

Israel - Judicial Reform Update

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LM Trader Snapshot



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By Michael Wiesen

Reasonableness Test bill has passed without a compromise - now what?

TLDR: Nobody knows

There are many different speculations on what can happen next. Now that the government has empowered itself to ignore Supreme Court decisions on its actions, it gets much more tricky and dangerous.

- 1) First off, the law has already been appealed to the Supreme Court. If they decide to debate it and strike it down, we could find ourselves in a constitutional crisis should the government decide to ignore their ruling. However given this has been passed as a "basic law", it's not very likely the court will seek to strike it down.
- 2) The Attorney General has been a focal point for harsh criticism from many coalition members, painting her as blocking many of the government's agendas. Local speculation is that the PM could fire her, thereby removing another obstacle and with the reasonableness bill now passed, the court would not be able to intervene. This however would be a dangerous move given the fierce reactions from markets as well as international voices, most probably rating agencies.
- 3) Netanyahu appeared to have wanted a compromise yesterday, however his extremist right wing partners refused to budge and forced the hand of the government to pass the law with every coalition member, including the moderate Defence Minister Galant, voting in favor of the bill. The PM has called for serious negotiations in the coming months during the Knesset summer recess, however given recent history the leading opposition members have already rejected the PM's speech, accusing him of endlessly lying as well as being beholden to his extremist partners.
- 4) The number of reservists who announced that they would not show up for duty continues to rise. Many doctors and hospital have announced a strike today (working in emergency mode) in wake of the passing of the bill. Last night there were mass protests across the country with road blockages as well as clashes between protestors and the police. The protests, which have been ongoing for more than 6 months strong, are expected to grow.
- 5) Rating agencies - There has not been any official statements or announcements from them, but local media speculation is growing that they might give a negative outlook given the reforms have pushed forward with no agreements. Up next is Fitch in early August and while from a fiscal perspective, Israel is in a very strong place, they noted in their previous rating that they assumed agreements would be reached on the Judicial Reforms.
- 6) Finally - While market was focused yesterday on the Judicial Reforms, the BOI released their minutes, showing one dissenter voting for a hike. While we still believe the BOI will hold in the next meeting, there is a month and a half and another CPI print beforehand.

Fundamentals may continue to support a receive of the belly, however the current events in Israel are challenging those fundamentals and making investors increasingly nervous with regards to Israeli assets. We urge caution here and to wait for better levels/calmer markets to re-enter receivers.

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