What Canadian Investors Should Know About the Ukraine-Russia Conflict

Description

You must have heard about the geopolitical tensions between Russia and Ukraine. This conflict has impacted global stock markets, and oil and natural gas companies are the biggest beneficiaries. You might wonder how two countries from a different continent impact Canada. That is where globalization and interdependence come in. Buckle up for some history and the role of oil in this conflict.

What is the Russia-Ukraine conflict?

In 1949, the United States, Canada, and several Western European nations created the North Atlantic Treaty Organization (NATO) to provide collective security against the Soviet Union (Russia). The Russia-Ukraine conflict began in 2008 when Ukraine expressed its thoughts about joining NATO.

Ukraine shares a 1,200-mile border with Russia. Russia doesn’t want Ukraine to join NATO. Hence, Russia has been deploying military forces along the Ukrainian border.

The conflict is now at an inflection point, and the world fears that Russia might attempt to invade Ukraine. The United States has warned of imposing sanctions on Russia if it invades Ukraine. A lot of diplomatic negotiations are ongoing, but the market remains tense until an agreement is reached.

Where does oil come in all the debate?

Russia has some of the largest oil reserves and supplies 39% of Europe’s natural gas needs. Russia’s economy is dependent on oil and natural gas exports. It pays billions of dollars in transit fees to Ukraine to supply natural gas to Europe. It built a Nord Stream 2 pipeline to supply natural gas to Germany without having to pay transit fees to Ukraine. Hence, Ukraine is against Russia.

The United States probably wants to become a prominent supplier of liquefied natural gas (LNG) to Europe. Imposing sanctions on Russia could significantly impact Russia's economy and give theUnited States a new source of income through LNG exports to Europe. Canada is a major exporter ofoil to the United States. Canada, the United States, and Russia are linked through oil and gas.

In the present situation, the oil supply is tight. The Organization of the Petroleum Exporting Countries (OPEC) is struggling to increase oil production. Oil demand is increasing as industrial production and transportation recover to the pre-pandemic level. If you remove Russia's oil output from the calculation, oil producers won't be able to meet the growing demand that will push oil prices to new highs.

A *Reuters* article expressed analysts' views on the Ukraine-Russia conflict and its impact on oil prices. OANDA analyst Edward Moya said, "If … troop movement happens, Brent crude won't have any trouble rallying above the US$100 level." JP Morgan analysts said, "oil prices likely to overshoot to $125 a barrel on widening spare capacity risk premium."

Brent crude trades at US$94.26 at the time of the writing. Oil futures are also soaring. Canada's largest integrated oil company **Suncor Energy** (TSX:SU)(NYSE:SU) expects oil prices to jump another 14-15% in 2022.

What does the Russia-Ukraine conflict mean to Canadian investors?

Canada has the third-largest oil reserves (9.8%), and if you exclude Iran, Russia has the fifth-largest oil reserves. Rising oil prices would enable Suncor and other Canadian oil producers to sell oil at a high price. Suncor's fourth-quarter adjusted funds from operations surged 157% year over year to $3.14 billion primarily because of high oil prices. It also doubled its dividend.

Last year, Suncor's stock surged 48% as oil prices surged on the recovery of demand. 2022 could be another strong year for Suncor, as the Russia-Ukraine conflict keeps the oil supply strained while demand rises. The stock has already surged almost 16% year to date and could rally further.

If you own Suncor stock, keep holding it, as it can give you good returns. But beware, as the stock could see high volatility due to its sensitivity to the developments in the Russia-Ukraine conflict. You could buy the stock, but I wouldn't recommend buying it at its 52-week high.

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