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Israel Conflict Poses Increased Risk to Oil Markets, IEA Warns

Energy watchdog raises demand forecast for 2023 to a record as OPEC holds back supply

By [Yusuf Khan](#) [Follow](#)

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Gasoline prices have risen in the U.S., rekindling fears about high inflation. PHOTO: FREDERIC J. BROWN/AFP/GETTY IMAGE

The conflict in Israel and rising tensions across the Middle East are raising risks to the global oil market, as demand for crude is set to rise to a record in 2023, according to the International Energy Agency.

In its monthly report, the Paris-based organization said a sharp escalation in geopolitical tensions in the Middle East has put markets on edge. The region accounts for a third of seaborne oil trade.

“While there has been no direct impact on physical supply, markets will remain on tenterhooks as the crisis unfolds,” the IEA said Thursday.

Earlier this week, Brent crude prices shot above \$90 a barrel, following Hamas’s surprise attack on Israel over the weekend. Neither Israel nor the Palestinian territories are major oil producers. Still, analysts point to worries that any ripple effects of the conflict could affect some of the region’s major producers, including Iran, triggering a drop in supply.

That risk comes on top of tightening supply from the Organization of the Petroleum Exporting Countries.

“Against a backdrop of tightly balanced oil markets anticipated by the IEA for some time, the international community will remain laser focused on risks to the region’s oil flows,” the agency said.

The IEA said that it now expects oil demand to grow by 2.3 million barrels a day this year, an increase of 100,000 barrels a day from last month’s report. That would translate into total demand averaging 101.9 million barrels a day, a record.

The IEA cited strong demand growth from China.



A vessel carrying liquefied natural gas docks at the port of Yantai, China. PHOTO: CFOTO/ZUMA PRESS

At the same time, the agency lowered its demand growth expectation for 2024, forecasting that total demand will average 102.7 million barrels a day. It expects the strong economic rebound from Covid-19 lockdowns will start to wane next year, curtailing demand.

The IEA kept its outlook for supply unchanged from September's report, expecting output to grow this year by 1.5 million barrels a day to average 101.6 million barrels a day. The IEA expects this to rise further next year, by 1.7 million barrels a day, to average 103.3 million barrels a day, again unchanged from its September forecast.

The IEA said the market is likely to remain in a substantial deficit for the remainder of the year amid Saudi-led oil cuts by OPEC. The IEA also noted that global crude stocks fell to their lowest level since 2017.

The agency said rising oil prices were rekindling fears over inflation, with gasoline in the U.S. currently \$4 a gallon. It said that this could lead to further monetary tightening—or interest rates being held at high levels for a longer period. Such moves threaten “possibly pushing the fragile global economy into stagflation.”

Additionally, the IEA noted that Russian oil revenue continued to rise, moving to nearly \$19 billion in September. Rising prices are also benefiting other oil producers, including Iran, it said.

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