Middle East conflict

Oil and equity markets shrug off fears of wider war after Iranian strike on Israel

Brent crude slips as experts warn of volatility in event of Israeli retaliation

An Iranian newspaper features an image of Iranian surface-to-surface missiles on its front page on Sunday © Rouzbeh Fouladi/ ZUMA Press Wire/dpa

Myles McCormick in Houston, **Jamie Smyth** in New York and **Stephanie Stacey** in London 20 MINUTES AGO

Oil and equity markets were muted on Monday following Iran's military strike on Israel as traders shrugged off fears the conflict could escalate into a full-blown war and curb supplies from the region.

Brent crude, the international benchmark, dropped 1 per cent to $89.52 per barrel on Monday morning. West Texas Intermediate, the US marker, fell 1.2 per cent to $84.63 per barrel.

The subdued reaction suggested markets were betting that the fallout from the strike would be contained after Iran said it considered the matter "concluded" and Washington sought to de-escalate tensions.

Traders had been anxiously watching to see how the market would react after the Islamic republic launched its first-ever strike on Israel from its own territory on Saturday. Tehran sent drones and missiles into the Jewish state in retaliation for a suspected Israeli attack on its consulate in Damascus that killed several military suspected Israeli attack on its consulate in Damascus that killed several military commanders.

Daniel Hynes, senior commodity strategist at ANZ Bank, said the fact that the attacks were well telegraphed had eased oil market concerns. “We had a build-up in the oil price before the weekend and so a geopolitical price premium was already built in prior to this event,” he said.

Equity markets were subdued. Europe’s region-wide Stoxx 600 index gained 0.3 per cent, buoyed by strong performance for industrials and consumer groups. London’s energy-heavy FTSE 100 dropped 0.5 per cent.

China’s benchmark CSI 300 index of Shanghai- and Shenzhen-listed stocks rose 1.9 per cent as investors digested new guidelines from the country’s securities regulator.

Hong Kong’s Hang Seng index fell 0.7 per cent and Japan’s benchmark Topix was off 0.5 per cent.

The price of gold, a haven asset, rose to $2,355 a troy ounce.

Tensions in the Middle East helped push oil above $90 last week

Brent crude ($/barrel)

Source: LSEG

US President Joe Biden has [urged Israel to take a measured approach] in its response. Prime Minister Benjamin Netanyahu’s war cabinet met on Sunday but has not made a decision on how the country will react.

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Experts warned that a severe response from Israel could ratchet up the conflict, restricting oil supplies from the region and pushing up prices.

"A significant Israeli retaliation could trigger a destabilising retaliatory cycle and move this conflict up the escalation ladder," said Helima Croft, head of global commodity strategy at RBC Capital Markets and a former CIA analyst. "In such a scenario, we think the risk to oil is not insignificant."

She added: "While Iran lacks the capability to close the Strait of Hormuz, they seemingly retain the capacity to replicate the 2019 playbook of attacking tankers, pipelines and critical energy infrastructure."

Oil prices had climbed to their highest level since October in recent weeks following the attack on Damascus as markets weighed the potential for an escalation of the conflict that could affect Gulf supplies.

Bob McNally, president of consultancy Rapidan Energy and a former energy adviser to US president George W Bush, said the fallout from the Iranian strike could still propel prices "towards, if not beyond, $100 per barrel".

"The market had been complacent about the Gaza conflict expanding to include Iran and, therefore, a material risk to Arabian Gulf oil and [liquefied natural gas] production and exports," he said.

An exacerbation of the conflict risks shocking an already tight oil market globally as demand escalates in big economies such as the US and China while Opec+ producers constrain supply.

"The US and China stand to lose from the conflict's expansion as it would significantly impact on energy exports from the region, the price of oil, and the global economy," said Ayham Kamel, practice head for the Middle East and north Africa region at consultancy Eurasia Group.

Any rise in prices would come at a particularly delicate moment for Biden, who has struggled to sell his economic record to voters ahead of November's election amid stubbornly high inflation.

A further rise in crude prices threatens to exacerbate already-elevated prices at the pump months before Americans head to the polls. Average US petrol prices sit at $3.63 a gallon, according to the AAA motoring group, up about 15 per cent since the start of the year.

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"It's hard to overstate how unwelcome a geopolitically driven oil price spike would be for both the economy and President Biden's re-election," said McNally.

Additional reporting by William Sandlund in Hong Kong