

Aurora Macro Strategies: Russia and the Economic War Update February 13 2025

The Tearsheet

- U.S. President Donald Trump held his first publicly detailed phone call with Russian President Vladimir Putin on February 12 in which he announced plans for peace talks.
- Trump subsequently stated that he will meet with Putin in Saudi Arabia.
- He then informed Ukrainian President Volodymyr Zelensky of the talks and stated that further US-Ukrainian discussions would be held at the Munich Security Conference, which runs from February 14-16.
- Earlier on February 12, U.S. Defense Secretary Pete Hegseth announced that the U.S. would recognize that restoration of Ukraine's pre-2014 borders was impossible, that Ukraine would not join NATO in the foreseeable future, and ruled out U.S. troops forming part of any post peace-deal peacekeeping mission – all significant concessions ahead of negotiations.
- We think Russian assets – and their proxies such as Raiffeisen Bank – will rally on the news. But a deal remains far away and even if negotiations proceed as smoothly as possible – which we do not expect – our prediction is that it will be well into the summer before anything is finalized.
- We also expect significant sanctions on Russia to remain in place even after a deal is reached.

1. Prospects for Peace in Our Time

- Trump's February 14 phone conversation with Putin was the first publicly announced such talk, but Trump has alluded to other talks with the Russian president as recently as during his February 9 pre-Super Bowl Fox News Interview.
- The status of these talks remains unclear but they did result in a hostage negotiation deal just a day before the latest phone conversation. Our view is that this indicates confidence building measures were necessary and will continue to be for talks to proceed.
- Trump and Hegseth have set the ground for Putin to come to the table by making major concessions at the outset on Ukrainian sovereignty and its future status within the Euro-Atlantic alliance.
- However, Putin has significant demands that will be difficult even for Washington to force on Ukraine such as full control of Zaporizhzhia and Kherson Oblasts – including their eponymous capital cities that had a combined pre-war population of roughly 1 million people.
- Trump Hegseth both made statements alluding to continued sanctions pressure, although these have been buried under the headlines over the prospects for talks.
- During Hegseth's February 14 meeting of the Ukraine Defense Contact Group (i.e. Ukraine's NATO allies) in Brussels, he stated that pressure on Russia to negotiate would come from "more effective enforcement of energy sanctions."
- Hegseth's comments that Ukraine will not be able to join NATO as part of any peace agreement and that it will not regain control of its pre-2014 borders are nevertheless a significant concession on Washington's part to get the negotiations underway. While

Western diplomats have long acknowledged these to be the case, Kyiv will not agree to formally make such declarations before the talks begin.

- Trump's social media post announcing the talks also stressed that he had discussed the "power of the U.S. Dollar" with Putin, something that the Russian president cares about far more than the actual status of NATO in Eastern Europe (outside Ukraine).
- Since the full-scale invasion of Ukraine was launched, Putin has spoken about the geopolitical importance of the U.S. Dollar or the "Dollar System" nearly one-and-a-half times as frequently as he has spoken about NATO. If one adds in Putin's discussions of alternative BRICS financial structures, it is roughly two-to-one.
- Despite long-standing concerns about Trump's understanding of the dollar system, the president has emphasized over the past year that ensuring its continued strength is key to his foreign policy agenda far more frequently than he did in his first term in office.
- Putin is likely to look for a peace deal to be reached around 9 May, when Russia marks Victory Day in relation to the conclusion of the Second World War.
- Trump is likely to care relatively little about Putin's ideal timeline, and will primarily be motivated by headlines that allow him to claim progress on reaching a peace deal even if issues fester that make reaching a final agreement difficult such as energy sanctions, progress on the battlefield in Ukraine, and Kyiv's own willingness to come to terms despite its dependence on U.S. military aid.
- After his conversation with Putin, Trump also spoke with Ukrainian President Volodymyr Zelensky but gave few additional details other than to state that further negotiations would be held at the Munich Security Conference this weekend. However, Zelensky made more skeptical comments stating that while he welcomed negotiations he did not believe that Trump had an outline for a final peace deal in place yet.
- Putin has additional demands on Ukrainian sovereignty other than his territorial ambitions that will prove a major challenge for Ukraine including on the country's language policies and recognition of Soviet-era Russian holidays, celebrations, and historical memory.
- Zelensky cannot concede on these prior to negotiations beginning without risking significant unrest within Ukraine and even military groupings refusing to comply with any eventual commands to cease fighting. The risk of long-term terroristic threats emerging from the conflict should not be underplayed.

2. Sanctions Relief & Energy incongruities

- Trump and Hegseth's comments in our view stress that significant pre-negotiation sanctions relief is highly unlikely to be on the table despite the concessions on Ukraine's territorial integrity and NATO membership.
- Significantly easing sanctions even in any peace agreement will be extremely challenging because of the January 15 move by the then-Biden Administration to re-designate nearly 100 Russian companies including its major banks under executive orders dating to 2014 that are protected by the 2017 Countering Americas Adversaries Through Sanctions Act (CAATSA).
- Several previous designations against major Russian energy companies including Gazpromneft and Surgutneftegas were already issued under these sanctions. The lifting of these sanctions would require approval from both Houses of Congress.

- Additionally, the freeze of Russia's roughly US\$300bn in sovereign assets agreed by the G7 after the full-scale invasion of Ukraine is not in the Trump Administration's power to reverse as the vast majority of these assets are located in the European Union (US\$220bn) whereas only a fairly small share, US\$4-5bn, are held by the United States.
- Trump has repeatedly emphasized in his talks with the European Union that he wants Europe to buy more U.S. natural gas. Russian gas flows to the bloc are currently capped at just 16 billion cubic meters (bcm) per annum with only the Balkan Stream gas pipeline operational.
- Restarting gas flows through Ukraine and via the Yamal Pipeline to Poland could add over 80bcm and 33bcm, respectively. Additionally, the Nord Stream pipeline network – which remains damaged as a result of the September 2023 subsea explosions – has a capacity of 110bcm. Not restarting these flows is one of the few areas where Trump, Ukraine, and the European Union overlap.
- The Biden Administration's January sanctioning of 183 additional tankers, LNG carriers and other Russian ships has in our estimation targeted some 20% of Russia's total hydrocarbon exports in 2024. Keeping pressure on this front will be key to how the Trump Administration plans to seek concessions from Russia.
- Easing of sanctions on Russian oil exports is far more likely as part of any peace deal than major concessions on the LNG sanctions that do remain in place. However, Putin would certainly insist on not expanding LNG sanctions and likely drawing back those already in place. With Russia planning over 110bcm of LNG export projects, this could bring significant downward pressure on global gas prices over the tenor of any deal even without the restart of gas flows through the above-mentioned European pipelines.

3. The War Continues Unabated

- Trump and Putin's talks did not include any statement on adjusting the current pace of fighting in Ukraine, which has continued unabated in recent weeks. We do not expect a major downturn in the fighting at least until Trump and Putin's first meeting and even then it is likely to only include limited measures.
- The Russian pace of advances on the battlefield in eastern Ukraine has declined significantly in the last three weeks, in part due to the onset of bitter cold weather across Ukraine after an unusually warm early and mid-January.
- Nevertheless, Russian forces are fighting for control of the Ukrainian towns of Pokrovsk, Chasiv Yar, and Velyka Novosilka that are key to Ukraine's defensive lines in, respectively, western, south-western and north-western Donetsk Oblast. All three are more likely than not to fall within weeks if the current pace of fighting continues.
- There has been comparatively little change to the lines of control that run along the Ukrainian internal border between Kharkiv and Luhansk Oblast (roughly around the Oskil River) in recent months.
- Ukrainian forces continue to hold territory around Sudzha in Kursk Oblast and reported some minor gains there late last week, though the total territory Kyiv controls is down by some 40% from the peak after its August 2024 incursion into the region.
- Russian missile and drone attacks on Ukraine continue unabated and Russia launched its latest barrage shortly after the Trump-Putin phone call.
- Ukraine has continued to have significant success in targeting Russian oil infrastructure with its own drone fleet and, for example, has struck the Lukoil Refinery in Volgograd three

times since the beginning of 2025. Such attacks will also not abate at least until the first Putin-Trump meeting and even thereafter may be difficult to constrain in the short term because Kyiv primarily uses domestically manufactured drones for such attacks, though they are reliant on Western components.

- However, we do expect that the Kremlin will in the short term decrease sabotage efforts against shipping in the North and Baltic Sea. The sustainability of this will depend more on the European Union than the Trump Administration's peace talks and Brussels is currently debating its own willingness to detain Russian ships that are violating the G7+ Oil Price Cap in these waters.
- The EU's December 2024 sanctions package – as detailed in our January [Economic War Update](#) – already granted new authorities to member states to detain Russian ships.

4. Prisoner Swaps

- On February 11 Russia released Marc Fogel, a former teacher at the Anglo-American School in Moscow who had been jailed for nearly three-and-a-half years on cannabis possession charges.
- The Trump Administration confirmed a day later that it would release Alexander Vinnik, founder of the cryptocurrency exchange BTC-e in exchange. Vinnik was in U.S. prison on money laundering charges since August 2022, to which he pled guilty last year, after previously serving a similar sentence in France.
- Russia's ally Belarus also released a U.S. dual national, Anastasia Nuhfer, on the eve of its January 26 presidential "election" – and in an unannounced exchange the U.S. did not comment on the highly undemocratic conduct of the vote. Nuhfer was reportedly detained in December 2023 but her case had not been publicized before the release.
- On 12 February the Belarusian government also released another U.S. dual national, Andrey Kuznechyk, who had been in jail for three-and-a-half years on charges related to his work for Radio Free Europe / Radio Liberty and coverage of the 2020 Belarusian presidential elections and related protests against President Alexander Lukashenko. No concessions were publicly detailed for this release.
- Our view is that Kuznechyk's release was also ordered by Putin as a further confidence building measure, rather than an effort by the Lukashenko regime to try to place distance between itself and Moscow.
- The Kremlin has repeatedly been willing to exchange more Western detainees than it receives in return, particularly for high value prisoners such as Vinnik. This was clearly evidenced by the August 2024 release of Wall Street Journal reporter Evan Gershkovich and 15 other Western detainees (including one held by Belarus, for which it also received no nominal concession) in exchange for 10 Russians held in the West, most prominently convicted Russian intelligence operative and assassin Vadim Krasikov.

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