MNI Research: Iran-Israel Conflict - Scenarios for Energy Markets

By Lawrence Toye (16/06/2025)

- Israel launched **Operation Rising Lion** early on Friday, targeting Iran's nuclear energy programme, an operation that could **last for weeks**.
- This has led to a military exchange by the two nations, causing **energy prices to jump**.
- Below are **potential scenarios** for energy markets that could arise due to the conflict.

Key Events for Energy in the Conflict to Date

Israel struck the onshore Phase 14 processing plant at Iran's South Parts field and forced the shutdown of a production platform on June 14. The field accounts for two-thirds of Iran's domestic gas production, which is primarily for domestic use. Israel also struck the Shahran oil depot in Tehran.

- Iran's 500k b/d Abadan refinery and 110k b/d Tabriz refinery appear to be operating as normal.
- Israel has suspended production at the 12 Bcm/y Leviathan and 6.5 Bcm/y Karish gas fields.
- Due to a drop in flows of Israeli gas, Egypt is looking to import 1m mt of fuel oil as a replacement power generation fuel.
- Tanker chartering rates from the Middle East to Asia have climbed and ship bookings have slowed amid supply disruption fears, Reuters said. It added that cargo insurance premiums could rise by $3-$8/b if there are further attacks.

Further Attacks on Energy Infrastructure Limited

Under the most likely scenario, the war continues without further major attacks on energy infrastructure, either in Iran or Israel.

- Iran currently has little incentive to target wider energy infrastructure across the Persian Gulf. This risks direct confrontation with the US, disrupting energy flows to its ally China, and alienating Gulf producers such as Saudi Arabia. Gulf states have provided at least rhetorical support for Iran by condemning Israeli strikes.
- Israel may limit its targets to military installations and avoid hitting oil export infrastructure and spiking global oil prices.
- In this scenario, Iran's exports would continue, although risks of unintended strikes on shipping would elevate freight rates.
- As the market gradually desensitises to the conflict with time, Brent gradually retreats to $60/b, Morgan Stanley forecast.
- LNG prices would likely follow the same trend, with elevated freight rates due to the war risk.
- However, a sustained shut in at Israeli gas fields constrict supplies to Egypt and Jordan, forcing them to find alternative power generation fuels. Egypt is already looking for fuel oil cargoes as a replacement.
- The longer the conflict lasts, the higher the likelihood of Cairo acquiring further LNG volumes.

Domestic Energy Industry Comes Under Attack

Another possible scenario is an expanded Israeli attack focused on Iran's domestic energy infrastructure, while sparing export infrastructure.

- Israel could expand strikes on the South Pars field and target oil terminals and hubs in Hormozgan province.

- The Abadan refinery, producing 25% of Iran's refined product demand, could be a target. Likewise, Israel could strike the Mahshahr Oil Terminal - a key logistics centre for transporting Abadan's products.
- This is a possible scenario, and its likelihood depends on the trajectory of the war. Should Israel struggle to achieve its key objectives in neutralising Iran's nuclear programme, further escalation to hamper the Iranian economy, sew domestic unrest, and destabilise the regime may be considered.
- While Israel said regime change is not its goal, this option could also be used as a coup de-grâce for the Iranian leadership if signs of collapse emerge (This has not occurred so far).
- Widespread attacks on Iran's domestic infrastructure would be reciprocated with the targeting of Israeli gas fields, bullish for natural gas prices if there were to be considerable damage.
- Without wider targets on export infrastructure, analysts see this as having negligible impact on global oil prices.

Kharg Island Hit: Iran's Exports Curtailed

A lower probability scenario would be an expanded Israeli operation to include strikes on Iran's energy export infrastructure, without causing Iranian retaliation across the Persian Gulf.

- This would primarily involve targeting the Kharg Island terminal, which oversees 90% of the country's crude exports.
- China, the largest buyer of Iranian oil, would be most affected and would need to find alternative grades, likely from the Middle East.
- Given that China also imports Middle Eastern crudes and Qatari LNG, it has an interest in restraining any Iranian retaliation on wider infrastructure in the Persian Gulf.
- The scenario would be very disruptive for oil markets, raising prices both short and longer term, and increasing global inflation expectations.
- The UAE and Saudi Arabia could boost capacity by more than 3.5m b/d in a short period, largely offsetting the lost Iranian flows.
- Goldman Sachs said that under a scenario where Iranian exports fall by 1.75 b/d for up to six months, Brent peaks at $90/b before declining back to $60s/b in 2026.
- Morgan Stanley said that this outcome could raise oil prices to $75-80/b.
- The scenario is possible, but less likely than those mentioned previously: it is unlikely to be sanctioned by the US unless it were already directly involved in the conflict.
- US President Donald Trump has made lowering oil prices to drive down inflation and cut interest rates a key objective.
- Consequently, Israeli action that spikes oil prices and buoys inflation and interest rates would draw ire from the White House. This could undermine continued support and indirect cooperation.

Wider Persian Gulf Energy Infrastructure Attacked

Iran could widen its attacks to wider energy infrastructure and US military installations in the Persian Gulf, without attempting to close the straits of Hormuz.

- This scenario would be more likely in a situation where the US military and its regional bases become more directly involved in the operation.
- It would also be more likely to occur if Kharg was attacked and Iranian exports were curtailed.
- Host countries like Saudi Arabia and Qatar could also be in the crosshairs - Iran was accused of targeting Saudi oil fields in 2019. This would put regional oil fields, refineries, and export terminals under threat.

- Iran could strike directly, or via its proxies, with the Houthis the most likely ally. The Houthis could resume strikes on Saudi Arabia, or on ships around the Bab El Mandeb Strait.
- Aside from infrastructure, Iran could also attack specific ships in the Persian Gulf, driving up the freight rates for Middle East tankers. In April 2024, Iran seized the MSC Aries container ship which it claimed was Israel-linked.
- Under this scenario, it would be more difficult for Saudi Arabia and the UAE to ramp up production to replace lost Iranian flows, more bullish for oil prices.
- This scenario is currently viewed as unlikely given that it would repudiate the rhetorical support from Gulf states, create supply issues for China, and risk drawing a direct conflict with the US.
- However, further escalation or destabilisation of the Iranian regime could force it towards a higher-risk gambit.

Worst Case Scenario: Attempted Closure of the Straits of Hormuz

The worst-case and least likely scenario is an attempt by Iran to completely cut off the straits of Hormuz, disrupting around 20% of the world's oil and LNG supplies.

- Kpler noted that around 6-6.5% of those volumes could be diverted by the East-West pipeline in Saudi Arabia, but there would be a significant impact on oil markets. The pipeline could also be a target.
- JP Morgan forecast oil prices rising to $120-130/b in this scenario. Forbes wrote that even a credible threat to disrupt the waterway could boost crude by $10/b.
- This scenario unlikely for the same reasons as mentioned above related to wider attacks in the Persian Gulf. Moreover, analysts have also noted the logistical difficulty in blocking the Straits, which have remained open during previous Middle Eastern conflicts.
- The prospect of this occurring is very low, but a severe weakening of the regime's position in the coming weeks could raise its likelihood. Closing the Straits of Hormuz would likely be a last-resort and high-risk gamble if the Iranian regime felt it had no other options.

Persian Gulf Oil Infrastructure – Source (FT)