

MAKING SENSE OF THIS WORLD

9 October 2023



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, <u>launched a multi-pronged attack on Israel</u>, 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, <u>said</u> immediately after the attack <u>that Israel was "at war"</u>, and this wasn't simply an "operation" by the Palestinian organisation. He later added that "<u>Israel should prepare for a long and difficult war</u>." As a result, the retaliation by Israel started immediately; <u>as press reports suggest</u>, at least <u>300 people have been killed</u>, 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 50th 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 ridden 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 50th 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
- <u>China's Deceleration: Navigating China's Economic</u>

 <u>Crossroads</u>, 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.% 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 17th 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

а	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	M5S	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
ВоС	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 Developmen
С	Consensus	Орес	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	у	Year
IRR	Iranian Rial	у у-о-у	Year-on-year
JPY	Japanese yen	y-u-y y-t-d	Year-to-date
k	thousand	y-t-u ZAR	South African Rand
K KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year

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