

# Ukraine - is the tide turning against Putin, again?

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I wanted to update my thoughts on Ukraine, particularly around the duration and ultimate damage done by the conflict as this will be key to understanding the longer-term economic story in Ukraine - the rebuilding demands.



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The first point here is that it's clearly difficult to predict anything in a conflict. We have seen the ebb and flow of this war; beginning with Moscow's apparent blitzkrieg and most peoples' assumption that it would be all over in days with a Russian victory. We then saw a Ukrainian victory in the battle of Kyiv, followed by Russia refocusing on Donbas and victories in Severdonetsk and Lychachyansk. In recent weeks the momentum seems to be turning again through the provision of new Western military supplies (HIMARS) to Ukraine. Russian forces in Donbas have stalled and the focus is now turning to a looming battle for Kherson with Ukraine expected to go on the offensive.

Second point to consider is how much depends on Putin. Ultimately, the war will end when Putin decides to stop offensive actions - he might need to be beaten on the battlefield first though. Now, six months in, surely Putin must be questioning whether he really can win this war? If that is the case, maybe he will push for a nearer-term peace deal.

**"The first point here is that it's clearly difficult to predict anything in a conflict".**

I think what is now clear is that Russia does not have unlimited capacity to prolong this conflict unless, that is, Putin is prepared to put the Russian economy on a full scale, total war setting - think WW2 style general mobilisation and state planning of the economy. I guess you could refer back to Iraq under Saddam and say, "look, he waged the Iran war for close to a decade". However, Saddam was being financed and armed by the Gulf and the US.

Russia currently has limited external sources of money or arms, albeit higher oil prices are helping, and this poses one of the main problems for Putin. By most accounts, Russia has lost a huge amount of kit and troops in this conflict - likely half its combat capability - and the kit is difficult to replace quickly. Russia is running out of supplies of high-precision missiles, and they are difficult to manufacture given Western technology export bans to Russia. So far, China has not been willing to help Russia - albeit that could change with the recent Pelosi visit.

On resupply, the HIMARS systems supplied to Ukraine are now having a devastating effect, wreaking havoc on Russian supply chains which were already vulnerable. If Russia cannot get sufficient kit to the front line, it cannot conduct war, simple as that. There is also the issue of troops and morale for Russia whereas Ukraine has said it can get 1 million troops into the field. Given its home advantage, and now Western training, manpower is not an issue for Ukraine, but it is for Russia.

Russian casualties are likely tens of thousands already - some suggest KIA and MIA might be as many as 100,000 which is half the number of troops that initially started this campaign. Unless Putin begins a general mobilisation, Russia can't get that many troops into the field quickly. Plus, it could also be pointless task, if it cannot arm them anyway, given the resupply problems.

Indeed, we are now seeing Russian forces having to be moved from different fronts, first from the north to Donbas, now to the South. Meanwhile, for political reasons, Putin

seems reluctant to go to a general mobilisation. He seems to be happy to use troops drawn from poorer southern, largely Muslim, regions but not risk casualties from Western Russia, Moscow, and St Petersburg, et al. It seems that Putin is nervous about the domestic political setting in Russia itself. The bottom line here is that Ukraine can mobilise close to 1 million men and women, who are motivated to fight for their land. Putin is already close to depleting Russian regular forces and do Russians really want to fight for someone else's land?



It feels as though Russia is reaching the peak of its capability to launch major offensive actions and got to the peak of its reach in Ukraine - taking Crimea, much of Donbas, and big chunks of Kherson and Zaporizhia. To me, it seems that the Kremlin agenda could be to try to consolidate these gains on the ground via some kind of diplomatic route. Perhaps, we could see the recently reached grain deal as the start of that process. The deal made no sense from a Russian perspective unless it was eyeing a bigger peace deal. Whether the Ukrainians will accept a peace deal is another question.

From the Ukrainian side, they are only going to get stronger with more Western kits, financing arriving, and they have no shortage of motivated soldiers. The longer it fights this war, the stronger Ukraine can become, and the greater impact Western sanctions will have on Russia. Remember, on this latter front, that for Putin, the war in Ukraine is just part of the broader war with the West and we are now entering an arms race, with NATO set to go +2% of GDP spending on defence.

Russia simply cannot match this. To do the maths, Western states now reigned against Russia have a combined GDP of \$40 trillion, 2% of that is \$2 trillion, which is more than Russia's entire GDP. The longer Putin continues the war in Ukraine and the longer Western sanctions are imposed, the less able he will be to maintain any kind of military parity with the West - at least in conventional weapons. Winning in Ukraine is important to Putin but would he want to jeopardise Russia's broader security by eroding its conventional military capability so much that it will struggle to counter possible NATO threats (not that I see them)?

We also need to consider that for Russia to keep pace with the likely \$2 trillion Western defence spending it will have to divert resources from consumption to defence, and this will raise fears about political stability. Russians would get much poorer, and would they still prize the capture of Donbas when they are struggling to maintain living standards? I doubt it - as the star of Crimea has waned in Russia, post-2014.

So, I think that Putin has no other option but to try and push for a peace deal, the sooner the better from his perspective. I think what we are likely to see over the next few months is a last big battle in Kherson, the [gas crisis in Europe](#) playing out, and at the peak of the crisis, perhaps in October-November, the Kremlin coming up with some sort of peace plan.

**“Opinion in Ukraine is set against a deal (polls show 90% against now giving territorial concessions to Russia as the price of peace)”.**

At that point Ukraine will be under huge pressure from Europe to accept Moscow's proposal and a large reconstruction package would be good for Ukraine's growth/recovery story. However, current opinion in Ukraine is set against a deal (recent polls show 90% against giving territorial concessions to Russia as the price of peace) but this may change with the battle for Kherson. If the Ukrainians fail to recapture much territory, the opinions might change.



Regarding a potential peace deal, I'm not sure that the US, UK and Eastern Europe will be quite as enthusiastic as the appeasers in Germany and France. They are likely to be of the view that real peace in Ukraine, and the security of Europe, can only be brought with a defeat for Putin, and the Ukrainians (backed by Western money and arms) are the best chance of achieving that. I don't think Washington or London will be pushing Ukraine to agree on a deal at any price. They would encourage Ukraine to negotiate hard, and hopefully from a position of new strength on the battlefield.

If Ukraine fails to accept peace, then I think we are in for a long grinding war, but at a much lower intensity. Similar to Donbas 2015-2022, with the scale of the conflict reduced

significantly. We would see various rounds of attempted peace talks which don't progress very far. However, in this scenario, Ukraine can still work on reconstruction. Lots of money is still pumped in, and we see real GDP rebound from the low. Russia will remain weighed down by sanctions and hence in decline. Whatever endgame in Ukraine, the arms race between the West and Russia will continue, and hence the West has little real reason to relax sanctions.

I guess another alternative scenario is that Putin is just hell-bent on Ukraine's destruction and likely with it that of Russia. Perhaps the line on Ukraine could be "if I can't have it, I will ensure you won't want it". He continues the attacks and both countries are ground into the ground. If this occurs, I don't see a win for either side. Neither has the capacity to win this war, albeit the more likely longer-term winner would be Ukraine as I noted it has the troops and will get more Western kit and finance.

### Why this winter?

If we turn back to consider the gas crisis, I think that Putin will play his hand to full effect this winter, to move Europe into a place where they are desperate, and force Ukraine to agree to a peace deal.

Otherwise, the longer he leaves it, the more Russia will have been cut out of Europe's supply chains. Russia will inevitably be cut out of supply chains over the long term as it has proven to be an unreliable supplier. So, Putin's card is now, this winter, not next year, and the Kremlin will think they need to play it to bring this war to an end.



As an aside on [the energy crisis in Europe](#), Putin will put pressure on gas supplies but he does have to do this with some care. If he forces Europe and the world into recession, as seems likely, he will collapse global demand for energy and with it energy prices. He would then face the double whammy of lower export volumes and lower prices. To summarise, my base case is a European energy crisis, brought on by Putin desperate to reach a peace deal with Ukraine before the end of the year.

The main risk to the peace deal is that Zelensky will not be able to get domestic support for this – as mentioned earlier, recent polls show that 90% of Ukrainians want the war to continue until all territory is regained. Western cash will be deployed to entice Ukraine to the table but it will receive Western financing flows regardless, given the need now to build Ukraine as a defensive buffer state against Russia. Ukraine will need to successfully rebuild its economy to be economically powerful enough to counter any future Russian aggression.

Overall, it's important also to remember that, on 24th February we were debating whether Ukraine would exist at all. We know now that, despite Putin trying his best, a Ukraine with a significant part of its pre-invasion land area, and access to ports, will remain. This is still a huge country, with a large, skilled population, which is absolutely viable as a state. It has fought and proven its right to exist.

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