

Increasingly Chaotic Middle East Situation and Future OPEC-plus Policy

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Iran's missile attack on Israel has intensified tensions in the Middle East. Depending on future developments, a full-fledged war could break out. The situation in the Middle East has become significantly unstable. If this geopolitical risk leads to a large-scale disruption to oil supply, the international oil market may be shaken, with crude oil prices soaring.

Recent developments in crude oil prices have shown that downward pressure on prices had been gradually exerted since August. In late September, reports circulated in the market that the OPEC-plus group of oil-producing countries may change its policy after maintaining and enhancing production cuts to support crude oil prices, leading crude oil prices to decline further. Although there was no change in the basic policy of maintaining the production reduction regime at the OPEC-plus meeting on October 2, the group is attracting global attention amid the instability of the international oil market.

In the Middle East, regional conflicts have persisted around Israel since the outbreak of the Gaza crisis almost a year ago, with geopolitical risks remaining high. In the past year, Israel's confrontation and military clashes with Axis of Resistance militias have expanded regionally and spatially, deteriorating the situation.

During this period, there were significant events that changed the situation, such as Houthi rebels' attacks on tankers, the escalation of Israel's fighting with Hezbollah on the border with Lebanon, the exchange of missile attacks between Iran and Israel in April this year in the wake of a missile attack on the Iranian embassy site in Syria, the killing in Iran of a top Hamas leader attributed to Israel in July, the killing of Hezbollah leaders in Lebanon in September (which is also attributed to Israel), the killing of Hezbollah leader Hassan Nasrallah in an Israeli airstrike, and the subsequent intensification of armed clashes and Israel's ground invasion of Lebanon.

Behind these developments, however, Iran's moves have always been the most closely watched factor. When Iran and Israel exchanged missile strikes in April as mentioned above, the common view among experts on Middle East affairs was that Iran was exercising self-restraint. They thought that Iran's desire to avoid a full-scale confrontation or war with Israel led to its self-restraint. Iran retained self-restraint even after the murder of a top Hamas leader in Iran. As the fighting between Israel and Hezbollah intensified, with Nasrallah killed, however, how far Iran's self-restraint would be maintained became an important focus of attention.

Against this backdrop, Iran launched an attack on Israel with more than 180 ballistic missiles on October 1. Reportedly, the number of missiles used for the attack far exceeded that for the April assault. Unlike the April attack, the October one reportedly came without advance notice. As Iran has taken a step away from its self-restraint, the destabilization of the Middle East situation surrounding

Israel has entered a new phase.

Although the missile attack by Iran caused no serious direct damage to Israel due to the interception of most of the missiles, Israeli Prime Minister Benjamin Netanyahu made a statement to the effect that Iran would pay for this attack, suggesting a retaliatory strike. In response to Israel's reaction, the Iranian side has also indicated that it is willing to retaliate even more violently if Israel launches a retaliatory attack.

After Iran took a step forward with its October 1 missile strike, Israel's next move has become a new focus of attention. Depending on how the situation unfolds, a vicious cycle of retaliation may come and develop into a full-scale war. There has also been speculation that Israel's retaliation would target Iranian oil facilities. If Israeli attacks damage Iranian oil facilities, they may have a serious impact on the entire Middle East's oil supply amid the deterioration of the situation.

In such a situation, military conflicts and geopolitical risks may lead to large-scale oil supply disruptions, shaking the international oil market. Attracting attention may be whether a major change would come in the to-date situation where high geopolitical risks have fallen short of affecting oil supply since the outbreak of the Gaza crisis. Against this backdrop, crude oil prices, which had been on a downward trend until the end of September, have shown signs of reacting to risks. In the unlikely event of a large-scale supply disruption, crude oil prices could soar sharply.

If the international oil market is calmly seen from another perspective, however, it is necessary to note that the oil supply-demand balance has led to downward pressure to work on prices so far amid an awareness of oversupply. This is the reason why the reaction of crude oil prices to high geopolitical risks has been suppressed. In a market where the supply-demand balance eases to push down prices, the impact of geopolitical risks is inevitably suppressed. In a market where the oil supply-demand balance tightens to push up crude oil prices, however, price hikes accelerate significantly in response to geopolitical risks.

It is also important to note that the perception that the OPEC-plus group could change its oil supply and demand adjustment policy has shaken the market. In late September, there was speculation that OPEC-plus leader Saudi Arabia's policy would change in the direction of giving priority to retaining oil market shares even at the cost of lower prices. Such policy change would naturally exert further downward pressure on crude oil prices. While the world was paying attention to the OPEC-plus policy, the Middle East situation became significantly unstable, leading various forces to interact with each other complicatedly in the international oil market.

At the attention-attracting OPEC-plus meeting on October 2, the group decided to maintain and rebuild the current production reduction regime, making no change to its basic policy. It seems that the group has taken a wait-and-see attitude in the face of the extremely uncertain international oil situation. At a time when various turbulent factors are expected to arise in the future regarding how the international oil market and crude oil prices will move, the OPEC-plus group may be taking a stance of enhancing preparedness to respond to any unforeseen factor.

Future developments in the international oil situation and crude oil prices could have a significant impact on people's lives and the economy, including the global economy and inflation. In addition, the impact could cause serious issues in international relations and domestic politics. Furthermore, it could have various effects on the U.S. presidential election in November. The Middle East situation including moves by Israel and Iran, its impact on oil supply in the Middle East, and the

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future oil production policy of the OPEC-plus group led by Saudi Arabia will be the key to predicting the future.

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