# Oil & Gas

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## Loose or tight, markets brace for a fight

- **Strait of Hormuz**: Due to the threat of Iranian attacks, the maritime passage between Iran and major energy-exporting countries such as Qatar and Saudi Arabia has effectively become unnavigable. As a result, roughly 20% of global oil and LNG supply is unable to reach the market via its usual route.
- **Brent crude**: As a consequence of the 'blockade' of the Strait of Hormuz, the front-month Brent crude contract has already risen by around 10% this week. The supply shock occurs in what remains, fundamentally, a relatively well-supplied oil market, with OPEC+ having announced over the past weekend a production increase of 206 kb/d starting in April.
- **TTF**: European (and global) gas markets, by contrast, are facing relative tightness. In addition, LNG production at the Qatari industrial complex Ras Laffan was halted on Monday. These developments led to nearly a doubling of the front-month contract price.
- **Gas storage**: European gas storage levels are low. With TTF prices currently elevated, additional pressure on storage inventories may emerge, despite relatively mild weather across much of Europe. From a financial perspective, it is currently more attractive to withdraw gas from storage than to purchase it on the spot market. Concerns are also growing over the ability to refill storage in the coming months.

### Middle East: The Epicentre of Oil and Gas Markets

Warnings had been issued for some time, and the United States had already been increasing its military presence in the Middle East. But this past weekend, the moment arrived. In coordination with Israel, the US launched a major offensive against Iran. A significant portion of the incumbent regime was eliminated, and critical military targets were neutralised. Nevertheless, Iran responded with retaliatory strikes on Israel and surrounding Gulf states.

Although considerable uncertainty remains regarding the consequences of this conflict — including its duration, the intensity of further retaliation, and therefore the impact on energy markets — it is clear that the risks of supply disruptions have increased substantially. Iran itself is an oil exporter — primarily to China — but the most significant consequences stem from the effective closure of the Strait of Hormuz.

At its narrowest point, the strait remains more than 50 kilometres wide. Any closure is therefore not physical in nature but can be achieved through the threat of attacks, as Iran has indicated. The US government has consequently advised commercial shipping not to transit the passage.

The immediate result is that insurers are no longer willing to underwrite tanker and cargo shipments, which in itself is sufficient reason for shipping companies to suspend transit. The impact on both oil and gas markets could be considerable. The scale of that impact will depend heavily on the duration of the conflict and on when safe — and insurable — passage can resume. Given that approximately 20% of global oil supply originates from this region, and that only just over 10% of that volume can reach the market via alternative routes, a prolonged export disruption could drive oil prices sharply higher.

For gas, the implications are potentially even greater. Around 20% of global LNG supply comes from Qatar and is transported through the Strait of Hormuz to the rest of the world. However, in contrast to oil, there are no viable alternative export routes available. Although the vast majority of this gas is shipped to Asia — particularly China — any disruption would tighten the global market and could therefore be strongly felt in Europe as well.

The key question, naturally, is how these risks should be assessed. And, candidly, there is still very little that can be said with confidence at this stage. The outcome depends not only on the military conflict itself, which under normal circumstances might be resolved within days. More important is what this means — or has already meant — for the regime in Iran and to what extent the 'normal' flow of energy exports from the region can resume without impediment. From an economic perspective…

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