

ISRAEL-IRAN CONFLICT: POTENTIAL IMPACT ON GLOBAL MARKETS

June 2025

Update on the Israel-Iran conflict

- On June 13, Israel launched an assault on Iran, targeting nuclear facilities and energy sites
- Iran retaliated with its own missile strikes
- The conflict continues to escalate with both sides widening their attacks
- The impact on global markets, particularly as it relates to energy, is yet to be determined

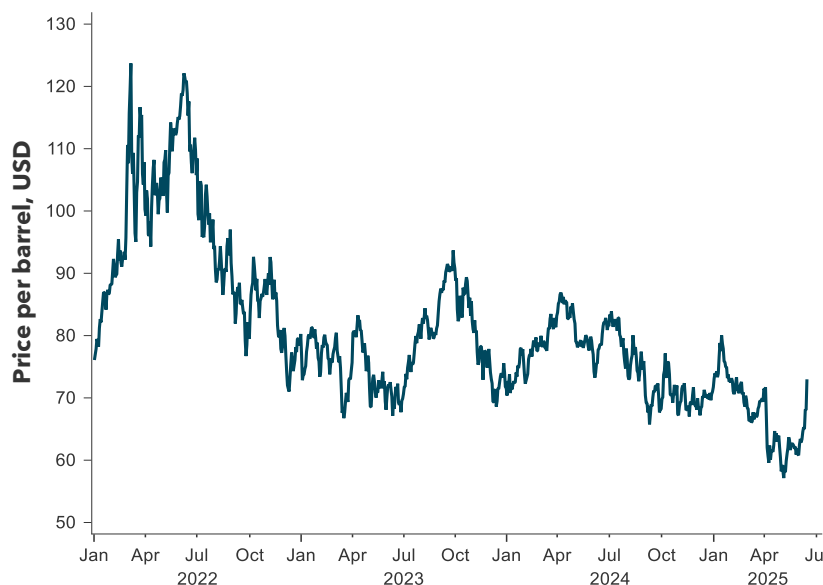
Global supply risks

Israel's attack on Iran raises the odds of another global supply-side shock.

A clear risk for the global economy is the disruption of energy flows through the strait of Hormuz, in our view. We believe a scenario of a complete closure of the strait is unlikely (but possible - more on this below). A more realistic scenario (high probability) is one of more limited activity in Hormuz without any significant disruption to naval flows.

Energy flows through the strait are supportive of Iran's economy and its complete closure would most likely lead to US and Gulf Cooperation Council (GCC) countries intervention (e.g., it would require violating the sovereignty of Oman, with which other GCC have a security pact).

Crude Oil Prices (WTI)



Source: Bloomberg, as of June 16, 2025. WTI=West Texas Intermediate. Chart is for illustrative purposes only.

Considering potential scenarios

Technically, Iran could disrupt traffic on its (northern) half of the Strait without ever crossing the median, but to close the Strait in the literal sense, it would also have to deny the south-bound lane that lies inside Omani territorial waters. Doing that with mines, patrol craft or board-and-seize tactics would constitute a direct violation of Oman's sovereignty. This option is highly unlikely, in our view. In practice Tehran would probably layer the threat – laying minefields, announcing a "danger area," and potentially using missiles and boarding teams to make insurers declare the entire waterway unsafe. That could shut the Strait without every mine sitting inside Omani waters. But we think this option too would lead to GCC and US intervention.

Knowing this, Iran's leadership could instead opt for some form of brinkmanship over the strait: small boat harassment, drone fly-overs, it might potentially pretend to misfire a missile and make it land in the strait's waters. These "gray-zone" actions would be preferred because outsiders would argue about intent instead of reacting immediately.

We think this scenario is high probability. Iran is clearly on the backfoot right now. It can't leverage the 'axis of resistance' any longer to escalate the threat towards Israel. It lost control of its airspace. Senior military leaders have been eliminated.

Therefore, Iran must find a way to change the risk/reward calculus for Israel and its supporters. Brinkmanship without actual severe disruption is one of the most likely ways for Iran to achieve this goal.

The rational ceiling for Tehran is action that is reversible, deniable, and keeps its own tankers sailing.

All said, if Iran's regime perceives it is fatality-bound— e.g., because Israel starts targeting Iran's political leadership and/or the regime is on the way to collapse – a maximalist policy in Hormuz might be pursued.

This is consistent with game-theoretic models of state behavior under extreme threat: rational deterrence breaks down, and more drastic options come into play as a form of asymmetric escalation.

On Israel targeting energy infrastructure

The raids so far have hit facilities that turn crude or gas into finished fuels for domestic consumption, while deliberately steered clear of the upstream fields, pipelines and island terminals that load export tankers. As things stand, Crude exports can keep flowing.

To completely cripple the regime energy revenues, Israel would need to start targeting energy production facilities but that would most likely invite significant international backlash and therefore remains unlikely, in our view.

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