

## **Weekly Commentary 45 -2024**

*Peace and War : How the World has to deal with the problems of Ukraine, Israel and the South China Sea*

Negotiations between Russia and Ukraine to end the fighting has been completely closed for a long time, mainly because the Ukrainians have made it illegal to even talk about it . Of course, at this point in the war, with victory so close at hand, the Russians are also not very interested to engage in peace talks. As a result, another peace conference has been cancelled – this was being organized by Kyiv after the first one a couple of months ago in Switzerland which turned out to be embarrassingly inconclusive (they did not even invite the Russians which made it absurd), and potential organizers, including Switzerland, Brazil and India turned down the offer to host the next one.

And most analysts believe that Zelenskyy is not serious about meeting the Russia's basic condition for talks – that Ukraine withdraws all its forces from the four oblasts now held by the Kremlin as this would essentially call for their unconditional surrender by giving back everything they have won in battle. If Zelenskyy were to initiate such talks, he would lose all support internally in Ukraine, where there are heavily armed men who would not be in favour of what would appear to be a cowardly gesture by the professional beggar dressed in green T shirts. -

What even more obstructive, in terms of moving forward to peace talks, is the fact that the Americans, the main supporter/sponsor of the Ukrainians - are showing that they are finally acknowledging the abject failure of their proxy war to take down the Russian regime, and are tiptoeing away from Zelenskyy and his bankrupt/corrupt government. The clearest indication of this is the fact that when the Ukrainian president visited the US late last month, Biden told him that his requests for more weapons, permission to strike Russia with long range US missiles, and a quick path to membership to NATO would be postponed until the next Ramstein meeting – a gathering of war mongering European nations who meet every month in Ramstein Germany to discuss how much military support they want to give to Ukraine. This time, the Americans, meaning Biden, Blinken and possibly Austin, have all said they are not going. The meeting has therefore been cancelled.

As things now stand, the US has finally recognised that its strategic interests are not to be found in supporting Ukraine with everything they have for as long as it takes. They are backing off. If they do that, and there is no clarity that a new Trump Administration would continue to support the Ukraine project or NATO itself for that matter, then the war is practically over. There is nobody in Europe to take up the slack. And the Europeans will be left to carry the can to confront Russia.

Is this surprising? Absolutely not. In this commentary over the last two years, we have already forecasted that this would happen. We saw this coming two and half

years ago. It was very simple. No country's government, elected by its citizens, can go on supporting a foreign war forever. The straw that broke the camel's back for the Europeans was in the EU parliamentary elections in June, and since then, every election at local levels have been negative for the ruling elites. It has happened in France, Germany and most recently in Austria as well. Nobody wants to take on Russia, known for its martial spirit and a winning record at war against the western countries. And the collective west has not even committed to putting boots on the ground in trying to support Kyiv. So that support, by Boris Johnson standard's, would simply mean sending unlimited amounts of money and material to Zelenskyy.

Only an idiot like Johnson would think that a winning formula would be sending only weapons and money (he was recently talking about raising the aid to Kyiv to a trillion dollars...) without an army to back the munitions. That would require massive taxation and heightened industrial production to make it feasible. Both are not possible in a collective west already highly taxed, suffering from inflation and unwilling to be pushed into war with a very powerful Russia. This is so obvious that you would think a man who was recently a prime minister of the UK would get it. But obviously he didn't.

But the war will end, although it is likely to be on Russian terms. Both Russia and Ukraine now seem to be making very small concessions, creating a small crack, and it may be too much to hope that a ray of hope soon shine through? The only thing going for thinking like this is that no war can last forever.

In the first months of the war, the warring parties came close to negotiating a ceasefire. But that idea was quickly sabotaged by Boris Johnson and the US. Today, after 2.5 years, Kyiv does not want to give up an inch of land, while the Kremlin wanted to defend its borders threatened by the entire NATO, especially the US and is succeeding at attrition warfare. The United States also hesitated and feared too much interference and a direct confrontation with Russia. So they opted for a proxy war using the Kyiv regime to fight to the last Ukrainian.

Now that we are almost there (ie at the last Ukrainian, is it time to talk peace?)

### ***And what about the presidential elections in the US?***

And what will be the influence of the American voter? If Donald Trump wins, the situation in Ukraine could change dramatically. After all, Trump has already said he will end the war. Word is out that Ukraine must be prepared to put something on the table. Zelenskyy seems to be gradually coming to terms with this and is opening the door for small concessions. So for Trump, all that remains is to ensure that Putin does not prevail and Ukraine will accept the terms of a general peace deal. Without American support for Ukraine, a victory for Kyiv is impossible. Everybody knows it. It promises to be a delicate tightrope act for the new American president, whoever it will be. If it were Harris, it will prove to be her Vietnam. If it were Trump, he will shift his focus to supporting Israel and seek rapprochement with Moscow.

So should there be steps forward towards rapprochement? Again this is so obvious that I will forecast it to happen. Wars cannot last forever. And this one has been lost so badly by Kyiv that there is no alternative.

There are now hard nosed assessments in the western mainstream media arguing that Ukraine cannot win. Here is an example – Bloomberg/SCMP asks if Ukraine can defend its pocket of troops now in Kursk

### **Allies worry Ukraine won't be able to retain Kursk land if Russia intensifies attacks**

*Some European officials fear Kyiv could be forced to give up the 1,300 sq km of Russian territory if Moscow mounts a larger counteroffensive*

#### **Bloomberg/SCMP : Published: 1:47pm, 8 Sep 2024**

Ukraine's daring offensive into Russia's Kursk region impressed Kyiv's allies with its quick initial success, upending perceptions the war had settled into a stalemate and exposing the hollowness of Vladimir Putin's vows to defend his territory at all costs.

But a month into the operation, US and European officials still question what Kyiv's endgame is for the 1,300 sq km (500 square miles) of Russian territory it says its forces now occupy. Some allied officials fear Kyiv could be forced to give up that land within a few months if Moscow mounts a larger counter-attack.

With Russian forces pressing an offensive of their own in Ukraine's east, using superior numbers to crack Kyiv's lines, some European officials expressed concern that the cost of the Kursk operation may prove high. They spoke on condition of anonymity to discuss private deliberations.

Allies worry Ukraine won't be able to retain Kursk land if Russia intensifies attacks  
Some European officials fear Kyiv could be forced to give up the 1,300 sq km of Russian territory if Moscow mounts a larger counteroffensive

The lack of a major Russian retaliation has also bolstered Kyiv's argument that Putin's oft-touted "red lines" are empty threats aimed at scaring the US and Europe. President Volodymyr Zelensky is citing the muted Kremlin response as he pushes allies to allow Ukraine to use longer-range weapons on targets inside Russia and take the pressure off his outnumbered forces. Privately, some allied diplomats now agree the fears about Putin's retaliation appear overblown.

"Putin has shed so much blood that his 'red lines' are meaningless now," Zelenskyy told allied officials at a meeting in Germany on Friday. He repeated appeals to be

allowed to use Western long-range weapons to hit targets inside Russia “so that Russia is motivated to seek peace”.

He’s said Kyiv could use the territory it’s taken as a bargaining chip in talks. But with no sign from Moscow that it is ready to negotiate in earnest, some allies worry that Ukraine may not be able to hold it long enough to provide leverage in any diplomatic efforts.

The latest information is that the Russians have the invaders encircled with their routes of supply and escape cut off.

Then there is this editorial published in the Financial Time on the war:

### **Ukraine’s shifting war aims**

*Kyiv is not being given the support it needs to regain the upper hand over Russia*  
THE EDITORIAL BOARD, FT

Ukraine is going into its third winter of war with the mood darker than ever. In the east, its troops are losing ground to the grinding advance of their Russian adversaries — albeit at vast cost to Moscow’s forces. With half its power generation shattered, Ukrainians face spending hours a day without light or heat in the coldest months.

In Washington and some western capitals, meanwhile — and in the corridors of Kyiv — the mood is shifting: from a determination that the war can end only with Russia’s army driven from Ukraine, to the reluctant recognition that a negotiated settlement that leaves the bulk of the country intact may be the best hope.

Yet Kyiv is not being given the support it needs even to achieve that scaled-back goal. Ukraine’s prospects are clouded above all by the danger that Donald Trump wins next month’s US election and seeks a swift end to the war, as he has pledged.

Some US and European officials hope Trump could at least be dissuaded from forcing Kyiv into an adverse deal with Moscow that would pose grave risks for future European and American security. Yet grappling simultaneously with an escalating Middle East war, even some western capitals that previously insisted on the need to defeat Russia’s Vladimir Putin militarily are recalibrating their goals.

Some Kyiv officials, too, fret in private that they lack the personnel, firepower and western support to recover all territory seized by Russia. There is talk behind closed doors of a deal in which Moscow retains de facto control over the roughly one-fifth of Ukraine it has occupied — though Russia’s sovereignty is not recognised — while the rest of the country is allowed to join Nato or given equivalent security guarantees.

Under that umbrella, it could rebuild and integrate with the EU, akin to West Germany in the cold war. This scenario relies, however, on ambitious assumptions. One is that the US and its allies must be prepared to offer Nato membership or the necessary guarantees, when they have so far been reluctant to grant Kyiv a binding path into the alliance. It would require a huge and costly deployment of forces by the US and its partners — and leave them on a cold war-style tripwire.

A second assumption is that Russia's president can be induced to negotiate and accept such a scenario. But preventing Ukraine from joining Nato was one of his ostensible war aims. It is doubtful, too, that Putin has an incentive to agree to land-for-peace talks while he believes his forces can still expand their gains.

Ukraine's president, Volodymyr Zelenskyy, presented a "victory plan" in Washington last month that sought to persuade Kyiv's allies to bolster his position, militarily and diplomatically, and force Moscow to the table. He left empty-handed on two key requests: progress towards NATO, and US permission for Kyiv to use western missiles for long-range strikes on Russian territory.

Whether the goal is outright victory or bringing Russia to the table, western allies need to strengthen Ukraine's hand. The Kremlin can only be pushed into talks on a deal that might be satisfactory for Kyiv, and the west, if it feels the costs of fighting on are too high.

And any resolution to the war that enables all or part of Ukraine to survive and prosper will need guarantees of its security. In his remaining three months in office, US President Joe Biden and his European allies should bolster Ukraine as much as possible. The aim ought to be to put Kyiv into the strongest possible position ahead of a Trump presidency, or to provide a foundation on which Kamala Harris can build if she prevails.

We cannot yet know how the war will end. But it is within the west's power — and interest — to help Ukraine regain the upper hand over its foe.

Actually, most independent and informed analysts not involved in western propaganda know how the war will end. Most have been forecasting the outcome correctly ever since the war started. The only people who did not want to know were the clowns in Ukraine and then the media of the collective west. But even these people have now come to terms with Ukraine's defeat, and for the last year have been admitting it openly. Now they are calling for a negotiated peace.

Here are the main reasons why Ukraine failed to prevail.

1) It took on an enemy that is much bigger than itself.

- 2) It trusted the west, especially the UK and US to give it everything and that this everything works. As it turns out, the west only gave Ukraine, thirty year old planes (F16's) and cold war era tanks (Leopard 1s) with none of the more sophisticated and latest armaments. And it also turned out that these old weapons systems were overpriced and did not work very well when the Russians got down to reverse engineering them. You therefore have overpriced weapons that absorb all the money which creates a huge tab, and the weapons also did not work after a while.
- 3) Kyiv did not figure that America is no longer the arsenal of democracy. There is a global shortage of air defence missiles and artillery shells. The notion of being backed with everything they have got did not jive with the reality that all they have got was not enough.
- 4) Ukraine does not rank as high as Israel in terms of priority for weapons shipments. What that war was started a year ago, Ukraine was no longer as important.
- 5) Ukraine manpower was seriously deficient, when half the country fled to the west, refusing to fight Russia.
- 6) Most importantly, it is a bad assumption that you can fight a war with money acquired by charity. This is the first time in history that beggars go to war and thought that they would win.
- 7) The Ukrainian leadership was incompetent. All they cared about was messaging, narratives and PR. They used tactics like hold on to territory that was certain to be lost and this created massive casualties when the enemy knew how to attrite. The Ukrainians were wiped out sitting in their foxholes.
- 8) Ukraine was corrupt and unable to organize itself to fight.
- 9) There was too much western hubris that Russia was a gas station pretending to be country. They thought that the thousands of economic sanctions would reduce Russia to minion status. Instead, Russia has bounced back to grow more strongly than all its adversaries. Figure that.

The tragedy of the situation is that western politicians have been awash in hubris, arrogance and did not know the limitations of their own military commitments. Kyiv was led up the primrose garden on more than just a fake promise to be admitted to NATO. They were also misled that western commitment would be prolonged and sufficient and that western wonderweapons would defeat Moscow's armies. It takes fools to not recognize this and still chose to pick the wrong fight.

## **The Wars in the Middle East**

**Here is an essay by Prof Jeffrey D Sachs of Columbia University:**

**Jeffrey D. Sachs: Here's the Truth — It Is the Lack of a Two-State Solution That Most Threatens Israel**

OCTOBER 7, 2024 gaza, israel, jeffrey sachs, palestine, two state solution



On Friday 24 March, hundreds gathered in central London to protest the rolling out of a red carpet at Number 10 Downing Street for Israel's prime minister, Benjamin Netanyahu.

**By Jeffrey D. Sachs and Sybil Fares / Common Dreams**

Israel rejects the two-state solution because it claims that a sovereign state of Palestine would profoundly endanger Israel's national security. In fact, it is the lack of a two-state solution that endangers Israel. Israel's illegal occupation of Palestinian lands, its continuing apartheid rule over millions of Palestinians, and its extreme violence to defend that rule, all put Israel's survival in jeopardy, as Israel faces dire threats from global diplomatic isolation and the ongoing war, including the war's massive economic, social, and financial costs.

There are three basic reasons for Israel's opposition to the two-state solution, reflecting a variety of ideologies and interests in Israeli society.

The first, and most mainstream, is Israel's claim that Palestinians and the Arab world cannot live alongside it and only wish to destroy it. The second is the belief among Israel's rapidly growing religious-nationalist population that God promised the Jews all of the land from the Euphrates to the Mediterranean, including all of Palestine. We recently wrote about that ideology, pointing out that it is roughly 2,600 years out of step with today's realities. The third is straightforward material gain. With its ongoing occupation, Israel aims to profit from control over the region's freshwater resources, coastal zones, offshore natural gas deposits, tourist destinations, and land for settlements.

These various motives are jumbled together in Israel's continued intransigence. Yet taken individually or as a package, they fail to justify Israel's opposition to the two-state solution, certainly not from the perspective of international law and justice, but not even with regard to Israel's own security or narrow economic interests.

Consider Israel's claim about national security, as was recently repeated by PM Benjamin Netanyahu at the United Nations on September 27th. Netanyahu accused the Palestinian Authority, and specifically President Mahmoud Abbas, of waging "unremitting diplomatic warfare against Israel's right to exist and against Israel's right to defend itself."

After Netanyahu's speech, Ayman Safadi, Jordan's Minister of Foreign Affairs, standing beside Palestinian Prime Minister Mohammad Mustafa replied to Netanyahu in a press conference:

***All of us in the Arab world here, want a peace in which Israel lives in peace and security, accepted, normalized with all Arab countries in the context of ending the occupation, withdrawing from Arab territory, allowing for the emergence of an independent, sovereign Palestinian state on the June 4, 1967 lines with East Jerusalem as its capital.***

Minister Safadi was speaking on behalf of the 57 members of the Muslim-Arab committee, who are all willing "to guarantee Israel's security" in the context of a two-state solution. Minister Safadi, alongside the Palestinian Prime Minister, articulated the region's peace proposal, an alternative to Netanyahu's endless wars.

Earlier this year, the Bahrain Declaration in May 2024 of the 33rd Regular Session of the Council of the League of Arab States, on behalf of the 22 member states, re-iterated:

***We call on the international community to assume its responsibilities to follow-up efforts to advance the peace process to achieve a just and comprehensive peace based on the two-state solution, which embodies an independent Palestinian state with East Jerusalem as its capital on the lines of the fourth of June 1967, able to live in security and peace alongside Israel in accordance with the resolutions of international legitimacy and established references, including the Arab Peace Initiative.***

The many Arab and Islamic statements for peace, including those of the Organization of Islamic Cooperation (OIC), in which Iran is a repeated signatory, trace back to the 2002 Arab Peace Initiative of Beirut—where Arab countries first proposed the region's readiness to establish relations with Israel in the context of the two-state solution. The initiative declared that peace is based on Israel's withdrawal from the Palestinian, Syrian, and Lebanese occupied territories.

Israel claims that even if the Arab states and Iran want peace, Hamas does not, and therefore threatens Israel. There are two crucial points here. First, Hamas accepted the two-state solution, already 7 years ago, in their 2017 Charter. "Hamas considers the establishment of a fully sovereign and independent Palestinian state, with Jerusalem as its capital along the lines of the 4th of June 1967, with the return of the refugees and the displaced to their homes from which they were expelled, to be a formula of national consensus." This year again, Hamas proposed to disarm in exchange for Palestinian statehood on the 1967 borders. Israel, in turn, assassinated the Hamas political chief and cease-fire negotiator, Ismail Haniyeh.

Second, Hamas is very far from being a stand-alone actor. Hamas depends on funds and arms from the outside, notably from Iran. Implementation of the two-state solution under UN Security Council auspices would include the disarmament of non-state actors and mutual



security arrangements for Israel and Palestine, in line with international law and the recent ICJ ruling, which Iran voted in favor of at UN General Assembly.

The giveaway that Hamas is an excuse, not a deep cause, of Israel's intransigence is that Netanyahu has tactically if quietly supported Hamas over the years in a divide and conquer strategy. Netanyahu's ruse has been to prevent the unity of different Palestinian political factions in order to forestall the Palestinian Authority from developing a national plan to forge a Palestinian state. The whole point of Netanyahu's politics for decades has been to prevent the emergence of a Palestinian state using any argument at hand.

Israel and its boosters often claim that the failure at Camp David in 2000 proves that the Palestinians reject the two-state solution. This claim also is not correct. As documented by many, including Clayton E. Swisher in his meticulous account in *The Truth About Camp David: The Untold Story about the Collapse of the Middle East Peace Process*, the Camp David negotiations in 2000 failed owing to Bill Clinton's last-minute approach to deal making, combined with then Israeli Prime Minister Ehud Barak's political cowardice in failing to honor Israeli obligations under the Oslo Accord.

As time ran out at Camp David, Clinton was a dishonest broker, as were the blatantly pro-Israel US negotiators, who refused to acknowledge Palestine's legal claim to the borders of 4 June 1967, and prevarications about Palestine's right to its capital in East Jerusalem. The "final offer" abruptly pushed by the Israelis and their American backers on the Palestinians did not secure basic Palestinian rights, nor were the Palestinians given time to deliberate and respond with alternative proposals. The Palestinians were then falsely blamed by the Americans and Israelis for the failure of the negotiations.

Israel persists with its intransigence because it believes that it has the unconditional backing of the United States. Through decades of large campaign contributions and assiduous lobbying, the Israel lobby in the United States not only controls votes in the Congress, but also has also placed arch-Zionists in top positions in every administration. Yet due to Israel's brutality in Palestine and Lebanon, the Israel Lobby has lost its ability to control the narrative and votes across mainstream American society.

Trump, Biden, and Netanyahu all believed that Israel could "have it all"—*Greater Israel* and peace with the Arab states, while blocking a Palestinian state—through a US-brokered normalization process. The Abraham Accords (which established diplomatic relations of Israel with Bahrain and the UAE) was to be the role model for normalizing relations between Israel and the Kingdom of Saudi Arabia. This approach was always cynical (as it aimed to block a Palestinian state) but is surely delusional now. The Foreign Minister of Saudi Arabia has made crystal clear in his op-ed in the Financial Times on October 2, that the two-state solution is the only pathway to peace and normalization.

"A two-state solution is not merely an ideal; it is the only viable path to ensuring Palestine, Israel and the region's long-term security. Uncontrolled escalatory cycles are the building blocks of wider war. In Lebanon, we are witnessing this firsthand. Peace cannot be built on a foundation of occupation and resentment; true security for Israel will come from recognising the legitimate rights of the Palestinian people."

Israel's ongoing intransigent opposition to the two-state solution, recently reiterated by a vote of the Knesset, has become the greatest danger to Israel's own security. Israel is now almost completely ostracized by the international community, and also faces grave economic and military threats as the regional war expands. As just one indicator of the emerging economic disarray, Israel's credit rating is already plummeting, and Israel is likely to lose its investment grade credit rating very soon, with dire long-term economic consequences.

Nor does Israel's violent pursuit of its extremist vision serve US security or US interests, and the American people oppose Israel's extremism. The Israel Lobby is likely to lose its grip. Both the US public and the US deep state are very likely to withdraw their uncritical and unconditional support for Israel. The practical elements of peace are at hand, as we recently spelled out in detail. The US can save the region from an imminent conflagration, and the world from a possible global war of great powers. The US should drop its veto of Palestine's membership in the UN, and support the implementation of the two-state solution under the auspices of the UN Security Council, with enforcement of mutual security for both Israel and Palestine on the basis of justice and international law.

**The greed of the Israeli government knows no bounds:**

### **“Greater Israel:” Cabinet Minister Plots Seizure of Territory from 6 Neighbors, including Lebanon**

[Juan Cole](#)10/11/2024

Ann Arbor (Informed Comment) – Israeli President Isaac Herzog said Thursday that Israel has no designs on Turkey, denying charges by Turkish President Tayyip Erdogan that “the Israeli government, which has gone mad in the Holy Land, will possibly target our homeland with its religious fanaticism after Palestine and Lebanon.”

Unfortunately for Herzog, on the same day, remarks surfaced from 2016 by Minister of Finance and Civil Administrator of the Palestinian West Bank, Bezalel Smotrich, which gave credence to Erdogan's fears of Israeli expansionism. Smotrich belongs to the Kahanaist, Religious Zionism Party, the Israeli equivalent of Neo-Nazism.

Herzog is a member of the center-left Labor Party, which at some points has been willing to accept a Palestinian state. Labor itself, however, has attempted to expand Israeli territory at the expense of its neighbors on some occasions, as with its seizure of Egypt's Sinai Peninsula and Palestinian Gaza in 1956, and again in 1967 with its seizure of the Palestine territories of Gaza and the West Bank, along with the Sinai and the Syrian Golan Heights.

The Jordanian foreign ministry on Thursday condemned the remarks by Smotrich as a “reflection of religious fanaticism.” In a television interview that has resurfaced on social media, Smotrich said that a prophecy predicted that Jerusalem would extend to Damascus. He also said that Israel would extend to the east of the Jordan River into the country of Jordan, and would have parts of Egypt, Syria, Lebanon, Saudi Arabia

and Iraq. It goes without saying that he wanted, as well, Gaza and the West Bank. Smotrich in 2016 was a member of parliament for the Jewish Home Party (HaBayit HaYehudi), one of the components of his present Religious Zionism Party.

Gaining territory from other countries by military means is prohibited by the United Nations Charter, to which Israel is a signatory.

Smotrich is allied with Jewish Power extremist Itamar Ben-Gvir, the minister of national security. Although the two are often underestimated, they appear to have a hold on Prime Minister Benjamin Netanyahu and have been central to the prosecution of the total war on Gaza and now Lebanon.

The two are advocating an Israeli military occupation of Gaza like that in the Palestinian West Bank, as well as the establishment of Israelis squatter-settlements in Gaza. They also want the Israeli army to take over the task of the distribution of food aid, though they advocate limiting daily calories available to Palestinians to what is sufficient to keep them from starvation.

**And the war is now being conducted over a powderkeg...**

### **Could war in the Gulf push oil to \$100 a barrel?**

*Missiles are flying over a region that supplies a third of the world's crude*

Oct 7th 2024

EVER SINCE Hamas's attacks on Israel a year ago, the biggest fear in oil markets has been that tensions would escalate into a full-blown regional war pitting Israel against Iran, the world's seventh-largest producer of crude. Until recently both countries seemed keen to avoid it. That explains why initial jitters on oil markets after October 7th last year soon gave way to the low and stable prices that have prevailed for much of this year.

But on October 1st Iran fired missiles at Israel in response to Israel's pounding of Hizbullah and other Iranian proxies. Now the world is anxiously waiting for Israel's response. Oil markets are nervous. Last week crude prices rose by 10%, to \$78 a barrel, their biggest weekly gain in almost two years (see chart). As we published this, they were bobbing around \$77. When the last war involving a major petrostate broke out, in Ukraine in 2022, crude surged past \$100 a barrel. Could that happen again?

## Upside risk

Brent crude oil price, \$ per barrel



Source: LSEG Workspace

Chart: The Economist

To understand how high prices might go, look first at Israel's options for retaliation. If it struck only military targets, such as missile-launch sites—and Iran responded moderately—then some of the geopolitical premium boosting oil prices would evaporate. But Israel could choose to escalate by bombing Iran's civilian infrastructure, oil and gas facilities or nuclear-enrichment sites. Whichever Israel chooses, Iran may feel forced into a robust response, triggering a cycle that ends up turning Iran's petro-industrial complex, the regime's lifeline, into a target. So oil assets need not come under fire first for global markets to fret.

If Israel attacks Iran's oil facilities, it may target assets that transform Iran's crude into petroleum products. One possible choice is the Abadan refinery, which provides the domestic market with 13% of its supply of petrol. The pain would remain local; such strikes may even boost the global crude supply as they could free up more of Iran's unrefined oil for export.

If Israel wanted to deal a severe blow to Iran's energy exports, it could go after the oil terminals on Kharg Island in the Persian Gulf—from which nine-tenths of all barrels of Iranian crude are shipped—or even the oilfields themselves. That would come at a diplomatic cost. The Biden administration would be annoyed that it might cause petrol prices to jump less than a month before America's presidential election. China, the destination for nearly all Iran's oil exports, would also be cross.

Israel might still deem the cost worth bearing, and opt for hitting the terminals. A successful strike would instantly take a decent pool of oil off international markets: last month Iran exported a record 2m barrels per day (bpd), equivalent to nearly 2% of world supply.

Even then, the global fallout would probably be contained. Unlike the situation after Russia's invasion of Ukraine, when the world was pumping oil at full tilt and demand was rebounding after the pandemic, supply today is plentiful and demand sluggish.

After a series of production cuts, the Organisation of the Petroleum Exporting Countries and its allies, collectively known as OPEC+, have more than 5m bpd in spare capacity—more than enough to make up for the loss of Iranian crude.

They probably wouldn't wait long before raising output. OPEC+ members, angered to see their market share sliding in recent months, have been waiting for just such an opportunity to unwind their cuts. Last week they confirmed plans to lift output by 180,000 bpd every month for a year, starting in December. The Saudis are so determined not to cede further ground that they are said to have dropped their target of returning oil to \$100 a barrel, the level required to balance the kingdom's books as it launches several megaprojects.

Production is rising in America, Canada, Guyana, Brazil and elsewhere. The International Energy Agency expects non-OPEC output to grow by 1.5m bpd next year, more than enough to cover any rise in global demand. And demand is slowing on account of tepid economic growth in America, China and Europe and a race to ditch petrol cars for electric ones. Before the latest escalation in tensions in the Middle East, traders expected an oil glut in 2025, pushing prices below \$70 a barrel.

Today crude inventories in the OECD are below their five-year average. So a strike on Kharg Island would no doubt jolt markets. But prices would probably settle only \$5-10 above their current levels.

Things could get much wilder if Iran lashed out at other Gulf states it sees as supporting Israel. In recent years relationships between Iran and its neighbours have been stabilising, and in recent days officials from Gulf Arab states have met Iranian counterparts in Qatar to try to reassure them of their neutrality. Still, with few options available, Iran may seek to target the oilfields of its neighbours—starting perhaps with smaller states such as Bahrain or Kuwait.

The other tool Iran could use to create global chaos would be to close the Hormuz Strait, through which 30% of the world's seaborne crude and 20% of its liquid natural gas must pass. That, however, would amount to economic suicide, since it would leave Iran unable not just to ship out any oil or other exports but also to bring in many

imports. And it would greatly annoy China, which gets about half its crude from Gulf countries.

It is hard to guess how the market would respond to such scenarios, if only because Iran's actions would trigger further reactions from Israel, America and others. America and China, for example, would probably send their navies to reopen the Hormuz Strait. Still, assuming disruptions are big enough to cause shortages of crude that last for a while, then oil prices would probably climb to the point where they curbed appetite for oil, after which they would start falling. Analysts believe such "demand destruction" would occur once crude hit \$130 a barrel—roughly the level it peaked at in 2022.

If oil markets believed such a scenario even remotely likely, their fears would start to be reflected in the current price. Traders who had bet on oil prices falling in the near future would be rushing to unwind their positions. Zoom out a little, however, and the recent rise in prices does not look striking, even by the relatively sedate standards of the past 18 months. Last year oil averaged \$82 a barrel; in 2022, \$100. The one-year-old conflict in the Middle East has confounded many expectations. But for oil prices to reach triple digits again, a lot of things still have to go very, very wrong.

The fact of the matter is that markets don't wait. Since the missiles started flying, the US Dollar has recovered some of the losses that occurred when it fell as US interest rates were expected to tumble. The Yen, the most vulnerable of the major currencies in terms of oil price pressure, is back at 149-150 after falling below 140 a few weeks ago..



## **Peace in the South China Sea**

This is the third region in the world where potential conflict exists. Fortunately, there is still peace and the Chinese government is not taking it for granted. It has taken steps to bolster its economy by various stimulative measures. Here is a report from the Financial Times:

## **Chinese stock rally cools after Beijing holds off on fiscal stimulus**

*Investor disappointment with lack of detailed plans limits gains in CSI 300 and triggers sharp sell-off in Hong Kong*

**Arjun Neil Alim and Cheng Leng in Hong Kong and Edward White in Shanghai OCTOBER 9 2024**

China's blistering stock market rally cooled on Tuesday after Beijing officials held off on unveiling more stimulus for the world's second-largest economy. The blue-chip CSI 300 index of Shanghai- and Shenzhen-listed stocks surged 10.8 per cent upon opening after a week-long holiday, before falling back to close 5.9 per cent higher.

Markets were disappointed by the lack of significant new fiscal spending announcements from state planners, analysts said. Hong Kong's Hang Seng index fell 9.4 per cent, its worst day since October 2008, after having risen 11 per cent over the previous five days.

The Hang Seng Tech index tumbled 12.8 per cent. Traders speculated that investors were selling Hong Kong assets to fund mainland trades. Investor expectations had been building that President Xi Jinping's economic planners would detail their plans for greater fiscal spending to complement a monetary stimulus that had propelled Chinese equities to their best week since 2008.

Zheng Shanjie, chair of the National Development and Reform Commission, said at a press conference in Beijing that he had "full confidence" the economy would reach its official full-year growth target of about 5 per cent.

"This is what happens when you feed the monster," said Alicia García-Herrero, chief Asia-Pacific economist at Natixis. "Every day you need to increase the amount of food or it turns against you."

Chinese markets recorded frenetic trading, with the Hang Seng hitting its highest all-time single-day turnover on Tuesday, while the Shanghai and Shenzhen exchanges showed more than Rmb3tn (\$425bn) in turnover by mid-afternoon, according to data provider Wind.

Traders' disappointment spread into industrial commodities such as oil and metals. Brent crude fell as much as 5.4 per cent to \$76.56. Copper dropped 1.7 per cent, and aluminium shed 3.5 per cent.

In Singapore iron ore slipped as much as 4.2 per cent. Tuesday's market moves came after institutions including Goldman Sachs, Citi and HSBC raised their targets for Chinese equity performance.

The CSI 300 has risen more than 33 per cent over the past month. Zheng said Chinese authorities would continue to issue ultra-long-dated sovereign bonds in 2025, an indication of more support for the economy. He also said the government would accelerate bond issuance, front-loading about Rmb200bn from next year's budget for spending and investment projects. He also pledged to prioritise consumption and expand domestic demand, which has lagged behind expectations, as well as strengthen support for China's poor and students.

But Chi Lo, senior Asia-Pacific strategist at BNP Paribas Asset Management, said the "core" fiscal stimulus measures observers had hoped for "weren't really there today. "There is not enough conviction [in the market] that the Chinese authorities were coming out with forceful fiscal spending, accompanied by monetary easing, to get the system out of the doldrums." In response to a question about new special local government bond issuance in the final two months of 2024 — an indication of greater fiscal support for ailing local administrations — NDRC deputy head Liu Sushe said policymakers were focused on realising the proceeds of existing special bonds.

Ting Lu, China economist at Nomura, forecast fiscal measures and other supportive policies in the next several months. "The eventual scale and content of the fiscal package might be quite improvised and uncertain due to the brewing stock bubble and still-controversial debates on what Beijing should focus on," he said.

China's prospects of hitting its full-year GDP growth target, which is the lowest in decades, have been called into doubt this year as Xi's administration struggles to reignite confidence among consumers and businesses in the world's second-biggest economy.

Investors had also been watching for signs that the September stimulus was flowing through to travel and other consumer spending during China's golden week holiday. China recorded 765mn domestic trips over the seven-day period, according to official data released after markets closed, up nearly 6 per cent on last year and up more than 10 per cent from 2019. Travel spending was Rmb700.8bn, 6 per cent higher than the year before.

Earlier on Tuesday, the World Bank said it was maintaining its 4.8 per cent China growth forecast for 2024. The multilateral lender projected China's GDP growth to



slow next year to 4.3 per cent. Aaditya Mattoo, the bank's chief economist for east Asia and the Pacific, said the stimulus measures of recent weeks were "not a substitute for the deeper structural reforms needed to boost longer-term growth".

China's stock rally for the ages shows power of crowds "Given the lead time for fiscal policy implementation, most of the measures [and] bond proceeds will carry over into next year," he said. "And even then, consumers may be reluctant to splurge." Analysts at Morgan Stanley suggested China's finance ministry might hold a "follow-up press conference" to provide more details.

But they set their price target for Chinese equities at current levels prior to the press conference, indicating no further upside since "the current market valuation has already priced in a lot of expectation for reflationary measures". They added that there was "limited chance of meaningful demand stimulus" focused on consumers in the near term, adding that "sustainable reflation" still required a fiscal package of about Rmb10tn focused on consumption, debt restructuring and property. Additional reporting by Wang Xueqiao in Shanghai

At the end of the day, it seems that the Chinese government recognizes that to defend itself against US aggression/isolation, the best way is to strengthen its economy. It would appear that they have reacted to the need to bolster its economy, together with the measures to excel at semiconductor high tech, clean energy, electric cars, shipbuilding, infrastructure and other progressive programs, it is doing all the right things.

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*Un-Influencer in a World full of Hubris*

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