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By Wilson Sy

Pain in Russia

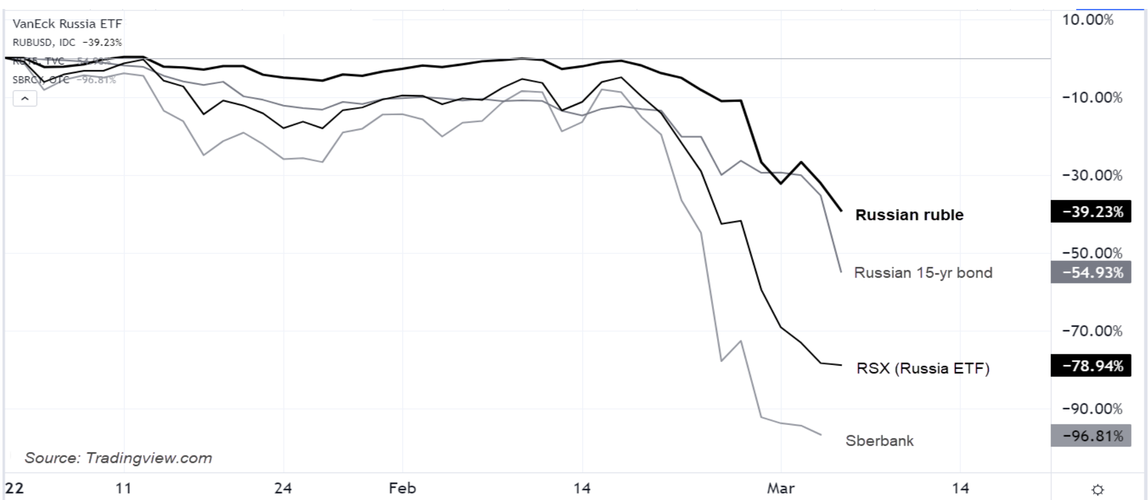
Russia prepared meticulously for a conventional war. It has taken over most major cities and facilities in Ukraine. But while Russia has a significant military advantage, the economic war it faces is more difficult. The repercussions are more complicated than what Putin expected.

Punishing Russia

In an unprecedented show of unity and resolve, Western nations have taken steps to punish Russia over its invasion of Ukraine. The US, its European allies, Canada, Australia, Japan, and Switzerland, have frozen the assets of Russia's central bank and its sovereign wealth fund. They likewise included the accounts of Putin, his oligarchs, and many Russian companies in the freeze. They have removed Russian banks from the global payments system SWIFT, and limited Russia's ability to transact in foreign currencies such as dollars and euros.

Russian ruble collapses

As a result of the Western sanctions, the Russian currency, the ruble, has plunged 39%. It hit a record low of 122.91 to a dollar Friday.



Russian central bank raises policy rates to 20%

To stem the ruble's fall, the Russian central bank had to increase its benchmark policy rate to 20% from 9.5%. It also imposed capital controls. Russian exporters were ordered to sell 80% of their foreign currency revenue to the government. Depositors who wanted to withdraw cash in foreign currency were not allowed. Russian residents were also barred from sending money to accounts abroad, including payments to service external debt.

Russian stocks plunge 79%

The most liquid Russia-focused equity ETF, VanEck Russia ETF (symbol: RSX), has plunged -79% year-to-date. S&P Dow Jones, MSCI, and FTSE Russell have announced that they are removing Russian stocks and ADRs from widely tracked indices. Many long-term funds are removing Russian stocks in their portfolio. Norway's Norges Bank, the world's largest sovereign wealth fund which manages $1.3 trillion in assets, announced it was dumping all Russian holdings in its portfolio. London Stock Exchange has suspended all trading of Russian depository receipts. Most investment banks have now declared Russian stocks and bonds as "uninvestable."

Russian stock exchange closed

In a bid to stave off the effects of global sanctions, Russia has kept its stock exchange closed since Monday last week. The Russian central bank also blocked foreigners from selling. To offset the selling avalanche, Russian authorities promised to step in and buy $10 billion worth of stocks to prop up the market when it opens.

Junk bond status

All three of the world's major rating firms (S&P Global Ratings, Moody's, and Fitch) slashed Russian debt to junk status, raising doubts about its capability to pay. Several Russian banks were also downgraded, causing individuals and companies to withdraw their deposits. Russia's largest bank, Sberbank, exited the European market last week after several subsidiaries experienced a run on its deposits and risked collapse. Sberbank dropped 95% before trading was halted in the London Stock Exchange.

Isolating Russia

The unprecedented Western sanctions covered almost all economic sectors, both government and private. Visa and Mastercard barred transactions of Russian financial institutions. Social media outlets like Youtube, Facebook, and Tiktok banned Russian media outlets in Europe. In addition, major shipping companies suspended deliveries to Russia. Also joining the list of companies that have suspended product sales and joint-venture operations in Russia are global brands like Apple, Google, Ford, Boeing, Airbus, Nike, General Motors, and Disney. Russia is now considered a pariah and an outcast.

Western Oil giants pulling out

Western oil giants are also abandoning their multi-decade Russian investments. British Petroleum announced the exit of its 19.75% stake in Russian state-controlled oil giant Rosneft. Royal Dutch Shell is pulling out of its joint ventures with Gazprom, including its 27.5% stake in the giant Sakhalin 2 offshore project in Russia's far east. Exxon Mobil announced it would discontinue Sakhalin 1. The exit of BP, Shell, and Exxon removes all meaningful western investment in Russian energy.

Everybody loses in a war

Apart from the tragedy in Ukraine and severe punishment that Russia has to endure, the rest of the world, including the Philippines, is going to suffer from this war. The most significant impact of the Russia-Ukraine conflict is on the commodity market, particularly oil and gas, which have gone parabolic. WTI Crude surged 25.6% the past week alone. It traded as high as $116.57 per barrel, a price last seen in September 2008. Meanwhile, International benchmark Brent crude jumped 20.6% in the past week, hitting $119.84 per barrel, the highest level since May 2012.

Industrial metals such as aluminum hit a record high of $3,849 per ton. Nickel tops $30,000 per ton for the first time since 2008. Agricultural commodities such as wheat, corn, and sunflower oil, as well as fertilizers, have all spiked to historic proportions. Wheat prices was up 40% last week as it hit record highs. The last time wheat prices catapulted in similar proportion, it resulted in The Arab Spring revolution. Even rice prices have started to move, increasing 6.7% last week.

The conflict has sent energy costs and food prices soaring. It will likely exacerbate global inflation and stifle the nascent growth coming out of the Covid-19-induced downturn. Russia may be winning the conventional war against Ukraine. The US and its allies are punishing Russia thru sanctions. But at the end of the day, everybody loses in a war.