

TOP RISKS 2022

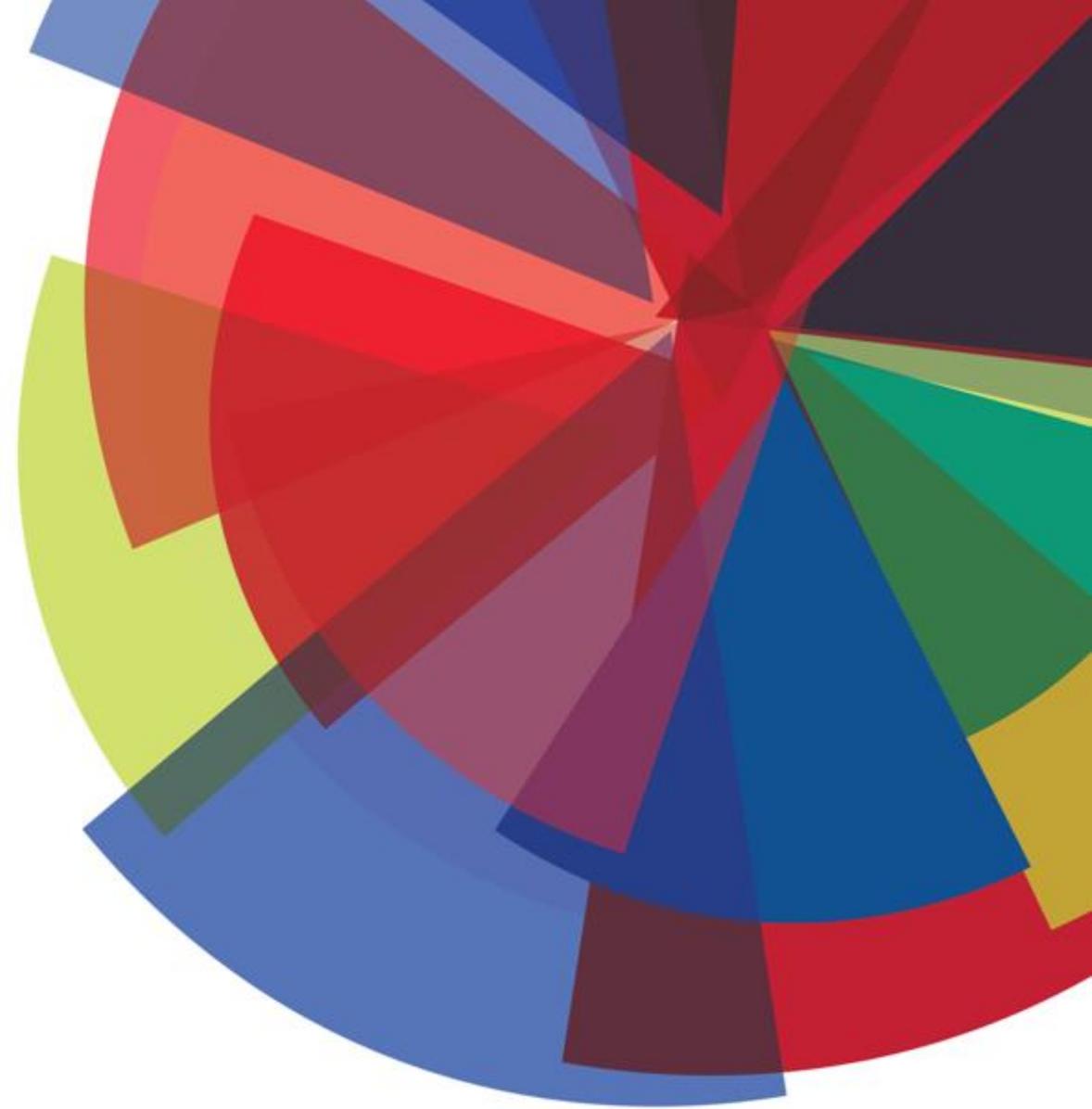


2022 Top Geopolitical Risks

March 2022

Introducing 2022 Top Risks

1. No-zero Covid
2. Technopolar World
3. US midterms
4. China at home
5. Russia
6. Iran
7. Two steps greener, one step back
8. Empty lands
9. Corporates losing the culture wars
10. Turkey



Top Risks Heat Map for Middle East corporations



Risk and key geographies

Market impact

1. No zero covid (China)

Oil demand; global supply chains; economic growth

2. Technopolar world (US, China E,U)

Global operations

3. US midterms

Climate/energy policy; US growth & investment climate

4. China at home

China growth; energy demand outlook; policy stability

5. Russia

Global growth; global geopolitics; energy markets and dynamics

6. Iran

JCPOA re-entry; oil supply impact; regional stability

7. Two steps greener, one step back (global climate)

Emissions policy; ESG implications; regional economy

8. Empty lands

Instability; security risk

9. Corporates losing the culture war (US, EU, China)

Social license to operate; clean supply chains; ESG

10. Turkey

Regional policy



Russia

- The security crisis is the most significant in Europe since the 1960s.
- The fallout could reshape European security architecture and last for years.
- Russia's relations with the US and Europe will be reset.
- Sanctions will remain in place and be tightened unless Russia withdraws.
- The economic and energy consequences will be felt globally, with risks to economic growth and inflation.



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“Long-conflict” the most probable outcome

55%

- Partial Russian territorial control
- Conflict with west continues
- Regime Change
- Sanctions tightened

30%

- Russian withdrawal
- Negotiated détente
- Ukraine government survives
- Sanctions slowly unwind

15%

- Full Russian territorial control
- Conflict with west escalates
- Regime Change
- Maximal sanctions



Sanctions



Conflict



Economic drag



Western sanctions are increasing

Current US & EU sanctions

- Targeted individual asset freeze
- Foreign reserve freeze on CBR
- Remove 7 banks from SWIFT global payments system
- Cut off Sberbank and VTB Bank from US financial system
- Ban on 7 banks from issuing new primary debt in western markets
- Restrictions on Gazprom, Gazpromneft, Transneft, and RusHydro from raising money through US markets
- Restrictions on export of high-end US technology to Russia in defense, aerospace, and maritime sectors
- US trade ban

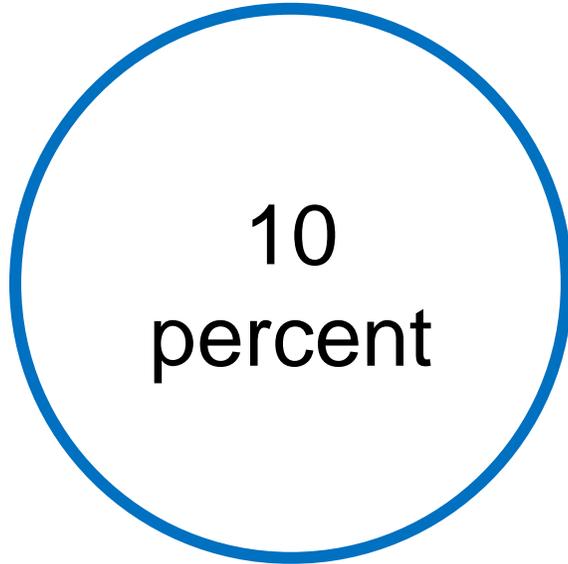
Likely measures (next 3 months)

- Expansion of targeted individual asset freeze
- Removal of more banks from SWIFT
- Expand block from US financial system to more Russian banks
- Blanket ban on debt issuance in western markets
- Expansion of trade restriction by including additional sectors

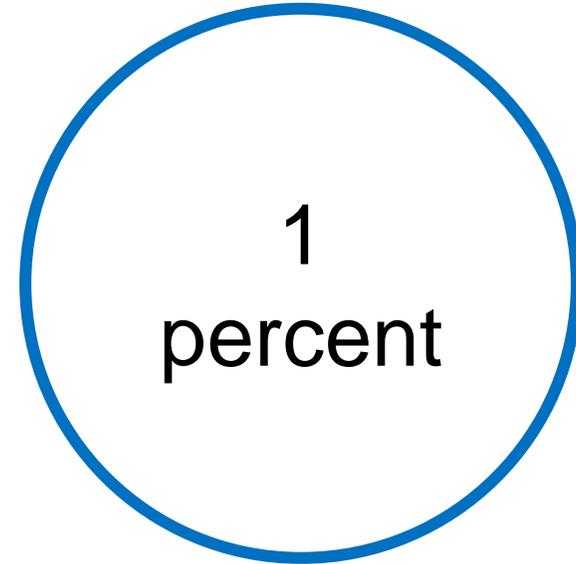
Severe scenario

- Cutting off Russian financial sector entirely from US and EU financial systems
- Remove Russian financial sector entirely from SWIFT
- EU suspension of gas imports via Ukraine

Crisis will hit global growth



Contraction of Russian growth



Contraction of global growth

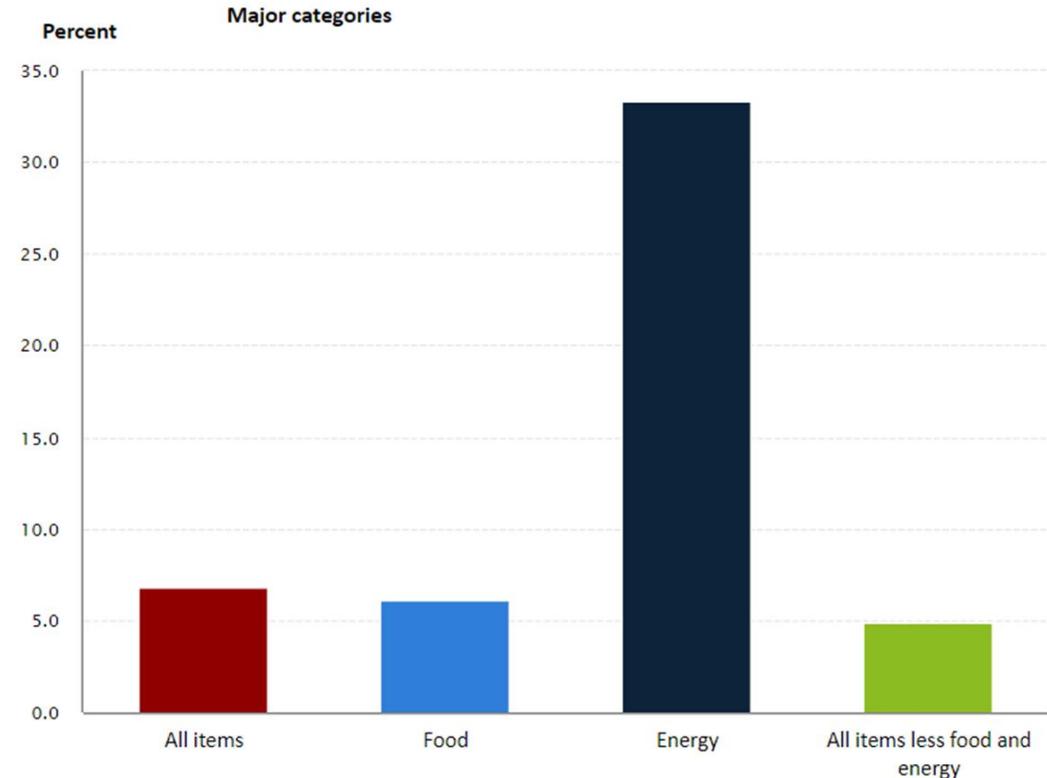


Global inflation risks

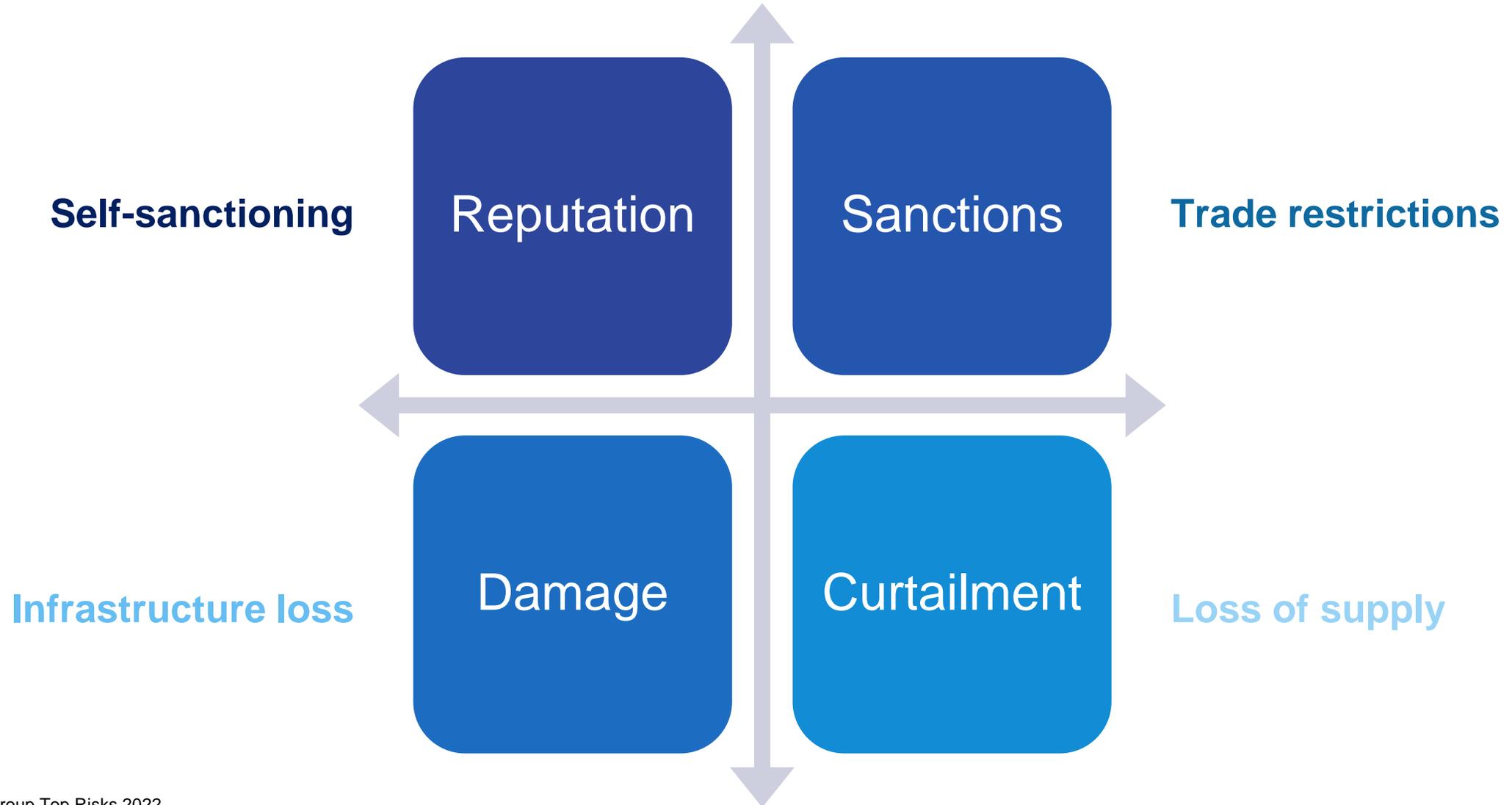
- High inflation readings in Q4 2021 across many industrial and emerging markets have compelled central banks to prioritize curbing inflation
- The Fed is sending message that price stability is its primary focus and that it is prepared to hike rates aggressively if needed
- Inflation concerns are uniting political parties in the US
- The Fed has stressed a commitment to use all tools, but post pandemic economy is still evolving and will be different from the past
- Sustained price pressures are one of several issues complicating Biden's fiscal plans

12-month percentage change, Consumer Price Index, selected categories, November 2021, not seasonally adjusted

[Click on columns to drill down](#)

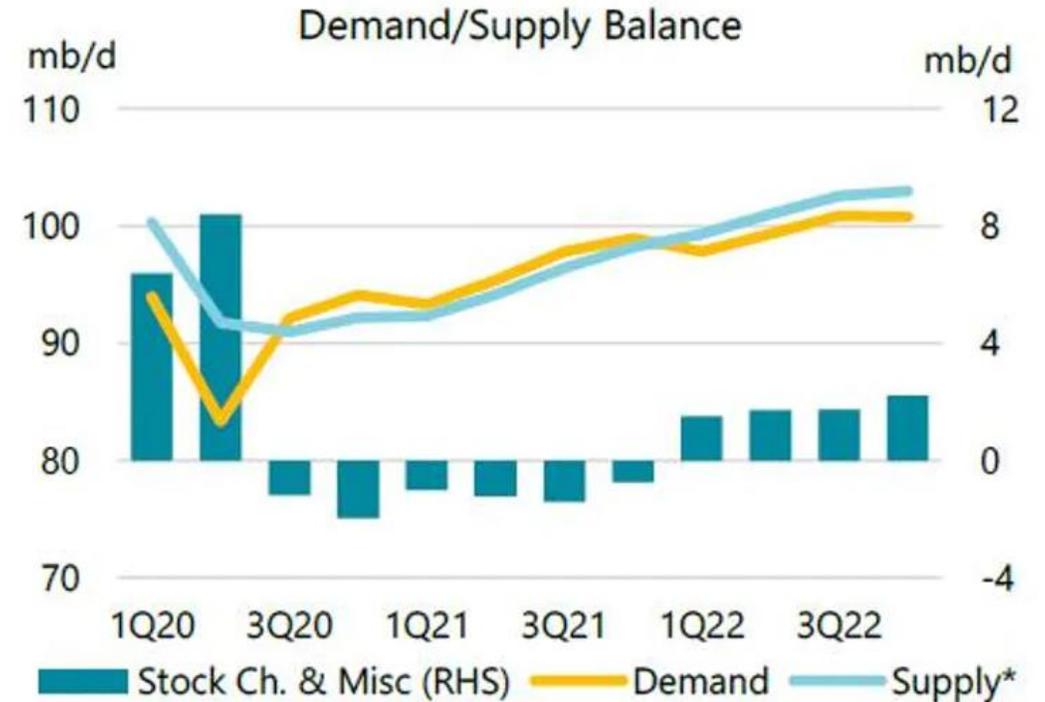
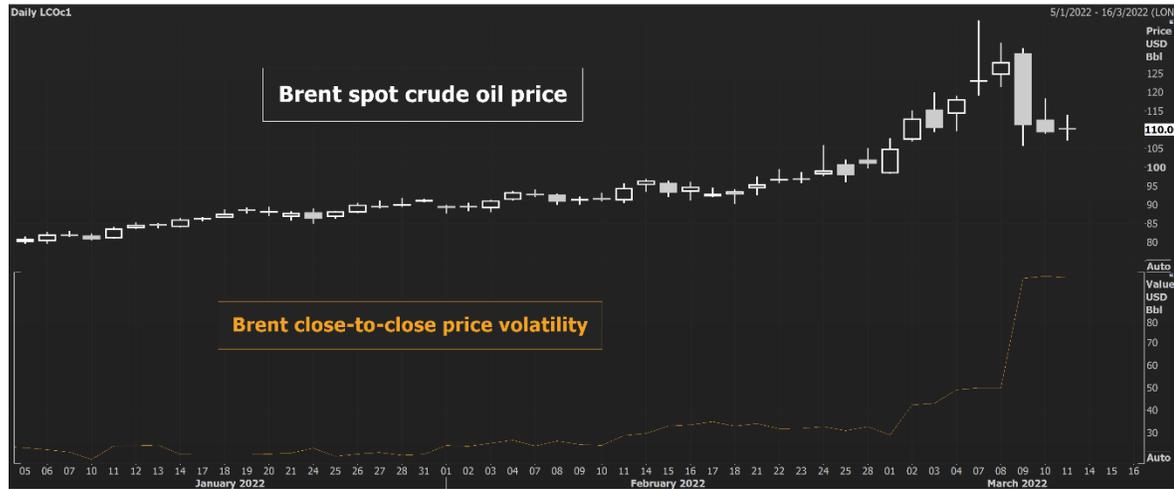


Four risks to energy flows



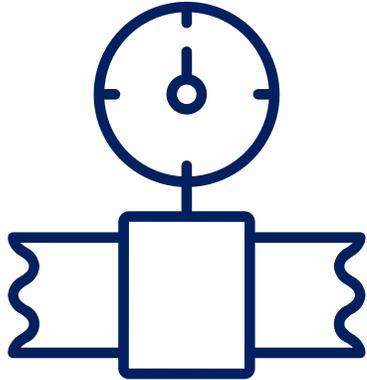
Bullish short term but the outlook is bearish

Brent spot crude oil price



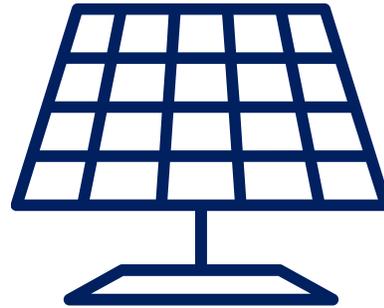
* Assumes OPEC+ unwinds cuts. Iran remains under sanctions.

A new energy landscape?



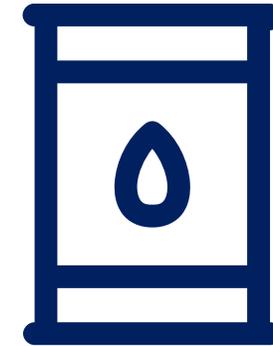
New gas geopolitics

- EU partial decoupling from Russia gives China greater leverage
- LNG becomes a geopolitical commodity



Energy transitions pace

- Energy security and politics heightens different regional pace of energy transitions
- EU accelerates towards change



Strategic stocks manage prices

- Consumer strategic stocks used as swing production
- OPEC neutrality despite production shortfalls

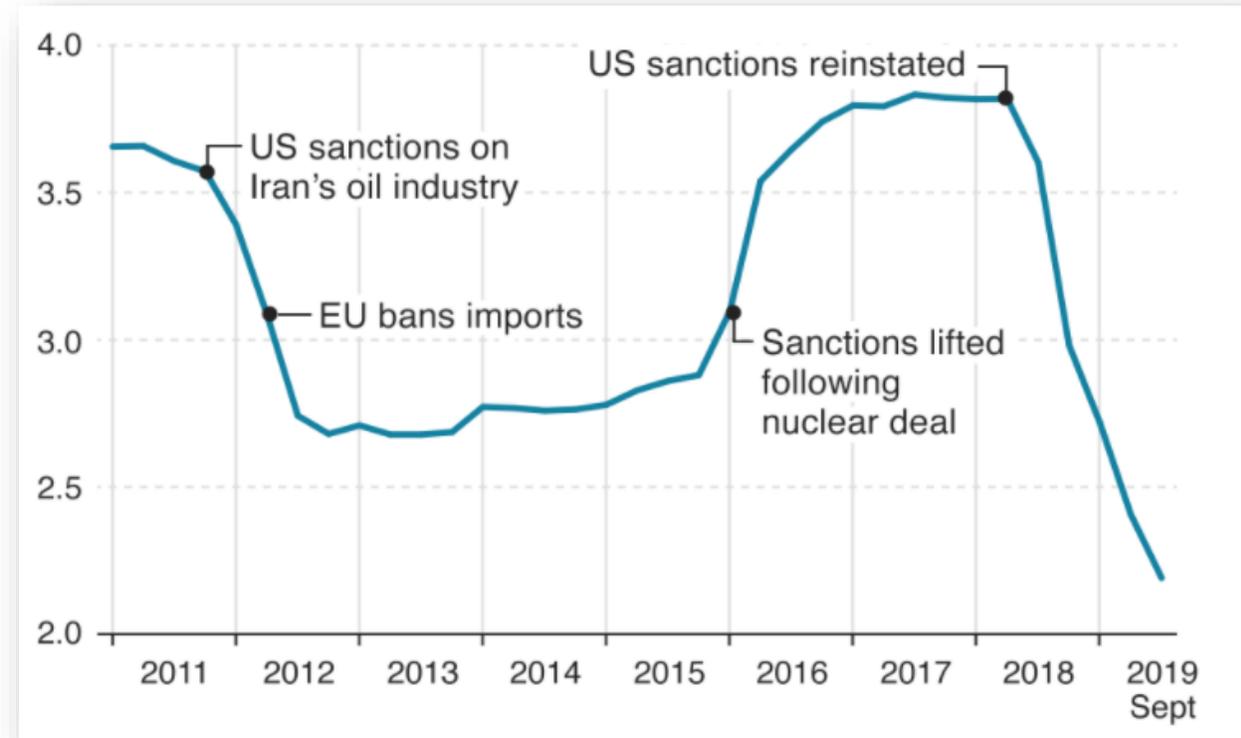


Iran

- Iran will impact oil market balances significantly if a nuclear deal is reached
- Iranian oil could come back onto the market more quickly than in 2015
- Tensions between US/Israel and Iran will escalate and add bullish pressure if nuclear talks fail to reach a deal
- Israel will intensify cyberattacks and sabotage, triggering Iranian retaliation
- The US will increase diplomatic and economic pressure, setting the region and oil markets on edge

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Iranian exports (million barrels per day)



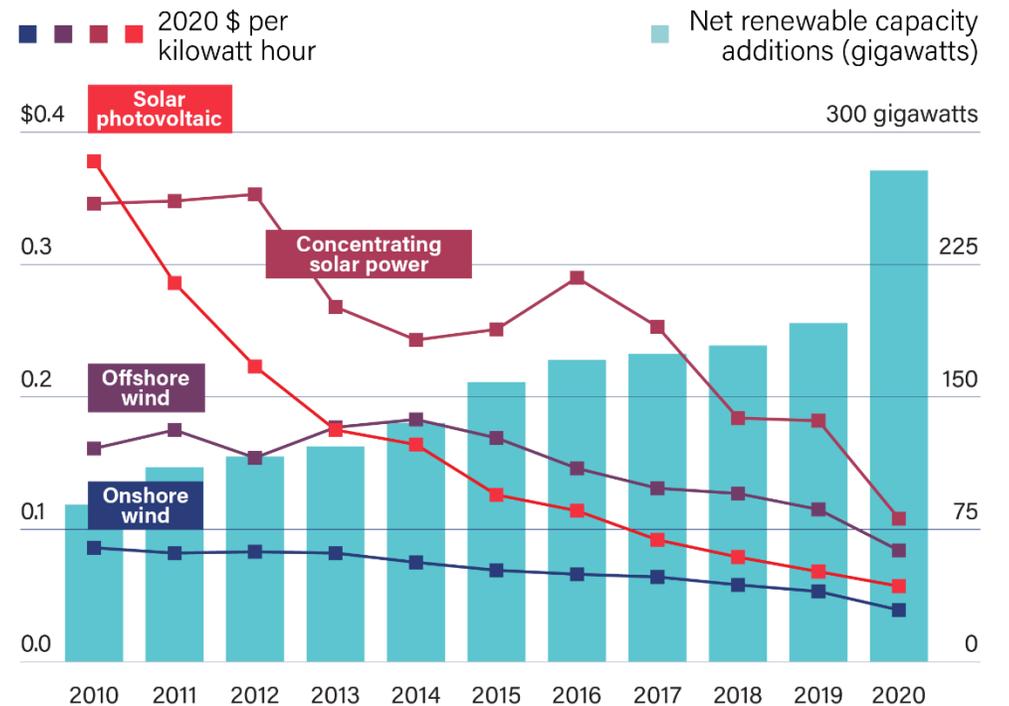


Two steps greener, one step back

- Long-term decarbonization targets will collide with short-term energy needs in 2022
- Rising energy prices will raise anxiety levels for both voters and elected officials – even as climate pressures on government increase
- There will be few coordinated global responses to energy shortages

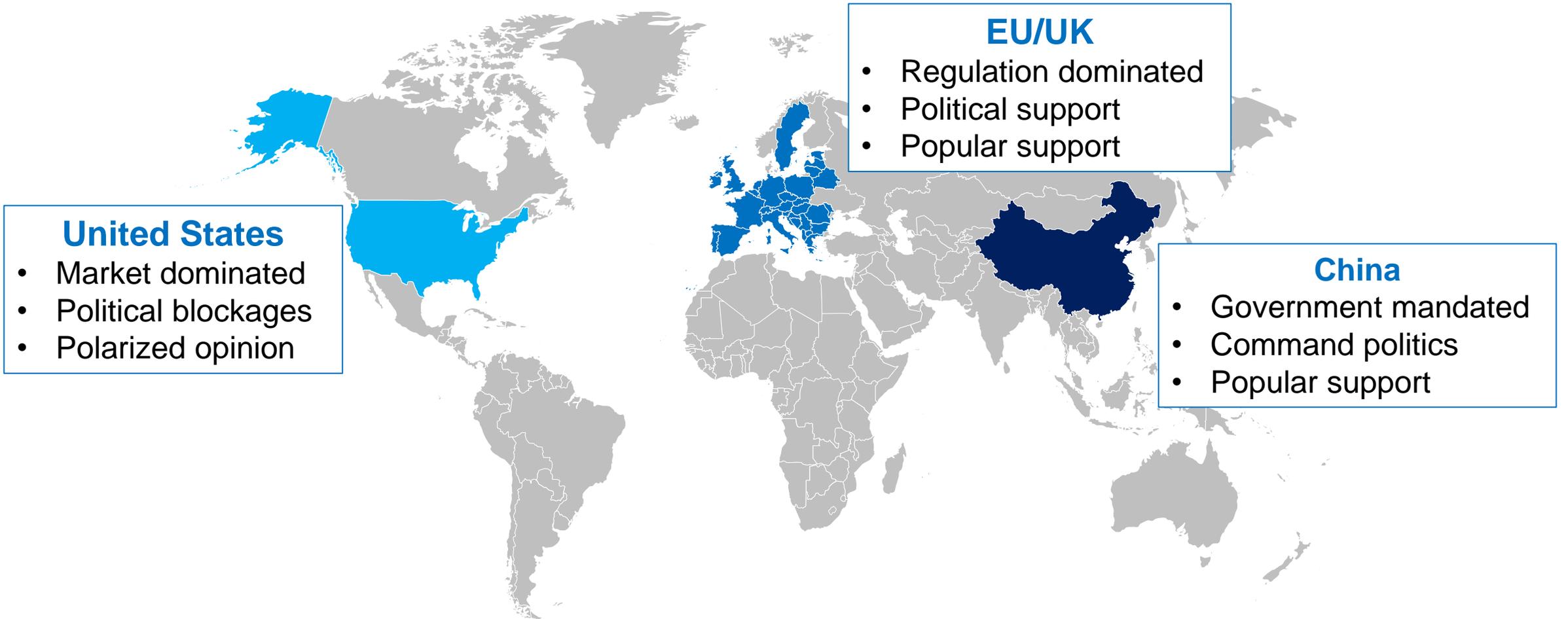
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Costs continue to fall for solar and wind technologies as renewable energy is added



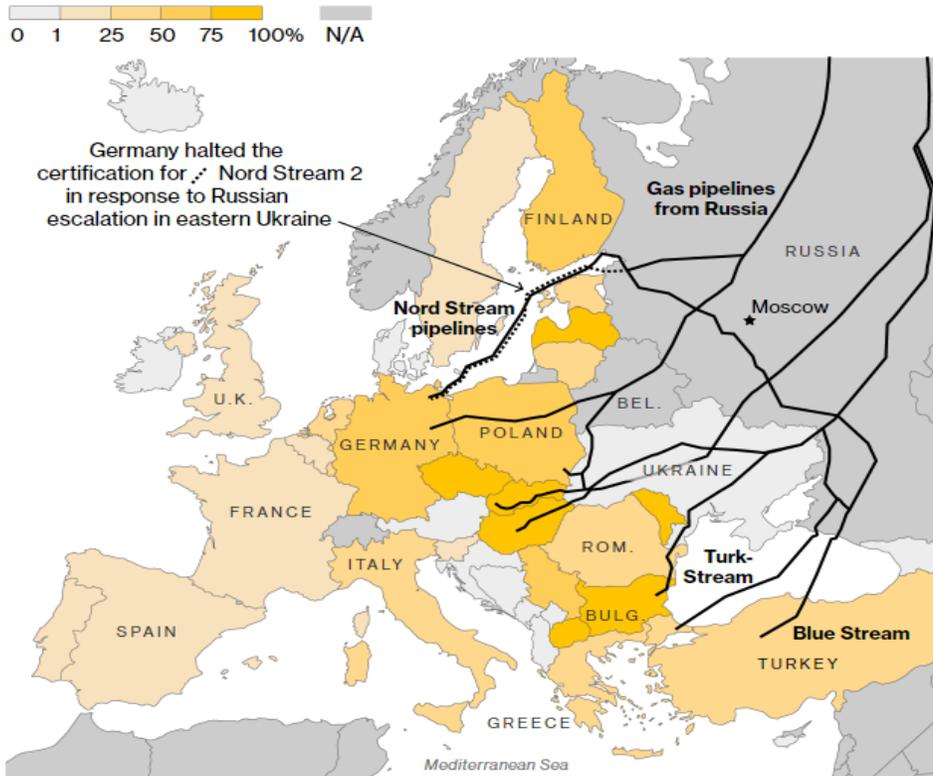
Source: International Renewable Energy Agency, International Energy Agency

Strategic divergence in energy transitions?

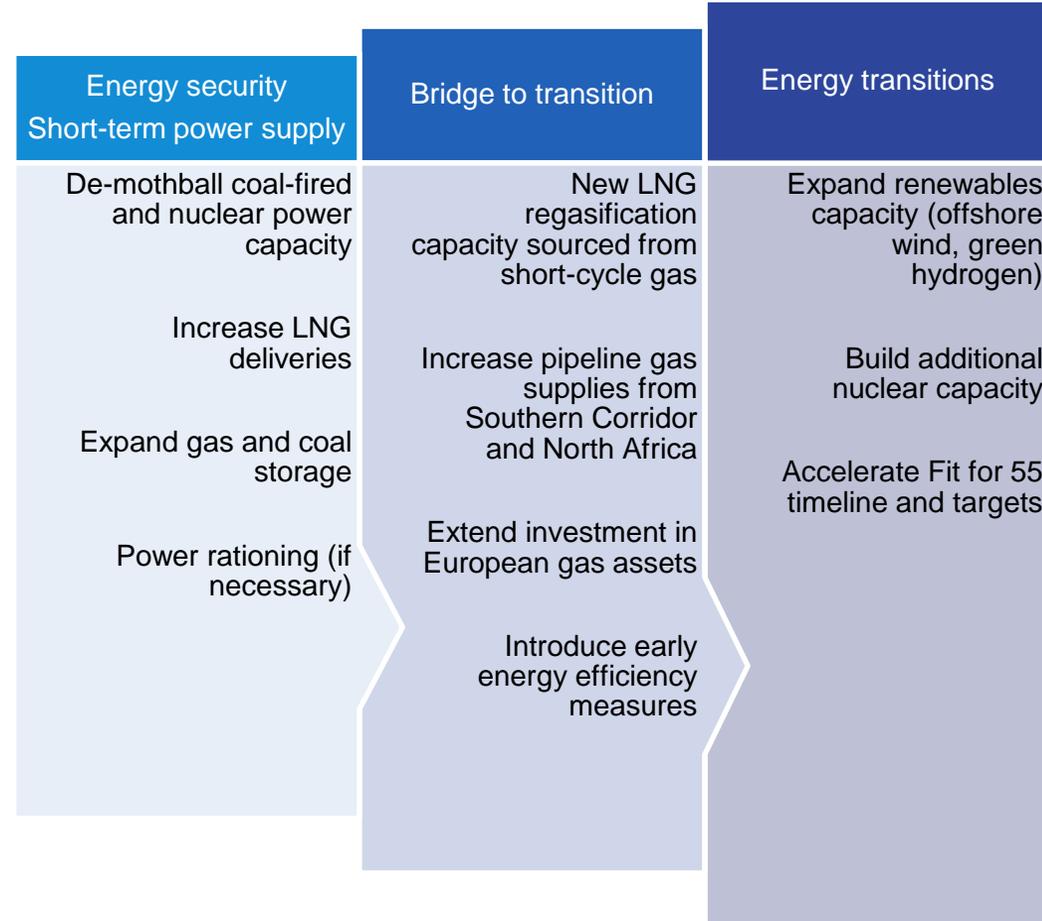


EU accelerates long-term decarbonization

Share of Natural Gas Imports Coming From Russia, 2020



Sources: Eurostat; U.S. Energy Information Administration
 Note: Data for 2020 are not available for the U.K. and Bosnia-Herzegovina, 2019 data are shown in those countries. Norway imported 10 million cubic meters of gas from Russia in 2020, but as a net exporter is not dependent on Russian imports



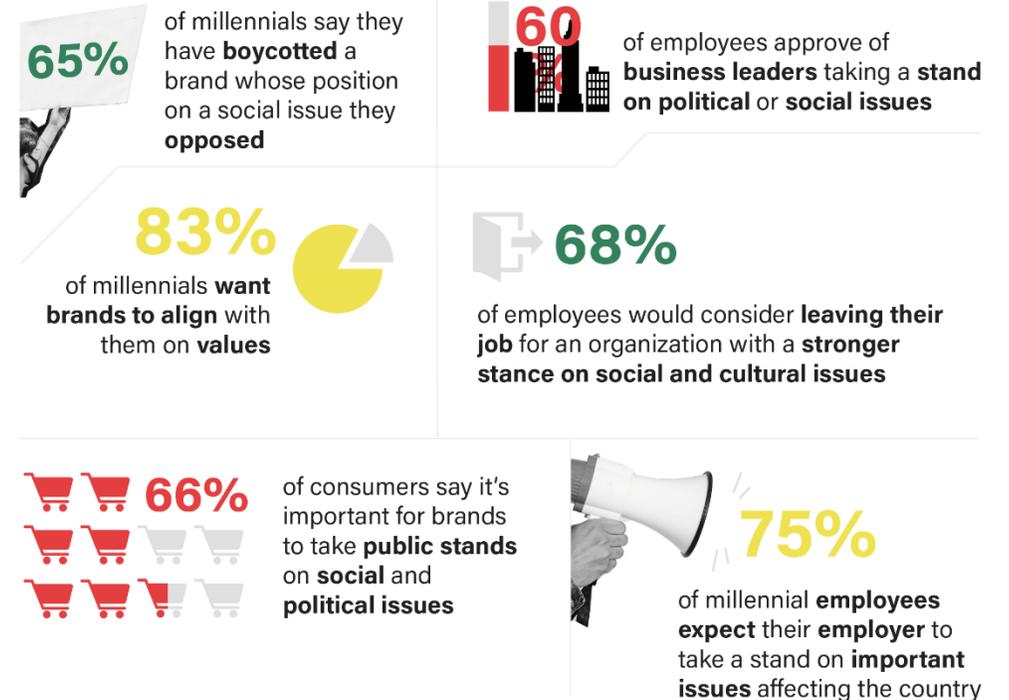


Corporates losing the culture wars

- The world's biggest brands look forward to record profits but a more difficult year managing politics.
- Consumers and employees, empowered by “cancel culture” and enabled by social media, will make new demands on multinational corporations and the governments that regulate them.
- Multinationals will spend more time and money navigating environmental, cultural, social, and political minefields.
- Companies in the US and China face special risks.

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Damned if they do, damned if they don't

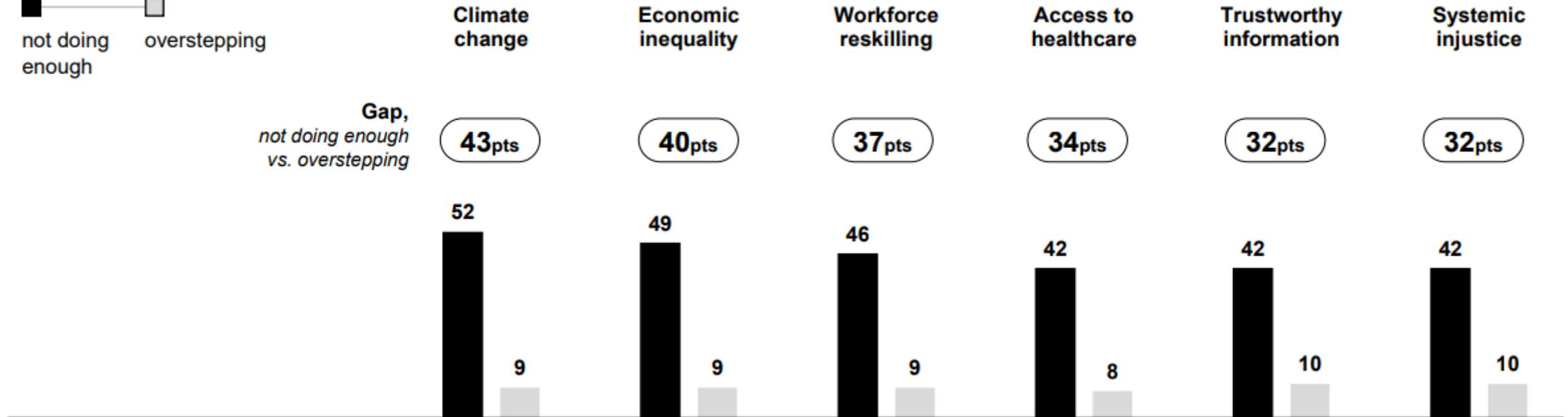


Populations want companies to do more

Want more not less business engagement (percent)

On addressing each **societal issue**,
business is...

■ not doing enough
□ overstepping



Source: Edelman Trust Barometer, 2022

Stakeholders hold businesses accountable

Issues drive choices

58%

**Buy or advocate
for brands**
based on their beliefs
and values

60%

**Choose a place
to work**
based on their beliefs
and values

64%

Invest
based on their
beliefs and values

88%

of institutional investors
subject ESG to the same scrutiny
as operational and financial
considerations

Source: Edelman Trust Barometer, 2022



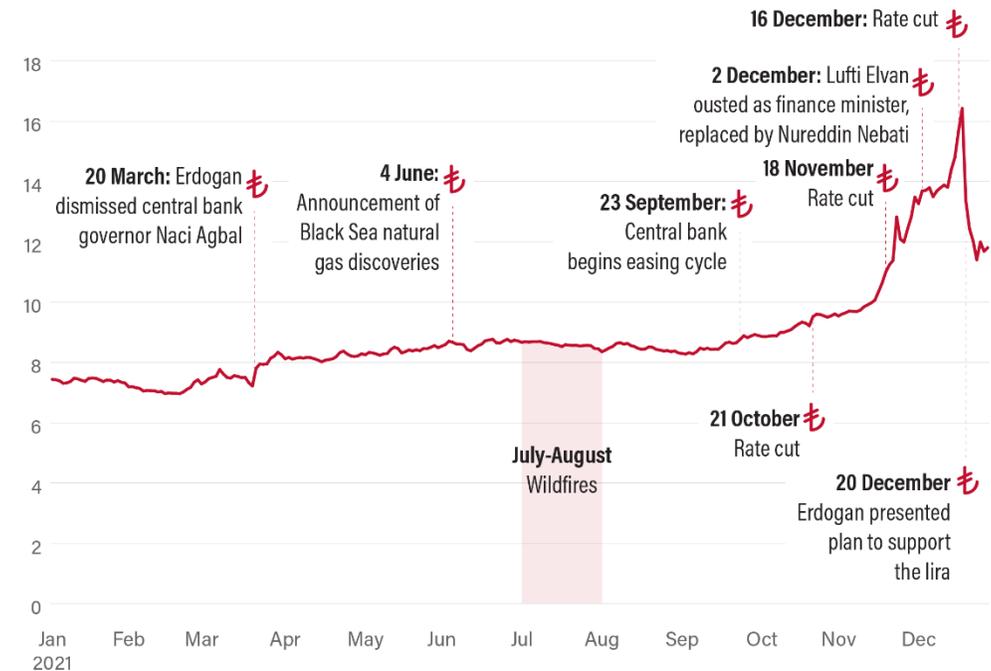
Turkey

- Erdogan will drag Turkey's economy and foreign standing to new lows.
- Economic policy will remain unorthodox and stoke more fiscal and inflationary risks.
- Erdogan's foreign policy will be erratic and impulsive, risking US sanctions.
- Early elections are possible in 2022.

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Turkish lira

USDTRY





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