



R&R Weekly Column
By Brunello Rosa



The Dangerous Connection, Via Russia, Between The Wars In Ukraine and Israel

A few days ago, it emerged that some of the leaders of Hamas went to Moscow, [to speak with high-ranking officials at the Kremlin](#). Considering of the two ongoing wars in Ukraine and Israel, this news clearly could not go unnoticed. It raises a number of questions. Let's recap the positions "on the field", so to speak. There's an ongoing war in Ukraine due to Russia's unjustified invasion of the south-eastern regions of that country. [Russia managed to conquer around 17% of Ukrainian territory](#), after the Ukrainian army won back some of the land that had initially been lost. Ukraine's widely anticipated counter-offensive took place during the spring and summer of 2023, and it did achieve some results, [though likely more modest ones than were anticipated at the outset](#). The arrival of the winter probably will mark another pause ahead of a new offensive by the Russians or a new counter-offensive by the Ukrainians starting from spring next year. At the moment, there is a stall on the ground, relatively speaking, which may favour a crystallisation of the conflict for the near future.

In the Middle East, there is a composite situation, which could be simplified as follows. The traditional division is between the Sunni Muslims, spearheaded by Saudi Arabia, and Shia Muslims, led by Iran. The two countries have been arch-enemies for decades, but recently marked a rapprochement [by signing an agreement in Beijing, the content of which remains unclear](#). Virtually all countries in the Middle East are against Israel, [which is not officially recognised by the vast majority of them](#). Currently, Iran provides financing to the operations of Hamas in Gaza and Hezbollah in Lebanon. Hamas has been tolerated by Israel until now because its aims run contrary to the "two peoples, two states" solution for Israel and Palestine.

During the Obama presidency, [the Joint Comprehensive Plan of Action](#) was signed by several countries with Iran, to provide an environment that would favour a gradual re-entering of the country into the international community. But Trump pulled the US out of it, in effect killing the agreement. At the same time, during the Trump Presidency, [the Abraham Accords](#) were signed between Israel, Bahrain, Morocco, the United Arab Emirates, and Sudan. [As we have discussed in recent columns](#), there was an attempt by President Biden to favour a rapprochement between Israel and Saudi Arabia. The missing piece was clearly Iran.

Russia has strong ties with Iran and Syria, whose dictator/leader Assad is protected by both Moscow and Tehran. [Russia has also made advancements in Africa, in particular in Libya and the Sahel](#).

The war in Israel may expand and become regional if Hezbollah directly enters the conflict. Last week's [declaration by Hezbollah's leader Hassan Nasrallah remains vague](#): it affirms that Hezbollah is already fighting Israel but refuses to endorse Hamas' action, attributing their full responsibilities to "the Palestinians." Hezbollah can be unleashed only by Iran. Was the trip to Moscow by Hamas leaders perhaps meant to convince the Kremlin to put pressure on Iran to unleash Hezbollah? It is a fact that, on the same days that Hamas leaders were in Moscow, [a deputy foreign minister of Iran was also in Moscow, meeting with his Russian counterpart](#).

Clearly Russia could put itself in the middle of the game [with an offer of mediation](#), to attempt to convince the international community that it holds the key for the de-escalation or the containment of the conflict in the Middle East. If it was able to do this, Moscow would then for sure want to have a "free hand" on Ukraine, in exchange for convincing Iran not to unleash Hezbollah, or in any case, for Iran not to join the conflict. This would make Ukraine's situation almost intractable. On the back of all this, last week [EU Commission President Von Der Leyen flew to Kiev](#) to discuss Ukraine's accession to the EU, to reassure the invaded country about its prospects. The real question is: what portion of Ukraine would eventually join the EU, in this scenario?

Our Recent Publications

☛ [Review: BOE Remains On Hold Also In November, But Could Raise Rates Further](#), by Brunello Rosa and Nato Balavadze, 2 November 2023

☛ [Flash Review: The Fed Skips Also November, But Keeps a Tightening Bias](#), by Brunello Rosa and Nato Balavadze, 1 November 2023

☛ [Flash Preview: BoE To Stay On Hold Also in November, as the "Table Mountain" Becomes More Likely](#), by Brunello Rosa, Nouriel Roubini and N. Balavadze, 31 October 2023

☛ [Preview: "High For Longer" Is More Likely Than "Higher For Longer"](#), by Nouriel Roubini, Brunello Rosa and Nato Balavadze, 30 October 2023

Looking Ahead

The Week Ahead: UK QoQ GDP Growth To Contract; EZ PMI To Decrease; EZ Retail Sales To Shrink

In the US, in November, Michigan consumer sentiment is expected to rise to 64 (*p*: 63.8).

In the EZ, in October HCOB services and composite PMIs are likely to fall to 47.8 (*p*: 48.7) and 46.5 (*p*: 47.2). In September, retail sales are expected to contract by -3.2% y-o-y (*p*: -2.1%) and -0.2% m-o-m (*p*: -1.2%).

In the UK, in Q3, according to a preliminary estimate, the GDP growth is seen shrinking by -0.1% q-o-q (*p*: 0.2%). In September, IP is expected to increase by 1.1% y-o-y (*p*: 1.3%).

The Quarter Ahead: Calls for Ceasefire in Israel-Hamas Conflict Amidst Concerns for Gaza Civilians; Von Der Leyen Visits Ukraine

Israel-Hamas War. UN and humanitarian organizations have called for a ceasefire in the Israel-Hamas conflict to deliver aid and prevent civilian casualties in Gaza. A senior UN official stated on Friday that there is no safe place in Gaza, emphasizing that not even a UN flag can ensure safety for the trapped civilians in the Gaza Strip. The U.S. is pushing for a temporary truce to free hostages and deliver aid, but Israel has rejected the proposal due to the ongoing hostage situations. The leader of Hezbollah, cautioned Israel about considering "all possibilities" in their ongoing hostilities along the Lebanon-Israel border but did not explicitly declare all-out war.

Ursula von der Leyen's visits Ukraine to show support for the country. Ukraine is currently facing uncertainty regarding continued financial aid from the EU and the US. The visit coincides with shifts in diplomatic focus towards the Israel-Hamas conflict and ongoing budget discussions in the EU. This budget-related issue has resulted in the delay of approval for the EU's substantial €50 billion support package intended for Ukraine.

Last Week's Review

Real Economy: EZ QoQ GDP Contract; EZ Inflation Fell; US Unemployment Rose; CBs Held Rates Steady

In the US, in October, the unemployment rate increased to 3.9% (*c*: 3.8%; *p*: 3.8%). NFPs increased by 150K (*c*: 180K; *p*: 297K). In October, S&P Global Manufacturing and Services PMIs increased to 50 (*c*: 50.0; *p*: 49.8) and to 50.5 (*c*: 50.9; *p*: 50.1). Composite PMI rose too to 50.6 (*p*: 50.2).

In the EZ, in Q3, according to flash estimates, GDP shrank by -0.1% q-o-q (*c*: 0.0%; *p*: 0.2%). On a yearly basis, the economy decelerated to 0.1% (*c*: 0.2%; *p*: 0.5%). Unemployment rate rose to 6.5% (*c*: 6.4%; *p*: 6.4%). In October, both headline and core inflation rates eased off to 2.9% y-o-y (*c*: 3.1%; *p*: 4.3%) and 4.2% y-o-y (*c*: 4.2%; *p*: 4.5%). In October, consumer confidence deteriorated to -17.9 (*p*: -17.8) and economic sentiment fell to 93 (*p*: 93.3) as expected. In October, Manufacturing PMI decreased to 43.1 (*c*: 43; *p*: 43.4).

In the UK, in October S&P Global/CIPS Manufacturing and Services PMIs rose to 44.8 (*c*: 45.2; *p*: 44.3) and to 49.5 (*c*: 49.2; *p*: 49.3). Composite PMI also rose marginally to 48.7 (*c*: 48.6; *p*: 48.5).

CBs held rates. In the US, the Fed maintained the target Fed funds range at 5.25% - 5.50%. In the UK, the BoE maintained its Bank Rate (BR) at 5.25% in November.

Financial Markets: Stock Prices Increased Globally; Bond Yields Fell; Dollar Index And Gold Prices Fell, While Oil Prices Rose

Market Drivers: Stocks gained on economic slowdown signs and a dovish Federal Reserve statement, leading to lower long-term bond yields. European bond yields fell on expectations that major central banks have completed their monetary tightening.

Global Equities: increased w-o-w (MSCI ACWI, +5.3%, to 662.77). The US S&P 500 index edged up (+5.9% w-o-w, to 4,358.34). In the EZ, share prices were up (Eurostoxx 50, +4.0% w-o-w, to 4,176.45). In EMs, equity prices moved up (MSCI EMs, +3.1%, to 948.26). Volatility fell to 16.05 (VIX S&P 500, 52w avg.: 20.9; 10y avg.: 18.7).

Fixed Income: w-o-w, the 10-year US Treasury yields fell substantially (-27 bps to 4.58%). The 2-year US Treasury yields dropped (-17 bps to 4.85%). The German 10-year bund yield also fell (-17 bps to 2.66%).

FX: w-o-w, the US Dollar Index edged down (DXY, -1.4%, to 105.07; EUR/USD +1.6%, to 1.07). In EMs, currencies rose (MSCI EM Currency Index, +0.9% w-o-w, to 1,685.38).

Commodities: w-o-w, oil prices fell (Brent, -5.8% to 85.23 USD/b). Gold prices increased w-o-w (+0.5% to 1,999.90 USD/Oz).



@RosaRoubini



Rosa & Roubini



Rosa&Roubini Associates

For more information, please call us on +44 (0)207 1010 718 or send us an email to info@rosa-roubini-associates.com

www.rosa-roubini-associates.com

118 Pall Mall, London SW1Y 5ED

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



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 118 Pall Mall, St. James's, London SW1Y 5ED, United Kingdom. VAT registration number GB 278 7297 39. **Analyst Certification:** We, Brunello Rosa and Nouriel Roubini, hereby certify that all the views expressed in this report reflect our personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates's business, nor by personal or client relationships. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the U.S. SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.

