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News Flash

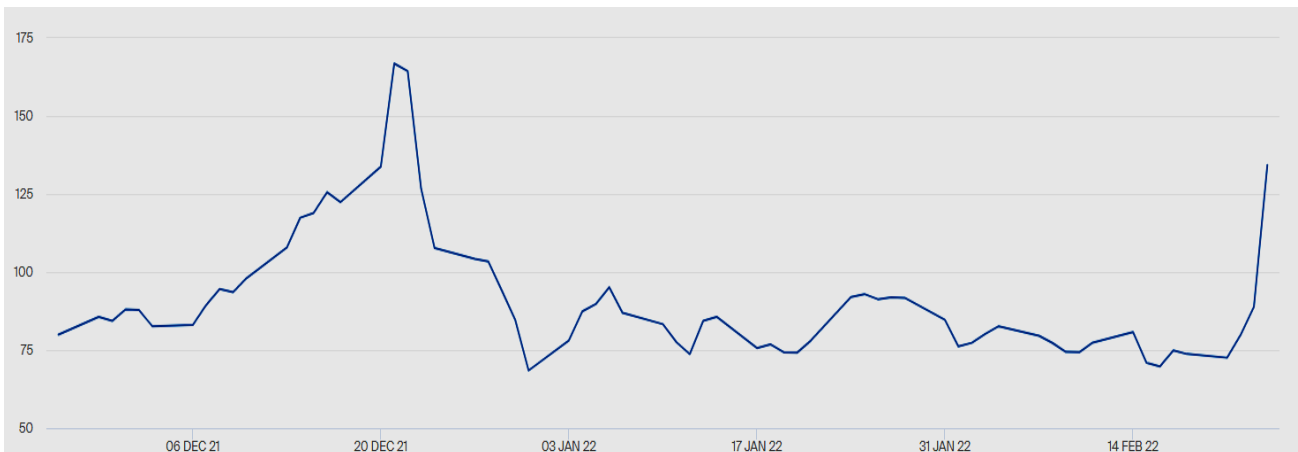
Energy markets disrupted by Russia's invasion of Ukraine



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Russia's military invasion of Ukraine which started unfolding early on Thursday morning, sparked a rally across markets. Oil and gas led the complex higher, with safe-haven assets also in demand. Energy markets soared as the looming prospect of sanctions disrupting supply came sharply into focus. Russian forces launched missile, artillery and air strikes across Ukraine, with the invasion, from three different points, going beyond the separatist regions around Donbas that President Putin had recognised earlier in the week. The US and Europe promised more sanctions aimed at punishing the Russia's economic and financial sector, while the UK unveiled penalties, including asset freezes on major banks. For the moment, there has been no move to place restrictions on Russia's commodity exports.

The Russia-Ukraine crisis is threatening to disrupt the global energy market and the broader commodity complex. Russia is a dominant producer in energy and metal markets, which warrants a risk premium on prices. However, many analysts ultimately see the risks of supply disruption being relatively low.



Three month fluctuation of Dutch TTF One Month Gas Futures contract (December 2021-February 2022) in Euro/MWh



ICE Brent Crude Oil 17-25 February 2022)



ICE Brent Crude Oil (31 August 2021 – 24 February 2022)

Nevertheless, traders were spooked by the invasion. European natural gas rose as much as 62% as the market feared supply would suffer. On Thursday (24/2) future gas contracts at TTF jumped to €143/MWh and then were traded mostly at €130/MWh, only to fall back the next day at €110/MWh. On Friday afternoon they were reported at €98.5/MWh. The Ukraine is a

transit route for several of Russia's gas flows into the continent. Despite promises of increases, flows have consistently fallen in the past five years. Of the 155bn m³ of gas piped to Europe from Russia in 2021, 40bn m³ went via Ukraine. Military escalation there could disrupt that supply (see article linked above). The broader issue developing is around energy security. By halting Nord Stream 2, Germany appears to be re-evaluating its energy strategy. It will need to diversifying its sources of gas, with the US the likely partner. Even so, it may struggle to fill the gap left by any disruption. It will also be looking at a significant rise in the cost of natural gas and, ultimately, electricity prices.

North Asian LNG rallied, with Japan-Korea Market futures for April ending up 28% to USD37/MMBtu. With the spectre of stronger demand from Europe, suppliers quickly increased their offer prices for LNG spot shipments for delivery in March and April. However, with the market already tight, pressure is likely to remain on prices.

Crude oil surged above USD105/bbl on the military action. The escalation has upset a market that was already suffering from supply constraints and robust demand. The relatively low inventories mean buffers against further disruptions are thin. Heightened geopolitical risks have had differing impacts on the oil market in the past. Both the Gulf War and the Iraq War saw oil spike sharply. However, prices quickly gave back those gains once the risk dissipated. Early on Friday (25/2) Brent oil, the global benchmark, was trading just below €100 per barrel at ICE in London. The potential disruption to supply in the current situation is nearly twice the level seen then. Many market participants view the likelihood of sanctions being placed on Russian crude oil as relatively low, so any risk premium would quickly be erased should the risk subside.

Russian Invasion Latest

Since early this morning Russian forces are mobilising for an overwhelming assault on Kyiv after Russia stormed Ukraine and unleashed one of Europe's largest military offensives since the second world war. After air and missile strikes, Russian troops launched attacks from Ukraine's northern border with Belarus, across its eastern frontier and in the south from Crimea, the Ukrainian peninsula that Moscow invaded and annexed in 2014.

Columns of tanks and armoured vehicles rolled into the country from all three fronts, while fighter jets, airborne troops and dozens of helicopters attacked a critical airport outside of Kyiv. Senior western officials warned that Russia was assembling an "overwhelming force" to take the capital, potentially within days.

Two large explosions were heard in central Kyiv in the early hours of Friday morning, according to media reports, as the capital came increasingly under attack by Russian forces. Ukraine's

land forces said Russia fired at peaceful areas of Kyiv but the strike was intercepted. Volodymyr Zelensky, Ukraine’s president, said that “enemy saboteur groups” had entered Kyiv and that Russia planned to assassinate him.

“According to our information, the enemy has identified me as the number-one target. My family is the number-two target. They want to destroy Ukraine politically by destroying the head of state,” he said. Shocked by the ferocity of Russia’s assault, world leaders addressed their nations to condemn what they cast as the most momentous challenge to the postwar order in Europe for 80 years. “[Putin] has much larger ambitions than Ukraine,” said Joe Biden, US president. “He wants to, in fact, re-establish the former Soviet Union. That’s what this is about.”

Biden said the US and its allies would impose new sanctions in response to Russia’s aggression. “Putin chose this war and now he and his country will bear the consequences.” Roads out of Kyiv were gridlocked with civilians fleeing the capital, while city authorities ordered residents to seek refuge in basements and bomb shelters.



The Ukrainian president said 137 Ukrainians were killed in Thursday’s fighting. Russian forces lost more than 30 tanks, up to 130 armoured vehicles, seven planes and six helicopters,

according to the commander-in-chief of Ukraine's armed forces, Valeriy Zaluzhny. He estimated that between 30,000 and 60,000 Russian troops were in Ukrainian territory. Ukraine's Ministry of Defence said that as of 3am on Friday, its forces had killed roughly 800 "enemy" personnel since the Russian offensive started.

EU announces "massive and targeted" sanctions against Russia

EU leaders backed a far-reaching package of sanctions targeting Russia on Thursday night (24/2) following President Vladimir Putin's invasion of Ukraine, as the bloc faces the biggest security threat in Europe since the second world war. The proposals would freeze some transactions with a wide range of Russian banks, bar a number of state-owned companies from launching new listings on stock exchanges in the bloc and stop Russian nationals from making big deposits in EU banks.

The measures would also ban sales of aircraft and jet parts to Russia, block the sale of equipment needed to upgrade oil refineries and suspend visa-free travel for Russian diplomatic



passport holders. The bloc is discussing further measures as it seeks to increase the pressure on Putin after Russian forces moved into Ukraine.

"We will hold the Kremlin accountable. The package of massive and targeted sanctions European leaders approved tonight clearly demonstrates that," said Ursula von der Leyen, European Commission president, after the meeting. "It will have maximum impact on the Russian economy and on the political elite." Diplomats will work through detailed legislation with the aim of getting the package enshrined in law as soon as Friday. The Russian foreign ministry has pledged to respond "harshly" to EU sanctions.

Von der Leyen said the measures would be comprised of five "pillars" targeting the financial sector — with 70 per cent of Russia's banking market affected — as well as energy, transport and visa policy. A set of export controls would also hit the country's high-tech sector, undermining its ability to build a "prosperous future", she added.

According to plans seen by the Financial Times, the measures would extend the list of Russian banks blocked from EU financing to Alfa-Bank and Bank Otkritie, two private lenders, on top of five state-owned institutions. Lending and the purchase of securities would be prohibited in several state-owned Russian enterprises, including companies in the aerospace and defence

sector, shipping and shipbuilding. Russians would not be able to make any new deposits of more than €100,000 in EU banks.

The measures also contained a wide-ranging regime of export controls on goods that can be used by the military as well as an assortment of advanced technology items including electronics, sensors, telecommunications, marine applications and lasers. The EU is working on further measures to target individual oligarchs, which will require legal changes that would allow it to act against a broader range of people.

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