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War with Iran: Trump is playing with fire

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No full-blown energy crisis yet, but oil prices are starting to bite

Almost three weeks ago, the U.S. and Israel launched military strikes against Iran – even though both sides had only just been at the negotiating table together. What the White House seems to have imagined as a quick, decisive operation, Venezuela-style, has turned into a grinding conflict. The outcome is still uncertain. Washington appears to have badly misread the Iranian government’s willingness to dig in and keep fighting.

For the global economy, the main risk lies in elevated oil prices, which at times have climbed above USD 100 per barrel after Tehran – contrary to what Trump and his team had banked on – managed to shut down traffic through the Strait of Hormuz. Roughly one-fifth of the world’s seaborne crude exports passes through this chokepoint. That is fueling concerns that the world could slide into a recession, with inflation dynamics uncomfortably reminiscent of the 1970s.

The biggest oil supply shock on record

As chart 1 makes clear, those worries are not plucked out of thin air. No conflict in the modern Middle East has ever taken anything close to as much crude off the market as the current war with Iran. That said, the global economy is far less oil-intensive than it was during the first oil crisis. Back then, it took roughly one barrel of oil to generate USD 1,000 of GDP (in constant 1995 dollars). In the current decade, it takes only about 0.4 barrels to produce the same output (see chart 2). Gains in energy efficiency, a shift toward less energy-hungry sectors and the rise of alternatives such as renewable energy have all driven that change.

Oil prices above USD 100

Fig. 1: Loss of supply of oil (million barrels per day)



Source: [Derekthomson.org](https://derekthomson.org), LBBW Research

Advanced economies also maintain strategic petroleum reserves sufficient to cover at least ninety days of net imports. Even following the International Energy Agency's recommendation to release record volumes from those reserves has not been enough to cap the surge in oil prices. The reason is straightforward: drawing down stockpiles can buy some time, but it cannot fix the underlying supply gap created by the war.

Why the war with Iran may not last much longer

In response to the supply shock, LBBW Research has raised its oil price forecasts. We now expect Brent to trade at around USD 70 per barrel by year-end. By mid-2027, prices are projected to ease further to about USD 65 – well below today's USD 100. The key assumption is that the war will not drag on through the summer. Iran's military capabilities have likely taken a substantial hit from the heavy bombardment. More importantly, Donald Trump has every incentive to declare victory sooner rather than later. The absence of a clearly defined strategic objective from the outset makes that easier: as he did last summer, he can simply announce that the mission of degrading the mullahs' military machine has been accomplished. Anything more – even if regime change was occasionally floated – can be quietly dropped.

Trump's MAGA base is sharply divided over foreign adventures. His presidential run was built on an isolationist promise to pull the U.S. back from global power politics and finally put "America first". In office, though, he has ordered strikes on [more countries](#) than any of his predecessors (Syria, Iraq, Yemen, Somalia, Nigeria, Venezuela and now Iran, while rattling sabers at Greenland, Colombia, Mexico and Cuba). High-profile [MAGA figures](#) such as Tucker Carlson, Megyn Kelly and Steve Bannon have all come out against the war with Iran.

Gas prices at the pump are highly political in the U.S.

What may matter most to Trump, however, is that he cannot afford to further damage Republicans' already bleak chances of winning both chambers of Congress. A Democratic sweep would all but guarantee a third impeachment attempt, and a Congress no longer inclined to rubber-stamp his decisions.

There is no price in U.S. politics more sensitive than what Americans pay for a gallon of gas. Rural voters – a core Trump constituency – are hit especially hard. Even before the war, most households were already complaining about the high cost of living, and it is getting harder to blame that on Joe Biden. Trump will therefore do everything he can to ensure that the spike in gas prices (see chart 3) is history by the time voters head to the polls for the midterms. Anything else would be political suicide.

Strategic oil reserves fail to calm markets

Fig. 2: Global oil intensity of production (barrels per USD 1.000 GDP in 2015 prices)



Source: [Harvard University](#), LBBW Research

Looking for an excuse to end the war

Fig. 3: Regular petrol average price per gallon (USD)



Source: [Federal Reserve Bank of St. Louis](#), LBBW Research

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