putin created stability in Russia. FSB officers, policemen, state prosecutors — those people inside the system — were able to live good lives," he said. "But now that has all gone. They recognize that this war is a catastrophe for the economy, for humanity. They don't want to go back to the Soviet Union."

Russia In the long-term is troubled - We all know that the Russian economy is in dire straits as it faces unprecedented sanctions from the West, and that countries pulling out of the Russian market now are unlikely to return for a long, long time. The ruble is now almost worthless outside the country, interest rates jumped to 20 percent, and inflation in Russia could rise to a jaw-dropping 20 to 30 percent. Even the longer-term outlook for Russian oil production is darkening.

It is in the long term — say, a generation from now — that Russia is screwed . . . really, really screwed.

Russia's population dropped by a million people in 2021 — a stunning figure that reflects a team-up of an aging population, a low birth rate — the number of births per woman stands at around 1.5, well short of the minimum of 2.1 necessary to renew the population — and the Covid-19 pandemic.

These problems will not be helped by the ongoing exodus of Russians who can emigrate; more than 200,000 Russians have reportedly crossed borders since the start of the invasion. Dissidents, elites, critics of Putin — anyone who prefers the West or fears what is coming, is looking for any opportunity to get out. And while we don't know exactly how many Russian soldiers have been killed in Ukraine — estimates range from 7,000 to 15,000 — it's a lot for one month of fighting. Most of those 7,000 to 15,000 killed were young men who will not be returning home and starting families.

In addition to not-great life expectancy, Russia also has distressingly high rates of alcohol-related deaths, drug addiction, deadly accidents, violence, and suicides:

According to official data, 15,000 people per year die because of low-quality alcohol. But this is only the tip of the iceberg. Low-quality alcohol also creates and worsens many diseases that lead to people dying early.

The collapse of foreign investment, high inflation and interest rates, severe economic recession with lingering drags on growth, a shrinking population, greater strain on health-care systems, a declining demand for its exports, worsening environmental crises . . . on a variety of fronts, the Russia of 2030 is likely to be weaker than the Russia of today, and the Russia of 2040 weaker still. From this light, Vladimir Putin's seemingly senseless decision to invade Ukraine makes a bit more sense, as perhaps he saw a window of opportunity slowly closing.

Globalization

Increasing comment is noted of opinions predicting an end to globalization. "The recognition of these negative aspects of globalization has now caused the pendulum to swing back toward local sourcing," said BlackRock chief Larry Fink and Oaktree chair Howard Marks.

However, it is far from decided. Too many countries have huge investment in foreign countries and too many manufacturing supply chains are intimately linked. Unlinking these will require huge private capital investment in "home" countries, and it remains to be seen how many private investors and shareholders are prepared to forego returns on capital whilst their investments relocate fixed assets, change supply chains and sourcing areas.

A prime example is medical masks. China controls the vast majority of mask raw materials. A company can relocate its production plant to downtown Memphis, TN but will still need to source its raw materials from China.

There may well be an element of near-shoring or mandated onshoring of strategic goods, but a wholesale on-shoring is not predicted.

Sanctions

Canada pledges to help countries stop using Russian oil - Canada says it can provide more oil, gas and uranium to help solve the global energy crisis.

Prices have soared as a result of Russian supplies being squeezed because of its invasion of Ukraine.

Canada's natural resources minister said many countries are committed "to help as much as we can in terms of displacing Russian oil and gas".

The world's fourth biggest oil producer has committed to exporting an extra 200,000 barrels of oil.

Its Natural Resources Minister Jonathan Wilkinson told BBC News it would also export an additional 100,000 barrels of natural gas.

Effect on Russian oil sales - Sanctions have knocked approximately 2 to 3 million barrels per day (b/d) of Russian crude oil and products offline, even before this week's closure of an export pipeline carrying crude from Kazakhstan and Russia. But energy trade with most Russian entities remains legal, and companies will gradually adjust to sanctions.

Financial

Steel prices increase against backdrop of Russia's war in Ukraine - While the price of gold and oil have been on the rise since Russia invaded Ukraine, so too has steel, a commodity that is used in almost every facet of manufacturing.

Russia and Ukraine combined are the world's second-largest steel exporters after China, with more than 40 million metric tons exported annually — the war between the two countries, which shows no sign of abating, is shocking the steel market and causing prices to rise.

European hot-rolled coil prices have exploded by nearly 40% over the past three weeks while the gains have been a bit more modest in the United States, growing by up to 8% since the invasion began in late February, according to Reuters.

Oil - Futures for Brent crude, the global oil benchmark were at \$120.10 a barrel Friday afternoon, while the U.S. benchmark, West Texas Intermediate, is at \$114.40 after peaking at about \$130 when Russia invaded Ukraine.

Food - "With regard to food shortage, yes we did talk about food shortages, and it's gonna be real," Biden said during a press conference at a NATO summit in Brussels, Belgium. "The price of the sanctions is not just imposed upon Russia. It's imposed upon an awful lot of countries as well, including European countries and our country as well."

Since a week before Russia invaded Ukraine, prices of wheat surged 55%. Ports in Ukraine that send wheat and other food staples worldwide to be made into bread, noodles, and animal feed were shut down as millions flee or stay to fight in the war.

Ukraine also is a major supplier of corn and the global leader in sunflower oil, used in food processing. The war could reduce food supplies globally, which could create food insecurity and throw more people into poverty in places like Lebanon and Egypt, where diets are dominated by bread.

Impacts

Hungarian election - On 3 April, Hungary goes to the ballot box to elect 199 members of the National Assembly. The choice is between the Fidesz party of incumbent Prime Minister Victor Orban, whose populist policies have estranged him from Brussels, and a coalition of opposition parties led by Peter Marki-zay. Despite Orban's pro-Russian sentiments, he's leading in the polls – for now.

Future Alignments

Not One Bloc or the Other: Ukraine War Shows Emerging Post-American World - Despite being browbeaten by the U.S., a growing number of Asian, African, and Latin American countries are charting a neutral path.

China, India, Brazil, Turkey, Indonesia, South Africa, and even Mexico have remained aloof, resisting calls to diplomatically isolate Russia or join the campaign to sanction its economy. Asian companies have remained in Russia even as their Western counterparts have departed en masse. At the United Nations, meanwhile, a bevy of African

states, largest among them South Africa, have abstained from resolutions aimed at ostracizing Russian President Vladimir Putin for the invasion.

India - American leaders have long hoped that India would be willing to serve as a partner in helping the U.S. contain China and uphold the U.S.-backed liberal order. As it turns out, India has its own interests to pursue. It is a major customer of Russian arms and energy, enjoying a long relationship with Moscow going back to the Cold War. Morality aside, there are concrete, material reasons that Indians would not want to sacrifice these ties simply to win praise in Washington.

It remains to be seen however, how it registers its future dialogue given continued Chinese aggression and territorial disputes on its northern borders, and the closeness of Pakistan, Sri Lanka and China in China's BRI project.

African countries - African nations of course have their own interests in the conflict separate from those of the United States. Many of them have good relations with Russia and have built critical economic and political ties with Putin's government. Russia is a major provider of raw materials like wheat and also enjoys genuine popularity as an alternative to the West for investment and security support.

South American countries – some South American countries have been receiving geopolitical approaches from both Russia and China, with the latter seeking to establish an Atlantic naval port. Aside from Venezuela and Cuba, two long-standing Russian counterparts in South America, Russia has courted Argentina, Brazil, Chile, Bolivia, Paraguay and Colombia of late.

Rather than lining up with one or another bloc, as they were forced to in the Cold War, we are instead seeing the emergence of a genuinely post-American world. Many of the countries now thumbing their nose at the U.S., including aspiring great powers like India and China, are guilty of their own grave human rights abuses. Yet it is unlikely that they will ever return to their prior roles as supplicants or followers of the West.