Research @ Citi Podcast Markets Edition: Geopolitics on Edge — What Middle East Risks Mean for Oil and Markets

Recorded: March 2, 2026

Published: March 3, 2026

Host: Elise Badoy, Head of UK, Europe, Middle East and Africa Research, Citi

Guest: Max Layton, Global Head of Commodities Research, Citi

Guest: Beata Manthey, Head of European Equity Strategy, Citi

Transcript:

Research at Citi, Markets Edition (0:00)

Elise Badoy (0:03)

Welcome to the Research @ Citi Markets Edition podcast, where we break down global macro in just under 10 minutes. I'm your host, Elise Badoy, Head of UK, Europe, the Middle East and Africa Research here at Citi. We're recording from London today, and I'm joined by Max Layton, Citi's Global Head of Commodities Research, and our usual host, Beata Manthey, who is Citi’s Head of European Equity Strategy.

Today, we are going to dive into what's been dominating headlines — the escalating conflict around Iran and the Middle East. We'll unpack in this podcast what's happening; what it means for oil, commodities, and global equity allocation; and where we think opportunities and vulnerabilities lie.

So first I'm going to turn to you, Max, to set the scene. Markets have been volatile. oil has moved higher, geopolitics feel unusually fluid. From your team's latest work, what are the big moving pieces?

Max Layton (1:08)

So it's not just, I would say, oil moving higher, but it's also oil-product prices and gas prices that have really responded to what's happened in the Middle East over the past couple of days. And more broadly, these markets — particularly the oil market, the oil product market — have been pricing risk over the last couple of months. So, we've seen increases in total oil prices since the start of the year, whether you're looking at gasoline or diesel or jet fuel, in the vicinity of 35% to 50%. So, really big moves in energy prices. Part of that is due to actual disruption, but most of it is a geopolitical risk premium.

Elise Badoy (1:48)

And so obviously, you've got a couple of scenarios that you have recently published. You've upgraded your near-term oil expectations meaningfully. Can you walk us through the probabilities here? Base case, bear case?

Max Layton (2:01)

So I'll walk you through some of the scenarios. Certainly, our base case, this is a tricky environment to be forecasting, but we've got to have one. And the base case is essentially that we have further price increases in the very near term. I mean, I think the core of it is that the Iranian regime is facing an existential threat, and with that, regional energy infrastructure and flows through the Hormuz Strait are at risk. And you're talking about a massive amount of oil production, exports, product production that is at risk right now, we think at least for the next couple of days. One thing to look for to see a lower geopolitical risk premium and for that amount of oil at risk to go down, is for the markets ... it's basically around the market's perception and the real end to the missile and drone threat from Iran.

So, anything that can lead the market either to believe that that drone threat, that missile threat to energy infrastructure in the region is peaking or about to peak or going down. There's multiple ways that the market may see that happening, but anything that leads to that will likely lead to a reduction in the oil price.

Now between now and then, the next couple of days, I think the market is highly at risk of major energy disruptions. Pete Hegseth in a presentation earlier today mentioned that Iran still has capabilities for long-range missiles. This threat still exists, and until it doesn't, there's going to be a really big geopolitical risk premium in the market. And there are multiple other ways I would say in our base case that there's major upside risks in the near term. But as time passes, we do see prices eventually moving back down.

So our baseline view is that over the next one to two weeks, there are multiple paths for the international portion of this conflict to end. I won't go through them all because we don't have enough time, but there's multiple, multiple paths for this to end. And that would then reduce the oil at risk from all regional oil flows at risk within the Middle East to just the Iranian exports being at risk. And that's a massive reduction you're talking about, an 80/90% reduction in oil at risk in that situation. That's our base case and we do think that will happen over the next one to two weeks. That's the baseline view, and with that oil prices should come back down eventually sometime in the second quarter, Brent down to around $70.

Big issue will be whether or not there's civil or domestic conflict. The future leadership of Iran is in question. How does it happen? There are more questions than answers. There's scenarios that result in domestic conflict that impacts oil exports. Even in that world, we think that China will reduce stockpiling. We think that OPEC will ramp up production over the course of one to three months, and we think they can really easily ramp up one to one and a half million barrels and offset a lot of the loss certainly of the crude oil from Iran if it does happen.

So there are some offsets in the system that can help to keep oil prices higher than where they were at the start of the year at $60, around $70 through the second quarter, even in the scenario that exports are impacted. I didn't really go through the bull or bear case, but I think we've covered a lot there already.

Elise Badoy (5:55)

Max, thanks for outlining the scenarios, the various options. Perhaps just remind us of your base case for our listeners today.

Max Layton (6:05)

Sure. So near term, we see oil trading up above $80. It's been trading $75 to $80 Brent. We think it's going to be $80 to $90 over the coming week or so. And then we have it coming down into the second quarter to around $70 Brent. And then by the second half, we do see it returning to $62 as we do have Russia-Ukraine as our base case, the deal on that front.

Elise Badoy (6:32)

Thanks, Max. Now, obviously, oil being the mechanism of transmission from geopolitical risk to the economy, usually when we look at this type of crisis. Beata, let me bring you in. What are you seeing in the equity markets right now, and what's ahead?

Beata Manthey (6:54)

Hi, Elise. And correct, the transmission effect of geopolitical risks into equities is obviously oil prices. And historically, effects of these types of shocks have been actually short-lived, except a few more prolonged crises. And I have to say, today's stock-market reaction or stock-market performance has really followed this traditional playbook for higher geopolitical risks. So defensives and oil stocks up, cyclicals down, especially those with more energy-heavy industries.

Globally, in terms of regions, best position to outperform in this type of scenarios tend to be the UK, and actually the U.S. tends to be relatively more immune too. Most vulnerable, for obvious reasons given dependencies on energy imports, is Japan and the continental Europe.

Elise Badoy (7:45)

Thanks, Beata. Obviously, I would love to talk about inflation because if oil stays elevated for a few weeks — and we're talking about all the questions being around the length of this situation rather than the situation itself — does this meaningfully change global inflation forecasts if it stays elevated for a few weeks? Max first, perhaps?

Max Layton (8:07)

Look, it certainly has the possibility to do that. It wouldn't be my base case. I mean, we certainly have oil-price forecasts today, as of last night, that are higher than what we had a week ago. And that is because there is some disruption to oil supply and that will impact the global market, global inventories over the next couple of months. And there's likely to be more concern about Iranian exports than there otherwise would have been, that we predicted a week ago.

So slightly higher oil prices through the course of the year in the baseline scenario. I'm not sure it's enough to really move the needle. On that note, I would say one of the most bearish things for oil, bearish things for inflation will be peace deals going forward. So, not just resolution in Iran that results in the free flow of the Iranian oil exports, but also Russia-Ukraine. So there were some really interesting comments by Ukraine's Budanov over the weekend about progress on the Ukraine talks.

It is our baseline view that during the summer, perhaps the late summer, that you do get something of a Russia-Ukraine deal. And in that world, you can start thinking about a pretty significant global deflationary impulse coming from the energy space and bringing inflation closer to target in places like the U.S.

Elise Badoy (9:34)

Thanks, Max. Beata?

Beata Manthey (9:36)

So clearly that question on how the crisis or higher energy prices affect inflation and central banks, it keeps coming back to us. And I'll give you a rule of thumb from our economists, and that is for every 10% rise in Brent oil, headline inflation increases by around 25 basis points. And on the top of that, of course, you have moves in natural-gas prices. So, an additional 10% in TTF in natural gas prices adds another 10 basis points on inflation.

Now, that only happens, this transmission mechanism, if the moves that we've been seeing today are sustained. So, if they are, we could be getting a bit higher inflation, around 25 to 35 basis points, higher eurozone inflation over the next 12 to 15 months. So these are the risks, but the higher oil prices would need to stay here for longer periods of time.

Elise Badoy (10:44)

Thanks, Beata. And obviously, as I'm sure Beata will confirm, important to watch how European cyclicals behave, because if they do hold up, it probably tells us that markets believe it's temporary and not structural.

Our time is up now. Thank you, Max. And thank you, Beata. Thank you for joining us today if you were listening. This episode was recorded on the 2nd of March, 2026. I'm your host, Elise Badoy. If you enjoyed the podcast, please leave us a review on your favorite podcast platform.

Our next Research @ Citi Markets Edition will be hosted by Dirk Willer, Citi Global Head of Macro Strategy and Asset Allocation. And be sure to look out for our Research @ Citi podcast, which you can access on the same channels. Thanks for tuning in. Goodbye for now.

Disclaimer (11:29)