

PHILEQUITY CORNER

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Crude oil's roller coaster ride

Crude oil prices have seen a whirlwind of volatility over the past month, driven by various factors ranging from demand concerns to geopolitical conflicts. Below, we outline the timeline of these events and their impact on oil prices:

September 28: Brent crude witnessed a substantial \$12 drop in just ten days, dropping from \$95 per barrel on September 28 to \$83 per barrel by October 7. This abrupt decline was primarily attributed to mounting fears of an impending recession, which sent shockwaves throughout the oil markets.

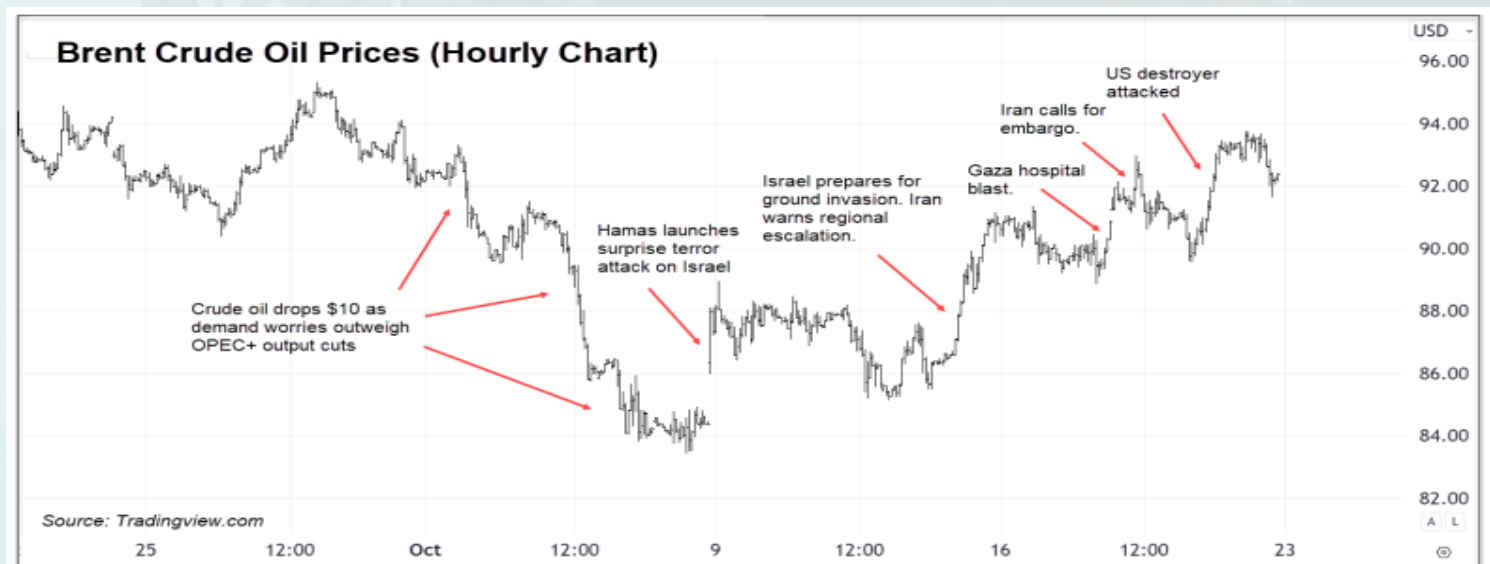
October 7: Prices swiftly rebounded, surging to \$88 per barrel in response to the unexpected and deadly assault by Hamas which attacked Israel from Gaza, killing about 1,400 people.

October 11: As the situation appeared to stabilize and concerns of a regional conflict subsided, Brent crude retreated to \$85 per barrel.

October 13: Prices rallied as Israel prepared for a potential ground assault. Iran issued warnings about the possibility of escalation into a wider regional conflict. These warnings sent Brent crude prices higher, from \$85 to \$90 per barrel.

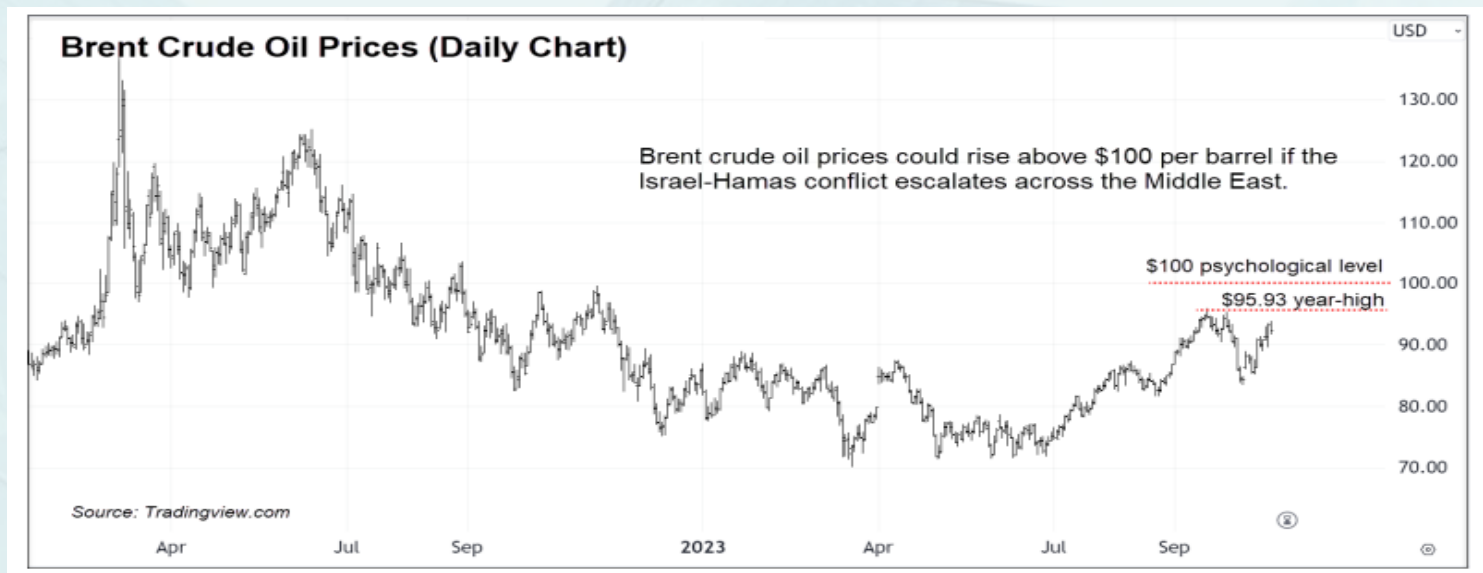
October 17: Reports of a tragic incident in a Gaza hospital, where hundreds were reportedly killed, led to a further increase in Brent prices, reaching \$91 per barrel. Iran's call for an oil embargo following the hospital blast added to the upward pressure on oil prices.

October 20: Last Friday, additional geopolitical tensions emerged as US military bases and troops came under attack in Syria and Iraq. Simultaneously, a US Navy destroyer intercepted cruise missiles fired toward Israel by Houthi rebels in Yemen, further intensifying market uncertainty. Brent crude prices surged to an intraday high of \$93.76 per barrel before closing at \$92.39.



Regional war may drive oil above \$100

As detailed in our previous article, the Israel-Hamas conflict looms as a potential catalyst that could draw in neighbouring countries and regional powers. Nations sympathetic to Palestine, such as Syria, Lebanon, Yemen, Iran, and Iraq, may find themselves embroiled in the conflict. If this scenario unfolds, critical energy infrastructure and crucial shipping routes would be jeopardized, significantly impacting global supply. This dire situation could drive oil prices beyond the \$100-per-barrel threshold.



Iran - the wildcard

In the Israel-Hamas conflict, Iran has emerged as the wildcard. It has a long history of political rivalry with Israel and has supported militant groups hostile to Israel, such as Hamas in Gaza and Hezbollah in Lebanon. Iran not only called on its Arab neighbours to impose an oil embargo on Israel but also issued prior warnings that it could block the Strait of Hormuz if threatened. This strategic shipping route facilitates the transit of one-fifth of global oil supply and 40% of global seaborne crude.

Military and economic implications

The Russia-Ukraine war is a stark reminder of how military confrontations can swiftly transform into economic warfare. In the context of the Israel-Hamas conflict, any regional disruption could send shockwaves through global energy markets. This not only impacts oil prices but also threatens global energy security. Prolonged conflict may disrupt oil production, leading to supply shortages and consequent price spikes.

While the potential for this transition from a military conflict to economic war remains speculative, the global community must remain vigilant. Preventing a regional and economic escalation necessitates diplomatic efforts, de-escalation strategies, and international cooperation. This will halt the growing human toll, avert a humanitarian crisis, and safeguard global energy stability.