

Commodities

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Oil: Escalating Geopolitical Tensions in the Middle East

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- The conflict between Israel and Iran has entered its fourth day. Signs of easing hostilities remain distant, with both countries warning of further retaliation.
- This dramatic escalation has rattled the oil complex, raising concerns about a broader conflict that could threaten oil supplies from the region.
- Our baseline forecasts for WTI and Brent oil prices is average USD63/bbl and USD67/bbl in 2025. However, upside risks have clearly emerged from escalating geopolitical tensions. The eventual outcome depends on the degree of escalation.

The conflict between Israel and Iran has entered its fourth day. On 13 June 2025, Israel launched airstrikes across Iran, targeting its nuclear facilities, senior nuclear scientists, and top military leadership. In response to these Israeli military airstrikes, Iran launched its own drone and missile strikes against Israeli cities. Both sides reported civilian casualties. Signs of easing hostilities remain distant, with both countries warning of further retaliation.

Date	Selected Events
13-Jun	Dubbed 'Operation Rising Lion', Israel targeted Iranian nuclear facilities and military bases. Affected facilities included Natanz Nuclear Facility. As the result of the attack, oil prices surged by 7%, while most financial markets reacted to it negatively. The US-Iran nuclear talk was also suspended.
13-Jun to 15-Jun	Iranian senior commanders were killed by the Israeli attacks; 18 out of 31 provinces were affected by the attack. Iran retaliated with two waves of missile attacks, hitting key cities including Tel Aviv.
16-Jun	Iran continued its attack, with key facilities such as Haifa Power Plant were affected.

Source: Various News Agency, OCBC.

This dramatic escalation has rattled the oil complex, raising concerns about a broader conflict that could threaten oil supplies from the region. Meanwhile, diplomatic prospects have dimmed with the indefinite suspension of US-Iran bilateral nuclear talks. During Asian trading hours, as of 16 June 2025, WTI and Brent crude surged more than 5% to an intraday high of USD77.5/bbl and USD78.3/bbl, respectively. Near-term time spreads have also strengthened. Specifically, the M1-M2 time spreads of Brent widened to USD1.4/bbl, nearly doubling before media reports of the first airstrikes, signalling fears of disruption in the physical market.

Our baseline forecasts for WTI and Brent oil prices are an average of USD63/bbl and USD67/bbl in 2025, respectively. However, upside risks have clearly emerged from escalating geopolitical tensions. The eventual outcome depends on the degree of escalation: a limited conflict between Israel and Iran or an escalation into a broader regional conflict.

(A) Under a scenario of a limited conflict, direct Iran-Israel attacks will be

contained to a similar situation to the present. The geopolitical risk premium that has been priced into Brent oil prices will be capped as the threat of broader regional conflict eases. We anticipate that volatility will remain subdued due to the available spare crude oil capacity from OPEC+ to cushion potential disruption from Iranian oil production and exports. According to the US Energy Information Administration (EIA) estimates, Iran produced ~3.4mbpd of crude oil in May 2025. Kpler estimates indicate that Iran exported more than 2.1mbpd of oil and fuel in the same month. OPEC's surplus crude oil production stood at 4.6mbpd (16.7% of OPEC's crude oil production) in May 2025.

Under this scenario, we would expect Brent oil prices to remain elevated over the next one-two months, surging to ~USD80/bbl. This would mark a 13.2% increase from the year-to-date (as of 13 June 2025 close) average of USD70.7/bbl. We then expect Brent crude to ease below USD65/bbl by 3Q25 as we assume fundamental demand-supply dynamics take hold. For the full year 2025, Brent would then average ~USD70/bbl.

- (B) Under the alternative scenario of an escalation to a broader regional conflict, Brent oil prices could exceed USD100/bbl, potentially reaching USD120/bbl¹, reflecting fragile risk sentiment and market unease over a wider escalation. This would represent a 41.4% increase from the year-to-date (as of 13 June 2025 close) average. We then expect Brent crude to ease to USD70/bbl by 4Q25 as fundamental demand-supply dynamics take hold. For the full year 2025, Brent would then average ~USD82/bbl.

Under this circumstance, further sanctions on Iran and blockages of trade routes in the Strait of Hormuz cannot be ruled out, as this is a critical transit route for oil from the Middle East to the rest of the global oil market. According to the International Energy Agency, an average of 20 mbpd of oil (~30% of global seaborne oil trade) passed through the route between January-October 2023. At the same time, we do not rule out the imposition of further sanctions by the Trump administration to constrain the Iranian government, which has already issued multiple sanctions on Iran between February and June 2025^{2 3 4}.

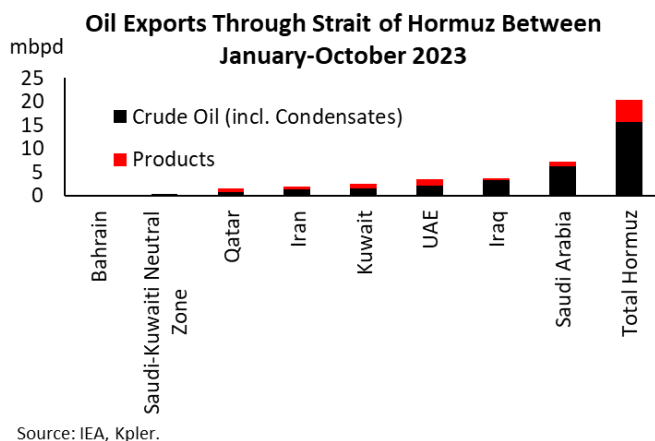
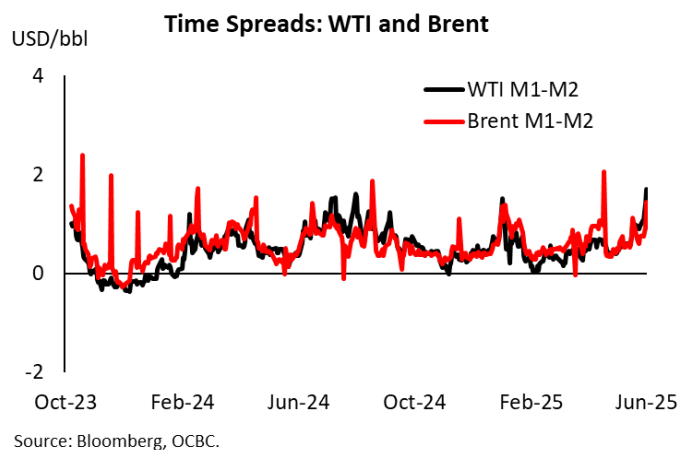
The situation in the Middle East remains fluid, with risks of potential escalation. We will continue monitoring implications closely.

¹ Brent rose to a high of ~USD139/bbl during the onset of the Russia-Ukraine invasion in 2022.

² Treasury Imposes Additional Sanctions on Iran's Shadow Fleet as Part of Maximum Pressure Campaign. 24 February 2025. US Department of the Treasury.

³ Treasury Increases Pressure on Chinese Importers of Iranian Oil. 16 April 2025. US Department of the Treasury.

⁴ Treasury Targets Global Network Shipping Iranian Oil, Funding Iran's Military and Terrorist Activities. 13 May 2025. US Department of the Treasury.



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