



October 1, 2024

Middle East Update: Brinkmanship

Analysis as Iran Launches Direct Missile Strikes on Israel

- For the second time this year, Iran has fired a barrage of ballistic missiles at Israel, this time in retaliation for the string of airstrikes and covert attacks that killed Hezbollah leader Hassan Nasrallah, as well as high-ranking Hamas and IRGC officials.** The missile strikes, including around 180 projectiles, come hours after Israel commenced ground operations in Lebanon, an action that Iranian diplomats had signaled during UN General Assembly week would constitute a redline. Like in April, Iran provided advance warning of the military action, allowing US forces to mobilize for Israel’s defense.
- We suspect that Supreme Leader Khamenei was coming under increasing pressure from the Revolutionary Guard to come off the sidelines to respond to Israel in a manner that would reestablish a measure of deterrence, while stopping short of provoking a regional war.** In April, the Israelis opted for a muted response, but during the past two weeks the Netanyahu government has demonstrated a heightened risk tolerance and willingness to engage in escalatory actions to achieve their strategic objectives. On the sidelines of UNGA, senior diplomats suggested that Israel may indeed look to “run the table” and potentially target Iranian military and economic assets, including its oil facilities.
- To date, many market participants have faded the risk of physical supply disruptions emanating from the nearly year-long conflict, while Iranian exports have climbed to 1.7 mb/d, nearly at six-year highs.** US intelligence has previously highlighted the risk to the Kharg Island oil export facilities, which handle around 90% of the country’s crude exports. During the Iran-Iraq War (1980-88), Baghdad regularly attacked tankers engaged in the Kharg crude trade, and regularly threatened to destroy the island’s oil terminals. The Iranian Navy maintains a base on the island to protect this vital economic asset.
- Iran, thus far, has avoided a repeat of the 2019 attacks on regional energy infrastructure.** The March 2023 diplomatic rapprochement between Iran and Saudi Arabia has likely staved off Houthi cross-border strikes on the Kingdom and maintaining improved bilateral ties may prove important to Tehran. That said, Iran and its proxies could potentially target energy operations in other parts of the region in order to internationalize the cost if the current crisis devolves into an all-out war. We also continue to highlight the risk that Iranian-backed militias could further target US troops in the region, including over 3,000 currently in Iraq and Syria.

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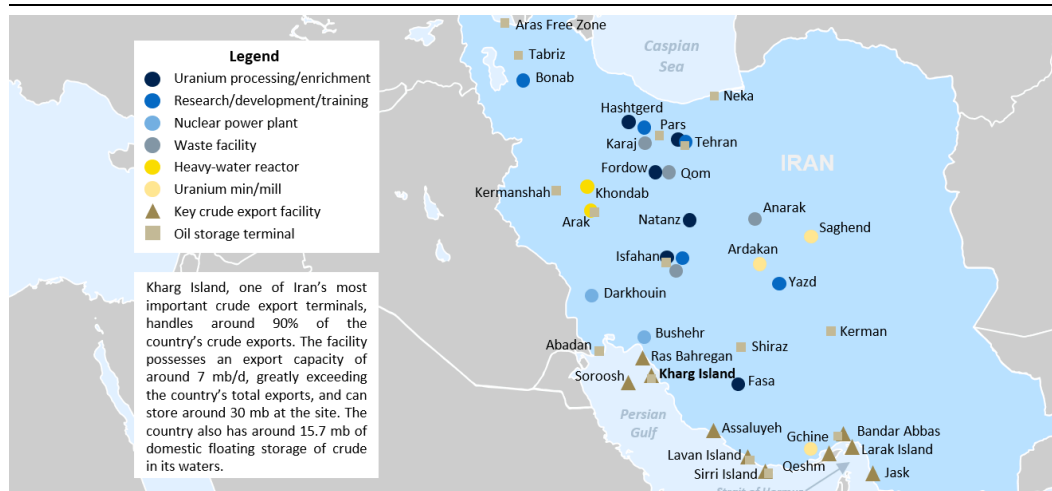
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Figure 1 - Map of Iran Oil and Nuclear Facilities



Sources: Petro-Logistics, S&P Platts, Council on Foreign Relations, RBC Capital Markets

All values in USD unless otherwise noted.

Priced as of prior trading day’s market close, ET (unless otherwise stated).

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