

Economic Briefing

# War in the Middle East – What does this mean for the oil market?

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**The escalating conflict between Israel and Iran has caused the price of crude oil to rise significantly. What does this mean for the oil market? We answer the most important questions.**

The conflict between Israel and Iran escalated last Friday with Israeli attacks on nuclear facilities and military targets in Iran. Oil prices rose significantly as a result, with the price of a barrel of Brent crude increasing by up to 13% to just over USD 78 per barrel on Friday. This is due to concerns that the conflict could jeopardise a sufficient supply of crude oil for the global economy.

## What role does Iran play on the oil market?

Iran recently produced around 3.3 million barrels of crude oil per day according to various surveys. There is no official data on Iran's oil exports and their customers due to the ongoing international sanctions. According to data from Bloomberg, Iran recently exported just under 1.7 million barrels a day, a good half of which probably went to China. This corresponds to around 4% of global crude oil exports.

Following the withdrawal of the United States from the nuclear agreement in May 2018 and the reintroduction of US sanctions, Iranian oil production fell to around 2 million barrels per day by 2020. Since the beginning of 2021, however, it has risen again despite the persistent sanctions, bringing it back to the level of autumn 2018. The sanctions imposed on the Iranian shadow fleet and some Chinese refineries as buyers of Iranian oil have so far only prevented a further increase in Iran's oil production and oil exports. They have not led to a decline.

## What is the significance of the Strait of Hormuz?

The largest risk for the oil market is a possible blockade of the Strait of Hormuz by Iran. Located between Iran and Oman, the strait is of critical importance for the oil market. According to the US Energy Information Administration (EIA), almost 21 million barrels of crude oil and oil products were transported through the Strait of Hormuz every day in 2023. This corresponded to around a fifth of the global oil supply and a good quarter of the seaborne transport volume. The majority of shipments originate from Saudi Arabia, Iraq, the United Arab Emirates and Kuwait. More than 80% of the oil supply transported through the Strait of Hormuz goes to Asia. In the scenario of a blockade of the strait, the oil could hardly be transported via alternative routes. Saudi Arabia does have a pipeline to the Red



Sea, and the United Arab Emirates has a pipeline to the Gulf of Oman. However, both are already largely utilised. The US EIA estimates the spare capacity at 2.6 million barrels per day, which means that only a good tenth of the seaborne transport through the strait could be diverted.

## **What is the current situation on the oil market?**

The oil market is currently sufficiently supplied. On the one hand, this is due to only moderately rising demand and, on the other, to increasing oil supply from OPEC+. Oil demand is likely to continue to be affected by the ongoing trade conflict between the US and most of its trading partners. Despite the partial agreement recently reached, the US and China continue to impose high tariffs on imports from the other country. This is likely to further curb China's demand for oil, which had already lost momentum due to the weak economy and the ongoing transition to electromobility. As a result, demand for diesel is barely increasing and demand for gasoline is even falling. On the other hand, OPEC+ is increasing oil supply. According to a decision by OPEC+, oil production is set to increase significantly for the third month in a row in July. As a result, there is a risk of a considerable oversupply by autumn at the latest, especially as OPEC+ is expected to increase production further in the following months. Due to the existing production cuts - most of which will remain in place until the end of 2026 - the OPEC+ countries have considerable spare production capacity, which the IEA estimates at 5.5 million barrels per day. This means that these countries could certainly compensate for the loss of Iranian oil supply, but not for a blockade of the Strait of Hormuz, especially as these capacities would then also be largely blocked.



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