Oil & Gas

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Geopolitical turmoil overshadows negative sentiment

Further escalation in the Middle East drove up oil prices. In particular, Iran's direct involvement created upward price pressure, due to the country's oil production and role as a regional superpower. The geopolitical turmoil overshadowed a period marked by strong negative sentiment. This was prompted by the prospect of oversupply in the oil market in the short term, particularly caused by disappointing demand growth combined with increased production. The stimulus financing measures taken by the Central Bank in China may revive demand growth in the world's largest oil importer. At the same time, we see OPEC+ - with de facto leader Saudi Arabia in the lead - starting to lift the latest production cuts from December. With this, maintaining market share seems to be a priority again, which should come as no surprise in the context of spiking US oil production.

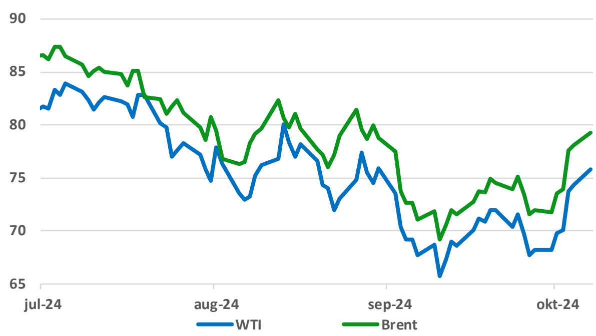
Finally, the gas market, where the volatile TTF benchmark is moving upwards due to geopolitical turmoil and falling temperatures. In addition, we see the active monthly contract (November delivery) rising above the annual contract (2025 delivery) for the first time this year, making gas stocks uneconomic to fill.

Direct engagement Iran another step closer

The situation in the Middle East has continued to escalate in recent weeks. Unrest in this region usually leads to rising oil prices. This is due to the fact that the market is pricing in a risk premium to anticipate possible production or export disruptions that could limit the global supply of oil. Following the Israeli invasion of Lebanon on 1 October, markets initially remained quiet. This showed that market participants have become “immune” to the incremental escalation moments in the Middle East. Later in the day, however, the situation escalated to the extent that the market did react. Iran came out with the announcement of retaliatory action in the afternoon on the same day. The result: oil prices soared to USD 74/barrel in an hour, from around USD 70/barrel. In the following week, the Brent benchmark rose further to USD 80/barrel. WTI's active monthly contract is currently trading at around USD 75/barrel.

Oil price (zoomed in)

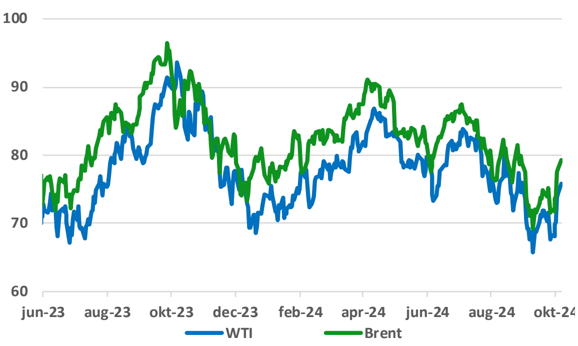
USD/barrel



Source: LSEG Eikon

Oil price (zoomed out)

USD/barrel



Source: LSEG Eikon

The strong stock price reaction to Iran's (announcement of) retaliatory action has to do with its role. Iran - unlike Lebanon and Israel - is a major oil producer (3.2 million barrels a day (mb/d)). Israel may choose to target Iran's oil infrastructure for retaliation, with major implications for the oil market. Despite the fact that Iranian oil goes mainly to China because of previously imposed sanctions, an actual supply disruption will drive up prices. Another important factor is that Iran's involvement as a regional superpower could rock the entire region. With potentially far-reaching consequences, for

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