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Inside C2

Southern DAILY Make Today Different

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U.S. urges China and Russia to send strong message to North Korea after missile

March 25 (Reuters) - China's state-run Sinopec Group has suspended talks for a major petrochemical investment and a gas marketing venture in Russia, sources told Reuters, heeding a government call for caution as sanctions mount over the invasion of Ukraine.

The move by Asia's biggest oil refiner to hit the brakes on a potentially half-billion-dollar investment in a gas chemical plant and a venture to market Russian gas in China highlights the risks, even to Russia's most important diplomatic partner, of unexpectedly heavy Western-led sanctions.

But behind the scenes, the government is wary of Chinese companies running afoul of sanctions - it is pressing companies to tread carefully with investments in Russia, its second-largest oil supplier and third-largest gas provider.
Since Russia invaded a month ago, China's three state energy giants - Sinopec , China National Petroleum Corp (CNPC) and China National Offshore Oil Corp (CNOOC) (0883.HK) - have been assessing the impact of the sanctions on their multi-billion dollar investments in Russia, sources with direct knowledge of the matter said.

"Companies will rigidly follow Beijing's foreign policy in this crisis," said an executive at a state oil company. "There's no room whatsoever for companies to take any initiatives in terms of new investment."

The Ministry of Foreign Affairs this month summoned officials from the three energy companies to review their business ties with Russian partners and local operations, two sources with knowledge of the meeting said. One said the ministry urged them not to make any rash moves buying Russian assets.

The companies have set up task forces on Russia-related matters and are working on contingency plans for business disruptions and in case of secondary sanctions, sources said.

The sources asked not to be named, given the sensitivity of the matter. Sinopec and the other companies declined to comment.

The ministry said there is no need for China to report to other parties about "whether there are internal meetings or not".

"China is a big, independent country. We have the right to carry out normal economic and trade cooperation in various fields with other countries across the world," it said in a faxed statement.

U.S. President Joe Biden said on Thursday that China knows its economic future is tied to the West, after warning Chinese leader Xi Jinping that Beijing could regret siding with Russia's invasion of Ukraine. read more

Global oil majors Shell (SHEL.L) and BP (BP.L), and Norway's Equinor pledged to exit their Russian operations shortly after Russia's Feb. 24 invasion. Moscow says its "special operation" aims not to occupy territory but to destroy Ukraine's military capabilities and capture what it calls dangerous nationalists. read more

TALKS ON HOLD

Sinopec, formally China Petroleum and Chemical Corp, has suspended the discussions to invest up to $500 million in the new gas chemical plant in Russia, one of the sources said.

The plan has been to team up with Sibur, Russia's largest petrochemical producer, for a project similar to the $10 billion Amur Gas Chemical Complex in East Siberia, 40% owned by Sinopec and 60% by Sibur, set to come online in 2024.

"The companies wanted to replicate the Amur venture by building another one and were in the middle of site selection," said the source.

Sinopec hit pause after realising that Sibur minority shareholder and board member Gennady Timchenko had been sanctioned by the West, the source said. The European Union and Britain last month imposed sanctions on Timchenko, a long-time ally of Russian President Vladimir Putin, and other billionaires with ties to Putin. read more

Timchenko's spokesman declined to comment on sanctions.

The Amur project itself faces funding snags, said two of the sources, as sanctions threaten to choke financing from key lenders, including Russia's state-controlled Sberbank (SBER.MM) and European credit agencies. read more

"It's an existing investment. Sinopec is trying to overcome the difficulties in financing," said a Beijing-based industry executive with direct knowledge of the matter.

Sibur said it continues to cooperate with Sinopec including working jointly on implementing the Amur plant. It denied that there was a plan to team up with Sinopec for a project similar to the Amur Gas Chemical Complex in east Siberia.

"Sinopec is actively participating in the issues of the project's construction management, including equipment supplies, work with suppliers and contractors. We are also jointly working on the issues of project financing," Sibur told Reuters by email.

WEA LEE'S GLOBAL NOTES

03/26/2022

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Ten Asian Countries Open Up For Tourism

Following the slowdown of the global Covid–19 epidemic, ten Asian countries have announced that they will open up for tourism to stimulate the recovery of their economies.

Countries opening up include Indonesia, Nepal, Malaysia, Maldives, The Philippines, Ceylon, South Korea, Singapore, Vietnam and Thailand.

We are so excited to see that these countries are once again opening up to tourists after almost two years of lockdown. Tourism is a chimney–free industry for every country. It is not only an important foreign exchange income for the country, but it also creates jobs for millions of people.

For more than two and one–half years the epidemic has almost stagnated the airlines and hotel industries, especially in those countries that depend on tourism.

Unfortunately, we have seen that the war in Ukraine is still going on. The major powers now even worry about the threat of nuclear war which really bothers us as ordinary people.

We now see millions of refugees from the war in Ukraine. They have lost everything in their lives. They are only just asking for basic food and clothing. This is a minimum requirement and their human right. It is really a human tragedy.

Southern DAILY Make Today Different

Editor's Choice

Stella Moris, the partner of Wikileaks founder Julian Assange, is photographed in her Vivienne Westwood designed wedding dress before driving to Belmarsh Prison to marry Julian Assange, at a hotel in London, March 23. REUTERS/Dylan Martinez/Pool

Judge Ketanji Brown Jackson wipes away tears as she listens to U.S. Senator Cory Booker (D-NJ) speak on the third day of her U.S. Senate Judiciary Committee confirmation hearings on her nomination to the Supreme Court, on Capitol Hill in Washington, March 23. REUTERS/Elizabeth Frantz

Firefighters work at the site of a bombing at a shopping center in Kyiv, Ukraine, March 21. REUTERS/Marko Djurica

Ultra-Orthodox Jewish men gather to watch the funeral procession of prominent rabbi Chaim Kanievsky who died at 94, in Bnei Brak, near Tel Aviv, Israel, March 20. REUTERS/Nir Elias

Bodyguards surround former South Korean President Park Geun-hye as an unidentified man throws a glass bottle (not pictured) at her, in front of her home in Daegu, South Korea, March 24. Yonhap via REUTERS

Ukrainian women from Kharkiv are reunited with their friend from Chernihiv after fleeing to Romania, following Russia's invasion of Ukraine, at the border crossing in Siret, Romania, March 22. REUTERS/Clodagh Kilcoyne

BUSINESS

PERSPECTIVE

In This Tragic And War-Torn Ukraine Crisis, Western Countries Are Now Forced To Shake Off Decades Of Economic Policy Inaction

Could Putin's War Save the Global Economic Order?

Compiled And Edited By John T. Robbins, Southern Daily Editor

Russia's invasion of Ukraine could be seen as a catastrophe for the world economy. Surging oil and gas prices are feeding inflation that in many countries was already at the highest levels in four decades. Financial markets have plummeted, erasing trillions of dollars in wealth. Western sanctions have crossed what used to be redlines, including blocking Russia from accessing more than $300 billion of its own central bank reserves. If the world loses access to Russia's vast deliveries of energy, fertilizer, grain, and industrial metals, the hit on the global economy could become much worse yet.

But while the short-term economic costs will be steep, the conflict might end up being the savior of the global economic order. For the past two decades, the economic rules and norms built under U.S. leadership after World War II have slowly eroded. Many countries—not just China—chafed at U.S. dominance, skirting trade and other rules or actively undermining them. Washington, fed up at what it saw as others taking advantage of a relatively open U.S. market, launched trade wars with friends and foes alike and paralyzed the World Trade Organization's ability to settle disputes. U.S. President Joe Biden has championed "Buy American" policies, and his administration has worked on luring manufacturing jobs back to the United States at the expense of trading partners. Washington has avoided any new trade liberalization initiatives, fearful of a domestic political backlash. Then, Russian President Vladimir Putin ordered Russian tanks to roll across Ukraine's borders. Since then, the West and its partners have come together in the most dramatic set of coordinated economic actions in modern history. The European Union, United Kingdom, Japan, the United States, Canada, Australia, South Korea, and even Switzerland have worked in mostly seamless fashion to isolate and punish Russia. Most Russian banks have been cut off from their Western counterparts, making it difficult for Russians to conduct the most routine sales and purchases of goods and services from abroad.

Sanctions targeting Russia's central bank reserves have crashed the ruble, driving its value down to less than $0.01; Russia pushed up its overnight interest rate to a punishing 20 percent to prevent an even steeper fall. Coordinated export controls have cut Russia off from imports of semiconductors, telecommunications equipment, oil extraction and refining gear, aircraft parts, and the other tools of modern technology. Airspace bans have blocked Russians from flying to most Western destinations. Canada, the United States, and others are cutting off imports of Russian oil, and Europe—far more dependent on Russian energy imports—is also reducing purchases rapidly. Canada has stripped Russia of its WTO benefits, raising tariffs on most imports to 35 percent; other countries are likely to follow.

Western companies, which have profited enormously from an expanding global market with predictable rules, have piled on. BP announced it would divest its nearly 20 percent stake in Russian oil giant Rosneft, at a cost to the company's shareholders of as much as $25 billion. Boeing and Airbus halted all parts, maintenance, and technical support for Russian airlines. Carmakers such as General Motors, Ford, and Volkswagen ceased production in Russia and stopped exporting parts and vehicles; Russian carmaker Lada has been forced to halt production as parts imports dried up. Iconic consumer brands, including Coca-Cola, Pepsi, McDonalds, and Starbucks, have quit operating in Russia. Shell, which had bought Russian oil on the spot market well into the war, issued a public apology and promised to halt all future purchases of Russian energy.

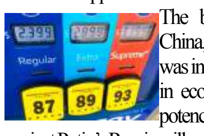
While the measures have not been enough to persuade Putin to cease his offensive in Ukraine, Western countries have shown in the crisis an extraordinary capacity to shake off decades of economic policy lethargy. This may show the way toward a future economic order: not a U.S.-led system with others often reluctantly following, but a far more active joint management of the global economy.

The United States on its own no longer has the capacity or willingness to lead the global economic system without robust support. Preserving the benefits of a well-ordered global economy will demand a cooperative and coordinated effort. Although the search for historical parallels is always fruitless, today's economic challenge is not unlike what the West faced in the early 1970s. In both periods, soaring commodity prices, especially for oil, worsened underlying inflationary pressures. In both, a weakened United States reeling from failed wars and social divisions at home raised doubts among allies and adversaries alike. President Richard Nixon's 1971 decision to break the dollar's link to gold and slap temporary import tariffs were his version of President Donald Trump's trade wars—a message to the world that the United States was no longer willing to pay the price of leading the global economy.

But the comparison will not reassure investors who still recall the bear markets of that decade, the 1970s was also a period in which Western countries recreated an economic order that served the world well for many decades after. Following Nixon's dollar shock, the United States, Europe, and Japan came together to rebuild the global monetary system around flexible exchange rates. France and Germany launched the first G-6 economic summit in 1975, which later became the G-7, as a forum for coordinating Western responses to challenges such as inflation, unemployment, energy shocks, trade disputes, and currency fluctuations. The Western nations also came together to launch a big new round of global trade negotiations, which eventually led to the creation of the WTO and an explosion in world trade.

The current challenges are going to require the same sort of deep cooperation. Europe, Canada, Japan, Australia, the United States, and many others should recognize that the aggregate gains from close economic cooperation far outweigh the conflicts over relative distribution among and within countries that have drawn so much attention in recent years. In a haunting parallel to the Cold War, when the threat from the Soviet Union strengthened Western economic cooperation, a revanchist Russia has provided strong motivation for the West to put its fraternal differences aside.

The domestic politics of Western countries may also be tilting against the economic nationalism of recent years—and prove more permissive for economic cooperation. As Russians have seen the shelves suddenly empty at Ikea and H&M, ordinary consumers around the world are waking up to the forgotten benefits of low-friction global trade and finance. The new crisis comes on top of the global supply chain disruptions triggered by the COVID-19 pandemic, which have made consumers vastly more aware of the fragile production and trade systems that bring food to their grocery stores, appliances to their homes, and spare parts to their auto shops. After years in which the critics of globalization had all the ammunition, the disruptions to open and efficient trade have made its benefits apparent for all to see.



The biggest difference today is China, which is far stronger than it was in the 1970s and dwarfs Russia in economic importance. But the potency of the Western sanctions against Putin's Russia will certainly send a strong message to Beijing: If the liberal democracies can overcome their differences and come together in such a fashion, China would be wise to pursue its own ambitions cautiously. The risks of banishment from the global economic system are a hefty penalty.

Much is unknowable, of course. If the war in Ukraine grinds on, Western resolve will be tested more intensively. Americans could react to inflation and soaring oil prices by punishing Biden in the midterm elections and beyond. Europeans, who will pay a much bigger price as Russian energy imports are cut, could similarly lose heart and press for accommodation with Putin. But the collective outrage at Russia's actions suggests the resolve may run deeper than that. If so, the crisis could be the catalyst that brings the West together again to start repairing the fraying global economic order. (Courtesy Foreignpolicy.com)

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Related

Higher Inflation, Trade Uncertainty, And Slow Growth Globally Is Predicted, Though U.S. May Still Attract Investments

Global Economy Still Suffering From Collateral Damage From Ukraine Invasion

The line outside a branch of the Russian state-owned bank Sberbank in Prague as people moved to withdraw their savings and close their accounts. (Photograph/Michal Cizek / AFP via Getty Images)

The economic threat from the war in Ukraine is rising quickly as the terrible conflict continues. Part of this is due to the economic sanctions, but the larger part relates to the indirect impact on energy prices and the cost of other exports from the region – such as wheat, fertilizer, aluminum and some other key industrial inputs.

Some of this is a cost that the West has decided to take as part of the sanctions process which, while principally hurting Russia, also has an impact on its trading partners and the wider world economy. Meanwhile, the rise in energy prices is largely the inevitable consequence of a major oil and gas producer being involved in a conflict and the disruption and uncertainty this causes. Energy prices have hit new highs and by historic standards gas prices are particularly affected.

There are, of course, much more important things at stake than the economic impact – and predicting how events will play out is impossible. But already a significant economic shock to the oil-importing West, in particular the EU, looks inevitable. Governments, including Ireland's, are accepting that something will need to be done to limit the impact on consumers and businesses. Cuts in excise duties on fuel have been floated as a possibility. More direct help to poorer households will also be needed. The planned reduction of budget deficits after Covid-19 will probably have to be put on hold. Despite higher inflation, central bank interest rate increases may also come more slowly.

The ongoing tensions between Russia and Ukraine have impacted the global diplomacy, markets, politics and every other sphere of life across the world. The Russia-Ukraine saga took another turn on Monday when the Russian President Vladimir Putin recognised the two breakaway regions of eastern Ukraine, Donetsk and Luhansk, as independent.

Following this, Putin ordered the deployment of the troops in these breakaway areas. The breakaway regions – Donetsk and Luhansk – are collectively known as the Donbass region that broke away from the Ukrainian government control in 2014 and proclaimed themselves to be independent "people's republics". These regions were unrecognised until Putin's comments on Monday regarding the same. Russia has also signed two identical friendship treaties that granted it the right to build bases in the separatist regions and they, on paper, can do the same in Russia.

So, how has the West responded so far? United States President Joe Biden signed an executive order today to impose trade sanctions on the two breakaway regions – Donetsk (DNR) and Luhansk (LNR) in eastern Ukraine that were recognised by Russia on Monday. This executive order prohibits any new investment in these regions by Americans from wherever they are based. Besides this, it also forbids any importation and/or exportation, re-exportation, sale or supply of goods, services or technology from the DNR and LNR regions of Ukraine directly or indirectly into the United States. Last but not the least, this order also prohibits any approval, financial, facilitation or guarantee by an American person wherever located of a transaction by a foreign person where the transaction by that foreign person would be covered by prohibitions if performed by an American person or within the US.

Besides the US, other countries like Japan and the EU are also mulling punitive action either in the form of sanctions or orders.

Also read: Ukraine tensions intensify selling on D-Street; 10 firms lose market value

Is Moscow bluffing or is it on a tightrope? Well, the answer to that is not easy. Russia used a similar tactic with the former USSR republic, Georgia, recognising breakaway regions in order to justify an open-ended military engagement. This was also done to thwart Georgia's NATO aspirations. These same considerations, experts say, can apply to Ukraine as well. Meanwhile, the Kremlin is faced with international sanctions and condemnation for abandoning the Minsk process after maintaining that it was committed to it. It also has the responsibility for two territories ravaged by 8 years of war and in need of massive economic support. American experts, in contrast, such as Michael McFaul, former US ambassador to Russia, openly called Putin's action as constituting the first stages of a planned invasion and that the situation is going to get ugly in the coming hours, if not days. Russia, on the other hand, till days before, had maintained that it has no plans to 'invade' Ukraine.

Will Biden and Putin still meet after Russia's recognition of the Donbass region? As per media reports, the US and Russian presidents have tentatively agreed to meet in an attempt to avoid another invasion of Ukraine after Russia's annexure of Crimea in 2014.

The White House has said that this meeting will take place only if Russia does not invade Ukraine. French President Emmanuel Macron has, however, sought to broker the possible meeting between Biden and Putin. Macron had said in a statement that he pitched to both leaders a summit on "security and strategic stability in Europe."

Markets in the coming months Markets, both domestically and internationally, have remained on the tenterhooks ever since the Russia-Ukraine crisis worsened and the Biden administration imposed sanctions on the newly recognised breakaway regions in Ukraine. Though the trend is bullish in Indian markets, Tradingo Founder Parth Niyati believes that there will be high volatility over the next month due to this crisis. In the international markets, however, investors are eyeing safe havens as global stocks tumbled and oil prices surged due to the Ukraine issue. Indian markets – According to Tradingo's Parth Niyati, the overall trend is bullish but there may be high volatility over the next month therefore short-term traders should remain light while long-term investors should look at this correction as a buying opportunity. He further says, "We are very bullish on capital goods, infrastructure, real estate, banking, consumer goods, and auto ancilliaries space therefore we advise investors to look for buying opportunities in these areas."

(Article Continues Below)

COMMUNITY

(Article Continues From Above)

Could Putin's War Save the Global Economic Order?

Compiled And Edited By John T. Robbins, Southern Daily Editor

Global markets -- Senior Asia economist at UBP Carlos Casanova believes that "we are much closer to military intervention, which of course is going to drive a lot of the risk off sentiment in the markets." He further added that the short-term volatility in the global markets has been caused both by the geopolitical factors and the US Federal Reserve was 'relentless.' He also said that the consequences of this will be – higher oil prices, equity sell off and investors flocking to safe-haven assets like Japanese Yen. A recent note by Goldman Sachs states that there is a scope for risk premia to rise further across all sectors in case a war breaks out between Russia and Ukraine. It further said that their forecasts on how much the global markets will fall on the basis of how much the rouble depreciates. "On that basis, the rouble is still more than 10 per cent away from its maximum underevaluation level of the past two decades," analysts Dominic Wilson, Ian Tomb and Kamakshya Trivedi said in a note. Will there be more cyberattacks in Ukraine? Ukraine authorities have said that they have seen online warnings about hackers preparing to launch major cyberattacks on government agencies, banks and defence sector.

Ukrainian government-run cybersecurity agency CERT-UA said that it has found warnings about potential cyberattacks on a hacking forum. One message had "referred to the lease of servers to prepare new attacks on the websites of the public sector, the banking sector and the defence sector." These apprehensions are not unfounded as Russia was likely behind an attack which impacted the defence ministry portal and disrupted banking and terminal services at large state-owned lenders. Will oil prices be increased and for how long can this rise in oil prices be sustained? According to Moody's, an escalation in tensions along the Russia-Ukraine border is likely to boost oil prices even higher than what they already are. The research firm also believes that this rise in oil prices cannot be sustained over a long period of time "because of economies' limited ability to absorb higher oil costs and continue growing." The research firm explains that continuously high oil prices can impact economic growth and fasten the substitution to alternative sources of energy, prompting oil prices to fall back to the reinvestment range eventually. It further states, "Geopolitical developments that aggravate supply uncertainty boost oil prices. At around $90/bbl, the oil price already reflects lingering uncertainty about the outcome of US-Iran negotiations, rising risks in the Middle East and tensions on the Ukraine-Russia border." (With agency inputs) Business-today.in

Related

The Ukraine-Russian Conflict Will Have A Severe Impact On The Global Economy, Anticipates IMF

The war in Ukraine is resulting in tragic loss of life and human suffering, as well as causing massive damage to Ukraine's physical infrastructure.

The International Monetary Fund (IMF) Executive Board addressed the economic impact of the war in Ukraine, price shocks of energy and commodity prices, and on possible fast-tracked financial assistance for affected countries since a severe impact on the global economy can be expected.

The war in Ukraine is resulting in tragic loss of life and human suffering, as well as causing massive damage to Ukraine's physical infrastructure. It has sent a wave of more than 1 million refugees to neighboring countries. Unprecedented sanctions have been announced on Russia.

While the situation remains highly fluid and the outlook is subject to extraordinary uncertainty, the economic consequences are already very serious. Energy and commodity prices—including wheat and other grains—have surged, adding to inflationary pressures from supply chain disruptions and the rebound from the Covid 19 pandemic. Price shocks will have an impact worldwide, especially on poor households for whom food and fuel are a higher proportion of expenses. Should the conflict escalate, the economic damage would be all the more devastating. The sanctions on Russia will also have a substantial impact on the global economy and financial markets, with significant spillovers to other countries.

In many countries, the crisis is creating an adverse shock to both inflation and activity, amid already elevated price pressures. Monetary authorities will need to carefully monitor the pass-through of rising international prices to domestic inflation, to calibrate appropriate responses. Fiscal policy will need to support the most vulnerable households, to help offset rising living costs. This crisis will create complex policy tradeoffs, further complicating the policy landscape as the world economy recovers from the pandemic crisis. In Ukraine, in addition to the human toll, the economic damage is already substantial. Sea ports and airports are closed and have been damaged, and many roads and bridges have been damaged or destroyed. While it is very difficult to assess financing needs precisely at this stage, it is already clear that Ukraine will face significant recovery and reconstruction costs.

Ukraine has already requested emergency financing of US$1.4 billion under the IMF's Rapid Financing Instrument. Staff anticipates bringing this request to the Executive Board for consideration as early as next week.

The sanctions announced against the Central Bank of the Russian Federation will severely restrict its access to international reserves to support its currency and financial system. International sanctions on Russia's banking system and the exclusion of a number of banks from SWIFT have significantly disrupted Russia's ability to receive payments for exports, pay for imports and engage in cross-border financial transactions.

While it is too early to foresee the full impact of these sanctions, we have already seen a sharp mark-down in asset prices as well as the ruble exchange rate.

Countries that have very close economic links with Ukraine and Russia are at particular risk of scarcity and supply disruptions and are most affected by the increasing inflows of refugees. Moldova has requested an augmentation and re-phasing of its existing IMF-supported program to help meet the costs of the current crisis, and IMF staff are actively discussing options with the Moldovan authorities.

IMF staff will continue to monitor the spillover effects on other countries in the region, in particular those with existing IMF-supported programs and those with elevated vulnerabilities or exposures to the crisis. The ongoing war and associated sanctions will also have a severe impact on the global economy. The Fund will advise our member countries on how to calibrate their macroeconomic policies to manage the range of spillovers, including via trade disruptions, food and other commodity prices, and financial markets. (Courtesy apnews.com)

Related

The Global Economy Is Facing A Potential Stagflation* Risk From The Russia-Ukraine War

Russian tanks roll toward Kiev. (Photo/Mstyslav Chernov/AP)

Stagflation* (economic stagnation – stalling or falling output – and high inflation) occurs when the economy has sluggish growth, which is accompanied by extremely high inflation and high unemployment rates. Currently, the world economy is facing two huge risks: the tremendous disruption produced by the COVID 19 epidemic and the economic impact of the confrontation between Russia and Ukraine. Even as the global economy was slowly recovering from the pandemic, the globe was struck by the Omicron variant, which resulted in more limitations throughout the world. Earlier this year, the IMF predicted global growth to be about 4.4 %. However, the outbreak of a full-fledged conflict in Eastern Europe is likely to have a major impact on these global growth figures, and it is also causing inflation throughout the globe, in addition to affecting growth and economic recovery. This is largely due to the Russia-Ukraine conflict, which has interrupted global supply lines once again, as the pandemic did a few years ago.

Over the last few days, the conflict has seriously impacted maritime trade and global supply chains, and an exponential rise in key commodity prices has been noted, including agricultural commodities such as wheat, corn, sunflower oil, and so on, as well as industrial metals such as nickel, palladium, and as well as aluminium and other key metals, but more importantly, the exponential rise in global crude oil and natural gas prices is posing a grave risk.In addition, severe Western economic sanctions aimed at Russia are hurting the global financial and banking systems, as well as global trade and payments. The United States has decided to halt Russian oil imports and according to reports, Europe is now considering phasing out Russian oil and energy supplies, which has thrown the oil markets into a loop. This has caused analysts to believe that Brent crude oil prices might reach $180-$200 per barrel, which would be unprecedented and would undoubtedly have terrible economic impacts.

There is also worry that Russia would respond against Western sanctions by cutting off oil and energy supplies to European nations, despite the fact that European countries rely heavily on Russian supplies. That is why European nations are not shutting Russian imports; rather, they are phasing them out. Russia, for example, contributes approximately 40% of Europe's natural gas consumption. Russia meets roughly 25% of Europe's oil demand and almost 50% of Europe's coal requirements. So, without a big cost, it will be difficult for European nations to phase out Russian supplies, and if Russia chooses to use this as leverage, it would almost certainly lead to additional chaos in global markets, particularly in the oil markets and key commodity prices.As a result, such a fast and exponential spike in the prices of major commodities may easily create runaway inflation throughout the globe, since these high costs will ultimately be passed down to consumers, as well as companies and factories worldwide. As a result, the prospect of high runaway inflation combined with stagnating growth, as well as high unemployment rates, is driving the global economy towards stagflation, and no nation will be immune.

What about India?

India cannot expect to stay immune to the current economic crisis, and the big spike in commodity prices will very certainly result in severe inflation in India as well. According to an RBI research report published a few years ago if global oil prices increased by $10 when Brent crude oil was at $65 per barrel, it was expected that headline inflation in India would rise by 49 basis points (i.e. by 0.49 %). Given the current and predicted crude oil prices, as well as the already high levels of inflation in India, which is hovering around 5–6 %, we could very well witness a runaway in inflation. However, if the government chooses to protect consumers from the effect and try to absorb rising oil costs via subsidies and fuel tax cuts, it risks raising the government budget deficit by a substantial margin, which would then have a macroeconomic impact.

As a result, the government is forced to choose between two risky choices. Either it must reduce fuel taxes, which are already very high in India, risking revenue loss and thus increasing the fiscal deficit, or it must allow consumers to bear the cost, risking high inflation, which could easily push India into stagflation as growth in India has stagnated along with high unemployment. So India's only option is to immediately adopt a position on the Russia-Ukraine conflict and play a key role in global geopolitics to put this war to a conclusion. As long as the dispute carries on and the economic war between the West and Russia persists, global supply chains will be affected by very high commodity prices. As a result, India will need to work fast with the global community to find a diplomatic solution to the crisis, since all of the other alternatives available to the government are riskier. (Courtesy times of india.com)

Conclusion

A sense that the world is coming unglued — and that great-power geopolitics will ultimately shape economic destiny — hangs over global markets and the economy.

The big picture: Aspects of how the world works that people have taken for granted for a generation have become deeply uncertain amid war in Europe, new pandemic lockdowns in China and high inflation in the U.S. that global developments stand to make worse.

The threats are to globalization itself, and specifically the assumption that even countries that have big disagreements can do business with each other on an ever-widening scale.

At the same time, the faster and more efficient supply chains that companies have built over the course of decades are crumbling in new ways.

Driving the news: Over the weekend China announced a one-week lockdown of Shenzhen, an industrial powerhouse region that produces goods crucial to many global supply chains, due to a spike in COVID cases.

The shutdown is just the latest hit, at a time when war and sanctions are already straining supplies of commodities.

State of play: In effect, a collision is underway between powerful geopolitical and economic forces of a sort that are creating rapid whipsawing effects in markets as traders and policymakers try to make sense of this rapidly changing world.

- The Russian invasion of Ukraine has caused spiking prices for oil, wheat, and many metals on commodity markets (though those prices pulled back some on Monday), as the productive capacity of two large countries is essentially cut off from the rest of the global economy
- There were reports that Russia has asked China for military assistance, which, if honored, would raise the possibility of the economic schism between Russia and the West expanding to include the world's second-largest economy most populous nation.

Put it all together, and the economic outlook is messy. Last Monday's market shifts reflected this unsettling time, with some surprising moves.

- Treasury bond yields soared to their highest levels since 2019 — contrary to the usual pattern in which times of crisis cause people to pour money into ultra-safe bonds, driving their yields downward. It's a sign that global investors are not counting on global uncertainty to bring about cheaper money like in the past.
- Oil actually fell sharply, with West Texas Intermediate crude down 6.7% to a bit over $102 a barrel. This is welcome news for energy consumers, but the reason is less reassuring—it appears to be driven in part by expectations that Chinese lockdowns will depress demand.
- Chinese stocks fell precipitously, with the Hang Seng index off nearly 5%. It reflected fears of both further lockdowns and possible further Chinese entanglement with Russia.

The bottom line: The thing about living through momentous, fleeting and continuously changing times in history is that no one knows how things are going to end. Markets, and all of us, are just trying to make sense of it in real-time. (Courtesy axios.com)