

Mideast Geopolitical Risks Growing on Hamas Blitz on Israel

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In the early morning of October 7, Hamas, the Islamist organization that effectively controls the Gaza Strip of the Palestinian Authority, suddenly launched a large-scale rocket attack against Israel. At the same time, a total of about 1,000 Hamas fighters entered Israeli territory in cross-border attacks. The largest-scale blitz since the fourth Middle East War 50 years ago caused a large number of casualties in Israel. In addition, some 130 people were taken hostage by Hamas.

Israel launched a counterattack immediately after the Hamas attack, with Prime Minister Benjamin Netanyahu declaring "We are at war." Israeli forces entered a fierce battle with Hamas fighters who crossed the border. Israel also enhanced airstrikes against Hamas strongholds in the Gaza Strip. On October 10, it announced that Israeli forces had besieged Gaza. At the same time as the military siege, power supply to the Gaza Strip was cut off. On October 9, the Israeli military drafted a record 300,000 reservists to build and increase military pressure. While keeping an eye on the future war situation and the hostage issue, Israel may reportedly conduct ground operations in the Gaza Strip.

The fighting so far has already killed more than 2,200 people in Israel and Gaza, including civilians as well as military personnel and fighters. The number is likely to increase further in the future. Indeed, the most shocking military conflict since the fourth Middle East War occurred suddenly.

According to various media reports, the Israeli side was not aware of the surprise attack, indicating that Israel was indeed caught off guard. As Israel has been known for the excellent information gathering and intelligence capabilities of its military forces and security organization, some analysts have noted that they made a major blunder.

The surprise Hamas attack reminds us that as Egypt and Syria suddenly launched an offensive on Israel timed for the important Jewish holiday of Yom Kippur on October 6, 1973, Israel was caught off guard and forced into an extremely difficult situation at the beginning of the fourth Middle East War. The large-scale surprise attack by Hamas, which is believed to have been carried out after considerable preparation, caught Israel off guard again 50 years later.

Behind the large-scale surprise attack by Hamas, various factors have been pointed out. The Israeli blockade of the Gaza Strip contributed to the living difficulties of local residents and greatly increased regional discontent, prompting Hamas to take such action, according to analysts. It has been pointed out that Hamas may have been forced to take action as global interest in the Palestinian issue faded away. In addition, the geopolitical situation surrounding Israel has been changing in the Middle East. In 2020, Israel normalized relations with the United Arab Emirates and Bahrain. Furthermore, Saudi Arabia at the center of Arab countries has launched moves to normalize relations with Israel. In response, the Gaza Strip and Hamas may have become seriously concerned that the Gaza Strip issue will be left behind and abandoned, leading Hamas to take action to stir up this trend.

The large-scale fighting and escalating tensions in the Middle East, the center of global oil supply, caused oil prices to react significantly. On October 9, the first trading day after the Hamas attack, the front-month futures contract on the benchmark West Texas Intermediate crude closed \$3.59 per barrel higher than on the previous business day, at \$86.38/bbl. The key Brent futures price also soared by \$3.57/bbl to \$88.15/bbl. As noted in “A Japanese Perspective on the International Energy Landscape (657),” crude oil prices fell below \$90/bbl in early October and slipped below \$85/bbl later. This was attributable to strong downward pressure from concerns about a global economic slowdown. However, the surprise Hamas attack temporarily reversed the trend.

This is because today's crude oil pricing is highly dependent on market sentiment in the futures market. Market sentiment or market participants' anticipation responded to the possibility of some supply disruption and the risk of supply uncertainty caused by the large-scale military clash. As discussed below, the military clash has had no particular effect on supply from Middle Eastern oil-producing countries, but market sentiment initially focused on various possibilities.

When we look at the impact of the Hamas attack on crude oil prices in the future, it will be important to consider how the possibilities are or fail to be realized. Even if a large-scale military clash actually occurs, market participants will be interested in what direct or indirect impact the clash will exert on oil supply and the oil market.

In fact, crude oil prices, since rebounding on October 9, have been gradually declining even as the military clash has failed to subside. On October 11, WTI closed at \$83.49/bbl and Brent at \$85.82/bbl, falling back close to the levels seen before the military clash. Market sentiment, which initially reacted significantly to the emergence of serious geopolitical and supply uncertainty risks, is gradually responding to a situation in which supply uncertainty risks have failed to be realized.

In this sense, it is necessary to pay further attention to how the risk of supply uncertainty would be realized in the future. One of the points that market participants are paying attention to is Iran's involvement in this issue. Iran, which has been hostile to Israel in the first place, has reportedly supported Hamas. While Western countries have harshly condemned Hamas's surprise attack as terrorism, Iran has defended Hamas on the grounds that it is a defense against repressive occupation by Israel.

On the other hand, Iran has taken the stance that it was not involved in the Hamas attack. At the moment, there is no indication that Iran was involved. If future changes lead Iran's involvement in the attack to come into the spotlight, however, the situation may change again. Some have pointed to the possibility of additional Iran sanctions led by the United States, an Israeli ally. Escalating tensions between Israel and Iran could amplify geopolitical tensions across the Middle East. In this trend, oil supply from Iran or the whole of the Middle East may become uncertain. If this situation develops, upward pressure on oil prices could be exerted again.

At present, it is difficult to predict how the violent military clash between Israel and Hamas will affect the Middle East's oil supply. There are great uncertainties. However, the military clash has reminded us how geopolitical risks in the Middle East, the world's most important oil supply hub and production region with the largest surplus production capacity, can directly lead to market instability. No optimism can be warranted about future developments.

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