

Selling Russian Natural Gas to China

So, if Russia cuts off natural gas supplies to Ukraine how will Europe get its natural gas from Russia? And if the EU and USA ramp up sanctions in the wake of the Russian annexation of Crimea the USA may just start replacing Russia as the energy supplier of choice for the EU. Then where will Gazprom, Lukoil and the rest sell their natural gas? According to the news they will be selling Russian natural gas to China! In fact, a **Russian Chinese energy agreement** has been in the works for a decade. China is still a growing economy and Russia has lots of natural resources. However, there has been distrust and outright animosity between these two great Asian powers for a long, long time. On the face of it selling Russian natural gas to China sounds like good business. On the other hand Vladimir Putin, the Russian president who just annexed part of a neighboring country, may have found himself in a jam. Without the EU as a willing buyer of Russian energy products, who is going to compete for Russian natural gas and keep the price up? Selling Russian natural gas to China may better seen as part of how **investing in Russia will suffer from the Crimea fallout.**

Ukraine, Crimea, Russia and Investment Capital

The largest source of **foreign direct investment** in Russia has been the EU, especially Germany. Russia does not appear to be ready to back off its campaign to destabilize Ukraine and take its Eastern regions into the Russian Federation. As such we can expect to see a slow but sure ramping up of economic sanctions by the EU and USA. The ruble has already fallen to all-time lows and Gazprom is talking about issuing bonds denominated in Yuan. This actually makes sense as who would want debts denominated in Rubles when the currency is in free fall. So, does Russia want China to be its next big investor? It seems like Mr. Putin has forgotten the Sino-Soviet undeclared border war in 1969. The fact that a contract for selling Russian natural gas to China has been on the table for ten years should tell us that both sides have major issues with this agreement. But, to the extent that Russia has boxed itself in selling Russian natural gas to China may be the best way to make money. Certainly for China who would like to make the Yuan into an international currency, Gazprom selling debt denominated in Yuan instead of rubles, dollars or euros should be seen as a good deal.

Where Is This Going?

In our articles about Investing in Russia we wrote about the devastation of the Second World War in Russia and the valid concern of Russian governments to protect the Motherland. The more valid issue for Ukraine is that the people have been badly governed ever since the breakup of the USSR and before that Stalin murdered millions and the Germans invaded. It is clear that a lot of folks would like a better life in Ukraine. It is also clear that Russian speakers may well want closer relations with Russia or even to be part of Russia. However, the majority of the country and a lot of folks in the east of Ukraine do not ever want that situation

and want closer relations with the West. This situation is not going to get better without an agreement between Russia, the EU and the USA. Selling Russian natural gas to China may be a short term cash flow solution but the better solution will be for Putin, Obama, Merkel and the rest to put politics aside and find a viable fix that helps Ukraine and encourages investment in the region.

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