

8 January 2020 Fundamentals Flash

Asset Management

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Unpacking US-Iran Tensions

Risk assets got off to a rocky start in 2020 as tensions boiled over in the Middle East following news that an Iranian military commander was killed in a Baghdad airstrike. General Qassim Soleimani along with other top military officials were killed in a US drone strike on his convoy at the Baghdad airport.

The current base case for markets is that a full blown conflict between Iran and US is very unlikely. While tensions are high and reprisals are to be expected, both Iran and the US have constraints that will likely keep an escalation from spiralling out of control.

Possible near-term Iranian retaliation includes aggression towards oil shipping lanes in the Straits of Hormuz. Iran may potentially also launch skirmishes against US military bases/ships in the Middle East or engage in cyber attacks against American websites.

However, the Iranian regime remains mindful of US military power, while President Trump is unlikely to commence an all-out war against Iran due to his upcoming re-election.

It is also worth noting that the US is now a net exporter of oil and only imports 12% of it's crude from the Persian Gulf. Furthermore, oil infrastructure facilities in the Middle East have already increased their security after the September 2019 drone attack on Saudi oil facilities.

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