

Daily Energy Markets

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The freezing of Russian central bank assets is a game changer.

Cutting off 'Fortress Russia', with its \$640 billion foreign currency reserves, will turn it into a financial pariah. This has never happened to a G20 country or one with those size of reserves. Russia won't be able to pay its debt back and it will not pay dividends anymore so will really be cut off in terms of assets and ability to service debt, and secondly it will immediately affect its capacity to deal with energy. The step of kicking some Russian banks out of the global swift financial system is secondary. It will have an impact on increasing transaction costs of trade and will affect oil and gas exports but eventually, money will find channels. Brokerage houses will be set up and energy trade will continue because it has not been directly sanctioned. We may have oil price spikes for a few weeks, but then it will settle into a new normal.

Impact of this conflict on global GDP outlook and commodity prices?

We are in a deep globalization period. We have all sorts of bottlenecks. We have China trying to walk a tightrope in the middle. If this conflict leads to more bottlenecks for commodity exports, higher grain prices for poor countries, higher precious metal prices, higher energy prices, the mixture is so combustible and so uncertain that it will fuel inflation and affect growth negatively.

Will sanctions on Russia encourage more energy flows to China?

Russian gas, and commodities like coal can be rerouted east and China would be the immediate beneficiary from that. President Xi will try to avoid things which rock the boat, but he will, if in doubt, be pushed more towards Russia than the US. But the Russian people see themselves more as Europeans and want to do trade and business with Europe and the US, more than with the east. Ultimately, this becomes a question of whether the current Russian leadership is capable of steering the ship through all these difficult currents. ■

**Paraphrased comments*



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