Oil & Gas

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Escalating war Israel - Iran dominates energy markets

The escalation of the conflict between Israel and Iran may have a major impact on global energy prices. Oil and gas prices rose sharply due to concerns about possible disruptions in supplies from the Gulf region. The situation escalated further when the US launched air strikes against Iranian targets on 22 June. Iran has since threatened to close the strategically important Strait of Hormuz, although this has been announced several times previously without actually happening. However, even without a (complete) closure of the narrow strait Iran could exacerbate nervousness in the oil and gas markets, for instance by attacking ships.

Although oil prices have risen sharply since the conflict, further price increases above USD 80-82/barrel level are currently finding resistance from a broad market. Asian oil demand is relatively weak, while OPEC+ also has spare capacity to bring to market. A break of the resistance levels is possible, although it will require substantial trading volumes.

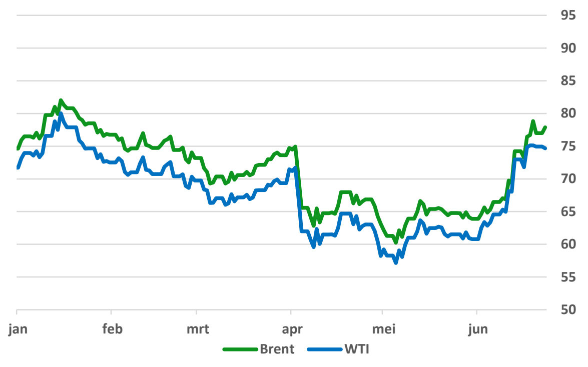
Potential supply disruptions of LNG due to the turmoil in the Middle East come amid a tight gas market. The nervousness will not make filling European gas supplies any easier. Moreover, the European Commission (EC) has created upward price pressure with its plan to phase out Russian gas. Developments around trade agreements with the US and extreme weather patterns in the EU or Asia could also cause price movements in the coming period.

Conflict between Israel and Iran leads to higher energy prices

On Friday 13 June, financial markets were surprised by Israel's attack on Iranian nuclear facilities. Energy markets also reacted firmly. Oil prices (from monthly to annual contracts) rose more than 10% that day, and gas prices also rose. The conflict is taking place in the Persian Gulf region. This region is crucial for energy markets. The region accounts for over 20% of global oil production and just under 20% of global *Liquified Natural Gas* (LNG) exports.

Oil prices rise due to conflict

USD/barrel



Source: LSEG Eikon

Despite both countries continuing to attack each other throughout the week, a further rise in oil prices remained absent. This is in contrast to TTF gas prices, which did continue to rise during the week. In itself, this is not surprising. Market participants are well aware that this region is very important for both commodities. Any chance of further escalation - and thus a higher likelihood of hindering the supply of oil and gas from the region - therefore leads to higher risk premiums.

On the night of Saturday to Sunday 22 June, the US carried out bombing raids on three nuclear facilities in Iran. With this, the US has joined the war with Iran and a further escalation of the conflict

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