1. DEVELOPMENTS ON UKRAINE

The key city of Sieverodonetsk was the site of extremely fierce fighting that Ukrainian President Zelensky described as among the “most brutal” Europe had ever seen, and all three bridges linking the city with Lyzchansky were destroyed. In Sieverodonetsk itself, hundreds of civilians are estimating to be sheltering in the bunkers beneath the Azot chemical plant; Ukraine is seeking a humanitarian corridor for them other than through Russia. The US said that Russia was likely to take all of Luhansk in the coming weeks, as Ukraine’s total front in the north, east, and south extended 2500 kilometers.

Ukraine has asked for additional long-range weapons with “the range we need to reduce the advantage of the Russian Federation’s equipment.” Germany expects that seven Panzerhaubitze 2000 artillery, with a range of 25 miles, should arrive in Ukraine soon. The US undersecretary of defense for policy, Colin Kahl, said that the four High Mobility Artillery Rocket Systems (HIMARS) the US has sent are an “initial tranche”; the US will “provide the weapons the Ukrainians need to prosecute the targets inside Ukrainian territory.” Kahl also said that he believes Russian President Putin still “has designs on a significant portion of Ukraine, if not the whole country. That said . . . I do not think the Russians have the capacity to achieve those grandiose objectives.” President Biden announced an additional $1 billion in weaponry for Ukraine, including 18 more howitzers and 36,000 rounds of ammunition for them as well as two Harpoon coastal defense systems and an additional $225 million in humanitarian assistance.

Amid concerns that Europe’s support for Ukraine was weakening in the face of continued war and inflation, a high-level delegation including French President Emmanuel Macron, German Chancellor Olaf Scholz, Italian Prime Minister Mario Draghi, and Romanian President Klaus Iohannis met in Kyiv with President Zelensky. Former Russian President Dmitry Medvedev termed the visit of “zero use” and insulted the leaders, calling them “European fans of frogs, liverwurst, and spaghetti.” Visiting Irpin, the site of an earlier battle near Kyiv, Chancellor Scholz spoke of the “unimaginable cruelty of the Russian war, of senseless violence” and promised continued financial, humanitarian, and military support “as long as it is necessary for Ukraine’s fight to defend itself against Moscow.” Earlier in the week, the head of the finance committee of the Ukrainian Rada (Parliament) said that the country has to borrow $5 billion per month to pay expenses, even as tax collection has continued at high levels.

The UK announced new sanctions targeted to the “barbaric treatment of children” in Ukraine, including against Maria Lvova-Belova, Moscow’s childrens’-rights commissioner, for the “forced transfer and
adoption” of 2,000 Ukrainian children. In addition, the UK sanctioned Patriarch Kirill, the head of the Russian Orthodox Church, for “his prominent support of Russian military aggression in Ukraine.” Kirill had been excluded from the EU’s sanctions last week because of Hungary’s objections. Germany is tightening sanctions enforcement by establishing a register of assets that are subject to sanctions or may be subject to sanctions if ownership can be proved.

Showing Europe’s continuing reliance on Russian energy, Finland’s Center for Research on Energy and Clean Air issued a report estimating that Russia earned €93 billion in revenue from fossil fuel exports, with 61 percent of the exports delivered to members of the European Union, which remained Russia’s largest export market. The researchers estimate Chinese purchases at $13 billion, closely followed by Germany at $12.6 billion, with France the largest importer of liquified natural gas (LNG) and Germany the largest purchaser of pipeline gas. Volumes of sales declined in May, with some companies purchasing Russian LNG and crude oil on the spot market. The report covers the first 100 days of the war. Russia reported a budget surplus for 2022 to date, reflecting higher energy revenues.

Twice this week, Russia has cut gas deliveries to Europe via the Nord Stream 1 pipeline, reducing volumes by about 25 percent, claiming problems with turbine repairs, even as Russia’s ambassador to the EU said that a total gas cutoff would be a “catastrophe” for Germany. The head of Ukraine’s gas transit company termed the cuts “blackmailing of the EU.”

Ukraine released new figures this week showing it has lost a quarter of its arable land, mostly in the south and east. However, the Ukrainian Ministry of Agriculture notes that “Crop planting this year is more than sufficient” and the loss “does not pose a threat to Ukraine’s food security.” Similarly, the Kyiv School of Economics issued a study claiming $4.3 billion in damage to farmland, machinery, and livestock since the invasion.

For countries depending on Ukrainian grain exports, food security remains a serious concern. Turkey proposed hosting a meeting with the UN, Russia, and Ukraine to set a plan for Ukrainian grain exports through passages that do not involve de-mining ports; Foreign Minister Mevlüt Çavuşoğlu remarked that “[s]ince the location of the mines is known, certain safe lines would be established at three ports.”

Without a solution permitting grain exports, Ukrainian Agriculture Minister Mykola Solskyi warned the situation would impact three years of crops: “we cannot take out last year’s crop, we cannot harvest and take out the current one, and we do not particularly want to sow the next one.” President Biden proposed building grain siloes on the Ukrainian borders with the EU to assist with grain exports by rail; the siloes are necessary to transfer grain given the difference in Ukrainian and EU railway gauges.

2. CHINA AND JAPAN HOLDING FEWER US TREASURIES

Data released Wednesday indicate that China’s holdings of Treasuries, at $1.003 trillion, have fallen to their lowest level since May 2010, while Japan’s holdings, at $1.218 trillion, are at their lowest level since January 2020. Japan’s holdings may have been lowered by sales prompted by the falling yen, while China’s may result from attempts to diversify China’s foreign exchange holdings as well as rising US interest rates. Lower foreign holdings are likely to raise yields for Treasuries, which rose about 55 basis points in April to 2.9375 percent.

3. US, CHINA MEET AT SHANGRI-LA CONFERENCE

At the Shangri-La Dialogue on Asia-Pacific security over the weekend, US Secretary of Defense Lloyd Austin and Chinese Minister of National Defense General Wei Fenghe met in person for the first time,
airing their differences on Taiwan and regional security issues but agreeing to hold further meetings as part of Austin’s request to “responsibly manage competition and maintain open lines of communication” between the countries’ armed forces” and hold “substantive dialogue on improving crisis communications and reducing strategic risk.” Wei’s spokesman reported Wei telling Austin that “[i]f anyone dares to split Taiwan from China, the Chinese army will not hesitate to fight at any cost to crush any attempt of Taiwan independence [.]” Each defense minister also delivered an address to the assembly with competing visions of the Pacific future. The Australian and Japanese Defense Ministers held a trilateral meeting with Secretary Austin, reinforcing cooperation among the Pacific members of the Quad group of countries. Japanese Prime Minister Fumio Kishida also addressed the conference, supporting an expanded security role in Asia for Japan, including deeper ties with ASEAN countries, and stating, in a veiled reference to Taiwan, that “Ukraine today may be East Asia tomorrow. I will seek to build a stable international order through dialogue, not confrontation. At the same time, however, we must be prepared for the emergence of an entity that tramples on the peace and security of other countries by force or threat without honoring the rules.” Kishida promised to give at least $2 billion over the next three years to help regional countries improve maritime security.

4. PRESIDENT’S UPCOMING VISIT TO MIDDLE EAST

The President will visit the Mideast in July, including stops in Israel for a state visit, the West Bank, and Saudi Arabia. During the Saudi visit, the President meet with both King Salman and Crown Prince Mohammed bin Salman “to discuss areas of bilateral cooperation as well as joint effort to address regional and global challenges,” according to an announcement from the Saudi Royal Court. The trip will also apparently include a virtual summit with India, Israel, and the United Arab Emirates. As India has longstanding ties to Iran, the virtual summit, at which Iran will likely be discussed, could be significant.