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US – Iran: Far from Finished

A continuous rollercoaster ride

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The relationship between the US and the Middle East has always been complex, and the most volatile has arguably been Iran. Ever since the Shah was toppled on a wave of religious fervor in 1979, the two have been at odds with wounds seemingly incapable of healing, and their core beliefs and culture go together like oil and water.

Of course, behind any US-Middle East relationship lies the issue of oil. Despite hopes to move away from dependence on the so-called black gold, the world still marches to its tune. Recent events have also been affected by a shift in power and control of the world's oil supply; the US becoming emboldened by its increased domestic oil production and potentially now feels less under the sole of OPEC's very heavy foot of influence. Some argue that the current US leadership seeks to use this unrest to divert attention away from domestic political scrutiny, just as predecessors Thatcher and others have done in the past.

Other administrations have had plenty opportunity to take out General Soleimani but chose not to undertake this extremely dangerous move as they realized what would happen if these events transpired; that the Soleimani strike risked catapulting the two countries into a full-scale war. Now with these events having occurred, there is a possibility that Iran will accelerate its pursuit of nuclear weapons. Add this on top of decades of mistrust and attrition and today you have a very difficult relationship to mediate.

Some believe that a change in strategy was needed and that the strike on Soleimani should be put in the context of the last few months. Attacks in the region had continuously escalated, either by the Iranians or those sponsored by them, ending in the attack on Saudi oil fields in September last year. The US has always tried to deter instability in the Middle East and past strategy seems to have failed in that. Thus, it is argued that a strong message was needed to make the regime reconsider its campaign of violence against the US and its allies.

Whatever the rationale and whether the actions of either side are warranted, one thing is sure – the world is worried, and concerns over supply and the price of oil is at the top of financial agendas.

Whether you are an entity that wants higher or lower oil prices, everybody wants stability. Volatility causes disruption to almost all types of trade which already has its stresses. Airlines, shipping, manufacturing – they all benefit from stability. Being able to hedge your oil exposure is critical to remaining competitive and can even affect your ability to survive. Millions of jobs could therefore be at stake.

Even without the threats of war, oil has always been a volatile animal with strong trends and sharp corrections. Using Brent Oil for tracking its price (courtesy of Eikon), we can see how volatile it's been in recent years.

Employing a smart hedging strategy against your oil risk is a wise thing. There are plenty of derivatives available to either hedge open risk or establish a strategic position.

For hedging oil, you need to understand what drives it and how to manage its fluctuations and trends.
As always it starts with knowing the fundamentals – check out our related tutorials to increase your understanding with Intuition Know How.

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