Conflict Update

March 8th, 2022

Post-COVID-19 and the Russian invasion of Ukraine will be catalysts for a global reset and subsequent re-alignment. However, with Russian efforts reportedly not going anywhere close to plan, they may, is desperate enough, resort to a wider conflict or higher grades of weaponry.

Nuclear escalation?

Putin has repeatedly threatened nuclear weapons use. It is not clear whether or not these threats are idle.

Former Secretary of Defense William Cohen warned that Putin might employ tactical nuclear weapons in order to show capability and willingness.

The point will be to confront NATO with a choice: stop helping Ukraine or risk the deployment of a nuclear weapon and all of the attendant loss of life—and instability—that would follow.

It is possible that Putin views a negotiated settlement as a risk to his domestic political position. In which case, Putin may escalate in an attempt to sever NATO's material support of Ukraine in an attempt to crush the Ukrainian government.

Widening of Conflict

- **Moldova** has applied for EU membership, sure to agitate Russian President Putin. Moldova has reportedly not made any plans for entering into any conflict, despite Russian strategy plans revealed in Belarussian President Lukashenko's hands.

  Moldova includes the province of **Transnistria**, which is a thin strip of land approximately 400km long, sandwiched between Moldova and Ukraine, along the Dniester river. As far as most of the world is concerned, Transnistria is part of Moldova. Transnistria isn't recognised by one UN member state.

  But far as Transnistria is concerned, it's still part of the Soviet Union.

  As the Soviet Union was coming to an end in the early 1990's, Moldova was undergoing a period of pro-Romanian nationalism, with the Moldovan SSR ruling to remove Russian as an official language of the republic. As the Soviet Union collapsed, pro-Russian Transnistrian separatists sparked a war with Moldova over their right to speak Russian. The fighting ended with a ceasefire on 21 July 1990, freezing Transnistria in conflict with Moldova to this day.

  Shortly afterwards, a military conflict between the two parties started in March 1992 and concluded with a ceasefire in July of the same year. As part of that agreement, a three-party (Russia, Moldova, Transnistria) Joint Control Commission supervises the security arrangements in the demilitarized zone, comprising 20 localities on both sides of the river. Although the ceasefire has held, the territory's political status remains unresolved: Transnistria is an unrecognized but de facto independent semi-presidential republic with its own government, parliament, military, police, postal system, currency, and vehicle registration. Its authorities have adopted a constitution, flag, national anthem, and coat of arms.

According to a 2015 Census, there were 161,300 Russians (34%), 156,600 Moldovans (33%), and 126,700 Ukrainians (26.7%). Bulgarians comprised 13,300 (2.8%), Gagauz 5,700 (1.2%) and Belarusians 2,800 (0.6%). Germans accounted for 1,400 or 0.3% and Poles for 1,000 or 0.2%. Others accounted for 5,700 people or 1.2%.

Besides about 1,500 OGTR soldiers, Russia keeps another 500 peacemakers in Transnistria in a trilateral peacekeeping mission with Moldovan and Transnistrian soldiers. It has refused to allow the mission to be replaced by a civilian one acting under an international mandate.

Military maneuvers by the Operational Group of Russian Troops, OGRT, in the breakaway region of Transnistria – while Russian troops are also mobilizing on the eastern border of Ukraine – have caused jitters internationally.

This high presence of Russians in the province of Transnistria provides Putin with the same argument as he held pertained to the Ukrainian provinces of Donetsk and Luhansk.

Referring to the map below, Transnistria is the green shaded area. It is believed Putin will attempt to join this with captured Ukrainian territory around and to the west of Odessa.

- **Sweden** – Swedes are rethinking NATO membership following Ukraine invasion: a poll of Russia's invasion of Ukraine has for the first time seen a majority of Swedes in favour of joining NATO, according to Reuters. There're also signs that the political landscape could change too in a country long known for neutrality. Sweden has not been in a war since 1814 and has built its foreign policy on "non-participation in military alliances." It remained neutral throughout World War Two even as neighboring Nordic countries were invaded, and during the Cold War.
- **Georgia** has applied for EU membership, again sure to agitate Putin.

- **UK** - Russia has threatened it "will not forget" Britain's support for Ukraine, as the world tipped closer to world war.
- **Australia** - Russia names Australia as hostile country, warns of 'catastrophic consequences' if oil imports banned
- **China is** willing to mediate in Ukraine crisis, foreign minister says China is willing to mediate in the Russia-Ukraine conflict and provide urgent humanitarian aid to the war-torn country, Foreign Minister Wang Yi said Monday. The top diplomat also warned against the U.S. Indo-Pacific strategy, saying its real goal is to establish another version of NATO and maintain U.S. hegemony, which "is doomed to fail."
- **Ukrainian** Scientists Want to Cut 1,000 Russians From CERN, Home of the Large Hadron Collider - On Tuesday, leadership at the European Council for Nuclear Research (CERN) will vote on whether or not to ban Russian scientists from its facilities—home to the Large Hadron Collider—as a response to the invasion of Ukraine. Spearheaded by a group of Ukrainian scientists at the Geneva-based organization, the move, if adopted, could have wide ripple effects across not only nuclear science research, but international relations at large.
- **"Unfriendly States" -** Russia has named a number of countries in its "Unfriendly States" list. In the list: Australia, Albania, Andorra, Canada, Czech Republic, Iceland, Liechtenstein, Micronesia, Monaco, New Zealand, Norway, the United Kingdom, South Korea, San Marino, North Macedonia, Singapore, Taiwan, Montenegro, Switzerland, Japan, Ukraine and the U.S. In practical terms, being on the list simply means that Russian citizens, companies, or the government itself can only pay debts to any individual or company in rubles.
- **Bulgaria's** Foreign Ministry says that it is expelling two Russian diplomats for allegedly spying.
- A weekend **Belarussian referendum** "unmistakably" ended the country's nuclear-free status. This means that Russia will probably locate nuclear and tactical weaponry on Belarussian soil, closer to NATO countries.
- Russian oligarch **Vladimir Lisin** has come out against Putin by calling for immediate end to Ukraine war. Lisin heads the NLMK Group, one of Russia's largest steel makers. Another Russian oligarch **Oleg Deripaska** has also called for an end to the war.
- Earlier today Russia appeared to deploy similar disinformation tactics as used in Syria preceding the use of **chemical warfare**. Disinformation in this regard is almost a "mirror-image" of Syrian posts blaming Assad's actions on the rebels, before attacking them with these banned agents.
- **China** continues however to widen contact with NATO and allied countries with ongoing new sea lanes being introduced, the latest being to east Australian ports, following other announcement on Euro ports being serviced.
- **Sea strike -** Ukraine's military today claims to have hit a Russian patrol ship with a shore-based rocket attack, marking the first reported casualty for a Russian Navy vessel since the start of the invasion in February. The vessel has been tentatively identified as the Vasily Bykov, the lead ship of the lightly-armed Project 22160 class of patrol vessels, and the extent of the damage is unknown.

Containment

The fear is that Putin, should he feel provoked or desperate, will extend the conflict beyond Ukraine, risking a direct – and potentially nuclear – confrontation with the U.S. and its NATO allies.

During the first week of Russia's invasion of Ukraine, Russian leaders repeatedly raised the prospect of a nuclear response should the United States or its NATO partners intervene in the war. Russian President Vladimir Putin concluded his speech announcing war in Ukraine by warning that "anyone who tries to interfere with us … must know that Russia's response will be immediate and will lead you to such consequences as you have never before experienced in your history."

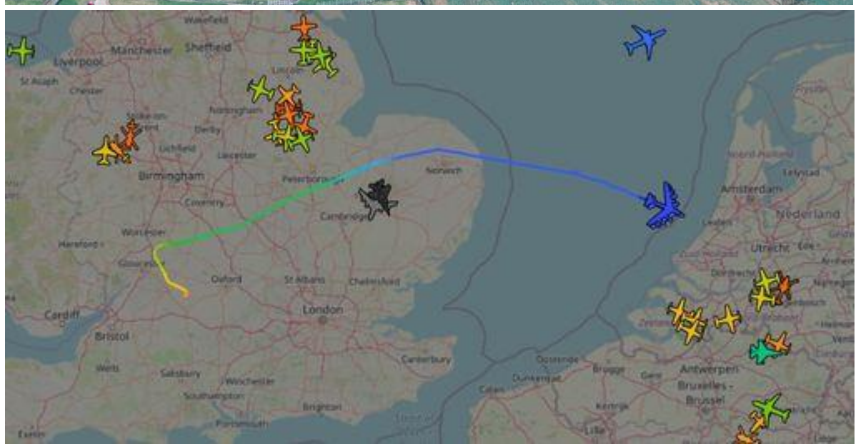
Therefore, the need to "contain Putin and Russia" becomes a prime directive, said one U.S. official. Preventing a broadening of the war is a red line that was bluntly summarized as "We don't want WWIII".

The US military establishment is walking a tightrope as it seeks to balance such demands and avoid nuclear escalation.

Coming weeks are likely to be perilous.

Rapid preparation and fulfilment is underway with;

Airbases in the UK – residents report sharp uptick in air traffic over the past week.



- Photos show B52 USAF bombers at RAF Fairford, UK (see right). B52's have been flying out of RAF Fairford on a daily basis, heading over eastern Europe and returning in cycles.
- High level RAF planes have been flying in and out of bases at Fairford and Brize Norton as Russia steps up its attack on Ukraine. There have been USAF F-15 fighter jets, B-52 bombers and CV-22 Ospreys flying over the West Country, some headed for Europe (see right).
- USAF Boeing C17 Globemasters and C-130 cargo planes are regularly departing RAF Brize Norton in Oxfordshire for eastern Europe.
- Much of the activity is connected to the NATO mission to defend allied airspaces against Russia in the face of their invasion of Ukraine, reports GloucestershireLive. NATO Allied Air Command has confirmed that the RAF Airbus planes flying out of Brize Norton have been helping to refuel and support Typhoon fighters over Europe to defend the region after Russian aggression.
- They said: "RAF Eurofighter Typhoon fighters have taken to the skies as part of NATO's mission to secure NATO airspace, part of the Allied response after Russian forces invaded Ukraine."
- Deadly U.S. fighter jets 'that will make Putin sweat' have also started landing in the UK. It's reported that supersonic F-35B Lightning planes have been landing at RAF Marham in Norfolk. Flown in from Texas, the jets carry 22,000lbs of firepower, including eight Paveway laser-guided bombs. They have a top speed of 1,200mph and are capable of flying at 50,000ft.
- Additional USAF Boeing C-17A Globemaster strategic transport aircraft are headed towards the UK, having taken off from Maine, USA.
- German and Czech military cargo planes have been active in theses areas as have RAF planes returning from Poland.
- RAF Eurofighter Typhoons are practicing QRAs, Quick Reaction Alerts, over the UK. QRAs largely involve reacting to and chasing an enemy aircraft.
- U-2 spy planes have been landing from the U.S. and operating out of Fairford.
- NATO Allied Air Command has confirmed that the RAF Airbus planes flying out of Brize Norton have been helping to refuel and support Typhoon fighters over Europe. This activity sees the UK fighters flying side by side with their Allied colleagues to defend the region and is a robust response to Russian aggression.

- The Typhoons, armed with state-of-the-art Air-to-Air missiles and a full suite of defensive aids, are patrolling NATO airspace over Poland and Romania.

NATO Ground forces ramping up

- An unprecedented $350 million in emergency military aid announced in late February has already been delivered to Ukrainian forces in the form of **Stinger anti-aircraft missiles and portable Javelin anti-tank missiles.** There is "no limit" to military assistance, one senior US official stressed, so long as it does not involve offensive heavy weapons.
- Some **20,000 anti-tank and anti-aircraft missiles** have been delivered to Ukrainian forces in the past 6 days. It appears that Russian armored vehicles have no answer for the American weaponry. Their latest tanks have not been deployed in the war, with US Intelligence believing this is because they are afraid their vehicles have insufficient protection. More supplies are en route to Ukraine.
- America has deployed **further US troops** into forward positions, bringing their numbers to over 100,000.
- US Military Has Activated Its **Strategic Materiel Stockpile** - Although the U.S. adroitly and aggressively used declassified intelligence to warn Ukraine and the world, the scale and brutality of the Russian attack are pushing the Pentagon and NATO to unprecedented measures.

  At the end of the Cold War, the U.S. military downsized its presence in Europe. However, it maintained the necessary materiel to support large-scale operations should a contingency arise. That contingency is now here, and the Pentagon is pouring more troops into Europe to deter Russia and reassure NATO allies and European partners.

  For the past weeks, the 405th Army Field Support Brigade has been preparing for the incoming troops by activating the Army Prepositioned Stock-2 sites, which are capable of outfitting an entire armored brigade combat team.

  The strategic reserves at the Army Prepositioned Stock-2 sites include hundreds of M1 Abrams tanks, M2 Bradley Fighting Vehicles, Joint Light Tactical Vehicles, Paladin M109A6 self-propelled howitzers, supply trucks, and other vehicles.

- Baltic allies **Estonia, Latvia and Lithuania** are being reinforced against potential Russian threats with 8 lethal F-35 strike fighters, 20 AH-64 Apache helicopters and 800 troops.

Ukrainian air power

Poland has said it will hand over its MiG-29 fighter jets to the US, which is then expected to donate them to Ukraine amid intelligence agency warnings that Vladimir Putin is about to “double down” in his invasion. Poland has agreed to release its Mig-29 jets to the US, who in turn will deliver them to the Ukrainian air force. Ukrainian pilots are trained in these aircraft, making for rapid deployment.

The Polish foreign minister, Zbigniew Rau, said his government was “ready to deploy – immediately and free of charge – all their MiG-29 jets to the Ramstein air base and place them at the disposal of the government of the United States of America”.

Poland is thought to have 28 of the Soviet-era warplanes and has been in negotiation with the Biden administration on a three-way deal to supply Ukraine with air power, on condition that the MiGs would be replaced by newer US jets.

NATO Anti-Missile defenses

On 1 March 2018, Russian President Vladimir Putin stated that his country was in possession of hypersonic weapons. Although most questions about these weapons have not yet been answered, NATO has taken them into account.

Russia's deployment of the ISKANDER and S-400 systems on European borders remains ongoing. In March 2019, a number of Russian media outlets reported that the ISKANDER-M operational-tactical systems were being deployed in the Kaliningrad region, as well as the S-400 Regiment, which was set to be put in a combat ready mode. In addition, media statements reported that the Russian army had transferred the S-300 missile systems from Gvardeisk to Baltiysk close to the Polish border.

NATO has been building anti-missile defense systems in Poland, Bulgaria and Romania, accelerated since 2019. The Baltic countries are reportedly receiving latest equipment which is reputedly deployed around their borders with Russia.

Reports are being referred to as NATO circling Russian borders with anti-missile detachments and mobile launchers.

Information warfare

- Reverse-Cyber warfare has ensued with Russians seeing TV interruptions with messages such as "Food is great, but your leader is killing innocent people in Ukraine!! Stop this war," and "Glory to Ukraine" read an electronic message on one charging station; "Putin is a d---head" on another electronic screen.
- In a bid to access independent information, Russians are turning to virtual private networks (or VPNs) that trick their internet browsers into thinking they are in another, less restrictive country.
- The BBC has turned to the antiquated technology of shortwave radio in a bid to evade the censor's net. This allows Russians with old-fashioned portable radios to hear its world service for up to four hours a day.

Iran Nuclear Deal

Over the weekend in the Iranian Nuclear Deal negotiations, Russian FM Sergei Lavrov demanded, as the price of Russia's support, guarantees that Moscow's commercial and military relationship with Tehran would not be adversely impacted by western sanctions imposed over the invasion of Ukraine.

Russian Civil Aviation

Russia's invasion of Ukraine has resulted in its airlines being banned from European, American and Canadian airspace, leaving the country with leased aircraft it cannot use, and scuttling aerospace industry partnerships with the West.

Eurocontrol, the agency that guides air traffic policy in the European Union, reports that 300 flights a day by Russian carriers to Europe and 50 flights a day by European airlines to Russian airports have been suspended. Russia has retaliated with reciprocal restrictions against any country that has banned its flights.

Boeing and Airbus, Russia's main suppliers of commercial aircraft, have cut Russian airlines off from access to spare parts for their planes. It could be weeks or months before airlines' supplies of spare parts run out.

Brexit

While the years following the U.K.'s vote to leave the European Union have been characterized by one-upmanship, failures to communicate and outright disagreements, the days since Russia's invasion of Ukraine have seen politicians and officials on both sides of the Channel come together to coordinate their response.

And despite grave predictions from many on the pro-EU side of the Brexit debate that the U.K. would now be marginalized on the world stage, Prime Minister Boris Johnson has taken his place alongside counterparts in Washington and Brussels as the West grapples with how to respond. Britain, with its military and intelligence strength, and as one of the economies where Russian oligarchs have for decades sought to wash their dirty money, is well-placed to play a key role. The EU invited British Foreign Secretary Liz Truss to attend its Foreign Affairs Council meeting — a first since Brexit. (Politico).

War Status

Russia has told Ukraine it is ready to halt military operations "in a moment" if Kyiv meets a list of conditions, the Kremlin spokesperson said on Monday.

Dmitry Peskov said Moscow was demanding that Ukraine

- Cease military action,
- Change its constitution to enshrine neutrality,
- Acknowledge Crimea as Russian territory, and
- Recognize the separatist republics of Donetsk and Lugansk as independent states.

Documented losses indicate that Ukrainian ground forces have destroyed or captured nearly 900 pieces of Russian military equipment since February 24, and analysts suggest that the true total may be substantially higher. The Ukrainian military's Centre for Defense Strategies claims that the number exceeds 2,000.

An anonymous FSB official reportedly leaked a document which revealed the intelligence agency was left in the dark over Russia's invasion of Ukraine and was unprepared to deal with the crippling sanctions that followed.

The document states that (i) the Russian invasion is a disaster, (ii) Russian losses are huge, (iii) there is a "no-win" approach possible, (iv) Russian morale is rock bottom, (v) this may see Putin escalate the scope and ferocity of attack, including potential tactical nuclear weaponry to show Russian capabilities in this regard and their willingness to deploy. US Intelligence has attempted to authenticate the veracity of the document with other internal Russian FSB contacts and sources, but they advise they cannot authenticate the number reflected but were almost certain it originated in official Russian channels of command.

The brief also alleges that nearly 50% of funding Putin allocated to military improvements since the 2014 Crimean invasion have been lost to oligarchs and corruption, buying instead “massive yachts in the Mediterranean.”

It appears the expected attack of Odessa has been postponed due to Ukrainian forces repelling Russian advances to the east, complicating the attackers ability to fight on multiple fronts as well having diluted their attack capacity. Russian fleet vessels are continuing to patrol off the coast though.

Ukrainian soldiers have destroyed at least 280 Russian armored vehicles with 300 shots – a 93% kill rate.

Russia is reportedly recruiting Syrian soldiers as “guards” for up to 6 months the WSJ has reported. They are known as proficient street and door-to-door fighters.

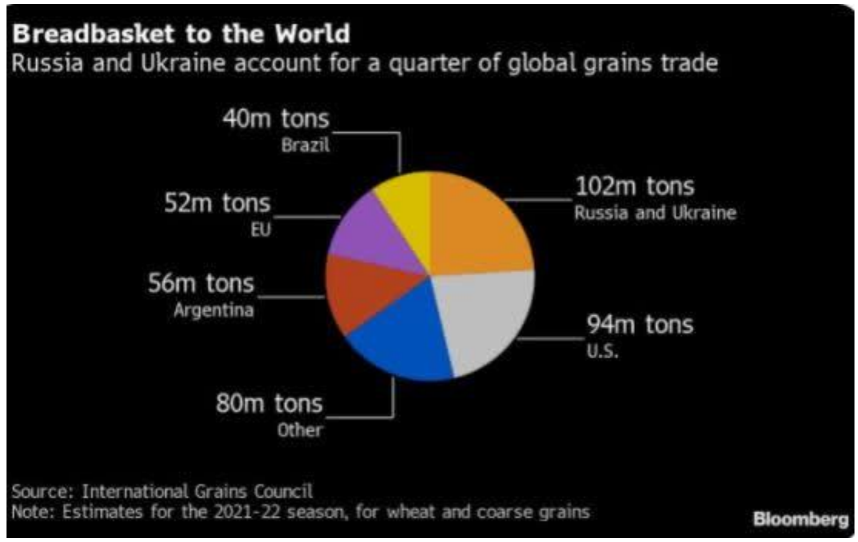
Russia also brought in Chechnyan fighters known for their ferocity. Unfortunately for them Ukrainian forces wiped them out completely, killing their renowned general. This has infuriated the Chechnyan leader who blamed Russian military command for being inept.

Costs

Food

- The United Nations group's vegetable oil index surged 15.8% in February, reflecting rising prices for palm, soybean and sunflower oil; dairy prices rose 8.5% from January, and corn gained 5.1%.
- Corn rose to its highest since September 2012 at $7.82 1/2 per bushel before settling at $7.54 1/4 a bushel; soybeans, which gave up early gains to close slightly lower at $16.60 1/2 per bushel, are less exposed to trade in Russia and the Ukraine but they still face upward pressure from weather developments in South America.
- Commodity and energy prices have surged since Russia invaded Ukraine, "adding to inflationary pressures from supply chain disruptions and the rebound from the Covid-19 pandemic," the IMF wrote.
- Wheat importers are facing a threat of deliveries of politically sensitive bread supplies across the Middle East and North Africa (MENA) after Russia's invasion of Ukraine closed off access to the lower priced Black Sea grain they depend on.
- Russia and Ukraine account for about 29% of global wheat exports. But with their supplies in doubt, Chicago wheat futures rose to a 14-year high on Monday. “Importers will have to pay on average 40 percent more for wheat than before the invasion,” a second trader said.
    - Egyptian officials say wheat reserves and the upcoming local harvest are enough to provide subsidized bread for around nine months. But they are already expecting to pay up to an additional $950 million
    - Lebanon, in one of the worst economic crises in modern history, has wheat reserves just one month
    - Tunisia has introduced flour rationing despite officials saying stocks will last until the summer

- Morocco is set to hike grain imports after its worst drought in decades
- Syria has indicated it will draw down on its strategic wheat stocks
- Algeria and Libya are experiencing import challenges
- Hungary announced last Friday an immediate ban on all wheat exports
  - Of huge significance in this regard is the complete absence of any seasonal planting planned or underway in Ukraine, affecting 2023 food supplies across the world.



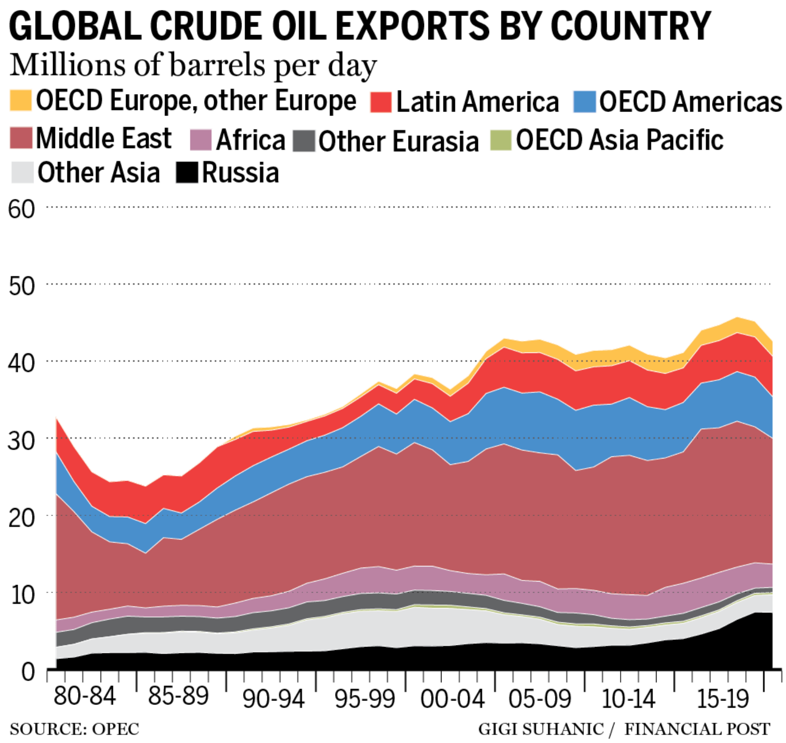
- Ukraine accounts for the following global exports
  - #1 exporter in the world for sunflowers and sunflower oil (sunflower oil is a major element of food preservation together with saline solution and olive oil)
  - #2 in barley production and #4 in its exports
  - #4 producer of potatoes worldwide
  - #5 rye production
  - #5 in honey production (75,000 metric tons annually)
  - #9 in chicken egg production
  - #16 cheese exporter
- **Australian** food and petrol prices will skyrocket due to Russia's invasion of Ukraine, Scott Morrison warns.

Commodities

- Prices of raw materials from wheat to various **metals** have soared to multi-year highs as Western sanctions have disrupted air and sea shipments of commodities produced and exported by Russia.
- Russia and Ukraine are two of the world's biggest exporters of **wheat,** which scaled a 14-year peak on Friday, having gained nearly 40% since Russia invaded Ukraine on Feb. 24.
- **Aluminum** hit a record high on Friday while copper, where the country supplies 3.5% of world supplies, was also flirting with a fresh all-time peak.
- Ukraine accounts for the following mineral and industrial exports
  - #2 in Europe for titanium ore reserves; #10 worldwide
  - #2 globally (2.3B tons or 12% worldwide) in explored manganese ore reserves
  - #2 in Europe for mercury ore reserves
  - #3 in Europe (#13 globally) for share gas reserves (22T cubic meters)
  - #7 globally in coal reserves (33.9B tons)
  - #1 in Europe's ammonia production
  - #2 largest natural gas pipeline system in Europe; #4 globally
  - #3 largest installed capacity of nuclear power plants in Europe; #11 globally
  - #3 longest rail network (21,700km); #11 globally
  - #3 producer of locators and locating equipment globally
  - #4 largest exporter of turbines for nuclear power plants globally
  - #4 largest manufacturer of rocket launchers
  - #4 in global clay exports

- #4 in global titanium exports
- #9 globally in defense industry products
- #10 largest steel producer in the world (32.4 million tons)

Fuel



- Brent crude was last up to 1.7% at $125.15 a barrel on Tuesday, rising for the third straight day after hitting $139.13 a barrel the previous session. WTI moved up 2.8% Tuesday.
- European gas prices notched an astonishing 120% weekly gain, to hit 208 euros per megawatt hour -- a record high.
- EU Green Deal chief Frans Timmermans told the European Parliament in Strasbourg that the EU can cut most of its reliance on Russian gas by the end of this year if governments implement a raft of emergency measures to be proposed by the European Commission on Tuesday. The plan, which was heavily and rapidly revised in the days since Russian forces invaded Ukraine, could make the EU independent of Russian gas "within years."
- OPEC Unable to Control Oil Prices, Supply Concerns from Russia-Ukraine Conflict. OPEC is unable to control the supply of oil globally amid the ongoing and escalating aggression of Ukraine by Russia, said OPEC's secretary general Mohammad Barkindo on Monday.
- The massive spike in energy prices globally is a “game changer,” but the goal of OPEC is to “continue to be a reliable and dependable supplier of oil to global markets,” he said at CERAWeek by S&P Global in Houston. OPEC and its allies, a group known as OPEC+ have chosen to keep production steady as oil prices reached $130 Sunday, the first time since 2008.
- Russian Deputy Prime Minister Alexander Novak warned that in retaliation for the halt on the Nord Stream 2 pipeline project, Russia could stop supplies via the Nord Stream 1 pipeline.
- Canadian Prime Minister Justin Trudeau and European leaders have acknowledged that Russia is no longer a reliable trading partner. But Alberta’s premier Jason Kenney says Canada isn’t doing enough to promote its own oil reserves as a suitable replacement for Russian oil. Later this week, Kenney and Alberta Energy Minister Sonya Savage will attend an oil and gas conference in Houston, where Kenney hopes to promote his province’s natural resources. This may require reversal of previous decisions regarding Canadian/US pipelines.
- Global energy policies will be re-written as fallout from the conflict manifests.
- This morning Biden Banned U.S importing of Russian oil.
- “There is no capacity in the world that could replace 7 million barrels per day," OPEC chief Mohammed Barkindo told reporters at the CERAWeek conference, according to Reuters.
- Heavy Canadian oil surpasses $100 for first time since 2008
- “The enablers of Russian oil exports — banks, insurance companies, tanker companies and even multinational oil companies — have enacted what amounts to a de facto ban,” Tom Kloza, the global head of energy analysis at the Oil Price Information Service, told the New York Times last week.

There is also a widespread belief among traders that, as Russia ramps up its attacks on Ukrainian civilians, Western governments will eventually feel compelled to use their remaining economic weapon – "Special Sanctions: as is applied to Iran, which sees any country been banned merely trading with Russia in $US.

As a result, Russia is struggling to find buyers for its top export, even as it offers the nation's highest quality oil at a discount of $20 a barrel.

Supply Chain

- Air cargo costs on the rise since Russian invasion of Ukraine – the cost of transporting goods by air has surged since Russia's invasion of Ukraine, just as consumers are already grappling with the fastest pace of inflation in nearly 40 years, reports CNBC News.
- Carriers, including KLM Royal Dutch Airlines and United Parcel Service, are filling their planes with pricier fuel for longer Asia routes to avoid Russia due to airspace closures. Jet fuel prices in the US last week hit the highest in more than a decade.
- With the Ukrainian Antonov cargo air fleet grounded or destroyed, global air cargo capacity has been severely affected. Coupled to this is the drastic reduction in "belly cargo" – cargo carried in the belly of passenger planes – because of a reduction in passenger air travel through first, COVID-19, seeing a dramatic rise on air cargo prices and tariffs.

Financial

- ***Russian defaulting on debt*** - One of the next big questions looming over the economic war against Russia is what will happen to its sovereign bonds. The Russian government has borrowed about $49 billion in the form of dollar- and euro-denominated bonds and owes a series of interest payments to bondholders in the coming months.

  If Russia defaults on its debt, it will play out differently than sovereign defaults of the past — and investors are watching for signs that it could ripple out into a broader market dislocation, as Russia's 1998 ruble debt default did.

  A debt default is usually bad for the defaulting nation. They get a huge blemish on their credit score and are essentially cut off from the global capital markets for a time while they work out a deal with their creditors.

  Yes, but: Russia's already cut off from the markets — by virtue of sanctions imposed by the U.S. and its allies. And the state of open hostility (Putin described the sanctions as a declaration of war) will make a debt restructuring deal near impossible to achieve.

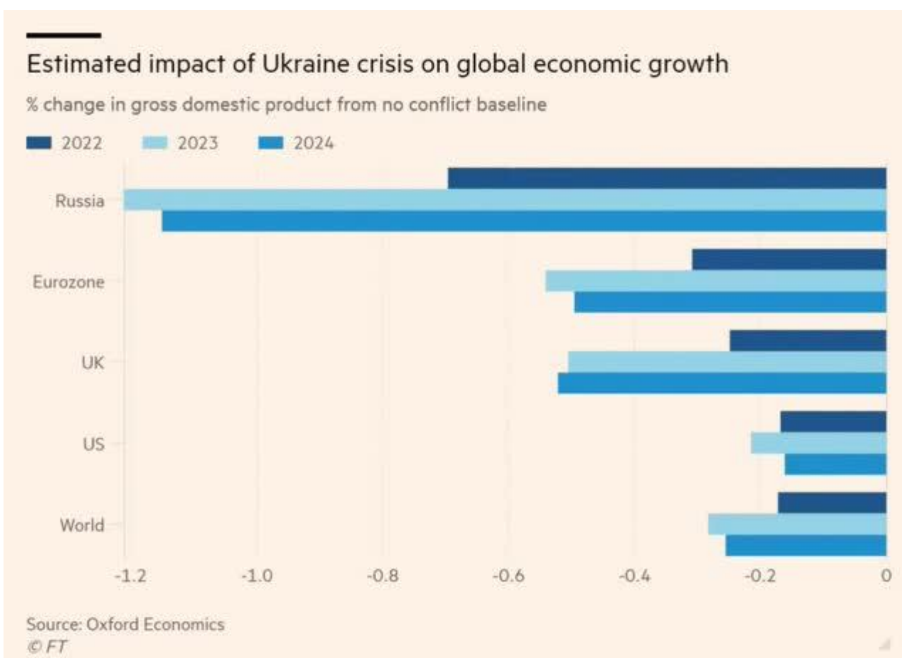
  At some point, vultures will probably pounce. Some distressed investors are quietly waiting for the right opportunity and evaluating whether strategies like aggressively pursuing Russia's assets could pay off.

  With over US$100 billion of Russian debt in foreign banks, this raises questions about the risks to banks outside Russia – and the potential for a default to kick off a 2008-style liquidity crisis, where banks panic about the state of other banks' solvency and stop lending to one another.

  European banks are the most exposed financial institutions to Russia's new sanctions, specifically those in Austria, France and Italy. Figures from the Bank for International Settlements (BIS) show that France and Italy's banks each have outstanding claims of about US$25 billion on Russian debt, while Austrian banks had US$17.5 billion.

Comparatively, US banks have been decreasing their exposure to the Russian economy since the Crimea sanctions in 2014. Nonetheless, Citigroup has a US$10 billion exposure, albeit this is a relatively small portion of the US$2.3 trillion in assets the bank holds.

- ***Ukrainian defaulting on debt*** - There is also the question of exposure to a potential default by Ukraine on its debts. Ukraine's circa US$60 billion of bond debt has also been downgraded to junk status, raising the risk of a default from a weak probability to a real danger.
- ***Ruble disconnect -*** Russia's ruble has tumbled more than 30% in offshore trade - its worst week on record - and around 20% in Moscow trade. Bid-ask spread are very wide - a sign of evaporating liquidity.
- ***Euro in the doldrums*** - The euro fell below $1.10 on Friday for the first time in almost two years, having shed over 3% against the dollar this week for its biggest weekly fall since March 2020.
- ***European banks*** had another grueling week, hit by a triple whammy of Western sanctions on Russia, a scaling back of rate hike expectations and a worsening macroeconomic environment.
- ***Pension Fund Investments*** - Pension funds are also in the firing line. Universities Superannuation Scheme (USS) team said it wants to sell its Russian assets. The USS is the UK's biggest independent pension scheme with about 500,000 pension customers and £90 billion in funds. Its Russian assets are worth over £450 million. The decline in the value of these toxic assets is potentially going to be a nasty hit. More broadly, many investment funds also have money in Russian sovereign debt and also Russian company shares. They too are potentially looking at serious losses.
- ***Will Russian Sanctions Lead China to Sell US Debt?*** - Many investors fear that China, which has always wanted control of Taiwan, will use the mayhem of the moment to take it. Obviously, this would create even more uncertainty and mayhem, but China is more involved in global finance than Russia. The West's response to Russia has not gone unnoticed, but many fear that even if China doesn't invade, it may preemptively sell its roughly $1.1 trillion in US government debt to avoid financial retaliation. The fear is that this will cause US interest rates to soar and the US economy to suffer. It's important to remember that China didn't buy our debt as a favor to the US; they bought our debt out of self-interest. (Advisor Perspectives)
- ***Russia/Ukraine Crisis Estimated Global GDP Deterioration***



- ***Russian Crypto trading*** - The start of the invasion of Ukraine was reportedly followed by a spike in crypto trades involving the Russian ruble. Tigran Gambaryan, vice president of Global Intelligence and Investigations at Binance, said crypto is “a terrible thing to use to evade sanctions” because “everybody looks at these transactions.”

  Unlike fiat money laundered through a series of opaque shell-company transactions, every crypto transfer is recorded permanently on the blockchain. It’s just a question of whether authorities can link those transactions to a real identity.

- ***Alternative financial systems*** – The question is “Can China’s yuan find a greater role as a global currency?”

  Beijing has been trying to insulate itself from a global financial system that is heavily tied to the US dollar, but strict capital controls still hinder the yuan’s use.

  A lack of deeper financial reforms by Beijing could remain a difficult hurdle to the yuan’s internationalization, even as Russia’s trade with China is rising.

  Russia’s invasion of Ukraine will have only a limited impact on Beijing’s push to internationalize the yuan, and its long-term success as a more widely utilized global currency will need to run parallel with China’s deeper financial reforms, according to analysts. (China Macro Economy).

- ***Belt and Road Initiative (BRI)***

  As the EU and the U.S. intensify economic sanctions to Russia, the operations of the New Eurasian Land Bridge - also dubbed the Iron Silk Road - will be hampered.

  “Decreased demand for Chinese exports because of the higher energy prices and geopolitical anxieties, combined with a ban on goods crossing Russia via the New Eurasian Land Bridge, a container crisis, supply chain issues and maritime transport concerns could provide the final stroke for China’s annual growth target in its most politically important year,” noted Andreea Brinza, Vice President of the Romanian Institute for the Study of Asia-Pacific (RISAP), in an article for Foreign Policy.

  This is surely going to gain focus in China as the BRI is a cardinal and instrumental element of China’s 50-year plan. This includes opening trade routes away from the South China Sea, where China is highly vulnerable to trade disruption and attack.

  In 2016, COFCO - China’s largest agricultural conglomerate - built a $75 million grain and oil transfer terminal at the port of Mykolaiv on the Black Sea. A year later, Chinese engineers finished upgrading Ukraine’s busiest port, Yuzhny, on the Black Sea. Before the war started, China and Ukraine had signed BRI-related construction contracts worth nearly $3 billion in the transport and energy sectors. These are all elements of the BRI.

- **The BRICS bank** set up to dilute Western influence has stopped doing business with Russia. The New Development Bank (NDB), set up by BRICS countries to reduce the influence of what they consider Western-dominated finance institutions, has stopped doing business with Russia.
- ***Russia's $132 billion in gold reserves*** could face US sanctions as new legislation seeks to choke off potential lifeline, an Axios report says.

  A bipartisan group of US senators have teamed up to propose a bill that would prevent Russia from using its $132 billion gold stockpile to ease the burden of crippling Western sanctions, according to Axios.

  Legislation will apply restrictions on American entities making gold transactions with Russia's central bank holdings.

- ***Hedge Funds*** – Hedge funds are getting flattened by safety stampede into U.S. bonds, with a surge in U.S. Treasuries.

International Sanctions

- ***China*** - Beijing is now trying to maintain “normal” trade with both Russia and Ukraine, commerce Minister Wang Wentao said on Tuesday, and Guo Shuqing, chairman of China Banking and Insurance Regulatory Commission, also said on Wednesday that Beijing will not participate in sanctions against Russia.

  Chinese trade with Russia continues despite Western sanctions, but Beijing 'will not ride to the rescue'

  Barley and consumer goods have continued to flow between China and Russia along the China-Europe railway lines despite major shipping and air freight being severely restricted by Western sanctions.

  Analysts have argued that China can only do so much to assist Russia in the face of the numerous sanctions as its commercial ties with the US, European Union and their allies in Asia are much more important than those with Russia.

  While China shares Russia's disdain for the US-led international system, its material assistance to Russia under Western sanctions will be meager. (South China Morning Post).

- ***Countries not applying sanctions*** against Russia include –
  - BRICS group (Brazil, India, China, South Africa)
  - OSC Group (Belarus, Kazakstán, Tayikistán, Armenia, Kyrgyzstán)
  - Azerbaijan and Moldova have abandoned anti-Russian restrictions. But the most surprising position is Georgia.
  - Latin America (Mexico, Argentina, Venezuela, Guatemala, Colombia, Cuba, Nicaragua, Chile, Peru).
  - ASIAN countries minus Singapore
  - The Middle East (Syria, Egypt, Turkey, Iraq, Iran, surprisingly also US allies U.A.E and Saudi Arabia, (and Pakistan)
  - The Balkans (Serbia, Bosnia and Herzegovina).

Energy ban(s)

- Top European leaders said Monday that they recognize the need to reduce the continent's dependence on Russian energy but stressed that an immediate embargo would not be feasible.
- Under pressure from Congress and the Ukrainian government, the Biden administration may move to ban Russian oil imports on a unilateral basis if the U.S. cannot immediately bring along its European allies.

Manufacturing

On-shoring microchip manufacture

With governments around the world realizing that supply chain consistency is important to their country’s future, certain industries are coming back on shore, notably semiconductors, and companies like Applied Materials and KLA Corp. are likely to benefit from this trend, according to Bank of America.

Russia’s invasion of Ukraine is likely to have a “manageable” impact on the production of semiconductors, as Ukraine is home to roughly half of the world’s neon has, a critical component for manufacturing chips.

China going after Taiwan in a similar manner is certainly a worry for semiconductor investors, as Taiwan Semiconductor is the world’s largest manufacturer of chips.

On-shoring microchip manufacture will fall under strategic decision-making. General manufacturing as is currently off-shore, will by and large, remain so, given the cost of relocating plants to the U.S. or closer shores, plus the globalization of components, raw and packaging materials and supply chain arrangements.

Shipping

Container shortage likely to worsen - Russian and Belarussian ports in the Baltic and Black Sea will likely see a build-up of boxes if carriers refuse to make port calls due to the security situation and sanctions.

In addition to sea transport, containers are also being transported in increasing numbers by rail between China and Hamburg. Around 160,000 TEU were transported by rail between Hamburg and more than 25 destinations in China last year, an increase of 51 per cent, according to the statement. The conflict may jeopardize this growth and outlet.

German ship carrying Russian oil destined for Stanlow moves on - A German-flagged ship carrying Russian oil destined for Stanlow in Ellesmere Port which had been moored in the UK has moved on. Workers made it clear they would not unload the cargo, according to The Standard.