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News Analysis

The War in the Middle East and the Impact on Energy Markets

Introduction

The war in the Middle East, now in its seventh week, has once again underscored the deep connection between geopolitics and global energy security. As conflict threatens key production sites and major transit routes—especially the Strait of Hormuz, through which roughly one-fifth of the world's oil and a significant share of liquefied natural gas (LNG) flows—energy markets have responded with immediate volatility. Oil and gas prices have surged, freight and insurance costs have risen, and fears of prolonged supply disruptions have intensified concerns over inflation and slower economic growth worldwide.

The impact on energy markets extends far beyond crude prices alone. Disruptions in the Gulf are affecting natural gas supplies, petrochemical feedstocks, refining operations, and even fertilizer production, creating ripple effects across manufacturing, transport, agriculture, and household energy bills. For import-dependent economies in Asia and Europe, the conflict poses a serious threat to energy affordability and industrial stability, while exporters face production bottlenecks and infrastructure risks. As uncertainty persists, the crisis is reshaping global energy strategies, pushing governments and companies to prioritize supply diversification, strategic reserves, and long-term energy resilience.

Current Situation in the Gulf Region

According to the International Energy Agency (IEA) **(1)**, crude and oil product flows through the Strait of Hormuz have plunged from around 20 million barrels per day (mb/d) before the war to a trickle currently. With traffic largely halted, limited capacity to bypass the crucial waterway, and storage filling up, Gulf countries have cut total oil production by more than 11 mb/d. In view of the fact that this corresponds to roughly 10% of global daily crude supply, and in the absence of a rapid resumption of shipping flows, supply losses are set to increase.

The Gulf region remains one of the world's most important exporters of refined petroleum products, particularly middle distillates such as diesel and jet fuel. In 2025, Gulf producers exported approximately 3.3 mb/d of refined oil products, alongside 1.5 mb/d of liquefied petroleum gas (LPG). However, the ongoing conflict has already forced the shutdown of more than 3 mb/d of regional refining capacity due to direct attacks and the absence of viable export routes. At the same time, refiners outside the region have begun reducing refinery runs amid growing concerns over feedstock availability.

On a global scale, middle distillate markets were already relatively tight compared with other refined products. As a result, refineries outside the Gulf appear to have limited capacity to further raise diesel and jet fuel production in order to offset prolonged supply disruptions. This lack of spare flexibility heightens the risk of sustained shortages in key transport and industrial fuels.

Oil-importing countries, however, retain substantial reserves that can help cushion temporary disruptions. Global observed inventories of crude oil and petroleum products are currently estimated at more than 8.2 billion barrels, the highest level recorded since February 2021. Approximately half of these stocks are held by advanced economies, including around 1.25 billion barrels maintained by governments for emergency use and an additional 600 million barrels of industry inventories held under mandatory government obligations. These are known as strategic reserves and form the basis of the IEA's collective emergency action announced on 11 March to release additional oil supplies into the market. **(2)**

The Gulf region's LNG production has also been severely affected by the conflict. Global natural gas markets had only recently begun to stabilize after the major disruption caused by Russia's invasion of Ukraine in February 2022. Although a significant wave of new LNG capacity is expected to come online before the end of the decade and reshape market dynamics, gas markets remained tight during the first two months of this year, particularly as storage levels were left depleted following the Northern Hemisphere heating season.

Disruptions to shipping through the Strait of Hormuz have reduced LNG exports from Qatar and the United Arab Emirates by more than 300 million cubic metres per day since 1 March. This represents a loss of more than 2 billion cubic metres of gas supply each week. In addition, Qatar's Ras Laffan facility—the largest liquefaction complex in the world—has remained offline since it was first attacked on 2 March, with 2 out of 14 of its trains severely damaged. Regional gas production has been further constrained by the shutdown of oil fields, which has reduced associated gas output linked to oil extraction.

Asian natural gas markets have seen prices rise sharply since the outbreak of the war as buyers compete to secure additional LNG cargoes, highlighting the region's vulnerability to supply disruptions through the Strait. Rising prices and limited supply have also triggered demand-side responses, including gas rationing measures in several countries.

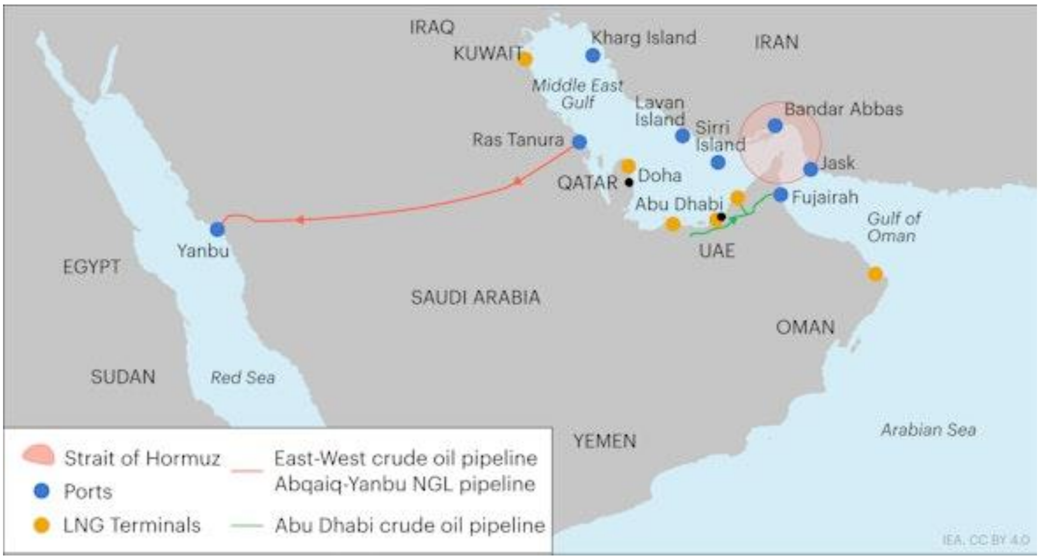
Overall, some 85 oil and gas production facilities have suffered extensive damages as a result of Iranian ballistic missiles and drone raids. Qatar, one of the world's largest liquefied gas producers, has lost almost a fifth of its output, which will take at least 3 years to restore. Some of the world's largest oil refineries have suffered numerous hits, with as much as 2.4 million barrels a day of capacity estimated to be offline. In addition, about 10% of the world's crude oil production remains shut in, with little prospect of a speedy return while the Straits of Hormuz are closed.

Why is the Strait of Hormuz so Important?

The Strait of Hormuz is a narrow maritime corridor that separates Iran from the Arabian Peninsula and links the Persian Gulf to the Gulf of Oman and the Arabian Sea. As one of the world's most strategically significant trade routes, it serves as the principal export passage for oil and natural gas produced by Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Iraq, Bahrain, and Iran.

The ongoing conflict has effectively brought traffic through the Strait to a near standstill, placing severe pressure on the trade of a broad range of energy commodities. In 2025, approximately 25% of global seaborne oil trade passed through the Strait of Hormuz, underscoring its critical role in international energy markets. Alternative routes capable of bypassing the Strait remain highly limited. At present, only Saudi Arabia and the United Arab Emirates possess operational crude oil pipelines that could partially reroute exports, with an estimated transit capacity of 7.0 and 1.5 mb/d. By contrast, other regional exporters—including Iran, Iraq, Kuwait, Qatar, and Bahrain—remain overwhelmingly dependent on the Strait for the shipment of most of their oil exports.

Map 1: Alternative Routes

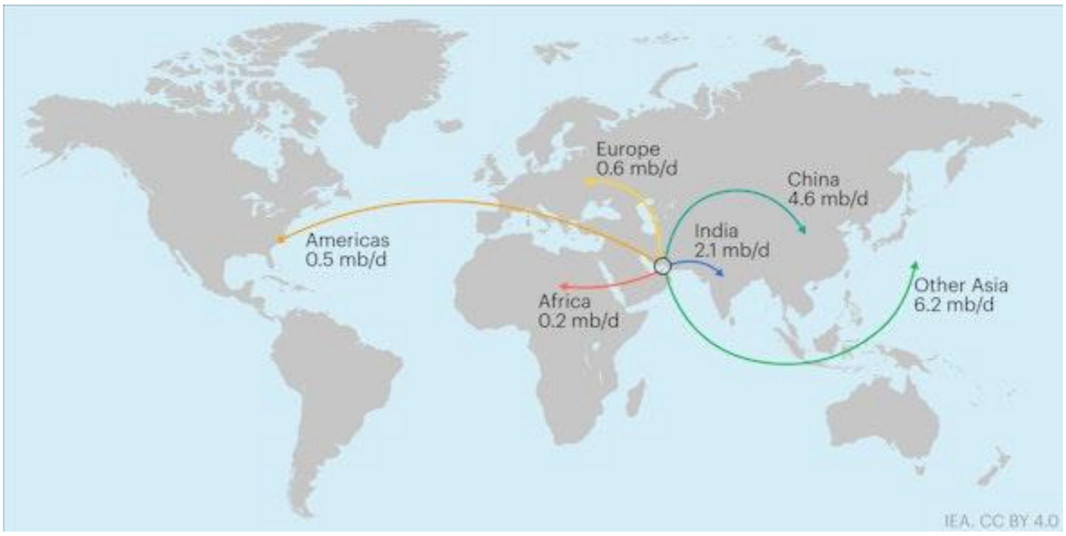


Source: IEA

In 2025, approximately 80% of the oil and refined petroleum products transported through the Strait of Hormuz were destined for Asian markets, highlighting the region's heavy dependence on this strategic maritime corridor. The Strait also played a critical role in global LNG trade, with more than 110 bcm of LNG passing through it during the year. Around 93% of Qatar's LNG exports and 96% of the United Arab Emirates' LNG shipments transited the Strait, together accounting for nearly one-fifth of total global LNG trade. Unlike oil, these LNG volumes have no viable alternative routes to reach international markets, making the Strait indispensable for gas-exporting Gulf states.

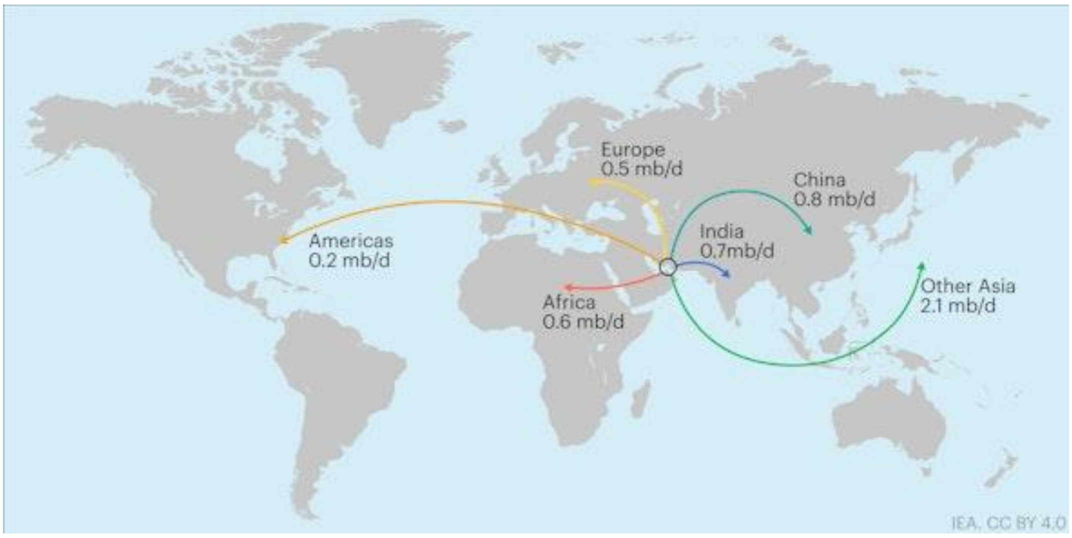
The vast majority of LNG exported from Qatar and the UAE is directed toward Asia. In 2025, nearly 90% of the LNG volumes shipped through the Strait of Hormuz were delivered to Asian buyers, representing more than one-quarter of the region's total LNG imports. By comparison, just over 10% of these exports were supplied to Europe.

Map 2: Crude Oil Exports Transiting the Strait of Hormuz by Destination, 2025



Source: IEA

Map 3: Oil Products Transiting the Strait of Hormuz by Destination, 2025

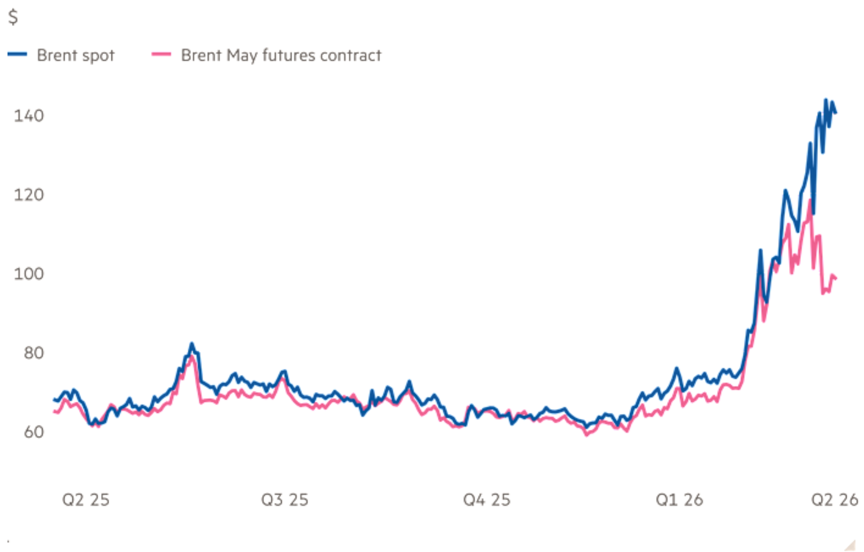


Source: IEA

Impact on Oil Prices

The true impact on oil prices cannot be fully assessed since there is a substantial gap between future prices (eg. one month Brent or WTI) and spot prices, which prevail when actual oil cargoes change hands. As reported by the Financial Times on April 10, Forties Blend, a market for oil for immediate delivery, hit almost $147 a barrel, above the highs reached on the eve of the 2008 financial crisis. Since the start of the current crisis, we have been witnessing a growing gap between future prices and dated prices. For example, Figure 1 shows the diverging prices of Brent spot and the near-term futures contract for delivery in May.

Figure 1: Brent Spot and Futures Prices, Q2 2025-Q2 2026



Source: Financial Times

Figure 2: Brent Crude Oil Prices Over the Last 6 Months

Source: ICE

That's because hopes that the Strait of Hormuz will reopen soon has sent oil futures tumbling — the August contract is below $90 a barrel — but if you're a refiner that needs oil now then you're willing to pay a hefty premium to secure it. And that's particularly true of Asian buyers that depend more on Gulf oil. This is why other oil benchmarks (like Oman's) have been far higher than Brent or West Texas Intermediate, the main Atlantic and US benchmarks that are the most frequently cited, according to the Financial Times. **(3)**

In order to understand further how the oil market works, it is worth mentioning that yesterday (15/4) Brent dated for delivery in East Mediterranean refineries was quoted as $124.72 per barrel. Also, on April 6, Saudi Aramco, the world's biggest crude exporter, announced that it will charge customers in Asia $19.50 per barrel on top of the Oman-Dubai benchmark for a barrel of Arab Light crude, its main oil grade, in May. Over the past 26 years, the premium has never exceeded $10 a barrel. However, customers in Europe will now need to pay $24-$30 a barrel over the Brent futures benchmark. (4)

Figure 3: TTF Prices Over the Last 3 Months

Source: ICE

Impact on Oil Shortages and Production

Oil Shortages

Oil shipments from the Gulf can take up to 45 days to reach their final destinations. As a result, the last tankers that departed before the United States launched military operations against Iran 45 days ago are only now arriving, with very few replacement shipments following behind them. What was initially a forecast of possible scarcity is now beginning to materialize into actual shortages, making it essential for governments, businesses, and consumers to prepare for the real implications of a world facing constrained oil supplies. (5)

At present, the risk of shortages depends largely on geographic location. Countries with the greatest dependence on Gulf crude oil and refined petroleum products—primarily in Asia—are the first to feel the impact. This includes economies such as South Korea, India, Malaysia, and Singapore. While strategic stockpiles may provide temporary relief, Goldman Sachs estimates suggest that average reserves across several Asian countries, excluding China, are sufficient to cover only around one month of demand.

As a result, many Asian governments have already begun introducing demand-management measures, including remote working arrangements for public employees, restrictions on air-conditioning use, and campaigns encouraging greater reliance on public transport. Australia is also vulnerable to secondary effects, as it relies heavily on imports of refined products from Asian supply hubs. With major suppliers such as China and South Korea limiting exports, Australia faces an increasing risk of shortages and panic buying at fuel stations.

If the Strait of Hormuz remains closed for an extended period, however, the countries currently suffering first may not ultimately endure the greatest hardship. Over time, global oil trade flows are likely to reorganize, gradually restoring oil's role as a highly liquid international commodity market. Nevertheless, Wood Mackenzie estimates that the market could still remain short by approximately 10 million barrels per day—roughly equivalent to the decline in global oil consumption during the first year of the Covid-19 pandemic.

At that stage, scarcity would be determined less by geography and more by purchasing power. In other words, access to fuel would increasingly depend on which countries or consumers can afford to pay higher prices. Some Asian economies may be disadvantaged on both fronts, whereas wealthier countries such as Australia may be better positioned to attract cargoes from alternative suppliers, including the United States.

This shift creates difficult distributional challenges. Wealthier consumers in poorer countries may outbid lower-income households in richer nations, while governments may need to intervene to ensure that strategic sectors continue to receive supplies. Essential services, such as the UK's National Health Service, provide a clear example of users that governments would likely prioritize.

At the same time, protecting consumers from rising fuel costs presents a major political temptation. Public protests, such as those recently seen in Ireland, demonstrate how rapidly higher fuel prices can evolve into political crises. In the United States, gasoline prices have climbed above $4 per gallon—nearly one-third higher than a year earlier—at a particularly sensitive moment ahead of midterm elections. However, if governments respond mainly through subsidies or fuel tax reductions, the effect may simply be to push global prices even higher by delaying the demand adjustment needed to bring consumption back in line with reduced supply.

Historically, oil prices often overshoot during supply shocks because consumers and industries need time to adapt, whether by reducing consumption, improving efficiency, or accelerating investments in alternatives such as renewable energy. This also means that the longer fuel prices remain exceptionally high, the greater the risk that part of the lost demand may never return. In the longer term, a prolonged oil shortage could eventually transform into structural oversupply as economies permanently shift away from petroleum dependence. For governments, however, this offers little immediate comfort as they navigate difficult policy choices in the short term.

Potential halt to oil production

Iran may be forced to begin significantly reducing oil production within the next two weeks if a US naval blockade successfully cuts off its exports. However, Tehran appears confident that it can withstand the resulting economic pressure longer than the Trump administration can tolerate the political fallout from persistently high global energy prices.

According to satellite data from Kayrros, Iran's crude storage tanks are currently just over 51% full. At existing export levels of roughly 1.8 million barrels per day, this leaves capacity for approximately 16 more days of production before storage volumes approach the record 92 million barrels reached during the 2020 Covid-19 crisis. In reality, Iran is unlikely to wait until storage reaches maximum capacity before reducing output. Having operated for years under shifting international sanctions, the country has developed significant experience in adjusting production under constrained export conditions. **(6)**

Richard Bronze, head of geopolitics at Energy Aspects, estimates that if exports are halted, Iran could continue pumping for around 10 to 15 days before gradually scaling back production across multiple oil fields. He also noted that a normal flow of tankers has continued entering the Gulf in recent days to load crude from Iranian export terminals, allowing Tehran the additional option of using tankers themselves as floating storage. Throughout the conflict, Iran has reportedly loaded one or two supertankers per day—each capable of carrying 2 million barrels—at its primary export terminal on Kharg Island.

Other Gulf producers, which have already seen roughly 350 million barrels of crude effectively stranded in the Gulf since the conflict began, chose to reduce production well before filling their storage facilities. While those decisions were partly influenced by fears of missile strikes on active oil fields, producers generally prefer to curb output early rather than shut fields completely, as full shutdowns can risk long-term reservoir damage. Roughly half of Iran's 3.6 million barrels per day of oil production is consumed domestically.

Bronze suggested that Iran may be willing to sustain current output for longer if it believes diplomacy could quickly resolve the blockade, adding that he does not anticipate immediate deep production cuts. Unlike several neighboring exporters, Iran has continued shipping crude through the Strait of Hormuz during the six-week conflict. Exports were further supported last month after Washington temporarily relaxed sanctions in an effort to stabilize global markets, enabling Tehran to benefit from higher wartime oil prices.

Iran's oil minister stated recently that sales conditions had been "favorable" and said the resulting revenues would support reconstruction within the energy sector. Iranian analysts estimate that wartime crude revenues have nearly doubled compared with prewar levels and are now well above the government's 2026 budget expectations. The temporary US sanctions waiver on Iranian oil is scheduled to expire on April 19. Brenda Shaffer, an Iran energy specialist and senior fellow at the Atlantic Council's Global Energy Center, said it was surprising that Washington had not moved earlier to counter Iran's ability to influence shipping through the Strait of Hormuz.

She noted that the traditional assumption had been that any closure of the Strait would also damage Iran's own economy, limiting how long Tehran could sustain such a strategy. By now directly targeting Iranian exports as well, the US may be making the continuation of the conflict less economically viable for Tehran. Miad Maleki of the Foundation for Defense of

Democracies estimated that a blockade could cost Iran approximately $435 million per day in lost revenue.

At the same time, Sanam Vakil, Middle East director at Chatham House, argued that while the blockade would place enormous pressure on Iran, the leadership still views the conflict as existential. She suggested that the regime's mindset remains one of stubborn resistance, even at significant cost to the population, though this approach risks deepening domestic legitimacy problems and worsening the burden on ordinary citizens. Vakil also argued that psychologically, Iran may be capable of enduring pressure longer than President Trump, framing the confrontation as a test of endurance and political will.

Iranian analysts have additionally questioned whether such a blockade could be effectively enforced. The country has historically responded aggressively to attempts to seize its tankers and may also rely on allied Houthi forces in Yemen to disrupt shipping through the Red Sea. Hamid Hosseini, spokesperson for Iran's Oil, Gas and Petrochemical Products Exporters' Union, insisted that crude exports cannot simply be halted, suggesting that Trump's rhetoric is partly intended to create leverage so that any eventual diplomatic agreement can later be presented as a concession by Iran.

Saeed Laylaz, another Iranian analyst, warned that a US blockade could widen the conflict into the Red Sea, where Saudi Arabia has already redirected a significant share of its exports. He argued that Iran retains substantial retaliatory capacity and suggested that if its own oil exports were completely stopped, the Bab al-Mandab Strait at the southern entrance to the Red Sea could also be closed. A former senior oil official in Tehran went even further, claiming that Iranian tankers would respond militarily to any helicopters approaching them. The US has indicated that any tanker interceptions would occur far from Iranian territorial waters, though it remains unclear whether Iranian tankers are armed.

Bronze also estimates that Iran currently has as much as 150 million barrels of crude already loaded onto tankers positioned outside the Strait of Hormuz, potentially allowing exports to continue for several more weeks despite the blockade. This floating storage would provide Tehran with a temporary buffer, enabling it to keep supplying customers while the US pressure campaign continues. Ultimately, Bronze described the blockade as an effort to strip Iran of its strategic leverage, while warning that the US administration itself may not be able to politically afford a prolonged wait.

Impact on Other Key Commodities

Disruptions to shipping through the Strait of Hormuz have also affected a range of other commodity markets, with consequences that extend well beyond the energy sector. Fertilizer supply chains are particularly vulnerable. More than 30% of global urea trade passes through the Strait, alongside roughly 20% of worldwide ammonia and phosphate shipments. This level of dependence creates significant risks for global food prices and food security. In addition, disruptions in fertilizer markets may indirectly intensify energy pressures, as several countries rely on imported LNG to operate domestic fertilizer production facilities.

The Gulf region is also responsible for approximately 8% of global aluminum production, a metal that is essential for many energy technologies as well as for construction and manufacturing industries. Each year, around 5 million tonnes of aluminum are shipped through the Strait from smelters located in Bahrain, Qatar, Saudi Arabia, and the United Arab Emirates, making maritime disruptions a serious concern for industrial supply chains.

Furthermore, nearly half of global seaborne sulphur trade transits the Strait of Hormuz. Sulphuric acid, derived from sulphur, is not only a critical input for fertilizer and chemical production but is also widely used in petroleum refining and the processing of essential minerals such as copper, nickel, and zinc.

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