

## “Putin is Playing Chess, Obama is Playing Marbles”

Financial markets are at the whim of how events will unfold in Ukraine. Equity markets looked poised to breakout off of Friday’s job numbers, but pared back their early gains. Given gold’s failed attempts to breakout past key resistance levels, it previously looked under pressure; however, the metal ended up maintaining a positive finish to the week as its geopolitical safe haven bid ensued. As well, Friday’s sell off in US treasuries sent yields on the 10 year bond to its highest level since January, despite the dollar seeing regained strength as it is geopolitical tensions that are keeping the markets at bay.

The uncertainty with the situation in Ukraine is clearly what is restraining markets this week and potentially in days ahead. US jobs data ultimately guaranteed the US Federal Reserve’s tapering path of 10 billion a month in purchases of treasuries and mortgage backed securities by their next meeting (March 18-19). Implications of this lead to both a strong US dollar and strong equity markets. But the threat of economic sanctions on Russia is what has market participants questioning the potential impact on Western economies.

Questioning the impact on Western Economies is about all we can do, because trying to determine whether or not economic sanctions are imposed on Russia or Russian oligarchs doesn’t address the severity of how long a situation like this can play out and what will actually amount. Some well documented statistics have highlighted the European Union’s reliance on Russian energy, and also Russia’s mutual benefit of having the EU as a trading partner. By some estimates, Europe imported 30 percent of their gas from Russia in 2013, and the reason Ukraine is so important is because approximately half of the EU imports came

through pipelines via Ukraine. It’s the conundrum that Western Europe and Ukraine face should Russia do what they did in 2009 cutting off supplies to Ukraine, which affected gas en route to Europe. There is breathing room given European inventories are 11 percent higher than average this time of year.

Over the last week, a number of American politicians and commentators over the last week have made calls on Washington to export American Natural Gas to the European Union. Although that sounds like a solution, it takes an overly simplistic view of the US energy sector and how they export the commodity. To be brief, just because the US has come into a glut of the natural resource doesn’t mean that it’s on a tanker ship headed across the Atlantic. The simplicity of the argument is highlighted by the fact that the US and EU do not have a free trade agreement in place. Only one export terminal has been approved on the Eastern seaboard and is not scheduled to complete until late 2015. Any further projects require regulatory, safety, and environmental approval from a multitude of government agencies. Let’s not forget the fact that North American natural gas is more interested in an Asian market where it can attract a higher premium. And the very reason the US government limits free trade of their natural resources is to suppress domestic prices from the global market price.

Energy prices are the concern of the global economy. A shock to global prices at this point is not expected. However, a sustained increase in oil prices always leads to a recession, and that is the reason financial markets are wavering. Given a response from the Obama administration to this crisis that led one Congressman to suggest, “Putin is playing chess while Obama is playing marbles,” the global economy can still be thankful for one thing. Europe is facing a mild winter.

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