



Geopolitical Outlook 2012-2013: Does Anything Stay the Same?

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Passion to Perform



Overview



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Iran: Expect Protracted Negotiations But Increased Focus on a Possible “Grand Bargain”



- Tehran is looking to “Run the Clock” past the US Elections. Iranian sources have told us they took special note of President Obama’s remarks to then-Russian President Medvedev re: missile defense system (“*This is my last election. After my election I have more flexibility.*”). They believe issue has become too politicized in US in advance of election.
- Tehran and a Number of P5+1 Negotiators believe a “Grand Bargain” is possible in 2013. What would this look like? It would have to meet three elements: 1) Immediate stop to enrichment program; 2) Move already enriched uranium out of Iran (to Russia?), and; 3) Closure of the Fordow Nuclear Facility.
- Why would Iran may be open to a deal? Sanctions are starting to Significantly Impact Iranian Economy: Food, fuel prices have skyrocketed (bread by 40%; chicken by 10%+). Oil sanctions going into effect now add to bite.
- We are doubtful Iran will seek to close Strait of Hormuz over next 3-6 months.



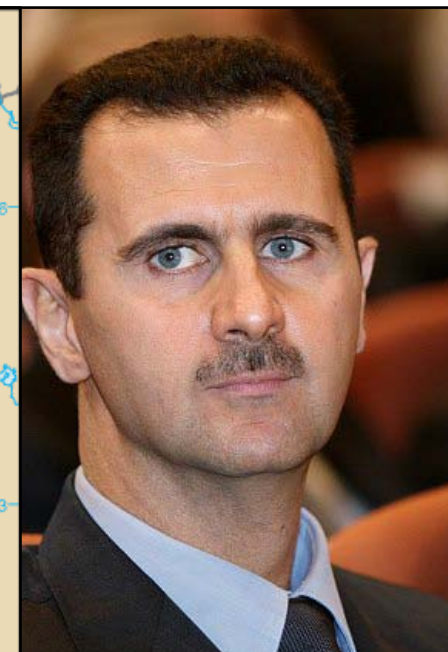
Source: Google Earth; cryptome.org

The Fordow Nuclear Fuel Enrichment Facility near Qom, Iran. More than 3,000 centrifuges (and as many as 9,000) are in operation enriching plutonium to weapons grade capability.

Syria: No easy Answers to a Growing Regional Proxy War



- Violence will unfortunately continue for weeks but Assad regime is doomed: Instability grows daily; President Assad's whereabouts uncertain as defections and opposition victories mount.
- Big Question: Is there a unified opposition government? The nature and character of the opposition is elusive. The motives and incentives of the opposition leadership is diverse and ill-defined.
- Propping up Assad is imperative to Iran; Conversely, Assad's removal just as critical for Saudi Arabia and Israel to stemming Iran's growing reach in the region.
- Saudi Arabia is funding rebellion (along with the US which has significantly ramped up weapons and logistical support in recent weeks); Iran is flooding Syria with weapons, money and military advisors (Quds Force) – who are reportedly actively participating in the violence.



Clockwise from top:
Current map of Syria
(source: CIA
Factbook; Syrian
President Bashar al-
Assad; the Syrian city
of Homs under
bombardment by
Syrian military forces
last month.

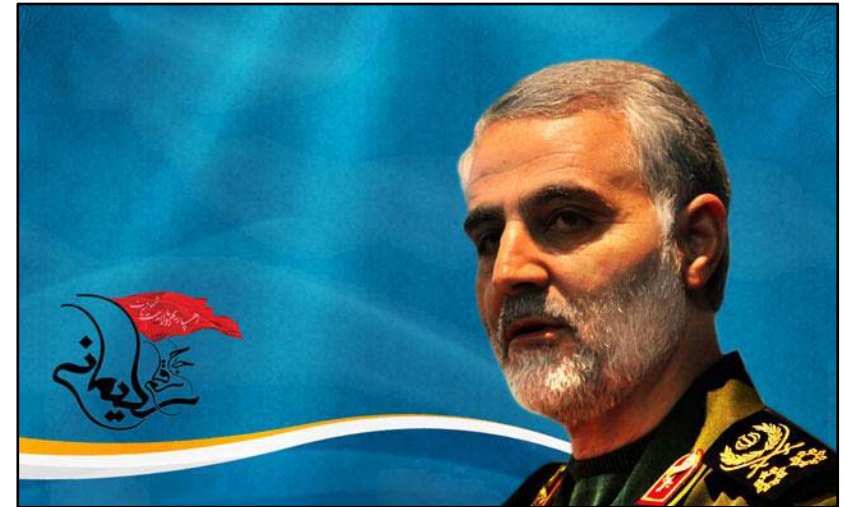


What is the Quds Force?

The Basics of Iran's Secret Military Force



- A special unit of Iran's Revolutionary Guard set up during Iran-Iraq War; Mission is to manage Iran's strategic interests in Middle East and rest of world. Reports directly to Supreme Leader of Iran Ayatollah Ali Khamenei.
- Highly trained paramilitary force of approximately 15,000. Seen as on par with many Western paramilitary capabilities. Also a world-class criminal organization.
- Quds operative recently charged by US Justice Department with assassination plot against Saudi Ambassador in Washington, D.C.; Quds Force was also active in Iraq against US Forces (i.e. supplying weapons to Iraqi insurgents including highly advanced IEDs).
- Well funded and highly active in "Arab Spring" – especially Syria and Lebanon. Also active supporting former arch-enemy, the Taliban, in Afghanistan.



Quds Force Commander, General Qasem Soleimani



Quds Force on parade, Tehran, Iran (Sources: Al Arabiya; National Journal)

China: Leadership Transition Coming; Big Decisions to Be Handed to Next Generation



- Leadership transition is underway. Key point: There is a shared agenda to leave “big issues” to the new leaders.
- New leaders selected in spring 2013; Looking at how Bo Xilai scandal was handled, effective damage control has been done and while there still may be some personnel surprises ahead all is moving as expected.
- Trade frictions with the US growing but manageable as well as annoyance with US increased political presence in region (i.e. support for Burma transition (“NIMBY”), US Marines in Australia, etc.).
- Romney comment on executive order re: currency manipulation noted Beijing. But all in all, China has been surprisingly not a “retail” issue (yet) in the US Presidential elections yet.



Outgoing Chinese President Hu Jintao (center).



Source: The Economist

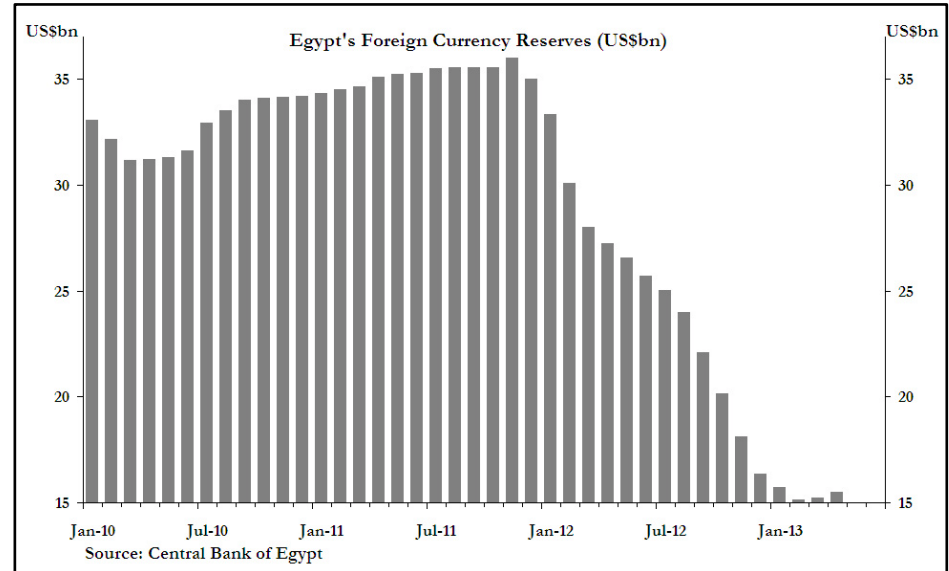


Former Chinese official Bo Xilai

Egypt: “Arab Spring” to Cold and Slushy Winter?



- Watch for post-election situation to remain messy as SCAF(Supreme Council of the Armed Forces) digs in its heels vs. President Morsi (and Muslim Brotherhood).
- Morsi has, to date, has been unable to rally “the street” to further build his political base and block SCAF’s efforts to prevent.
- Economic situation could accelerate political situation in coming months. Foreign reserves rapidly depleted and concerns over food availability are rising.
- Unclear what, if anything, the US or other regional powers (particularly Saudi Arabia) can do to alleviate the situation.



No love lost: Egyptian President Mohammed Morsi greets Egyptian Military leadership following his being sworn into power. June 2012 (source: AFR)

Political Timeline for Remainder of 2012



Event	Date	Situational Concern	Possible Outcomes
US/Israeli Military War Games	October (exact date TBD)	Hawks think it is perfect time to launch an attack on Iran.	Won't happen but there is significant headline risk.
Venezuelan Presidential Elections	7 October 2012	Hugo Chavez's health reportedly continues to decline; Opposition candidate Henrique Capriles must overcome Chavez's political machine.	Chavez's re-election is far from assured; Depressed oil prices have hurt government welfare programs and in turn depressed Chavez's approval ratings. Capriles has unified opposition behind him. Watch for electoral upset.
China's 18 th Party Congress	October	Questions about just how smooth transition will be in wake of Bo Xilai scandal.	We believe transition will be smooth, leaders chosen and prepared to take power in spring 2013.
US Elections	6 November 2012	Growing market concern about potential outcomes.	We believe presidential elections will be razor-close. Republicans will retain House of Representatives and probably gain a one or two seat majority in Senate.
Congress' "Lame Duck" and the Fiscal Cliff	8 November 2012	Concern Congress will lack will or ability to deal with "Fiscal Cliff" issues (see next slide).	See next slide



The US Elections And Outlook for The Fiscal Cliff






What is at Stake in the “Lame Duck”: Odds of Avoiding the Fiscal Cliff



<i>ISSUE</i>	<i>ODDS</i>		<i>WHAT TO WATCH FOR</i>
Bush Tax Cuts	65-35		Deal giving 6 month extension (minimum); Watch Senator Max Baucus (D-MT) to cut the deal. Growing sense this is a “must do.”
Payroll Tax Holiday/ Unemployment benefit Extension	40-60		Support slipping on both sides of aisle for both measures; How important is payroll tax to business community? Watch US Chamber of Commerce for sense of priority.
Debt Ceiling	70-30		No way there is a clean deal before election; Could drought push up timing? Watch Speaker Boehner to use to deal on Bush tax cuts election.
Tax Extenders	60-40		Always in doubt but odds are growing it gets done. Hi-Tech community critical to achieve.
Sequestration Roll-Back	55-45		How do you pay for? Odds sinking for deal to stave off defense cuts despite big effort to stave off slashing.

Five scenarios for Washington in 2013: It could get pretty complicated... again...



<p>Scenario 1: GOP Sweep</p> 	<p>Scenario 2: GOP Divide</p> 	<p>Scenario 3: Status Quo</p> 	<p>Scenario 4: Democrat Sweep</p> 	<p>Scenario 5: GOP President</p> 
<p>Scenario 1: Romney wins White House and GOP wins Congress</p>	<p>Scenario 2: Obama wins White House and GOP wins both Chambers of Congress</p>	<p>Scenario 3: Obama wins White House and Congress remains divided</p>	<p>Scenario 4: Obama wins White House and Democrats win Congress</p>	<p>Scenario 5: Romney wins White House and Congress remains divided</p>
<p>35%</p>	<p>10%</p>	<p>30%</p>	<p>5%</p>	<p>20%</p>

Deutsche Bank

Sources: National Journal; Washington Post; Realclearpolitics.com

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