Oil & Gas

Energy Research Strategy

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Middle East risk premium limited despite escalation

While financial markets reacted firmly to increased geopolitical tensions between Iran and Israel, the impact on oil and gas markets remained rather limited. Although prices did rose, risk premiums remained pretty much unchanged at low levels. An indication that the price movements were mostly sentiment-driven, and that the risks of actual physical shortages were rated low. Iran's role has changed significantly in recent years as Russia has been exporting less gas and oil while sanctions against Iran have been less strictly enforced. The question is to what extent this will hold up. Other themes that could influence energy markets in the coming weeks are weather related events (especially gas markets) and the Federal Reserve's interest rate decision.

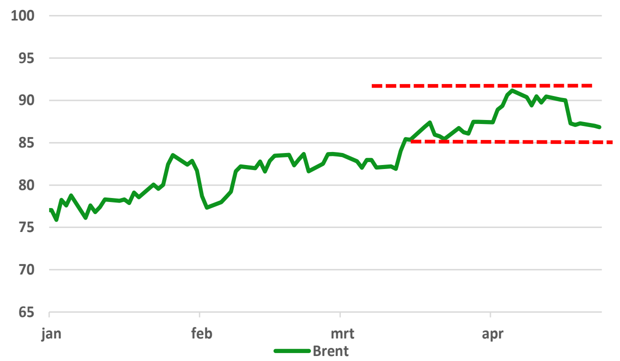
Possible escalation Iran-Israel was already largely priced into the oil market

The past two weeks have been dominated by the escalation of tensions between Israel and Iran. The Israeli attack on the Iranian consulate in Damascus, Syria, on the first of April was followed by a large-scale retaliation by Iran's direct attack on Israel just under two weeks later. Although announced in advance and the little damage done afterwards, this attack did further inflame tensions in the Middle East. Under pressure from US President Biden, a firm response from Israel towards Iran failed to materialise. This seems to take the pressure off for now.

After Israel's first attack on the Iranian consulate in Syria, oil prices ran steadily higher. The question was if, and if so, how Iran would react. When Iran actually fired hundreds of drones and missiles at Israel on 13 April, oil prices continued the rally. Yet this move was limited to a brief reaction. Indeed, over the course of the following days, there were hints of de-escalation and - despite the temporary rebound on 19 April, the moment Israel staged a minor counter-reaction - the oil price eventually fell back to pre-1 April levels.

Oil price leaves geopolitical tensions behind... for now

USD/bbl



Source: Refinitiv Eikon

Risk premium remains remarkably low for now

The fact that the oil market hardly moved immediately after the Iranian attack has everything to do with the fact that the markets had already anticipated this threat. In late March and early April, the oil price rose from around USD 85 per barrel to around USD 90. It should be emphasised here that it was mainly market sentiment that determined this price support. Ultimately, there has been no impact on oil production and exports so far. An actual war premium has thus, in our opinion, not been priced in as the spread between Brent (North Sea oil and thus European benchmark) and WTI (US oil

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Hans van Cleef - hans.vancleef@publiekezaken.eu / 0031- 6 30 90 33 76
Bart van der Pas - bart.vanderpas@publiekezaken.eu / 0031 - 6 36 52 95 51
Fabian Steenbergen - fabian.steenbergen@publiekezaken.eu / 0031 - 6 18 55 34 46
Guusje Schreurs - guusje.schreurs@publiekezaken.eu