

## A bear in beaver's clothing

By Warren Lovely/Alpa Atha

No one is going to confuse a beaver with a bear. Your standard North American beaver (*Castor canadensis*) gives up at least 5 feet and more than 500 pounds to the typical Eurasian brown bear (*Ursus arctos arctos*). If you don't know, the beaver is an official emblem of Canada, while the brown bear holds special animal status in Russia. In the same way these two official animals differ, Canada and Russia vary in many important respects. Different language(s), different culture, different political system, different approach to human rights, different respect for/interpretation of international law. We could go on. But there's at least one place you'll find some serious overlap between these two nations: in their respective export baskets.

If you scan Russia's top 10 exports, you'll see a pretty distinct energy/resource flavour. Number 1 on Russia's export list is crude oil. Ditto for Canada. In fact, almost all of Russia's top 10 exports also happen to be major exports for Canada. Beyond crude, we're talking about refined petroleum, natural gas, coal, wheat, gold, aluminum and lumber. The one real exception is platinum, which accounted for just 0.1% of Canadian exports last year, putting it well down the list. Beyond Russia's top 10 exports, there are plenty of additional products that Canada also happens to trade in. By way of example, the extended list would include fertilizers, copper, nickel, uranium, seed oils, fish, gas turbines, etc.

Not surprisingly, in the wake of the unprovoked invasion of Ukraine (the resulting chaos and severe sanctions), prices for many of the goods Russia used to supply the world have moved higher... decisively so in some cases. The significant overlap in Canada-Russia exports means the prices of many key Canadian exports have increased. It remains to be seen whether these prices are sustainable or whether they will push the world economy into recession. This remains a vital question for all market participants, and one difficult to handicap in the fog of war.

But in the meantime, Canada's terms-of-trade (i.e., the ratio of export to import prices), which had already been on a favourable trajectory *before* Russian tanks rolled, will get another near-term boost. Beyond the marginal support for Canada's merchandise trade balance and current account, the prevailing price dynamic will, for now at least, spin off additional income for the Canadian firms producing/supplying these goods and generate incremental revenue for related governments. If a global recession can be avoided, today's resource pricing dynamic would be supportive for CAD, select Canadian equities and certain Canadian credits (governments and corporates). And that's all without shipping anything extra.

If, as seems increasingly likely, more nations look askance at Russia longer term, preferring more secure, sustainable, predictable trading partners, there's a clear opportunity for resource-rich nations like Canada to step into Russia's shoes.

Make no mistake, Canadians are shocked, saddened and angered by Russia's actions. No one in Canada is cheering the situation in Europe. Recession risks are rising, perhaps appreciably. But despite the unfolding tragedy, there are significant near-term implications for Canadian trade, equities, currency and credit markets, alongside a longer-term opportunity to stand-in for what could become a pariah nation.

Note: For the purposes of this note, we've explored the overlap between Russian and Canadian exports. Similar analysis was conducted with respect to Ukrainian exports. To no surprise, Ukraine's export basket has a heavy agricultural skew, with corn, seed oils, rapeseed, wheat, soybeans and other vegetables/agricultural products crowded near the top of the export list (alongside a good deal of iron in varying stages of processing). To the extent Ukrainian exports are compromised, disrupted, or shunned longer term, Canada could be seen as an alternative source here too.

### Table: Canada's export basket bears a striking resemblance to that of Russia

Detailed comparison of top Russian and Canadian exports

Select export categories		Russia exports		Canada exports [2021]				
HS4 ID #	Product description	RUS Rank	RUS Share	CAN Top 10?	CAN Rank	CAN Share	CAN Top 5 export destinations (excl. USA)	CAN Top 3 exporting provinces
2709	Crude Petroleum	1	30.3%	Yes	1	16.3%	ESP, GBR, NLD, FRA, CHL	ALTA, SCDA, NF
2710	Refined Petroleum	2	16.3%	Yes	6	2.3%	BHS, PER, NLD, BES, MEX	NBRNS, Q, ALTA
2711	Natural gas	3	6.5%	Yes	3	3.0%	JPN, MEX, KOR, SGP, CHN	ALTA, BRCOL, ONT
2701	Coal	4	4.3%	No	13	1.2%	CHN, JPN, KOR, IND, TWN	BRCOL, ALTA, ONT
1001	Wheat	5	2.0%	No	12	1.3%	CHN, JPN, IDN, PER, COL	SCDA, ALTA, MP
7207 2601	Iron*	6	1.7%	Yes*	10	1.6%	CHN, JPN, NLD, DEU, FRA	Q, NF, ONT
7108	Gold	7	1.7%	Yes	4	3.0%	GBR, CHE, HKG, KOR, EGY	ONT, Q, BRCOL
7110	Platinum	8	1.6%	No	>25th	0.1%	CHE, MEX, GBR, FRA, JPN	Q, ONT, ALTA
7601	Aluminum	9	1.3%	Yes	9	1.6%	MEX, NLD, ITA, ESP, POL	Q, BRCOL, ONT
4407	Lumber	10	1.1%	Yes	5	2.7%	JPN, CHN, PHL, TWN, KOR	BRCOL, Q, ALTA

Source: NBF, Industry Canada (CAN exports for 2021); OEC (RUS exports for 2019)

Note: Export products are based on 4-digit Harmonized System codes (i.e., HS4); Russian export data drawn from an external source deemed reputable;

for iron, Russian exports refer to semi-finished iron (HS4: 7207), whereas Canadian exports refer to iron ores/concentrates (HS4: 2601);

examples of other products/categories with material CAN-RUS crossover include (but are not limited to): fertilizers, copper, nickel, uranium, seed oils, fish, gas turbines, motor vehicles, planes/helicopters, tires, etc.; comparative analysis of Ukrainian-Canadian exports has also been conducted, revealing noted overlap in a number of key agricultural products

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