# Tanker attack highlights persistence of geopolitical risks

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“Geopolitical risks are here to stay. Even though oil markets have failed to price them in, we are constantly being reminded that they exist. This morning an Iranian tanker traveling through the Red Sea off the coast of Saudi Arabia was hit by two missiles. Nobody has claimed the attack. Brent oil prices are up a modest 2% at the time of writing.

“Less than a month ago, Saudi oil producing facilities were attacked by Houthi rebels from Yemen. The attack was widely blamed on Iran (by Saudi Arabia, US, UK, Germany, France). The attack initially wiped off 5.7 million barrels of oil of the market and sent prices soaring 20%. However, all price gains quickly dissipated as Saudi Arabia got production back to pre-attack levels by the end of September.

“Today’s attacks are unlikely to have dented global oil supply by much. But that is beside the point. What is apparent is that attacks in the region are not isolated. During the course of May and June, there were multiple attacks on vessels moving in and around the Strait of Hormuz. We believe tension in the region is not de-escalating. And so, a higher geopolitical premium should be priced into oil. Oil prices have slid in the past month as demand forecasts have been scaled back. But we believe that small-scale demand revisions could pale in comparison to the risk of large supply disruptions if we continue to see an escalation of tension in the region.”

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