



R&R Weekly Column  
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## The Rising Risk of an Extension of the Israel-Hamas Conflict

On October 7<sup>th</sup>, 2023, the world witnessed [the massacre conducted by Hamas militias](#) in Israel, [in what was labelled “Operation Al-Aqsa Flood.”](#) In subsequent weeks, the [atrocities, including a number of gender-based crimes](#), committed by the Hamas militias emerged in the recounts of the surviving victims. After an initial hesitation, and after various attempts by world leaders, including the US president, to dissuade Israel’s prime minister, [Israeli troops entered the Gaza strip in early November](#) and began their land operations, aimed at – possibly – eradicating Hamas.

At that point, the conflict remained confined to Israel, with Hezbollah from Lebanon not joining Hamas in its attack into Israel. Behind an incendiary rhetoric, [Hezbollah leader Hassan Nasrallah remained vague](#) and refused to engage in what he described as a “Palestinian” action. We noted the risk that Russia could enter the conflict with a mediation role, pretending to be the only actor that could convince Iran (which finances both Hamas and Hezbollah) not to enter the conflict. At that point, the conflict seemed to remain localised, and unlikely to escalate even at the regional level

However, in the last few days, a series of events occurred that made an extension of the conflict in Gaza between Israel and Hamas more likely. First of all was [the assassination of Saleh al-Arouri](#), a key figure in the Izzedine al-Qassam Brigades, Hamas's armed wing, and a close ally of Ismail Haniyeh, the Hamas leader and considered to be his deputing political leader. Arouri was killed in a “surgical strike” in Lebanon, in a Hezbollah stronghold in the southern Beirut suburbs, where he had been acting as a connection between his group and Hezbollah.

Following this assassination, the response by Nasrallah was stronger than previously. [He reportedly said](#): “If the enemy thinks of waging a war on Lebanon, we will fight without restraint, without rules, without limits and without restrictions.” At the same time, he kept some room for caution, when he said: “For now we are fighting on the frontline following meticulous calculations.”

This speech had been pre-planned to commemorate the fourth anniversary of the death of Iran’s Islamic Revolutionary Guards Corp general Qassem Soleimani. But that occurrence did not go as planned. In fact, on the occasion of the fourth anniversary of the assassination of General Soleimani – who had been touted to become Iran’s next Supreme Leader – [by a US drone strike in Iraq in 2020](#), a [terrorist attack was carried out by ISIS in Kerman in southern Iran](#). The attack caused 84 deaths and several more wounded people. In this case too the subsequent speech by Iran's Supreme Leader Ayatollah Ali Khamenei was filled with hard rhetoric, as he vowed a “harsh response” to this attack, which was initially blamed on Israel and/or the US.

These events follow air strikes by [US and Israeli forces in Iraq and Syria](#), which took place at the end of 2023, which resulted in the [death of over 30 militants including a senior commander of the Nujaba Movement](#), Mushtaq Talib al-Saidi. These strikes were a response to a series of 115 coordinated attacks launched by Iran-backed militias on U.S. military bases and assets in Syria and Iraq, which began on 17 October.

In our view, the fact that other countries (Iraq, Iran, Syria, Lebanon) started being involved in terrorist attacks or episodes of war testifies that the risk of a further escalation of the conflict to a regional scale has increased in recent weeks. It could potentially expand beyond the region as well, considering that US, Russia and China are all somehow involved or interested in this dispute. [As we discussed in our recent trip report from the region](#), the next few months will clarify whether this expansion of the conflict will become a reality or not.

### Our Recent Publications

🔗 [Gaza Crisis: Regional and International Dimensions](#), by Giorgio Cafiero, 4 January 2023

🔗 [Annexation Motivated by Oil? Essequibo: Venezuela vis-a-vis Guyana \(and its international allies\)](#), by Marina Tovar i Velasco, 3 January 2024

🔗 [Taiwan 2024 and the Road to Intensified Destabilisation](#), by Scott Mackie, 28 December 2023

🔗 [The Evolution of Philippine Maritime Security Amidst the Intensifying US-China Competition](#), by Mirko Giordani, 21 December 2023

Looking Ahead

The Week Ahead: Headline Inflation Rate To Rise In the US and France

**In the US**, in December headline inflation is expected to rise to 3.2% y-o-y (*p*: 3.1%), while core inflation is likely to edge down to 3.8% y-o-y (*p*: 4.0%).

**In the EZ**, in November unemployment rate is seen staying unchanged at 6.5%. In December, consumer confidence is expected to rise to -15.1 (*p*: -16.9). November's retail sales are likely to shrink by -1.5% y-o-y (*p*: -1.2%).

**Among the largest EZ economies**, in France, the headline inflation rate is seen rising to 3.7% y-o-y (*p*: 3.5%).

**In the UK**, in November IP is expected to rise by 0.7% y-o-y (*p*: 0.4%).

The Quarter Ahead: Supreme Court To Rule If Trump Can Run For President; Latest Developments In the Middle East

**US Supreme Court to hear Trump appeal of Colorado ballot disqualification.** The US Supreme Court has said it will hear a historic case to determine if Donald Trump can run for president. This case, with implications for the 2024 presidential election, revolves around the Colorado Supreme Court's ruling on December 19, disqualifying Trump based on the 14th Amendment due to his alleged involvement in the January 6, 2021, Capitol attack by his supporters.

**Latest developments in the Middle East.** Lebanon launched heavy fire into northern Israel on Saturday, prompting the Israeli military to respond by targeting a "terrorist cell" involved in the attack. Simultaneously, U.S. and European diplomats worked to prevent spillover from the Gaza war. Blinken and Borrell initiated a diplomatic effort on Friday to prevent the spillage of the three-month-old Gaza war into Lebanon, the Israeli-occupied West Bank, and Red Sea shipping lanes.

Last Week's Review

Real Economy: US NFP Surprised on the Upside; EZ Headline Inflation "Temporarily" Increased, While Core Fell

**In the US**, in December, unemployment rate stayed unchanged at 3.7% (*c*: 3.8%). NFP increased by 216K (*c*: 170K; *p*: 173K). In December, S&P Global Manufacturing PMI fell to 46.2 (*c*: 46.4; *p*: 47.2), while Services PMI is likely rose to 51.4 (*c*: 51.3; *p*: 50.7). Composite PMI edged up to 50.9 (*c*: 51; *p*: 50.7).

**In the EZ**, in December, according to flash estimates, headline inflation rose 2.9% y-o-y (*c*: 3.0%; *p*: 2.4%), while core inflation edged down to 3.4% y-o-y (*c*: 3.4%; *p*: 3.6%). In December, HCOB Manufacturing and Services PMI rose to 44.4 (*c*: 44.2; *p*: 44.2) and to 48.8 (*c*: 48.1; *p*: 48.7). Composite PMI stayed at 47.6 (*c*: 47).

**In the UK**, in December, S&P Global/CIPS Services PMI increased to 53.4 (*c*: 52.7; *p*: 50.9), while Manufacturing PMI decreased to 46.2 (*c*: 47.2; *p*: 46.4). Composite PMI rose to 52.1 (*c*: 51.7; *p*: 50.7).

Financial Markets: Stock Prices Decreased; US Bond Yields Rose; Dollar Index Is Down; Oil Prices Increased, While Gold Prices Fell

**Market Drivers:** Geopolitical concerns, including President Xi's speech on Taiwan, escalations of tensions in the Red Sea appeared to weigh on sentiment as 2024 trading began. Treasury yields rose as the December jobs report raised doubts about the Fed's potential rate cuts in March. Equities saw an increase near the close. European government bond prices experienced a significant decline, leading to higher yields, as traders scaled back on aggressive rate-cut expectations.

**Global Equities:** decreased w-o-w (MSCI ACWI, -1.6%, to 715.40). The US S&P 500 index edged down (-1.5% w-o-w, to 4,697.24). In the EZ, share prices fell (Eurostoxx 50, -1.3% w-o-w, to 4,463.45). In EMs, equity prices decreased (MSCI EMs, -2.2%, to 1002.08) Volatility rose slightly to 14.25 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 17.6).

**Fixed Income:** w-o-w, the 10-year US Treasury yields edged up (+18 bps to 4.05%). The 2-year US Treasury yields increased (+14 bps to 4.39%). The German 10-year bund yield edged up (+15 bps to 2.17%).

**FX:** w-o-w, the US Dollar Index edged up (DXY, +1.1%, to 102.4; EUR/USD -0.9%, to 1.09). In EMs, currencies edged down (MSCI EM Currency Index, -0.7% w-o-w, to 1,728.26).

**Commodities:** w-o-w, oil prices increased (Brent, +2.4% to 78.90 USD/b). Gold prices decreased w-o-w (-0.9% to 2,052.60 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