

War in Ukraine

Event summary

Historical context to this war – Sir Christopher Meyer

- Three decades after the collapse of the Soviet Union, most of the previously Soviet-aligned nations are now members of the North Atlantic Treaty Organization (NATO), which has been perceived as a source of humiliation for most Russians. And Russian president Vladimir Putin argues that his country is under growing threat from NATO encirclement.
- This self-perceived humiliation and threat have turned into a sense of grievance, as well as the development of hyper-nationalism in Russia, which has been the driving force for the Putin regime.
- The notion that Ukraine could potentially be part of NATO is like heresy to Putin, given the historical relationship between the two countries.

What's going to happen next? – Sir Christopher Meyer

- Putin may have initially planned to demilitarize Ukraine quickly with minimal resistance, similar to his invasion of Georgia in 2008. A key question now is whether Russia has the financial ability to support its military expansion as the pain from those economic sanctions start to take effect.
- We believe that the probability of resolving the conflict through diplomacy is low in the near term, considering the large gaps between the two countries' central issues. In other words, the crisis may get worse before it gets better.
- The impact of sanctions on the Russian people may serve as a balance for Putin to take any further bold actions. However, it is important to note that beneath the seemingly modern society, Russia is profoundly nationalist.
- While China may want to side with Russia, it will be a trickier question as the situation gets worse. Ultimately the Asian superpower would not want to risk losing access to the western countries.

Can the world replace the shortfall in Russia's oil production? – Benoit Gervais, Mackenzie Resource Team

- With several years of under-investment in the energy sector, the world is unable to replace such a major supply shortfall in the short term.
- Despite the economic sanctions from the western allies, oil production in Russia will not stop. Countries like India and China may still import Russian oil, meaning that the global supply only gets reoriented in inefficient ways, together with an upward pressure in energy prices in the west.

Russia's invasion of Ukraine amplifies the issues related to inflation and global supply chain. What needs to happen to ease the stress? – Benoit Gervais, Mackenzie Resource Team

- Firstly, the western world has increasingly relied on industrial capacity from low-cost manufacturing nations. Secondly, companies have not been investing in commodity productions for the past several years.
- To solve the fundamental problem, both issues have to be addressed: onshore manufacturing in North America to reduce reliance on outsourcing and increase capital expenditure on commodities production. Neither can be achieved in the near term.
- That being said, there are signs that elevated commodity prices are now starting to dampen consumer confidence, implying that commodity prices may be peaking soon.

What are the implications to the Canadian economy? – Benoit Gervais, Mackenzie Resource Team

- Approximately 30% of the Canadian economy is directly linked to resources. Past commodity cycles, even if they cause inflation, have been net positive for Canada.
- Looking ahead, we will likely see some significant investments in the commodity industries that will lead to job creation and wage growth.
- However, Canadians will still be challenged to protect their purchasing power given the ultra-low interest rate environment now, and with wage growth unable to keep up with inflation.

Sir Christopher Meyer

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