

ISRAEL-IRAN CONFLICT: OIL SHOCK RISK RISES

June 2025

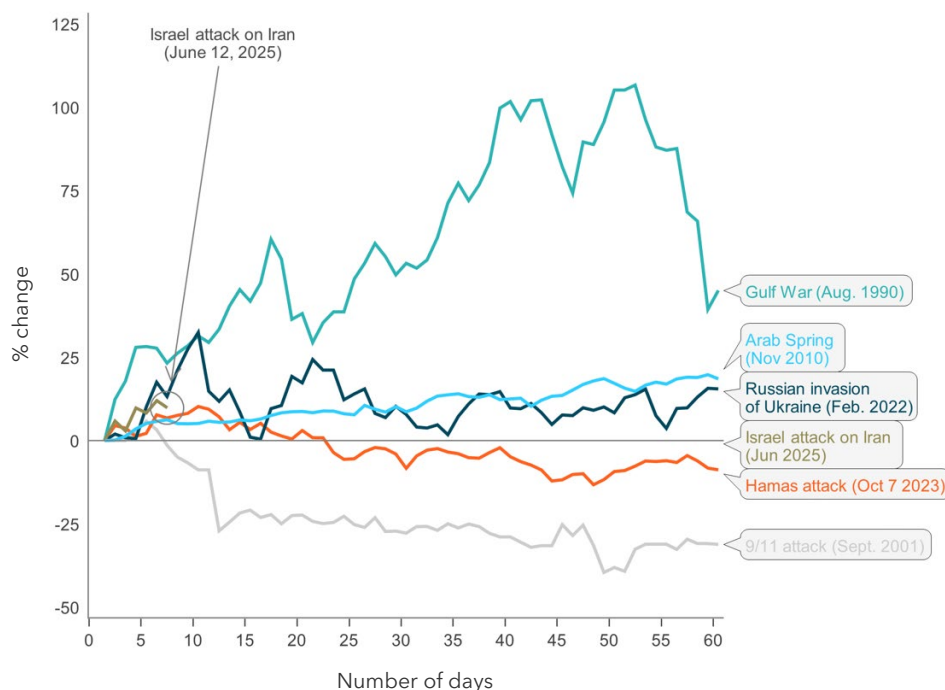
Update as of 9am on June 24: President Trump said there is a ceasefire between Iran and Israel. The situation remains unclear, and we will continue to monitor the situation. Our asset allocation views below remain unchanged.

The U.S. bombardment of Iran's nuclear facilities on Saturday (June 21) was a significant escalation of the conflict involving Israel and Iran – and, in our view, it raises the risk of an oil price shock.

Update on the Israel-Iran conflict

- U.S. targeting of key Iranian nuclear infrastructure is a significant escalation of the conflict involving Israel and Iran.
- The strike likely sets back Iran's ability to pursue further enrichment or weaponize its nuclear capabilities.
- Washington initially said this action was focused on Iran's nuclear program, but subsequent social media remarks leave open the possibility of more sustained involvement.
- Israel remains the principal actor driving the campaign forward. However, the Iranian parliament's authorization of a retaliatory closure (if needed) of the Strait of Hormuz raises the stakes.
- Even as Iran has been weakened, it continues to strike back at Israel.

SHORT-TERM (60-DAY) IMPACT OF VARIOUS GEOPOLITICAL EVENTS ON BRENT PRICES



Source: Macrobond, BNY Advisors. Data as of 6/23/25. Charts are for illustrative purposes only.

ISRAEL-IRAN CONFLICT: OIL SHOCK RISK RISES

The U.S. bombardment of Iran's nuclear facilities on Saturday (June 21) was a significant escalation of the conflict involving Israel and Iran – and, in our view, it raises the risk of an oil price shock (see scenarios below).

For now, the market is discounting a production and export loss of approximately 2 million to 3 million barrels of oil per day. That's largely equivalent to Iran's entire production.

But, in our view, while it does elevate the risk, it does not imply a shutdown of the Strait of Hormuz or a loss of supply from other Gulf Cooperation Council (GCC) petrol states – which would raise crude oil prices much higher (see chart).

Several GCC members, some of whom are also steadfast U.S. allies such as Qatar and Oman, also stand ready to play an intermediary role in reviving a negotiated management of the conflict. Iran has also repaired its relations with Saudi Arabia in recent months. Moreover, critical APAC allies like Japan and South Korea are most heavily dependent on energy supplies from the Persian Gulf and stand to lose the most from a protracted conflict or sharp rise in crude oil prices.

Asset allocation view

Recent events align with the defensive tilt we maintain across portfolios, underscoring our view that risk assets remain vulnerable amid persistent macroeconomic and geopolitical uncertainty in 2025.

Oil price scenarios

From Iran's standpoint, we believe regime survival, a restoration of its domestic credibility and the extent of foreign mediation seem likely to impel its next moves. Potential next steps include a possible targeting of U.S. military bases in the Persian Gulf (or other soft targets), and continuing missile barrages against Israel. But also, a renewed opening of negotiations through intermediaries is possible.

If any retaliation from Tehran in the coming days is telegraphed and calibrated (like it was in 2024 vis-à-vis Israel, and further back in 2019 with the U.S.), it may result in a containment and re-negotiation of its nuclear program and financial sanctions. Amid ample supply increases from Saudi and other non-OPEC source, this could lower oil prices to a US\$60-\$70 per barrel range.

However, if the Iranian regime responds more indiscriminately or less predictably and if the tit-for-tat responses between Israel and Iran preclude any near-term solutions, risk premia in oil markets could harden. In this scenario, oil prices could move up more durably to a more elevated range of around US\$70 to \$90 per barrel.

The direst scenario would be one in which the Iranian government is politically isolated and feels threatened to the extent of fearing for its survival. In such an event, it may try to impede energy supply through the Strait of Hormuz (which would also hurt its own export and revenue receipts). In this scenario, we believe a non-linear spike in oil prices to as much as US\$130 to \$150 per barrel would no longer be merely theoretical.

What next?

Israel's stated goals appear to be the destruction of Iran's ballistic missiles and nuclear weapons programs. Progress has been made on both fronts but neither has yet been achieved.

For instance, the UN's International Atomic Energy Agency (IAEA) has said it couldn't identify any radiation at the bombed sites. This could possibly imply a diversion of enriched uranium as well some centrifuges to other (unknown) locations.

Israel may feel compelled to continue striking Iran in the coming weeks – until there is more conclusive evidence of a destruction of Iran's nuclear capabilities (including enriched uranium, and centrifuges). But this may prove too elusive.

For Israel (and for the U.S.), the pursuit of maximalist objectives must also be weighed against social and political cohesion at home and the avoidance of domestic economic shocks and much riskier geopolitical outcomes and protracted conflict – including more lasting damage to energy flows through the Strait of Hormuz.

U.S. authorities have also urged China (the largest purchaser of GCC and Iranian energy) to play a more direct role in ensuring free passage through the Strait of Hormuz – highlighting that a broader socialization of the geopolitical risks may already be underway.

About the BNY Investment Institute

Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

For related content and market analysis, please visit [BNY Investment Institute](#).

ISRAEL-IRAN CONFLICT: OIL SHOCK RISK RISES

BNY Investment Institute consists of our macroeconomic research, asset allocation, manager research and operational due diligence teams. BNY Advisors is the brand name under which BNY Mellon Advisors, Inc. conducts its investment advisory business. BNY Mellon Advisors, Inc. is an investment adviser registered as such with the U.S. Securities and Exchange Commission pursuant to the Investment Advisers Act of 1940, as amended. BNY Mellon Advisors, Inc. is a subsidiary of The Bank of New York Corporation.

FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS. FOR GENERAL PUBLIC DISTRIBUTION IN THE U.S. ONLY.

This material should not be considered as investment advice or a recommendation of any investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Any statements and opinions expressed are those of the author as at the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of BNY. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. BNY is not responsible for any subsequent investment advice given based on the information supplied. This is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any BNY product. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results. Information and opinions presented have been obtained or derived from sources which BNY believed to be reliable, but BNY makes no representation to its accuracy and completeness. BNY accepts no liability for loss arising from use of this material.

All investments involve risk including loss of principal.

Not for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. This information may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. Persons into whose possession this information comes are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

Issuing entities

This material is only for distribution in those countries and to those recipients listed, subject to the noted conditions and limitations: For Institutional, Professional, Qualified Investors and Qualified Clients. For General Public Distribution in the U.S. Only.

- **United States:** by BNY Mellon Securities Corporation (BNYSC), 240 Greenwich Street, New York, NY 10286. BNYSC, a registered broker-dealer and FINRA member, has entered into agreements to offer securities in the U.S. on behalf of certain BNY Investments firms.
- **Europe (excluding Switzerland):** BNY Mellon Fund Management (Luxembourg) S.A., 2-4 Rue EugèneRuppertL-2453 Luxembourg.
- **UK, Africa and Latin America (ex-Brazil):** BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority.
- **South Africa:** BNY Mellon Investment Management EMEA Limited is an authorised financial services provider.
- **Switzerland:** BNY Mellon Investments Switzerland GmbH, Bäregasse 29, CH-8001 Zürich, Switzerland.
- **Middle East:** DIFC branch of The Bank of New York Mellon. Regulated by the Dubai Financial Services Authority.
- **Singapore:** BNY Mellon Investment Management Singapore Pte. Limited Co. Reg. 201230427E. Regulated by the Monetary Authority of Singapore.
- **Hong Kong:** BNY Mellon Investment Management Hong Kong Limited. Regulated by the Hong Kong Securities and Futures Commission.
- **Japan:** BNY Mellon Investment Management Japan Limited. BNY Mellon Investment Management Japan Limited is a Financial Instruments Business Operator with license no 406 (Kinsho) at the Commissioner of Kanto Local Finance Bureau and is a Member of the Investment Trusts Association, Japan and Japan Investment Advisers Association and Type II Financial Instruments Firms Association.
- **Brazil:** ARX Investimentos Ltda., Av. Borges de Medeiros, 633, 4th floor, Rio de Janeiro, RJ, Brazil, CEP 22430-041. Authorized and regulated by the Brazilian Securities and Exchange Commission (CVM).
- **Canada:** BNY Mellon Asset Management Canada Ltd. is registered in all provinces and territories of Canada as a Portfolio Manager and Exempt Market Dealer, and as a Commodity Trading Manager in Ontario. All issuing entities are subsidiaries of The Bank of New York Mellon Corporation.

ISRAEL-IRAN CONFLICT: OIL SHOCK RISK RISES

BNY COMPANY INFORMATION

BNY Investments is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY is the corporate brand of The Bank of New York Mellon Corporation and may also be used to reference the corporation as a whole and/or its various subsidiaries generally. • **Mellon Investments Corporation (MIC)** is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation. MIC is composed of two divisions: Mellon, which specializes in index management, and Dreyfus, which specializes in cash management and short duration strategies. • **Insight Investment** – Investment advisory services in North America are provided through two different investment advisers registered with the Securities and Exchange Commission (SEC) using the brand Insight Investment: Insight North America LLC (INA) and Insight Investment International Limited (IIIL). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight. Insight is a subsidiary of The Bank of New York Mellon Corporation. • **Newton Investment Management** – “Newton” and/or “Newton Investment Management” is a corporate brand which refers to the following group of affiliated companies: Newton Investment Management Limited (NIM), Newton Investment Management North America LLC (NIMNA) and Newton Investment Management Japan Limited (NIMJ). NIMNA was established in 2021, NIMJ was established in March 2023. NIM and NIMNA are registered with the Securities and Exchange Commission (SEC) in the United States of America as an investment adviser under the Investment Advisers Act of 1940. Newton is a subsidiary of The Bank of New York Mellon Corporation. • **ARX** is the brand used to describe the Brazilian investment capabilities of BNY Mellon ARX Investimentos Ltda. ARX is a subsidiary of The Bank of New York Mellon Corporation. • **Walter Scott & Partners Limited (Walter Scott)** is an investment management firm authorized and regulated by the Financial Conduct Authority, and a subsidiary of The Bank of New York Mellon Corporation. • **Siguler Guff** – The Bank of New York Mellon owns a 20% interest in Siguler Guff & Company, LP and certain related entities (including Siguler Guff Advisers LLC). • **BNY Mellon Advisors, Inc. (BNY Advisors)** is an investment adviser registered as such with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Advisers Act of 1940, as amended. BNY Advisors is a subsidiary of The Bank of New York Mellon Corporation.

No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. All information contained herein is proprietary and is protected under copyright law.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

© 2025 The Bank of New York Mellon Corporation.