

Global economy: geopolitical hot topics

Global Economics

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- Framing geopolitical issues
- Geopolitical hot topics
- Linking geopolitics and financial markets
- Conclusion

- “Geopolitics traditionally indicates the links and causal relationships between political power and geographical space; in concrete terms it is often seen as a body of thought assaying specific strategic prescriptions based on the relative importance of land power” (Osterud, 1988).
- **Geopolitical factors:** oil and gas reserves, oil and gas pipelines, possession of nuclear weapon, area.

Source: European Central Bank, BofA Merrill Lynch Global Research.

Geopolitical “banana skins”

- Greece
- Russia and Ukraine
- Iran nuclear negotiations
- Middle East tensions

Source: BofA Merrill Lynch Global Research.

Greece: a scorching summer ahead

Table 3: Maturities and Coupons (EUR bn)

	IMF	Coupon and interest on ECB and European loans	Maturities of ECB bonds	Total	Cumul.
Jan-15					
Feb-15		1.1		1.1	1.1
Mar-15	3	0.2		3.1	4.2
Apr-15		0.3		0.3	4.5
May-15					4.5
Jun-15	2.9	0.3		3.2	7.7
Jul-15		0.8	3.5	4.3	12
Aug-15		0.3	3.2	3.5	15.4
Sep-15	2.2			2.2	17.6
Oct-15		0.3		0.3	17.9
Nov-15					17.9
Dec-15	1.8			1.8	19.7

Source: BofA Merrill Lynch Global Research estimates. Note: IMF repayments are assumed to be bundled quarterly.

Russia and Ukraine: the “frozen” conflict

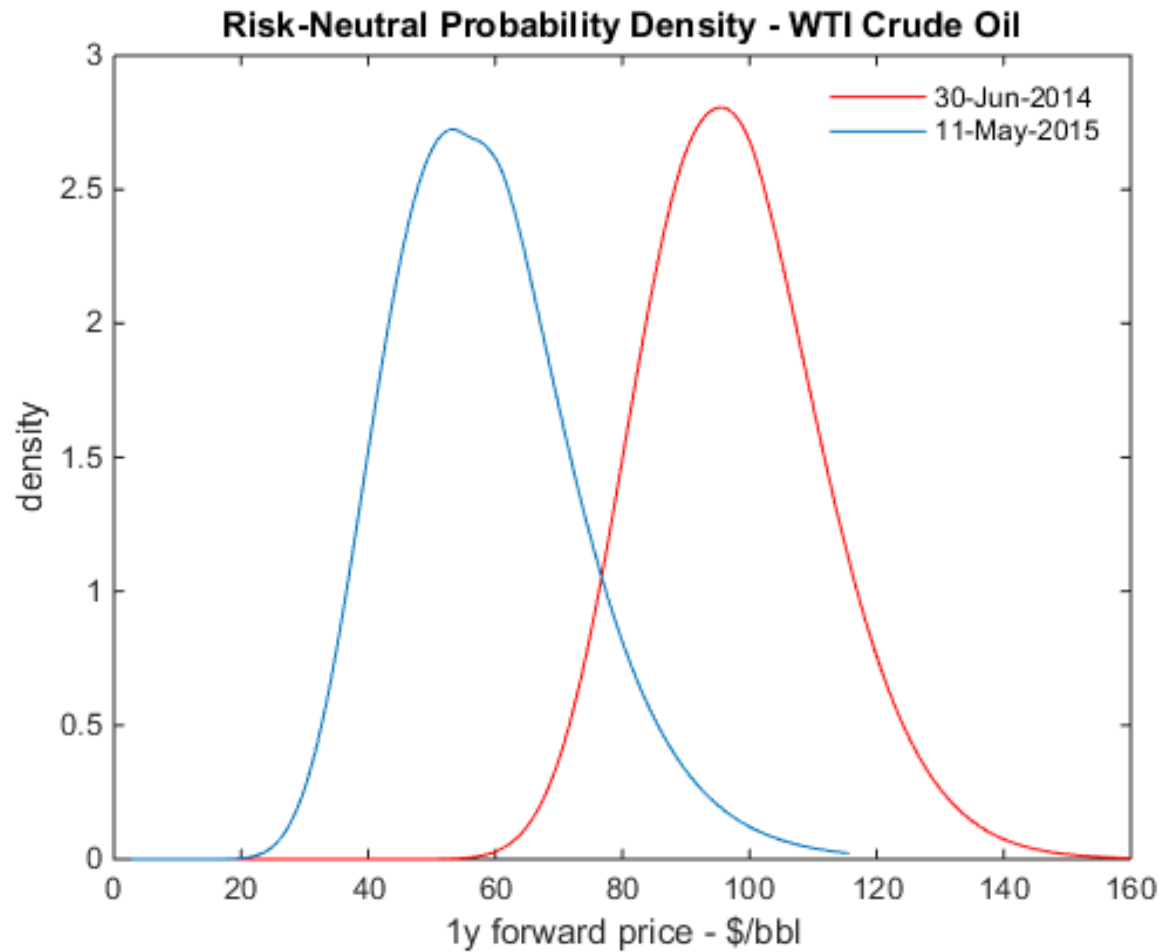
- Difficult implementation of Minsk agreement
- IMF support to remain in place but uncertainty lingers
- Eastern Europe in the crosshairs
- Implications for Germany

Source: BofA Merrill Lynch Global Research.

- Iran P5+1: deal or no deal?
- Deal could have material impact on oil prices
- Lifting sanctions framework likely to take time
- Action, reaction: Israel and Saudi Arabia

Source: BofA Merrill Lynch Global Research.

Uncertainty in crude oil markets



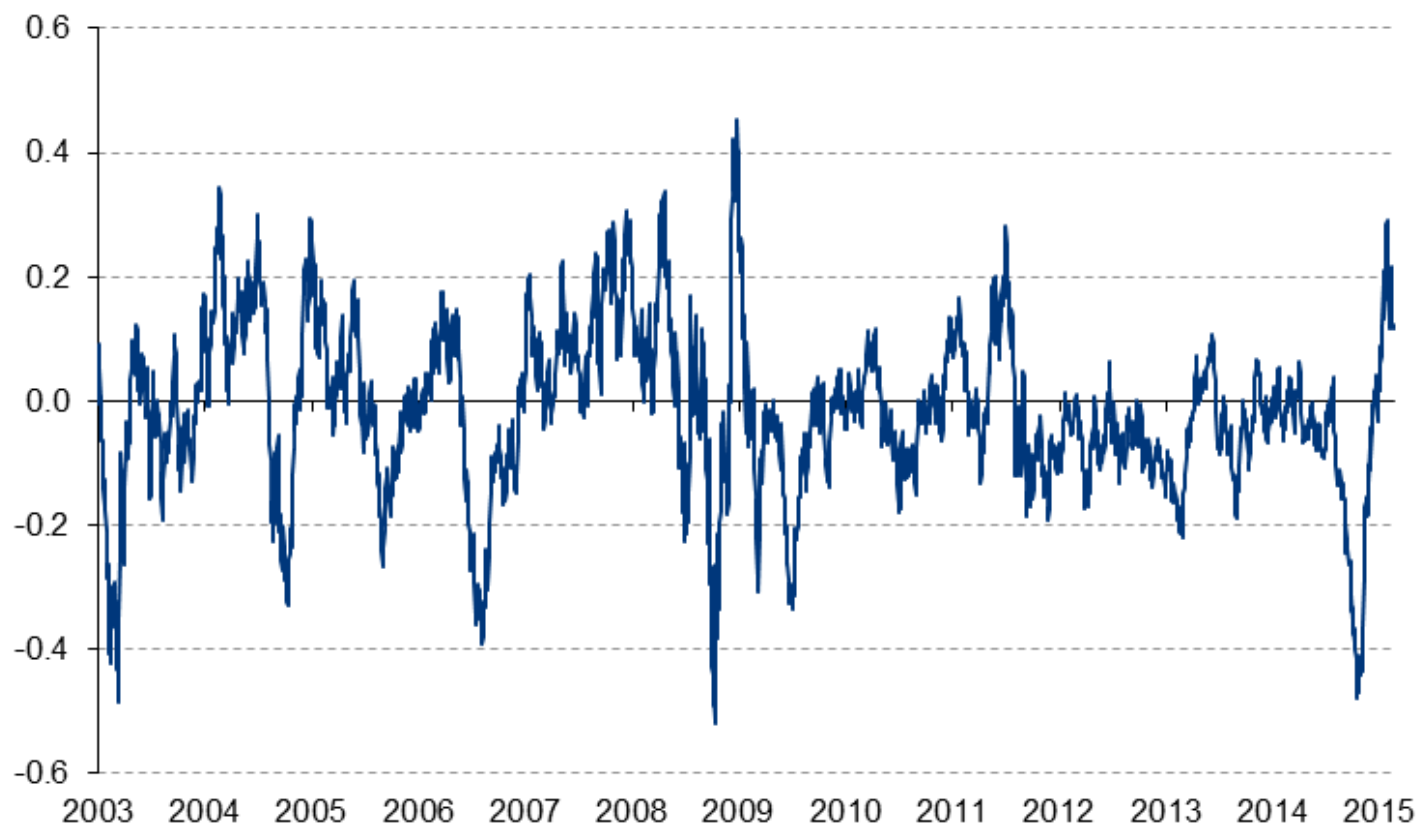
Source: BofA Merrill Lynch Global Research and Bloomberg.

Standard deviation of oil price probability distribution
(1y WTI futures)



Source: BofA Merrill Lynch Global Research and Bloomberg.

Supply shocks to Brent oil prices
(60-day rolling average)



Source: BofA Merrill Lynch Global Research.

- Focus on geopolitical fragility/vulnerability
- On the radar: Greece, Iran, Ukraine and the Middle East
- Identify supply and demand factors
- Liquidity backdrop is key

Source: BofA Merrill Lynch Global Research.

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