

Bloomberg Intelligence

Israel-Hamas War



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1. Will Israel-Hamas War Trigger Global Recession? Probably Not

(Bloomberg Intelligence) -- The chances of the Israel-Hamas war spreading to the wider region and triggering a global recession have fallen. Except for some border skirmishes with Lebanon, the conflict has been mostly confined to Gaza. The rhetoric from Iran and Hezbollah has been relatively restrained. And the Middle East risk premium in financial markets has all but disappeared. That said, the human cost is already high - the death toll has exceeded 10,000 people after nearly 40 days of fighting.

Scroll through the screens below to read about the likely economic effects of the ongoing war in the Middle East. (11/16/23)

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Economics of The Mideast War

Analysis

2. Three Scenarios for Mideast War, One to Result in Recession

Contributing Analysts Bhargavi Sakthivel (Economics)

We map out three scenarios for the potential path ahead. In the first, hostilities remain largely confined to Gaza and Israel, and the effect on the global economy will be minimal. In the second, the conflict spills over to neighboring countries, and lost global output will probably reach \$300 billion. The third sees a direct military exchange between Israel and Iran -- it'll likely tip the world into a recession.

Click on the Text tab for the full report. (11/16/23)

Economic Impact of Mideast War

Global growth and inflation impact of three scenarios for how the Israel-Hamas conflict could evolve			
Scenario	Details	Impact on oil prices and VIX*	Impact on global GDP and inflation**
Confined war	- Ground invasion of Gaza - Limited broader regional conflict - Lower Iranian crude output	Oil: +\$4/barrel VIX: No impact	GDP: -0.1 ppts. Inflation: +0.1 ppts.
Proxy war	- Multifront war in Gaza, West Bank, Lebanon, Syria - Unrest in wider Middle East	Oil: +\$8/barrel VIX: +8 points	GDP: -0.3 ppts. Inflation: +0.2 ppts.
Direct war	- Israel and Iran in direct conflict - Unrest in wider Middle East	Oil: +\$64/barrel VIX: +16 points	GDP: -1.0 ppts. Inflation: +1.2 ppts.

Source: Bloomberg Economics
*Impact calibrated based on 2014 Gaza War, 2006 Israel-Lebanon War, and 1990-1991 Gulf War. **Impact on year on year change in global GDP and inflation for 2024, estimated using Bayesian Global VAR

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Source: Bloomberg Economics

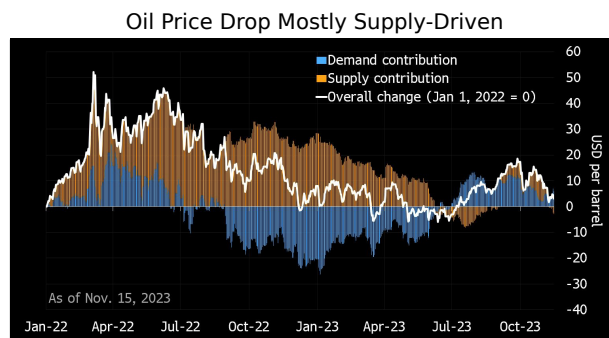
3. Supply-Driven Oil Price Drop Points to Receding Mideast Risks

Oil prices have fallen from a peak of \$94 on Oct. 20 to around \$80. We estimate that receding worries about potential supply disruption from the Middle East accounted for nearly two-thirds of the decline. Rising concerns about weaker demand were responsible for the rest.

Click on the Text tab for the full report. (11/16/23)

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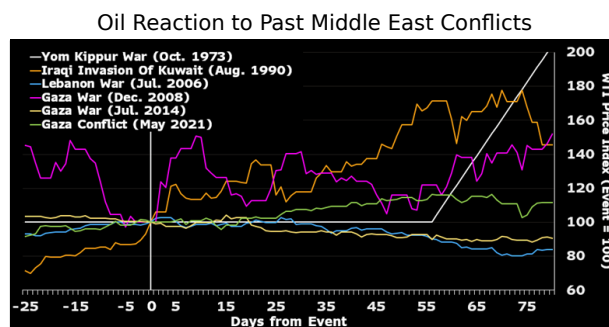


4. What History Says About Impact of Mideast Wars

Contributing Analysts Jennifer Welch (Economics) & Gerard DiPippo (Economics)

Past conflicts between Israel and Hamas or forces in southern Lebanon have had a limited impact on oil markets. A key reason is that such conflicts have rarely threatened regional oil production or transportation. The consequences for markets are more significant when hostilities involve major oil-producing countries, like Iraq's 1990 invasion of Kuwait, or escalate into larger disputes, like the 1973 Yom Kippur War and subsequent Arab oil embargo.

Click on the Text tab for the full report. (11/16/23)

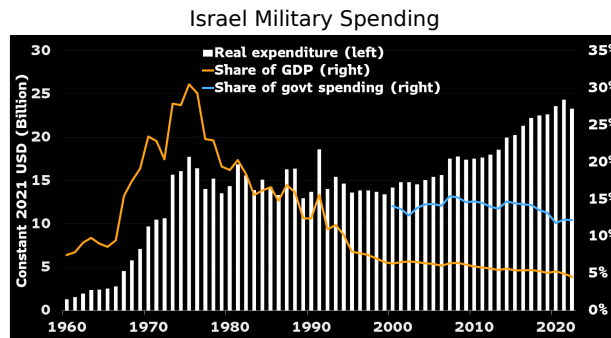


5. Israel Military Spending to Rise, Reversing Multiyear Trend

Contributing Analysts Gerard DiPippo (Economics)

Academic research on armed conflicts suggests wars can provide long-term gains if lower future security costs offset current economic losses - a sort of peace dividend. This may not apply in the current context. Israel is likely to spend more, not less, on defense. That would reverse a multiyear trend that saw Israel's military spending drop from around 9% of GDP in the 1990s to 4.5% last year. (11/16/23)

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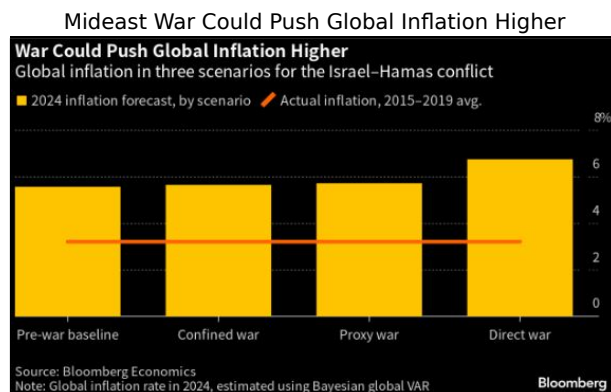


Source: SIPRI, Bloomberg Economics

Scenarios

6. Limited Economic Impact from Confined Mideast Conflict Scenario

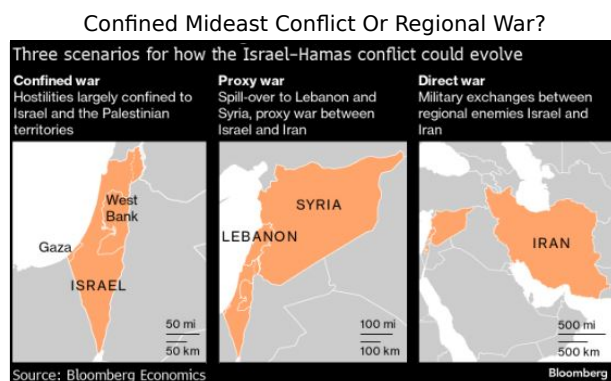
One possible trajectory for the current conflict would be a confined war in Gaza and Israel. This would also see tighter enforcement of US sanctions on Iran's oil. The human toll from this scenario will rise from already high numbers. But the effect on oil prices and the global economy will probably be muted. (11/16/23)



Source: Bloomberg Economics

7. Proxy Iran-Israel Conflict Scenario to Cost World \$300 Billion

If the Israel-Hamas conflict spreads to Lebanon and Syria - effectively turning into a proxy war between Iran and Israel - the economic cost would rise. The scenario also sees social unrest in the wider region. A 10% jump in oil prices and a risk-off move in financial markets could follow. The cost would add up to a 0.3 percentage-point drag on global growth next year, resulting in the weakest expansion in three decades, excluding 2020 and 2009. (11/16/23)



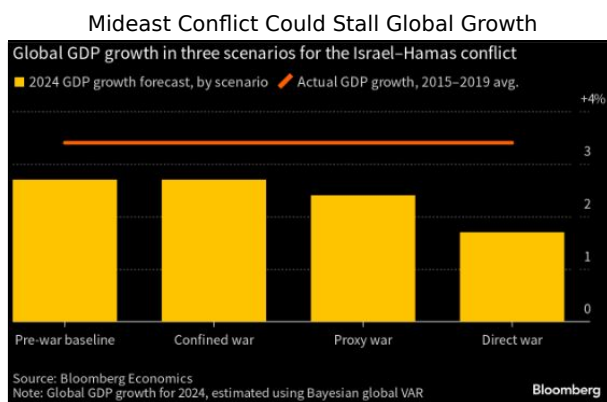
Source: Bloomberg Economics

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8. Direct Iran-Israel War Scenario Could Result in Global Recession

A direct conflict between Iran and Israel is a low-probability scenario, but a dangerous one. Oil prices could soar to \$150 per barrel, and risk assets would plunge. Our model predicts a 1-percentage-point drop in global growth - taking the number for 2024 down to 1.7%. Excluding the Covid and global financial crisis shocks, this would be the worst growth rate since 1982. (11/16/23)



Source: Bloomberg Economics

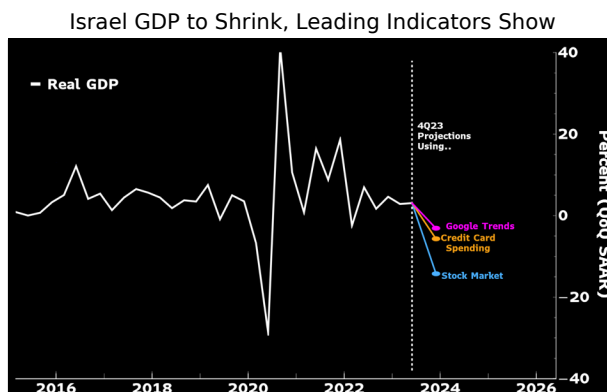
Impact

9. War to Shrink Israel's Economy by About 8% in Fourth Quarter

Contributing Analysts Alexander Isakov (Economics)

Israel's war with Hamas has probably contracted its economy by 7.8% on an annualized basis in October. The conflict has created labor shortages, soured consumer sentiment, and restricted movement. If the contraction persists through the end of the year, it'll mark the worst quarterly performance since at least 1995, excluding Covid.

Click the Text tab for the full report. (11/16/23)



Source: Bank of Israel, Central Bureau of Statistics, Google Trends, Bloomberg Economics.

10. Israel-Hamas War to Prolong Iraq Dollar Problem

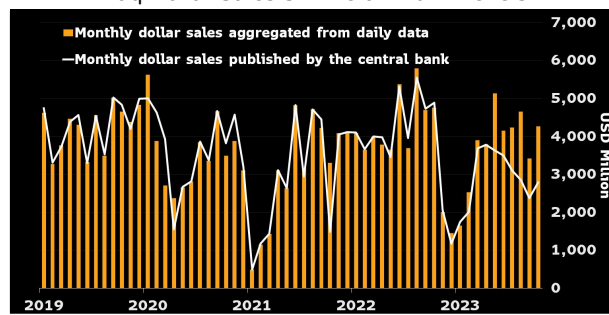
Iraq has plenty of dollars, but it hasn't been able to inject them into the economy. While record-high international reserves point to foreign-exchange abundance, the market price of the greenback is more than 20% above the official rate, indicating shortages. The Israel-Hamas conflict is likely to prolong the problem.

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Iraq Dollar Sales Still Below 2022 Levels



Source: Bloomberg Economics

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