

## Coronation Economic Note

28 February '22

### Russia-Ukraine Conflict, an Economic Perspective

The ongoing disruptions in Europe following Russia's invasion of Ukraine has potential economic implications. The Russia-Ukraine crisis has been brewing for eight years since Russia occupied Crimea, a region along the Southern Russia – Ukraine border. Russia and Ukraine are regarded as emerging European economies. In the latest regional economic outlook published by the IMF, GDP growth for Russia is estimated at 2.8% y/y this year and 2.1% y/y in 2023. Meanwhile, Ukraine's GDP growth is projected at 3.6% y/y in 2022 and 3.4% y/y in 2023. On a broader level, the emerging market and developing economies group, where Russia and Ukraine fall under, is expected to grow by 4.8% y/y in 2022. Given the ongoing crisis, a downward revision may be on the horizon due to the obvious economic challenges Ukraine and Russia will experience.

Over the past weeks, speculations around the ongoing Russia-Ukraine conflict placed upward pressure on oil prices. Oil prices surged above USD100 per barrel to hit their highest level since 2014 after Russia launched an invasion of Ukraine. Since July '21, OPEC+ has struggled to meet its production quota.

It is worth highlighting that Russia is the world's largest natural gas exporter, it supplies about c.38% of natural gas to countries within the Eurozone. The ongoing conflict has an impact on gas prices. Steady upticks in gas prices could be recorded on the back of potential retaliation actions from Russia as a reaction to sanctions.

Supply-chain disruptions could heighten. Regarding shipping, commercial vessels have been advised to avoid any transit or operation within the exclusive economic zone (EEZ) of Ukraine or Russia within the Black Sea. Furthermore, the airspace over the whole of Ukraine has been declared closed and air traffic has been suspended.

The rise in oil and natural gas prices as well as the potential worsening of global supply-chain constraints would contribute to inflationary pressure and weaken purchasing power, particularly in the Eurozone area and the United States. To tame rising inflation in select advanced economies, central banks have been postured to kick-off policy rate hikes this year. At this point, we do not expect a reversal in this stance. However, we continue to monitor global trends closely.

Russia and Ukraine are major exporters of agricultural commodities, particularly grains. Based on data from FAO, both countries accounted for about c.30%, c.80% and c.14% of global wheat, sunflower seeds, and maize exports respectively in 2020.

Meanwhile, according to the National Bureau of Statistics (NBS), Nigeria imported N144bn (USD346.2m) worth of durum wheat in 2020 and N123.9bn (USD297.8m) worth of durum wheat between January – September '21 from Russia. Nigeria also imports different types of seafood such as mackerel, herrings, and blue whiting from Russia.

Furthermore, the NBS data show that Nigeria imported milk worth N721.5m (USD1.7m) from Ukraine in 2021. Regarding capital importation, since 2019, Nigeria has received a total of USD84.3m in capital imports from Russia.

On a separate note, the price of gold, which is considered a haven asset in times of uncertainty has increased. Gold was USD32/oz firmer at USD1,808/oz, on 25 February compared with USD1,776/oz recorded in the corresponding period of 2021.

Indicators	NG
Inflation rate (January '22, %)	15.60
GDP (FY '21, %)	3.40
Gross Official Reserves (24 February '22, USD bn)	39.8
UK Brent (25 February '22, USD)	97.9

Source: Bloomberg, CBN, NBS, Coronation MB Research

FGN bond yields (25 February '22, %)			
14.20%	13.98%	12.15%	12.40%
Mar-24	Feb-28	Jul-34	Mar-36
8.91	11.18	12.10	12.18

T-bill yields (25 February '22, %)			
31-	26-	28-	24-
Mar-22	May-22	Aug-22	Nov-22
2.96	3.21	3.56	4.12

Source: FMDQ, Coronation MB Research

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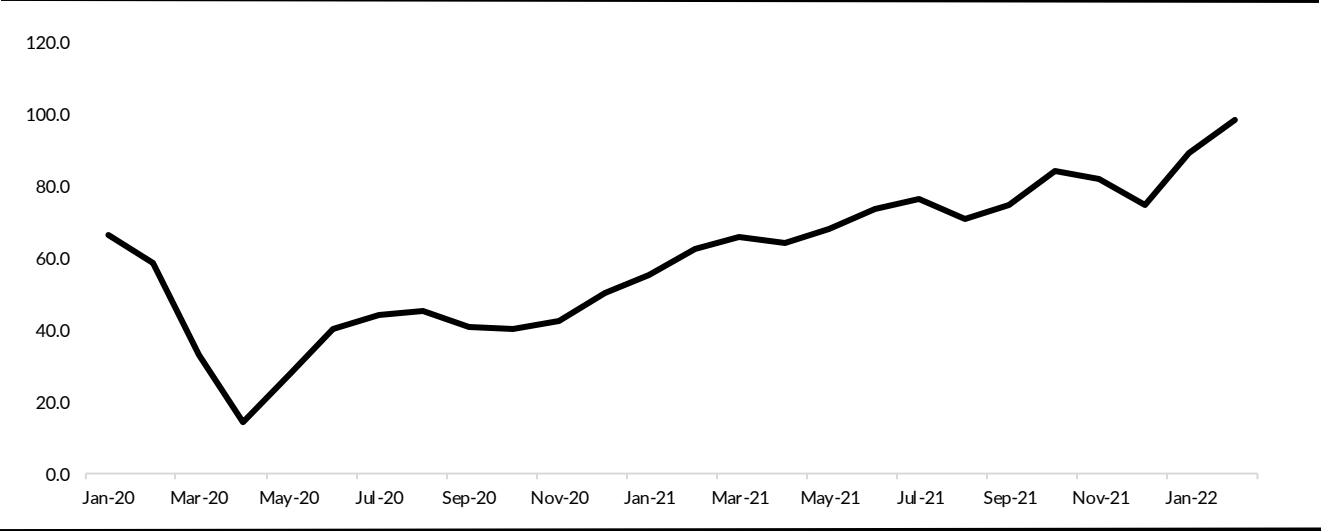
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From a fiscal perspective, higher oil prices bodes well for Nigeria. However, the presence of the fuel subsidy regime undermines expected benefits. The ongoing conflict also has a potential negative impact on the country's imported food inflation rate, potential (but minimal) disruptions to trade activity and capital importation.

**Average monthly Bonny light (USD/b)**



Sources: Bloomberg, Coronation Merchant Bank Research

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