Crude Power: Oil Still Shapes the Global Order

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Oil's Enduring Grip on Power

Crude oil remains the most geopolitically charged commodity in the global economy. Even as governments commit to energy transitions and climate targets, the flow of oil continues to be shaped not just by supply and demand — but by war zones, political flashpoints, and fragile alliances that ripple through markets and households alike.

In June 2025, oil prices surged back into the mid-$70s per barrel. This time, it wasn't a sudden supply shortage or booming demand. It was geopolitics — again — that sent markets scrambling. Rising tensions in the Middle East reminded the world that fossil fuels still sit at the crossroads of economics and global security.

When War Disrupted the Flow

Few events have illustrated oil's geopolitical weight more clearly than Russia's invasion of Ukraine in 2022. As the tanks rolled in, crude prices soared past $120 per barrel. The shock wasn't just military — it was economic. Russia, one of the world's largest oil and gas exporters, was suddenly cut off from much of the global market.

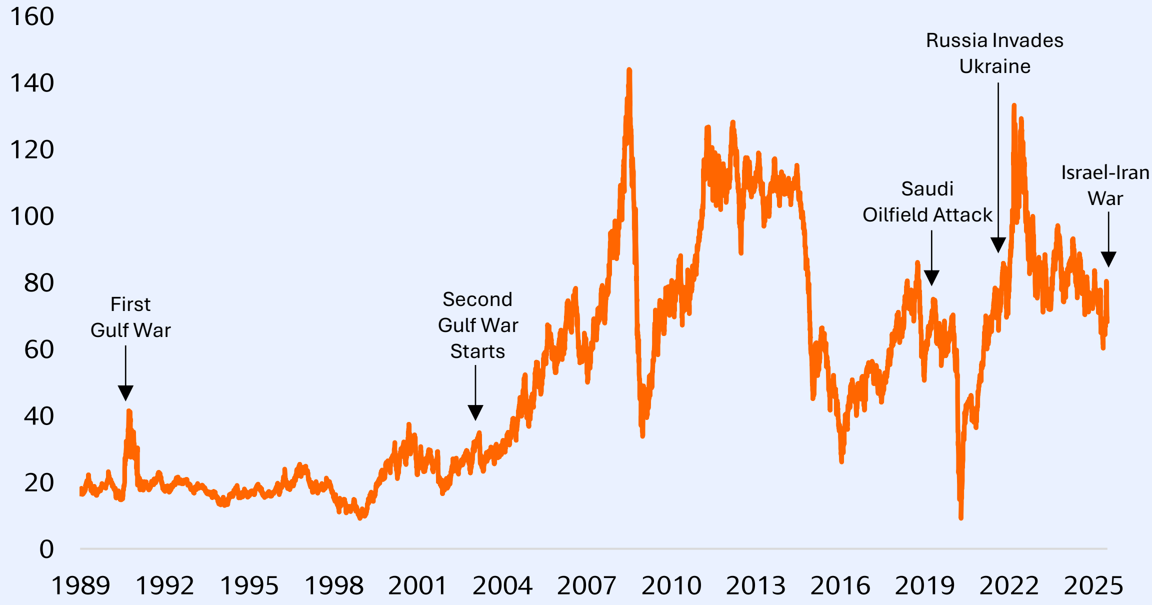
Europe scrambled to cut its reliance on Russian fuels. India and China stepped in to buy discounted barrels. Western buyers turned to the Middle East, Africa, and the U.S. to fill the gap. These sudden shifts strained supply chains, raised freight costs, and delayed materials vital for global trade.

And the impact didn't stop at shipping lanes or trading desks. Households everywhere felt it. Fuel, electricity, and heating bills spiked. As Maciej Kolaczkowski of the World Economic Forum noted, rising energy prices drive up the cost of virtually every good and service, stoking inflation fears worldwide.

June 2025: New Flashpoint, Same Lesson

In June 2025, oil markets once again reacted to geopolitical flashpoints — this time in the Middle East. Israeli airstrikes on suspected Iranian nuclear sites, followed by the U.S. military action, pushed Brent crude from below $70 on June 12 to over $81 by June 23.

Chart 1: Europe Brent Spot Price FOB (Dollars per Barrel)



Source: Reuters and U.S. Energy Information Administration.

No physical supply had been interrupted — yet. But the threat was credible. Iranian lawmakers warned of a possible closure of the Strait of Hormuz, a narrow waterway through which nearly one-fifth of the world's crude oil flows.

Markets responded swiftly. Goldman Sachs estimated that a $10 per barrel risk premium had been priced in. JPMorgan analysts warned that a full closure of the strait could send prices soaring past $120–130 per barrel. Though tensions have eased somewhat, prices remain elevated — underscoring how fragile global energy security still is.

The Middle East's Pivotal Role Remains Unchanged

Despite growing investment in renewables and new oilfields, the Middle East remains the anchor of global energy supply. Five of the world's top ten oil producers — Saudi Arabia, Iran, Iraq, the UAE, and Kuwait — are in the region, holding over half of the world's proven crude reserves.

They also dominate natural gas exports. Iran, Qatar, and the UAE shape both short-term price movements and long-term OPEC+ production targets that influence markets from Bangkok to Berlin.

While the U.S. shale and Brazil's offshore reserves offer some flexibility, they can't replace the scale and cost-efficiency of Middle Eastern oil — especially during times of crisis.

At the same time, demand is tilting eastward. Asia — led by China, India, and Southeast Asia — now accounts for more than 40% of global oil consumption. These markets are becoming increasingly influential in shaping pricing trends and trade routes. While Western economies focus on decarbonization, much of the world's near-term demand growth remains rooted in Asia's expanding industrial and transport sectors.

Oil isn't Just Fuel — It's a Transmission Belt for Global Inflation

When oil prices rise, the impact spreads far beyond the pump:

- Transport and shipping costs escalate
- Food and goods become more expensive
- Household purchasing power weakens
- Central banks tighten policy in response to inflation

If prices breach $100 and stay high, the effects can be severe. Inflation expectations rise. Interest rates may stay higher for longer. And energy-importing economies — particularly in Asia and Europe — could see their fragile post-pandemic recoveries slow or reverse.

Some governments attempt to cushion these shocks through tools like strategic petroleum reserves (SPR), subsidies, or price caps. But these are temporary buffers in a market governed by deeper geopolitical tides.

No Nation is Immune

Even countries that produce oil, such as the U.S., are not insulated. A disruption in the Strait of Hormuz raises pump prices in Texas just as much as in Tokyo — a reminder that oil is priced globally, and even the world's top producers are not immune to geopolitical shocks.

Because oil is traded through global benchmarks like Brent and WTI, local supply doesn't shield any country from global volatility. Europe, having reduced its reliance on Russian gas, now leans more heavily on Middle Eastern LNG — exposing itself to new risks. Meanwhile, the clean energy transition, while progressing, can't provide real-time relief. Solar panels and wind farms are long-term investments. Until they scale fully, oil remains both an economic shock absorber and a geopolitical weapon.

A Barrel of Crude, A Measure of Risk

In 2025, oil is more than a commodity. It's a barometer of geopolitical instability. It reflects not only market forces, but fear, leverage, and strategic calculation.

As long as oil flows through contested regions and narrow chokepoints, the global economy remains vulnerable to the forces that can stop it. The world may be transitioning toward renewables but for now, the global order still runs on crude.

The path to energy stability and geopolitical calm now runs through both the oilfields of the Gulf and the technologies that aim to leave them behind.

Pornpawee Thammavichai
Pornpawee.Thammavichai@bangkokbank.com

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