

Global Credit Conditions Q2 2022:

Confluence Of Risks Halts Positive Credit Momentum

March 31, 2022

Key Takeaways

- The confluence of the Russia-Ukraine military conflict, nagging inflation and the prospects for higher interest rates, and the lingering pandemic mark a turn in the positive credit momentum of the past 14 months. But while downgrades are now outpacing upgrades, ratings remain resilient overall, and pressure is mounting unevenly.
- The effects of the Russia-Ukraine conflict on global economic and credit conditions are becoming more pronounced; widening spreads in major markets suggest investors are growing somewhat more risk-averse. Defaults look set to rise from historically low levels and could exceed our baseline forecasts (for 3% in the U.S. and 2.5% in Europe) by December.
- Main risks include an escalation of the conflict or expansion of sanctions to gas and oil exports to Europe, or broader geopolitical tensions; central banks' struggle to control inflation without choking economic growth, leading to higher borrowing costs (especially for lower-rated credits); persistent supply disruptions and high commodities prices squeezing profit margins; and new COVID variants.
- Ratings have been resilient outside of countries directly affected by the conflict and the sanctions, and entities highly exposed to the surge in commodities prices. Many corporates started the year with stronger balance sheets, having taken advantage of two years of cheap funding to extend maturities, with the result that speculative-grade corporate debt coming due through 2023 has fallen roughly 40% since Jan. 1, 2021. Banks, including those in Europe, are also proving resilient, having significantly reduced their exposure to Russia following its annexation of Crimea in 2014.

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, Europe, and North America). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the global committee on March 24, 2022.)

The first few months of 2022 mark a turn in positive credit momentum, with downgrades now outpacing upgrades, reversing a trend that started a year ago on the back of the solid economic rebound and remarkably favorable global financing conditions. Just as much of the world was hoping to move on from the pandemic, the Russia-Ukraine military conflict brings a new set of challenges and uncertainties (see chart 1). Soaring energy and food prices exacerbating already high inflationary pressures, supply chains facing new disruption risks, the lingering pandemic and mobility restrictions (particularly in China), and the prospects for sharply higher interest rates are all pushing lenders and investors to reassess their risk-reward appetites. **Yields across many market segments have risen** after more than a year of historically accommodative conditions.

While pale in comparison to the tragic human costs, **the detrimental effects of the Russia-Ukraine conflict on global economic and credit conditions are becoming more pronounced**, with measurable implications for our macro forecasts and credit ratings. With the uncertainties about the evolution of the conflict and the West's sanctions on Russia restricting trade and capital flows weighing on overall confidence and business conditions—at the same time as many major central banks begin raising interest rates to combat inflation—widening credit spreads in major markets suggest **investors are becoming somewhat more risk-averse**. Moreover, the uncertainty around

Global Head of Analytical
Research and Development

Alexandra Dimitrijevic

London
+44-20-7176-3128
alexandra.dimitrijevic
@spglobal.com

Research

David Teshler

New York
david.teshler
@spglobal.com

Joe Maguire

New York
joe.maguire
@spglobal.com

Yucheng Zheng

New York
yucheng.zheng
@spglobal.com

Molly Mintz

New York
molly.mintz
@spglobal.com

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

the crisis and its ramifications, as well as the acceleration of monetary-policy tightening, have led to a pause in debt issuance at the lower end of the credit spectrum.

Chart 1

Global Credit Conditions | A Confluence Of Higher Risks

Geopolitical tensions, inflation, and rising interest rates heighten economic and credit risks.



CPI--Consumer price index. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Mounting challenges will likely weigh on the credit outlook for the rest of the year, depending, in large part, on the evolution of the conflict. With the new surge in energy, metals, and food prices fueling inflation, corporate borrowers will likely find it more difficult to pass on costs, leading to margin pressures. On top of that, there are additional supply pressures given the high proportion of nickel, lithium, and palladium that Russia and Ukraine produce. The lack of substitutability of some components could disrupt certain industries—albeit unevenly. For example, given the amplified supply disruptions, we now expect global light vehicle sales to fall as much as 2% this year, while supply issues could have credit implications for some manufacturers and suppliers (see **“Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery”**, published March 22).

For Europe, the conflict is the second global supply shock in the past three years, after the pandemic, with disruptions and bottlenecks due to the scarcity of specific raw materials and port closures. Already significant input-cost pressures have worsened. Profit margin pressures will ratchet up, and companies face the dilemma of raising wages to compensate for cost-of-living increases while maintaining profitable operations (see chart 2 and **“Russia-Ukraine Conflict: Implications For European Corporate And Infrastructure Sectors”**, published March 16).

Chart 2

Russia-Ukraine: Assessment Of Impact On EMEA Corporate And Infrastructure Sectors



Source: S&P Global Ratings. Russia-Ukraine Conflict Implications For European Corporate And Infrastructure Sectors, March 16, 2022.

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

However, while positive credit momentum has stalled, ratings have been resilient outside of the countries directly affected by the conflict and the sanctions (Russia, Ukraine, Belarus) and entities highly exposed to the surge in commodities prices (see chart 3). Many corporates started the year with stronger balance sheets, having taken advantage of two years of cheap funding to extend their maturities, and still benefited from a solid economic growth in the first quarter.

Chart 3

Global Credit Trends | Positive Momentum Stalls



Note: Downgrade ratio is the number of downgrades divided by total rating actions. Weakest links are issuers rate 'B- and below' with a negative outlook or CreditWatch. Net negative bias is the percentage of issuers with a negative bias minus the percentage of issuers with a positive bias. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Banks, including those in Europe, are also proving resilient, having significantly reduced their exposure to Russia following its annexation of Crimea in 2014. Thus far, we have taken negative rating actions mainly on financial institutions in Russia, Ukraine, and Belarus, with many of them linked to our downgrades of the sovereigns and our view of the deteriorated operating environment. Four European banking groups (the Raiffeisen Banking Group, OTP Bank, Société Générale, and UniCredit) have sizable exposure to Russia and Ukraine, but we see this as more meaningful for some than others, and we anticipate all will be resilient (see **"How The Conflict In Ukraine Is Affecting Financial Institutions Ratings"**, published March 4).

The rise in borrowing costs from front-loaded monetary-policy tightening, along with investors' reduced risk appetites will compound the pressures on weaker issuers but immediate liquidity risks are fairly limited as most rated corporates took advantage of cheaper funding conditions to push out maturities. But **lingering uncertainties could push defaults above our current forecasts** of 3% in the U.S. and 2.5% in Europe by December.

We expect slowing economic growth and the surge in energy prices, prompting many governments to provide support to households, to delay sovereigns' path to fiscal consolidation after the pandemic years. While it's difficult to determine what the long-term or permanent credit implications may be, the physical proximity of Eastern European economies such as Poland, Hungary, and Romania to the Russia-Ukraine conflict heightens their sovereign credit risks. In the short term, the most likely effects would come through trade shocks—although this may be offset by the significant international aid flowing into Poland and other economies to support their humanitarian efforts. Moreover, as millions flee Ukraine and settle in neighboring countries, such economies, which have faced labor issues from low birth rates and high levels of emigration, could enjoy a medium-term boost to their economic prospects (see **"How The Russia-Ukraine Conflict Is Affecting Ratings And The Global Economy"**, published March 23).

Emerging Markets. The Russia-Ukraine conflict is hitting already-beleaguered credit conditions in emerging markets (EMs) particularly hard. Persistent inflation was already denting corporates margins and household purchasing power, and the pressures on energy and food prices have amplified. Downside risks for EMs and for low-income countries are significant. These sovereigns face the challenge of dealing with pandemic costs, managing inflation, and striking a balance between fiscal consolidation and persistent social needs. At the same time financing conditions could weaken rapidly on the back of rapid U.S. monetary tightening or continued escalation of the Russia-Ukraine conflict.

Europe. The seismic shock caused by the conflict represents an inflection point in the credit cycle. Many European countries are particularly vulnerable due to their dependence on Russian gas and

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

oil (and considerations around energy security), as well as through elevated food prices and potential shortages of key metals for European manufacturers. This is complicated by central banks' drive to tighten monetary policy to counter inflation—even as growth slows. While we forecast the Bank of England to raise its policy rate just once more this year, to 1%, and then pause until after 2023 in line with its approach of gradual normalization, we expect the European Central Bank to raise rates 25 basis points (bps) each quarter, starting in December, until it reaches 1.5% by mid-2024. All of this has put a halt to the consistent improvement in European credit quality in the past 14 months, and while refinancing risk is low for most nonfinancial corporates, we expect defaults in Europe to rise. We see significant risks and uncertainties even without the conflict spilling over into other countries or a significant escalation of fighting—potentially involving unconventional weapons—especially if Western sanctions or Russian countersanctions are extended to Russian energy supplies to the EU (see Appendix on Page 10 for details of sanctions).

Asia-Pacific. While direct effects of Russia-Ukraine are limited, a widening of the conflict or further sanctions could spill over to the region and complicate market access for weaker credits. Surging energy and commodities costs are contributing to a divide between winners and losers—with interest rate outlooks in the region split. China, because of its economic slowdown and limited inflation, has lowered interest rates. This contrasts to most Asia-Pacific central banks, which are poised to raise rates—or have already done so—in a bid to limit capital outflows and stem inflationary pressures. Concurrently, China's low COVID tolerance and the imposition of sporadic lockdowns in cities (the latest being Shanghai) could drag on domestic consumption and constrict an already tight global supply chain. The possibility of rapid transmission of the omicron variant in China is a key risk to its economy. Meanwhile, the ongoing real estate downturn points to the persistent liquidity strains and tight offshore funding access faced by the Chinese property developers. Risks of capital outflows and currency depreciation in emerging markets had led to some investor risk-aversion toward highly leveraged corporates. With investors seeking high risk premiums, these weaker issuers could see increased borrowing costs, denting their credit further.

North America. While the U.S. is comparatively insulated from the direct effects of the Russia-Ukraine crisis, the world's biggest economy isn't immune to the fallout. The conflict is adding to already heavy price pressures and supply constraints, just as the Federal Reserve begins to battle nagging inflation with what promises to be an aggressive cycle of monetary tightening. Against this backdrop, we see a high risk that investors could soon demand significantly higher returns because of an escalation in the conflict, the continuation of historically high inflation, or other unexpected adverse events. The latter could include a perceived Fed policy misstep, given that an easing of demand-driven inflationary pressures from slower growth could create a conundrum for central bankers as they look to contain supply-side price pressures. This could result in the repricing of financial and real assets, higher debt-servicing costs, and tighter financing conditions—which is especially concerning against the backdrop of high debt levels and the large proportion of vulnerable credits (we rate 24% of U.S. nonfinancial corporates 'B-' or below).

Global Financing Conditions

Financing conditions tighten; benchmark yields have risen and spreads have widened. Beyond the Russia-Ukraine conflict and the uncertainty it brings, underlying inflation and rising commodity costs—and what the combination of the two might mean for rate hikes and less-accommodative monetary policy—are driving up benchmark yields. And they have turned sharply upward. The yield on U.S. 10-year Treasury notes (a widely used base for borrowing costs) has risen by more than 75 bps so far this year, and the yield on 10-year German bunds is back to early-2018 levels. There have been instances of inversion in the U.S. yield curve, and as the Fed embarks on its cycle of rate hikes, with the ECB likely to follow suit soon, central banks in many emerging markets, too, will likely continue to raise rates.

The widening of corporate credit spreads may be more a reflection of investor concerns about inflation and monetary policy than a true "risk-off" stance. While the conflict is clearly having an effect—particularly in Europe, with EEMEA corporate spreads more than doubling (see chart 4)—widening in U.S. and European speculative-grade spreads has arguably been less severe than one might expect in a true risk off period. In addition, corporate spreads in Latin America, while starting the year at higher absolute levels, have widened materially less than those in other emerging

Contacts

Patrick Drury Byrne
Dublin
patrick.drurybyrne
@spglobal.com

Nick Kraemer
New York
nick.kraemer
@spglobal.com

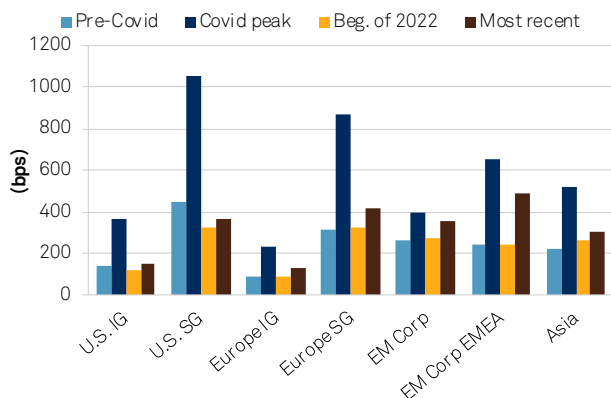
Nicole Serino
New York
nicole.serino
@spglobal.com

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

markets, even though the region remains one of the most exposed to the risk of a disorderly tightening in U.S. monetary policy.

Chart 4

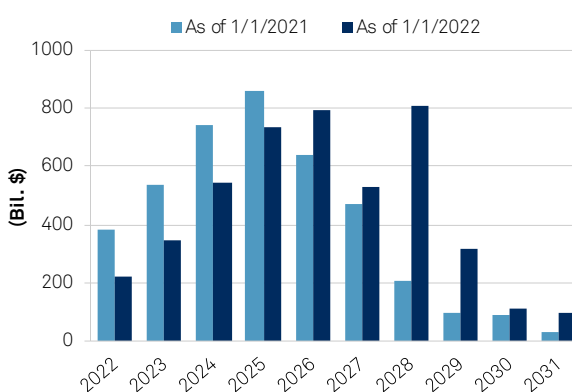
Secondary Market Credit Spreads



IG--Investment grade. SG--Speculative grade. EM Corp--Emerging Markets Corporate Plus Index Option-Adjusted Spread. EM Corp EMEA--EMEA Emerging Markets Corporate Plus Index Option-Adjusted Spread. Most recent data as of March 25, 2022. Pre-Covid data as of Dec. 31, 2019. Sources: S&P Global Ratings, Thomson Reuters, ICE Data Indices, Federal Reserve Bank of St. Louis, and S&P Dow Jones Indices.

Chart 5

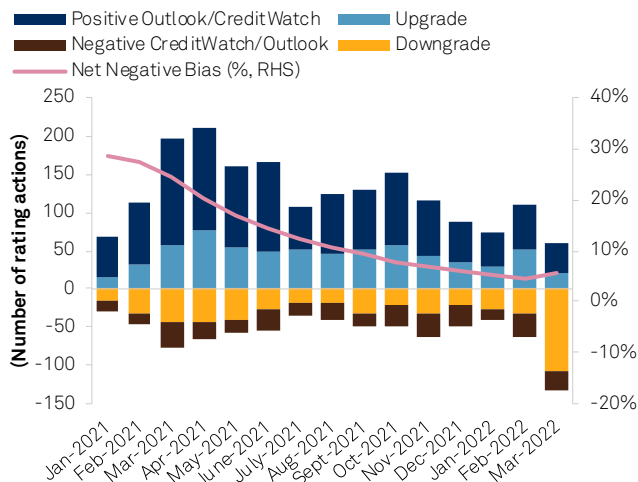
Global Spec-Grade Nonfinancial Corporate Maturity Wall



Foreign currencies are converted to U.S. dollars on the respective reporting date. Includes bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Source: S&P Global Ratings.

Chart 6

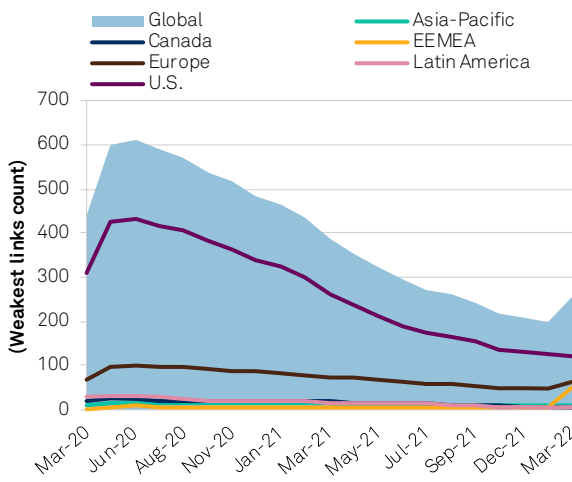
Global Rating Actions And Nonfinancial Net Negative Bias



Rating action data cover changes in outlook and CreditWatch as well as upgrades and downgrades for financial and nonfinancial corporates and sovereigns. Net negative bias is calculated by taking negative bias minus positive bias and includes only nonfinancial corporates. Source: S&P Global Ratings.

Chart 7

Weakest Link Tally By Region



Data as of March 8, 2022. EEMEA--Eastern Europe/Middle East/Africa. Source: S&P Global Ratings.

Issuance is down but not out, while near-term refinancing risk looks limited. Global corporate (financial and nonfinancial) issuance is down 17% this year, from this point in 2021, although Asia-Pacific issuance has increased, led by Greater China and Emerging Asia. On the surface, the global slowdown isn't so concerning as continued growth was a tall order after the record-breaking years that came before. Spec-grade markets in many regions outside the U.S. have effectively been shuttered for the past four weeks—due to both investor pull-back and issuer reticence around sharply increasing clearing levels. On the bright side, **near-term speculative-grade refinancing risk is limited** in most regions as borrowers took advantage of accommodative financing conditions in recent years to push out maturities, with the result that spec-grade nonfinancial corporate maturities through 2023 have fallen roughly 40% since Jan. 1, 2021 (see chart 5). However, the longer volatility continues, the more pressing the issue will become for spec-grade borrowers.

Positive rating momentum has stalled. After 14 months of largely positive ratings actions, and global corporate defaults at their lowest level since 2014, the momentum seems to have stalled. Downgrades have surpassed upgrades for the past four weeks (see chart 6), and the number of weakest links (borrowers rated 'B-' or below with a negative outlook or on CreditWatch with negative implications) has risen for the first time since June 2020 (see chart 7). The conflict is clearly a significant factor, with 129 recent ratings actions attributed directly or indirectly to the conflict—and the increase in weakest links largely driven by Europe and EEMEA. As weakest links' default rates are on average 8x higher than overall spec-grade defaults, it's likely that global defaults will increase this year, perhaps beyond our baseline forecasts of 3% in the U.S. and 2.5% in Europe by December.

Macroeconomic Conditions

The effects of high energy prices can be “bounded” for the time being, as still-solid household savings rates in the U.S. and Europe will help smooth consumer demand and consumption. But any big drop in confidence or spending, especially on discretionary items or durable goods, could weigh quite heavily on growth that has already taken a bit of a hit. The fallout from the conflict and the response of Western governments have already prompted us to **lower our estimate of global GDP growth**, given higher energy prices, lower Russian growth, a (soon-to-be much) higher federal funds rate, and the effects on consumer confidence.

We now expect global GDP growth to **fall 60 bps short of our previous forecast, coming in at 3.6% this year**, largely driven by a deep recession in Russia, elevated energy prices, and policy changes. We now see **Russia's economy contracting 8%-9% this year**—a dramatic drop from our pre-conflict forecast for GDP growth of 2.7%, and with risks firmly on the downside.

All eyes will be on how central banks reconcile monetary policy with current conditions and future uncertainty. S&P Global Economics now sees the Fed's policy rate rising 175-200 bps this year (including the March move, and with at least one 50-bps hike likely), to around 2%, and another 100 bps in 2023. Rising U.S. interest rates will likely drag growth in the world's biggest economy, dragging GDP gains down to 3.2% this year.

In the Eurozone, the “gravity effects” of physical proximity to, and close regional trade relationships with, Russia and Ukraine will combine with higher energy prices to trim GDP growth this year by more than 1 percentage point, to 3.3%. While Asia-Pacific's growth forecast remains at around 5.1%, higher energy prices will push inflationary pressures and weigh on current-account balances for some countries. We have assumed policy reaction by China to offset the effects of the conflict—and we've kept our forecast growth this year broadly unchanged at around 5%. We have lowered our real GDP growth forecast for EMs to 4.0%, from 4.8%, with the bulk of the revision stemming from emerging Europe, while effects are more contained elsewhere.

Top Risks

Against this backdrop, we're focusing on a number of top risks to global credit conditions, which could weigh on the base case currently reflected in our ratings (see table 1). As is often the case, any confluence of one or more of these risks could result in a sum of downside effects that is greater than the parts.

On the geopolitical front, an escalation in the Russia-Ukraine conflict or an extension of Western sanctions or Russian countersanctions to Russian energy supplies to the EU, could pose a massive shock to overall confidence and business conditions, and further restrict trade and capital flows. Additional risks could arise from an escalation of the strategic confrontation between U.S. and China—over Russia or the South China Sea region—which would hurt investment, trade, and supply flows within and outside the area. Meanwhile, internal political stresses, in some cases reflecting socio-economic inequality, could fuel more nationalistic and populist policies and threaten economic efficiency and social stability. Moreover, the Chinese government's ongoing policy shifts and efforts to curb leverage could affect business and consumer confidence, fueling contagion risk.

Contact

Paul Gruenwald
New York
paul.gruenwald
@spglobal.com

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

As volatility in financial markets has increased and borrowing costs have begun to rise, we see a **high risk that investors could soon demand significantly higher returns** because of an escalation in the Russia-Ukraine conflict, the continuation of historically high inflation, or other unexpected adverse events. The latter could include a perceived central policy misstep, given that an easing of demand-driven inflationary pressures from slower growth could create a conundrum for central bankers as they look to contain supply-side price pressures. We think this risk is unlikely to ease any time soon—and, in fact, is likely to worsen.

This comes as many companies continue to deal with sharply higher input costs and supply-chain disruptions that are being further fueled by the rising energy and commodities prices caused by the Russia-Ukraine conflict. Borrowers have so far relied on their ability to pass through prices to maintain profit margins, but **if cost pressures don't ease—or if inflation begins to weigh heavily on demand—the resultant profit erosion could hit credit quality**. Again, we think this risk is likely to worsen in the near term.

And let's not forget **the pandemic is still with us**. While economic activity has generally proved more resilient to each wave of the virus, the risk of further outbreaks and, thus, renewed social restrictions is ever-present. Sporadic pandemic-related disruptions and lockdowns around the world continue to crimp the flow of goods. Even without reinstated social restrictions, an uncontrolled resurgence of the virus could cause renewed consumer caution, curb economic activity, and exacerbate supply-chain constraints—as with the omicron-variant spread and related lockdowns in China.

Global Credit Conditions Q2 2022: Confluence Of Risks Halts Positive Credit Momentum

Table 1

Top Global Risks

Sharp market repricing pushes up borrowing costs amid record-high debt levels

Risk level* Very low Moderate Elevated **High** Very high **Risk trend**** Improving Unchanged **Worsening**

Amid increased volatility in financial markets, and with major central banks (except for China) looking to accelerate monetary-policy tightening, further confidence shocks could push investors to demand significantly higher returns for the risks they're assuming. A sharp and rapid market repricing could hurt liquidity, exchange rates and capital flows, and cause higher debt-servicing costs and tighter financing conditions—which is especially concerning against the backdrop of record high debt levels. This could harm particularly the large share of lower-rated borrowers (globally, we rate 19% of nonfinancial corporates 'B-' or below) and some emerging markets and low-income countries most dependent on external financing.

Persistent price pressures and supply disruptions threaten corporate margins and delay fiscal consolidation

Risk level* Very low Moderate Elevated **High** Very high **Risk trend**** Improving Unchanged **Worsening**

As energy and commodity prices remain very high for a prolonged period amid the Russia-Ukraine conflict, borrowers in many sectors may find it harder to pass through costs to customers and consumers. Shortages of key components (nickel, palladium, lithium) could add to supply disruptions related to the pandemic. This would increasingly erode margins and weigh on credit quality in certain industries—particularly if economic growth slows measurably. Sovereign fiscal consolidation post-pandemic could be significantly delayed as governments provide support to help their population to cope with prolonged high energy and food prices, impacting disproportionately lower-income households.

The Russia-Ukraine conflict amplifies geopolitical tensions, weighing on confidence and economic activity

Risk level* Very low Moderate Elevated **High** Very high **Risk trend**** Improving **Unchanged** Worsening

An escalation in the Russia-Ukraine conflict or an extension of Western sanctions or Russian countersanctions to Russian energy supplies to the EU, could pose a massive shock to overall confidence and business conditions, and further restrict trade and capital flows. A heightened strategic confrontation between U.S. and China—over Russia or the South China Sea region—would also hurt investment, trade, and supply flows within and outside the area. Meanwhile, internal political stresses, in some cases reflecting socioeconomic inequality, could fuel more nationalistic and populist policies, which could threaten economic efficiency and social stability. Moreover, the Chinese government's ongoing policy shifts and efforts to curb leverage could affect business and consumer confidence, fueling contagion risk.

Renewed pandemic-related disruptions damp economic recovery

Risk level* Very low Moderate **Elevated** High Very high **Risk trend**** **Improving** Unchanged Worsening

While economic activity has proved more resilient to each wave of the pandemic, the risk of further outbreaks and, thus, renewed social restrictions is ever-present. Sporadic pandemic-related disruptions and lockdowns around the world continue to crimp supply chain and the flow of goods. Even without reinstated social restrictions, an uncontrolled resurgence of the virus could cause renewed consumer caution, curb economic activity, and exacerbate supply-chain constraints—as with the omicron variant spread and related lockdowns in China.

Structural Risks

Climate change, ESG concerns, and a challenging transition to a low-carbon economy

Risk level* Very low Moderate **Elevated** High Very high **Risk trend**** Improving Unchanged **Worsening**

As the physical effects of climate change increase and when public commitments to "net zero" have become widespread, the gap between global greenhouse-gas emissions and what is by 2030 to limit warming to 1.5 degrees Celsius has created rampant and growing disruption risks. Countries and companies will face significant socioeconomic disruptions led by challenges caused by climate change. The effects associated with the 1.5°C target and changed needed will be severe. Countries that depend most on fossil-fuel income and carbon-intensive industries will find it challenging to transition to a low-carbon economy. A too-rapid phase-out of fossil fuels could be disruptive for many industries and exacerbate social unrest. These factors may pressure credit quality of sovereigns and companies.

Cyberattacks disrupt business models, add to systemic risks

Risk level* Very low Moderate **Elevated** High Very high **Risk trend**** Improving **Unchanged** Worsening

Amid increasing technological dependency and global interconnectedness, cyberattacks pose a systemic threat and significant single-entity event risk—with the Russia-Ukraine conflict raising the prospect of major attacks. Criminal and state-sponsored attacks are likely to increase, and with hackers becoming more sophisticated, new targets and methods are emerging. As public and private organizations accelerate their digital transformation, a key to resilience is a robust cybersecurity system, from internal governance to IT software. Entities lacking well-tested playbooks (such as active detection or swift remediation) are most vulnerable.

Sources: S&P Global Ratings

***Risk levels** may be classified as very low, moderate, elevated, high, or very high, are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions unless the risk level is very high.

****Risk trend** reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Related Research

Credit Conditions

- Credit Conditions Asia-Pacific Q2 2022: A Divide Takes Shape, March 29, 2022
- Credit Conditions Emerging Markets Q2 2022: Conflict Exacerbates Risks, March 29, 2022
- Credit Conditions Europe Q2 2022: Seismic Shocks, Security & Supply, March 29, 2022
- Credit Conditions North America Q2 2022: Hazard Ahead: Risk Intersection, March 29, 2022

Economic Outlook

- Global Economic Outlook Q2 2022: No Cause For Complacency As The Russia-Ukraine Conflict Modestly Dents Growth, March 31, 2022
- Asia-Pacific Economic Risks, Thy Name Is Inflation, March 28, 2022
- Economic Outlook Canada Q2 2022: Growth Forecasts Hold Up As Global Risks Rise, March 28, 2022
- Economic Outlook Emerging Markets Q2 2022: Growth Slows Amid Higher Commodity Price Inflation, March 28, 2022
- Economic Outlook EMEA Emerging Markets Q2 2022: Weaker Growth, Higher Inflation, Tighter Financing Conditions, March 28, 2022
- Economic Outlook Eurozone Q2 2022: Healthy But Facing Another Adverse Shock, March 28, 2022
- Economic Outlook Latin America Q2 2022: Conflict Abroad Amplifies Domestic Risks, March 28, 2022
- Economic Outlook U.K. Q2 2022: A Painful Surge In Inflation, March 28, 2022
- Economic Outlook U.S. Q2 2022: Spring Chills, March 28, 2022

Research

- How The Russia-Ukraine Conflict Is Affecting Ratings And The Global Economy, March 23, 2022
- Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery, March 22, 2022
- For U.S., Ripple Effects Of Russia-Ukraine Are More Concerning Than Direct Exposure, March 18, 2022
- Russia-Ukraine Conflict Implications For European Corporate And Infrastructure Sectors, March 16, 2022
- Ukraine Conflict Divides Asia's Energy Haves And Have-Nots, March 9, 2022
- How The Conflict In Ukraine Is Affecting Financial Institutions Ratings, March 4, 2022

This report does not constitute a rating action.

Appendix

Sanctions On Russian Commodities Tracker



Oil

Dated Brent ▲ 57% YTD

Import ban on Russian crude, refined products



US expected to seek alternatives to heavy Russian feedstocks in South America, Canada. UK diesel imports will be key to watch under phased-in ban

Pledge to reduce oil reliance further



G7 leaders promised to cut imports in countries without formal bans. Europe is particularly dependent, with Russia supplying about 2.7 million b/d of crude to the region

Restrictions on investment in energy sector



Follows BP, Shell, ExxonMobil, other IOCs exiting Russian upstream, new trading bans

Financial sanctions on energy trading



Russian banks disconnected from SWIFT, may slow energy trading. Bank sanctions further complicate payments for Russian energy

Foreign investment restrictions on 13 Russian-owned firms



Includes oil producer and refiner Gazprom Neft, gas producer Gazprom, and pipeline operator Transneft

Key people sanctioned

Igor Sechin (CEO, Rosneft), Nikolai Tokarev (Chairman, Transneft)



Metals

HRC N Europe ▲ 53% YTD

Import ban on Russian steel under safeguards



Impacts steel products under safeguard measures - could result in Russia losing about \$3.6 billion in export revenue. Rolled products (rebars, coils) impacted

Revoking 'Most favored nation' status



May significantly increase duties on US imports from Russia, including many metals products, pending Congressional approval

Gold-related transactions with central bank prohibited



New restrictions on gold-related trades aimed at blocking attempts to circumvent US sanctions through the use of gold or other precious metals

Additional 35% tariffs on imports of Russian metals



Could remove over 800,000 mt/year of Russian metals from UK market, including copper, aluminum, lead, silver, iron, steel, iron ore

Key people sanctioned

Oleg Deripaska (founder, Rusal), Roman Abramovich (investor, Evraz, Nor Nickel), Alisher Usmanov (founder, Metalloinvest), Alexei Mordashov (Chairman, Severstal), Viktor Rashnikov (Chairman, majority shareholder, MMK)



Agriculture

Black Sea wheat ▲ 24% YTD

Sanctions on Russia's second largest bank VTB



VTB gave up control of Demetra-Holding, reducing its stake to 45%. Demetra is the largest holding company in Russia's grains sector. The capacity of its two main terminals in the Black Sea is around a quarter of the country's grains exports

International companies scaling back



Cargill has stopped investment in Russia. Bunge has suspended new export business. ADM is scaling down operations outside production and transport

Restriction on access to US dollars



The central bank has blocked withdrawals of more than \$10,000. Wheat sellers have been forced to consider alternatives, such as the dirham. Turkey's state grains board invited offers in rubles and Turkish lira for its March 17 tender

Key people sanctioned

Vadim Moshkovich (founder, Rusagro), Andrei Melnichenko (founder, Eurochem)

Data as of March 28, 2022. Source: S&P Global Commodity Insights. Developed by Rosemary Griffin, Meghan Gordon, Jacqueline Holman, and Reynaldo Drizon. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.



Natural gas

Dutch TTF ▲ 53% YTD

Nord Stream 2 pipeline halted



Prevents 55 Bcm/yr of Russian gas flowing into Germany and European markets. Berlin turns to LNG terminals as alternative

Russia responds with ruble payment demand



Russian President orders Gazprom to switch European gas supply contracts to ruble-based pricing

Phase out of Russian gas imports to boost energy security



EU imported 155 Bcm of Russian gas in 2021, with Russian pipeline deliveries accounting for around one third of the market for non-native supply

Key people sanctioned

Alexei Miller (CEO, Gazprom), Gennady Timchenko (investor, Novatek)



Shipping

Dirty Black Sea-Med ▲ 233% YTD

Full ban on Russian-affiliated shipping from March 1



Swathes of Russian shipping carrying oil, wheat and other commodities have had to reroute to avoid British and Canadian ports. EU has side-stepped calls for a ban

Sovcomflot sanctioned by UK and USA



Company sanctioned and shipping industry avoiding Sovcomflot's 133 vessel fleet, mostly oil tankers, on the spot fixing market

Gibraltar has blocked Russian vessels from docking



Interrupts bunkering at key port at the mouth of the Mediterranean Sea

Western bans on trade in certain goods with Russia

Tanker rates have jumped in tandem with bunker prices. The cost of chartering Aframax tankers to transport oil stood at multiyear highs March 7



Petrochemicals

Methanol FOB Rdam ▲ 3% YTD

South Korea halts exports of MTBE to Russia in February



The Asian country had exported two MTBE cargoes to Russia in Nov 2021 and Jan 2022

UK imposes additional 35% tariff on Russian tire imports



Michelin announced that some of its European plants will stop production for a few days in coming weeks due to logistical issues

Methanol shipments to Europe expected to fall



Buyers are reluctant to buy spot Russian-origin methanol, postponements were seen on the contractual offtakes, resulting in methanol stockpiling in Finland, according to a trader

Key people sanctioned

Dmitry Konov (Chairman, Sibur)



Transacting

Ruble vs Dollar ▼ -20% YTD

Banking sanctions



Russian banks disconnected from SWIFT, major banks including the Central Bank, VTB & Sberbank also sanctioned

Trading barriers



Russia to switch European gas supply contract payments to rubles, could extend to other exports. G7, EU to restrict Central Bank's ability to deploy international reserves including gold

Key people sanctioned

Andrei Kostin (Chairman, VTB), Herman Gref (CEO Sberbank)

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