

Nikolas Stylianou

07 January 2020

Middle East tensions with Oil Increased demand and Russia benefits

Iranian commander Soleimani has been killed after Donald Trump order his death and as a result caused rapid oil market reaction. A remarkable Brent crude Oil movement to the upside occurred after the announcement of the Iranian commander Soleimani killed, one of the strongest men in the Iran. These factors lead to geopolitical challenges that threaten the global development and there is a lot of uncertainties due to concerns about tension in the Middle East. Russia will be benefit from that situation and this could be a political initiative for bringing together Europe and Russia against U.S. To many countries that Iran had been exporting oil now have stopped their business, now all purchases have been cancelled and these countries must find other energy resources such as United Arab Emirates but more probably from Russia. Those countries that still unable to do business with Iran such as Japan, South Korea, Italy and India due to US pressure they necessarily must commence approaching Russia energies, although that Russia oil is of lower quality than Iran's in terms of sulfur content. Iran and Russia are strategic allies and form an axis in the Caucasus alongside Armenia. Iran and Russia are also military allies in the conflicts in Syria and Iraq and partners in Afghanistan and post-Soviet Central Asia. Putin's strategic goals includes reestablish and rebuild Russian power by creating global alliances designed to counter U.S influence and inserting the Russia in strategic regions such as the Middle East. A rapid US departure would give Iran what it has sought for years as per analysts but that could also create a void to Russia to exploit, although it is more probably to do this through diplomatic overtures trade deals and arms sales as analysts said. After the announcement Brent oil reached 70 dollar per barrel and as per analysts said oil price will extraordinary rise up during the following weeks to approximately 80 dollars per barrel, as a result this will harm many global economies that rely on energy imports by lowering consumer demand. If oil prices continue to soar, we will see inflation also to be increased in the global economy. Decline also being observed on European stock markets, including a decline of 0.6% on the FTSE 100 in London. At the same time there was a fall in US stock markets with Dow Jones reaching approximately 28470, however on Monday Dow Jones closed to 28700. In generally US stocks were moderately positive after a negative meeting began on Monday with concerns between Tehran and Washington remain high. The S&P 500 also closed 0.30% to 3.240 points, while the Nasdaq closed higher 0.56% to 8860 points. Facebook and Amazon have rose about 1%.



Asian Markets and Gold

Shares are falling, gold is rallying while US bonds are rising in value after the tensions in Middle East. This is the outlook formed in Asian markets at the first substantial session after Christmas and New Year holidays. As Peter Dragicevich said everyone was comfortable with the fact that there was a truce in the trade war and the outlook for the 2020 was a little better and we had another geopolitical reminder. Nikkei 225 in Japan fell 1.91% to approximately 23200 points while Hang Seng lost around 1.1% to 27144 points. Some indexes had marginal rise such as SSE Composite Index of Shanghai Stock exchange to almost 3100 points, a drop for the Sensex40 the Bombay Stock Exchange in India by 1.55% to 40800 points and a 0.68% drop in Singapore Stock Market index to 3210 points. All these events with the concerns regarding the oil market demand lead gold to a significant rise to approximately 1575 dollars per ounce and analysts expected further increase in gold prices if the US dollar still weakens relative to other currencies which is something resulting from fear and uncertainty of trade war.

