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Israeli and U.S. Attacks on Iran, and the Oil Market in the Second Half of 2025

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Israel attacked Iran on June 13, and the U.S. carried out air strikes on Iran's nuclear facilities on June 21. On June 23, Iran attacked a U.S. military base in Qatar, and oil prices exceeded $80 per barrel temporarily. However, on the same day, President Trump announced on his social media account that Israel and Iran had agreed to a ceasefire, and Iran refrained from closing the Strait of Hormuz. As a result, the Brent price plunged 8.3% from the previous trading day to $70.65/barrel. Although neither Israel nor Iran had issued a statement on the ceasefire agreement as of June 23, the following discussion is based on the assumption that a ceasefire agreement has been reached.

The most important point for the oil market was whether or not Iran's export volume would fall significantly over the long-term if Israel or the U.S. attacked Iran's oil fields or export facilities, or if Iran were to go through a regime change. If there were no attacks on oil fields or export facilities and no regime change were to occur, the impact on the oil market may be limited. However, if there were an attack and regime change (or large-scale political and social upheaval), and oil production and export capacity were lost for an extended period of time, there would be an increased possibility of a global oil supply shortage, even if only temporary, and further oil price hikes would be inevitable. For the immediate future, whether the ceasefire agreement is implemented or not is a matter of key importance. The Trump administration is treating the attack as limited in scope and is aiming for an early end. If Iran did, in fact, notify the U.S. before the attack on the U.S. military base in Qatar, it would be reasonable to assume that Iran, too, is exploring options to bring the war to an end. However, some believe that despite the U.S. air strikes, damage to Iran's nuclear facilities is only partial. It is necessary to pay close attention to whether Israel, which is committed to preventing Iran's nuclear program, will halt its attacks. Accordingly, concerns about oil supply disruptions and price hikes have not yet been completely dispelled.

According to the Monthly Oil Statistics published by the International Energy Agency on June 17, global oil demand in 2025 is estimated to increase by 720,000 barrels per day (0.7%) year-on-year to 103.8 million barrels per day, and global oil supply is expected to increase by 1.59 million barrels per day (1.5%) year-on-year to 104.6 million barrels per day, resulting in an oversupply of 900,000 barrels per day for the full year of 2025. However, this forecast does not take into account Iran's declining export volume or production cuts.

Iran is the most significant element of uncertainty in the crude oil market outlook for the second half of 2025. Hypothetically, however, if Iran's oil export volume were maintained, it would be more likely for conventional issues–such as an increase in production by OPEC+ countries and weakening demand due to economic slowdown–to be considered material in the market.

OPEC+ countries, particularly Saudi Arabia, have made the decision to increase production (in other words, increase market share) by unwinding their voluntary output cuts. As a result, the production increase from May to July 2025 exceeded the original plan by 411,000 barrels per day, and production increase since April reached 1.37 million barrels per day (62% of the 2.2 million barrels per day of voluntary cuts). Meanwhile, on April 16, it was also decided that the seven countries participating in the voluntary output cut, excluding Algeria (in particular Iraq and Kazakhstan, which have significant production surpluses), will additionally cut production by 4.572 million barrels per day (monthly average of 305,000 barrels per day) through June 2026. However, Kazakhstan's continued overproduction is causing friction with other countries participating in the voluntary cut. As long as Saudi Arabia and Russia remain committed, production cuts by the OPEC+ countries will not collapse entirely, but overproduction by countries participating in the voluntary cut and withdrawal from the OPEC+ are perceived as potential factors that could lower prices.

On the demand side, there are concerns about the aftermath of Trump’s tariffs and a resurgence of inflation. Among the tariffs imposed by President Trump, the 90-day suspension of the enforcement of reciprocal tariffs on many countries, starting from April 9, will expire on June 30. The 90-day suspension regarding tariffs on China, which was agreed to on May 12, will expire on August 9. While it seems unlikely that the Chinese tariff rate of 145% imposed in April will be reinstated, President Trump appears displeased with the negotiations with China, so it would not be surprising if there were considerable twists and turns before a final resolution is reached. Moreover, Trump’s tariffs could cause the inflation rate in the U.S. to rise again. If the current surge in oil prices were to become prolonged, it may rekindle inflation not only in the U.S. but also globally. Again, if trade negotiations were to run into any difficulties, causing inflation to resurface and heightening fears of an economic slowdown, the outlook for oil demand would be lowered and prices would become more susceptible to downward pressure.

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