



Will Syria trouble markets?

The rapid departure of President Bashar Assad from Syria has led, so far, to a bloodless revolution. But is there a chance that the rebellion could hit oil markets?

The HTS grouping, which led the rebellion from the north down to Damascus, is seeking a peaceful takeover of the central government and has announced a new prime minister. The outgoing prime minister, Mohammed al-Jalali, is co-operating and has asked the civil service to accept the new team that will be appointed.

One of the few things the US, UK, Russian and Turkish governments agree about is that HTS is a recognised terrorist organisation. It sprang from Al-Qaeda and has a fundamentalist Islamist stance but has been stressing for some years that it is now a more moderate force. It is saying it does not want to impose strict dress codes on women, it does wish to establish a government that is tolerant of religious and ethnic minorities and even suggests elections in eighteen months' time when a new constitution has been drawn up and introduced.

The main powers are considering whether they will withdraw their terrorist rating, whilst they all now accept the need to talk to the new leadership seeking to take control of the government machine in Damascus. Meanwhile, Israel and the US are seeking to reduce the weapons the new government will inherit by bombing military targets. The Syrian regime was brought down by several varied opposition groups operating in different parts of the country. The Syrian National Army was working with Turkish assistance to control a northern area close to the Turkish border, opposing a Kurdish state and Assad.

The Syrian Democratic forces wanted a Kurdish area in the northwest, with US help. A southern operations group was seeking control of territory in the south. One of the challenges for the new government will be to see if it can, by peaceful means, extend its governing remit to the whole country, given the different forces at work.

Syrian refugees and movements of people

The United Nations High Commissioner for Refugees (UNHCR) has set out the dire situation facing most Syrians under the Assad government. As Syria entered a long civil war from 2011 onwards, gross domestic product (GDP) plunged – and millions left the country to escape the bombing of civilians and the street fighting.

Assad used great force to assert control over more cities. The United Nations (UN) thinks 90% of the population are below

the poverty line (March 2024). The UN estimates that 7.2 million Syrians are living elsewhere. They say 3.1 million are temporary residents of Turkey, 774,000 are registered in Lebanon, 716,000 are living in Germany, 628,000 in Jordan, 286,000 in Iraq and 156,000 in Egypt.

Some are returning to Syria with the fall of Assad to reconnect with their friends and relatives who stayed or to seek out people who were imprisoned for political reasons by the old regime. However, the position is far from stable.

If the new government turns out to be intolerant of different religions or decides on imposing new political strictures on the population, it could trigger a further wave of people leaving. If it keeps to its early promises, there could be a period of gradual return of many from neighbouring countries. Sunni Muslims are around three quarters of the population, with significant numbers of other Muslims, Christians and Druze.

Impact of Syria on the region

Russia is evacuating its important warm water port base at Tartus and its air base at Khmeimim. Russia will want to rebuild influence as a new government emerges in Syria but has lost a client state by not being able or willing to intervene militarily in defence of Assad as it did before. Russia will be keen to re-establish bases to lessen the substantial adverse impact on its power in the region if that is possible.

The US, whilst welcoming the end of Assad, is worried about the past of the HTS insurgents and is bombing ISIS military installations in Syria as a warning not to allow an extreme Islamist government to establish itself. President Trump has not shown much interest in Syria but wishes to pursue an anti-Iran policy which has been assisted by the exit of Assad.

Israel is intervening militarily over the southern border to avoid any new menace emerging. Israel's attacks on Hezbollah in Lebanon made it difficult for them to reinforce the Syrian army to defend Assad. Israel is bombing weapons dumps and military facilities in Syria to deny the new government access to some of Assad's weaponry including chemical weapons.

Hezbollah has more stretched supply lines and has lost an ally, whilst incurring heavy losses from Israeli action against it in Lebanon.

Turkey wishes to influence what happens in the northern borderlands. It is seeking to stop the creation of a Kurdish state in the north close to its border. The Kurds are trying to create a region for self-government in the northwest and may see this as an opportunity. Israel wants to police the southern borderlands though is not seeking to occupy territory beyond the defensive strip on the border.

Possible scenarios

The best outcome would see HTS achieve a peaceful transfer of Syrian government, but perhaps not in all parts of the country. It could work for a peaceful solution to the extension of its power into the more contested northern and southern lands and keep its word on its future conduct. Some of the many displaced Syrians would return home. Seeking to rebuild the badly damaged economy, Syria would allow more investment into expanding oil production, rebuilding other industries and agricultural output. There would be some economic recovery.

Some fear HTS achieves some transfer of power, asserts itself militarily in parts it does not control, and develops a more intolerant stance to the population. Both Israel and the US do not wish to see a militant autocracy emerge as a possible new ally of Iran.

There is a danger that a more widespread civil war breaks out with HTS unable to govern all the country. HTS does not itself have a large, trained army and the Syrian army of Assad showed it was not willing to fight for the previous government when challenged.

Other participants are seeking to reduce the military capability the new government will inherit. The differing bands would press their claims for a Kurdish state, for a buffer area for Turkey in the north, and an area offering more different government in the south.

Market responses

The main issues related to how Iran and Russia will respond to this upset, and how capable and sincere is HTS in wanting a new style Syria. People will be hoping for peace and for a much better outcome for Syrians at home and abroad.

It is unlikely markets are going to move much for the moment on this problem whilst the immediate future remains unclear. A peaceful and successful outcome would be bullish but is difficult to bring off. Much of the damage has already been done to Syria's economy so continuing bad news is not going to do much damage to world markets.

People are concerned about the impact on the oil market. Syrian oil production has slumped to a tiny 35,000 barrels per day so the loss of any more is not significant. However, if there is an adverse knock-on that hits Iranian oil output, that could drive up prices a bit. The destabilisation could lead Iran and proxies to disrupt production and trade in oil in the Middle East more generally. A peaceful outcome would lead to investment into energy, with increases in Syrian supply helping ease oil markets a little.

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