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OIL MARKETS

Oil Prices Jump After Iran's Tanker Seizure

Tensions in the Persian Gulf are rising, though ample global oil supply could keep crude prices in check

By David Hodari

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Oil prices climbed Monday as investors reacted to the latest escalation in tensions between Iran and the West after Tehran announced the seizure of a British-flagged oil tanker Friday.

Brent crude, the global benchmark, was up 2% at \$63.69 a barrel on London's ICE Futures exchange. On the New York Mercantile Exchange, West Texas Intermediate futures rose 1.7% to \$56.72 a barrel.



Iran's Revolutionary Guard released footage showing its forces boarding the Stena Impero. PHOTO: HO/AGENCE FRANCE-PRESSE/GETTY IMAGES

Iranian forces captured Friday a British-flagged tanker in the Persian Gulf, a move widely seen as retaliation for the U.K.'s seizure of an Iranian vessel off Gibraltar two weeks earlier. On Saturday, the U.K.-flagged tanker Stena Impero arrived in the Iranian port of Bandar Abbas with its 23 crew members still on board.

"Despite there being no production outages yet, markets realize the situation is far from solved," said Giovanni Staunovo, director of UBS Wealth Management's chief investment office. He noted that markets had settled down last week after the Trump administration said Iran was willing to negotiate.

Friday's development comes in the context of several attacks on tankers, pipelines and pumping stations in and around the arterial Strait of Hormuz in recent months. The maritime thoroughfare carries a third of the world's seaborne oil and gas. Many of those incidents have been attributed to Iran, something Tehran has denied.

These rising tensions follow the Trump administration's imposition of economic sanctions on Iran, aimed at driving its oil exports to zero.

While both Tehran and Washington have stated they would like to avoid a war, the risk of stumbling into such a situation remains high, strategists said.

"We maintain that there remain several redlines that if crossed could be a catalyst for a military conflict," said Helima Croft, global head of commodity strategy at RBC Capital Markets.

Despite oil's rise Monday, the price of Brent crude remained down 4% over the past week, reacting to U.S. data showing a smaller-than-expected fall in oil stockpiles. The unexpected dissipation of Barry last week relieved pressure on oil prices, as supply disruptions were avoided. The shuttering of around three-quarters of supply in the region affected by the storm last week may prompt higher-than-normal draws in U.S. inventories this week, UBS Wealth Management's Giovanni Staunovo said.

In response to the Iran situation, prices could have shot up a lot higher, but ample supply of oil in storage and the growing supply from the U.S. shale patch can "cover any disruptions out of Iran and Venezuela with ease," said Norbert Rücker, head of economics at Swiss private bank Julius Baer.

With the International Energy Agency last week announcing another cut to its 2019 global production demand growth forecast, and both the Organization of the Petroleum Exporting Countries and the Energy Information Administration downgrading their estimates in June, analysts expect a build in stocks and falling prices during the rest of 2019.

Elsewhere, Libya's largest oil field at Sharara was reported to have resumed production at half capacity after being shut by an unidentified group Friday.

Oil market investors will keep a close watch on American Petroleum Institute and EIA weekly data, released with a week delay and due out Tuesday and Wednesday.

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