

# Daily Energy Markets

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#### Have equity markets priced in the escalating Russia Ukraine crisis?

We have seen a hardening of the conflict, but we also had US inflation numbers come in last Friday higher than expected, and most observers have attributed the tumble in markets to that, rather than to what's happening in Russia. In real terms, even if Russia is cut off financially, it has already been minimizing dollar transactions in the private and government sectors and accumulating huge reserves of dollars and gold. Along with the Ukraine and neighboring countries, it's also not an important enough part of the global financial architecture to be a catalyst to a big financial crisis.

#### Impact of a full conflict on oil markets?

Russia is very much part of the commodity and global energy architecture, but most people would expect those exports to continue, even in the case of an occupation. If a war starts, all eyes will be on the ability of the Western alliance to impose sanctions, not only on the financial sector but on energy exports. But in the short term, the European Union can't afford this, and the market has already applied that to prices. Europe imports more than 40% of its energy consumption from Russia, and Germany 50%. It can't suddenly displace Russian coal and gas. Only the US could impose maximum sanctions and they only work long term in the energy and commodities space if the rank of those countries is tight and closed. That is not the case because we have China on the other side and ultimately, goods would find their way into the global system. It's not like an Iran scenario where you try to lock up the country completely by getting everyone on board. That's not going to happen in Russia.

#### How likely is an invasion?

We have mixed messaging from the US. We have the official statements from Biden which have insisted so far, that Putin has not made up his mind. The other messaging is coming from unnamed sources in the security services which say what is likely to happen. I find it hard to believe that Russia would actually put on a full-scale invasion, but Putin has put himself into a corner where if he doesn't do it now, he will never have the opportunity again because Ukraine will be much better protected and armed next time. At the same time, his advisers are rightly telling him that he is pretty safe from sanctions. Even if it's a bluff, the Russians know about brinkmanship and will carry it right to the edge. ■

*\*Paraphrased comments*



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