



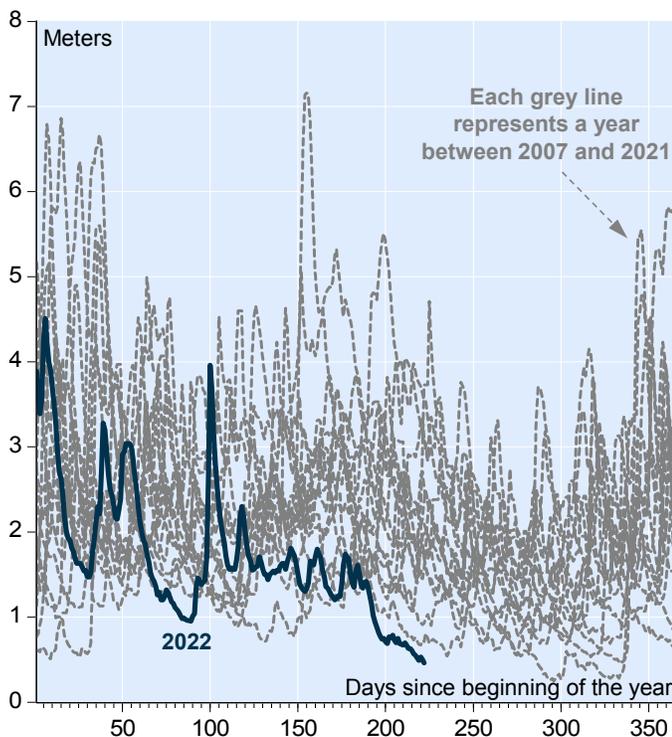
Europe Watch

By Jocelyn Paquet

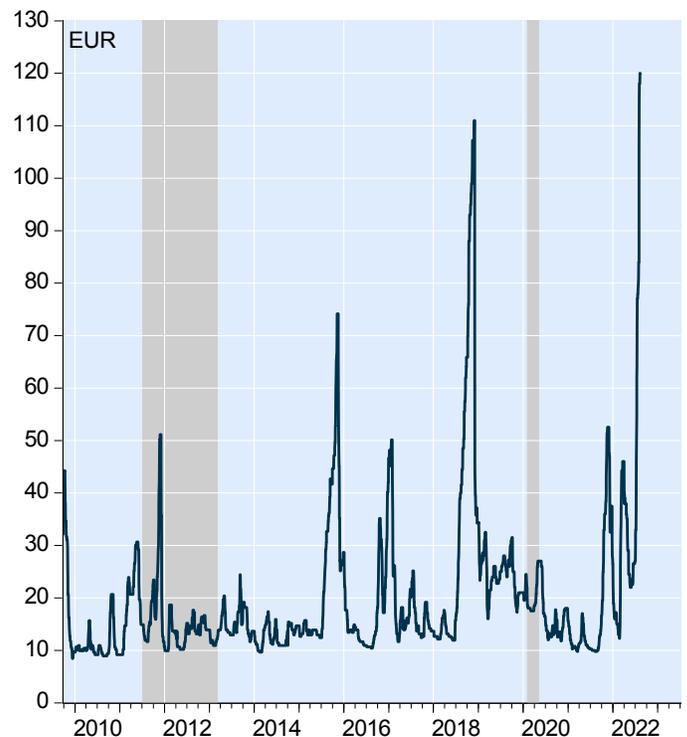
It will come as no surprise to anyone that the outlook for the European economy has deteriorated significantly since Russia's invasion of Ukraine, as rising energy prices have greatly eroded consumers' purchasing power. Unfortunately, things are not improving. Already in a race against time to replenish its natural gas stocks before the return of colder weather, Europe is now facing an additional challenge in the form of widespread droughts. The suffocating temperatures observed from one end of the continent to the other this summer have indeed led to a drying up of its main waterways. As today's Hot Chart shows, the Rhine is only 48 centimeters deep in the town of Kaub, its second lowest level in 15 years. The situation is similar on the Po River, which crisscrosses Northern Italy, and on the Danube River, which flows through much of Central and Southeastern Europe. Agriculture will obviously be affected by the lack of water, but the bulk of the economic impact is likely to be felt through increased shipping costs. Low water levels indeed mean transport barges have to reduce their loads to navigate waterways. More barges are then needed to ship the same amount of cargo... at a higher rate. In Germany, the price for transporting material on the Rhine have increased tenfold since the beginning of the year. Nothing to calm an already galloping inflation or ease supply chain constraints. The situation could still deteriorate further, with experts saying water levels below 40 centimeters could render the Rhine virtually impassable. Nor are there many alternatives to river-based transport with Germany's rail network already congested and its trucking industry suffering from an acute shortage of drivers. If the worst were to happen, the entire energy sector would be at risk. Recall that, in order to preserve as much natural gas as possible, many European countries have turned to coal-fired power plants, whose supply depends on transport by barges. All that at a time when Norway is curbing electricity exports to allow many of its hydroelectric reservoirs to replenish and several French nuclear power stations have been forced to reduced/stop their activities because the Rhone and the Garonne are too warm to effectively cool reactors. Needless to say, these new developments do not change our view that the Eurozone will enter a recession in the second half of the year.

Europe: Another shortage... of water this time

Rhine water level at Kaub



Cost to transport a gasoil barge to Karlsruhe via the Rhine river



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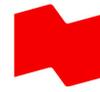
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