Myles Zyblock - Market Commentary

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Market Volatility: A More Serious Turn?

Ukraine officials reported overnight that Russian forces attacked the Zaporizhzhia nuclear plant, Europe's largest and one of the 10 largest of its kind in the world. Follow up intelligence informs us that the reactor was being safely shut down while Russian troops have taken the plant over after confirming that there were no changes to radiation levels. According to NATO, this is the first time an operating nuclear plant has been deliberately targeted by military forces. The Russian Defense Ministry said that its forces have held control of the nuclear power plant since February 28, accusing Ukraine as the provocateurs in the incident. Nine days in, and the conflict in eastern Europe appears to have taken a more serious turn.

Russia's Share of Global Commodity Production (%)	2018	2019	2020
Oil	12.2	12.3	12.1
Natural gas	17.4	17.1	16.6
Coal	5.6	5.5	5.2
Copper	4.3	4.3	4.3
Aluminum	5.9	6.2	6.1
Nickel	6.8	6.3	6.1
Zinc	1.9	1.5	1.5
Gold	8.1	9.1	9.5
Silver	5.1	5.3	5.4
Platinum	10.8	11.7	14.1
Palladium	39.4	41.0	43.9
Wheat	9.8	9.7	11.0

Source: J.P. Morgan Commodities Research

A growing chorus is now supporting even greater sanctions on Russia. Lithuania's president made a case for the European Union to give up its gas and oil imports from Russia and disconnect all Russian banks from the SWIFT financial system in response. Entirely cutting off the Russian economy from the world would be a big deal for commodity supply given the role that the country plays in the commodity markets. The prices for many key Russian export commodities are already surging in response to these risks. Wheat has jumped by more than 40%, palladium has risen by over 25%, and oil is higher by 20% since this conflict began in late February.

Following the playbook of prior crises, such as its 1998 debt default, Russian GDP is likely to drop by at least 10%. This could shave 3 tenths of a percentage point from global GDP. The spillovers from the gathering commodity price shock are harder to measure. Rising commodity prices act like a tax on economic growth, especially for countries that are large commodity importers. Europe is in the direct firing line of these risks. Expect some offset to soon follow. The European Commission's Vice President Valdis Dombrovskis just announced that due to the current "exceptional conditions", the EC would not require compliance with its debt reduction rules in 2023. This announcement gives countries the green light to ramp up spending on defence, cushion the blow from higher energy prices, and spend more to support migrants coming in from Ukraine. The fiscal lift could be at least 2% of EU GDP, according to economists’ estimates. Keep on the lookout for an Iran oil supply deal as well.

The developments related to the Russia-Ukraine military conflict remain fluid. We will continue to keep you updated to the best of our ability on any important events as they unfold.

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