

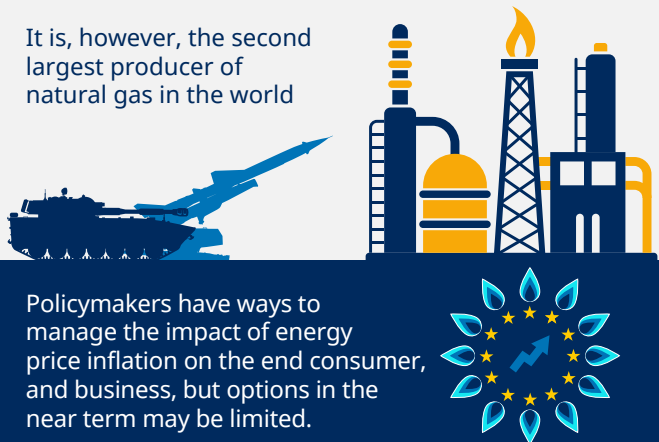
Ukraine crisis highlights Europe's dependency on Russian gas

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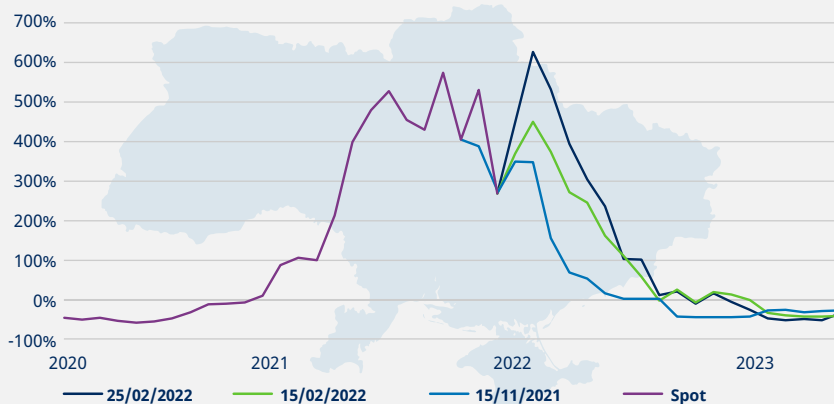
Russia is facing the ire of the world following its invasion of Ukraine

It is, however, the second largest producer of natural gas in the world

Policymakers have ways to manage the impact of energy price inflation on the end consumer, and business, but options in the near term may be limited.



European gas price inflation - bigger spike up, but similar profile



Lines show expected path of European gas price inflation implied by "futures" markets at different points in time. Futures are tradable agreements to buy and sell a set amount of commodities at set prices at set dates in the future. Shows expected year-on-year change in euros per therm of gas. Source: Refinitiv, Schroders Economics Group, 25 February 2022.

What's the likely economic impact of the Ukraine conflict?

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The economic outcome of the tragic events in Ukraine are likely to include:

- Higher inflation
- Stagflationary global economy
- Weaker growth

Stagflation is the combination of slowing growth and accelerating inflation

Schroders' new global CPI forecast 2022 (year-on-year)

+4.7%

+3.8%

prior to invasion of Ukraine

Source: Schroders Economics Group as at February 2022.

Consumer price indices (CPI) are widely used to track consumer inflation

Russian aggression looks set to keep energy and food costs elevated

Fears of disruption to Ukrainian and Russian exports have seen prices of wheat and fertiliser rise sharply

- The increase in wholesale food prices is less headline grabbing than oil
- but food is a more significant component of consumer price indices (CPI), which are used to track consumer inflation

+20%

year-on-year gain in wholesale food prices in January 2022 (Food and Agriculture Organization (FAO) Food Price Index)

Before Russia invaded Ukraine, food price inflation had been moderating, albeit it was still elevated

Source: Refinitiv Datastream, Schroders Economics Group, as at February 2022.

Source: Schroders as at March 2022.

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