Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

16 JUNE 2025

Geopolitical Flashpoint: Israel–Iran Conflict Enters New Phase

1. ***7 Oct 2023*** – Hamas attacks Israel; Iran-linked groups (Hezbollah, Houthis, Iraqi militias) launch separate rocket and drone strikes in the region
2. ***1 Apr 2024*** – Israel's airstrike on Iran's consulate annex in Damascus, **killed 2 senior IRGC commanders.**
3. ***13-14 Apr 2024*** – **"True Promise I"** – Iran launched missiles and drones **directly from Iranian territory**, a historic first.
4. ***19 Apr 2024*** – Israel responded with calibrated **airstrikes near Isfahan**, targeting air defense and radar systems – likely avoiding nuclear sites to send a strategic warning.
5. ***31 July 2024*** – Claims **that Israel assassinated Hamas leader, Ismail Haniyeh** but these claims remain unconfirmed by Israel sources.
6. ***27 Sept 2024*** – Report allege that Israel assassinated the **secretary-general of Hezbollah, Hassan Nasrallah** in an Israel airstrike in Dahieh.
7. ***1 Oct 2024*** – **"True Promise II"** – Iran launched another round of direct missile attacks; most were intercepted
8. ***26 Oct 2024*** – Israel carried out and publicly acknowledged **direct airstrikes inside Iran** for the first time-outside Syria or Iraq, making a **clear shift toward open confrontation**.
9. ***30 Apr 2025*** – Iran executed a person accused of spying for Mossad. This was widely reported and viewed as **a psychological message to Israel**.
10. ***13 June 2025*** – Large scale Israel air campaign into Iran, reportedly **hitting over 100 sites**, including Natanz, missile depots, and IRGC-linked command centers.
11. ***13 June 2025 – Present*** – **"True Promise III"** – Iran launched **strikes on Israel cities**; most were intercepted, but some hit Tel Aviv, Haifa and Southern areas.

Context Setting – What's Happening

On 13 June 2025, Israel launched a high-intensity military operation targeting Iran's nuclear and strategic military infrastructure. The strikes reportedly hit the **Natanz uranium enrichment site**, ballistic missile facilities, and locations linked to the Islamic Revolutionary Guard Corps (IRGC), as well as several scientific and defense-related personnel. Israel stated the operation was a preemptive action against Iran's advancing nuclear capabilities. Iran has denied pursuing nuclear weapons, asserting that its nuclear program remains peaceful and within the bounds of international regulations.

In retaliation, Iran launched missiles and drones toward Israeli cities, including Tel Aviv and Haifa. Israel's multi-layered air defense systems—Iron Dome, David's Sling, and Arrow—intercepted a large portion of the projectiles. However, a number did reach urban targets, resulting in physical damage and emergency response activation.

The confrontation marks a significant escalation, transitioning from a longstanding shadow war and proxy conflict to **direct state-to-state hostilities**. The international community has responded with deep concern over the potential for regional destabilization, renewed energy price shocks, and the collapse of diplomatic efforts surrounding Iran's nuclear program.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

16 JUNE 2025

Strategic Oil Chokepoints Face Elevated Risk Amid Escalating Conflict

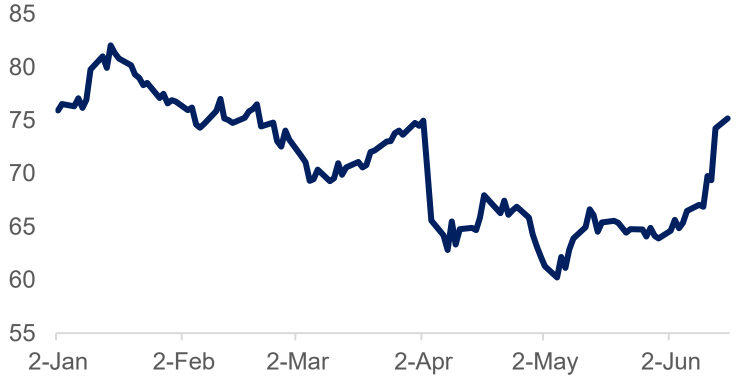
Volume of crude oil and petroleum liquids transported through world chokepoints and the Cape of Good Hope (million barrels per day)

Location	2018	2019	2020	2021	2022	2023
Strait of Malacca	23	23.1	22.8	21.9	22.9	23.7
Strait of Hormuz	**21.4**	**20**	**18**	**18.4**	**19.1**	**20.9**
Suez Canal and SUMED Pipeline	6.4	6.2	5.3	5.1	7.3	8.8
Bab el-Mandeb	6.4	6.1	5.2	5.4	7.5	8.6
Danish Straits	3.3	3.4	3.1	3.1	4.1	4.9
Turkish Straits (Dardanelles)	2.4	2.3	2.2	2.2	3.2	3.4
Panama Canal	1.4	1.5	1.5	1.5	1.5	1.7
Cape of Good Hope	7.6	7.5	7.7	7	7.1	5.9
World maritime oil trade	78.5	78.2	73	74.3	76.2	77.5
World total oil supply	100.1	100.1	91.6	97.6	99.9	101.9

Source: US Energy Information Administration (EIA)

Strait of Hormuz: A Critical Oil Transit Route

YTD Brent Crude Oil Price (USD/barrel)



Source: Bloomberg

Key Risk and Escalation Scenarios

The immediate risk lies in further military escalation, either directly between Israel and Iran or through regional spillovers involving aligned actors. Iran's influence across the region—through groups such as Hezbollah in Lebanon, the Houthis in Yemen, and various militias in Iraq and Syria—creates multiple channels through which retaliation or proxy warfare could unfold. Any activation of these networks could widen the conflict into a multi-front crisis, threatening stability in Lebanon, the Red Sea, the Persian Gulf, and **potentially even disrupting US or allied military installations in the region**. Another area of concern is the **vulnerability of key maritime chokepoints**, particularly the **Strait of Hormuz**, through which approximately **21% of global oil supply is transported**. Even limited disruptions here could have disproportionate effects on energy markets and global trade flows. Similarly, the Red Sea—already affected by Houthi-linked attacks earlier this year—may see renewed shipping disruptions, **increasing freight costs and insurance premiums**. On the diplomatic front, the conflict has already led to a breakdown in nuclear negotiations between Iran and Western countries, further complicating long-standing efforts to limit Iran's enrichment activities via diplomacy. There is also a growing divergence in international positions, with calls for restraint being met with varied support depending on geopolitical alignments.

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

16 JUNE 2025

Oil Prices Remain Anchored Despite Rising Geopolitical Risk

Impact on Markets and Commodities

Despite the significant geopolitical escalation, the initial market reaction has been relatively muted, suggesting investors view the conflict as contained thus far, with no immediate threat to physical oil supply or key infrastructure such as the Strait of Hormuz.

- **Brent crude closed at around USD 74/bbl** on 13 June and is currently trading at USD 75/bbl *(at the time of writing)*, showing only a modest uptick. While intraday levels briefly touched USD 78, the price quickly retraced, indicating that markets are not yet pricing in a sustained supply shock. **Our latest baseline forecast sees Brent averaging around USD 70/bbl in 2025**, reflecting expectations of a well-supplied market and moderate global demand, despite ongoing geopolitical risks.
- **The US Dollar Index (DXY) has remained largely stable,** trading below the 100 mark, indicating that the conflict has not triggered a broad flight to safety.
- **The 10-year US Treasury yield rose by just 1 basis point to 4.41%,** indicating limited flight to safe-haven assets such as government bonds.

Regression Shows No Significant Impact on Oil Prices

To test the assumption that geopolitical tensions have a significant influence on oil prices, a regression was conducted using a conflict dummy variable to capture periods of heightened Middle East tensions. The result shows that the coefficient on the conflict dummy is statistically insignificant, suggesting that **recent geopolitical flare-ups — including direct military strikes between Israel and Iran — have not translated into consistent, day-to-day changes in global oil prices**. While this finding may seem counterintuitive given the strategic importance of the region, but there are several plausible explanations:

No Direct Supply Shock Has Occurred (Yet)

No reported disruption to oil production facilities or shipping routes such as the Strait of Hormuz

Broader Market Focus on Demand-Side Factors

Global macro environment continues to be shaped by slowing growth in China and Europe, along with uncertainty over global rate cuts, is dampening oil prices and offsetting upward pressure from geopolitical tensions.

OPEC+ Production Management Has Anchored Supply Expectations

OPEC's supply discipline and spare capacity cushion are reinforcing market confidence that supply can remain stable despite rising regional risks.

Market May Have Already Priced In Conflict Risk

Oil markets are forward-looking, and much of the ongoing Middle East volatility — including Red Sea tensions and proxy conflicts — may already be priced in. Unless new developments pose an ***unexpected threat to physical supply or infrastructure****, price reactions are likely to remain contained.*

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
Raja Zarina Raja Mohammad - Economist

4 JUNE 2025

What It Means for Malaysia

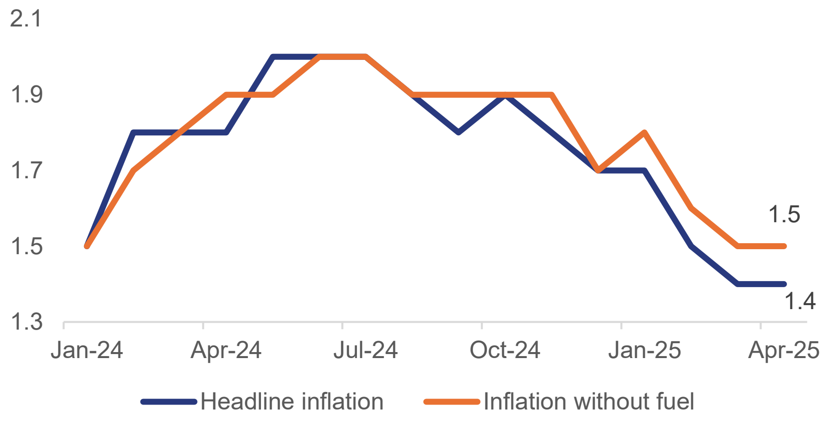
While the Israel–Iran conflict has added another layer of geopolitical risk to global energy markets, its **immediate impact on Malaysia is expected to be manageable**. The timeline for RON95 fuel subsidy rationalisation remains uncertain, but we believe this **conflict alone is unlikely to prompt a reversal** of the policy decision. That said, it may influence the pace or fiscal considerations surrounding its implementation.

Brent crude has **edged higher but remains within a relatively stable range**, and there has been no disruption to global oil supply chains. As such, any increase in Malaysia's subsidy expenditure is likely to be modest. Moreover, Malaysia's position as a net oil importer since 2022 reduces the fiscal upside from higher crude prices, reinforcing the case for a more targeted and sustainable subsidy framework.

Looking ahead, the **inflation outlook will hinge more on the timing and structure of subsidy reform** than on global oil prices. A well-designed rollout—possibly accompanied by direct support measures—would help manage inflation expectations even if geopolitical tensions persist. However, prolonged instability may continue to weigh on the ringgit, which could amplify the cost pass-through effect once subsidies are rationalised.

That said, the **ringgit has remained relatively firm despite global volatility and is currently trading below 4.50 against the USD**. **We maintain our end-year forecast of 4.30**, reflecting expectations of stabilising external conditions, improved risk sentiment, and a narrower Fed–BNM policy rate gap. We will continue to closely monitor developments in global monetary policy, commodity price trends, and regional capital flows, and will reassess our outlook should material risks—such as a prolonged Middle East conflict or a surprise shift in the Fed's policy stance—begin to alter market dynamics.

Malaysia's Inflation (%yoy)



YTD USR/MYR