Oil: An Overview of the Israeli-Iranian Crisis

The global oil situation before the Israeli attack

Between the end of May and the beginning of June 2025, the IEA (International Energy Agency) reported an increase in global oil production, which exceeded demand by 1.8 mb/day, leading to an accumulation of more than 93 million barrels in May. At the same time, the United States also recorded a record oil production of 13.5 Mb/day in Q2, consequently causing a collapse in the price of Brent (the European benchmark oil from the North Sea) from $75 to $64-66 per barrel, also driven by rising global tensions and the production surge led by OPEC+ countries, prompted as well by the trade war initiated by the Trump administration.

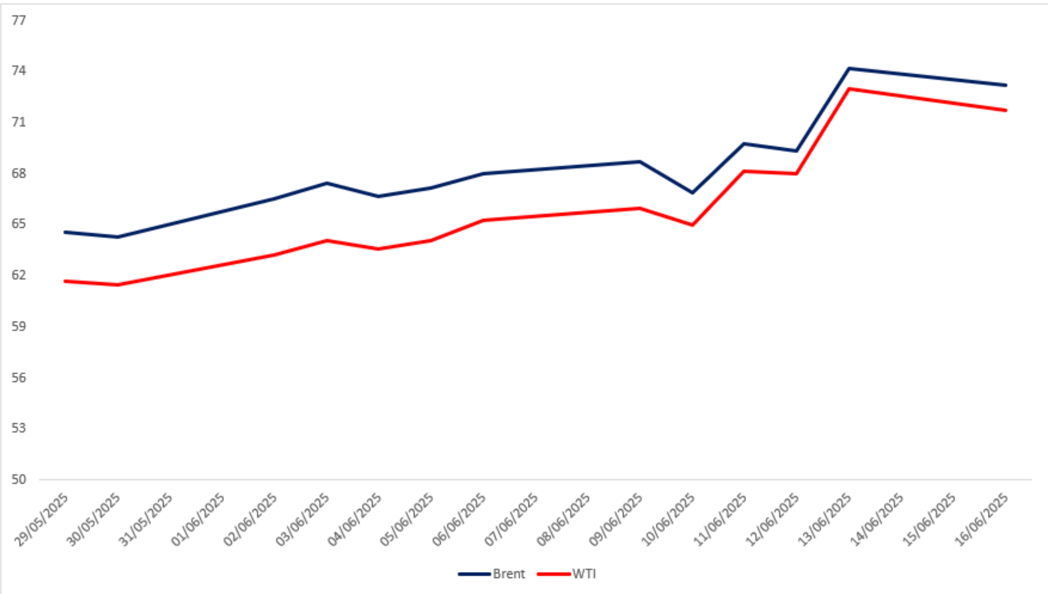
The consequences on the markets of the Israeli attack

On the night between June 12 and 13, 2025, Israel launched Operation "Rising Lion", with the objective of definitively decapitating the military and civilian leadership of Iran's nuclear program, triggering fears over the Middle Eastern energy sector and its implications for the markets.

The real-time fluctuation of oil prices in light of the military attack saw Brent open at $74, then close at $80.3 after an intraday spike to $81.85, recording a +7% surge, the largest since the invasion of Ukraine in March 2022. A similar increase was observed in WTI, closing at $77.5 with an intraday high of $78.8.

Amid such daily volatility and in light of possible future developments, investors shifted to long-term positions, buying long futures on Brent and call options to hedge the risk on the oil asset, while marine insurance companies raised premiums on shipping routes in the Persian Gulf.

These are the main consequences and associated market reactions, however, market positioning remains uncertain due to several elements that we will later consider and analyze.



The position of OPEC+

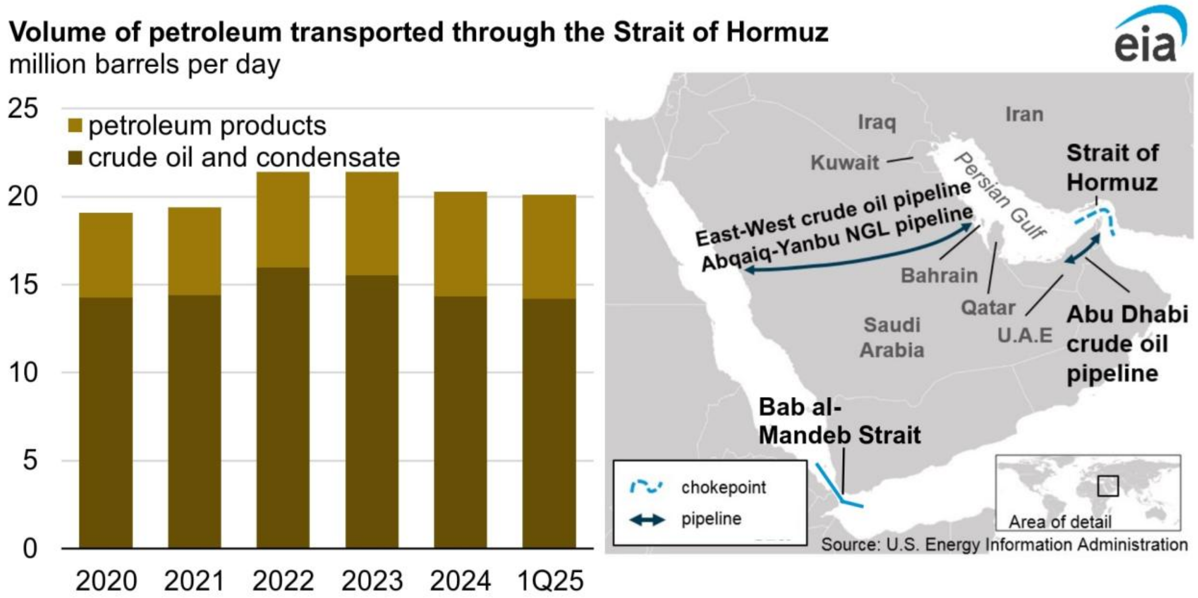
OPEC+, the oil cartel composed of OPEC countries plus some major producers like Russia, Mexico, and Kazakhstan, has decided to pursue a stable production policy, keeping crude oil production unchanged while awaiting future developments. Given the regional tensions, it could have responded to the increase in barrel prices with a production increase, thus adopting a corrective measure aimed at capping prices, but this did not happen for several reasons:

- The bargaining power of OPEC+ would inevitably strengthen in light of a highly risky scenario, especially in the event of supply disruptions in the Persian Gulf.
- A medium-to-long term approach is needed; since oil has experienced a global slowdown in demand, albeit slight, increasing production solely with the aim of containing barrel prices could prove a counterproductive strategy for the commodity's trade in the immediate future, with bearish effects on the margins of the oil giants of the member countries caused by an excessive supply.
- The two main OPEC+ partners, namely Saudi Arabia and Russia, play, geopolitically speaking, the role of external actors, possible intermediaries between Israel and Iran, as also evidenced by the words of Russian President Putin, strongly criticized by the EU.
- Historical precedents confirm the effectiveness of the wait-and-see strategy, indeed, both in 2019 after the attacks on the Aramco facilities and in 2022 with the Russian military invasion of Ukraine, OPEC+ kept production unchanged.

It would therefore seem that OPEC+ is employing a cautious and strategic evaluative approach functional to its objectives, perhaps giving some indirect indication to the more impatient investors.

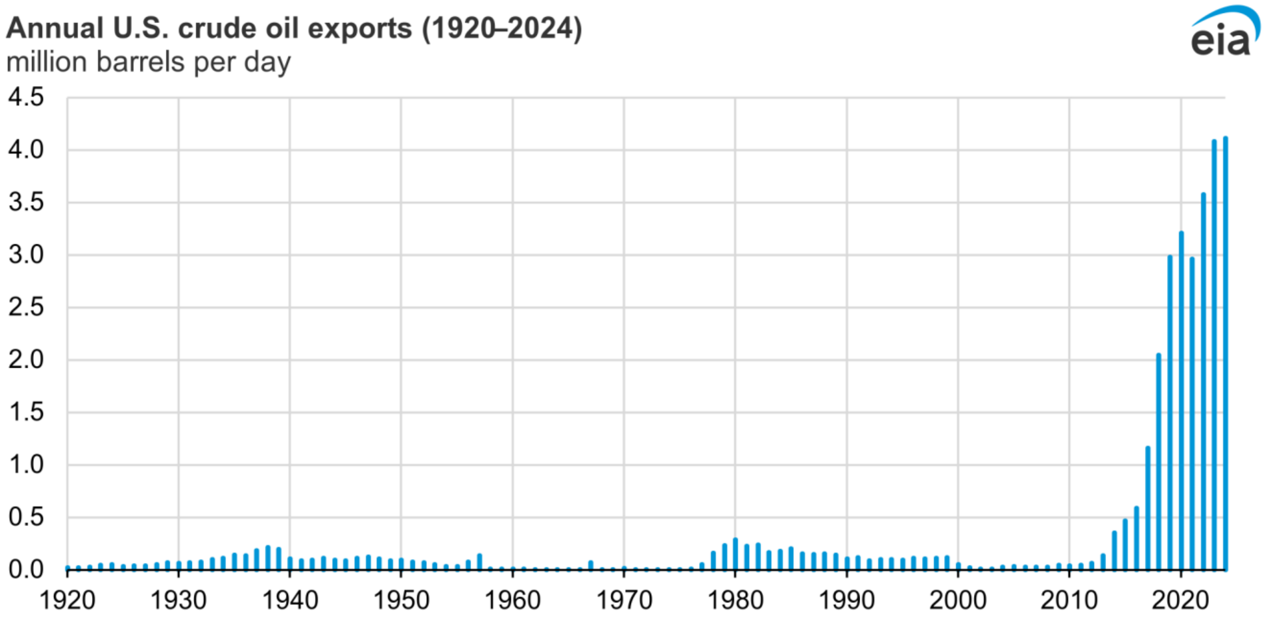
The Strait of Hormuz

The Strait of Hormuz is a maritime passage of vital importance for international oil trade. Geographically, it connects the Persian Gulf to the Indian Ocean, and about 20-30% of the world's exported oil (mainly liquefied natural gas) by sea passes through its waters from major oil giants in the area such as Saudi Arabia, the United Arab Emirates, Kuwait, and of course Iran. It therefore becomes quite evident that a possible military blockade on commercial transit would lead to a severe international crisis in oil supply. However, to date, there are no concrete hypotheses of such magnitude, no military activity by Iran or Israel in the Hormuz area has been noted. A recent report in the Times, however, quoted Iranian officials as saying that the strait could be mined, thus reducing daily transits. A blockade of the strait could bring the price of oil between $80 and $120 per barrel according to some analysts.



The US role

At the moment, the position of the Trump administration on the issue of a possible offensive military intervention to protect the common interests between Israel and the US in the total annihilation of Iran's nuclear program seems uncertain. From the hydrocarbon sector's point of view, since 2019 the United States have become self-sufficient and net exporters of oil thanks to the development of shale oil (oil extracted from rocks through fracking), reaching, according to 2024 data, 4 million bpd (barrels exported per day) compared to 1.5 million bpd exported by Iran, although the latter has about 157 billion barrels, one of the largest reserves in the world in terms of energy source but with little capacity to monetize this resource due to economic sanctions and the "ghost fleet". In the face of the rapid changes in tone and intentions of the United States, particularly irritated by the failure to finalize an agreement with their officials on nuclear issues, the oil price race seems to have resumed at the moment, with Brent rising by +2.6% and WTI by +2.8%, while the winds of war approach Tehran in an increasingly worrying manner.



The real increase in oil transportation costs and possible economic consequences

Within such an uncertain scenario, however, there are some paradoxically certain economic aspects, deriving from preventive behaviors related to risk that various companies are progressively adopting. Significant increases in oil transportation costs are emerging in several freight rates:

- Increases in freight rates for VLCCs (Very Large Crude Carriers, also known as supertankers) from the Persian Gulf to Japan have been reported at around 20% since last Friday, with clean tankers for petroleum products registering an increase from $3.5 million to nearly $4.5 million. Towards Asia, a +60% rise in main rates for supertankers has been highlighted in less than a week.
- Some shipowners have temporarily suspended offers, causing Forward Freight Agreements (FFA) to rise; in particular, the TD3C index, used to measure supertankers from the Middle East to China, registered an increase from 44 to 70 Worldscale points with daily costs at $46,000 (+$12,000 compared to the previous week).

It therefore becomes quite evident that in the face of the increase in such index, particularly TD3 (Persian Gulf-Japan) and TD3C (Persian Gulf-China) used to monitor the health of the oil transportation market by sea, the rise in costs risks weighing heavily on the global economy, especially on the economies of countries that are predominantly importers and insufficiently energy independent from hydrocarbons, also considering the specter of a global recession caused by the trade war which, at least to date, does not yet show such obvious signs.

Outlook for Q4 2025

However, the overall outlook for Q4 2025 reveals some upward trends, such as an increase in global demand, albeit moderate, driven by Asia (especially China and India), and a US expansion of production even though the IEA expects a decrease after the peak barrels per day reached. Marginally we could also see an increase from smaller countries such as Norway and Brazil, but as of today this remains only a hypothesis. Brent's forecasts therefore remain in a price range between $80-$86 per barrel for several analysts including JP Morgan and Goldman Sachs, while the more bearish ones such as UBS and ING estimate $75-$78 per barrel.

Conclusion

In conclusion, we are once again witnessing a strong shock to the markets, fueled, as has happened before, by the overwhelming uncertainty of events dictated by economic and political operators, both international and regional, in a corner of the world never tired of delivering, for better or worse, surprises and unforeseen developments in constant evolution.

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