

# *Analysis of the Impact of Russia-Ukraine Conflict on World Crude Oil and Gold Price*

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**Abstract:** The problem studied in this thesis is based on the volatility of the world economy as well as commodity prices exacerbated by geopolitical risks in the global economy due to the Russian-Ukrainian conflict. In the context of NATO's eastward expansion, tensions between Russia and Ukraine have been increasing, and an armed conflict broke out in February 2022. Russia and Ukraine are closely linked to the world economy, and their relations with a number of countries have been strained by the conflict, which has significantly changed the situation in the world and in some regions. Based on these international events and facts, this paper uses literature reading and analysis to discuss and explain the reasons for the changes in crude oil and gold prices and their impact on the international economy, especially on some European countries that import crude oil from Russia. It can be concluded that the Russian-Ukrainian conflict has multiple factors affecting the world price of crude oil, but the end result has led to its rise, which in turn has led to a rise in the price of gold as well.

**Keywords:** Russia-Ukraine conflict, crude oil, gold price, inflation

## 1. Introduction

In recent years, geopolitical influences have put the countries of Russia and Ukraine in a state of tension, and with the expansion of NATO to the east and fruitless talks between Russia and some Western countries on security guarantees proposals, Ukraine has become a critical area. On February 24, Russia announced a special military operation, an event that sharply worsened the situation in Ukraine. As events unfolded, the United States and some European countries adopted sanctions against Russia in the hope of halting this conflict. Russia, the second largest oil exporter in the world, is deeply involved in the conflict, which has had a huge impact on the country's economic development, especially in terms of oil extraction and export. The restriction and reduction of exports inevitably led to a significant increase in oil prices in some countries that import large amounts of crude oil from Russia, and increased costs and even production restrictions for some giant oil companies. Secondly, due to the global increase in oil prices, which has disturbed the economic order of many countries and thus caused inflation, some countries have had to resort to increasing the price of gold to maintain financial and economic order. Therefore, the topic of this paper is about why the Russia-Ukraine conflict has led to the increase in global crude oil and gold prices, how it has affected the world economic order, and which related industries will benefit from this conflict. By revealing the above issues, it can provide some financial investment institutions and individual investors with

analysis and conclusion references to help them make more diversified and diversified investment portfolios. It also objectively discusses the implications of the economic problems caused by the Russian-Ukrainian conflict for the future development of the global economy.

## **2. Analysis of the Impact of the Russian-Ukrainian War on Crude Oil and Gold Prices**

Russia is the world's 11th largest economy in terms of GDP size, a major producer and exporter of oil, gas, and coal, and has the world's 9th biggest population [1]. So, if it is involved in a war, it will have a significant impact on the global economy. Russia is not only the second largest exporter of crude oil in the world, but Russia and Ukraine are also important exporters of other energy resources. According to statistics, Russia accounts for 11.4%, 8.3% and 17.8% of global oil, gas and coal exports, respectively. Among them, about 53.5% of Russia's oil exports are supplied to Europe, about 42.6% of natural gas exports are directed to Europe, and about 34.6% of coal exports are directed to Europe. The main ones are Belgium, Germany, the Netherlands, the UK and France. So it is clear from the above data that Europe is the region most affected by the increase in crude oil prices in the event of this conflict.

First analyze the most direct reason Russia is restricted because of its participation in armed conflict. This disrupted the country's original economic order system, making crude oil supply upstream. At the same time, this also leads to a production gap in crude oil extraction and production, which affects the delay or even shortage of oil supply.

Moreover, the United States and some Western countries have imposed sanctions and boycotts on Russian military actions. This has led to a massive withdrawal of funds from the Russian market in the complete economic system. For example: BP and ExxonMobil have withdrawn funds. The withdrawal of funds from these two major oil companies has undoubtedly caused losses and obstacles to Russia's oil exploration industry.

Secondly, due to political tensions and broken diplomatic relations, Russia and Ukraine are in a state of isolation from other countries and air routes, especially parts of Europe, cutting off air routes with Russia, as reported by the Russian news agency TASS on February 27, 2022, Austria, Denmark, Sweden, Belgium, Iceland and Italy have announced their decision to close their airspace to Russian aircraft in response to Moscow's and Ukraine's military operations [2]. Previously, nine countries - the UK, Czech Republic, Poland, Romania, Lithuania, Latvia, Estonia, Bulgaria and Slovenia - have banned Russian aircraft from their airspace [3]. In addition to the impact on crude oil shipments, the sanctions on Nord Stream 2, which transports natural gas, have all had a huge impact on Russia's energy export and supply system, which has directly led to significant fluctuations in European gas prices, especially in Germany. Because the conflict between Russia and Ukraine has a greater impact on the world's original economic order, and the impact of the epidemic on international economic and trade, the United States and other Western countries hope to stop the conflict through sanctions. These sanctions include the US and Europe excluding some Russian banks from the SWIFT payment system. This is one of the restrictions affecting Russian crude oil and other energy exports. For example, the U.S. cut off Iranian financial institutions from the global system twice in March 2012 and in November 2018, resulting in a sharp drop in Iranian crude oil exports.

Russia's large banks are deeply integrated with the global financial system, and SWIFT, an international non-profit organization that provides information and services for financial transactions, is keyed to its means of payment, where countries' trade can be conducted through a transaction settlement system that uses a standard unit of settlement. Russia, as one of the important components, was excluded from the SWIFT system, which seriously affected the trading of commodities with other countries, coupled with the fact that the settlement currency can only be in the national currency, and Russia is caught in the conflict, the uncertainty of economic stability has increased significantly. This has directly affected the already tight world crude oil market. The Russia-Ukraine conflict has

exacerbated the turmoil in the world economic system, and the increase in crude oil prices has led to worldwide price hikes and inflation, affecting the economies of many countries. In particular, some oil-importing countries, such as most of Europe, as well as Japan and South Korea in the Asian region. The rise in oil prices has also led to the impact on some industrial chains that use it as a raw material.

In terms of potential impact, crude oil price volatility directly affects various industries that use crude oil as a raw material. Not only that, but the cost of people's daily lives has also increased. Based on the negative impact of this event, countries had to take certain countermeasures and adjustments to hedge against the geopolitical and economic impacts. For example, in order to curb the rise in oil prices and reduce inflation, the U.S. chose to release strategic oil reserves to cope with economic fluctuations. The rise in oil prices and the shortage of supply sources in the market have allowed some other crude oil exporting countries and companies to gain more benefits and a wider market from it. Therefore, the increase in crude oil prices caused by the Russian-Ukrainian conflict has, on the one hand, had a negative impact on industries and companies that use crude oil as a raw material, such as a slowdown or even stagnation of production, an increase in production costs and disruption of the supply chain system. But at the same time, it has objectively contributed to some other industries and technologies, creating more economic value.

From literature analysis, this study concluded that gold has gained an average of 138% since 1990 [4]. Almost every military conflict has been unable to avoid a rise in gold prices. The reason for this is that gold has the characteristics of a natural currency. Its value is stable. Its scarcity and the characteristics of a world currency enable it to play a role in hedging the risk of financial turbulence when the financial market fluctuates. The world's central banks and the International Monetary Fund continue to hold gold reserves as one of the most important reserve currencies, which has also contributed to the promotion of gold as a hard currency. During times of economic stability, people will put their money into stocks and speculative assets. However, during times of war, people will want to store their wealth in something that is finite, tangible, and has some form of utility [5]. In the case of the Russia-Ukraine conflict, the most important reason for the rise in gold prices is that the situation in Russia and Ukraine continues to be turbulent, and the further escalation of Western sanctions on resource-based commodities further escalates the situation. The prices of energy, metals, and agricultural products continue to rise, and the risk of stagflation in the global economy is rising, which is conducive to anti-inflation and safe-haven demand for precious metals.

Furthermore, the situation in Russia and Ukraine caused the Fed rate hike to be expected to cool down quickly, and the market now expects the Fed to raise interest rates in March 25BP, which favors the price of precious metals [6]. Secondly, the dollar itself is a safe-haven asset, but if the geopolitical economic shock hits the United States' own economy, gold will be the ultimate safe-haven tool. From the development of the Russia-Ukraine conflict, it can be seen that the United States, as a major oil importer and one of the important components of the world economy, the delay and shortage of Russian crude oil supply has caused the increase in oil prices in the United States. The rise in oil prices has led to inflation in financial markets, which has hit the United States hard, especially the United States, which is already struggling with inflation. Many countries, including the United States, cannot solve the inflation problem by tightening monetary policy, so they can only rely on rising gold prices to curb inflation. The United States and other Western countries imposed sanctions on Russia to exclude it from the SWIFT system. The fallout from the Russian-Ukrainian conflict further contributed to currency volatility. Among them, gold, as a hard currency, is widely recognized for trading around the world, so that it can influence the geopolitical economy of a country's economy.

Not only the rise in oil prices, but also other energy crises, imbalances in commodity supply and demand, and shortages of agricultural products have combined to cause the reverse internationalization of the global economy and trade, ultimately leading to inflation. The Russian-Ukrainian conflict and sanctions policy have led to increased uncertainty about global trade and

economic repair. Financial sanctions against Russia, adopted by the United States in conjunction with other Western countries, have cut off Russian trade funds with many countries around the world, affecting the settlement of dollar conversions and threatening the safety of the balance sheets of global financial institutions. Cutting off Russia's SWFIT system will result in its inability to pay its debts, which will create the risk of asset losses for the European and American banking sectors [7]. Second, freezing the foreign assets of many Russian banks, entities and individuals will have an impact on global liquidity. So whether it is the state, financial investment institutions or individual investors, based on their own interests, they will take corresponding countermeasures to hedge, and this hedging tool is gold, which affects the rise of gold prices. Affected by the rising price of gold, some gold-related industries have gained more from it, such as gold mining. Due to the rise in the price of gold, the profit of source companies such as mining has greatly increased. So looking at the whole picture, the impact of the Russia-Ukraine conflict on both crude oil and gold prices is on an upward trend in the short to medium term. In addition to the two countries involved, the most affected are European countries. Because they are in high demand for Russian and Ukrainian crude oil and other commodities. At the same time, European countries and Russia and Ukraine have close economic ties in trade and financial system transactions, so they are greatly affected. People's daily lives have also been greatly affected. The Russian-Ukrainian conflict is still developing today, and the prolonged armed conflict has hindered the globalization of the world economy and undermined the now more stable political situation. Even if some industries benefit from it, as a whole, it is not conducive to the development of human society and economic globalization.

### 3. Conclusion

This research is based on the analysis of the factors and results of the Russian-Ukrainian conflict on the world oil and gold prices on the basis of the expanded geopolitical influence. In summary, the analysis shows that the increase in oil prices due to the conflict between Russia and Ukraine is due to the decrease in supply and exports, as well as the disruption of settlement trade. The main reason for the increase in the price of gold is the inflation caused by the increase in the price of oil, which in turn led to the increase in the price of gold as a safe-haven and hard currency. From this incident, we can conclude that the Russian-Ukrainian conflict has had a negative impact and impact on the world economy. But this also objectively motivates us to persist in developing science and technology, developing and utilizing new energy, and developing clean energy. This would also reduce our reliance on oil and other energy sources, develop a diversified economy, stabilize our currency, and avoid geopolitical risk. As investors, we should diversify our investments and focus on areas closely related to future development to minimize investment risks. The conflict between Russia and Ukraine has not only affected the financial markets but also created a food crisis and many social problems, such as: refugees, transportation problems, as well as problems with electricity supply and cultural exchange [8]. All of this has seriously hampered the development of relations between Russia and Ukraine. Therefore, regardless of the final outcome of this conflict, neither country will be the beneficiary, which will have a ripple effect on the development of both economies. This is equally detrimental to the countries' efforts to restore economic order in the post-epidemic era. At the same time, based on the lack of some data and insufficient information sources, the analysis and discussion of the premise elements in this paper are lacking, and the factors of the analysis remain to be considered. In future studies, we will continue to pay attention to this international event, explore as many factors and realistic conditions as possible, and conduct an in-depth study on the response to this impact and the price reduction options.

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