

Blue Skies over Golden Fields of Grain

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One way to think about the Ukrainian flag is that the blue portion represents the sky and freedom and the yellow portion represents the fields of grains and the wealth of the nation. That harkens back to its reputation of being the breadbasket of Europe.

For those who have wondered, Tchir is how Canadian immigration translated TXIP when my father's side of the family came from Ukraine to Canada for free farmland in Alberta (that seemed like the steppes with which they were familiar). My mother's side of the family had a more complicated journey to Canada. My great uncle fought in World War II as an officer in the Canadian artillery and was instrumental in setting up radio free Ukraine in the aftermath of the war and remained on the Soviet's banned lists (to the best of my recollection).

As always, I will try not to let my personal feelings influence my macro work, but at some level, it probably does influence it, so I figured you should have that as you assess my part of the work that Academy has done on Russia and Ukraine in the few past weeks.

Before getting into the meat of today's report, I would like to provide links to **General (ret.) Marks' CNN appearances**, but the list would be too long, as his masterful explanations and conjectures have made him a mainstay on that network. I would also like to highlight [General \(ret\) Robeson's Bloomberg Radio](#) interview from last Thursday.

**The Dangers of "Winning"**

In this war, it is very difficult to say anyone is "winning," but here is what I see this morning:

- **Ukraine is winning the information war.** Global support is pouring in. Germany just announced plans to dramatically shift their engagement. The groundswell of support in social media is rising and, in some cases, likely forcing governments to take action they wouldn't have taken otherwise.
- **On the military side,** Ukraine is "winning" by slowing the Russian advance, but is also "losing" because the advance continues and the loss of life and forced evacuations are continuing as well. So far there is no end in sight to the bloodshed.

While there are differing opinions (even amongst Academy's Geopolitical Intelligence Group), a consensus does seem to be forming that this is a pivotal moment for Putin:

- **He may try to create some sort of agreement that allows him to pull back and still claim some victory.** Putin has been very cagey on what sort of agreement he would accept and seemed to insist that negotiations need to occur in Belarus, which hardly seemed like a neutral sight given Russia launched part of their invasion from there. However, Ukrainian President Zelensky said Sunday that Ukrainian representatives would meet with a Russian delegation near the Ukrainian-Belarusian border for peace talks (while Putin put his nuclear forces on "high-alert"). While this is a significant improvement over the proposed talks in Belarus, there is no indication the two sides are even close on the terms. Our GIG will continue to monitor this evolving development.
- **Going "all-in" on the offensive.** He has been bogged down and evidence points to some civilian deaths and damage, but the Russians have clearly not unleashed their full arsenal.

**One would hope that he chooses the first option, but given his speeches and actions over the last February 27, 2022**

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**few weeks, the second option seems more likely.** That would be horrific for Ukraine and at this point many world leaders would face a domestic backlash accusing them of not doing enough (a function, in part, of Ukraine winning the information war).

### Energy

Part of Germany's about face today included a commitment to build two new LNG facilities. When pushed on what "permanently changed" on [Bloomberg TV](#) on Thursday, I argued that it would be the energy industry (1:00:40 mark). We would need to not just accelerate development of sustainable energy, but that the West would need to dedicate resources to traditional sources of energy as well. Creating a sufficient baseload of power would be deemed critical, and Germany's actions are just the first stage in what will be a strategic shift which will benefit the energy industry as a whole. Sustainability will remain a concern and one that we need to work with, but **energy security will not take a backseat any longer, as that is one reason why Russia felt emboldened to attempt this war.**

### Central Bank Policy

We are almost certain to see a spike in energy prices, as cutting off Russia from SWIFT will likely slow some trade. Reports of potential attacks on the Ukrainian pipeline could also boost energy prices.

While on the surface that is "inflationary," it also meets the definition of being "transitory" and that sort of supply shock is affected by Central Banks raising rates. If anything, you could argue that higher funding costs will actually slow the energy development we need and what is created will pass on those higher financing costs.

While the Fed is still a "go" for a 25-bps increase in March, expect talk to err towards the side of being conservative about taking away the punch bowl. All one has to do is look at liquidity in off the run Treasuries and corporate bonds and you will see liquidity issues that the Fed is unlikely to want to aggravate.

### Bottom Line

Bottom line, more market volatility, and I expect one more "risk-off" trade, but the way the West is galvanizing should not only deter Russia in the coming weeks, but it will also make China think twice before starting some initiative of their own.

We could be setting up for an incredibly strong risk rally, I am just concerned that there is one more leg down as Putin scrambles and the more meaningful sanctions take effect.

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**I have included yesterday's T-Report (almost verbatim) below** because there are so many links to important work that Academy has done in the past week and I do not want anyone to miss them.

If I had to start with one piece, I'd jump to the [Cyber Webinar with Admiral \(ret.\) Barrett](#), as she does a great job explaining the complexities of the cyber front of this war, and many of the other links are useful as we wait for market to open tonight (U.S. stock futures open at 6 pm EST).

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## Shock and Flaw

I was worried I'd wake up to see that Ukraine had fallen, making Friday's [Shock and Flaw](#) report irrelevant. But this morning, almost all the points seem more relevant and are moving in the right direction (from my viewpoint). The war is far from over, but neither the war nor global public opinion seem to be going Putin's way. See Thursday's **SITREP** for a detailed analysis from Academy's Geopolitical Intelligence Group on the [Full-Scale Invasion of Ukraine](#). From [Worse to Awful](#) and [District 12](#) also cover Russia's actions and our market read-throughs, though with the volatility of the news cycle and markets themselves, our recommended positioning is changing rapidly too.

## Cyber and Article 5

I highly recommend that you watch the playback of Friday's [Admiral \(ret.\) Barrett Cyber Webinar](#). She does an excellent job analyzing the capabilities of Russia, Ukraine, and most importantly – the U.S.! Too often our own capabilities and those of our allies don't get enough respect.

We discuss how the hacker groups are influencing the outcome and the fact that despite Russia being adept at misinformation, Ukraine seems to be winning the social media information war.

What was also particularly important was the discussion on **how a cyber-attack could trigger Article 5** of the NATO agreement, which could cause NATO to enter the conflict via cyber or otherwise. She highlights the steps Russia seems to be taking to contain their attacks on Ukraine so as not to trigger that risk, but in cyber there are no set rules, and a lot could still happen.

## SWIFT

It seemed that Germany was the lone holdout in Europe for cutting Russia off from SWIFT (however they have now committed to this). I am somewhat concerned about ["Known Unknowns"](#) and unintended consequences from blocking Russia from SWIFT, but it will hurt Russia where it counts - oil and natural gas. The current sanctions seem insufficient and too easily anticipated by Russia to work effectively, so maybe this is necessary to force Putin's hand (see [Time Magazine's](#) piece on sanctions).

In any case, I am hearing that **it is getting difficult and expensive to get oil from Russia**. Banks are backing away from issuing new letters of credit while shipping and insurance costs are rising.

## Putin's War

Russians are doing the fighting, but it is becoming clearer that **this is Putin's war more than Russia's war**. As a dictator, that distinction isn't currently important, but it could be in the coming weeks.

This is the first time in a week where I have been able to sit down and type with at least a smidge of optimism for the outcome of this crisis. The situation is still incredibly bad there and Ukraine is heavily outnumbered and outgunned, but they have proven their resistance to the world. We are also seeing countries that are most afraid of being Putin's next target being emboldened to offer more aid.

A lot can still go horribly wrong in Ukraine (and sadly, that is still the most likely outcome), but the world seems less bleak to me today than it did just 48 hours ago.

Markets, though, might have to digest blocking Russia from SWIFT, which will hit energy in a material way, which likely drags stocks lower. So, I am fairly neutrally positioned here in terms of risk (tilted to bearish, but holding out some small hope of a favorable resolution).

**Thanks for everyone's effort and support this week!**

February 27, 2022

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