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What's new in the oil markets

OIL PRICES CONTINUE TO BE VOLATILE AS THE ISRAEL-IRAN CONFLICT RAGES ON

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Oil prices continue to be volatile as the Israel-Iran conflict rages on, raising concerns about potential oil supply disruptions. This morning, Brent crude price is trading around \$74.75.

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Friday, market focus was all about the outbreak of a direct war between Israel and Iran. Iran's nuclear facilities were targeted by Israel in what could be a prolonged operation to prevent Iran from building atomic weapons. Iran has responded by sending missiles back to Israel. Over the weekend and into Monday, the fighting has continued.

The developments in the Middle East have raised concerns whether Iran will target the Strait of Hormuz. The strait is a narrow shipping lane between Iran and Oman where about a fifth of the world's total oil consumption passes through. That is around 20 million barrels per day (bpd) of oil, condensate and fuel. In such case, it could push oil prices sharply higher, as a row of OPEC members export most of their crude via the strait, mainly to Asia. The strait will probably be protected by the U.S. and allies, but Iran's Revolutionary Guards have seized several western tankers in that area in recent years. Any Iranian efforts to block the strait, or even delay transport through it, could lead to disruptions in global oil and gas supply. However, Iran could also pay a heavy price for a potential blockage of the Strait of Hormuz as its oil exports are entirely sea-based and could be counterproductive to Iran's relationship with its sole oil customer, China.

Late Friday evening, Baker Hughes in its weekly report stated that the number of U.S. oil and natural gas rigs fell for seventh week in a row with the total count down by 35 rigs or 6% below this time last year.

The G7 summit is taking place in Canada these days, markets are looking for comments and news in regards both to the ongoing unrest in the Middle East, but also on the current trade tariffs.

The U.S. dollar has traded left, right and centre the past few days as the dollar's role as a safe haven in uncertain times will be tested. Besides the Middle East conflict, the spotlight will be on the U.S. Federal Reserve meeting on Wednesday where the central bank probably will leave the interest rates unchanged. However, it will be interesting to see the central bank's views on recent data which has broadly indicated softening economic activity and even with a risk of increasing price pressure.