



**NUS
INVESTMENT
SOCIETY**

HOW BRENT CRUDE MOVES USDJPY

CASE STUDY - IRAN-ISRAEL CONFLICT

CAVEAT

This analysis is specific to Brent crude and USDJPY in the context of a Middle East supply shock. Different oil products, currency pairs, or shock types may activate different channels in different sequences.

This analysis focuses on episodes where the Iran-Israel shock was the dominant driver. In periods where Fed-BOJ rate divergence dominated market attention, the Brent-USDJPY relationship was weaker.

This analysis isolates Brent crude and JPY, though market moves may also reflect broader factors such as Fed policy, USD strength, and global risk sentiment.

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WHY JAPAN + BRENT CRUDE?

JAPAN

- The world's 3rd largest economy, imports ~90% of its energy needs (METI, 2024)
- Middle East supplies over **90%** of Japan's crude oil (IEEJ, 2025)
- Priced in Brent - the global benchmark for Middle Eastern crude
- Any Middle East supply disruption **hits Japan's import bill directly**

IRAN-ISRAEL

- Iran sits on the northern shore of the Strait of Hormuz
- **~20% of the global oil supply** transits Hormuz daily (ETA, 2025)
- Escalation → supply disruption fear → Brent spikes → JPY weakens
- Makes USDJPY one of the most oil-sensitive currency pairs in the world

"This case study traces how one geopolitical conflict transmitted into a currency move – through three observable channels"

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FOREIGN EXCHANGE (FX) BASICS

What is an exchange rate?

- An exchange rate is the price of one currency in another
 - Example: USDJPY = how many JPY you pay for 1 USD

Direction Language:

- Currency strengthens = it buys more of another currency
- Currency weakens = it buys less of another currency

How to read common quotes?

- USDJPY up → USD stronger / JPY weaker
- USDCAD down → USD weaker / CAD stronger

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CORE FX DRIVERS

MOST FX MOVES CAN BE EXPLAINED BY THE 4 MENTIONED DRIVERS

1. Growth outlook (who is doing better/worse)

- If an economy is expected to grow faster, capital tends to flow there → currency support

2. Inflation / purchasing power (erosion of real currency value)

- Higher inflation can weaken a currency by reducing purchasing power, especially if policy credibility is weak

3. Interest rates (expected path of central banks and yield differentials)

- FX reacts to rate expectations; higher expected yields attract flows → currency support

4. Risk sentiment (risk-on vs risk-off)

- In stress, investors rush into liquid/safe assets → **JPY often strengthens** (safe haven)

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WHERE BRENT CRUDE FITS?

Brent crude is a macro shock with winners and losers

Higher Brent prices = Higher energy costs
→ Potentially raising inflation and reducing real purchasing power

Shifts trade balances:

- Net exporters benefit (e.g., Saudi Arabia, Russia – more export revenue)
- Net importers face a bigger import bill (e.g., Japan – imports ~90% of energy needs)

Case anchor: Iran-Israel escalation (2025-26) as a supply shock, Brent spiked on supply disruption fears

Why USDJPY reacts?

USDJPY moves when Brent changes money flows between Japan and its trading partners

Main 3 Channels:

Trade Channel

↳ Flow of goods

Rates Channel

↳ Flow of capital

Risk Channel

↳ Flight to safety

THE IRAN-ISRAEL EVENT

BRIEF TIMELINE

APR 2024

Iran launches first direct missile attack on Israel
→ Brent spikes toward \$90

OCT 2024

Israel strikes Iran in retaliation
→ Brent volatile; yen weakens to ¥157**

MAR 2026

US and Israel strike Iran
→ Brent surges toward \$100, USDJPY pushes to ¥159*

(Bloomberg, 2026)

WHAT MARKETS SAW?

- **Brent:** spiked each time escalation headlines broke
- **USDJPY:** rose (JPY weakened) as Japan's import vulnerability came into focus
- **Safe-haven:** JPY's traditional haven status was tested – trade channel concerns competed with safe-haven flows

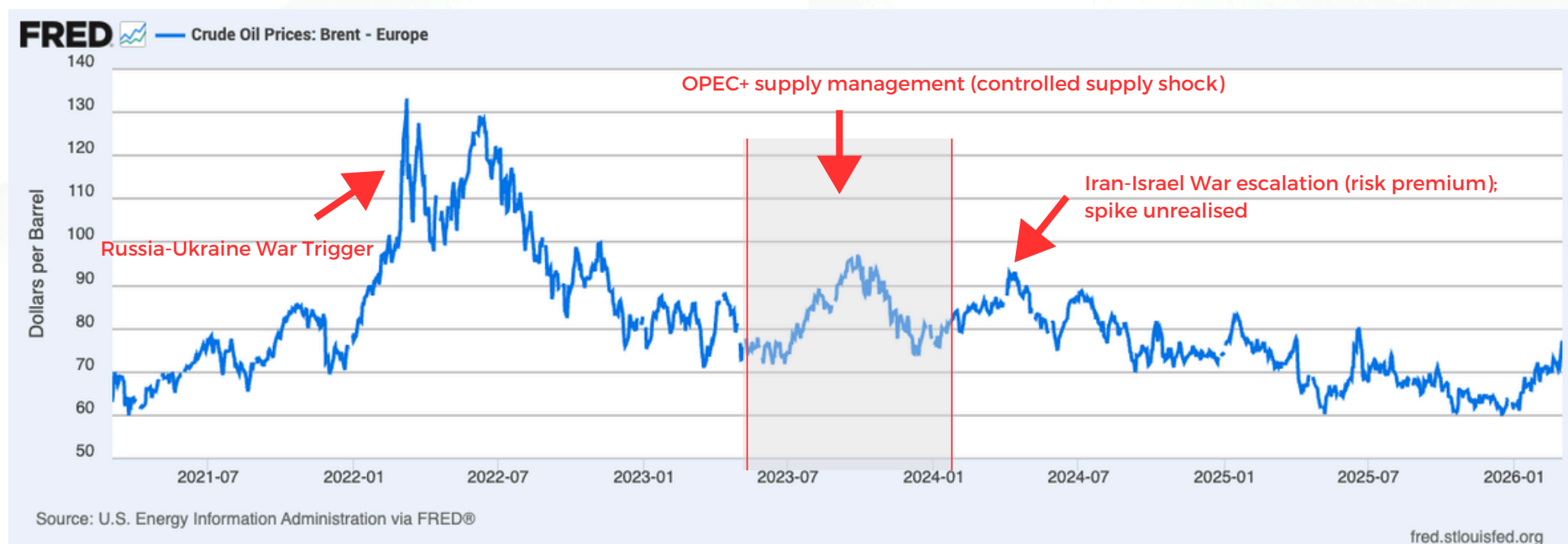
"Same conflict, multiple flare-ups – each one a natural experiment in how Brent transmits into USDJPY"

*AS OF 14 MARCH 2026 | **JPY WEAKNESS COPOUNDED BY JAPAN'S SNAP ELECTION RESULTS TOO

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WHAT IS AN OIL SHOCK?

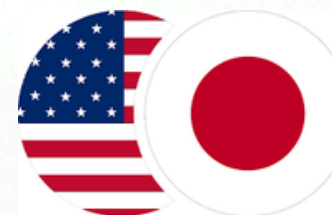
- A sharp change in Brent prices that can materially affect inflation, growth, and trade balances
- Two broad types: supply shock vs demand-driven move - Iran-Israel is a supply shock



Iran-Israel = supply shock. Disruption feared, not yet realised – but the risk premium was enough to move Brent and USDJPY (FRED, 2026)

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HOW WE ANALYSE THE BRENT → USDJPY



We trace the Iran-Israel shock through 3 channels.
Each channel asks a different question about why USDJPY moved

TRADE
RATES
RISK

| | | |
|---------------------------------|--|------------------------------------|
| Did Japan's import bill change? | Did inflation expectations reprice the Fed or BOJ? | Did investors flee to or from JPY? |
| Flow of goods | Flow of capital | Flight to safety |
| Slower to show | Faster to show | Often fastest |

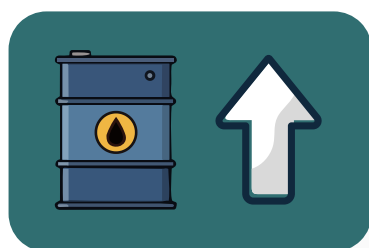
A single Brent move can activate one, two, or all three channels – the dominant channel determines USDJPY direction

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TRADE CHANNEL

JAPAN IMPORTS ~90% OF ITS ENERGY;
BRENT CRUDE IS ITS DOMINANT SOURCE

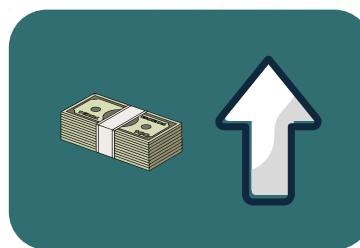
Japan (Net Brent Importer):



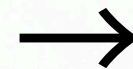
Higher Brent price



Bigger Import Bill

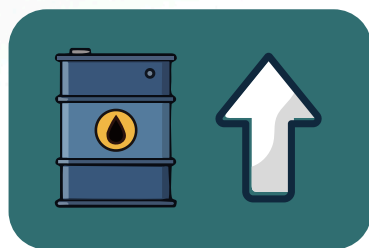


More FX needed
to pay for Brent



Currency faces
pressure

(Net Oil Exporter):



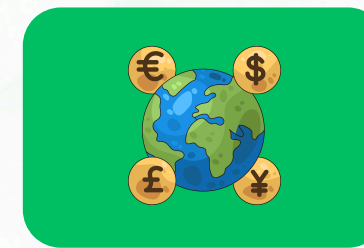
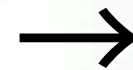
Higher Brent price



More export
revenue



FX inflow rises



Currency gets
support

In the Iran-Israel case: trade channel is the baseline pressure on JPY – persistent as long as Brent stays elevated

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TRADE CHANNEL CASE EXAMPLE



(Tang, 2026)

Stocks trade lower in Tokyo and yen weak after the US and Israel strike Iran (The Japan Times, 2026). As the conflict escalated and Brent spiked, JPY weakened rather than strengthened (overwhelmed the safe-haven effect)

Trade channel mechanism (why USDJPY moved):

- Brent up (supply risk) → Energy import bill expected to widen
- More JPY is sold for USD to pay for oil

Market belief:

Brent up = Bigger import bill for Japan → JPY weakens

RATES CHANNEL

WHAT CHANGES FIRST

Brent crude is an economy-wide input cost

When Brent price rises, headline inflation usually rises first (fuel, transport, and utilities)

Market Thoughts;

- Is this inflation bump temporary, or will it spill over into broader prices?



WHAT MARKETS REPRICE

In the event inflation expectations shift, markets next reprice central banks

Central bank cares about future inflation, not today's Brent price

If Brent is seen as pushing inflation higher for longer, markets price:

- Cuts later = Tighter policy

If Brent is seen as a growth drag and bump is temporary, market price:

- More easing and less tight policy

HOW USDJPY MOVES

Changing policy expectations then changes expected yields

FX follows expected yield differentials

For USDJPY, if Brent-driven inflation keeps the Fed on hold while BOJ stays loose, the yield gap widens → USDJPY rises via rates channel

Summary: Rates channel: *usually

Brent → Inflation expectations → Central bank path → Yield gap → FX

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RATES CHANNEL CASE EXAMPLE

Middle East Conflict: What it means for macro and markets

A further escalation in Iranian-Israeli tensions could take oil prices above \$80 and would mean more upside for the dollar. The Federal Reserve was already likely to keep rates on hold through the third quarter and the latest developments only reinforce that



(Patterson, 2025)

In June 2025, **oil rose** on supply-risk headlines, lifting inflation worries and pushing markets to price fewer and later rate cuts—so the **USDJPY rose** as the Fed-BOJ policy gap remained wide - rates channel reinforced trade channel pressure on JPY

- Oil up (supply risk) → markets worry about higher inflation / stickier headline prints
- That reinforces “higher for longer” (cuts pushed out / policy stays tight)
- Yield support + policy gap → USDJPY tends to firm (rates channel dominates)

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RISK CHANNEL

Big Idea:

When Brent moves because of stress, FX reacts via risk sentiment + safe-haven flows, not trade or rates

Brent can move as a risk barometer according to ongoing activities / geopolitical escalation

RISK-ON

Capital moves into growth assets

→ High-beta FX can strengthen

RISK-OFF

Capital moves into safety/liquidity

→ safe havens strengthen, risky FX weakens

Why USDJPY is complex in risk-off?

- JPY is also a traditional safe haven. In extreme risk-off, JPY can strengthen alongside USD — meaning USDJPY direction depends on which safe-haven flow dominates. In the Iran-Israel case, trade channel concerns eroded JPY's safe-haven appeal.

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RISK CHANNEL CASE EXAMPLE

Oil prices drop 6% as Israel-Iran ceasefire reduces Middle East supply risk

By Scott Disavino

June 25, 2025 3:24 AM GMT+8 · Updated June 25, 2025



(Disavino, 2025)

Ceasefire = risk-relief.

In June 2025, **oil fell** because traders had been pricing a geopolitical fear premium (risk of supply disruption). When a ceasefire reduced that risk, that premium got “reversed”, so oil dropped fast.

USDJPY fell because investors moved out of safe-haven USD and back into risk assets, which typically softens the dollar. (Risk-relief)

Risk relief unwound both the Brent premium and JPY safe-haven selling simultaneously - USDJPY dropped

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SO WHICH CHANNEL DOMINATED?

in the Iran-Israel case, all three channels activated, but not equally

TRADE CHANNEL

Verdict: Active, persistent

Evidence: JPY weakened as Japan's import bill widened on Brent spike

Speed: Slow - built over weeks as Brent stayed elevated

USDJPY Impact: ↑ (JPY sold for USD to pay for oil)

RATES CHANNEL

Verdict: Active, reinforcing

Evidence: Brent-driven inflation kept Fed on hold → Fed-BOJ gap wide

Speed: Medium – repriced as inflation expectations shifted

USDJPY impact: ↑ (yield gap favoured USD)

RISK CHANNEL

Verdict: Active but contradictory

Evidence: JPY safe-haven status competed with trade channel selling

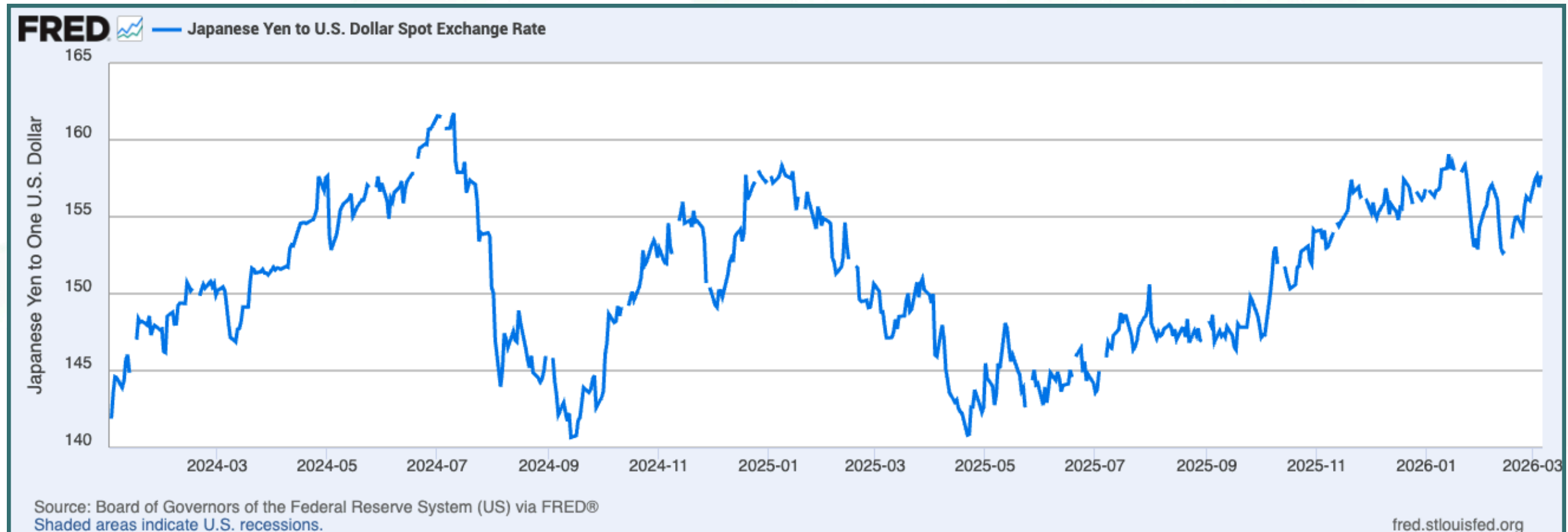
Speed: Fast – immediate on escalation headlines

USDJPY impact: Ambiguous – JPY pulled in two directions

Trade + Rates channels **aligned to push USDJPY higher**. Risk channel **created noise but did not reverse** the direction. This helps explain why USDJPY tended to rise persistently in this case, rather than spike and reverse

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USDJPY CHART (2024 - 2026)



Source: FRED

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CONCLUSION

Key Takeaways:

- Brent crude \neq automatic USDJPY direction. What matters is why Brent moved and which channel it activated
- The Iran-Israel case shows all three channels can activate simultaneously – trade and rates aligned, and the risk channel creates short-term noise
- USDJPY is particularly sensitive to Middle East supply shocks because Japan's ~90% energy import dependency makes the trade channel almost automatic
- JPY's safe-haven status is not unconditional – when the source of stress is also a direct threat to Japan's import bill, the trade channel can overwhelm safe-haven flows

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