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Oil prices at $120?

Oil prices posted their biggest single-day gain in more than two years as Israel launched air strikes against Iran, causing fears that a wider conflict in the Middle East could disrupt global oil supplies. Oil traders viewed the Israeli strikes as the most significant geopolitical event since the onset of Russia's war in Ukraine.

Largest single-day move since March 2022

West Texas Intermediate (WTI) crude futures jumped by 7.3 percent to settle at $72.98 per barrel last Friday, while Brent crude futures rose by seven percent to $74.23. Both benchmarks surged as much as 14 percent and 13 percent, respectively, during intraday trading, marking the largest single-day moves since March 2022 when Russia's invasion of Ukraine sent energy markets into turmoil.

Israel targets nuclear facilities

Israel said it had targeted Iran's nuclear facilities, ballistic missile factories and military commanders on Friday at the start of what it warned would be a prolonged operation to prevent Iran from building an atomic weapon. US Secretary of State Marco Rubio said Israel had taken a "unilateral action against Iran" without US support.

Oil price shock weakens Philippine peso

Iran's retaliatory missile strikes on Israel in the afternoon, with explosions heard over Tel Aviv and Jerusalem as sirens sounded across the country, sent investors scrambling for traditional safe havens. Gold climbed by 1.3 percent to reach $3,433 per oz, while the US dollar index (DXY) increased by 0.3 percent, bouncing off three-year lows amid the escalating geopolitical tensions. The oil price shock was felt locally, with the Philippine peso weakening by 0.92 percent against the US dollar to close at 56.19 from 55.68 the previous day.

Risk of a wider regional conflict

The immediate concern for energy markets is the risk that the US will be dragged in, which could dramatically escalate the conflict. Iran had threatened in recent days to attack US military bases across the region if hostilities broke out. The US has already begun withdrawing diplomatic personnel as tensions mounted in the days leading up to Friday's strikes. Should Iran follow through on its threats on American assets, it could rapidly expand beyond the bilateral Israel-Iran confrontation into a wider regional war engulfing multiple nations.

Supply disruption fears mount

Crude oil's price surge reflects investor concerns that a wider regional conflict could threaten oil flows through critical choke points, particularly the Strait of Hormuz where one-fifth of the world's oil supply passes. Iran currently produces around 3.3 million barrels per day (bpd) and exports two million bpd of oil and fuel. While Israel avoided energy infrastructure, investors are concerned that Iran could retaliate by blocking this vital shipping passage, threatening ships with shore-based missiles or interception by patrol boats and helicopters.

Oil could hit $120 if conflict spreads

Goldman Sachs analysts predict that crude oil prices could soar to $90 per barrel if the ongoing Israel-Iran conflict worsens or draws in other oil-producing nations in the region. Meanwhile, JP Morgan had forecast Brent could spike as high as $120 – $130 in a worst-case scenario, while maintaining their $60 base-case target for oil prices.

OPEC+ spare capacity could offset disruptions

OPEC and its allies could help offset potential disruptions. It still holds slightly more than five million bpd of spare capacity, including more than four million bpd from Saudi Arabia and the UAE. This should offset any disruptions from Iran's output. With crude now trading above $70 per barrel, analysts expect OPEC+ will likely proceed with the unwind of production cuts starting in August and possibly extending in the months to come.

Oil tests key resistance after "double bottom"

From a technical perspective, WTI crude's Friday rally shows a significant test of a major downtrend that has been in place since late 2023. The chart below shows a "double bottom" pattern at the $54.80 level in May, a bullish signal that suggested the worst selling pressure may have been exhausted.

Notable is the price recovery above the $64.70 major resistance level and the 40-week moving average around $68.39. Friday's intraday spike to $74.615 brought WTI crude directly to the descending trendline that has capped rallies over the past two years.

A breakout above this trendline resistance could open the door to $85-$90. Subsequently, if $90 is breached, prices could then target the March 2022 highs around $120-$130 – aligning with JP Morgan's worst-case forecast in the event of broader regional warfare, though such extreme escalation remains the least likely scenario.