

## MNI Oil Weekly: Middle East Keeps Oil in Risk on Mode

By Andrew Couper and David Lee (18/06/2025)

### Executive Summary:

- **Middle East Keeps Oil in Risk on Mode:** Oil market watchers have seen sharp moves on Israel/Iran headlines since Friday. See the price progression since Friday and where things stand now.
- **Oil Markets:** Crude futures, time spreads and options skews have surged this week taking Brent front month briefly over \$78/bbl and the highest since January, as the Israel-Iran conflict escalates. Diesel prices have also surged as Middle East supply concern adds to an already tight market.
- **Analyst Views:** See oil market views and outlooks from leading market participants.

### Middle East Keeps Oil in Risk on Mode:

Oil market risk fears remain resolutely hinged on Middle East escalations on Wednesday that have seen significant risk on and risk off drivers since last Friday.

### Key Price Action Events:

See the key moves from June 13-June 18 and the current state of play as oil markets try to assess the geopolitical risk to oil flows which so far remain unaffected.



**June 13:**

Markets opened sharply higher on Friday the 13<sup>th</sup> following the overnight strikes by Israel on Iran but quickly priced off as the market tried to assess whether physical oil flows were actually at risk.

- See the price retraction at the **orange arrow** as markets tried to assess the risk of further escalations.

**June 16:**

The risk off part of the oil move since Friday's strikes really accelerated into the afternoon (London BST) on June 16 over reports that Iran was looking to deescalate:

- Reuters reports that Iran has requested that Qatar, Saudi Arabia, and Oman ask US President Donald Trump to apply pressure on Israel to agree to an 'immediate ceasefire', per two Iranian and three regional sources. (see this impact into the **green arrow**)
- De-escalation optimism quickly dissolved on headlines like this: ""\*IRAN READY TO DELIVER 'MAJOR BLOW' TO ISRAEL:SEMI-OFFICIAL MEHR" (see this impact into the **orange arrow**)

**June 17:**

Crude extended gains on June 17 after rebounding from a low of \$70.56/bbl the day prior with de-escalation of the Israel-Iran conflict looking more distant. There were also growing fears of the U.S. becoming more directly involved in the conflict that was really exacerbated later in the day as Trump threatened Iran's leader via Truth Social.

- MNI wrote: While ambiguous, as most of Trump's recent statements on Iran have been, Trump's Truth posts on Tuesday appears to hint at US involvement in Israeli military action in Iran. Of particular note, the use of "we" rather than "Israel," in reference to the operation.
- Barak Ravid at Axios notes on X: "Trump continues to signal he might order a strike on Iran."
- **Purple arrow** highlights the overall risk sentiment of US involvement and escalations through Tuesday.
- Key escalatory Trump Truth post: "We know exactly where the so-called "Supreme Leader" is hiding. He is an easy target, but is safe there - We are not going to take him out (kill!), at least not for now. But we don't want missiles shot at civilians, or American soldiers. Our patience is wearing thin. Thank you for your attention to this matter!"

**June 18:**

Oil saw some significant swings on Wednesday, largely finding support from US related escalatory headlines carrying through from the day prior.

- Israel said that the US is helping it with defense, but speculation was growing that it will become directly involved in the conflict.
- As a key theme for oil markets this year, Trump comments saw a sharp reversal for oil at the time of writing:
- Key headlines:
  - ""\*TRUMP: IRANIANS HAVE REACHED OUT" bbg
  - ""\*TRUMP: IRAN SUGGESTED THEY COME TO THE WHITE HOUSE" bbg
  - ""\*TRUMP: NEXT WEEK IS GOING TO BE VERY BIG, MAYBE LESS THAN WEEK" bbg
  - ""\*TRUMP SAYS HE TOLD NETANYAHU TO 'KEEP GOING'" bbg
  - "TRUMP: HAVE NOT GIVEN INDICATION THAT US WILL GIVE MORE HELP" bbg

- **Red arrow** highlights when the above Trump headlines were released.

Despite the above headlines promoting risk off on Wednesday for oil, Trump reiterated his primary goal that Iran cannot have a nuclear weapon, which cannot be easily achieved without a US strike or a complete Iranian surrender.

- Trump says, "nothing is finished until it's finished I wouldn't say we've won anything yet, but we've made a lot of progress." Adds: "The next week is going to be very big, maybe less than a week."

## Oil Markets:

### Crude:

Crude prices have surged this week to the highest since January, with Brent front month briefly rising over \$78/bbl as risks that an escalation in the Israel-Iran conflict impacting Middle Eastern oil exports have risen.

- Brent has reversed much of the fall seen in so far this year due to rising OPEC+ supply and ongoing global trade tensions. A weaker US dollar has also provided some support to dollar-denominated crude.

### Market:

- Near term Brent skew surged to the highest since early 2022 last week while curve backwardation is strong reflecting market sentiment for supply and upside price risks and fears of a protracted conflict. The contango structure beyond early 2026, suggesting market oversupply expectations, has now disappeared. The Dec25-Dec26 spread surged to a high of +\$3.01/bbl.
- The Brent prompt call-put spread has gradually strengthened since the pullback from a spike higher late last week. The Brent Dec25 call-put volatility skew has switched to a bullish call bias around +1 % compared to -4% early last week.
- Traded volume remain high with Brent options reaching a record of 819k. Daily Brent aggregate traded options volumes have averaged 628k since June 11, of which 393k was calls.
- Brent crude second month at-the-money implied volatility has jumped up to the highest since 2022 at 61.8% and WTI is up to 68.4%.
- Managed Money net long crude oil positions rose in the week to June 10 to the highest since April 4 with WTI net longs at the highest since the end of January.

**Brent second month 25 delta call-put volatility spread, Source: Bloomberg Finance L.P.**



**Iran:**

- The Israel-Iran conflict has escalated severely in recent days since Israel's initial strikes on Iranian nuclear sites and targeted elimination of senior military and scientific figures on 13 June.
- Fears have risen on the possibility that Iran could block the key oil transit route through the Straits of Hormuz.
- Israel said it was aiming to end Iran's ability to build a nuclear bomb, which it sees as an existential threat. Tehran maintains its atomic program has purely civilian purposes. The Wall Street Journal reported on June 16 that Iran is looking to de-escalate the situation and would be open to return to the negotiating table as long as the US doesn't join the attack.
- Israel has said that the US is helping it with defence, but speculation is growing that it will become directly involved in the conflict. President Trump has demanded that Iran surrender and that his patience with Iran is "wearing thin".
- State-run IRNA reported that Iranian President Masoud Pezeshkian has spoken with Oman's Sultan Haitham, telling him that if the US doesn't "restrain" Israel, Tehran will be "forced to respond more severely."
- Iran's export oil infrastructure at Kharg Island remains untouched so far but Iranian crude exports appear to have "essentially ground to a halt" in recent days, according to Ron Bousso at Reuters, citing Kpler and LSEG data. Total Iranian crude and condensate oil exports this week are currently forecast to reach 102kb/d, compared with a weekly average of 1.7mb/d so far this year, according to Kpler.
- Iran has roughly 27.5m bbl stored in tankers outside the Gulf, according to Kpler data, which would oil sales for a few weeks, Bousso added.
- Tanker chartering rates from the Middle East to Asia have surged and ship bookings have slowed amid supply disruption fears, Reuters said based on industry sources. Several shipowners are holding back offering vessels for routes in the Gulf until the situation becomes clearer, Sentosa shipbrokers said. QatarEnergy warned vessels to wait outside of the Strait of Hormuz prior to loading.
- There has been various analyst-based speculation that OPEC+ spare capacity provides security for global oil supplies in the event of Iranian barrels being impacted by Israeli/US escalations.

**US:**

- President Trump said he intends to send letters to trading partners setting unilateral tariff rates in the next two weeks, ahead of a July 9 deadline to reimpose paused duties. Comments by Trade Secretary Bessent and President Trump suggest that the US is working on deals with 15-18 trade partners, including India, Japan, South Korea and the EU. Countries negotiating in 'good faith' may see an extension on the July 9 deadline.
- US commercial crude oil inventories along the Gulf Coast have depleted to the lowest seasonal level for three years, analyst John Kemp said. "Inventories have fallen by 5 million barrels over the last 16 weeks, the largest decline since 2023 and before that 2017, and contrast with an average accumulation of 13 million over the same period in the last decade," he said.
- Vitol Group's CEO Russell Hardy said that US oil production is set for a slight drop this year amid weaker prices. "With slightly lower prices ... we're beginning to see some impact on investment and production."

**China:**

- The renewed US-China trade truce struck in London earlier this month has left a key area of export restrictions tied to national security untouched, a conflict that threatens a more comprehensive deal, Reuters sources said. Beijing has not committed to grant export clearance for some specialised rare-earth



magnets that the US military needs for military use. US officials also signalled they are looking to extend existing tariffs on China for a further 90 days beyond the August 10 deadline agreed in Geneva last month.

- China saw another crude oil surplus at 1.4mb/d in May, after 1.89mb/d in April and 1.74mb/d in March, according to Clyde Russell at Reuters. Storage has increased to provide a cushion against unexpected supply disruptions from the escalating Middle East conflict and has been likely boosted by lower crude prices. Total crude available to refiners in May was 15.32mb/d, including 10.97mb/d of imports and domestic output of 4.35mb/d, while refiners processed 13.92mb/d of crude.
- China's refining crude throughput fell to the lowest level since last August due to plant overhauls. China's apparent oil demand fell 3% to 13.69mb/d in May, Bloomberg said.
- China's independent refineries are re-evaluating the risks of purchasing Iranian crude amid Israel-Iran conflict, which could trigger further US sanctions on Iranian crude, Platts reports citing sources. Iranian Light crude was offered at a discount of ~\$3/bbl against Brent on a DES Shandong basis as of June 16, a decrease from the earlier discount of \$2.5-\$3/bbl at the beginning of June.

#### Russia:

- More pressure must be exerted on Russia to secure a ceasefire in Ukraine, EC President Ursula von der Leyen said on June 15, urging the G7 to ramp up sanctions.
- The European Union faces an uphill struggle to lower the Russian oil price cap amid US opposition, and a crude price spike driven by Iran-Israel tensions, Bloomberg reports. The EC included a measure to lower the G7 cap to \$45/bbl from the current \$60/bbl in a draft package of sanctions on Russia last week.
- Some member states supporting the cap are concerned that the proposal may not get the necessary unanimous support from the EU governments without US backing, diplomats told Bloomberg.
- Russian forces carried out an attack on Ukraine's Kremenchuk oil refinery on June 14 according to various reports.

#### Canada:

- Further Canadian oil sands output has been restored after wildfire disruption although threats from blazes remains.
- MEG Energy's Christina Lake project was reported on June 12 to be ramping up to full operations after a 70kb/d section was delayed back from maintenance due to power loss. On June 10, Cenovus said it was ramping up production at the Christina Lake oil sands site.
- Alberta Wildfire Status currently shows a total of 56 active fires with 20 out-of-control.

#### Industry Reports:

- OPEC kept the global oil demand growth forecast unchanged from last month's assessment at 1.29mb/d in 2025 and 1.28mb/d in 2026, according to the June Monthly Oil Market Report. Growth is primarily driven by non-OECD demand. Non-DoC liquids supply is forecast to grow by about 0.8mb/d in 2025 while 2026 is revised slightly down to 0.73mb/d from 0.8mb/d with both driven by the US, Brazil, Canada, and Argentina.
- Crude oil production from DoC participating countries increased by 180kb/d in May on the month to about 41.23mb/d, according to available secondary sources. Saudi Arabia output rose by 177kb/d, Russia was flat on the month while output from Kazakhstan, Iran, Iraq and Venezuela all dipped slightly.
- Global oil markets remain well supplied according to the IEA as long as Middle East escalations do not lead to disruptions. Slowing global demand and increased OPEC+ production are providing a buffer against Middle East fears the group said in its latest monthly report. IEA Lowered the 2025 global oil demand growth

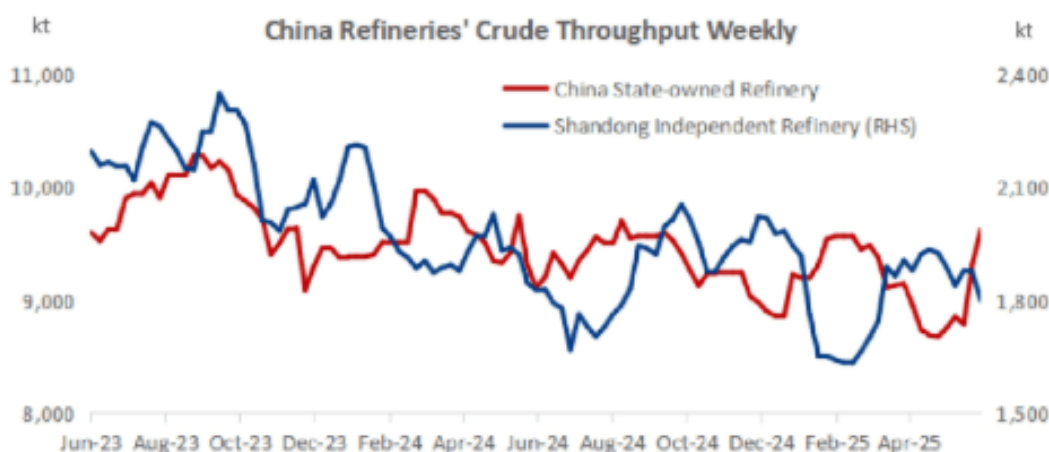
forecast to 724kb/d from 741kb/d and raised supply growth to 1.8mb/d from 1.6mb/d. China's oil demand will stop growing earlier than expected, reinforcing the outlook for a global peak and prolonged supply surplus this decade.

## Oil Products:

**Diesel prices** have surged higher this week amid concern for Middle East supplies due to the **Israel-Iran conflict** and on the back of an already tight market. Europe is dependent on Middle Eastern and Asian diesel since cutting off Russia supplies. The US diesel cracks has rallied from just below \$23/bbl on June 13 to \$30.5/bbl and the European Gasoil-Brent spread is up from \$16.2/bbl to \$20.4/bbl.

- Funds raised **ICE Gasoil net longs** to the highest since January driven by an increase in long only positions as well as a drop in short only positions. Nymex diesel net longs rose to the highest since late February. Nymex gasoline maintained a small net long position despite edging lower on the week.
- **US diesel stocks** are the lowest for the time of year in two decades and 17.5% below the five-year average, while ARA Gasoil stocks also fell in late May to 8.4% below normal, although Singapore Middle Distillates inventories gained last week back to near normal levels.
- The premium of **front-month ICE gasoil futures** reflects tighter supply to Europe with the 1-2 month spread rising to a high at \$16.5/mt.
- **A closed arbitrage from the Mideast Gulf and India since** April has reduced supply to Europe, traders told Argus. Only 2.97m tons of diesel and other gasoil has arrived in Europe from the Mideast Gulf and India in April and May, compared with about 5.72m tons in the same period last year. The arbitrage has been closed because of the relative weakness in European prices compared with those in Singapore.
- The start of the **Mediterranean ECA** at the start of May has also placed strain on European supply of diesel and other gasoil.
- **Gasoil demand in Germany** has risen sharply after Israel's attack on Iran in the early hours of June 13, Argus reported. The rise in demand coincides with relatively low import availability into northern German ports, largely because of reduced arrivals from countries east of the Suez Canal. Northern German ports received 67kb/d of diesel from the US and the Netherlands during June 1-13, a daily average increase from May but still 44% lower than April.
- **Europe's gasoline balance** is tighter than at any point in the last 15 year due to refinery consolidation and a shift away from diesel cars, FGE said. A surge in gasoline loading to West Africa and transatlantic flows have combined with Iberian power disruption to refineries at the end of April.
- **Israel's Bazan Group** said all refinery facilities have been shut down after a power station was significantly damaged in an Iranian strike on Monday night. The Energy minister said on June 18 they are expected to return to operation within 30 days.
- A European Union proposal to **ban imports of petroleum products made from Russian crude** as part of its 18th sanctions package could impact Indian/Turkish flows to Europe, Bloomberg reports. India and Turkey together imported about 1.8mb/d of Russian crude in Q1 2025, according to Kpler data cited by Bloomberg. During the same period, the EU imported about 450kb/d of refined fuels from the two nations. The EU proposal will need the backing of all member states to be enacted but both Hungary and Slovakia threaten to block additional sanctions on Russian energy.
- **Seaborne oil product exports from** Russia fell 1.2% on the month in May to 9.604m tons, according to Reuters. The decline was led by a drop in exports from Far East ports of 31.1% to 484.1k tons due to seasonal refinery maintenance. However, exports from the Baltic ports of Primorsk, Vysotsk, St. Petersburg and Ust-Luga rose 3% to 5.386m tons.

- **Russia's crude-processing rates** averaged 5.27mb/d for May 1-28, down by around 120kb/d compared with most of April, Bloomberg reported earlier this month. Russia's crude-processing rates averaged 5.41mb/d for June 1-4, the highest since mid-April on a weekly basis.
- **Russia's offline primary oil refining** capacity for July has been revised up by 21% from the previous plan to 3.2m tons, according to Reuters compared to 3.1m tons in June and 3.2m tons in May. The revision is due to adjustments to maintenance plans, in particular by the TAI-FNK refinery which is due to halt fuel production for a month from June 15.
- **Monthly shipments of diesel from Russia's Baltic port of Primorsk** edged up to 1.38m tons in May, according to Bloomberg based on port report and ship tracking data. Russia's ultra low-sulphur diesel exports from the Baltic port of Primorsk are set to fall to 1.3m mt in June, according to Reuters sources, earlier this month.
- **China's exports of refined products** fell 17.7% year-on-year to 4.41m tons in May, customs data showed amid maintenance at both state-owned and independent refiners. Diesel exports saw a large y/y drop compared with April, falling 52.1% to 520k tons.
- China may issue the **third batch of fuel export quotas** for 2025 in July with an allocation of about 10m tons, according to JLC. The quota would raise the 2025 total to about 55m tons, compared with 54m tons last year. Utilization of quotas at the end of May were 61% for clean products and 42% for fuel oil, based on plans made by refiners. China's clean product exports are expected to remain "relatively low" at around 3.2m tons in July and 3.4m tons in August, JLC added.
- **CDU capacity utilisation rates at China's state-owned** refineries are expected to climb further in the week to June 19, according to OilChem, with several refineries finishing the maintenance of their downstream processing units. CDU capacity utilisation rates at state-owned refineries in China averaged 78.82% last week, up 2.52 percentage points on the previous seven-day period. At independent refineries CDU rates were down 1.03 percentage points to 58.81%. CDU capacity utilisation rates of China's refineries will keep rising throughout June, probably the best performing month since Q1 2024, OilChem estimates.



- **China's gasoline demand** is projected to find mild support this week from the travel peak after college entrance exams. However, OilChem cautioned that the typhoon and continued to rain in the Changjiang delta region will restrict the demand for both gasoline and gasoil, as outdoor activities are restricted. China's daily gasoil consumption is estimated at around 533k mt/d in June. This is down 8.5% on the month and 3.3% on the year.

- **China's crude demand** is expected to recover in June as some refineries restart following seasonal turnarounds, according to SCI. The market lacks obvious positive support from demand. Gasoline demand gradually weakened after the May Day holiday.
- **India's diesel sales fell** in the first half of June, according to company data cited by Bloomberg. Diesel sales fell 3.1% on the month and 4.8% lower on the year while gasoline sales fell by 7% on the month but 2.3% higher year on year.
- The value of **Nigeria's exported oil products** surpassed imports for the first time in more than three decades in Q1 as the Dangote refinery whittled down reliance on foreign supplies, Bloomberg reports. The rebound in domestic refinery hasn't fully eliminated the need to import – half of the estimated 50 million litres of daily gasoline consumption is still imported, according to Bloomberg.
- **Refinery margins rose in May** in all reported trading hubs, amid a decline in feedstock prices and continued gasoline strength, OPEC MOMR showed. Global refinery intake rebounded by nearly 400kb/d on the month to 79.3mb/d, but 1.6mb/d lower on the year.
- High-cost regions including **Europe and the US West Coast** are most likely to see further cuts in refining capacity while Asia expands, according to the IEA Oil Market Report. This year, 1mb/d of capacity is set to close, the most since 2022. Plants with FCCs will be at risk as gasoline demand falls. The IEA also cut its forecast for 2025 global gasoil/diesel demand by 79kb/d to 28,342kb/d.

## Analyst Views:

### Morgan Stanley:

Morgan Stanley has raised its Brent price forecasts, citing increased risks following strikes between Israel and Iran, Bloomberg reports.

- The bank has raised its Q3 outlook by \$10/bbl to \$67.5/bbl, according to a June 16 note cited by Bloomberg.
- The 'most probable scenario', which centres around the conflict not disrupting flows, sees Brent declining back to \$60/bbl.
- A fall in Iran's exports remains possible, which could remove next year's global surplus; in a balanced market, oil trades \$75-80/bbl.
- In the case of a wider war, further price gains are not out of the question.

### Citibank:

Citibank analysts expect Brent crude to trade around current levels of \$70-80/bbl in the very near term as the conflict in the Middle East continues, they said in a note on June 16 cited by Reuters.

- However, the bank maintains its longer term \$60-65/bbl oil price forecast.
- "At this stage, there is very limited to no impact on oil output and exports, so the rally largely reflects a rising risk premium to account for potential production and export disruptions," they said.

### JPMorgan:

JPMorgan identifies four major risks on the global gas/LNG market in the event of a further escalation in regional conflict in the Middle East, following Israel's attack on Iran overnight.

- Iran is a significant exporter of natural gas to neighbouring countries. Should flows be disrupted, Turkey may need to turn to the global LNG market for alternative volumes.
  - Turkey imported 7 Bcm of Iranian natural gas in 2024.



- This could add the equivalent of 1% to estimates 2025 global LNG demand.
- While Iraq is another major importer of Iranian gas, it lacks access to LNG imports.
- Potential retaliation by Iran could impact Israel's gas production and exports.
  - Israel produced 27 Bcm of natural gas from its three fields in 2024, primarily for domestic power generation and exports to Egypt and Jordan.
  - Egypt and Jordan have 8.5 Bcm/y of spare regasification capacity should Israeli flows be disrupted, adding about 1.5% to 2025 global LNG demand.
- Other producing countries could be affected by potential retaliation by Iran.
  - Azerbaijan exported 25.2 Bcm of natural gas in 2024, with 90% going to Europe and Turkey.
  - If those buyers turned to the global LNG market, it could add 4% to global demand this year.
  - Meanwhile, Oman accounts for approximately 3% of global LNG supply.
- An impact of supplies through the Strait of Hormuz poses the greatest risk to energy markets.
  - It is the sole export route for Qatari and UAE LNG volumes, together accounting for 20% of global LNG supply.
  - JPMorgan assesses the probability of such disruption as extremely low.

#### Goldman Sachs:

Goldman Sachs said that it assumed there will not be disruptions to Middle East oil supply after Israel launched an attack on Iran, Reuters reported.

- Goldman Sachs still expects that strong supply growth outside of US shale will push Brent prices down to \$59/bbl in Q4 and \$56/bbl in 2026.
- It sees WTI at \$55/bbl in Q4 and \$52/bbl in 2026.

#### Goldman Sachs Risk Scenarios from Iran-Israel Fallout

BASE CASE: Geopolitical risk premium to decline if oil is unaffected, with Brent seen at \$59/bbl in Q4 and WTI at \$55/bbl.

- For damage to energy assets, the impact on prices would be more limited if damage was at downstream assets, rather than upstream or midstream as Iran mainly exports crude.
- SCENARIO 1: Potential damage to Iran's export infrastructure cuts Iranian supply by 1.75mb/d for 6 months before gradually recovering. Extra OPEC+ production makes up half peak Iranian shortfall. KSA also has significant spare capacity. Brent peaks at \$90/bbl before declining back to \$60s/bbl in 2026.
- SCENARIO 2: Broader Disruption of Regional Oil Supplies. An interruption to flows via the Straits of Hormuz (20% of oil supply) is unlikely, there is focus from investors and policy markets.
- In this case, OPEC+ may not be able to deploy spare capacity in extreme scenario, driving prices to \$100/bbl.
- However, the upside would still be limited to the near term, due to OPEC+ possible raising supply for longer, and the risk of a US recession remains.

#### JPMorgan:

Global oil demand growth has returned to expected levels after missing estimates in April and May, JPMorgan said in an analyst note.

- Month to date through June 10, global oil demand has averaged 103.9mb/d, a 560kb/d increase y/y, closely aligned with the bank's expectation of 580kb/d.

- This follows a period of underperformance that began in April.
- Disruptions caused by trade policy were short-lived, JPMorgan says, as demonstrated by a substantial revision in container volume arrivals in June, according to Port of Los Angeles data.
- Moreover, US gasoline demand has gained momentum after a sluggish start to the summer driving season last week, and the bank expects this strength to continue.
- However, pockets of demand softness persist, particularly within the US air travel and trucking sectors, JPMorgan notes.
- Meanwhile, US distillates demand has struggled to rebound significantly.
- Year-to-date, global oil demand growth is tracking 1.0mb/d, similar to the bank's revised forecast of 1.06mb/d.
- Global total liquid inventories surged by 34m bbls in the first week of June, with crude oil stocks rising by 27m bbls. Year-to-date, global liquid stocks have expanded by 100m bbls.

**RBC:**

The oil markets have largely assessed the Strait of Hormuz and other critical oil infrastructure is not at risk from Middle East escalations according to RBC's head of commodity research Helima Croft speaking to CNBC.

- The reduction in fears has supported the energy pullback from price spikes on Friday and Monday.
- "There are reports that Iran are looking for an off ramp from this conflict and possibly looking for a ceasefire," Croft said.
- "I would not be so sanguine that we are not going to see this war drag on for another couple of weeks at a minimum, the Israelis seem to be preparing for a longer conflict," Croft added.
- "Iran probably doesn't have the capability to close the Strait of Hormuz for an extended period of time because of the US 5th fleet located in Bahrain," she said.
- "I would not rule out that we could see energy infrastructure attacks in a prolonged war situation," Croft concluded.