

Oil prices expected to drop as Israel avoids key Iranian sites

With negotiations reopening on Monday, oil prices are expected to decrease following recent military actions in the Middle East. This expectation follows Israel's targeted attacks on Iran over the weekend, which notably avoided impacting Tehran's oil and nuclear facilities. The attacks, which did not disrupt energy supply, were part of Israel's retaliation for Iran's missile strike on October 1.

Last week, futures for Brent oil and West Texas Intermediate (WTI) rose by 4% amid fluctuating trading conditions. Market fluctuations were influenced by uncertainties regarding Israel's potential response to Iran's previous missile attack and the upcoming elections in the U.S.

The Israeli operation involved multiple jets conducting three waves of attacks before dawn on Saturday. These attacks targeted missile production sites and other military facilities near Tehran and in western Iran. Despite the scale of the attacks, Iran reported only limited damage, suggesting a moderate approach by Israel.

Market analysts reacted to these developments, indicating a likely drop in oil prices. The head of research at Onyx expressed relief on LinkedIn, noting that market concerns regarding Israel's response had been alleviated. He also mentioned the timing of the attacks, which occurred after U.S. Secretary of State Antony Blinken's departure, as potentially favorable for the U.S. administration with elections approaching.

A market analyst from IG in Sydney pointed out that Israel's avoidance of oil infrastructure and the expectation that Iran will not retaliate removes a layer of uncertainty from the market. He suggested that this could lead to a "buy the rumor, sell the fact" reaction in the crude oil futures markets, with WTI potentially returning to around \$70 per barrel.

The analyst predicts a rapid deflation of the geopolitical risk premium that had been incorporated into oil prices, with Brent likely returning to the \$74-75 per barrel range.

A commodities analyst at UBS also expects a drop in oil prices on Monday due to Israel's restrained response. He anticipates that any downward movement in prices will be short-lived, citing the belief that the market had not incorporated a substantial risk premium into oil prices.

As markets prepare to open, these analyses suggest a temporary shift in oil price dynamics, influenced by recent developments in the Middle East.