

Oil prices jump as Middle East turmoil roils markets

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Oil prices surged more than 2% on Monday as military clashes between Israel and the Palestinian Islamist group Hamas ignited fears of a wider conflict in the Middle East.



Oil rigs are seen at Vaca Muerta shale oil and gas drilling, in the Patagonian province of Neuquen, Argentina. Source: Reuters/Agustin Marcarian

Brent crude was up \$2.28, or 2.7%, to \$86.86 a barrel by 08h59 GMT, while US West Texas Intermediate crude was at \$85.23 a barrel, up \$2.44 or nearly 3%. Both benchmarks spiked by more than \$4 a barrel earlier in the session.

The surge in oil prices reversed last week's downtrend - the largest weekly decline since March - in which Brent fell about 11% and WTI retreated more than 8% as a darkening macroeconomic outlook intensified concerns about global demand.



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While the underlying supply-demand balance is unaffected, said Tamas Varga of oil broker PVM, "any rise in tension in the Middle East usually leads to an increase in oil prices and it is no different this time around".

Hamas assault

Hamas on Saturday launched the largest military assault on Israel in decades, triggering a wave of retaliatory Israeli air strikes on Gaza.

The eruption of violence threatens to derail U.S. efforts to broker a rapprochement between Saudi Arabia and Israel, in which the kingdom would normalise ties with Israel in return for a defence deal between Washington and Riyadh.

Saudi officials reportedly on Friday told the White House that they were willing to raise output next year as part of the proposed Israel deal. Riyadh and Moscow have agreed to a combined 1.3 million barrel per day (bpd) voluntary cut until the end of 2023.

The question is how long will this oil rally last, Citi analysts said.

"Timing is everything and the attacks almost certainly postpone any Saudi-Israeli rapprochement, along with any high probability expectation of Saudi Arabia reducing or eliminating its extra 1 million bpd cut if prices resume their recent fall."

Iran impact

There are also questions about whether Iran will be implicated in the conflict.

"If the conflict envelopes Iran... up to 3% of global oil supply is at risk. And if a wider conflict eventuates that ends up impacting transit through the Strait of Hormuz, around 20% of global oil supply could be held hostage," energy analyst Saul Kavonic told Reuters.

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