



ACC NEWS



Update

March 3rd, 2022

The pandemic has left the global economy with two key points of vulnerability — high inflation and jittery financial markets. Aftershocks from the Russian invasion of Ukraine could easily worsen both. Here are further elements to be aware of;

1. Shipping

- Major disruption in the shipping and trade industry, disrupting routes, diverting merchant ships, and driving up costs as Western sanctions on Moscow start to bite
- As of this morning, most ships near Ukraine were diverted to alternate nearby ports at the outset of the hostilities. Many of the top ocean carriers have also suspended new bookings to or from Russia. These developments could increase volumes at other regional ports and are already resulting in pile-ups at origin ports in Europe and elsewhere, possibly causing congestion and increasing rates on these lanes
- Today an Estonian-owned cargo ship has sunk off the coast of Ukraine after encountering a sea mine, with several crew missing
- Insurers have raised costs by up to 5% to provide cover for merchant ships through the Black Sea, further affecting supply chain complexes hit by the pandemic.
- The US has censured a number of major financial institutions and Russian companies in various industries, including the country's largest shipowner Sovcomflot (SCF Group), a state-owned company that specializes in the transport of oil, oil products, and liquefied natural gas
- Sovcomflot directly owns 229 tankers, according to research, but some 2,000 out of about 44,000 cargo and tanker vessels operating in the world in the last two years are owned by companies registered in Russia and fresh sanctions on additional firms can be imposed at any time, Daniel said. Western companies will have to consider re-negotiating every deal that includes a Russian entity
- These 2,000 vessels "have become toxic, and no one is willing to touch them because nobody knows what will happen
- Cargoes have already been rejected by European refiners in the market, because people are afraid sanctions might be coming, and so they don't want to be caught with some cargo they can't resell
- 28% of ocean container capacity has been pulled out of Russia; this is a "shipping earthquake"
- Should western governments elect to sanction vessels calling at Russian ports, this will immediately impact COSCO and OOCL, the two Chinese state-owned steamship lines, which together deploy 487 vessels. These vessels provide a major channel between Asia and the U.S.

2. Agriculture

- Russia's invasion of Ukraine could devastate global grain markets so deeply that it's likely to be the biggest supply shock in living memory according to the University of Illinois' Scott Irwin
- Russian and Ukrainian ports on the Black Sea are big export hubs for wheat, corn and crude oil. Russia is the world's largest supplier of wheat and Ukraine accounts for around **12% of global wheat** supply

and about **16% of global corn** exports, according to the US Department of Agriculture. Together, the two countries also account for **80% of sunflower oil**, which is used in food processing.

- With Ukraine completely shut off for exports, this creates a crisis in the wheat market, no one is going to take Russian wheat at this time
- The world's **grain inventories** are also very tight, so any prolonged disruptions to supplies from Russia or Ukraine has the potential to dislocate markets for years to come
- **Fertilizer** is produced in major quantities in both Ukraine and Russia. Disruptions to those exports would mostly affect agriculture in Europe, but food prices around the world could rise as a result
- Russia is the world's second-largest producer after Canada of **potash**, a key nutrient used on major commodity crops and produce
- According to experts, potash and fertilizer producers have the ability to ramp production as needed. The real question is how long until incremental volumes would actually flow through the supply chain into retailers and ultimately to farmers

3. Car manufacture

- The automotive industry hasn't yet recovered from the global chip shortage, and it has to face another supply chain issue
- Some of the largest German automotive supply companies, including Forschner, Kromberg & Schubert, Prettl, and SEBN, are operating production sites for components in Western Ukraine, which is currently being shuttered by the Russian army
- Ukraine exports 7 percent of all wire harnesses for the European Union
- Porsche, VW and BMW have suspended production at some of their plants

4. Energy

- Russian oil has become toxic with some buyers fearing that if sanctions were applied to Russian oil or gas, their purchased oil could be rendered unusable
- 30 million barrels of Russian oil are currently in transit "and no one will receive them, they haven't been unloaded at any port" for fear of exposure to sanctions violations
- Oil now heading to **\$120/barrel**, over \$100/barrel for the first time since 2014, while European natural gas jumped as much as **62%**
- European **energy shortages** loom, with the threat of Russia cutting off oil and gas supplies – 40% of EU supply comes from Russia. This will cascade into NA trade.
- In 2020 alone, Russia was the third-biggest supplier of foreign petroleum for the U.S., according to the U.S. Energy Information Administration, and responsible for **7 percent of imported oil**
- On Monday, the national average was **\$3.62 a gallon** and prices "will likely continue to rise as crude prices continue to climb," according to AAA

5. Metals

- Russia is a major global supplier of titanium used in airplanes.
- They also supply about a third of the world's palladium, a rare metal used in catalytic converters, and its price has soared in recent weeks over fears of a conflict
- The country is a major source of neon, which is used in manufacturing semiconductors
- As a result, U.S. officials have warned various sectors, including the semiconductor and aerospace industries, to brace for supply chain disruptions

6. Inflation

- Russia is a vitally important supplier of oil, natural gas and metals, and higher prices for those commodities are sure to inflict economic damage around the world.
- Prices for those staple crops are soaring on concerns over supply disruptions at a time when global food prices had already reached record highs

- Even before Russia's war with Ukraine, food inflation was already plaguing global consumers. Extreme weather has made it harder to grow crops, while a shortage of workers and higher shipping costs snarled supply chains
- Farmers in the U.S. are bracing for a hike in the price of fertilizer, which was already at a record-high before the conflict
- Expect an increase in cost in global supply chains, according to Ian McManus, assistant professor of political science in the Marlboro Institute for Liberal Arts & Interdisciplinary Studies
- The most immediate impacts will be further inflation in agricultural commodities and ultimately food prices. Americans should expect to be paying more for their grocery bills this upcoming year
- These higher energy and food prices and deeper supply chain bottlenecks could put pressure on inflation and force the Fed to accelerate its pending series of rate hikes
- Goldman Sachs' David Mericle expects annual inflation minus food and energy prices to end 2022 at 3.7 percent, up from a previous estimate of 3.1 percent
- A sustained return of gas prices to 180 euros a megawatt-hour — the level reached in December — and oil at \$120 could leave euro-area inflation close to 4% by year-end
- In the U.S., a disruption to the energy supply might push headline inflation to 9% in March and keep it close to 6% by year-end according to Bloomberg

7. Cyber warfare

- Western security agencies are bracing for a wave of cyber attacks
- It is believed these will aim to disrupt western supply chains, shipping routes, major banks, local hospitals and power grids
- The New York Fed has estimated that an attack impairing payments systems at the five most active U.S. lenders could spill over to 38% of all banking assets, leading in a worst-case scenario to liquidity hoarding and insolvencies

8. Humanitarian

- Devastating migrants escaping Ukraine to western countries
- Estimated that 40% may not return to their homes, needing western funding and locating
- Russian missiles aimed at destroying Kyiv Reservoir were successfully intercepted, which could have caused severe flooding in the capital city. The flood of water would basically not only ruin the left bank of [Kyiv], it would also go way down to the south and destroy a lot of nuclear power stations and basically a lot of infrastructure and cities ... around there, according to reports

9. Environment

- Russia has also bombarded the Shebel oil refinery just outside of Kyiv, causing a fire that UVJI estimated caused billions of dollars in environmental damages and will burn for many months
- Ukraine has 15 nuclear power plants, the largest grid in the world, and are seeking the International Atomic Energy Agency (IAEA) to impose a protective zone of about 18 miles around the units
- A Russian missile struck a Kyiv nuclear waste disposal facility

10. Stock market volatility

- Managing risk is key to a good investing plan, but geopolitical risk is difficult to plan for