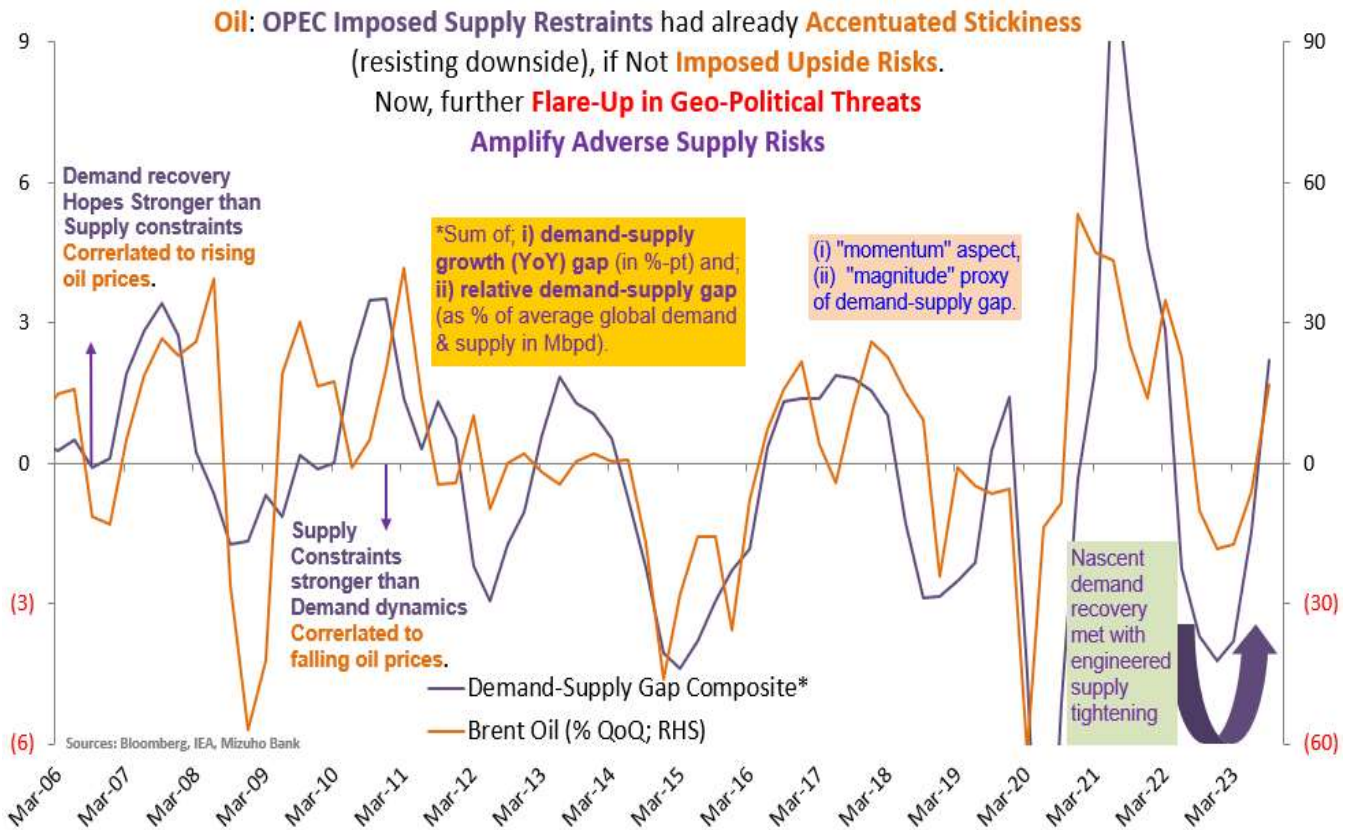


## Oil: Watch for Geo-political Flares



*"If you only knew the power of the dark side." – Darth Vader, Star Wars: The Empire Strikes Back*

- The To be sure, a **geopolitically-charged surge in oil prices past \$100-120** is **not imminently unavoidable** in the wake of the Israel-Hamas war. *But* equally, the **real and present danger of a geo-political flare-up in Oil** is **concealed under the illusion of a controlled war**. Especially given it is further accentuated by pre-existing, engineered supply tightness.
- In fact, **despite the absence of first order supply** (production or distribution) **impact** from the Israel-Hamas war, **threat of upside volatility in Oil** alongside **"stickiness"** that props crude prices above corresponding demand levels, is **far more pronounced**.
- Although, the **nuanced point** was that it would take **identifiable, proximate, threats of supply disruption** of a significant magnitude to **catalyze** such an order of **Oil price agitation**; for Brent crude to surge to, and perhaps surpass, the \$100-120 range.
- Especially given that with markets **not only de-sensitized to geo-political risks**, but arguably **beginning to fret potential for global demand downturn**, there may be **inherent resistance to** being swept into an indiscriminate, **panic-driven squeeze of crude prices**.

- **But** that said, the **current restraint in oil prices** is *highly conditional on the conflict not spilling over more widely as a Middle East conflict*; which would threaten to **intensify risks of actual disruption to supply**; be it from *production interrupted and/or exports impeded*.
- To that end, **any military spill-over** will arguably be the **first trigger for Oil bulls** to get agitated, with markets becoming **primed for more pronounced surge in Oil**.
- Specifically, **Israel increasingly alluding to not just the complicity, but overt culpability, of Iran**, poses rising risks that **Oil's upside will be amplified** if *Iran is subject to tightening sanctions, or worse, drawn into an armed conflict*.
- The former, *milder iteration* involves *measured setback to Iranian supply* (by **~500KBpD to 1MBpD**); depending on whether output is merely rolled back or sharply tightened. This may result in crude prices being squeezed up another 5-10% to (\$95-100 Brent).
- Whereas a *more acute version involving open conflict with, but not confined to, Iran* (and likely **Hezbollah**) **opens up \$120+ risks**; as threat of *production shortfall* are exacerbated by *serious threats to crude's passage through the Straits of Hormuz being disrupted*.
- All said, **\$100-120 crude** is **not** our prevailing **base case**. **But** it is a **significant and growing risk**; with increasingly fraught geo-politics in the Middle East raising *threats of sanctions and military miscalculations*. Such is the compelling *“power of the dark side”* of geo-politics.
- **More so**, as *engineered supply tightness by the OPEC+* and **Saudi's Budget preference for \$100+ oil amplify Oil price sensitivities** to adverse geo-political **supply shocks**. Especially as it may also **forestall pre-emptive OPEC supply (increase) response to soften the blow**; given mis-aligned economic and geo-political incentives.



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