

Oil prices: What are the unintended consequences of destabilizing Iran?

Crude oil prices have risen over the past week following missile strikes launched by Israel against Iran, and with the Trump administration considering joining the conflict, JPMorgan (NYSE: JPM) has warned of the unintended consequences of destabilizing the Iranian regime.

The war launched by Israel against Iran last week is far from the symbolic series of strikes and counterstrikes witnessed last year, which were primarily aimed at deterrence and de-escalation, according to JPMorgan analysts in a note dated June 18.

Instead, it is a sustained and multifaceted military campaign, primarily targeting critical components of Iran's nuclear program and ballistic missile capabilities, while also exerting significant pressure on the regime.

Additionally, Bloomberg reported on Thursday that senior U.S. officials are preparing for the possibility of a strike against Iran as early as this weekend, although the situation remains uncertain.

A direct U.S. attack on Iran could mark a major escalation in the Israel-Iran conflict, with Tehran warning of severe consequences should it occur.

Nevertheless, despite the high risks, oil prices have remained relatively contained, rising by \$10 since last Tuesday, prior to Israel's attack.

At \$75 per barrel, Brent crude is approximately \$10 overvalued compared to its estimated fair value for June, according to the American bank, reflecting a 17% probability of a worst-case scenario in which the supply impact extends beyond the short-term reduction in Iranian exports.

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JPMorgan still considers the risk of closure of the Strait of Hormuz to be very low for several reasons—mainly because it would be regarded as an act of war by the United States.

If history is any guide, the bank added, oil shocks stemming from conflicts tend to be short-lived, but events involving a major regional oil producer often have a material impact on oil prices.

Regime changes in oil-producing countries—whether through leadership transitions, coups, revolutions, or major political shifts—can profoundly impact the country’s oil policy, production, and global oil prices, both in the short and long term.

While demand conditions and OPEC spare capacity significantly shape the overall market impact, these events—JPMorgan evaluated eight notable regime changes in oil-producing countries since 1979—typically lead to a substantial increase in oil prices, with an average rise of 76% from start to peak.

Initially, oil prices rose by about 5% in the first month, but over a three-month period from the start of the conflict, they posted an average increase of 30%, eventually stabilizing at levels around 30% higher than pre-conflict.

Currently, the escalation of hostilities between Israel and Iran has already raised global oil prices by 8% compared to the period before the conflict began—still without any visible loss in Iranian crude oil supply.

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“If history is any guide, further destabilization of Iran could lead to significantly higher oil prices sustained over prolonged periods,” JPMorgan added.