



*R&R Weekly Column
By Brunello Rosa*



Israel-Hezbollah Exchanges Re-Open the Risk of a Further Extension to the Conflict

Last week there was [a series of military exchanges between Israel and Hezbollah](#) in Lebanon. Israel said that it launched a preventive air strike just minutes before Hezbollah – according to intelligence gathered by Israel's secret services – would have started to launch missiles at Israel as a retribution for the assassination of Fuad Shukr, which occurred in Beirut on 30 July.

[Shukr was a member of Hezbollah's founding generation](#), and for over four decades he was one of the group's leading military figures and a military advisor to its leader Hassan Nasrallah. This assassination occurred just one day before the killing of [Ismail Haniyeh, Hamas' political leader](#) in Tehran. In response to the attack, Hezbollah reacted by sending 320 Katyusha missiles targeting Israel's military air bases. [According to the FT](#), "the exchange of fire was the biggest between Israel and Iran-backed Hizbollah since they fought a 34-day war in 2006." This episode re-opens the risk of a further expansion of the conflict in three possible directions.

First, there is an increased risk of a regionalisation of the conflict in the Middle East taking place. The ongoing war in Gaza, the attacks by the Houthis in Yemen against foreign ships crossing the Red Sea, the military exchanges in Lebanon, with the still-open competition between Saudi Arabia and Iran for the domination over the Middle East are already depicting a picture of a regional conflict in the making, which could expand and deepen further.

Israel's foreign and defense ministers Israel Katz and Yoav Gallant have given reassurances that the country does not want an all-out war, which if it occurs could involve a re-opening of the direct confrontation with Iran. But it is obvious that the longer the Gaza operation by the IDF continues, the more likely an extension of the conflict becomes, especially because such an extension would be politically expedient for PM Benjamin Netanyahu.

Second, terrorist attacks in Europe have restarted. Last week, [the knife attack by an ISIS member in Solingen \(Germany\)](#) during a local festival, which left three people dead and several injured, re-activated the fear of there being widespread terrorist attacks, which have plagued Europe in the last few years, with France, Germany and Belgium being the most targeted countries. This also follows [the use of violence by the police, in particular in Germany, against pro-Palestinian demonstrators](#), which is contributing to a further rise of tension.

Third, the conflict has global implications in the year of the US Presidential elections. In spite of the reassurances given by the various sides, the talks in Cairo between Israel and Hamas, with the mediation of Egypt, Qatar and the US have not yet produced not even a minimal ceasefire. This is creating tensions around the world, with rallies and occupied universities in various countries, including in the US. [As we discussed in previous columns](#), this is radicalising public opinion and dividing countries, as well as dividing parties within countries. In the US, the Democratic Party leaders are finding it hard to maintain all the various sensitivities under the same roof and remain united ahead of the crucial November 5th vote.

In our view, this conflict will remain open until the US Presidential election is held, at which point it will become clearer what type of support Netanyahu will have for Israel's military operations in Palestine.

Our Recent Publications

- ✿ [Flames of Division: Analysing the 2024 UK Riots](#), by Sarah Ghotme, 21 August 2024
- ✿ [Causes And Implications of Ukrainian Advancements in Kursk](#), by Marco Lucchin, 20 August 2024

- ✿ [An Unprecedented Terrorist Attack in Oman](#), by Gulf State Analytics, 6 August 2024
- ✿ [Review: Bank of England Cuts Rates, With a Razor-Thin Majority](#), by Brunello Rosa and Nato Balavadze, 1 August 2024

Looking Ahead

The Week Ahead: QoQ GDP To Advance In US And France, But To Shrink In Germany; Inflation To Ease In the EZ

In the US, in Q2, according to the second estimate, the economy is seen advancing by 2.8% q-o-q (*p*: 1.4%). In August, Michigan Consumer Sentiment is expected to edge up to 67.8 (*p*: 66.4).

In the EZ, in August, according to the flash estimates, headline and core inflation are expected to ease off to 2.3% y-o-y (*p*: 2.6%) and 2.8% y-o-y (*p*: 2.9%) respectively. In July, the unemployment rate is seen remaining unchanged at 6.5%. In August, consumer confidence is likely to decline to -13.4 (*p*: -13.0).

Among the largest EZ economies, in Q2, according to the final estimate, GDP growth is expected to: *i*) contract by -0.1% q-o-q (*p*: 0.2%) and -0.1% y-o-y (*p*: -0.1%) in Germany and *ii*) advance by 0.3% q-o-q (*p*: 0.3%) and decelerate by 1.1% y-o-y (*p*: 1.5%) in France. In August, headline inflation is seen easing off to 2.1% y-o-y (*p*: 2.3%) in Germany.

The Quarter Ahead: The US National Security Adviser Sullivan Will Visit China; Fed Chair Powell Spoke in Jackson Hole

National security adviser Jake Sullivan will visit Beijing. Sullivan will visit China from August 27 to 29 to meet Foreign Minister Wang Yi, aiming to ease tensions ahead of U.S. elections. This marks the first visit by a U.S. national security adviser since 2016, although other senior officials have visited in recent years. In the meantime, the US and China have agreed to cooperate on financial stability, according to a statement from the People's Bank of China, whereas China's Ministry of Commerce strongly opposed the US decision to add Chinese entities to its export control list over alleged support for Russia.

Fed Chair Powell's speech in Jackson Hole. Powell hinted at upcoming rate cuts, expressing confidence in achieving a "soft landing" without triggering a recession. He expressed confidence that inflation is within reach of the Fed's 2% target.

Last Week's Review

Real Economy: Headline Inflation Increased, While Core Inflation Was Unchanged In EZ; PMIs Fell In US And Rose In the EZ And UK

In the US, in August, S&P Manufacturing PMI edged down to 48.0 (*c*: 49.6; *p*: 49.6) and Services PMI increased to 55.2 (*c*: 54.0; *p*: 55.0). Composite PMI fell to 54.1 (*c*: 53.5; *p*: 54.3).

In the EZ, in July, headline inflation rate rose to 2.6% y-o-y (*c*: 2.6%; *p*: 2.5%), whereas core inflation remained at 2.9% y-o-y as expected. In August, HCOB Manufacturing PMI fell to 45.6 (*c*: 45.8; *p*: 45.8), whereas Services PMI increased to 53.3 (*c*: 51.9; *p*: 51.9). Composite PMI rose to 51.2 (*c*: 50.1; *p*: 50.2). In August, consumer Confidence deteriorated to -13.4 (*c*: -12.6; *p*: -13)

In the UK, in August, S&P Manufacturing and Services PMIs edged up to 52.2 (*c*: 52.1; *p*: 52.1) and 53.3 (*c*: 52.8; *p*: 52.5). Composite PMI increased to 53.4 (*c*: 52.9; *p*: 52.8). Gfk Consumer Confidence stood at -13 (*c*: -12; *p*: -13).

Financial Markets: Stock Prices Increased; Yields Edged Down; Dollar And Oil Prices Decreased, Whereas Gold Prices Increased

Market Drivers: Data continues to cement rate cuts. The stocks gained with optimism growing that both the Fed and ECB will cut rates next month. U.S. payrolls were revised down by 818k for the 12 months through March 2024, aligning with expectations. The market response was mixed, but overall the UST curve bull steepened.

Global Equities: increased w-o-w (MSCI ACWI, +1.7%, to 817.41). The US S&P 500 index edged up (+1.4% w-o-w, to 5,634.61). In the EZ, share prices increased (Eurostoxx 50, +1.4% w-o-w, to 4,907.55). In EMs, equity prices increased (MSCI EMs, +0.6%, to 1,100.68). Volatility rose marginally to 15.90 (VIX S&P 500, 52w avg.: 14.6; 10y avg.: 18.1).

Fixed Income: w-o-w, the 10-year US Treasury yields edged down (-8 bps to 3.80%). The 2-year US Treasury yields decreased (-14 bps to 3.91%). The German 10-year bund yields fell (-3 bps to 2.23%).

FX: w-o-w, the US Dollar Index decreased (DXY, -1.7%, to 100.68; EUR/USD +1.5%, to 1.12). In EMs, currencies rose (MSCI EM Currency Index, 0.7% w-o-w, to 1,760.58).

Commodities: w-o-w, oil prices decreased (Brent, -0.8% to 79.02 USD/b). Gold prices increased w-o-w (+0.3% to 2,546.30 USD/Oz, a new all-time high).



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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



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