

Oil Market's Response to the Israel-Iran Conflict: Overview and Outlook

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Over the past weeks, tensions between Israel and Iran reached a boiling point when Israel launched a direct strike on Iran's nuclear sites supported by U.S. military, triggering a brief but intense military exchange. The conflict, which lasted just under two weeks, caused an immediate spike in oil prices and sent ripples through global financial markets. While the situation deescalated quickly thanks to a cease-fire brokered by U.S. President Donald Trump, the episode highlighted just how vulnerable energy markets, and the broader global economy remain to sudden geopolitical shocks.

History of Israel-Iran Conflict

For over thirty years, Israeli Prime Minister Benjamin Netanyahu has warned that Iran's nuclear ambitions pose an existential threat to Israel. Already in 2010 and 2012, he considered launching strikes on Iran but backed off due to resistance from his military and intelligence chiefs. The situation changed dramatically after Hamas's October 7, 2023, attack on Israel, which killed around 1,200 people and led to a broader campaign by Netanyahu against not only Hamas but also against Iran's network of allied militias in the region. By the end of 2024, after

a successful offensive, Israel had forced Hezbollah into a cease-fire and was emboldened by regional shifts, including the fall of Syria's Assad regime.

Following these developments and the reelection of Donald Trump in November 2024, Netanyahu began planning a direct strike on Iran, as Israel had also knocked out most of Iran's aerial defenses in an exchange of missiles that October. The only major obstacle was the uncertain position of the United States. Trump, initially reluctant and focused on new negotiations with Iran, gave Israel a tentative green light to proceed on its own. Netanyahu pushed forward, preparing for a risky solo attack on Iran's hardened nuclear facilities without U.S. backing.

On June 12, 2025, Israel launched its long-anticipated strike on Iran, targeting key military and nuclear sites. Soon after Israel's opening attacks, Trump reversed his stance and authorized direct U.S. involvement. U.S. B-2 bombers dropped bunker-buster bombs on Iran's most fortified nuclear facilities, while Navy submarines fired cruise missiles, significantly escalating the conflict and dealing a heavy blow to Iran's capabilities. As a retaliatory strike Iran then attacked a U.S. military base in Doha, Qatar, without much effect as 11 of the 12 missiles were intercepted.

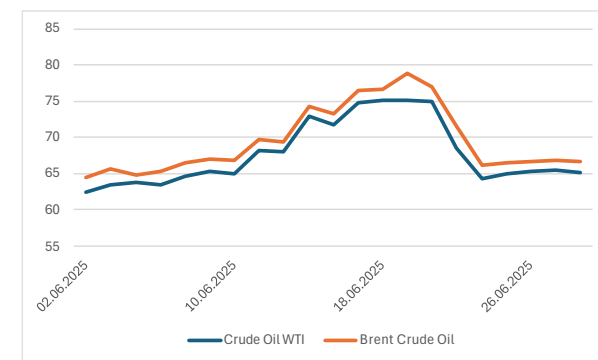
The 12-day war between Israel and Iran ended as abruptly as it began, when President Trump proclaimed a cease-fire in a series of social-media posts which held so far. How much damage U.S. strikes inflicted on Iran's nuclear sites remains unclear, as is the U.S.'s approach to any nuclear talks with Iran. Administration officials have repeated Trump's comments that the program was "obliterated" and dismissed a leaked preliminary intelligence report that said the attacks had only delayed Iran's nuclear efforts by a few months. The

head of the U.N. atomic agency has said Iran's main nuclear facilities suffered "enormous damage" and warned Iran to allow in the agency's inspectors.

Market Reactions

Oil markets initially surged in response to Israel's surprise attack on Iran, with Brent crude rising about 7% and WTI following closely behind. The escalation raised alarms over potential disruptions to oil exports, especially through the Strait of Hormuz, a vital transport route for nearly 20% of global supply. Fears of broader regional conflict and damage to infrastructure, which were amplified by U.S. strikes on Iranian nuclear sites, pushed prices even higher. However, prices quickly began to retreat as it became clear that Iran's response had been deliberately measured and caused no casualties. Markets interpreted this as a sign of de-escalation, helping Brent fall back to around \$67 per barrel and WTI to \$66.75, nearly where they stood before hostilities began.

Figure 1: Oil Price Development in June



Source: Wall Street Journal Market Data

In the days that followed, traders grew increasingly confident that the cease-fire brokered by President Trump might hold, and risk premiums in the oil market were progressively priced out. Analysts noted that global oil supply fundamentals remained largely unchanged; key transit routes like the Strait of Hormuz remained open, and no critical oil infrastructure was hit. The presence of ample global stockpiles and OPEC+ spare capacity further calmed supply fears. As a result, despite initial volatility, the conflict's impact on oil markets appeared muted, with prices stabilizing and equities recovering. Energy experts stressed that while temporary spikes remain likely in the event of renewed violence, the structural resilience of today's oil market has prevented a lasting crisis.

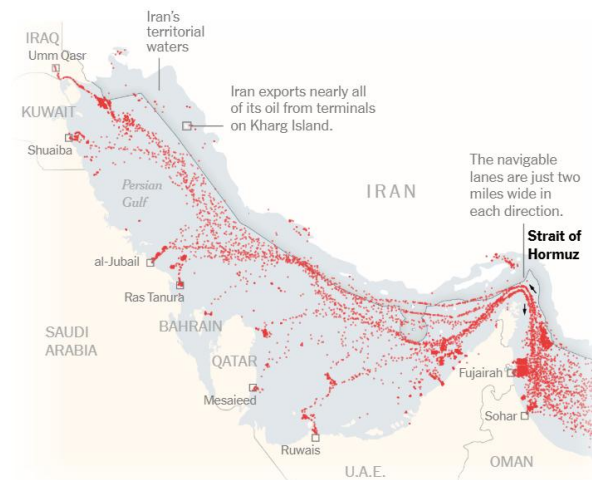
Future Uncertainty and Possible Scenarios

Looking ahead, the future of U.S.-Iran relations remains deeply uncertain, hinging on whether Tehran resumes its nuclear enrichment program and how Washington responds. President Trump said that he believed Iran now abandoned its nuclear ambitions but warned that he "absolutely" would be willing to bomb the country again if it resumed enriching uranium to a concerning level. While the president recently indicated openness to easing sanctions to help Iran "recover," that window quickly closed after hostile messaging from Iran's Supreme Leader. Still, Iran appears weakened and is potentially open to talks, though any real thaw in relations will depend on inspection guarantees and a verifiable halt to nuclear development according to White House officials.

However, Iran also has investors worried not only about further military reaction but also about the nightmare scenario of closing the Strait of Hormuz. Every day, roughly one-fifth of the world's oil supply

squeezes through this narrow waterway on Iran's southern border. A closure of this trading route could reduce the flow of energy to much of the world and send energy prices soaring for consumers and businesses. Even without a full closure, Iran has the ability to choke or complicate tanker traffic through this narrow passage. However, such an escalation would also damage Iran's own oil-reliant economy while harming major energy players like Saudi Arabia and the UAE. Although this would mean a heavy blow to the world economy, the U.S.'s shale oil boom acts as a strategic buffer, allowing for more resilience against potential supply shocks.

Figure 2: Strait of Hormuz



Source: New York Times

China has developed an economic two-sided dependency from Iran. Because of sanctioned oil exports against Iran, China became the biggest importer of Iranian oil, with over 90 % of Iran's crude now going to China. Tehran relies heavily on Beijing not just as a buyer but also as a financial lifeline. Because transactions are conducted in

Chinese renminbi rather than U.S. dollars, Iran has limited flexibility in spending its earnings, reinforcing its dependence on Chinese goods and services. Yet, with few alternatives due to international sanctions, Iran remains locked into this asymmetric relationship. Due to this relationship also Asian energy markets are affected by possible price increases in Iranian oil, which they could buy well under market prices.

While the Israel-Iran conflict briefly rattled oil and financial markets, the measured Iranian response and rapid de-escalation helped stabilize prices and contain broader economic fallout. Key benchmarks like Brent crude retraced gains, underscoring a growing investor belief in the system's ability to absorb geopolitical shocks. However, the crisis also exposed enduring vulnerabilities, particularly in energy chokepoints like the Strait of Hormuz and in the asymmetric threats posed by regional proxy forces. For global markets, the conflict serves as a stark reminder: geopolitical flashpoints may be short-lived, but the risks they pose to supply chains, investor sentiment, and long-term stability remain deeply embedded in the global economic landscape.