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Rising Conflict, Rising Prices: Could Oil breach $100 amid Middle East Turmoil?

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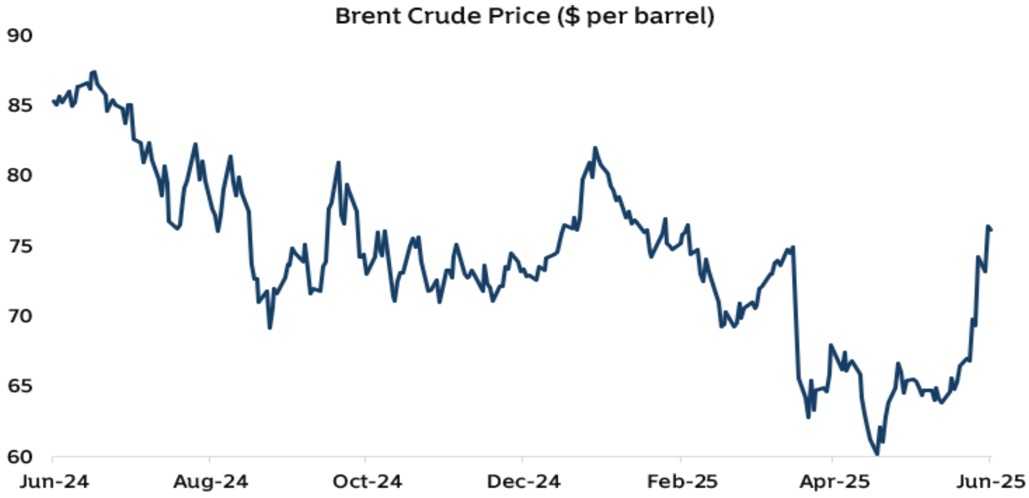

Source: Momentum Global Investment Management, Bloomberg Finance L.P., data to end 18 June 2025.

What this chart shows

The chart above shows the recent spike in oil price (Brent crude) following the June 13th Israel attack on Iran. Oil prices tend to be driven by several important factors such as supply, demand, and market sentiment & speculation.

The Organisation of the Petroleum Exporting Countries (OPEC) and its allies (OPEC+) control a significant portion of the global oil supply, and their decisions to cut or increase production heavily influence prices. Geopolitical events such as conflicts, sanctions, or instability are also key factors in oil-producing regions like the Middle East. Additionally, US shale and other producers can impact the global supply landscape.

On the demand side, economic expansion drives increased demand for oil across transportation, manufacturing, and energy sectors, which pushes prices higher. Industrial activity and seasonal factors also play a role in influencing oil demand.

Touching on speculation, traders' expectations about future supply and demand shape prices through futures contracts. Currency fluctuations also affect oil prices, since oil is priced in U.S. dollars; a stronger dollar typically makes oil more expensive for holders of other currencies, which can reduce demand and pressure prices downward. Finally, political and economic uncertainty significantly impacts market sentiment as well.

Why this is important

Whilst oil prices have remained relatively contained compared to past geopolitical conflicts ($76.18 at time of writing), there is a risk escalation could send oil prices soaring past $100 per barrel. J.P. Morgan, for example, warns that in a worst-case scenario, Brent crude could rise to $120 per barrel. The last time oil prices reached those levels was in February 2022, following Russia's invasion of Ukraine. However, Russia is a significantly larger producer of both oil and gas compared to Iran, and the effect on market sentiment was considerable due to Europe's heavy reliance on Russian supplies, necessitating a major overhaul of supply chains. With the global economy currently projected to slow down, there is less support from the demand side of the equation. Additionally, it seems most likely that Iran would look for off-ramps to avoid involving the US directly, with a base case for oil prices to trade in the low-to-mid $60s*. However, a sharp escalation in geopolitical tensions could lead to a closure of the Strait of Hormuz (through which one fifth of global oil flows). The consequences being major supply disruptions and a sharp pick-up in inflation, posing a significant challenge for central banks, notably the U.S. Federal Reserve (Fed). Indeed, the Fed faces the difficult task of balancing support for slowing U.S. economic growth while maintaining its commitment to controlling inflation. This challenge is further complicated by the Trump administration's looser fiscal restraint alongside trade tariffs that are expected to contribute to rising inflation.

Written on 18.06.2025. *J.P. Morgan base case oil price forecast for 2025.

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