



The risk of rising cost of oil

After the U.S. bombed three nuclear sites in Iran, the ball is now in Tehran's court. So far, Iran has not retaliated against any U.S. targets. Although reports indicated that its parliament had approved a move to close the Strait of Hormuz, Iranian media clarified that such an action would require approval from the Supreme National Security Council.

Polymarket is even taking bets on the likelihood of Iran successfully closing the Strait, currently priced at 47%. As a result, every market commentator suddenly seems to be an expert on closing shipping lanes, the effectiveness of bunker-busting bombs, and the complexities of uranium enrichment.

The prevailing market view is one of cautious hope—that the U.S. intervention will not escalate further, and may even enhance regional stability if Iran's nuclear capabilities have truly been set back by years.

Oil rises but off early peaks

Oil is up almost 2%, but well off earlier five-month highs, as analysts note that OPEC has plenty of spare capacity to add if they choose to do so. Wall Street share futures are down 0.3%, after starting with losses of 1%, while European futures are off by around 0.4%. The dollar is marginally firmer against the euro and yen, reflecting the reliance of the EU and Japan on imported oil and LNG, and the U.S.'s position as a net exporter.

Treasury yields are slightly higher, suggesting limited safe-haven demand, while Fed funds futures are down a tick—likely reflecting concerns that a sustained rise in energy costs could fuel inflationary pressures just as tariffs begin to impact prices.

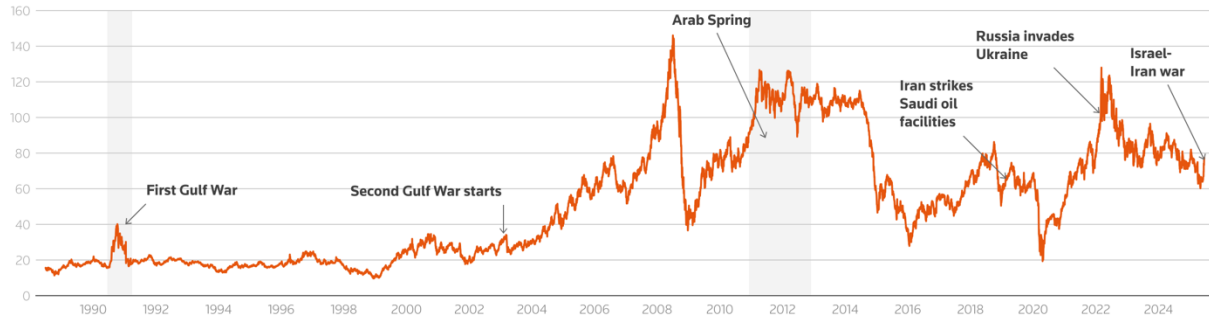
Fed Chair Jerome Powell is expected to face tough questioning on these issues when he appears before Congress on Tuesday and Wednesday, including on President Trump's past threats to fire him. It will also be interesting to see how Powell responds to Fed Governor Waller's unexpected support for a July rate cut, especially after the FOMC had appeared unified in its cautious stance.

Markets still price in only a 16% probability of a July rate cut, favoring a 70% chance of a move in September.



Oil supply shocks

Major oil supply disruptions have tended to have short impact on prices



Note: Brent crude oil prices in USD

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