

FINANCIAL MARKETS

THE
GEOPOLITICS
OF SYRIA



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THE SYRIAN CIVIL WAR

FOREWORD

A major news story in recent weeks has been the suspected chemical attack conducted by the Syrian government.

There is also significant discussion around the military response from the West.

This eBook explores the risks associated with that retaliation - and how the geopolitics of Syria could affect the global markets.

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WHAT IS HAPPENING IN SYRIA?

THE SYRIAN CIVIL WAR

As we know, Syria has been fighting a civil war for the last seven years. After a string of government-led violent attacks on civilians, Syrian rebels began retaliating.

Since 2011, a devastating war between the soldiers who are supporting President Bashar al-Assad, rebel fighters and terrorist organisation Islamic State, has caused the deaths of hundreds of thousands of Syrians.

Because of the scale of this crisis, other countries have now got involved. It's why the Syrian civil war has broader geopolitical ramifications.

Assad and his government have the support of both Russia and Iran. Though Iran is bound to Assad because of religious and strategic ties, there is not such an obvious reason for Russia's endorsement.

The US, Saudi Arabia and Turkey all openly back the Syrian rebels. The UK, France and several other Western countries have also shown some levels of support for 'moderate' rebels.

On April 7th 2018, the last rebel-held town, Douma, in the Eastern Ghouta region of Syria, was the target of a suspected chemical attack by Assad's regime. Though likely, no definitive (and independent) proof that chemical weapons were used has been verified. Despite this, the US, UK and France decided to take action in an attempt to prevent future chemical attacks (based on their respective intelligence).

On April 14th, the three nations launched limited airstrikes to destroy what they believed to be chemical weapon factories. This is the largest military attack against Assad's government by Western powers since the civil war began.

Despite doubts from their own citizens and other world leaders, President Trump, Prime Minister Theresa May and President Emmanuel Macron all believe that the actions they took were in everyone's best interest.

After the airstrikes, President Trump announced that 'the purpose of our actions tonight was to establish a strong deterrent against the production, spread and use of chemical weapons'.

Prime Minister Theresa May insisted that the Syrian regime 'must be stopped' after showing a 'persistent pattern of behaviour' in regards to the use of chemical weapons. The British Prime Minister refused to take this decision to parliament. Members of opposing

parties continue to condemn her actions for making such a large decision without a wider input.

The Syrian government still denies the use of chemical weapons in the attack at Douma. The Organisation for the Prohibition of Chemical Weapons has experts headed to Syria to gather evidence and carry out an investigation to verify what happened.

CONFLICT BETWEEN RUSSIA AND THE WEST

For a while now, tensions between Russia and several western countries have increased for a number of reasons.

After former Russian spy, Sergei Skripal, was infected with a nerve agent in the UK, Prime Minister Theresa May suspected foul play from Moscow and so expelled Russian diplomats residing in the country.

She also received support from the United States, European Union countries, Canada and Ukraine, who expelled more than 100 diplomats altogether. As expected, this sparked outrage from President Putin and the Russian government.

The US and Russia have had several disagreements about the situation in Syria for some time - which is no surprise as they back the opposite sides.

More recently, however, the relationship between the two nations has been more uneasy. This is after the US imposed a number of economic sanctions that go directly against Russian interests. In doing this, the already struggling Russian economy slid once again.

US intelligence agencies have also concluded that the Russian state attempted to interfere in the 2016 US presidential election.

Aside from existing tensions, the US, UK and France also opted to go against Russian warnings not to get involved or take military action in Syria. After the airstrikes had taken place, President Putin condemned the attack 'in the most serious terms' and believed that this had violated principles of international law.

Putin also believes that this was 'an act of aggression against a sovereign state that is at the forefront of the fight against terrorism'. The airstrikes have also caused Russia to admit that they believe they are being threatened and that the decisions of Trump, May and Macron will bring consequences.

THE IMPACT ON GLOBAL MARKETS

INITIAL REACTION

After finding out about possible military action, commodity market analysts frantically began assessing the prices of oil, gas, aluminium and other commodities.

It is not uncommon for geopolitical tensions to stir up the markets.

As problems in the Middle East escalated once again and fears surrounding a US/UK/French airstrike brewed, the price of oil hiked. Brent Crude rose to \$71.33 per barrel and American benchmark West Texas Intermediate rose to as much as \$65.86.

Although Syria is not a key oil producer, it is based in the Middle East - the world's most important crude exporter. Any tensions in the region are highly likely to disrupt the markets.

Upon hearing the threat of Western airstrikes, international investors expressed concerns about the possibility of initiating

further violence within the Middle East.

WHAT SHOULD THE MARKETS EXPECT?

In spite of the doubts and insecurities surrounding the situation at hand, veterans of the trading floor seem to believe that in reality, military strikes tend to have a very limited market impact.

In Middle Eastern markets, geopolitical risks have always been an 'accepted' risk.

In the past, military strikes and large terrorist attacks generally cause market selloffs. However, since the airstrikes, there has been very little activity. In fact, after the weekend there has been much less concern regarding further violence in the Middle East and oil prices have already dropped. By the following Monday, the stock markets were extremely stable. So far, investors believe that the airstrikes will not cause any damaging effects.

However, investors still have concerns about Russia and its pattern of behaviour. For instance, the US is highly likely to announce some new sanctions against Russia because of its support of the Syrian government.

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