

Middle East tensions push oil above \$80, markets cautious.

Oil prices registered a slight decline in the early trading hours on Tuesday as traders took profits after a rise to the highest levels in over a month on Monday. This increase was driven by escalating tensions in the Middle East, heightening concerns about a potential regional war.

The surge in hostilities occurred when Iran-backed Hezbollah launched rocket attacks against Haifa, Israel's third-largest city. In turn, Israel is considering expanding its military actions in Lebanon, following a year of conflict since Hamas's attack on Israel, which triggered the ongoing war in Gaza.

Brent futures fell 23 cents, a decrease of 0.3%, to \$80.70 per barrel, while U.S. West Texas Intermediate futures dropped 20 cents, also 0.3%, to \$76.94 per barrel. Both benchmarks had risen over 3% on Monday, reaching their highest levels since late August and consolidating last week's momentum, which saw an increase of over 8%—the largest weekly gain in more than a year.

The rally began after Iran's missile attacks on Israel on October 1, 2023, with Israel promising to respond. While there is speculation about potential targets, including Iranian oil facilities, some analysts have expressed doubts about such an attack, suggesting that oil prices could drop significantly if Israel targets elsewhere.

ANZ Bank analysts noted on Friday that the Organization of the Petroleum Exporting Countries (OPEC) has excess supply capacity of 7 million barrels per day, which could offset any disruptions in Iranian oil production.

In other related news, Hurricane Milton intensified to a Category 5 storm as it approached Florida, leading to the closure of at least one oil and gas platform in the U.S. Gulf of Mexico on Monday.

U.S. crude oil inventories are expected to have increased by 1.9 million barrels for the week ending October 4, 2023, according to preliminary survey data. The American Petroleum Institute is set to release its report on U.S. inventories later today, with official figures from the Energy Information Administration expected on Wednesday.