

Shia cleric execution may have ramifications for oil and gold

The execution of shia cleric Nimr al-Nimr by Suadi Arabia has heightened regional tensions in an already tense and fractious Middle East.

The result of this increased tension will likely manifest itself in higher oil and gold prices, and possibly impact share prices worldwide negatively.

The execution of a shia cleric, Nimr al-Nimr, by Saudi Arabia has ratcheted up tensions in an already powder keg situation in the Middle East.

The execution seems designed to deliberately escalate an already tense situation with Iran and Saudi Arabia already locked in proxy wars in Syria and Yemen. Any escalation into direct armed conflict would clearly jeopardise the flow of crude oil to the west, which have to pass through the Straights of Hormuz, an area that borders Iran, and at it's narrowest point is a mere 22 miles across.

So, as a result, the price of crude will likely increase in the short term whilst the next steps are absorbed by the market, and international tension always benefits the price of gold, the preferred fallback in such situations.

The subsequent ending of diplomatic relations between Saudi Arabia and Iran does not bode well for an early resolution to this problem. In 2014 Saudi Arabia was the world's largest buyer of military equipment, and was set to continue that trend in 2015 suggesting they are preparing for military conflict with Iran, their regional rival.

Interestingly, western governments have made a very muted response to the executions in Saudi Arabia, a barbaric act that would have surely been condemned had it been carried out by a less friendly power, say Russia.

I expect markets to become very volatile this week, as an early diplomatic solution looks very unlikely.