

India

India Strategy

Money Military and Markets -III

- The Middle East chess board is working in America's interests, and the latest Iranian attack on Israel is one such inevitable move by a choiceless Iran.
- Crude oil is unlikely to surge. Please note that Saudi Arabia and the UAE are completely on the sidelines, and if needed, they can increase supply by 4mbpd.
- The USD will strengthen - the only likely outcome of this mess. The petro-dollar is here to stay, and American "guardianship" will continue in the Middle East.

The Middle East: Israel is doing the clean-up job everyone wanted

Saudi Arabia doesn't like the Houthis or Iran. Hamas was causing problems for the entire Middle East, except for those providing them shelter (Qatar). Iran was using Hezbollah as a front to destabilize Israel's northern border. Hamas' leader, Ismail Haniyeh, residing in Qatar, was an embarrassment for the US. Please note that the US has a significant military presence in Qatar and is bound to protect Qatar from external attacks. Therefore, Israel could not touch him in Qatar. Therefore, Israel eliminated Ismail Haniyeh in Iran. The Houthis are a pain point for Saudi Arabia as they disrupt trade in the Gulf of Aden, and Israel is targeting them as well. Hezbollah was a proxy for Iran—recall that Saudi Arabia has never been fond of Iran. Israel intervened again, eliminating the top leadership of Hezbollah in meticulously planned operations that likely took a decade to prepare. Syria is now a wasteland, home to hardened terrorists who are causing harm to everyone. Even Egypt has closed its border with Gaza after Hamas' attacks on 7th Oct 2023.

Oil prices have risen a bit, but unlikely to go beyond US\$80-85/bbl

While markets may become jittery for a while over the possibility that some Iranian oil wells might be hit, causing crude oil prices to rise above US\$100/bbl, it's important to remember that US\$100+/bbl oil price is in no one's interest. Even oil-producing nations like Saudi Arabia and the UAE, whose surplus capacity is 120% of Iran's oil production, don't want such high prices. Maintaining a fiscal surplus is a thing of the past, but they aim to maintain a current account surplus to keep inflation under control. So, even if Israel were to take out some oil wells, it wouldn't have a significant impact, as the UAE and Saudi Arabia would ramp up production. Oil might price in some terror premium and supply risks, potentially rallying to US\$80+/bbl, which is a sweet spot for Saudi Arabia.

As usual, US is the real winner in this mess

The dynamics in the Middle East have historically had a ripple effect across global politics and economics, often with indirect benefits for the US. The military presence of the US is the only way to stabilize this region. While China has dreams of becoming such a dominant force, it will take multiple decades before this country can achieve the same level of influence. As the US presence is essential, the continuation of the petro-dollar system is inevitable. We don't foresee an end to this system for decades. The US will continue selling arms, maintaining its "guardianship" in the Middle East and as result, will have unlimited leeway to keep printing money. The decline of the USD is not on the horizon, as far as we can see.

Research Analyst(s)



Satish KUMAR

T (91) 22 4161 1562

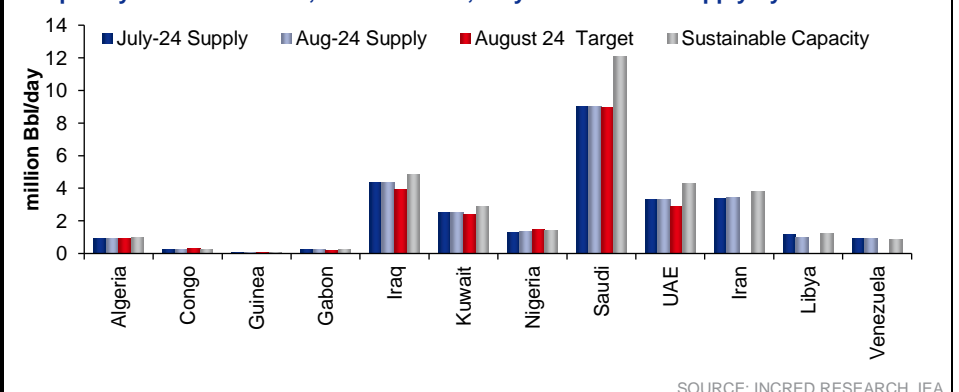
E satish.kumar@incredresearch.com

Abbas PUNJANI

T (91) 22 4161 1598

E abbas.punjani@incredresearch.com

Figure 1: Oil is unlikely to surge; remember that Saudi Arabia and the UAE are completely on the sidelines, and if needed, they can increase supply by 4mbd



Money Military and Markets -III

The 7th Oct 2023 mess is resolving now and Uncle Sam is smiling again

The mindless attack on Israeli civilians has set in motion a series of events that will ultimately re-establish the supremacy of the US dollar (USD). Falling interest rates had sparked panic around the USD, with talks of an alternate currency for oil trade, as India and China were exploring trading in their respective currencies. However, the war in the Middle East, combined with Uncle Sam's influence over the region, will once again prove how incapable the Middle East is in managing its own affairs.

On 7th Oct 2023, Hamas launched an unprecedented and mindless attack on Israel without any strategic objective ►

On 7th Oct 2023, Hamas launched a large-scale and unprecedented attack on Israel, marking one of the deadliest days in Israeli history since its founding in 1948. The attack, which was carried out by land, air, and sea, involved gunmen breaching Israel's border from Gaza, killing civilians and soldiers, and taking hostages. Simultaneously, thousands of rockets were fired into Israel, causing extensive damage. The attack primarily targeted southern Israeli communities near the Gaza Strip, including towns like Ashkelon and Sderot.

In response, Israel declared a state of war, and Prime Minister Benjamin Netanyahu described the situation as a "long and difficult war." Israel began retaliating with air strikes and military operations in Gaza, targeting Hamas and other militant groups. This conflict escalated rapidly, with significant casualties on both sides, including civilians. As of 7th Oct 2023, more than 300 Israelis had been killed, and thousands were wounded, while retaliatory strikes on Gaza continued to increase in intensity.

The scale and coordination of this attack surprised Israeli officials, who had assumed that Hamas had been sufficiently deterred by previous conflicts. The situation further inflamed the ongoing Israeli-Palestinian conflict and drew significant international attention and concern.

The Israeli reaction was highly predictable ►

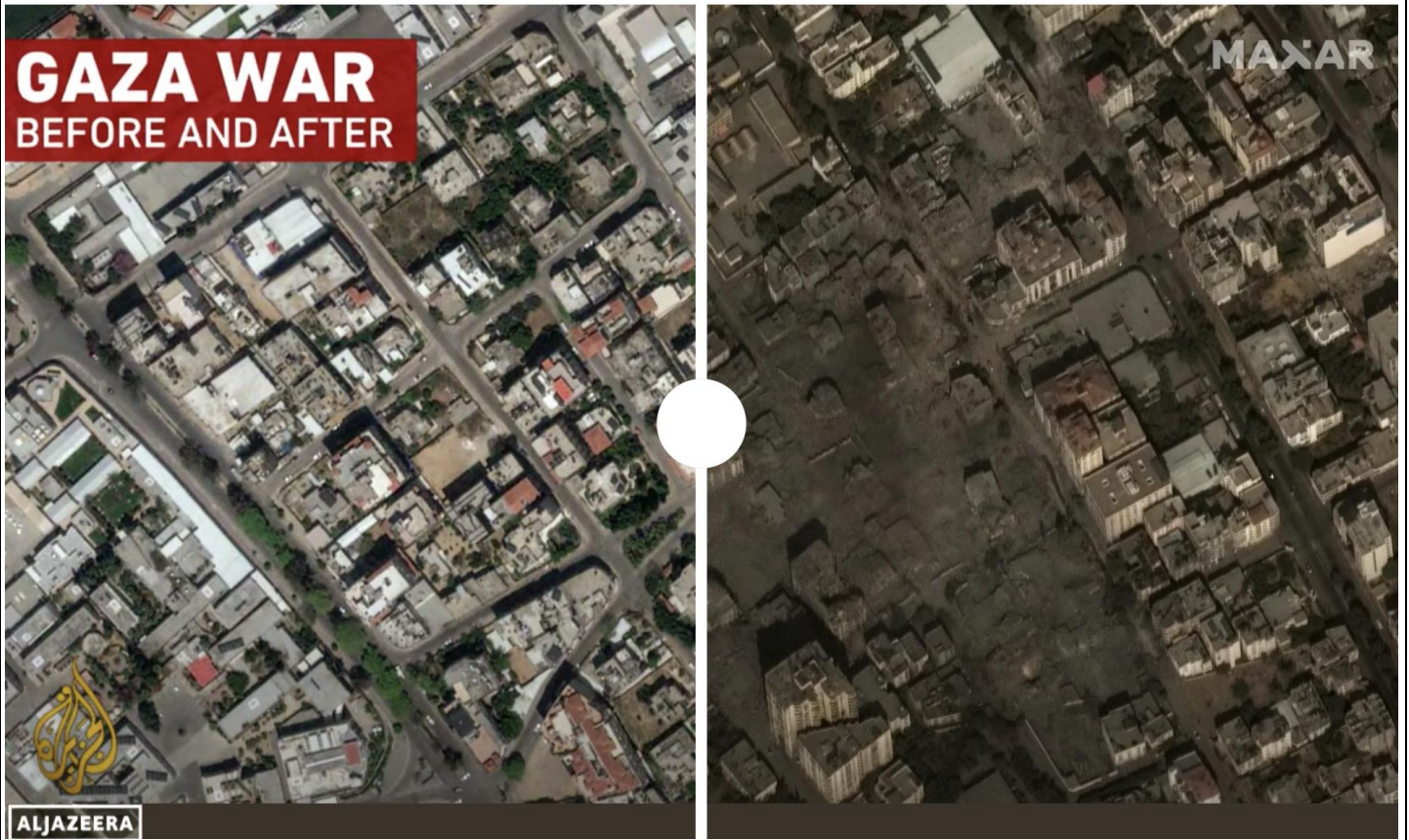
In response to the 7th Oct 2023 attack by Hamas, Israel took immediate and decisive military and political actions. The Israeli government declared a state of war, and Prime Minister Benjamin Netanyahu announced that Israel was embarking on a "long and difficult war" aimed at destroying Hamas's military and governmental capabilities. The Israeli Defence Forces (IDF) began large-scale retaliatory air strikes on Gaza, targeting Hamas strongholds, military sites, and infrastructure. At the same time, Israel mobilized its reserve forces for a potential ground invasion.

Additionally, the Israeli Security Cabinet decided to halt the supply of electricity, fuel, and goods to Gaza as a part of its strategy to weaken Hamas. Israel's military response also involved rescuing hostages and reclaiming towns taken over by Hamas militants. The IDF issued warnings to Gaza residents, urging them to seek shelter as the military operations intensified.

Domestically, this attack united much of Israel's political spectrum, as leaders from various factions condemned the unprecedented violence and supported the government's military actions. Internationally, Israel received support from its allies, with many countries condemning the Hamas attack and expressing solidarity with Israel. The Israeli leadership emphasized that this war would continue until Hamas's ability to threaten Israel was entirely dismantled.

Gaza has been reduced to rubble ➤

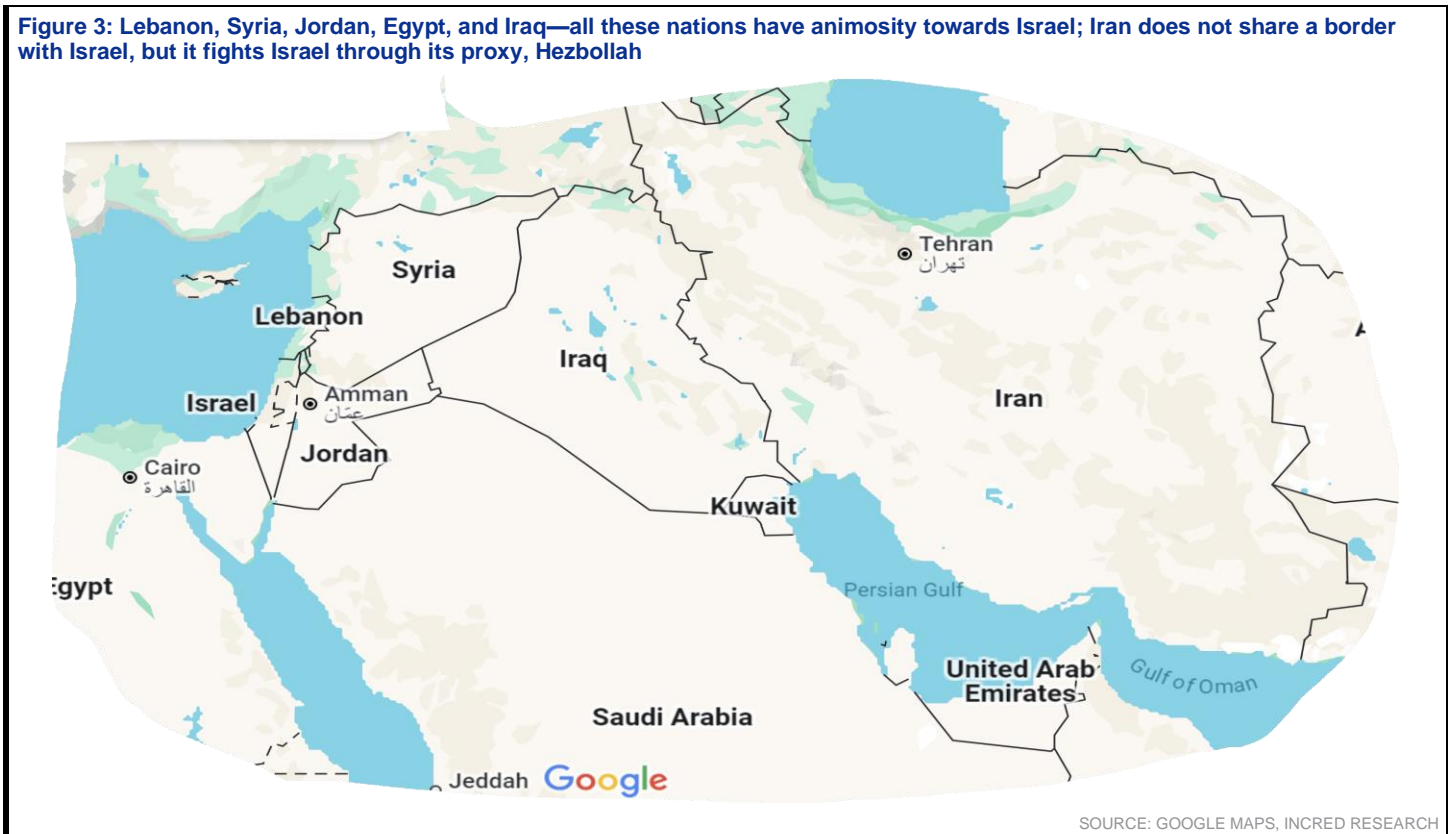
Figure 2: The Israeli attack on Gaza has reduced much of the city to rubble



SOURCE: [HTTPS://WWW.ALJAZEERA.COM/GALLERY/2023/10/12/PHOTOS-SHOW-SCALE-OF-THE-DESTRUCTION-OF-ISRAELI-AIR-ATTACKS-ON-GAZA](https://www.aljazeera.com/gallery/2023/10/12/photos-show-scale-of-the-destruction-of-israeli-air-attacks-on-gaza), INCRED RESEARCH

Israel is surrounded by unfriendly nations ➤

Figure 3: Lebanon, Syria, Jordan, Egypt, and Iraq—all these nations have animosity towards Israel; Iran does not share a border with Israel, but it fights Israel through its proxy, Hezbollah



SOURCE: GOOGLE MAPS, INCRED RESEARCH

Hezbollah, the Lebanese militant group and political entity, has been closely monitoring the conflict between Israel and Hamas since the 7th Oct 2023 attack

on Israel. Hezbollah has historically been an ally of Hamas and shares a common goal of opposing Israel. In the wake of the attack, Hezbollah praised Hamas's actions but initially refrained from entering the conflict directly.

However, Hezbollah's involvement escalated as the situation intensified. There have been reports of rocket fire from southern Lebanon into northern Israel, attributed to Hezbollah or Hezbollah-aligned groups. These attacks were seen as a show of support for Hamas, although Hezbollah has been careful to avoid triggering a full-scale war with Israel, as both sides remain aware of the potential for catastrophic consequences.

Gaza is a small strip of land along the coast of the Mediterranean Sea and is ruled by Hamas >

Gaza is a densely populated coastal strip along the Mediterranean Sea, bordered by Israel and Egypt. Since 2007, it has been controlled by **Hamas**, a militant Palestinian organization that seized power following factional conflict with the Palestinian Authority (PA). The Gaza Strip, home to over 2m Palestinians, has faced an Israeli and Egyptian blockade, aimed at limiting Hamas's military capabilities, although it severely impacted the civilian population as well.

Hamas, founded in 1987 during the First Intifada, is both a political party and a militant group. Its charter calls for the destruction of Israel, and it rejects Israel's right to exist. The group has been involved in numerous conflicts with Israel, primarily through rocket attacks and incursions. Hamas has developed extensive military infrastructure in Gaza, including a network of underground tunnels, rocket launch sites, and arsenals of short- and medium-range missiles. Its political leadership provides governance in Gaza, although its control is often described as authoritarian.

The 7th Oct 2023 attack by Hamas marked one of the largest and most coordinated assaults on Israel, involving a multi-front attack with rockets, ground fighters, and hostages taken from southern Israel. This attack shocked Israel, which retaliated with massive air strikes on Gaza, targeting Hamas's military assets as well as key infrastructure. Gaza's civilian population often bears the brunt of these conflicts, with significant casualties and destruction due to the strip's high population density and Hamas's use of civilian areas for military purposes.

Historically, all Arab nations and their proxies were against Israel, but the situation is now changing >

Historically, many Arab nations and their allies have been opposing Israel due to the long-standing Israeli-Palestinian conflict and broader regional geopolitical dynamics. This led to multiple wars and conflicts over the years, especially since the establishment of Israel in 1948.

However, in recent years, there has been a notable shift in the relationships between Israel and several Arab countries. The most significant development was the signing of the **Abraham Accords** in 2020, which normalized relations between Israel and several Arab nations, including the **United Arab Emirates (UAE)** and **Bahrain**, followed by **Morocco** and **Sudan**.

Despite these breakthroughs, many Arab nations, such as **Lebanon**, **Syria**, and others aligned with Iranian interests, remain adversarial towards Israel. This opposition is often tied to the broader issues involving the Palestinian cause, territorial disputes, and concerns over Israeli policies in occupied territories.

The regional divide remains complex, with some Arab nations advocating for Palestinian statehood while others pursue more pragmatic economic and security partnerships with Israel.

The most noticeable change is in the stance of Saudi Arabia under the leadership of MBS ►

Crown Prince Mohammed bin Salman (MBS) of Saudi Arabia has shown a pragmatic and evolving approach towards Israel in recent years. Traditionally, Saudi Arabia, like many Arab nations, did not recognize Israel and was a strong supporter of the Palestinian cause. However, MBS has indicated a potential shift, reflecting broader regional dynamics and geopolitical calculations. Here are some key points on MBS's stance toward Israel:

1. **Pragmatic approach:** MBS has hinted at a willingness to engage with Israel on certain issues, particularly those involving regional stability, countering Iranian influence, and economic cooperation. Saudi Arabia's stance has become more nuanced, recognizing the benefits of cooperation with Israel in technology, security, and economic growth.
2. **Palestinian cause:** While MBS has softened his rhetoric towards Israel, Saudi Arabia continues to advocate for a solution to the Israeli-Palestinian conflict. In public statements, MBS has reiterated support for the establishment of a Palestinian state and the Arab Peace Initiative, which proposes full normalization of relations with Israel in exchange for Israel's withdrawal from the occupied territories and a fair settlement for the Palestinians.
3. **Normalization with Israel:** There have been widespread reports that MBS is open to normalization of relations with Israel but has been cautious, given the sensitivities surrounding the Palestinian issue. While Saudi Arabia has not joined the Abraham Accords like the UAE, Bahrain, and Morocco, many analysts believe MBS is positioning the kingdom for eventual normalization under the right conditions, possibly leveraging it for greater concessions on the Palestinian issue or regional security guarantees from the US.
4. **Behind-the-scenes co-operation:** Although Saudi Arabia has not officially normalized relations with Israel, there is evidence of quiet co-operation, particularly in the areas of intelligence sharing, especially concerning their common rival, Iran. Both countries view Iran as a destabilizing force in the region, which has pushed them into unofficial strategic alignment.
5. **Recent signals:** In recent interviews and public appearances, MBS has acknowledged that normalization with Israel is "inevitable," but conditioned on progress in the Palestinian peace process. This signals a potential future where Saudi-Israeli relations may officially thaw, although it remains tied to political, regional, and diplomatic considerations.

In summary, while MBS is cautious on officially normalizing relations with Israel, his approach is far more open and pragmatic than previous Saudi leaders, balancing the kingdom's historic support for the Palestinian cause with its growing economic and security interests in engaging with Israel

However, as of now, Israel is being attacked on seven fronts ►

As of recent events, Israel has been facing co-ordinated attacks on multiple fronts, a situation that is unusual in its scale and intensity. These fronts include both military operations and rocket fire from various armed groups in different regions. Here is a breakdown of the key fronts from which Israel has been attacked:

1. **Gaza Strip:** The most intense and ongoing front has been the conflict with **Hamas**, which governs the Gaza Strip. Hamas and other militant groups have launched thousands of rockets into Israeli territory. This is often a flashpoint due to Israeli-Palestinian tensions, including disputes over Jerusalem and the West Bank.
2. **West Bank:** In the West Bank, militant factions have also engaged in violent confrontations with Israeli forces. There have been significant tensions in areas like Jenin and Nablus, with both organized groups and individuals carrying out attacks.
3. **Lebanon:** The southern border of Israel has faced attacks from **Hezbollah**, a powerful Iranian-backed militant group based in Lebanon. Hezbollah is a

- longstanding adversary of Israel and has launched rockets and engaged in cross-border attacks, possibly in coordination with other regional groups.
4. **Syria:** From Syria, Israel has been attacked by various pro-Iranian militias and Iranian forces, who have a significant presence in the region due to the ongoing Syrian civil war. Israeli air strikes have frequently targeted Iranian positions and weapons shipments in Syria, which has led to retaliation.
 5. **Iran:** On 1st Oct 2024, Iran conducted a direct missile strike on Israel, launching approximately 200 ballistic missiles, as reported by the BBC. The Islamic Revolutionary Guard Corps or IRGC claimed that 90% of the missiles hit their targets, with hypersonic missiles used for the first time. The attack was reportedly in retaliation for the assassination of General Abbas Nilforoushan and Sayyid Hassan Nasrallah. Although Iran had not previously engaged Israel directly, it has long supported and financed militant groups like Hezbollah, Hamas, and Islamic Jihad, playing a key role in their proxy warfare strategies against Israel. Iran's rhetoric and support for these groups significantly contribute to the multi-front nature of these attacks.
 6. **Northern Israel (Golan Heights):** The Golan Heights, which borders Syria, has seen sporadic rocket fire and skirmishes, particularly involving Iranian-backed militias and Hezbollah forces who operate in southern Syria.
 7. **Yemen (Houthi rebels):** The **Houthi rebels** in Yemen, who are also backed by Iran, have threatened Israel and reportedly attempted long-range missile attacks, although these are less frequent. Their involvement represents the reach of Iran's proxy forces across the Middle East.

This co-ordinated pressure on multiple fronts reflects a broader regional dynamic, where groups allied with or supported by **Iran**—such as Hezbollah, Hamas, Islamic Jihad, and others—are acting in concert, possibly to strain Israeli defences and escalate the conflict. These groups share common anti-Israel objectives, and Iran's influence in supporting and arming them has significantly heightened the complexity of the situation for Israel.

As it always does, Israel is taking down one enemy at a time, and its strategic patience is something to be admired ►

The strategic patience of Israelis is something remarkable. They don't rush to take down all enemies at once because it would stretch them thin and give their adversaries an upper hand. The recent pager operation is a case in point. While it saved face, Mossad and Unit 8200 could have detonated some pagers in the aftermath of 7th Oct 2023 attack and killed some Hezbollah operatives as they were attacking with rockets. This would have earned some brownie points for Mossad, which was badly bruised by the biggest intelligence failure in Israel's history. However, their patience is admirable. They waited until all ranks and files of Hezbollah had received the pagers and walkie-talkies. After the Gaza front was neutralized, they attacked Hezbollah in a blitzkrieg—pager attack, walkie-talkie sabotage, air strikes, killing their chief commander, and now a full-scale ground invasion.

Iran is jumping into the fray because Israel has humiliated it by killing the Hamas chief in its backyard and now by killing its proxy, Hassan Nasrallah ►

On 1st Oct 2024, Iran launched a significant missile attack against Israel, firing approximately 200 missiles in retaliation for the assassination of Hezbollah leader Hassan Nasrallah and other senior commanders. The strikes, dubbed 'Operation True Promise 2,' targeted various cities in Israel, including Tel Aviv and Jerusalem. Explosions were reported in these areas, leading to damage to infrastructure, including a school and a restaurant, and causing several injuries. Israel's Iron Dome system intercepted many of the missiles, and the US military also assisted in missile defence efforts.

An Iranian attack on Israel would be a direct consequence of the killing of Hassan Nasrallah. With Hezbollah's top leadership gone and the Israeli ground offensive in full swing in Lebanon, Iran had to take action to show that it still supports

Hezbollah. Sending infantry near Israel is not feasible for Iran, and Saudi Arabia isn't going to help anyway.

Remember, this long-distance war is inconsequential for Israel unless Iran attacks with nukes >

While Iran can continue firing ballistic missiles that will reach Israel in 20 minutes, this provides sufficient time for the US aircraft carrier, its ground forces in the Middle East, and Israel's Iron Dome to intercept and neutralize them. It would be a futile exercise by Iran, merely giving Israel an excuse to retaliate with F-35 strikes that can enter and exit Iranian airspace at will. These strikes could destroy all facilities even remotely connected to Iran's nuclear program, potentially preventing Iran from ever acquiring nuclear weapons.

Iran doesn't have nuclear weapons, but could potentially acquire them from North Korea or Pakistan—though this is unlikely >

The only way Iran could potentially acquire nuclear weapons is from Pakistan or North Korea. However, as long as the military remains powerful in Pakistan, it is impossible for them to transfer nukes to Iran. North Korea is unpredictable, but with the level of surveillance around both North Korea and Iran, the probability of such a transfer is extremely low.

Also, Israel is not foolish enough to attack Iran's oil wells, especially since all missile attacks would have come from mobile launchers >

The markets will fear that Israel might target Iranian oil wells. While in a typical war scenario these would be a potential target, any conflict in the Middle East is far from normal. There's also no risk of accidental escalation, as Iran has launched missiles at Israel from mobile launchers rather than missile silos, which might be located near oil fields. An attack on Iranian oil fields may not significantly impact Iran, as it is already in dire straits. However, the world would not want the risk premium from the potential destruction of oil wells to be factored into oil prices.

Figure 4: Iran's Shahab-3 missiles, which have a range of 2,000km, were used to attack Israel

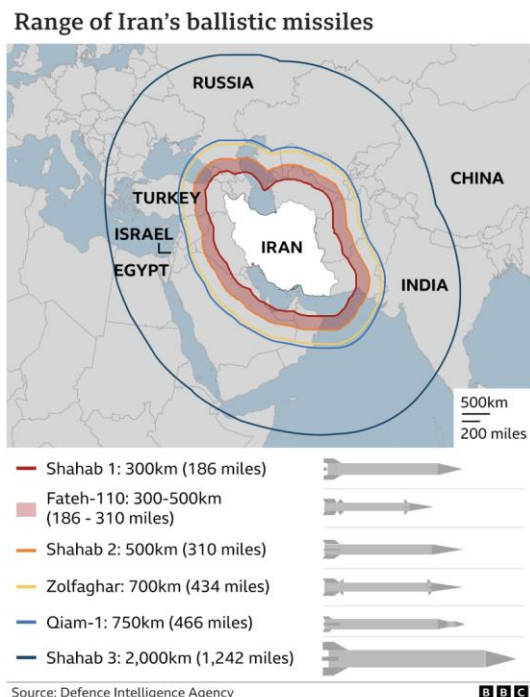


Figure 5: Most likely, Shahab-III was launched from mobile launchers



SOURCE: INCRED RESEARCH, [HTTPS://NUKE.FAS.ORG/GUIDE/IRAN/MISSILE/SHAHAB-3.HTM](https://nuke.fas.org/guide/iran/missile/shahab-3.htm)

SOURCE: INCRED RESEARCH, [HTTPS://WWW.BBC.COM/NEWS/ARTICLES/C70W1J0L4880](https://www.bbc.com/news/articles/c70w1j0l4880)

Also, remember that Saudi Arabia won't have any interest in the oil price going beyond US\$80-85/bbl ➤

Please note that Saudi Arabia runs a pegged currency against the USD and continues to price oil in USD. Naturally, a current account deficit in USD would typically lead to a declining value of the Riyal, but since it is pegged, inflation becomes a factor. Inflation taxes the general population heavily, and Saudi Arabia likely remembers that economic duress was a major contributor to the Arab Spring in 2010-11. If oil prices cross US\$90/bbl, it could accelerate the adoption of electric vehicles or EVs and alternative energy, which would ultimately be negative for Saudi Arabia. The country relies heavily on foreign funding to grow its economy, similar to the UAE. Additionally, soaring oil prices could slow down the global economy, which is not in Saudi Arabia's best interests.

Figure 6: Current account breakeven prices for Saudi Arabia is US\$80/bbl...

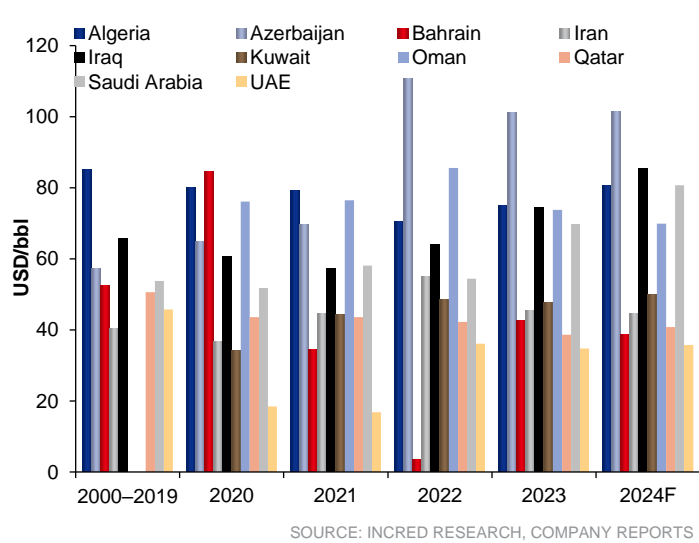
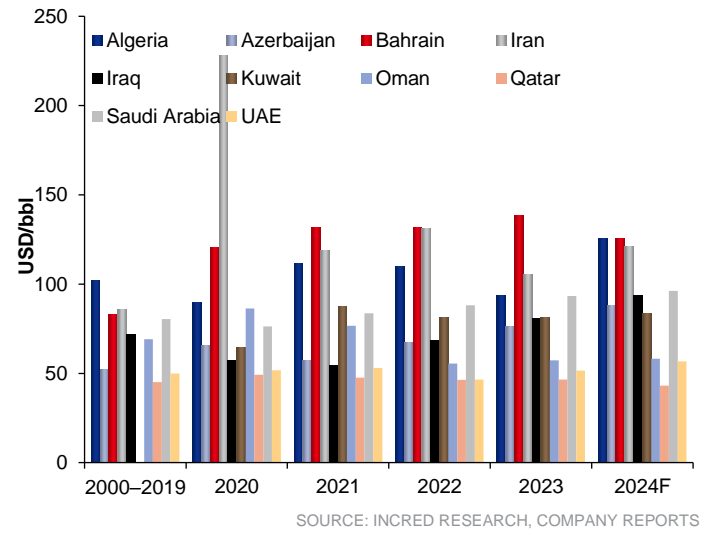
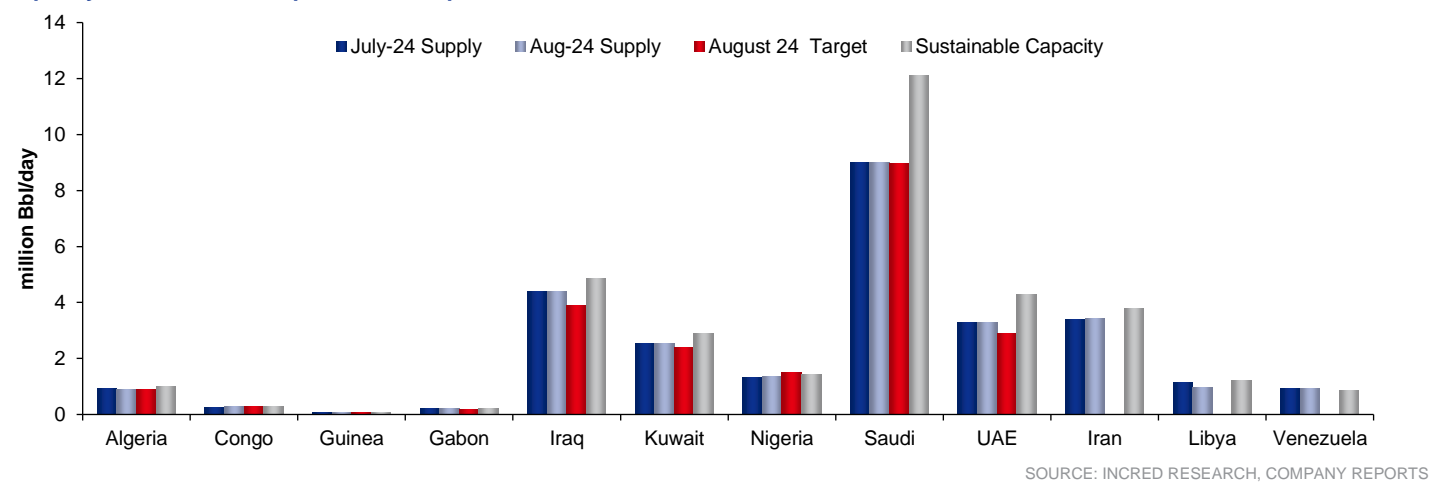


Figure 7: ...while the fiscal breakeven point for Saudi Arabia is US\$90+/bbl



Does Saudi Arabia have enough capacity to fill in for the collapse of Iranian oil supply? Not fully, but to a large extent, yes, they do have the capacity ➤

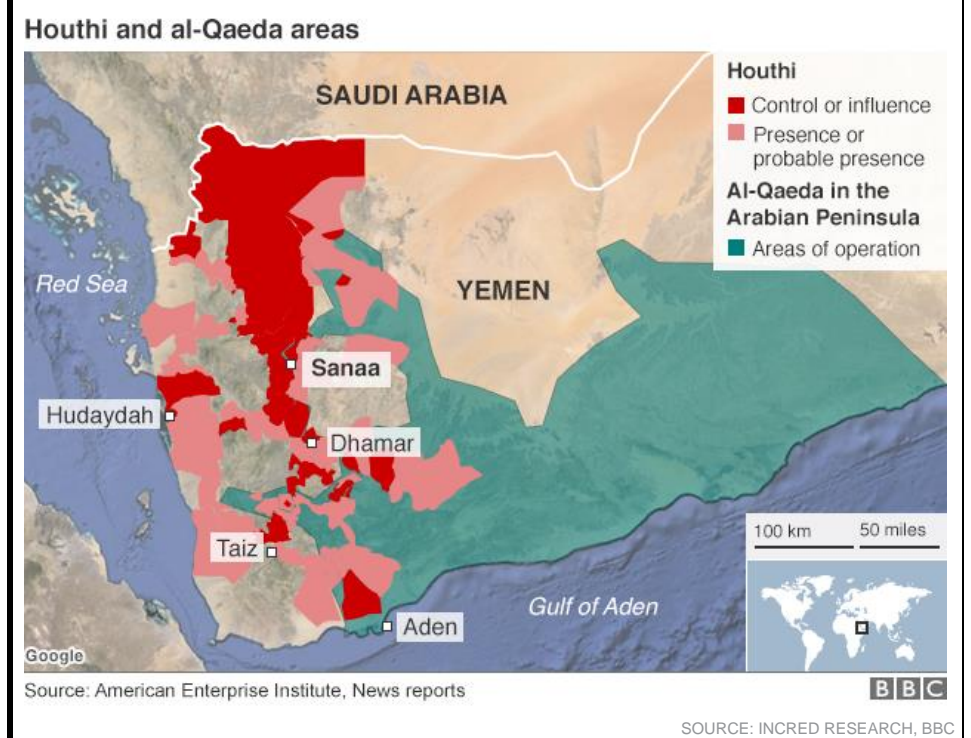
Figure 8: Total Iranian oil production in Aug 2024 was 3.48mbpd, while Saudi production stood at 9mbpd; remember, Saudi Arabia has the capacity to produce 12mbpd; so, effectively, unless every single oil well in Iran is bombed by Israel, Saudi Arabia has the capacity to meet the extra production requirement



Will Saudi Arabia oblige to ramp up production? Wouldn't it be seen as anti-Arab across the world? Most likely, Saudi Arabia will ramp up production >

MBS has maintained a stoic silence over the issue of Israel. In fact, the UAE is also not speaking publicly on the matter. Both know that part of Israel's problem could become theirs as well. The Houthis are against both Israel and Saudi Arabia, as they are disrupting trade in the Gulf of Aden. Saudi Arabia has big visionary projects and needs a terror-free environment to achieve its ambition of becoming like the UAE. Geographically, the UAE is farther from the crisis, and apart from occasional flight cancellations due to Iranian missiles, it has not been harmed in any significant way. If Saudi Arabia dreams of becoming like the UAE, it must eliminate terrorism within its borders. For this, support from the US, and its continued military presence in the Middle East is necessary.

Figure 9: The Houthis are disrupting trade in the Gulf of Aden; so, if Israel is targeting the Houthis and striking Shia Iran, MBS likely won't have any problem with it



In all this chaos, the only real winner is US >

The dynamics in the Middle East have historically had ripple effects across global politics and economics, often with indirect benefits for the US. As of now, success of the UAE has opened eyes of multiple Middle East countries and they need a stable environment for the same. The military presence of the US is the only way to stabilize this region. While China had the dream of becoming one such force, it will take multiple decades before the country can build the same dominance. As the US presence is needed, they have to continue with the petro-dollar. We don't see an end of this system in even decades. The US will sell arms, maintain its "guardianship" and will keep printing money. The decline of the US is not coming as far as we can see.

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.