

Leaders in Russia, the United States, Germany, and other European countries appear to be on the same page now – Crimea will happily join the Russian Federation. As of now, leaders also appear to agree that Russia will not rule eastern parts of Ukraine with large ethnic Russian populations.

With economic sanctions going back and forth between Russia and the US, and many government officials in European countries worried about energy costs, many investors are wondering – how important is Russia to the world's economy?

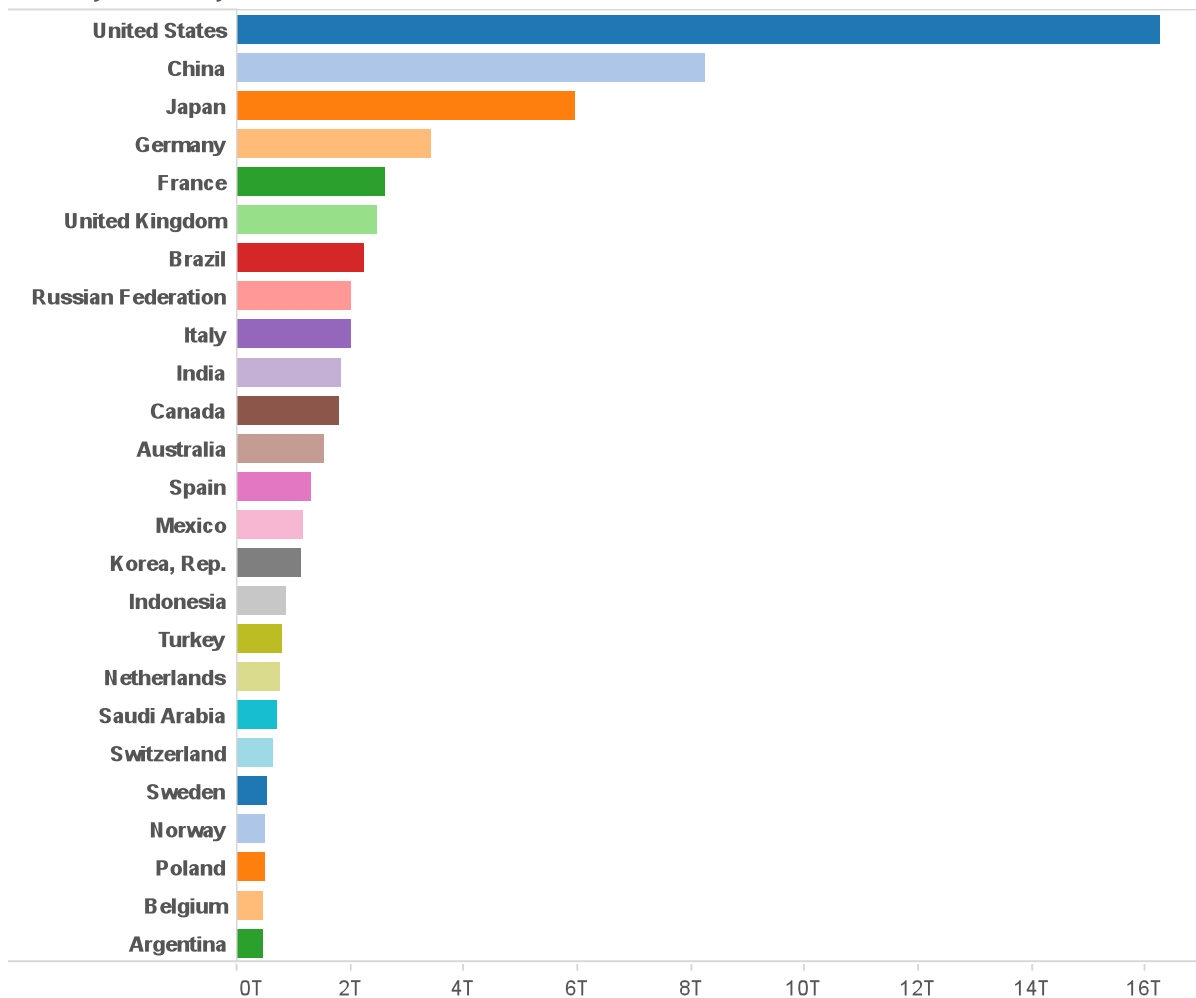
The broadest measure of importance to the world's economy is officially measured GDP. When looking at Russia according to this measure, the Federation accounts for about 3% of worldwide GDP, which places business in Russia as the 8<sup>th</sup> most value added. In dollar terms, Russia represents around \$2.1 trillion of \$73 trillion in market valued GDP.

(The following table includes nations with officially measured GDP greater than \$400 billion.)



Russia, 3%

## GDP by Country



With businesses in Russia accounting for around 3% of world GDP, it is clear that the Russian economy matters not only for the region, but also for the global economy.

Both the United States and Russia have gone weak on their respective economic sanctions, with the US going after certain Russian officials/banks believed to be responsible (or complicit) for the Crimea annexation and Russia imposing travel sanctions against certain US officials.

In 2013, the two countries traded about \$38 billion in goods (imports + exports). Not small, but nowhere near the size of trade between EU and Russia at around \$461 billion. At most, the US/Russia spat may reduce anticipated US GDP growth from 2.5% to 2.4%, while Russia may drop from around 1.5% to 1.2%.

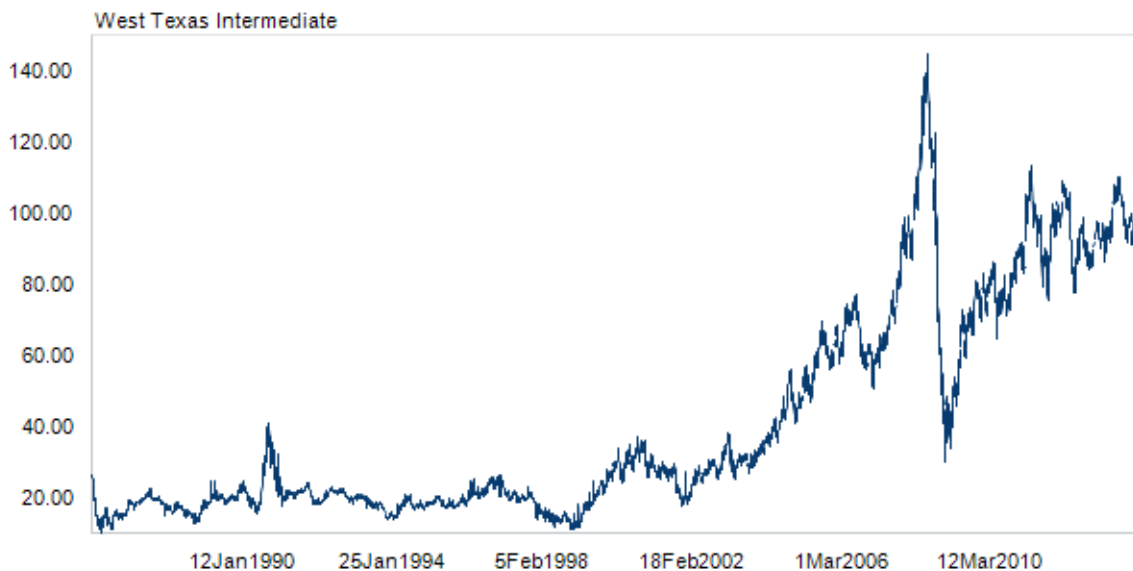
German, UK, and other European leaders are much less inclined towards challenging Russia given the size of the economic relationship and the importance of Russia's energy supply to the European economies.

Gazprom and other Russian businesses supply around 40% of all energy to Germany, and account for large energy supply in many other European countries.

Should European leaders decide to impose strong economic sanctions against Russian businesses, Russian leaders would certainly respond with measures affecting the price of energy.

What is the threshold price of oil at which European countries do more harm to themselves than good by challenging Russia?

At around \$120 to \$130 European leaders will become quite weak. Anything above that would more than likely induce a recession in the US/Europe.



All this discussion provides, of course, positive reinforcement for holders of precious metals.

Should the geopolitical struggle continue for a long time, the prices of gold, silver, platinum, and palladium would likely continue to appreciate.