

Special Report

# Impact of Russia–Ukraine War on Global Commodity Markets

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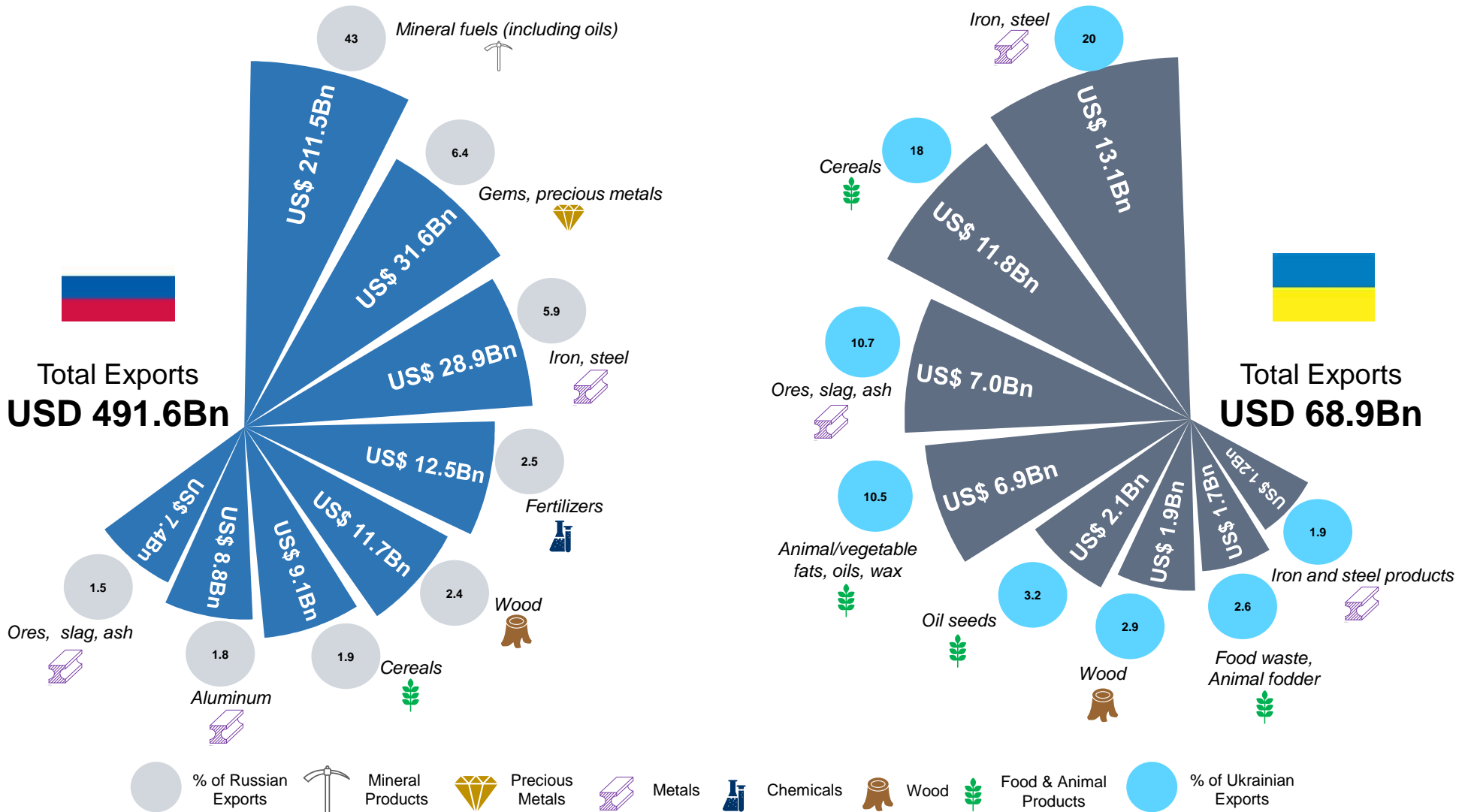


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# Russia and Ukraine's commodity exports during 2021



Source: Reuters, World Stop Exports, Aranca Research

# Timeline of major sanctions imposed against Russia by NATO and Allies (1/2)

Nov 21–Jan 22

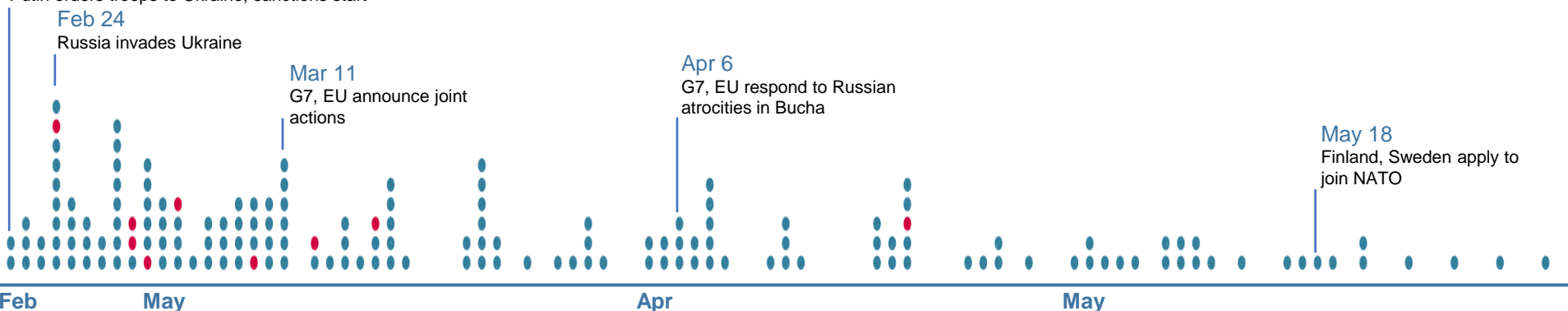
The US warns of Russia's troop buildup; countries attempt diplomacy, threaten sanctions

Feb 4–20, 2022

Winter Olympics in Beijing, China

Feb 24

















Putin orders troops to Ukraine; sanctions start



Timeline	Country	Major Sanctions
Feb 24		Government introduces a new rule: US firms must obtain licenses to sell computers; sensors; lasers; navigation tools; and telecommunications, aerospace and marine equipment. The US is expected deny almost all requests
Feb 25		Japan says energy supply secure; promises more sanctions against Russia
Feb 28		Canada bans Russian oil imports
Mar 01		Russian ships banned from British, Canadian ports
Mar 02		The US, the EU consider banning Russian ships from their ports
Mar 02		The EU suspends distribution of state-owned "disinformation outlets" Russia Today, Sputnik across the region
Mar 07		New Zealand bans Russian ships from its ports
Mar 08		The UK decides to phase out Russian oil and oil product imports by the end of 2022

Source: Reuters Tracker, PIIE Tracker, Aranca Research

## Timeline of major sanctions against Russia by NATO & Allies (1/2)

Timeline	Country	Sanction
Mar 08		The US bans Russian oil and other energy imports
Mar 09		Russian-linked private jet impounded as the UK deepens aviation sanctions
Mar 15		The EU blacklists Abramovich, targets energy and luxury sectors with new Russia sanctions
Mar 18		Australia sanctions Russian billionaires with mining industry links
Mar 18		Japan decides to impose sanctions on 15 Russian individuals and 9 organizations
Mar 20		Australia bans alumina exports to Russia, sources coal for Ukraine
Mar 21		The EU split on Russian oil sanctions, mulls other steps
Mar 25		Neutral Swiss adopts more EU sanctions against Russia
Mar 29		Japan decides to ban Russia-bound exports of luxury cars, goods from April 05
Apr 06		The EU decides to impose more sanctions on Russia
Apr 06		The UK freezes assets of Russia's largest bank Sberbank; sanctions eight oligarchs active in industries (including fertilizers, oil, gas, trucks and diamonds); decides to ban (i) Russian coal imports by the end of 2022, (ii) outward investment to Russia [valued at over 11 billion pounds (USD14.4 billion) in 2020], (iii) key oil refining equipment and catalyst exports
Apr 14		Australia adds 14 Russian state-owned enterprises to its list of sanctions, targeting names such as Gazprom, Kamaz, SEVMASH and United Shipbuilding Corp
Apr 21		Britain imposes 26 new sanctions targeting Russian military generals responsible for what it called atrocities in Ukraine
Apr 29		Norway shuts borders, ports to Russian goods, exempts fishing vessels
May 04		The UK bans services exports to Russia, sanctions Russian media outlets
May 20		Canada imposes additional sanctions on Russian oligarchs, bans import and export of targeted luxury goods from Russia

Source: Reuters Tracker, PIIE Tracker, Aranca Research

# Sanctions against major player Russia significantly impacts global energy and metal markets



## Major Impacts of Disruption Energy, Metals & Minerals

### Energy

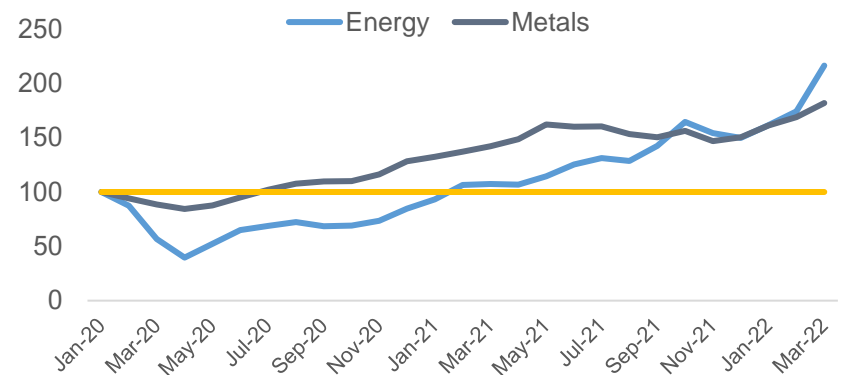
Reflecting the effects of war, energy prices hiked more than four times in Mar 2022. While Russia's exports of coal have been less affected by disruptions than crude oil, import bans by the EU and Japan are being phased in.

### Metals & Minerals

Disruptions in the metals market have been relatively less severe. However, the sanctions imposed have partially disrupted Russia's aluminum and nickel production & exports, and announcements of further curtailments have impacted prices. The war has led to a decline in imports of alumina, a key input of aluminum products

## Price Developments Energy & Metals

Index = 100, January 2020



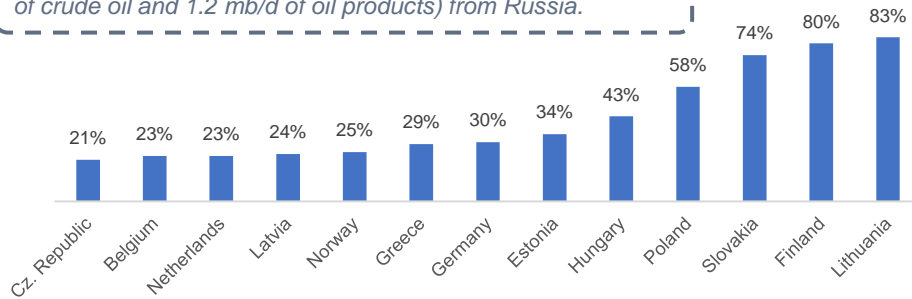
Source: Bloomberg, Reuters, World Bank, Aranca research

# Data reveals Europe is heavily dependent on Russia for energy, raw materials

## Commodity – Minerals

EU nations with >20% share in Russian oil imports

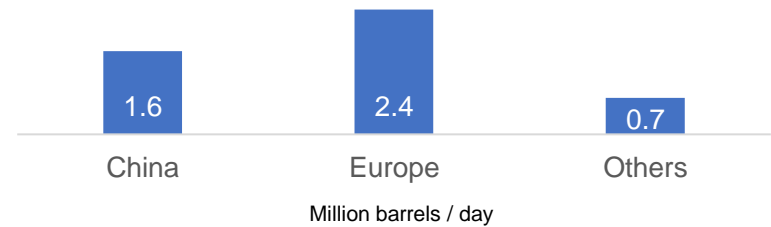
The EU imports ~25% of oil and oil products (i.e., ~2.2 mb/d of crude oil and 1.2 mb/d of oil products) from Russia.



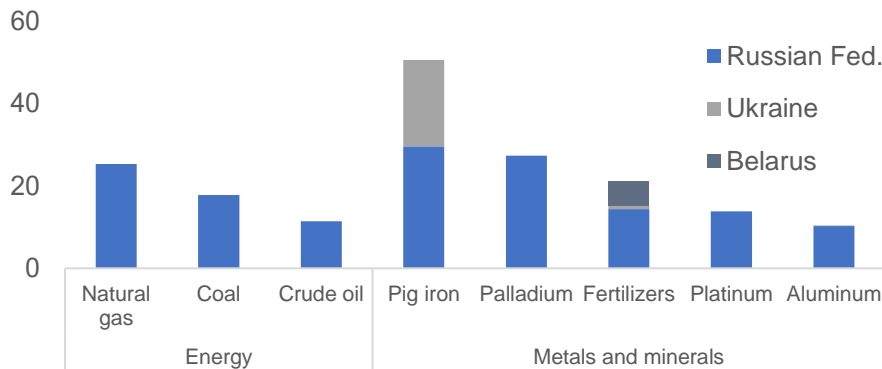
## Commodity – Minerals

Top importers of Oil from Russia

In 2021, Russian crude oil output accounted for 14% of the total world supply and ~43% of its total exports.

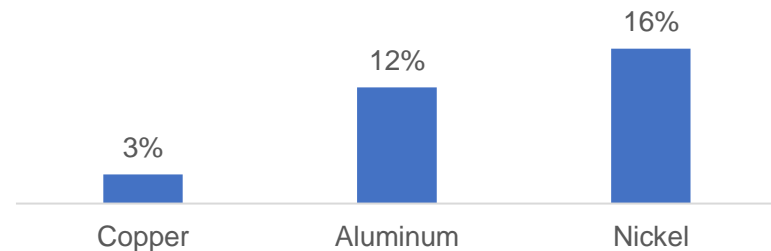


## Hard commodity exports from Russia and Ukraine, in %



## Percent of London Metal Exchange companies originating in Russia

Russia and Ukraine are top producers of metals such as nickel and copper. They also export other raw materials such as palladium, and platinum.

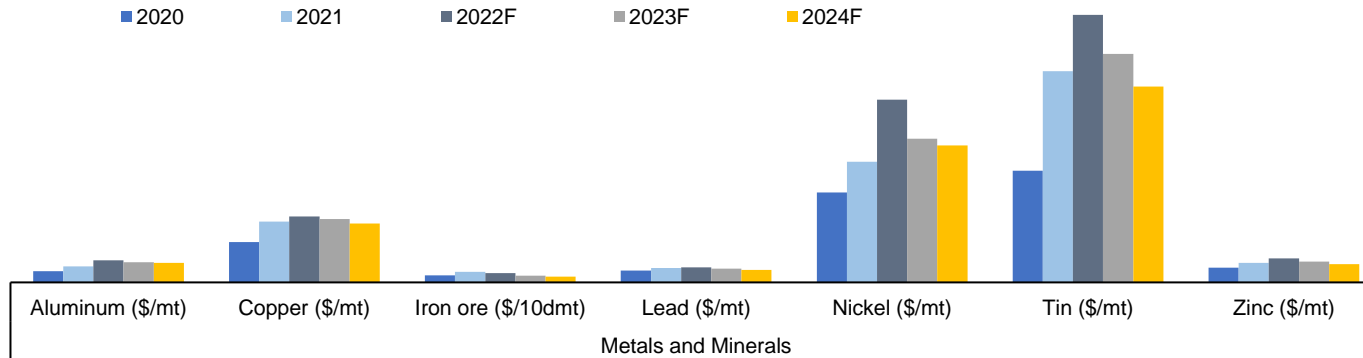


Source: International Energy Agency, World Bank, Mining.com, Aranca Research

# Revised outlook: Hard commodity prices to remain high in short-to-medium term

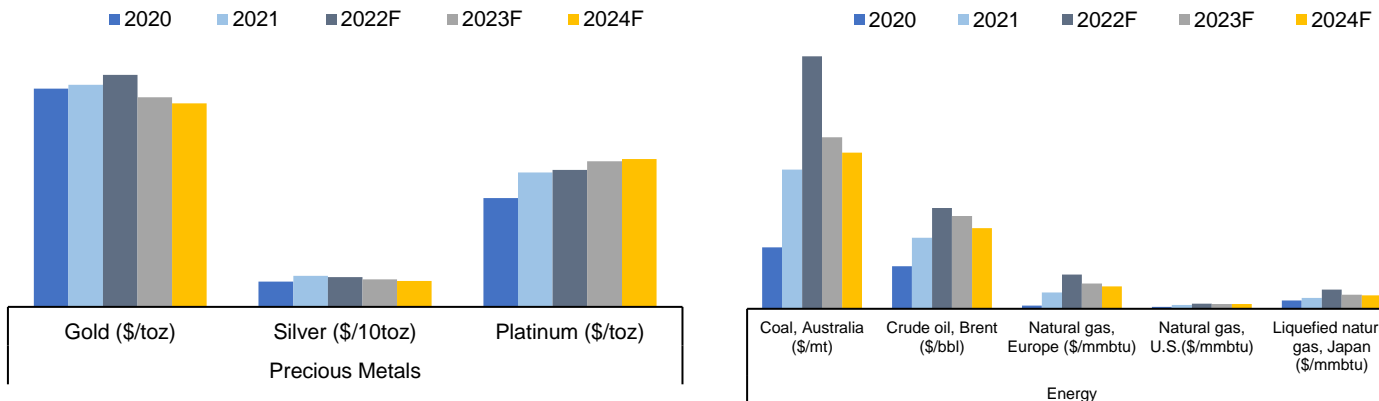
## Price Forecast – Metals & Minerals

Price data in nominal US dollars



## Price Forecast – Precious Metals & Energy

Price data in nominal US dollars



## Outlook

Price data in nominal US dollars

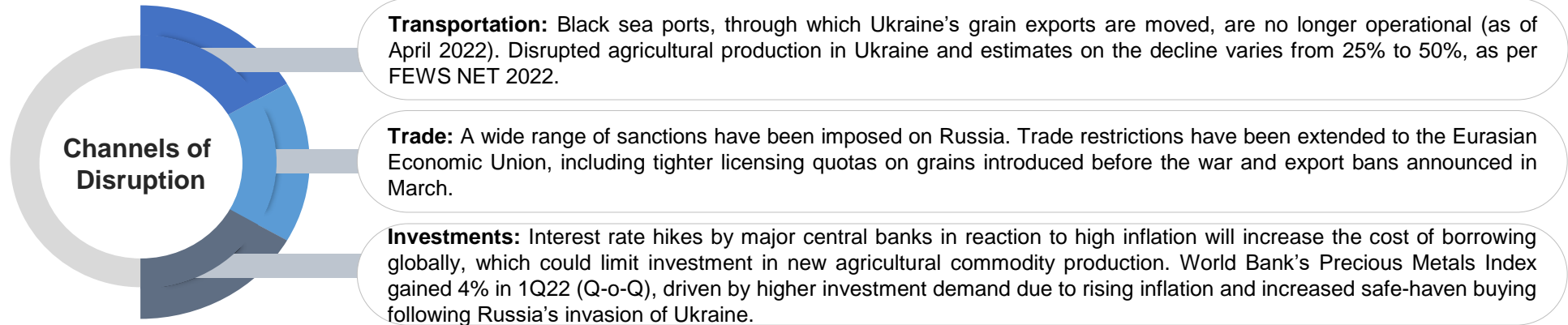
Energy prices are expected to remain high for a long time.

- Brent crude oil prices are anticipated to average USD 100/bbl in 2022, the highest level since 2013, subsequently, they are expected to reach USD 92/bbl (in 2023) with rise in production.
- Coal and natural gas prices are anticipated to rise significantly in 2022; they are expected to ease slightly in 2023 but remain well above their five-year average.
- World Bank's Precious Metals Index gained 4% in 1Q22. The index is estimated to increase slightly in 2022 but fall by 9% in 2023 on expectations of a tighter monetary policy. Risks to the outlook include intensification of geopolitical tensions and inflationary pressures.

Source: Bloomberg, Reuters, World Bank, Aranca research



# Surge in non-energy (soft) commodity prices drive major shift in market dynamics as key exporters include Russia and Ukraine



## Major Impacts of Disruption

### Food & Agriculture, Fertilizers

#### Food & Agriculture

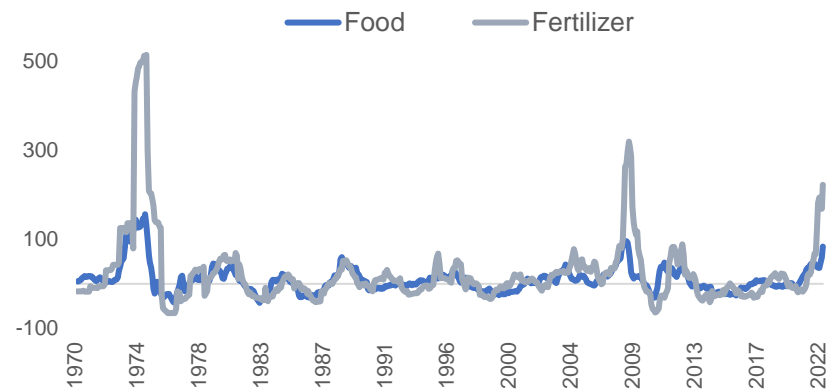
Limited quantities of wheat exported overland, although at greater cost of shipping. Disruptions to exports from Ukraine affected several importing countries, especially in the MENA region; as a result, they introduced policy measures, banning or reducing exports.

#### Fertilizers

The fertilizer market was under pressure even before the war due to high prices of input commodities such as natural gas and coal. Additional trade disruptions could further impact global supply. These shortages could adversely affect highly dependent developing countries.

## Price Developments

### Food & Fertilizers

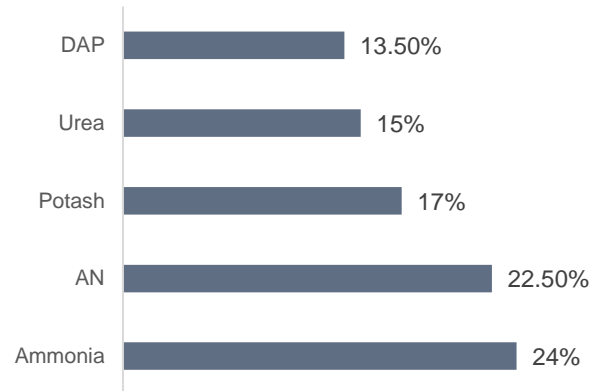


**Source:** Bloomberg, Reuters, World Bank, Aranca research

# Russia, Ukraine major soft commodity exporters globally

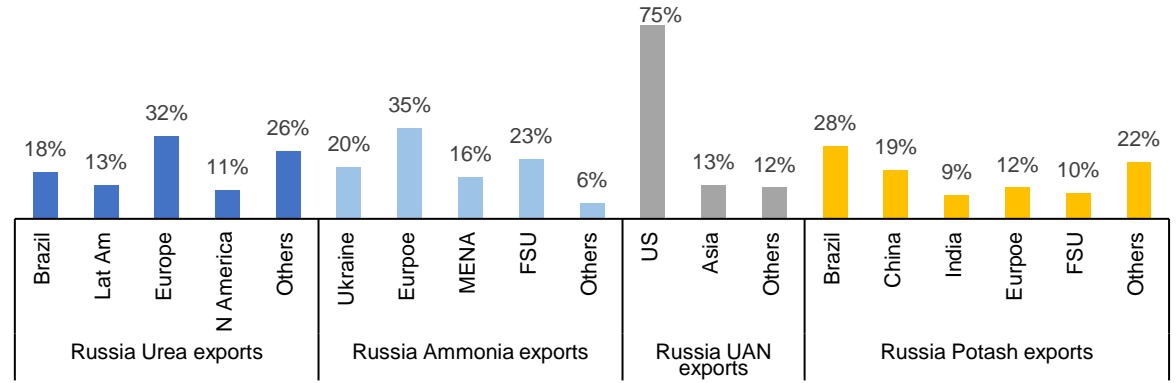
## Commodity – Fertilizers

Russian exports as a % of total trade



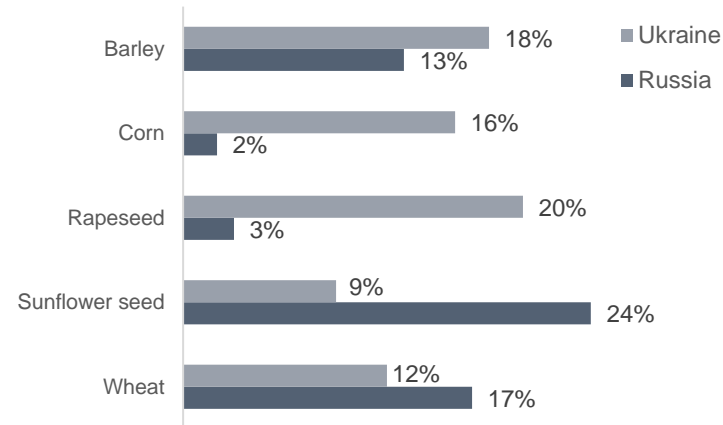
Russia's Exports in 2020

*Russia exported fertilizers worth USD7.6 billion in 2020; it was the largest fertilizer exporter globally that year.*



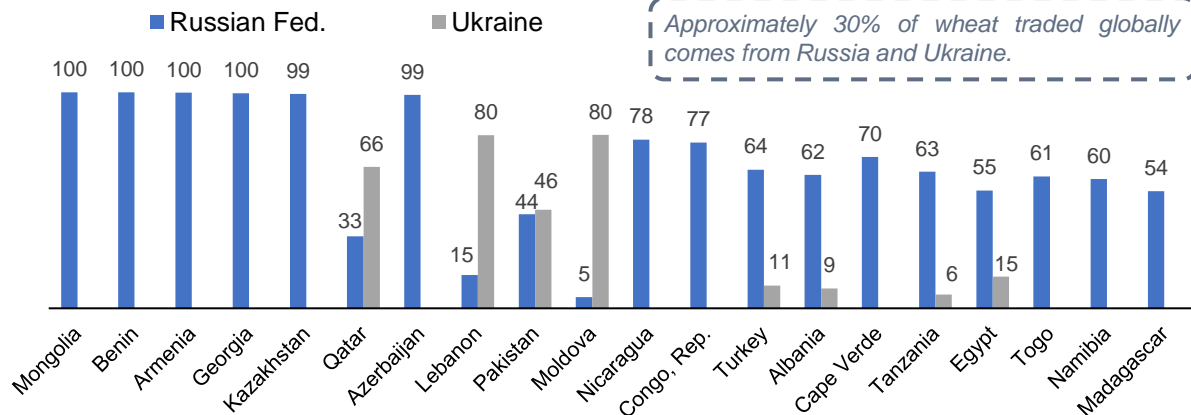
## Commodity – Food

Grain exports as a % of total



Wheat imports from Russia & Ukraine (figures in percentage)

*Approximately 30% of wheat traded globally comes from Russia and Ukraine.*

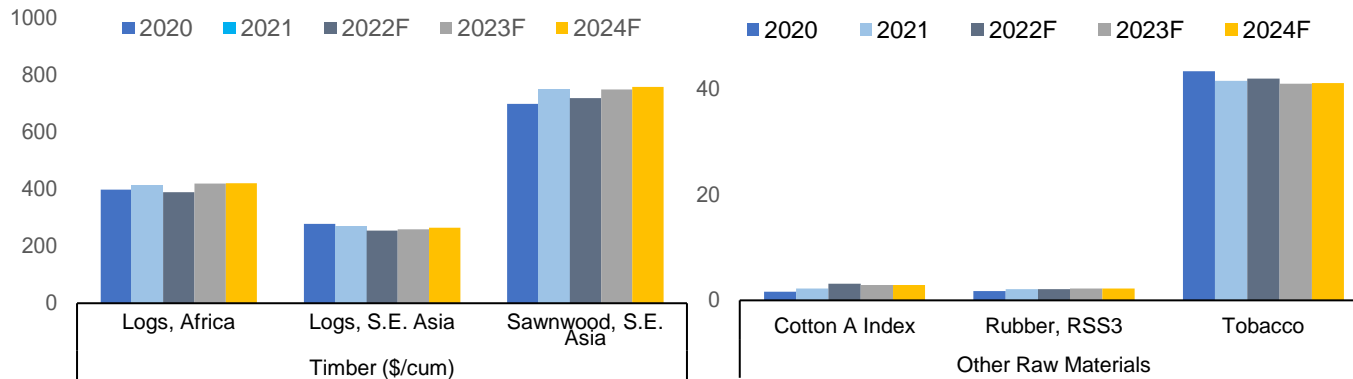


Source: Bloomberg, Reuters, World Bank, Aranca research

# Soft commodity price outlook positive

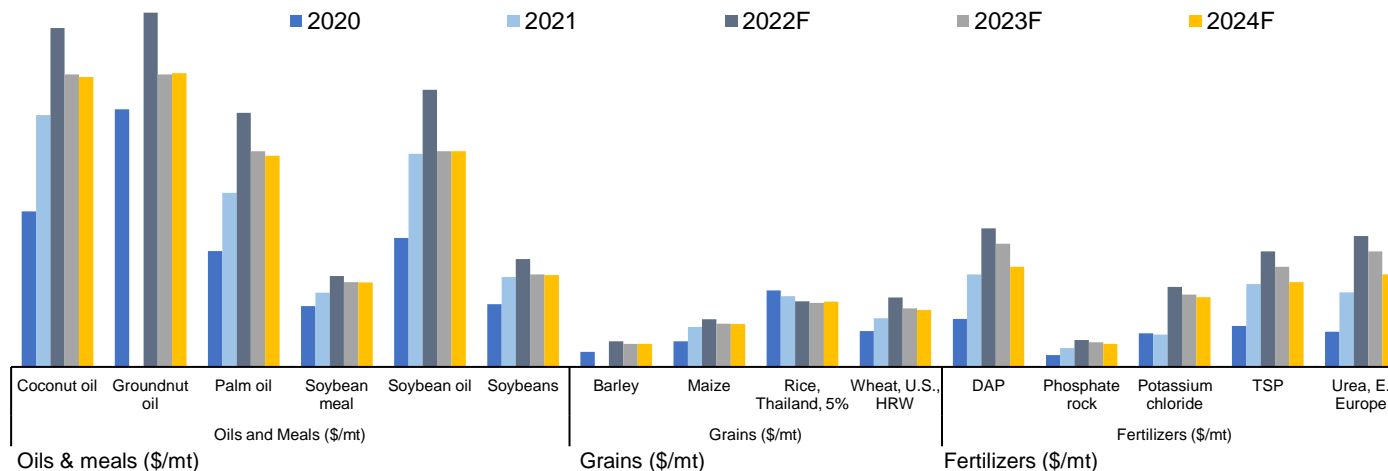
## Price Forecast – Raw Materials

Price data in nominal U.S. dollars



## Price Forecast – Food & Fertilizers

Price data in nominal U.S. dollars



## Outlook

Price data in nominal US dollars

Supply in the food markets globally are better now compared to 2008–09 and 2010–11, when the prices surged; However, there are various risks to the outlook, including disruptions induced by the war in Ukraine and high energy and fertilizer prices.

- The Grain Price Index is anticipated to rise almost 20% and then decline in 2023 with easing of disruptions related to production and trade.
- Fertilizer prices are anticipated to increase by about 70% in 2022 before easing in 2023. Risks to the outlook include supply disruptions in Russia and Belarus, higher input costs, and continuation of Chinese export restrictions.
- The Oil and Meals Index is anticipated to increase by an average 30% in 2022 (a significant upward revision from October) before easing 14% in 2023.

Source: Bloomberg, Reuters, World Bank, Aranca research

## Key takeaways

*The Russia–Ukraine conflict since February has kicked off historic policy actions and moves across markets globally. Sanctions against Russia over the Ukraine conflict has included a global coordination between the EU, the US, the UK, Canada, Switzerland, Japan, Australia and Taiwan.*

*The resultant impact has been quite evident in global commodity markets as oil prices crossed the US\$130/barrel mark for the first time since 2008 and natural gas prices spiked to all-time highs.*

*While both essential and industrial commodity prices have skyrocketed across the world, this conflict is also impacting monetary policy path of major central banks as they turn hawkish (from Covid-19 induced dovish stance) to contain record-high inflation levels*

*Moreover, the RUS-UKR conflict has also revealed extreme tension between Europe's energy security and Russia, the region's primary energy supplier. However, the EU and partner nations have recently taken historic steps (such as partial embargo on Russian crude oil) to reduce their energy dependence on Russia over a period.*

*Given the expectations of these geo-political tensions to continue in short to medium term, prices of most of the essential and industrial commodities are forecasted to remain at the elevated levels at least till 2023–24 compared to the trend witnessed over past five years.*



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