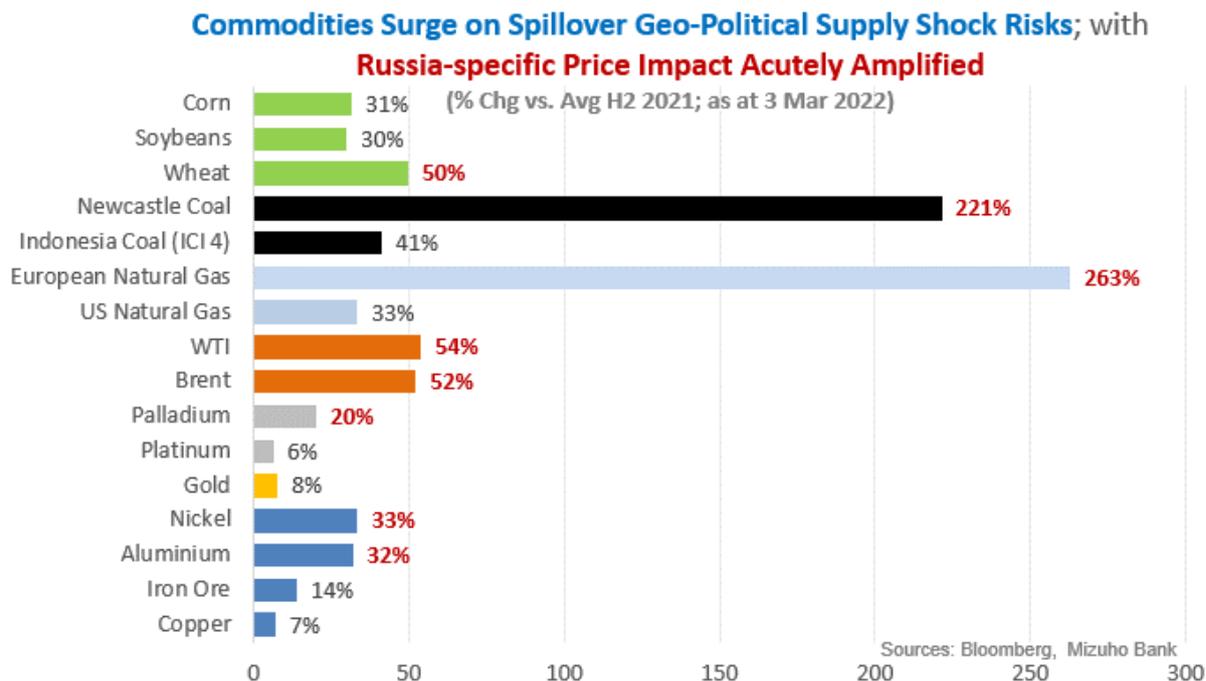


The Tyranny of Commodity Spill-Over



“Great warrior. Wars not make one great.” – Master Yoda, Star Wars

- The tyranny of Ukraine’s invasion echoes via the *tyranny of commodity supply shock risks*.
- For a world that was already grappling with worryingly high (cost-push) inflation before the Russian invasion of Ukraine, the **surge in commodity prices from the geo-political spill-over of the Russian invasion of Ukraine** is not merely an inconvenience, but rather **a binding economic threat**.
- To be sure, this war waged by that Russia is above all a human tragedy. And the **consequent** (albeit inadvertent) **explosion in commodity prices** only **magnifies to the collective economic pain**.
- Specifically, **a surge of this order** may inevitably impose the **tyranny of stagflation-type impulses**; *accentuating already elevated inflation risks* on one hand, yet on the other, *diminishing (if not derailing) a still fragile recovery* (by aggravating supply disruptions as well as dampening demand).
- In turn, this will **inflict significantly sharper policy trade-offs** for **central banks** caught between the dangers of **inflation expectations** getting **unhinged** (to the detriment of macro stability) and **demand destruction** imposed by higher eroded disposable incomes/profits.
- What’s worrying is that the **most acute commodity price shocks** will be **transmitted via energy**. *Europe will ostensibly hurt disproportionately due to “local factors” of gas and coal’s spike* that is more evident in Newport coal that is more similar in calorific value to Russian coal.

- Trouble is, **energy inflation has a long reach**, and looks to be *exacerbated by food inflation* that **ripples via grain inputs and feed**; with Russia's impact of wheat resonating wider amid grains.
- Outside of Europe, **EM** (including EM Asia) are most **significantly exposed to enlarged stagflation risks** given the large weights of food and energy. But not evenly so.
- *India and Philippines* are perhaps *most acutely compromised by the negative* terms of trade (*ToT*) effects as “twin deficits” and inflation conspire. Thailand's sizable oil import reliance will be drag albeit to a lesser extent; as will Singapore's (although the large refined oil export sector offsets).
- At the other end of the spectrum, *Australia comes out on top of the positive ToT effects* (given the sweep of coal, gas, metals and wheat exports); *followed by Indonesia* and with *Malaysia* some way back but nevertheless positive on net oil and gas exports.
- **But as pertinent as the differentiation** (between net gainers and losers based on ToT) **may be** at the margin, **commodity supply shocks pushed to greater extremes will render the idea of “windfall” commodity gains illusory**. Simply because demand destruction will overtake ToT effects; as Yoda said, “*wars make not one great*”. Such is the *tyranny of conflict and its extension*.

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd