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Iran as a new geopolitical uncertainty

With the attack by the US and Israel on Iran, a smoldering conflict has turned into a military one. Following the attack on Venezuela, the threatened takeover of Greenland, and repeated tariff threats, geopolitics gained significant momentum at the beginning of the year due to Trump's erratic foreign policy. To take account of the increased uncertainty, we had set the probability of our negative scenario, with the consequence of a significant slowdown in growth, at 25 % since January 23. The events of the last few days in Iran show how right this decision was.

Oil price reacts significantly, but not dramatically

Conflicts in the Persian Gulf have the potential to affect countries that together account for more than 25% of global oil production and hold around 50% of the world's oil reserves: Iran, Iraq, Kuwait, Saudi Arabia, the United Arab Emirates, Qatar, Bahrain, and Oman. Beyond all the geopolitical implications that such action could have, the focus is primarily on energy supplies. There is a high risk that oil production in various countries will be affected, but even more significant is the risk that the **Strait of Hormuz** will be permanently blocked by Iranian troops or that passage will be too risky for a certain period of time due to ongoing hostilities. Twenty percent of daily global oil consumption and almost 20% of globally traded LNG is shipped through the strait.

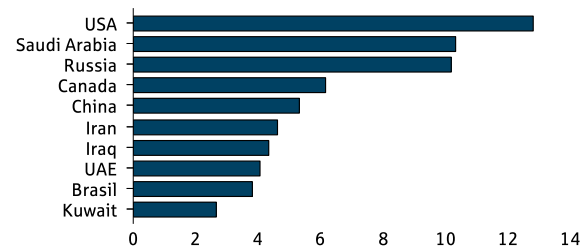
The extent of the impact on global energy supplies depends on the **scale and duration of the fighting**. Although Saudi Arabia has pipelines to the Red Sea, their capacity is so low that a complete blockade of the Strait of Hormuz would result in an estimated loss of supply of around 16 million barrels per day. There are no pipelines bypassing the strait for LNG exports.

If the regime in Tehran collapses or backs down in the next few days, the damage to **the oil infrastructure** in the Middle East would probably be minor and the Strait of Hormuz would soon be passable again. There would be no lasting shortage of oil and gas, and the price swings currently being observed would be corrected. However, from today's perspective, this is a less likely scenario.

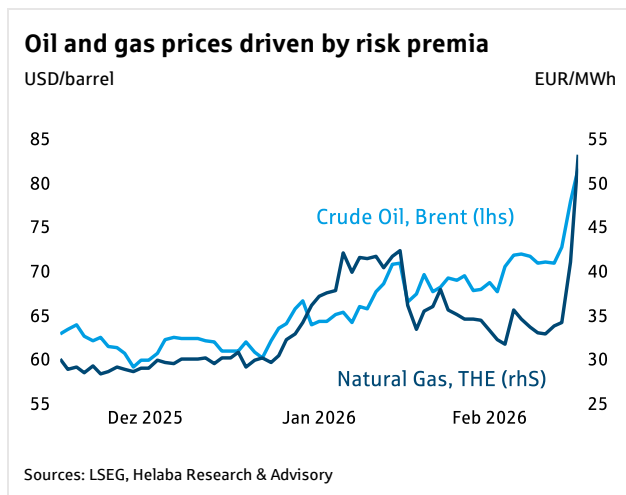
The US president has said that the military strikes are expected to last for around four weeks and that the deployment of ground troops is also possible. It is therefore not surprising that **oil prices have risen sharply**, with Brent reaching an interim high of USD 85 per barrel.

World largest crude producers

Share in %, as of 01/25



Sources: LSEG, Helaba Research & Advisory



If the fighting ends in the first quarter, as suggested by the US president, oil prices would likely decline again starting in the second quarter. In this case, oil prices in the second half of the year would return to those in our base scenario. This development would be similar in duration to that during the first Iraq war in 1990.

Geopolitical classification

The military strike against Iran must not be viewed solely in the context of the traditional hostility between Iran and Israel. In recent years, the Islamic Republic has increasingly developed into a **producer of military technologies** that play a central role in modern warfare. It is therefore not surprising that the US's

original announcement that it would prevent Iran from building nuclear weapons under any circumstances has been revised in recent weeks. There have been growing calls to view the country's ballistic missile and drone programs as an existential threat as well. This is likely to be a key lesson learned from the 12-day war between Israel and Iran in June 2025. Iran's bombardment of Israel with swarms of drones and ballistic missiles overwhelmed the Iron Dome missile defense system, which had previously been considered virtually impenetrable.

Iranian drones and missiles are also playing a role in the war in Ukraine. The war in the Gulf is likely to affect the **supply of Iranian drones to Russia**, as Iran now needs them on a larger scale itself. This is further evidence that the military conflict in the Middle East is also having an impact on other theaters.

A US victory over Iran could therefore weaken cooperation between Russia and the Islamic Republic in the long term. However, this success is not yet a foregone conclusion. Iran is relying on escalating the conflict in its defense. This explains the **involvement of Arab states**, where the US maintains bases, in the conflict. The Strait of Hormuz is currently only passable for commercial shipping at risk and is therefore being avoided. Since Sunday, Hezbollah in Lebanon has also been involved in the conflict, and it remains to be seen how the Houthi rebels in Yemen will behave. Some shipping companies have already announced that they will again avoid the **Suez Canal** and switch to the route around Africa.

Iran is pursuing a strategy of perseverance and attempting to drive up the global economic costs of the war. The bombing of military bases in the region, among other targets, could increase the number of US soldiers killed in the coming days, putting US President Trump under increasing domestic political pressure.

In the short term, the US is focusing on destroying **ballistic missile and drone production facilities**. This would weaken Iran's offensive and defensive capabilities, but would also have an impact in other regions where Iranian military technology is used, such as Yemen. This goal could be achieved through targeted air strikes.

It would be more difficult to achieve the second goal: **a new Iranian leadership** that moves closer to the West and refrains from producing missiles, drones, and, above all, nuclear weapons. This would only be possible through a regime change with the help of the Iranian people or the deployment of US ground troops -preferably with the assistance of allied forces. In a crucial election year, Trump will prefer the first alternative. This should also be clear to the rulers in Iran. In any case, there are no signs so far that the US is currently gathering troops and military equipment in the region that would be needed for a ground offensive.

The **greatest risk** to the global economy is that **the conflict will drag on for a long time** if neither side is able to decisively win the war. If this happens and oil and gas prices remain at significantly higher levels for months, possibly leading to further supply chain disruptions, we will have to review our economic and capital market forecasts.



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