



## MAKING SENSE OF THIS WORLD

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**R&R Weekly Column**  
By Brunello Rosa



### The War In The Middle East Enters A New And Dangerous Phase

Last week, two episodes shaped the hostilities of the war in Iran. First was [the downing of a supposedly invisible F-35 by the Iranian air-defence](#). Second was that Iran fired [two ballistic missiles towards the Diego Garcia airbase](#). The US and Israeli forces understood that Iran has larger military capabilities than they initially thought. In particular, Iran reportedly possesses missiles able to reach targets 4,000 km away, rather than “just” 2,000 km. As a result, Israel has warned European countries that Iran could hit Greece, Italy, and Germany, among others.

These episodes have fundamentally changed the shape of the conflict. Initially US President Trump, as late as Friday, said he was considering the idea of “winding down” the military operations. Subsequently he [issued an ultimatum](#) (via his social platform Truth) asking the Iranians to re-open the Strait of Hormuz, saying that otherwise he will ask the US military to “hit and obliterate” Iranian power plants “starting with the biggest one first.”

[Iran responded with 6 conditions](#) to be met for them to stop the hostilities, including “assurance of no further attacks, closure of US bases in the region, compensation for Iran, an end to hostilities on regional fronts, a new legal framework for the ‘Strait of Hormuz,’ and legal action against media and personalities deemed hostile toward Iran.”

All this considered, it clearly emerges that Israel is trying to convince NATO’s European allies to join the conflict immediately, after their declaration that they may help the US keep the Strait of Hormuz open and safe only after the end of the hostilities. It is plausible that Netanyahu may have convinced Trump to issue his ultimatum (after the initial intention of winding down the operations), and potentially to move to the next phase, which is to attack the civilian energy infrastructure, followed by “boots on the ground.”

Iran cannot receive Trump’s ultimatum, and is likely preparing to resist the next phase of attacks, and to respond accordingly, by attacking the energy facilities of US allies in the region, the Arab countries. The US cannot agree with the six maximalist requests made by Iran, which includes reparations. This means that the conflict will continue. The question is: for how long?

As already discussed previously, for Israel, the conflict should last for as long as possible. For Iran, the longer the conflict lasts, the more the possibility of transforming it into a long war of attrition increases, which makes it increasingly harder for Trump to “declare victory and go home.” So, the only party interested in a quick conclusion of the conflict is the US, and this is not an enviable position. In fact, it is commonly understood that if the US puts “boots on the ground” as Trump declares that they are ready to do, this war will become [quagmire worse than Iraq and Afghanistan](#), from which it will be very hard for the US to get out of let alone quickly and victoriously.


In fact, let’s think strategically here. At this point of the conflict, Trump cannot unilaterally declare victory and go home. The minute after such a declaration, Iran will hit any potential target in the region, to show that the war continues, and further humiliate Trump. Thus the only condition for which Trump may declare victory is a collapse of the Iranian regime, with or without a new leadership able to take over. If a new regime emerges, it would be like Afghanistan; if it doesn’t, it would be like Iraq after the US intervention.


But both of those cases also showed that, without “boots on the ground”, regime collapse/change cannot be achieved. More generally, the US military campaigns show that “boots on the ground” is a necessary but not sufficient condition for regime change – the supposedly unforgettable lesson of Vietnam that even the most flagrant military superiority, and 12 years of “boots on the ground”, does not ensure regime change and victory.


But with “boots on the ground” this conflict becomes exactly the type of prolonged war of attrition that Iran wants, so the beginning of this phase alone would represent a victory for the Iranian regime and a defeat for Trump. [The US administration has asked for USD 200bn from Congress to fight this war](#). It is estimated that these funds would be [sufficient only for the first 100 days of a ground military operation](#). The compounded effects of these extra costs and higher oil prices are likely to be inflationary in the short term. This is something that Trump’s MAGA base is unlikely to take lightly, and this will further weaken Trump’s position and the possibility not to be defeated in the mid-terms in November.


All of the above seems to reinforce our conviction that this war is “unwinnable” for the US administration, unless it accepts that it is likely to pay unbearable costs for a very prolonged period of time.

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### Looking Ahead

#### The Week Ahead: EZ PMIs to Decline; UK Inflation Likely To Remain Elevated

**In the US**, in March, Michigan Consumer Sentiment index is expected to decrease to 55.5 (*p*: 56.6).

**In the EZ**, in March, HCOB Manufacturing and Services PMIs are likely to decline to 49.5 (*p*: 50.8) and 51.1 (*p*: 51.7). Composite PMI is seen falling to 51.1 (*p*: 51.9).

**In the UK**, in February, headline and core inflation rates are likely to remain unchanged at 3.0% y-o-y and 3.1% y-o-y. In February, retail price index is seen declining to 3.7% y-o-y (*p*: 3.8%). In March, S&P Global Manufacturing PMI is expected to decline to 51.1 (*p*: 51.7) and 53.0 (*p*: 53.9).

#### The Quarter Ahead: Iraq and Qatar Disruptions Trigger Global Energy Market Shock

**Iraq has declared force majeure on foreign-operated oilfields** after disruptions in the Strait of Hormuz halted most crude exports. With storage nearing capacity and tankers unable to load, production has been cut sharply, including at Basra from 3.3 ml to 900K barrels per day. The shutdown threatens Iraq's finances, as oil accounts for over 90% of state revenue, while escalating regional conflict continues to push global oil prices higher.

**Strikes on Qatar's Ras Laffan LNG plant have knocked out about 17% of export capacity**, with damage that could take years to repair, raising the risk of prolonged global gas shortages. With the Strait of Hormuz disrupted and limited spare capacity, LNG has become a key pressure point, pushing prices higher and hitting emerging economies hardest. The impact could rival or exceed the 2022 energy crisis, with effects lasting well beyond the conflict.

### Last Week's Review

#### Real Economy: EZ Inflation Rose; UK Unemployment Remained Unchanged; CBs Remained On Hold

**In the US**, in February, IP rose by 1.4% y-o-y (*p*: 2.3%).

**In the EZ**, in February, headline and core inflation rates rose to 1.9% y-o-y (*p*: 1.7%) and 2.4% y-o-y (*p*: 2.2%) as expected. In March, ZEW economic sentiment index shrank to -8.5 (*c*: 24.0; *p*: 39.4). In Q4, wage growth rose by 3.0% y-o-y (*p*: 3.2%). Among the largest EZ economies, in February, headline inflation rate increased by 1.6% y-o-y (*p*: 1.0%) in Italy.

**In the UK**, in January, unemployment rate remained at 5.2%.

**CBs Remained On Hold.** In the US, the Fed kept its target Fed funds range at 3.50% - 3.75%. In the UK, the BoE also kept its Bank Rate unchanged at 3.75%. In the EZ, the ECB kept unchanged its *i*) interest rate on the 'main refinancing operations' at 2.15%; *ii*) interest rate on the 'marginal lending facility' at 2.40%; and the key *iii*) 'deposit facility' at 2.00%.

#### Financial Markets: Stocks Fell; Yields Increased; US Dollar Declined; Oil Prices Were Up, While Gold Prices Were Down

**Market Drivers:** US equities ended lower in a volatile week driven by geopolitical tensions, oil price swings, and hawkish Fed signals. US Treasury yields also mostly moved higher amid the heightened uncertainty. In Europe, stocks dropped, as markets reacted to escalating Middle East tensions, including attacks on oil tankers in the Strait of Hormuz and damage to gas facilities in Qatar.

**Global Equities:** declined *w-o-w* (MSCI ACWI, -1.8%, to 981.31). The US S&P 500 index declined (-1.9% *w-o-w*, to 6,506.48). In the EZ, share prices marginally declined (Eurostoxx 50, -3.9% *w-o-w*, to 5,493.46) In EMs, equity declined (MSCI EMs, -0.4%, to 1,463.33) Volatility is declined to 24.75 (VIX S&P 500, 52w avg.: 19.4; 10y avg.: 19.9).

**Fixed Income:** *w-o-w*, the 10-year US Treasury yields were up (+10 bps to 4.39%). The 2-year US Treasury yields rose (+16 bps to 3.89%). The German 10-year bund yields increased (+6 bp to 3.04%).

**FX:** *w-o-w*, the US Dollar Index declined (DXY, -0.7%, to 99.65; EUR/USD +1.4%, to 1.16). In EMs, currencies declined (MSCI EM Currency Index, -0.2% *w-o-w*, to 1,840.66).

**Commodities:** *w-o-w*, oil prices increased (Brent, +8.8% to 112.19 USD/b). Gold rose declined *w-o-w* (-9.6% to 4,574.90 USD/Oz).



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**Abbreviations, Acronyms and Definitions**

a	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
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
DIEM	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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