

Analysis selection for JCC

October 2022

Russia's war in Ukraine

3 Nov 2022 - Country Risk | Strategic Report

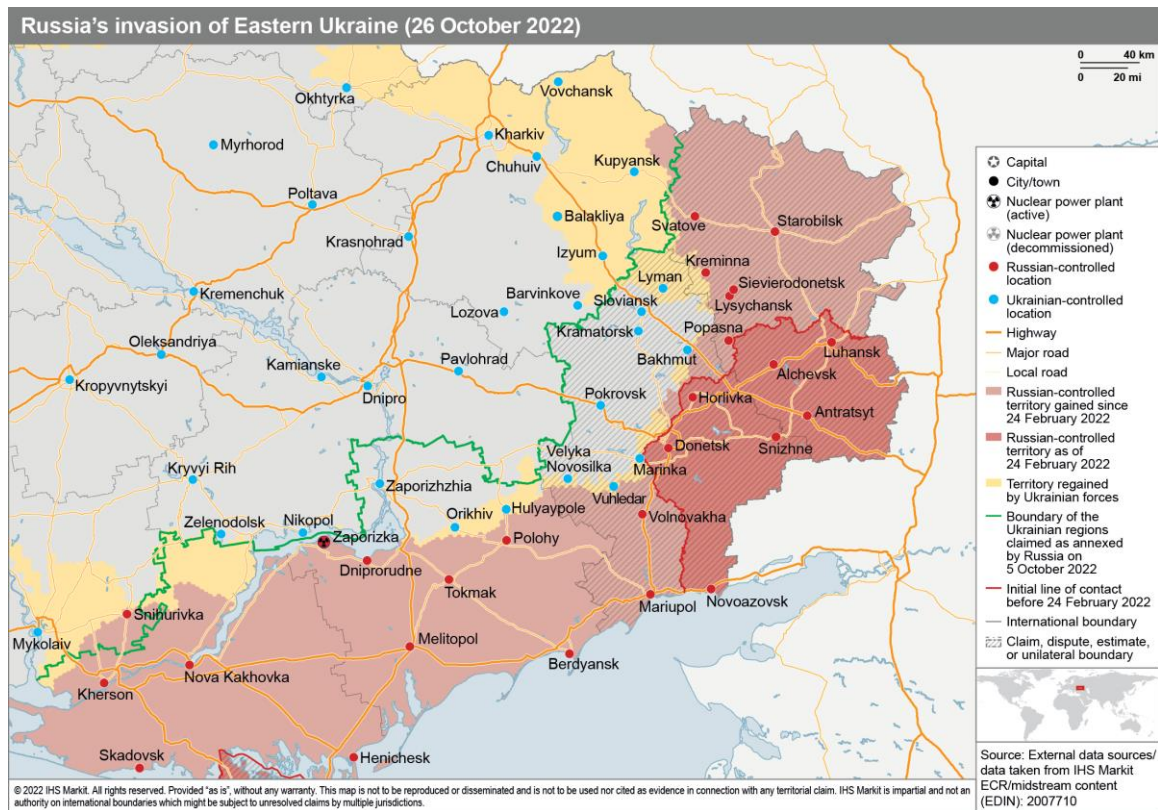
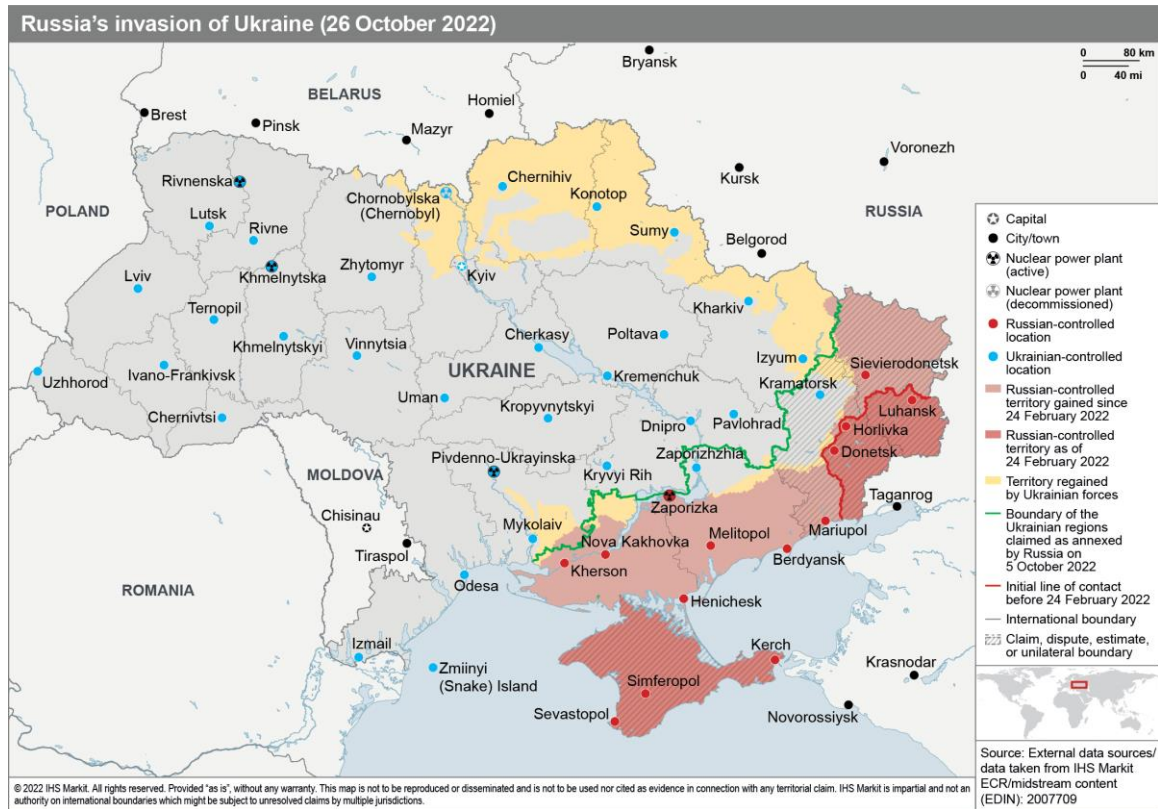
On 2 November, in a volte-face made following Turkey's intervention, Russia agreed to rejoin the United Nations (UN)-brokered "Grain Corridor" deal, which allows Ukraine to export grain from Russia's ports in the Black Sea. Turkey's involvement is likely to be essential in any future diplomatic initiative aimed at bringing Russia and Ukraine to negotiate a ceasefire, for which neither side is yet ready. Russia is likely to continue its bombardment of Ukraine's civil infrastructure, targeting electricity and other utilities in Kyiv and other cities, while both sides' offensive ground operations slow down with the onset of winter.

- **Russia is likely escalating its bombardment of Ukraine, with the war now in its ninth month, in order to force ceasefire negotiations which would freeze the 1,1000-km line of contact at its current position.** Since 10 October, Russia has increased the intensity of missile and uncrewed aerial vehicle (UAV) strikes on cities across Ukraine, focusing on critical national infrastructure. Although Ukraine claims that approximately 80% of UAVs have been intercepted by Ukrainian air defences, they have, nevertheless, caused significant damage, including reducing up to 40% of power generation capacity, according to the Ukrainian government. The likely primary objective is to wear down the Ukrainian population's support for the resistance to Russia by degrading their living conditions through the winter. A secondary likely objective is to placate the Russian public, parts of which have been critical of the lack of progress in the war. If Russia were successful in its tactic of forcing Ukraine to agree to a ceasefire, it would temporarily freeze the current lines of contact, significantly reduce, but not stop, current kinetic operations, and allow Russian forces to regroup, rearm, and retrain for a renewal of full offensive operations in spring 2023, using fresh troops.
- **Ukraine is likely to continue its counter-offensive operations in southern and eastern Ukraine, despite the Russian annexation of four partially occupied regions finalised on 5 October.** Ukrainian forces continue their advances in Luhansk and Kherson region; Kherson city is likely to be a key objective. On 27 October, Ukraine's President Volodymyr Zelenskyi said that the Russian forces were trying to draw Ukrainian forces into the city to tie them down in urban warfare. The latest US administration's announcements to allocate additional military aid to Ukraine is likely to strengthen Ukrainian resolve to seek to regain further territory on the battlefield ahead of any negotiations. The imminent onset of winter rains, the first signs of which are increasing, and later snow, will reduce both sides' capabilities to initiate new offensive operations. Even if Ukrainian forces manage to recapture more territory in the ongoing counter-offensives, some territories in Ukraine, especially in Donbas and the south, are likely to remain under de-facto Russian occupation for the foreseeable future.
- **Putin's threat of using weapons of mass destruction to defend Russia from external threats is likely aimed at reducing Western support for Ukraine, which it is unlikely to achieve.** Although Russia has nuclear weapons at its disposal, and the employment of weapons of mass destruction forms an integral element of Russian military doctrine, we still view their use as unlikely, despite repeated Russian threats to use them, given the risk of escalation to a global war from an escalatory pathway of direct conflict with NATO.

Russia is most likely attempting to intimidate the EU countries, in particular, into reducing their support for Ukraine's war effort, notably funding and weapons supply, and to encourage them into pressuring the Ukrainian government into ceasefire talks with Russia. IHS Markit assesses that the US, Canada, the UK, and the majority of EU countries will continue their support of Ukraine despite this threat. On 2 November, US intelligence briefed media that it had intercepted a conversation between Russian officers about tactical nuclear weapons. There was no suggestion by the US that this indicated that a decision to use them had been made, but the report confirms that the option of their use is under consideration. We have published a special report on the risk of Russia using nuclear weapons in Ukraine.

Indicators of changing risk environment

- Russian government warnings about alleged plans by Ukrainian forces to use chemical, biological, radiological and nuclear (CBRN) weapons against Russian forces would indicate a growing likelihood of Russian forces using chemical weapons against both Ukrainian combatants and civilians.
- Russian forces in Ukraine go on the defensive, improving their current positions with the aim of stopping further Ukrainian advances before the onset of winter, and using the winter to prepare for offensive operations once the ground has dried out in the spring of 2023.
- Evidence of Russian reservists seeking to avoid mobilisation, and of growing public opposition to the war, including through more widespread protests and arson attacks on military enlistment offices, would likely increase pressure on Putin to step up economic 'war' on the West and make the use of CBRN weapons more likely as a means of recovering the initiative (*partially activated in late September*).
- Calling up recently discharged Russian servicemen would likely shorten the timeframe for their deployment to the war theatre in Ukraine, indicating Russian intent to resume offensive operations as soon as possible (*partially activated in late September*).
- Deployment of Belarusian troops in south Belarus, if confirmed, would likely be a diversionary tactic, aimed at drawing additional deployments of Ukrainian forces along the border with Belarus, diverting them from the front lines in south and eastern Ukraine.
- Evidence of Russian troops, including newly mobilised units, redeploying to southern Belarus, potentially to form a second front threatening Kyiv, would put pressure on Ukraine to redeploy its troops from other areas, including Donbas and Kherson, reducing their capacity to recover more Russian-occupied territory.
- More successful Ukrainian counterattacks in the south, especially near key urban centres such as Kherson, would threaten Russian supply lines and be likely to modify Russia's war objectives, pushing Moscow towards some form of agreement or lowering their tempo of operations (*counter-offensive in Kherson region activated on 29 August*).
- If the Ukrainian forces are successful in their counter-offensives in southern Ukraine, this will increase the likelihood of malign Russian action at the Zaporizka nuclear power plant in Enerhodar, increasing the risk of radioactive contamination of large areas in the wider region, including across international borders.
- Increased asymmetric attacks by the Ukrainian resistance activity in occupied areas in south and the east, including IED attacks on railway lines, ammunition, and fuel depots, would disrupt Russian supply lines, reducing their capacity to sustain offensive operations (*activated since July 2022 and ongoing*).
- Leaked intelligence reports and/or increasing bilateral contacts signal that Putin is coming under diplomatic pressure from Russia's key partners, China and/or India, to agree to a ceasefire.



Russian return to Black Sea 'Grain Corridor' agreement suggests likely extension of initiative beyond 19 November

3 Nov 2022 - Country Risk | Headline Analysis

Turkey's President Recep Tayyip Erdoğan announced on 2 November that Russia had agreed to rejoin the Black Sea 'Grain Corridor' initiative, and that it would be fully operational again from 12:00 local time that day. The announcement came just four days after Russia withdrew from the agreement. Russia's official position is that it agreed to rejoin the initiative after guarantees from Ukraine that it would not use the corridor for military purposes. Russia's President Vladimir Putin stated that his government would withdraw again if Ukraine breached those guarantees, but that in any case it would not impede future deliveries of grain from Ukraine destined for Turkey. Ukraine's President Volodymyr Zelenskyi thanked Erdoğan for his personal intervention.

Significance: Ukraine's guarantees are not a significant concession towards Russia, as there is no indication that Ukraine was using or intended to use the corridor for military purposes before Russia withdrew from the agreement. This, and the speed of Russia's U-turn, suggest that Russia underestimated Turkey's response, and that Erdoğan had sufficient leverage over Putin to compel him to rejoin the initiative, although it remained unclear at the time of writing what exactly was discussed. The current agreement is set to expire on 19 November, but is now likely to be extended. Even if Russia again temporarily withdraws from the agreement, it is unlikely to seek to enforce a complete suspension of the grain corridor's operation, although there would be an increased risk of seizure for vessels, especially those destined for European countries, during such periods. Turkey's involvement is likely to be essential in any future diplomatic initiative aimed at bringing Russia and Ukraine to negotiate a ceasefire. A ceasefire is, however, unlikely in the six-month outlook unless either side fail to make significant advances in Ukraine over the winter months.

Increasing Ukrainian cross-border shelling and sabotage elevate risk of property damage in Russia's Belgorod, Bryansk, Kursk regions

19 Oct 2022 - Country Risk | Headline Analysis

The regional authorities of Russia's Belgorod, Bryansk and Kursk regions claimed on 18 October that several Russian settlements had come under shelling from across the international border in Ukraine, causing property damage to buildings and injuries among civilians. In Belgorod region, the shelling reportedly caused damage to railway tracks, causing a temporary suspension of rail cargo. In the past week, explosions have been reported in Belgorod region on a daily basis, including on the grounds of Belgorod airport on 16 October. In addition to Ukrainian shelling, there have also been increasing incidents of accidental damage caused by Russian ordnance malfunctioning. On 13 October, three Russian missiles launched from near Belgorod at Kharkiv in Ukraine reportedly malfunctioned and landed in Russian territory, with one of them causing significant damage to a residential building. Separately, on 17 October, in Yeysk, Krasnodar region, located approximately 60 km across the Sea of Azov from Mariupol in Ukraine, a Russian Su-34 military aircraft crashed into an apartment block, killing 15 and injuring 19 civilians. Both members of the crew ejected before impact and survived. The Russian Ministry of Defence said that the incident in Yeysk had occurred due to a technical failure of the aircraft.

Significance: Ukrainian cross-border shelling of Russian territory, including infrastructure such as railways, presents a growing risk of death and injury and damage to property and assets in Russian regions bordering Ukraine, particularly within 200 km of the border in Belgorod, Bryansk and Kursk, but also in nearby regions. Ukrainian special operation forces, conducting targeted strikes against military assets, fuel bases, railways or power infrastructure, are also likely to be present in these regions. Belgorod, Bryansk and Kursk regions have all announced a 'high' or 'yellow' level of terrorist threat since April 2022. Separately, as Russia is increasingly

relying on older stocks of weapons and ammunition in its war against Ukraine, the risk of malfunctions resulting in accidental explosions in Russian territory has also increased. Continued Russian indiscriminate missile and air strikes on Ukrainian cities will likely increase Ukraine's willingness to expand their campaign of strikes and sabotage operations inside Russia over the coming months.

Attack on former Pakistani PM increases risk of violent unrest during opposition march to Islamabad

4 Nov 2022 - Country Risk | Headline Analysis

A gunman shot at the motorcade of former prime minister Imran Khan in Wazirabad, Punjab province on 3 November, injuring him. Six others in the convoy were wounded and one was killed. Khan is reported to be in a stable condition. The gunman, who was immediately apprehended, said in a purported video confession taken by police that he had acted alone. Leaders of Khan's opposition Pakistan Tehreek-e-Insaf (PTI) party, however, claimed to have evidence (as yet undisclosed) that members of the government and military were involved in assassination attempt – allegations that government and military spokespeople have denied.

Significance: At the time of the attack, Khan was leading a mass anti-government protest march, which aimed to reach the capital Islamabad by 11 November, to demand the government hold early elections. PTI leaders have insisted that the protest will go ahead as planned regardless of the incident, although their timeline for reaching Islamabad is likely to be extended if they wait for Khan to recover and join the march. PTI supporters are likely to mobilise in larger numbers following the assassination attempt, most likely gathering more than 100,000 people. PTI leaders have also called for nationwide protests on 4 November that are likely to affect major urban centres, including Lahore, Karachi, and Peshawar. The PTI rally in Islamabad marking the end of the march will entail a high risk of violent confrontations with police. The government is very unlikely to accept early elections, especially given Khan's enduring public appeal. Should Khan order his supporters to hold an indefinite sit-in in Islamabad, a political impasse between the government and the PTI likely to last several weeks will increase the risk of police using force, including water cannon, rubber bullets, and live fire, to disperse protesters. Police use of force is also likely should PTI supporters attempt to march towards the diplomatic and government area of Islamabad. A similar police response would be likely if protests occur near military installations throughout the country; such protests are rare but are currently more likely given Khan's narrative against the military over its alleged support for the government.

US midterm elections

4 Nov 2022 - Country Risk | Strategic Report

The United States will hold its midterm elections on 8 November to select members of the 118th Congress and 39 governors (36 states, three territories). Polls suggest a close contest, with the Senate having a 50/50 chance currently and Republicans with a clear lead in retaking the House.

- **Republicans have an excellent opportunity to flip both chambers because of the president's unpopularity and economic conditions.** Historically, two factors have determined the victor of midterm elections. Firstly, the party holding the presidency loses on average 26 seats in midterm elections, with the losses especially bad for presidents whose popularity falls to below 50%. Currently, according to poll aggregates, President Joe Biden's job approval rating averages 42%. Secondly, elections undertaken when the economy is considered poor favours the out-of-power party. With high inflation and polls suggesting that less than 20% of voters believe that the economy is either good or excellent, Republicans are well-placed to

win the House, whose members' terms come up for election every two years. Voter concerns about immigration and violent crime should also help Republicans. Democrats, meanwhile, have a slight advantage in the Senate map, as that body's members only come up for re-election every six years. Republicans are defending 60% of all contested seats despite controlling 50% of the chamber. Surveys also suggest that voters favour the Democrats' approach to abortion (following the Supreme Court decision reversing a federal right to the procedure), student loan forgiveness, climate change legislation, and healthcare. Generic party polling generally favoured the Republicans until July, when Democrats took a slight lead, but Republicans have rebounded, as independent voters appear to be switching to the party in the final days over economic concerns. As in 2020, final results could take days or even weeks, especially if close contests need recounts, losing candidates contest the results, or the races go to runoff elections.

- In the event of a Republican takeover of the House and/or Senate, legislative gridlock is an almost certainty, with President Biden's legislative agenda on issues such as climate change, healthcare, abortion, and voting rights likely stalled for the foreseeable future.** Despite the likely legislative impasse, certain policy areas lend themselves to bipartisanship and are thus more likely to advance. These include additional infrastructure initiatives, China-related legislation, border security/immigration, and modest healthcare policy. In control of the House, Republicans will be able to conduct congressional investigations of alleged wrongdoing by the Biden administration, whether on actions regarding illegal immigration, gun control, or the previous activities of President Biden's family. Such investigations can last for months and alter the domestic media landscape as more information is uncovered. As in previous instances where one party controls a congressional chamber and the other has the White House, the odds of partial government shutdowns or fights over the debt ceiling will increase. Congress will need to deal with funding the government as soon as December 2022, but Republican Minority House Leader Kevin McCarthy has stated that Republicans would not embrace a fiscal fight so early into their new majority. A debt ceiling battle would not be likely to occur until mid-2023 or later. The current ceiling lasts until December, but it may be expedited depending on the cost of Biden's student loan relief programme. Regardless, the odds of the US defaulting remains exceedingly small.
- Although recent polls suggest that a Democratic sweep is less likely, the closeness seen in polls suggests that the outcome is nevertheless plausible.** In a scenario in which Democrats gain majorities in both congressional chambers, prospects for passage of the Biden administration's legislative goals would remain steady, if not increase, upon gaining additional Senate seats. Biden is likely to attempt to moderate policy coming from Congress as he prepares for the 2024 presidential election. He will also continue pursuing presidential policy through executive orders and the normal regulatory process.

| US economic performance around national elections, 1967 - 2021 | | | |
|--|--------------------------|--------------------------|---------------------|
| | Real GDP | S&P 500 | Unemployment rate |
| | Percent change over year | Percent change over year | Four quarter change |
| Midterm election year | 2.1 | 2.1 | 0.2 |
| Presidential election year | 2.8 | 7.9 | 0.1 |
| Year following midterm election | 3.1 | 16.4 | -0.1 |
| Year following presidential election | 2.9 | 9.3 | -0.2 |
| United government | 3.4 | 8.2 | -0.4 |
| Divided government | 2.5 | 9.9 | 0.1 |

Source: IHS Markit

- Election years tend to have a negative effect on the US economy.** GDP growth is higher in the years following presidential and midterm elections, and the stock market rises more rapidly. The unemployment rate

increases during election years and declines in the years following them. One driver of this decline in growth is likely because the party out of power talks down the economy, souring sentiment so that the public views conditions as worse than they are, decreasing consumer spending. Furthermore, both parties attempt to misrepresent the other's policies, which engenders investor uncertainty. Uncertainty affects growth, as businesses and consumers forestall investment and spending until the future becomes clearer. We also note that the economy typically performs about 0.9% better under a united government than a divided one. IHS Markit economists note that states with key Senate races in the Sun Belt such as Georgia, North Carolina, Nevada, and Arizona have fared better economically than their peers, with employment surpassing their pre-COVID-19 pandemic peaks. Conversely, a Midwestern state such as Ohio and its neighbour Pennsylvania continue to lag in employment or as their economic recoveries begin to lose steam.

- **Although the midterm elections are unlikely to produce widespread violence, close election results can lead to physical violence against election officials; confrontations between rival supporters at protests; attempts at forced entry of vote-counting centres, courthouses, and other government buildings; and acts of vandalism against party headquarters and religious buildings.** Threats are particularly notable in downtown locations in seven “battleground states”, where polls suggest close races, namely Arizona, Colorado, Georgia, Michigan, Nevada, Pennsylvania, and Wisconsin. Most close elections are unlikely to produce violent protests.

Indicators of changing risk environment

- A long delay in the announcement of election results of several days or weeks in a closely contested senate or governor races would be likely to increase the prospect of protests, especially if a candidate publicly declares that they will not accept the outcome.
- A large win by Republicans in the House would encourage more conservative Republicans to call for their congressional leadership to use their new leverage in fiscal negotiations with the White House, leading to an increased risk of a partial government shutdown.

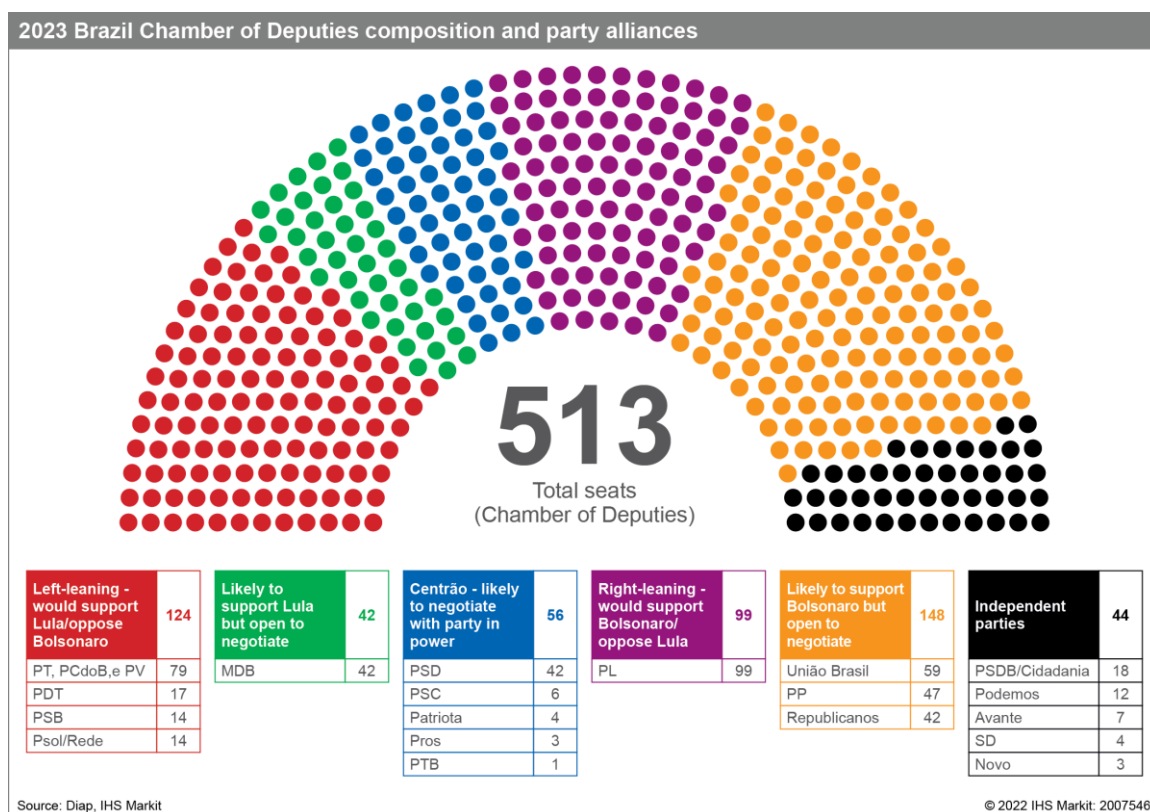
Brazil's election results

3 Nov 2022 - Country Risk | Strategic Report

Left-leaning Luiz Inácio Lula da Silva from the Workers Party (Partido dos Trabalhadores: PT) won the Brazilian presidential election in the second round of voting on 30 October by 50.9% over incumbent president Jair Bolsonaro (49.1%); the 1.8% margin is the narrowest in Brazil's political history. Lula's unfunded promises to increase social spending will have to be reconciled with containing a large structural deficit of about 7.1% of GDP.

- **The narrow victory and a heavy dependence on centre-right allies make it highly likely that Lula would have to govern from the centre.** Lula's victory was tighter than what polls had suggested, and his triumph was in large part because of the support of centre-right allies, which turned the election in his favour. Although Lula has a large left-wing core base support, his level of rejection is high mostly due to accusations of corruption for which he was imprisoned; he was later released after the Supreme Court rejected the charges on appeal. The latest opinion poll put Lula's rejection level at 45%. During the electoral campaign, Lula assembled a coalition of parties and politicians professing different ideologies; we assess that it would result in a moderate government, in which forces from the right and centre would have significant representation. His choice of former centre-right governor of São Paulo Geraldo Alckmin to be his vice-president is an indication of Lula's willingness to cross traditional party divisions. Alckmin, formerly Lula's rival, has now been tasked with leading the government team that will manage the transition with the outgoing Bolsonaro government.

- The government will be dependent on centre-right parties to pass legislation.** No party will command a majority in either the senate or the chamber of deputies. Lula’s government will need to negotiate alliances with multiple political parties to implement campaign promises on cash transfer programmes, tax exemptions, and minimum wage increases. The Chamber of Deputies is fragmented. Between Bolsonaro’s own party and his allies, Bolsonaristas will hold around 26% of the 513 seats in the chamber of deputies, compared with 24% held by left-leaning parties. Bolsonaristas will also comprise the largest Senate bloc. Without a majority in the Legislature, Lula’s government will be dependent on the Centrão (the big centre), which has a large representation in Congress, to pass legislation. He will also face a very strong opposition from the parties that back Bolsonaro, who will remain a popular conservative politician, leading to difficulties in passing policies. Overall, leverage of the Centrão and the opposition of Bolsonarismo means that the Lula administration will remain significantly constrained if it intends to pursue radical policy changes.



- Lula’s administration is unlikely to present policy priority plan prior to the appointment of the finance minister.** During the campaign, Lula focused on promoting measures to alleviate poverty, avoiding references to austerity. Over the next few weeks, Lula will nominate a finance minister; we assess that the minister is likely to be somebody who enjoys the support of the business community and liked by the markets. Media reports have named Henrique Meirelles, who served as president of the Central Bank of Brazil (Banco Central do Brasil) during Lula’s two previous administrations, as a strong contender. Such appointment will provide an indication of the new government’s economic policy priorities. Lula has stated that the country faces serious fiscal challenges, asserting that fiscal prudence would be maintained. However, he has also said that he will remove the budget-spending cap, a key pillar of fiscal responsibility introduced in 2017, allowing space to fulfil social spending campaign promises, including cash transfer programmes, tax exemptions, and minimum wage increases in line with inflation. In the context of a structural fiscal deficit, currently at 7.1% of GDP, any unfunded spending increases are unlikely to gain the support of centre-right parties in Congress. This increases the likelihood of the government resorting to tax increases targeted at the financial sector and high-wealth individuals to secure additional revenue.

- **Bolsonaro's grassroots radical factions have refused to accept the election results, increasing the risk of confrontation with police and disruption of road cargo.** Bolsonaro has yet to concede defeat publicly, but he has not challenged the results either, although during the campaign, he repeatedly questioned the reliability of Brazil's electronic vote system. Overall, the elections took place peacefully, despite concerns that, because of Bolsonaro's claim of potential fraud, thousands of his supporters would take to the streets in the main capitals in the event of the incumbent's defeat. However, Bolsonarista factions within truck drivers' associations have staged partial roadblocks on highways in at least 16 states, calling on Bolsonaro not to concede defeat and urging a military coup. The blockades have been partial and have been lifted at some points. However, the risk of escalation of violence remains until Bolsonaro accepts defeat formally. The protesters at each blocked point number hundreds rather than thousands and they have been able to disrupt normal flow of cargo only because the federal highway police have been reluctant to remove them. However, the Supreme Court has now ordered the police to remove the blockades; this and the military police's involvement indicate that the protests would be likely to be brought under control in the next few days. Despite the blockades, the risk of a constitutional crisis has receded after Bolsonaro's main allies and key ministers publicly accepted Lula's victory. Moreover, according to the Supreme Court, Bolsonaro has now authorised the beginning of the transition process.

Indicators of changing risk environment

- Centrão parties announce its willingness to negotiate with Lula, decreasing risks of policy stagnation; it would facilitate agreement to pass the 2023 federal budget.
- Lula releases a full economic plan, while appointing a pro-business finance minister, increasing the likelihood of his government adopting prudent fiscal policies.
- Lorry drivers' nationwide strike leads to Lula committing to reduce fuel prices. It results in distributors having to introduce subsidies, selling fuel at below market prices.

Wage strike in South Africa likely to delay government services, disrupt cargo movement in Johannesburg and Durban

3 Nov 2022 - Country Risk | Headline Analysis

The Public Services Association (PSA) of South Africa announced yesterday (2 November) that its members would be going on strike as of 3 November, after negotiations with the government on a new wage deal collapsed. The union stated that its members would picket outside various public services offices in several provinces, before embarking on a nationwide strike and protest on 10 November. The union has refused to accept the government's offer of a 3% wage increase, stating that is too far below the inflation rate, which was 7.5% in September.

Significance: The PSA, which has more than 235,000 members, has stated that it is willing to accept a 6.5% wage increase from the government. However, the government will resist an increase of this size, especially given that the minister of finance announced in his Medium-Term Budget Policy Statement (MTBPS) on 26 October that the government's fiscal plan projections for the next three years were contingent on a 3% wage increase for public-sector workers. The PSA strike is thus likely to continue until the government agrees to increase the wage offer slightly, which, despite its having very little room for manoeuvre, IHS Markit assesses it is likely to do in the coming weeks. The strike is likely to lead to significant delays in the delivery of general government services at municipal and national levels. There are likely to be temporary disruptions in education, health, and other sectors, as well as delays in the issuing of licences, including for vehicles and new connections for electricity and water services. IHS Markit assesses that several thousand PSA members will take part in protests. In addition, we assess that the nationwide strike on 10 November is likely to cause significant disruptions, lasting several hours, to the movement of people and cargo in Durban, Johannesburg,

and Pretoria, especially. The processing of cargo at South Africa's borders is also likely to be delayed for up to two weeks. If police try to forcibly remove protesters or to prevent them gaining access to specific routes during strike-related protests, by using tear gas and baton charges, this is likely to result in violent confrontations with union members responding by throwing rocks and burning debris on to major roads. This will elevate the risk of injury to bystanders and minor damage to storefronts in these cities.

RISK NOTE: Regardless of credibility of Saudi claims of Iranian attack, capability to target energy assets is high

4 Nov 2022 - Country Risk | Headline Analysis

The *Wall Street Journal* (WSJ) reported on 1 November that Saudi Arabia had shared intelligence with US counterparts that Iran was planning an "imminent" attack on targets in Saudi Arabia.

- The WSJ reported on 1 November that Saudi Arabia had shared intelligence with US counterparts that Iran was planning an "imminent" attack on targets in Saudi Arabia. These reports were also confirmed by CNN, citing unnamed US officials, who claimed that Iran was planning to attack energy infrastructure in the Middle East and North Africa (MENA) region. The United States was not reported to have increased military protection levels as a result of this and the report does not suggest that US military assets would be an intended target. A US defence spokesperson would not confirm any specific threat to the media. An Iranian foreign ministry spokesperson, Nasser Kanani, said on 2 November, without specifically referring to the WSJ report, that claims circulating of an Iranian threat were "baseless".
- Regardless of the veracity of the report, the likelihood of an Iranian attack on Saudi assets is increasing. Iran's leadership likely believes Saudi Arabia supports ongoing protests in Iran, the largest since 2009, and prominent military figures have publicly criticised media support and coverage of the movement by organisations they accuse the Saudi government of funding. Additionally, nuclear negotiations between Iran and the US have stalled over the latter half of 2022. IHS Markit assesses that the willingness of Iran's leadership to authorise a plausibly deniable attack on Saudi infrastructure has increased both as a means of distracting the population from the protests, to warn against Saudi interference in Iran's domestic stability, and to underline to US negotiators the potential escalation pathways to further disruption in the Gulf if a nuclear deal favourable to Iran is not reached.
- Sharing such apparent intelligence assessments, and publicly commenting on it, demonstrates the value that a positive relationship with Saudi Arabia can have for the US in the region. US political figures and media have been critical of Saudi Arabia's recent policy choices and have openly questioned US security guarantees for the kingdom and the viability of future defence sales. Sharing intelligence assessments of imminent threats is therefore likely to be a reminder to the US that the Saudi leadership remains aware of its security vulnerabilities, particularly against Iranian unmanned aerial vehicles (UAVs) and missiles – where Saudi Arabia is heavily reliant on US anti-air and missile defence equipment and training.
- We assess that Iran's military, particularly the Islamic Revolution Guards Corps (IRGC), has the capability to accurately target energy infrastructure in Saudi Arabia and the Gulf. Through 2019–21, we assessed that Iran was almost certainly responsible for a series of attacks on shipping and energy infrastructure across the region, as well as its allies Ansar Allah (Houthi movement) in Yemen and various affiliated militia groups in Iraq. Such incidents involved mines being attached to cargo vessels, usually above the waterline to mitigate the risk that ships would be destroyed rather than damaged, and attack UAV and missile attacks on pipelines and oil processing facilities. If Saudi intelligence is correct, these would be more likely to be the target of an

initial Iranian attack rather than other civilian or touristic assets that would be more likely to result in higher fatal casualties.

Customer Care

CustomerCare@ihsmarkit.com

Asia and the Pacific Rim

Japan: +81 3 6262 1887

Asia Pacific: +604 291 3600

Europe, Middle East, and Africa: +44 1344 328 300

Americas: +1 800 447 2273

Disclaimer

The information contained in this report ("Information") is confidential. Any unauthorized use, disclosure, reproduction, or dissemination, in full or in part, in any media or by any means, without the prior written permission of IHS Markit Inc or any of its affiliates ("IHS Markit ") is strictly prohibited. IHS Markit owns all IHS Markit logos and trade names contained in this report that are subject to license. Opinions, statements, estimates, and projections in this report (including other media) are solely those of the individual author(s) at the time of writing and do not necessarily reflect the opinions of IHS Markit. Neither IHS Markit nor the author(s) has any obligation to update this report in the event that any content, opinion, statement, estimate, or projection (collectively, "information") changes or subsequently becomes inaccurate. IHS Markit makes no warranty, expressed or implied, as to the accuracy, completeness, or timeliness of any information in this report, and shall not in any way be liable to any recipient for any inaccuracies or omissions. Without limiting the foregoing, IHS Markit shall have no liability whatsoever to any recipient, whether in contract, in tort (including negligence), under warranty, under statute or otherwise, in respect of any loss or damage suffered by any recipient as a result of or in connection with any information provided, or any course of action determined, by it or any third party, whether or not based on any information provided. The inclusion of a link to an external website by IHS Markit should not be understood to be an endorsement of that website or the site's owners (or their products/services). IHS Markit is not responsible for either the content or output of external websites.

This Information was published/created by IHS Markit, now part of S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.

Copyright © 2022, IHS Markit™. All rights reserved and all intellectual property rights are retained by IHS Markit.