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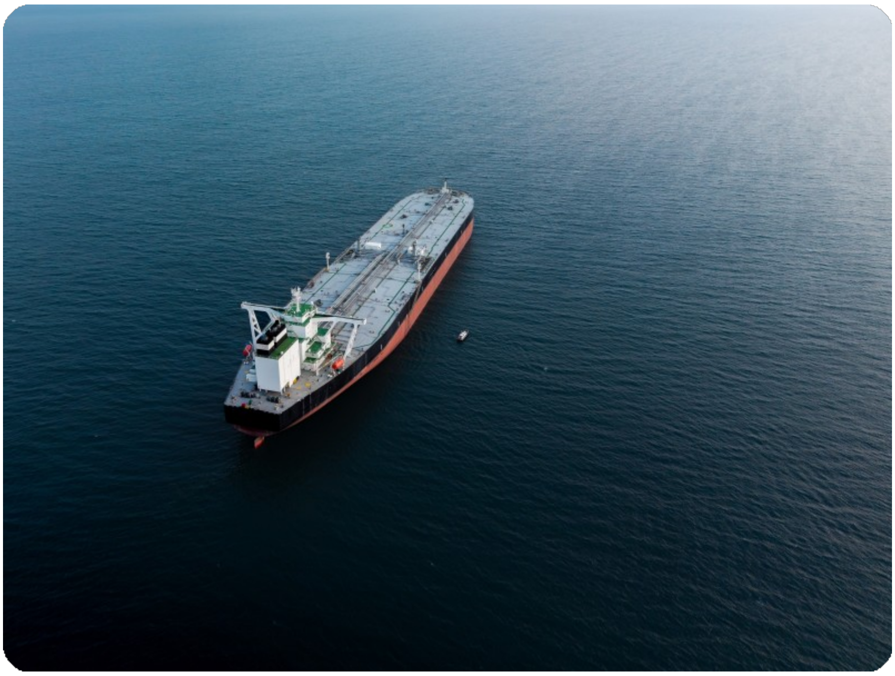
Middle East escalation rattles energy markets

Energy prices have surged on the back of oil and gas disruptions in the Persian Gulf following US and Israeli strikes on Iran. Here are our scenarios on how energy flows through the Strait of Hormuz may evolve



Strait of Hormuz uncertainty hangs over oil and gas markets

US and Israeli strikes on Iran and the resulting retaliation have caused havoc for energy markets, with the market witnessing significant disruption to oil and gas flows through the Strait of Hormuz. In addition, there are growing risks to energy infrastructure in the Persian Gulf, with Iran striking neighbouring countries in the energy-rich region.

For oil markets, we have seen Brent trade above US$85/bbl recently with as much as 20m b/d of oil supply (14m b/d of crude oil and 6m b/d of refined product) at risk due to the ongoing blockage of the Strait of Hormuz. The disruption to flows has the potential to drastically change the outlook for the oil market – a market which was expected to be in large surplus this year. The duration of the disruption is crucial to the market outlook.

Saudi Arabia and the UAE have the ability to divert up to 5m b/d via pipeline to avoid the Strait of Hormuz, but this still leaves 15m b/d of oil supply at risk.

While OPEC+ agreed on a larger-than-expected supply increase for April, this does not move the needle much when you consider the amount of oil supply impacted. The bulk of OPEC's spare production capacity sits in the Persian Gulf, so it will not be very helpful amid the Strait of Hormuz blockade.

Furthermore, any supply response from other producers, such as from the US shale industry, will be too little too late; it's likely to take 6-12 months to bring additional supply onto the market.

A prolonged outage would likely need to see coordinated action from governments in the form of stock releases from strategic reserves to tide the market over until Persian Gulf supply disruptions ease.

The European natural gas market and the spot Asian LNG market have seen even more strength than the oil market, with TTF up as much as 70% following the escalation. The disruption in the Strait of Hormuz leaves 20% of global LNG trade at risk, with exports from the second-largest supplier, Qatar, grinding to a halt. While the majority of Persian Gulf LNG goes into Asia, the disruption has seen Asian buyers turning to the spot market, increasing competition for supplies between Asia and Europe. This comes at a time when EU natural gas storage has fallen below 30%, well below usual levels for this time of year and on track to finish the 2025/26 heating season at near 2022 levels. This could leave Europe with a tougher job of refilling storage through the summer.

While there is a significant amount of US LNG export capacity set to ramp up in the coming years, there is not enough spare capacity currently to make up for Persian Gulf disruptions. Therefore, in a scenario where we see a prolonged outage, the only solution would be higher prices to drive demand destruction.

Our three scenarios for how energy flows through the Strait of Hormuz evolve

While it is very difficult to foresee how developments in the Middle East will evolve, we have come up with three scenarios for energy flows through the Strait of Hormuz.

In **Scenario 1**, which is now our base case, we assume that there are four weeks of disruption to oil and LNG flows – two weeks of full disruption and then two weeks of 50% disruption. This scenario doesn't necessarily mean that we see a full end to the conflict in this time period, but if US and Israeli strikes degrade Iran's ability to attack vessels and/or enforce a closure of the Strait of Hormuz, we could see flows starting to normalise.

Scenario 2 assumes we see a longer period of disruption, which provides more upside to prices, but after one month of full disruptions, we start to see oil flows making a gradual return over a two-month period.

Scenario 3 is the most aggressive scenario, where we see a full disruption to oil and LNG flows for a three-month period. This would likely see oil prices spiking to record highs through the second quarter, while European gas prices could spike to EUR80-100/MWh in the coming months.

Our three scenarios for the Strait of Hormuz

		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
Forecasts prior to attacks		0	68	60	62	58	62	0	33	28	27	30	30
Scenario 1 (base case)	**4-week disruption (2-weeks full and 2 weeks at 50%)**	**315**	**72**	**71**	**68**	**62**	**68**	**6.4**	**37**	**31**	**28**	**30**	**32**
Scenario 2	3-month disruption (1-month full, 1 month at 50% and 1 month at 25%)	806	76	89	86	80	83	16.5	39	47	32	33	38
Scenario 3	3-month full disruption	1,380	76	110	102	91	95	28	50	65	35	35	46

Source: ING Research

Quarterly and full-year price forecasts are averages for the period

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