



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Why we're optimistic for Canada's future:

We see the Ukraine crises play out in three potential scenarios for Canada:

Mixed Sun and Cloud: Russia reverts to a supersized version of North Korea's Hermit Kingdom, with Mr. Putin spending his security and military resources (and at this point they are his) to quash internal dissent. Like North Korea, he carefully leaves the West alone.

Grey Skies with occasional hail: Mr. Putin doubles down, decides he has one chance to strike before the Western Europe/NATO ramps up military capacity. Putin attempts to expand the Ukraine Crisis into Eastern Europe from Latvia to Romania sending Russian tanks West. This effort fails.

Winter Storm Warning: Mr. Putin, in a fit of revenge, sees his Empire dreams crushed and attempts to bring nuclear holocaust down on himself and mostly Western Europe. The last scenario makes for eyeball catching news headlines. It serves little purpose for him.

None of these scenarios are sunny. We think the first is most likely.

Ukraine's 2nd largest city, Kharkiv is a major manufacturing hub. The distance from the western Russian border to Kharkiv is 41 kms, less Duncan to Victoria. After 3 full weeks of conflict, Russian forces have yet to take the city. Russian ground forces are showing a lack of morale, inept supply chains suffering from corrupt suppliers and squandering of resources. An ill-equipped, infantry-based opponent with little in the way of sophisticated hardware has slowed the Russian advance to a standstill. Western military aid is flooding into Ukraine. I wouldn't want to be a Russian helicopter pilot. The Russian army appears to be falling back on Soviet 'devastate everything' approach. That works when you're up against lightly armed guerrillas with no ability to strike back at long range artillery. When your precious artillery and missile launch sites become targets of Turkish drones and NATO cruise missiles, let alone US Apache helicopter gun ships and fighter jets, life looks very different. As Western Europe ramps up military capacity, Putin's military options are narrowing. Fast.

How realistic are Putin's Dreams?

Russia's population of 145 million has been flat to declining. The Russian birthrate of 1.6 per couple has been below the replacement rate of 2.1 for a least a decade. Putin's dreams of empire would see a Russia 'reclaim' control over countries with a combined over 200 million. How does that work?

Wars are expensive. This week U.S. Pres Joe Biden approved a \$800 million military aid package that includes 100 switchblade drones, bringing the total military aid from the U.S. alone to over US\$1 billion.

Some context: The Biden announcement represents 0.13% of the \$600-750 billion annual US Defense budget...in peace time. Russia's foreign currency reserves accessible by the Russian Central Bank were approximately \$640 billion at the end of January/2022. Economic sanctions locked in roughly \$422 billion of those reserves, most of the liquid cash. The remaining reserves are \$135 billion in gold bullion held inside Russia (useless for buying and selling stuff) and \$60 billion in Chinese Yuan. The \$60 billion Yuan figure has analysts pondering Russia buying Chinese military equipment - drones are rumored. Drones are most useful against military vehicle targets like tanks and trucks and stationary artillery/missile launch sites. Artillery is more cost effective at simply leveling cities. Yes, these are the dreadful calculations. Russia is being stopped mostly by mobile infantry, not tanks and trucks. If Russia is being held up by such an inferior fighting force, what happens when they come up against some serious equipment? Does China really want in on this?

Russia's economy in 2019 was the size of Spain's and smaller than Canada's. The annual peacetime US Defense budget exceeded Russia's pre-sanction foreign currency reserves and was close to 45% of Russia's entire GDP in 2019. Russia's GDP is now in free-fall while US and international defense spending is about to balloon. Russia can make a lot of trouble. They simply don't have the resources to prosecute a lengthy and wide-ranging ground war against Europe and the West. Mr. Putin is clearly not happy about it.

In a speech March 16, 2022 via videoconference (not in public!?) Mr. Putin launched into a diatribe against the West.

"Yes, of course, they will back the so-called fifth column, national traitors – those who make money here in our country but live over there, and "live" not in the geographical sense of the word but in their minds, in their servile mentality.

I do not in the least condemn those who have villas in Miami or the French Riviera, who cannot make do without foie gras, oysters or gender freedom as they call it. That is not the problem, not at all. The problem, again, is that many of these people are, essentially, over there in their minds and not here with our people and with Russia. In their opinion –in their opinion! – it is a sign of belonging to the superior caste, the superior race. People like this would sell their own mothers just to be allowed to sit on the entry bench of the superior caste. They want to be just like them and imitate them in everything.

But they forget or just completely fail to see that even if this so-called superior caste needs them, it needs them as expendable raw material to inflict maximum damage on our people.

The collective West is trying to divide our society using, to its own advantage, combat losses and the socioeconomic consequences of the sanctions, and to provoke civil unrest in Russia and use its fifth column in an attempt to achieve this goal. As I mentioned earlier, their goal is to destroy Russia. But any nation, and even more so the Russian people, will always be able to distinguish true patriots from scum and traitors and will simply spit them out like an insect in their mouth, spit them onto the pavement. I am convinced that a natural and necessary self-detoxification of society like this would strengthen our country, our solidarity and cohesion and our readiness to respond to any challenge.

<http://en.kremlin.ru/events/president/transcripts/67996>

In this speech Putin is indeed condemning anyone with money, international experience or those seeking gender freedom. Good old-fashioned fascism addressed to internal security forces and the military. History has not been kind to fascists.

Will Russians put up with this? Will Mr. Putin be replaced via coup? Will the sanctions accelerate this? Unfortunately, North Korea proves overthrow is hard. Despite economic isolation and glaring differences between North and South living standards, 3 generations of Kim's have ruled North Korea with absolute power since 1948. Mr. Putin could remain in control of Russia for many years to come. The Kim's example is to crush internal dissent, but don't push it globally. North Korea is largely ignored because they don't cause much real trouble. A lesson Putin may take from Stalin and North Korea is to militarize the border, lock the population in and don't mess with your neighbors. Bullies will bully while they have easy wins. When the going gets tough they usually find someone else to pick on. Unless Mr. Putin can convince the Russian population that bombing their great Aunt's house in Eastern Ukraine is a worthy cause, he will have to turn inwards to repress dissent. It looks like he's already begun.

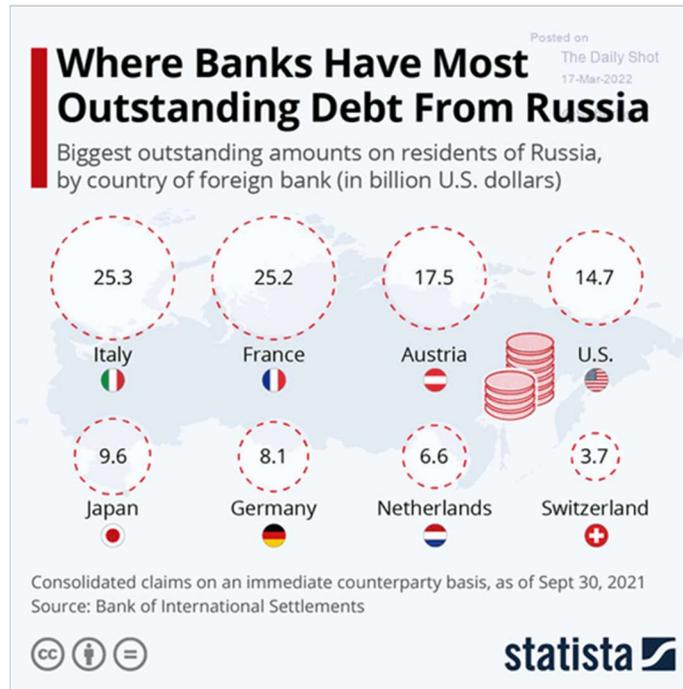
OUR CONCLUSIONS:

Nuclear Armageddon is very unlikely.

Putin blusters and puffs, then finds a way to climb down. He retreats to his own Russian reality and pursues internal dissent. The Ukraine War winds down.

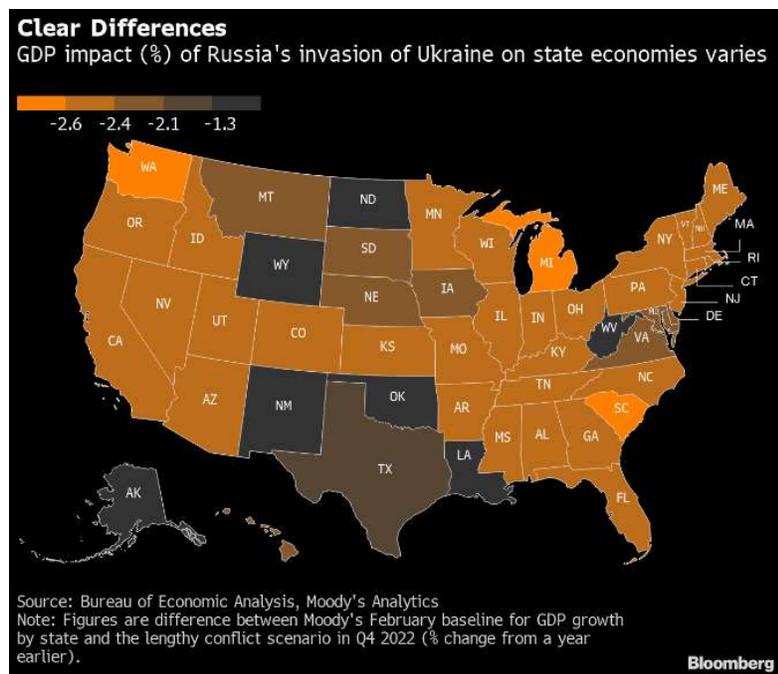
The West is not coming back to Russia any time soon. Western companies doing business in Russia see a one-time loss of all assets. You can't lose something twice. Doable

Russia defaults on its \$150 billion sovereign debt – again. Russian companies with international dollar-denominated debt will default. These losses were manageable in the past and will be so this time. At \$25.3 Billion, Italian banks have the highest direct loan exposure to Russian entities. While painful that value won't cause a collapse of the Italian economy.



Wheat exported from Ukraine and southern Russia mostly moves through Odessa via the Black Sea and out through the Bosphorus (controlled by Turkey). Unless the spring planting can proceed unimpeded, food supplies inside and outside Russia will contract and prices will rise. Rising food prices are a fast route to political turmoil inside Russia. Europe won't be immune but will suffer far less. Russian oil and gas won't be available to Europe for some time if ever. A commodity supply contraction means higher inflation. Interest rates aren't going down. Canada produces more commodities including wheat, than it consumes. We aren't going to starve. We aren't going to be cold. We'll be okay. The West moves on.

Bloomberg analyzed the impact of the Russian invasion of Ukraine's on US state GDP.



Canada’s economy looks more like North Dakota than Washington State. What we produce is suddenly in our favor. Each of our above three scenarios have Canada in a relatively better position than our European neighbors and perhaps even portions of the United States. We believe Canada’s economy will continue to thrive.

Speaking of our neighbors... Fortune 1000 corporations headquartered in Washington (<https://fortune.com/fortune500/>)

Rev’s \$B’s	Corporation	Rev’s \$B	Corporation
\$386	Amazon	\$4.6	Fortive
\$166	Costco	\$4.4	Lululemon
\$143	Microsoft	\$3.5	Alaska Air
\$23.5	Starbucks	\$3.3	Zillow
\$18.5	Paccar	\$3.3	Puget Energy
\$10.7	Nordstrom	\$2.3	F5 Networks
\$10.1	Expeditors Intl	\$2.1	Seagen
\$7.5	Weyerhaeuser	\$2.1	Itron
\$5.1	Expedia	\$1.8	Clearwater Paper

There’s a reason Washington State has a personal income tax rate of 0%.

Note to British Columbia. You won’t attract large, tax paying entities by applying high income tax rates on the high wages paid to workers in those corporations.

It is telling of the US economy out of the Fortune 1,000, #1 Walmart and #2 Amazon are retailers. Amazon paid over \$278 million in Washington State and local taxes in 2020. The company has been a long running target over their tax rates. There’s even a Wikipedia page on the issue: https://en.wikipedia.org/wiki/Amazon_tax

As energy has been center stage this week...

Oxford Short-term Outlook March, 2022 - Oxford Institute for Energy Studies Mar 14, 2022

Special Issue

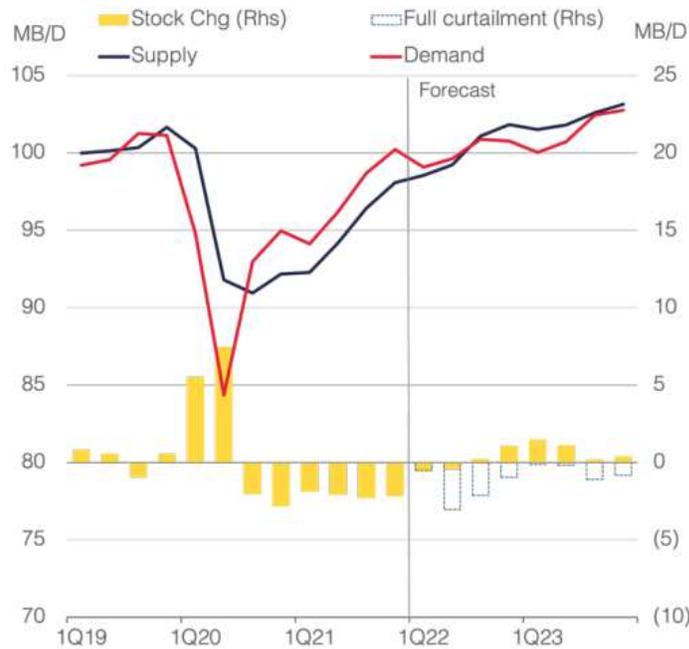
Implications of Ukraine war on short-term oil market outlook

“The most plausible scenario for 2022 is for the market to remain in deficit, as previously expected surpluses are now nearly eliminated. Our best-case scenario now sees supply/demand conditions only balanced in 2022, with the risk of deficits building in an already tight stocks environment across all quarters. The supply/demand gap in 2022 ranges between -1.9 mb/d and 0.5 mb/d, with the prospect of a more balanced market reappearing again towards the end of 2022 and in 2023”

TRANSLATION: Oil prices aren’t headed lower (SH).



Global balance



Source: OIES

<https://www.oxfordenergy.org/wpcms/wp-content/uploads/2022/03/OIES-Oil-Monthly-Issue-12.pdf>

How does Europe plan to ween itself from Russian natural gas?

In 2021 Russia supplied 140 billion cubic meters (bcm) of natural gas to Europe, 40% of consumption, much of that through pipelines, some passing through Ukraine. Europe also imports LNG. The top supplier of LNG to Europe in 2021 was the United States at 26% of LNG imports, followed by Qatar at 20% and Russia at 20%. Canada is not on the list.

<https://www.eia.gov/todayinenergy/detail.php?id=51358>

Paris-based **International Energy Agency (IEA)** recently provided Europe’s 10-point plan to offset 101 Bcm of Russian gas imports in 2022. The remaining 40 Bcm is MIA.

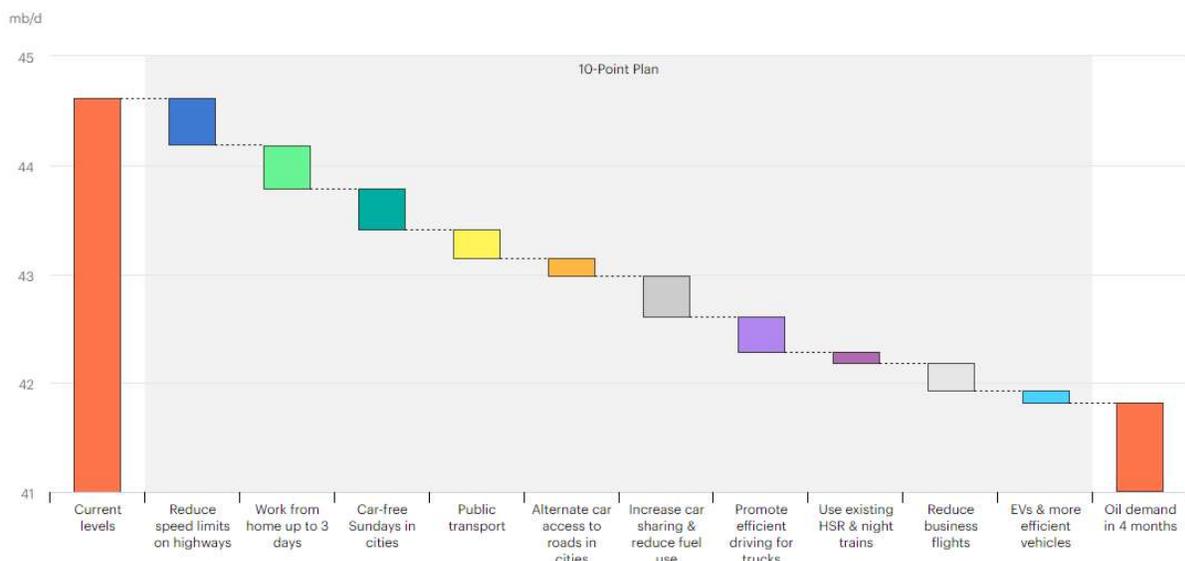
<https://www.iea.org/reports/a-10-point-plan-to-reduce-the-european-unions-reliance-on-russian-natural-gas>

The 10 point summary for 2022 Russian energy offsets. The original text is in italics.



Ten Point ‘RePowerEU’ Plan :

1. Do not sign any new gas supply contracts with Russia. [Impact: Enables greater diversification of supply this year and beyond]
2. Replace Russian supplies with gas from alternative sources [Impact: Increases non-Russian gas supply by around 30 billion cubic metres within a year]
3. Introduce minimum gas storage obligations [Impact: Enhances resilience of the gas system by next winter]
4. Accelerate the deployment of new wind and solar projects [Impact: Reduces gas use by 6 billion cubic metres within a year] **NOTE: 6 bcm out of 140 bcm -SH**
5. Maximise power generation from bioenergy and nuclear [Impact: Reduces gas use by 13 billion cubic metres within a year] **Canada’s Cameco (CCO-TSX-\$32.15)-SH.**
6. **Enact short-term tax measures on windfall profits to shelter vulnerable electricity consumers from high prices [Impact: Cuts energy bills even when gas prices remain high] SIGH – see comment.**
7. Speed up the replacement of gas boilers with heat pumps [Impact: Reduces gas use by an additional 2 billion cubic metres within a year] **NOTE: Increases electrical draw SH.**
8. Accelerate energy efficiency improvements in buildings and industry [Impact: Reduces gas use by close to 2 billion cubic metres within a year]
9. Encourage a temporary thermostat reduction of 1 °C by consumers [Impact: Reduces gas use by some 10 billion cubic metres within a year] **Be cold/wear sweaters - SH**
10. Step up efforts to diversify and decarbonise sources of power system flexibility [Impact: Loosens the strong links between gas supply and Europe’s electricity security]

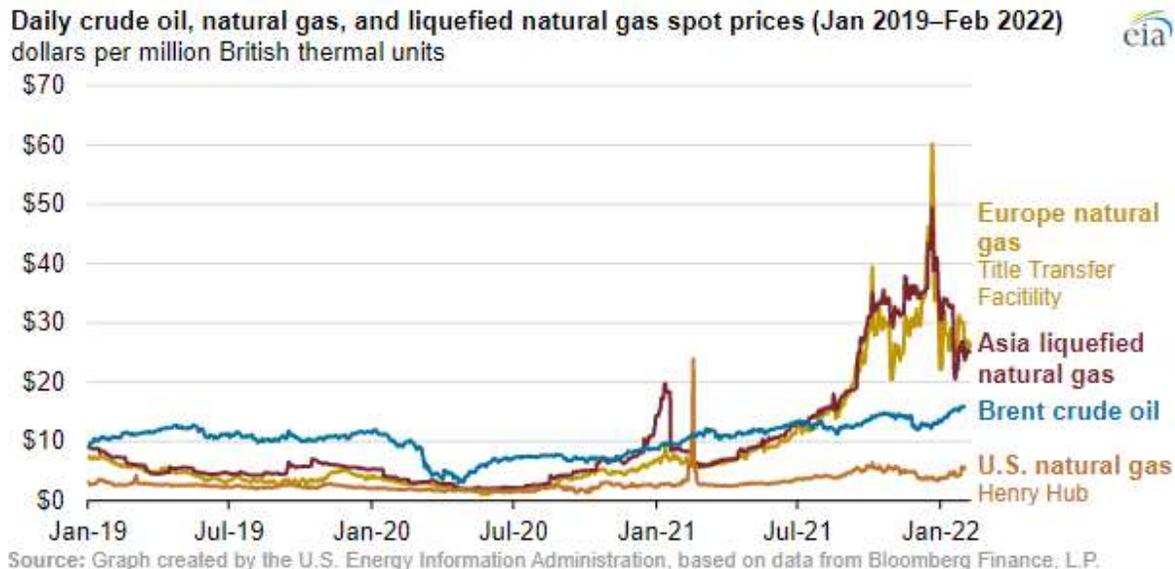


Most points involve reducing consumption. The grandmothers know how rationing works.

On Point 6: The EU bureaucrats just can’t help themselves. They must enact a tax somewhere in this plan. This one’s on ‘Windfall Profits’. Point 6 displays lack of understanding of incentive systems (IE capitalism). Or it’s preparing blame. Let’s explain. Europe must attract natural gas from sources that previously weren’t headed their way. To



induce supply, Europe must pay up. The sellers will only sell to Europe if they make more profit than they would have made selling to the previous customers. If that gas goes to Europe, those previous customers must then compete with Europe to buy the same gas they previously anticipated. This means Europe’s demand for non-Russian sourced gas, the reliance upon which is the result of EU actions, is raising the price they and the previous now competing customers must pay. The following chart courtesy the **US Fed Govt Energy Information Administration (EIA - not to be confused with the IEA)** proves this relationship.



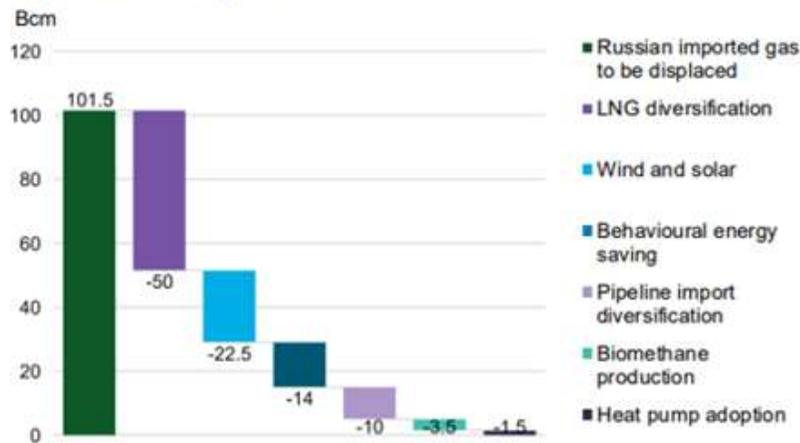
Principal contributors: Victoria Zaretskaya, Chris Peterson, Warren Wilczewski

Note the difference between US gas prices in US (and Canada) and Europe. There’s a strong price incentive to ship gas to Europe. Note Asia competes with Europe for LNG. Small wonder China and Russia are talking direct pipeline access. Too bad Canada has no gas pipelines to the beach. Our pipelines run south into the US. The US sells their domestic sourced gas to Europe at a huge premium, replacing US domestic demand for gas from Canadian sources at a much lower cost. USA gets the profits, Canada misses out.

Back to Point 6: EU leaders promise their windfall profits tax will “*cut energy bills even when gas prices remain high*”. The implication is that gas sellers are, by delivering gas at a time of great risk and need, receiving a ‘windfall’ (gouging and bad) and that a *Wind Fall Tax* will pay for the increased consumer energy bills. Point 6 implies the energy suppliers will somehow partially pay for Europe’s self-induced gas crises. As the suppliers are not European, good luck with that. If Europe applies a short-term windfall profits tax (taxes are sticky) gas suppliers will either add the Windfall Tax to their as-delivered price or they won’t deliver. If they don’t deliver, Europe must bid up until some else will. This means the price of gas will be increased by the Windfall Tax. Consumers won’t be sheltered. Europe will either a) borrow money to cover the cost to consumers or b) will be forced by budget deficits (or by the bond market) to decide it can’t shelter consumers after all. Either way interest rates aren’t likely to fall. As always, the consumer and the tax-payer pays. Will someone please remind elected officials the two are one and the same.



EU targets for Russian gas imports to be displaced in 2022 by sectoral targets



Source: European Commission, BloombergNEF.

Russian gas exports to Europe averaged 140 billion cubic meters in 2021. The 10-point plan targets 101 BCM offset in 2022. 39 bcm is MIA. 22.5% offset is (hopefully) to be achieved from Wind/Solar while 14% is from 'behavioural changes' (rationing). Heat pump (electrical power) adoption saves 1.5%. Wind/solar/heat pumps equal (maybe) 25% offset. Renewable advocates will be pleased. A significant portion of the rest is to come from LNG imports. For the past 5 years, I've been that crazy man on the hill shouting at clouds about Canada's zero LNG export capacity constrained by politics. Europe will buy LNG, but not from Canada. Maybe it's time to revisit Canadian energy infrastructure? Hello? Anyone out there? (crickets chirping in Ottawa).

What LNG Can and Can't Do to Replace Europe's Imports of Russian Gas – Bloomberg Mar 11, 2022

<https://www.bloomberg.com/news/articles/2022-03-11/what-lng-can-and-can-t-do-to-replace-russian-gas-quicktake>

'Opinion | Putin Isn't Just an Autocrat. He's Something Worse.' – Politico Mar 14, 2022

<https://www.politico.com/news/magazine/2022/03/14/lets-call-putin-fascist-autocrat-00016982>

The End of Russian Finance – Peter Zeihan March 17, 2022

<https://us11.campaign-archive.com/?u=de2bc41f8324e6955ef65e0c9&id=a90e7fd0ec>

While Mr. Zeihan leans toward hyperbole, his observations are worth reading. He predicts Russia could see upheaval and further splintering. Venezuela is an example.

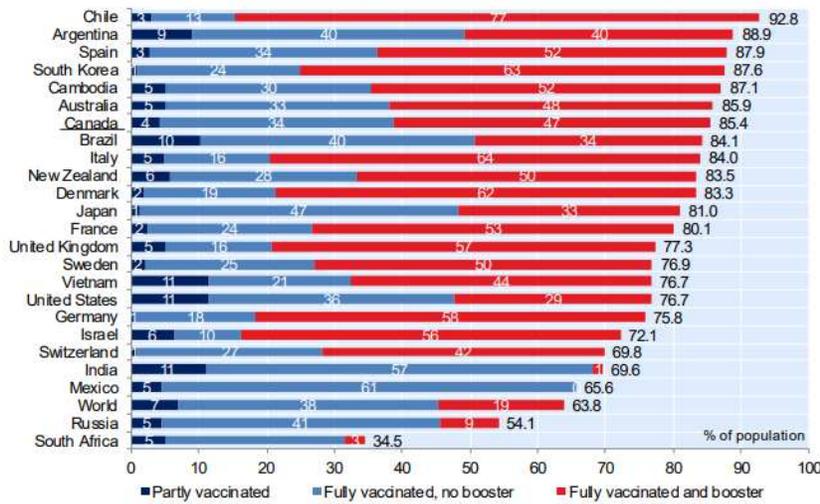
'Venezuela: The Rise and Fall of a Petrostate' Council on Foreign Relations

<https://www.cfr.org/backgrounder/venezuela-crisis>

Rather than blowing holes in civilian buildings, and in their economy, Russia’s leadership could have focused on protecting its citizenry from infection. Only South Africa has a lower vaccination rate.

16. World: Perspective on vaccine rollout

Share of population partly and fully vaccinated against COVID-19



NBF Economics and Strategy (data via <https://ourworldindata.org/covid-vaccinations>)

Markets in everything...



vice.com

Custom LEGO of Zelenskyy and Molotov Cocktails Raise Funds for Uk... Citizen Brick is raising money for medical supplies in Ukraine by selling custom figures of the symbols of resistance.



Bottom Line: We've been buyers of stocks this week. We plan to continue to do so. We are not sellers. Дякую (thank you in Ukrainian) for defending all of us.

Have a Safe Weekend

Steve & Anna Hilberry



FOR THE RECORD Mar 18, 2022

DOW INDUSTRIALS:	34,480
S&P 500:	4,431
S&P/TSX COMP:	21844
WTI:	\$104.25
LOONIE IN \$USD:	\$0.7923 \$US

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