# Entry Points Alert | Commodities Amid Conflict

## Transcript

**The war in Ukraine and sanctions against Russia are already reshaping the agriculture, metals and energy markets.**

**Catalysts in Play:** Investors in domestic and global equities were already contending with a shifting backdrop spurred by inflationary pressures and the ongoing supply chain disruptions stemming from the pandemic. Russia's invasion of Ukraine adds another variable that will have an outsized influence in certain areas of the commodities market and create a domino effect that has the potential to introduce new risks and open up new opportunities for investors.

**Entry Points:** For instance, combined Russia and Ukraine account for approximately one fifth of the total export trade of wheat and has a similarly influential role as a producer of corn, sunflower oil and potash, used in fertilizer. Within metals, Russia alone accounts for over 40% of the global supply of palladium, nearly a third of the global diamond supply, and is among the most significant producers of platinum, rhodium, nickel and other metals. But it's the energy segment, in particular, where the impact of the ongoing conflict may be most acute.

**Oil Supply Shrinks as Demand Keeps Growing:** The oil market was already dealing with a structural deficit prior to the conflict, which has been exacerbated by the war in Ukraine and following the sanctions against Russia, which accounts for nearly 10% of the global oil supply. As demand is expected to reach pre-pandemic levels later this year, an additional investment of $30 billion to $40 billion, over 2021 levels, would be required for U.S. oil operators to produce the roughly one million barrels per day required to meet growing demand.

**Europe Squeezed by New Natural Gas Constraints:** Russia also accounts for 17% of the natural gas supply globally and 40% of Europe's natural gas consumption. Depressed investment in recent years had already created tight conditions in the global natural gas markets. In Europe, leaders have signaled a potential shift to liquefied natural gas, but the infrastructure required could take several years to put in place, suggesting natural gas prices could remain elevated for some time.

**Active Strategy:** The energy markets are just one area within the commodities space being impacted by the conflict. But given the downstream implications, the unbalanced supply-and-demand picture will have both expected and unanticipated effects across the economy. Boston Partners' disciplined execution of a value-oriented, research-driven investment approach – incorporating both bottom-up fundamental and quantitative analysis to identify undervalued high-quality companies, while avoiding overvalued low-quality companies – can help investors stay ahead of the changing market conditions.

| Aaron DeCoste, Equity Analyst: | |
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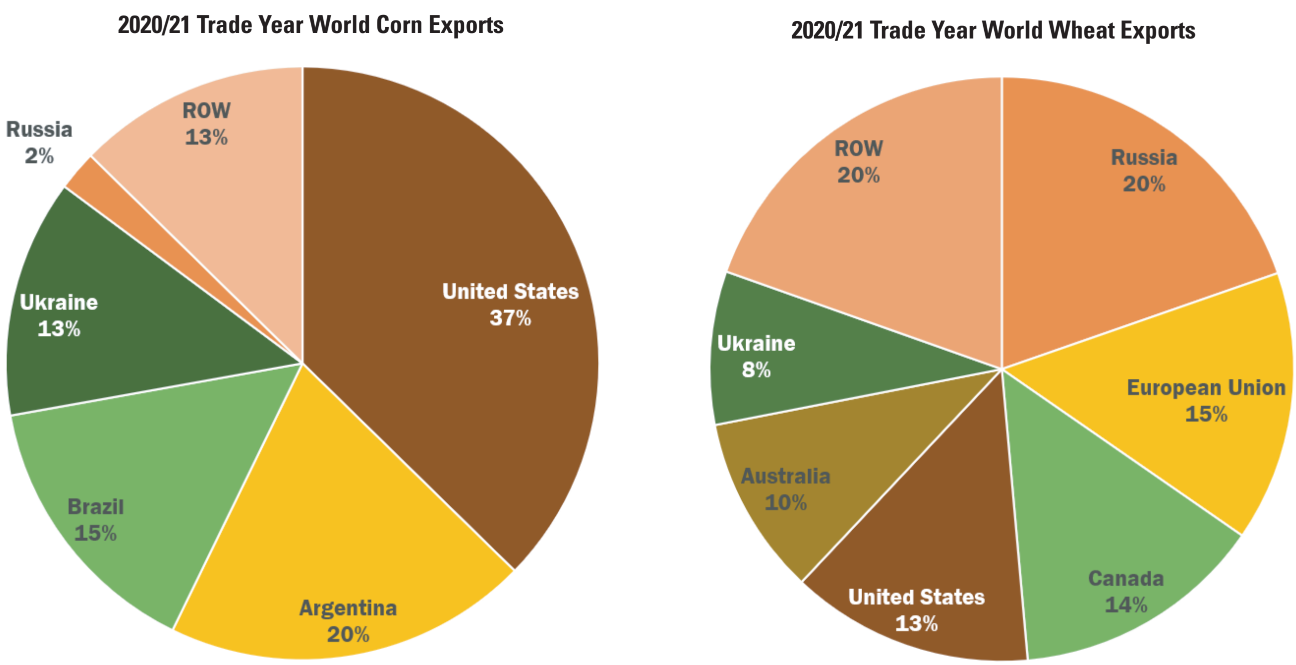
| 00:00:01 | Hello, I'm Aaron DeCoste research analyst at Boston Partners, covering global energy and materials. On this edition of Entry Points, I'm going to discuss the impact to energy and metals from the ongoing conflict in Ukraine and the downstream implications. |

Ukraine and Russia Agriculture Exports




Data as of 2020 and 2021.
Source: USDA FAS PSD, Farm Bureau Calculations.

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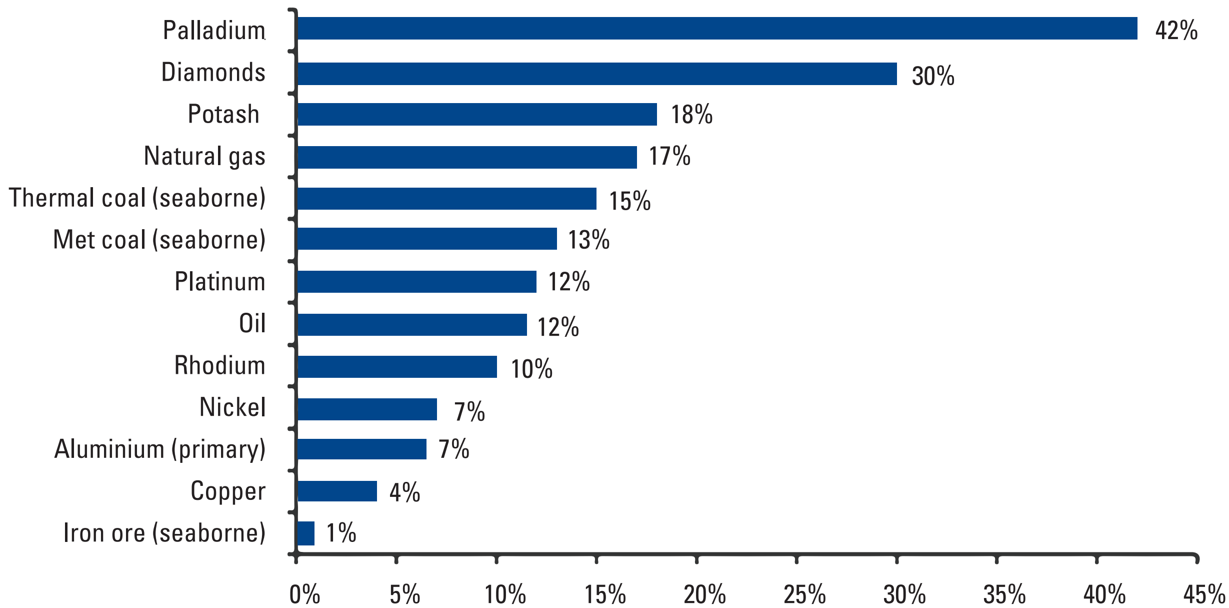
|---|---|
| 00:00:18 | Russia and Ukraine are an important part of the global supply chain, as large producers of raw materials and agriculture. Oil, palladium, rhodium, coal and natural gas, to name a few. Starting with the oil market, the oil market was already in structural deficit prior to the conflict and has tightened further while real spare capacity is limited and supply is being constrained by capital discipline. Russia accounts for nearly 10 percent of global oil supply and we expect a portion of this production to be disrupted for the length of the conflict. We also expect global oil demand to continue recovering to pre-pandemic levels later this year and continue growing thereafter. Recently, there have been calls for U.S. oil producers to increase investment and grow production. We estimate that for U.S. oil to grow, the needed one million barrels per day would require an additional 30 to $40 billion of investment over 2021 levels. We are also seeing tight conditions in the global natural gas market. In particular, Asia and Europe where depressed investment over the past several years has led to tight conditions that is now being compounded by the conflict in the Ukraine. |

**Russia as % of Global Supply by Commodity**




Data as of December 31, 2020.
Source: JMAT, De Beers, Wood Mackenzie, Barclays Research.

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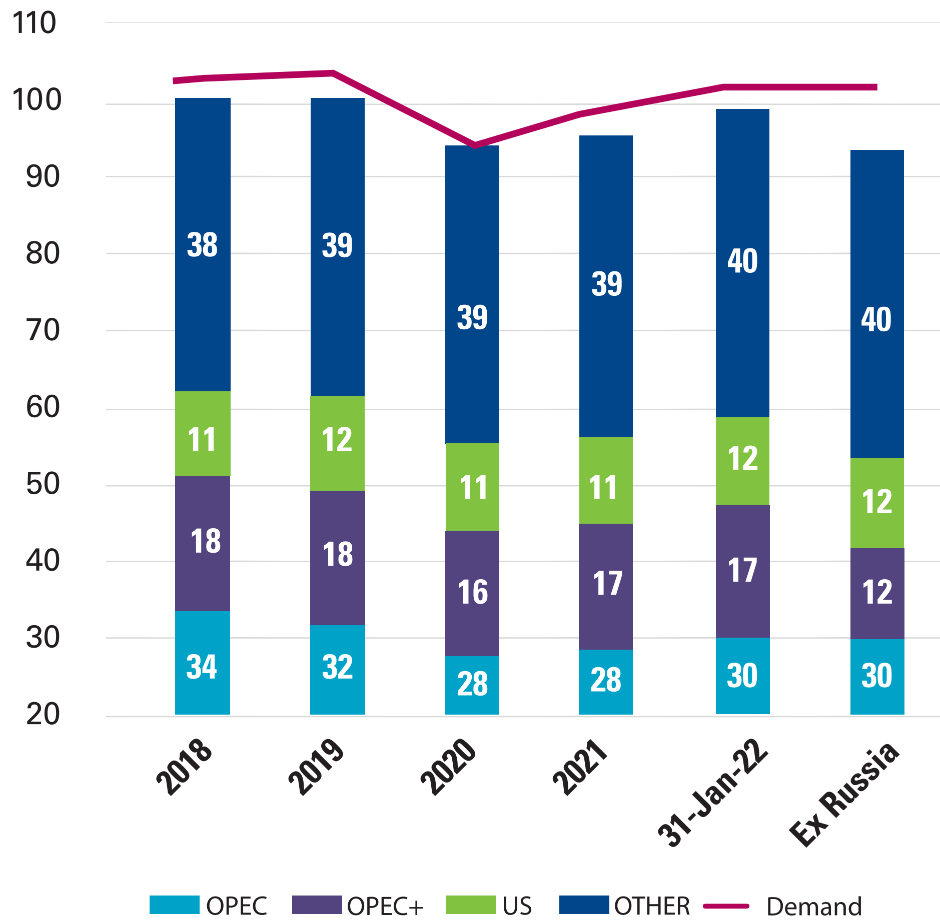
| 00:01:32 | Russia supplies Europe with roughly 40 percent of its natural gas supply. Recently, European leaders have discussed shifting away from Russian natural gas towards liquefied natural gas. However, lead times for new liquefied natural gas facilities around the globe take several years, leading us to believe that natural gas prices will be higher for longer. In summary, rising energy materials costs have been driven by years of underinvestment and compounded by the ongoing supply issues arising from the current conflict. |

## Global Oil Production Millions Barrels Per Day




Data as of January 31, 2022.
Source: Joint Organisations Data Initiative (JODI) and Department of Energy.
OPEC (Organization of the Petroleum Exporting Countries) is an intergovernmental organization oil demand supply market upstream downstream Vienna Austria.
The Organization of the Petroleum Exporting Countries Plus (OPEC+) is a loosely affiliated entity consisting of the 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations. OPEC+ aims to regulate the supply of oil in order to set the price on the world market.
MBPD: Millions barrels per day.

**Aaron DeCoste**
**Equity Analyst**

Mr. DeCoste is an equity analyst with Boston Partners specializing in the energy, engineering & construction, and metal & mining sectors of the equity market. He joined the firm from Loomis Sayles where he was an equity analyst covering the energy and materials sectors. Prior to that, Mr. DeCoste was a senior director at Devonshire Investors, Fidelity Investments private equity investment arm, focusing on energy, transportation, construction and fintech investments. He began his career in audit at KPMG. Mr. DeCoste holds a B.S. degree in finance with a minor in mathematics from the Bentley University and an M.B.A. and M.S. finance degree from Boston College. He has seventeen years of investment experience.

## Disclosure

Statistics and other information taken from the following sources: JMAT; De Beers; Wood Mackenzie; Barclays Research; Deloitte; Trade Map; Center for Strategic Research; Joint Organisations Data Initiative (JODI); and Department of Energy.

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