



R&R Weekly Column  
By Brunello Rosa



## Hamas “At War” With Israel, When A Détente With The Palestinians Had Seemed Closer

On Saturday, the “Islamic Resistance Movement” Hamas, the political and paramilitary Palestinian organisation based in the Gaza strip, [launched a multi-pronged attack on Israel](#), with thousands of rockets fired at several Israeli cities, and incursions by its militias into the Israeli territory via land, sea, and sky with the use of paragliders. Hundreds of victims and injured people can already be counted, together with dozens of hostages being taken.

Benjamin Netanyahu, the Israeli Prime Minister, [said](#) immediately after the attack [that Israel was “at war”](#), and this wasn’t simply an “operation” by the Palestinian organisation. He later added that [“Israel should prepare for a long and difficult war.”](#) As a result, the retaliation by Israel started immediately; [as press reports suggest](#), at least [300 people have been killed](#), more than 2,000 wounded and 100 taken hostage in the Gaza strip during Israel’s retaliation.

This attack occurred during Shabbat, the weekly day of rest for Jewish people, and during the Jewish holiday of [Simchat Torah](#), which marks the completion of the annual reading of this section of the Bible. Additionally, and perhaps more significantly, the attack occurred on the 50<sup>th</sup> anniversary of the Yom Kippur War of 1973, when Israeli troops were also caught by surprise by the military operation initiated by the surrounding Arab countries.

In particular, this attack occurs at a time during which talks were gathering pace for a possible agreement between Saudi Arabia, the US and Israel, which would have led to the beginning of formal diplomatic relationships between Saudi Arabia and Israel. [As we discussed in a recent column](#), the potential agreement could have led to the stabilisation of the region for decades, yet was riddled with obstacles. Saudi Arabia would have asked for a formal recognition of the Palestinian institutions, to further progress towards the “two states” solution.

What are the implications of this attack? First, the Saudi-Israeli-US deal will be much more difficult to be achieved, as Israel is “at war” with the state-like organisation that would benefit from a formal recognition. As has always occurred in previous occasions, every time there is the chance of a détente between Israel and Palestine, the extreme factions of either side carry out attacks that block the rapprochement process. Hamas said that [Iran gave support for the organisation of the strike](#), and in effect Hezbollah, the Iranian-backed organisation in Lebanon, has launched rockets [in the North of Israel](#). It is possible that Iran is opposed to the potential Saudi-Israeli-US deal, from which it would be excluded.

Secondly, the legitimacy of PM Netanyahu will increase, as always happens during crisis periods, and particularly during wars, when populations are scared and seek protection from the incumbent government, whatever its colour. This happens at the time in which Netanyahu’s popularity was at its lowest point, given the corruption charges against him and the [widespread protests against his ill-conceived reform of the judiciary](#).

True, his government will be widely criticized for the lack of intelligence that was needed to pre-empt the attack, which has clearly been planned for months, and which was timed for the 50<sup>th</sup> anniversary of the Yom Kippur war. But Netanyahu could actually seize the chance of ditching his right-wing parliamentary allies, which have allowed the birth of the most-rightwing government in Israeli history. He could instead form [a national unity government that many of his political opponents, starting from Yair Lapid, would likely support](#). This would probably allow him to remain in power for longer than he could with the current coalition.

One could even hope that such a national unity government may actually be the one that will be able to negotiate the deal with Saudi Arabia and the US, which clearly now is more needed than ever. But as mentioned above, the war between Israel (led by whatever government) and Hamas makes it even harder to achieve any such deal.

### Our Recent Publications

- ✿ [The BRICS Expansion and Its Impact On The GCC](#), by Gulf State Analytics, 3 October 2023
- ✿ [China’s Deceleration: Navigating China’s Economic Crossroads](#), by Billy Buddell, 27 September 2023

- ✿ [The Coup Epidemic in the Sahel and West Africa](#), by Giorgio Cafiero, 26 September 2023
- ✿ [Review: In a Split Decision, The BOE Pauses After the Lower Inflation Data](#), by Brunello Rosa and Nato Balavadze, 21 September 2023

Looking Ahead

The Week Ahead: US Inflation To Fall; Headline Inflation To Ease Off In Germany And Italy, While Remaining Unchanged In France

**In the US**, in September, both core and headline inflation rates are expected to ease off to 3.6% y-o-y (*p*: 3.7%) and 4.1% y-o-y (*p*: 4.3%) respectively. In October, Michigan Consumer Sentiment is likely to fall to 67.4 (*p*: 68.1).

**In the EZ**, in August, IP is likely to shrink by -3.5% y-o-y (*p*: -2.2%).

**Among the largest EZ economies**, in September, the headline inflation rate is expected to: *i*) decrease to 4.0% y-o-y (*p*: 6.1%) in Germany; *ii*) stay the same at 4.9% y-o-y in France; and *iii*) fall to 5.3% y-o-y (*p*: 5.4%) in Italy.

**In the UK**, in August, IP is seen rising 1.7% y-o-y (*p*: 0.4%).

The Quarter Ahead: US Government Shutdown Avoided; Ukraine-Russia War; The Conflict Between Israel And Palestinians Escalated

**The US lawmakers passed the short-term deal to avoid a government shutdown.** A bill that guarantees funding until November 17<sup>th</sup> received strong backing and was signed into law by President Biden. In the meantime, some GOP members in the House removed Speaker Kevin McCarthy, causing concerns in U.S. politics, due to recent near-government shutdowns and debt ceiling crises.

**Ukraine-Russia War.** A Russian missile attack on residential buildings killed at least two people in Kharkiv. In the meantime, Germany's top arms maker received a significant order for artillery shells to restock supplies depleted by Russia's Ukraine invasion. The order is set to be completed in 2024 in partnership with the German government.

**The conflict between Israel and Palestinians in Gaza.** Israel's Prime Minister Benjamin Netanyahu declared a state of war on Saturday as Palestinian militants in Gaza fired rockets and infiltrated Israeli territory, escalating the long-running conflict.

Last Week's Review

Real Economy: Unemployment Remained Unchanged In US And Fell In EZ; Composite PMIs Decreased In EZ And UK

**In the US**, in September, the unemployment rate remained unchanged at 3.8% (*c*: 3.7%; *p*: 3.8%). NFPs increased by 336K (*c*: 170K; *p*: 227K). In September, S&P Global manufacturing PMI rose to 49.8 (*c*: 48.9; *p*: 47.9), while services PMI fell to 50.1 (*c*: 50.2; *p*: 50.5). Composite PMI stayed unchanged at 50.2 (*c*: 50.1; *p*: 50.2).

**In the EZ**, in August, the unemployment rate fell to 6.4% (*c*: 6.4%; *p*: 6.5%). In September, HCOB manufacturing PMI decreased to 43.4 (*c*: 43.4; *p*: 43.5), while services PMI increased to 48.7 (*c*: 48.4; *p*: 47.9). Composite PMI edged up to 47.2 (*c*: 47.1; *p*: 46.7). August's retail sales shrank by -2.1% y-o-y (*c*: -1.2%; *p*: -1.0%).

**In the UK**, in September, S&P Global/CIPS manufacturing PMI increased to 44.3 (*c*: 44.2; *p*: 43.0), whereas services PMI edged down to 49.3 (*c*: 47.2; *p*: 49.5). Composite PMI fell to 48.5 (*c*: 46.8; *p*: 48.6).

Financial Markets: Stock Prices Decreased Globally, While Rising in US; Bond Yields Were Up; Dollar Index, Oil And Gold Prices Fell

**Market Drivers:** In the US, stock markets finished higher last week after the release of a stronger-than-expected September jobs report. The rise in US jobs by 336K in September, caused the rise of UST yields. In Europe, the stocks decreased due to concerns about rising bond yields and the possibility of prolonged higher interest rates.

**Global Equities:** decreased w-o-w (MSCI ACWI, -0.4%, to 654.04). The US S&P 500 index edged up (+0.5% w-o-w, to 4,308.50). In the EZ, share prices were down (Eurostoxx 50, -0.7% w-o-w, to 4,145.05). In EMs, equity prices moved down (MSCI EMs, -1.6%, to 937.36). Volatility rose to 17.95 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

**Fixed Income:** w-o-w, the 10-year US Treasury yields edged up (+21 bps to 4.80%). The 2-year US Treasury yields increased (+3 bps to 5.08%). The German 10-year bund yield rose (+7 bps to 2.90%).

**FX:** w-o-w, the US Dollar Index edged down (DXY, -0.1%, to 106.10; EUR/USD +0.2%, to 1.06). In EMs, currencies decreased (MSCI EM Currency Index, -0.4% w-o-w, to 1,661.67).

**Commodities:** w-o-w, oil prices fell (Brent, -11.4% to 84.43 USD/b). Gold prices decreased w-o-w (-1.0% to 1,847.00 USD/Oz).



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**Abbreviations, Acronyms and Definitions**

|       |                                       |         |   |
|-------|---------------------------------------|---------|---|
| a     | Actual                                | LN      | Northern League, Italy                                |
| AKP   | Justice and Development Party, Turkey | MSS     | Five Star Movement, Italy                             |
| ann.  | annualized                            | m-o-m   | Month-on-month  |
| ARS   | Argentinian Peso                      | mb      | Million barrels                                       |
| avg.  | Average                               | mb/d    | Million barrels per day                               |
| bn    | Billion                               | MENA    | Middle East and North Africa                          |
| BoC   | Bank of Canada                        | MHP     | Nationalist Movement Party, Turkey                    |
| BoE   | Bank of England                       | mn      | Million   |
| BoJ   | Bank of Japan                         | MPC     | Monetary Policy Committee                             |
| bpd   | Barrels per day                       | NAFTA   | North-American Free Trade Agreement                   |
| bps   | Basis points                          | NATO    | North Atlantic Treaty Organization                    |
| BS    | Balance sheet                         | OECD    | Organization for Economic Cooperation and Development |
| c     | Consensus                             | Opec    | Organization of Petroleum Exporting Countries         |
| C/A   | Current account                       | p       | Previous  |
| CB    | Central bank                          | P2P     | Peer-to-peer  |
| CBB   | Central Bank of Bahrain               | PBoC    | People's Bank of China                                |
| CBK   | Central Bank of Kuwait                | PCE     | Personal Consumption Expenditures                     |
| CBT   | Central Bank of Turkey                | PE      | Price to earnings ratio                               |
| CDU   | Christian Democratic Union, Germany   | PM      | Prime minister  |
| CNY   | Chinese Yuan                          | PMI     | Purchasing managers' index                            |
| CPI   | Consumer Price Index                  | pps     | Percentage points                                     |
| DJIA  | Dow Jones Industrial Average Index    | pw      | Previous week   |
| DJEM  | Dow Jones Emerging Markets Index      | QCB     | Qatar Central Bank                                    |
| d-o-d | Day-on-day                            | QAR     | Qatari Riyal  |
| DXY   | US Dollar Index                       | QE      | Quantitative easing                                   |
| EC    | European Commission                   | q-o-q   | Quarter-on-quarter                                    |
| ECB   | European Central Bank                 | RE      | Real estate   |
| ECJ   | European Court of Justice             | RBA     | Reserve Bank of Australia                             |
| EIA   | US Energy Information Agency          | RRR     | Reserve Requirement Ratio                             |
| EM    | Emerging Markets                      | RUB     | Russian Rouble  |
| EP    | European Parliament                   | SWF     | Sovereign Wealth Fund                                 |
| EPS   | Earnings per share                    | tn      | Trillion  |
| EU    | European Union                        | TRY     | Turkish Lira  |
| EUR   | Euro                                  | UAE     | United Arab Emirates                                  |
| EZ    | Eurozone                              | UK      | United Kingdom  |
| Fed   | US Federal Reserve                    | US      | United States   |
| FOMC  | US Federal Open Market Committee      | USD     | United States Dollar                                  |
| FRB   | US Federal Reserve Board              | USD/b   | USD per barrel  |
| FX    | Foreign exchange                      | UST     | US Treasury bills/bonds                               |
| FY    | Fiscal Year                           | VAT     | Value added tax                                       |
| GCC   | Gulf Cooperation Council              | VIX     | Chicago Board Options Exchange Volatility Index       |
| GBP   | British pound                         | WTI     | West Texas Intermediate                               |
| GDP   | Gross domestic product                | WTO     | World Trade Organisation                              |
| IMF   | International Monetary Fund           | w       | Week  |
| INR   | Indian Rupee                          | w-o-w   | Week-on-week  |
| IPO   | Initial public offering               | y       | Year  |
| IRR   | Iranian Rial                          | y-o-y   | Year-on-year  |
| JPY   | Japanese yen                          | y-t-d   | Year-to-date  |
| k     | thousand                              | ZAR     | South African Rand                                    |
| KSA   | Kingdom of Saudi Arabia               | 2y; 10y | 2-year; 10-year                                       |