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COMMODITIES, FOOD & AGRI ENERGY

Energy markets brace for a prolonged supply disruption

There are few signs of de-escalation or a resumption in energy flows from the Persian Gulf. The market is having to reprice the duration of ongoing supply disruptions. We have updated our scenarios for oil and gas markets



Markets are increasingly bracing for prolonged supply interruptions from the Persian Gulf

Signs point to a more prolonged disruption

Energy markets are having to continuously price in a more prolonged disruption to oil and gas flows through the Strait of Hormuz, with little sign of de-escalation or a resumption in oil and LNG flows through the key chokepoint.

A more prolonged disruption means that we are only likely to continue to see producers reduce upstream production as they try to manage storage constraints. Further upstream shut-ins will only prolong a return to normal, even if the Strait of Hormuz reopens, as it will take time to ramp up production. Up until now, around 8m b/d of crude oil production has been shut-in, according to the International Energy Agency.

Furthermore, energy infrastructure in the region is vulnerable to attack, and there have already been multiple strikes, whether intentional or not, on refineries and ports, while there have also been attempted strikes on upstream assets. Clearly, any prolonged outage due to

attacks will only add to the time it takes to see a normalisation in oil and LNG supplies from the Persian Gulf.

While the US administration has touted the idea of insurance guarantees and naval escorts, neither has materialised yet. There have been suggestions that naval escorts could start by the end of March, which means significant disruptions are likely to persist at least until then. Escorting commercial vessels through the Strait of Hormuz would leave naval ships vulnerable to attack, and so the US may hold off from such action until it feels that Iran's ability to launch attacks on vessels has been eroded.

Supply responses are limited for oil and gas

The sheer scale of the oil supply disruption makes it difficult for the market to find an adequate solution. After considering oil flows diverted by pipeline to avoid the Strait of Hormuz, as much as 15m b/d of oil flows are still disrupted.

OPEC's spare capacity is of little use when oil is not flowing through the Strait, given that almost all spare capacity sits in the Persian Gulf.

The temporary easing of US sanctions on Russian oil aims to allow Russian floating oil at sea to find buyers, and while helpful to Indian and possibly some other refiners in Asia, it is unlikely to significantly offset Persian Gulf supply disruptions.

Meanwhile, the record 400m barrels coordinated release from IEA member countries also helps in the short term, but it is a temporary solution and so will only have a short-term effect on the market. 400m barrels will cover a little over 25 days of supply being disrupted at the moment, but this oil will flow out of government reserves at a much slower pace, and for Europe and the Americas, these releases will only start towards the end of March, so again, not enough to offset the Strait of Hormuz losses.

While we are also likely to see a supply response, particularly from the US, it will be too little too late. Additional supply from the US would likely take at least six months to come online, and the volumes will be a fraction of the losses we are currently seeing. The EIA recently published its latest US crude oil output forecasts for 2026 and 2027. Despite developments, the agency still expects US crude output to be largely flat for 2026. However, 2027 output estimates were revised up by around 500k b/d from previous forecasts.

For the global LNG market, there is even less flexibility on the supply side, with the disruption in Persian Gulf flows hitting around 20% of global LNG trade, and hard to offset. There is new capacity ramping up in the US this year, but at just 15bcm of annual capacity, it falls short of the 110bcm of annual production currently disrupted. For gas and LNG markets, the only real solution in the short term is to balance the market with demand destruction.

Our new base case sees higher energy prices

At the start of the war, in our base case we assumed a two-week full disruption to energy flows through the Strait of Hormuz and then a gradual recovery over the remainder of March, which would have led to near-normal flows by April. That was clearly too optimistic, with us now in the third week of the conflict and no signs of energy flows resuming. We have therefore had a hard rethink of our scenarios, along with our base case.

In our new scenario 1, which is our base case, we assume that Strait of Hormuz flows remain cut off until the end of March, which corresponds with the view that intense combat between the US-Israel and Iran continues until the end of the month. This is followed by lower intensity strikes, along with more signs of diplomacy, which start to allow for a gradual recovery in energy flows in the second quarter. Over this time, upstream production, refineries and LNG facilities start to slowly ramp up as storage constraints start to ease. However, it would only be by the start of the third quarter that we see a return to near-normal flows. This is assuming that available pipeline capacity continues to be used for some oil to bypass the Strait of Hormuz. This would help reduce the burden on any potential naval escorts that we could see in the weeks and months ahead.

Our new scenario 2 is our most optimistic scenario, where we assume that energy flows through the Strait of Hormuz remain almost fully disrupted until the end of March and gradually improve in April. This would allow supply to be back to near normal by May. However, we would need to see some fairly quick de-escalation under this scenario, along with a quick ramp-up in both oil and LNG supplies. This may be too optimistic, considering that it would take time for ramp-ups to occur and ensure vessel availability for loadings.

Our new scenario 3 is our more aggressive scenario, where the intensity of the war continues into April, followed by a lower-grade confrontation for the foreseeable future, while there are few signs of diplomacy. Continued attacks on vessels navigating the Strait of Hormuz mean energy flows remain disrupted for a prolonged period. In addition, there is limited damage to energy infrastructure in the region, adding to the slower normalisation in energy supplies from the Persian Gulf.

Under this scenario, energy flows remain at almost a full standstill until the end of May, before gradually recovering between June and August. Oil prices spike to record highs under this scenario, and prices will need to remain elevated to balance the market through demand destruction, given the limited solutions on the supply side.

Our new scenarios amid Persian Gulf supply disruptions

		Oil supply lost (m barrels)	Brent forecast (US\$/bbl)					Natural gas supply lost (bcm)	TTF forecast (EUR/MWh)				
		1Q26	2Q26	3Q26	4Q26	FY26		1Q26	2Q26	3Q26	4Q26	FY26	
Scenario 1 (base case)	Disruptions persist until the end of Q2 (Full disruption in March and gradually better through second quarter)	851	76	91	85	77	82	17.3	39	50	38	38	41
Scenario 2 (optimistic)	Full disruption through March and gradually better through April	690	76	85	79	71	78	14	39	40	33	34	37
Scenario 3 (long war)	Full disruption until end of May followed by slow recovery until August	2,070	76	120	115	105	104	42	39	80	65	60	61

Source: ING Research

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