Conflict In The Middle East: Impact on Markets & Macro

Baringa Reaction

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A Blog From Our Gas Experts

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US/Iran conflict creates energy market turbulence

Having navigated the final winter before the anticipated deluge of new LNG supply, the general market feeling was that global gas prices would progressively fall over the next three-four years as the record quantity (200 mtpa+) of LNG entered the market and not only made up for the last remaining missing volumes following Russia's reduction of pipeline gas supply to Europe, but see a period of ample supply (even 'oversupply') that would drive global gas prices down to around 2030.

How have events in the Middle East impacted gas markets?

With the strait of Hormuz closed for transit of LNG carriers (as well as oil tankers and other shipping), QatarEnergy has been forced to suspend production from Ras Laffan – the world's largest LNG plant, responsible for 77 mtpa (106 bcma) of LNG supply – as without vessels able to reach the plant, it has reached maximum storage capacity ('tank tops'). With the addition of UAE LNG export capacity (another 10.5 bcma), also currently not being reached by shipping, this means over 20% of global LNG export capacity is unavailable.

In addition, other regional gas supply has been disrupted (eg Iranian pipeline exports and Israeli gas supply to Egypt), further increasing market tightness.

The immediate impact has been on spot prices – with the TTF (indicative for global spot gas) prompt price (April gas) – jumping by over 70% to €55/MWh by market close on March 3rd. Future months contracts have also jumped (May at €54/MWh, June €52/MWh, July €50/MWh, August €49/MWh, declining until returning to around €30/MWh by Q2 2027. This backwardated market indicates uncertainty on the duration of this supply interruption, but that it is still anticipated to be a relatively short-term market impact (most concern for the immediate future) and not lead to significant winter price increases. It goes without saying however, that we are in highly uncertain times and the market may change on a daily basis based on unfolding events.

What happens from here?

All other things being equal, March is the month Europe emerges from winter heating demand for gas and storage levels begin to be replenished, albeit a cold snap is not unheard of. With gas in storage at the end of February at very low levels (around 30% full), the market would typically rely on LNG supplies should such a weather event occur in the next few weeks, leaving the TTF gas price (and thus by association the UK's NBP and Asia JKM) vulnerable to spikes for as long as Arabian Gulf LNG exports are constrained.

The extent to which the effect on price is more prolonged will be determined by what happens next in the conflict.

Should there be a relatively rapid conclusion (ie next few weeks) and no long-lasting damage to LNG infrastructure, it should be expected that prices would begin to return to their anticipated fundamental-driven levels, albeit perhaps with some residual risk premium in forward prices should the risk of future disruptions not disappear.

Supply disruptions that last through the summer would likely see price continue to rise into winter, even as new LNG export capacity comes online to ease market tightness. Europe will need to fill storage as other markets – those (predominantly in Asia) more directly impacted by loss of Qatari supplies – seek to backfill their missing contracted volumes. Should things then return to something closer to normal, and as more new LNG supply enters the market, prices would be expected to ease again.

Prolonged supply disruption as a result of sustained regional instability that resulted in some combination of significant damage to liquefaction facilities; ongoing interruption of vessels movements through the Strait of Hormuz; and the delay of anticipated expansion of Qatari and Emirati export volumes would keep prices higher for longer. It may take until late 2020s for supply / demand equilibrium to return and prices to return to pre-crisis levels, with he anticipated 'oversupplied' market likely not materialising at all.

What's the bottom line for gas?

- A hugely significant market disruption is in process. Volumetrically, and given the immediacy of its stopping, it is more significant than Russia's reduction of European gas supplies which took much longer to decline to the scale currently lost from the Middle East
- The true impact will be determined by the duration of the disruption, any associated damage, and lasting impact on trading practices and costs. Short-term turbulence returning to (relatively) normal is the best case scenario, with much longer and more profound impacts at the other end of the spectrum
- Once again, we are reminded of the profound instability and uncertainty of global markets today as well as the ways in which LNG and oil interconnect them
- Beyond gas, there are oil market impacts – Brent futures have increased by around 17% (these are defrayed by the volume of oil in storage, OPEC's ability to increase production) and the wider economic effects of higher energy prices

Executive Summary:

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Executive Summary

- Escalation in the Middle East, particularly disruption to flows through the Strait of Hormuz, presents a material risk to global oil and LNG markets. The region accounts for ~35% of global oil exports and ~24% of LNG exports, with Qatar alone supplying ~20% of global LNG. Maritime disruption and temporary shutdowns (including Ras Laffan LNG) have already tightened physical balances.
- Markets have responded with sharp front-end repricing. TTF has moved more aggressively than Brent, reflecting the significance of Gulf LNG supply globally and the lack of supply alternatives. Gas-linked power markets (UK, Italy, parts of CEE) have seen the largest forward increases, highlighting where LNG sets the marginal MWh.

We have considered three plausible scenarios and assessed their price and economic impact:

- **Western Realignment (3-month disruption):**
  Limited and temporary tightening. Oil prices rise to around $80–90/bbl for roughly three months before easing back as supply adjusts and shipping routes reopen. Gas prices see a short-term spike to ~€50–65/MWh, before returning closer to pre-crisis levels (~€30-35/MWh) as LNG flows normalise and new supply enters the market. Inflation impacts remain modest (+0.6–0.7pp in the US and EU, +0.3pp in the UK), while GDP effects remain limited (~-0.4 to -0.5pp) down relative to baseline, reflecting the temporary nature of the disruption.

Temporary Resistance (6-month disruption):

- Sustained tightening in energy markets. Oil remains elevated around $80–95/bbl, while gas prices increase further to ~€70–80/MWh and winter price shock risk increases as LNG markets tighten and European storage dynamics begin to influence winter pricing. Inflation rises materially (~+2.4–2.5pp in the US and EU, +1.4pp in the UK), while GDP slows meaningfully with contractions of around -1.6pp to -2.2pp across major economies relative to pre-crisis trajectory.

Civil Conflict / Structural Disruption:

- Prolonged disruption results in longer-term loss of supply, including potential loss of Qatari LNG exports. Oil prices rise $20–40/bbl for a prolonged period (potentially $100+ /bbl) while gas prices move toward levels seen during the Russia-Ukraine energy crisis (€100+/MWh) and remain elevated until global LNG markets rebalance. This results in substantially higher inflation (+2.9–3.5pp) and meaningful global GDP contraction (-2.6pp to -3.4pp) relative to pre-crisis levels.

Bottom line:

- The duration of disruption is decisive. A short shock is manageable; a six-month event materially tightens LNG balances and raises inflation significantly. A structural supply loss would create sustained gas market tightness, prolonged price spikes, and meaningful global GDP contraction.

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1

NEXT UP ON GAS

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On going analysis

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We will examine the risks and opportunities facing participants and investors throughout the energy value chain, and explore the strategies they can use to protect themselves

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Cost Curves – March 2026

Our 2026 updated view of costs for power generation technologies

European Market Outlook – April 2026

The key trends from our updated future power market scenarios

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3

WEBINAR

Q1 Outlook Preview: Updated Assumptions for the European Power Market

Tue, 17 Mar 2026 14:00 - 15:00 (GMT)

Join our Baringa experts as they walk through the latest market assumptions ahead of our Q1 results release. We will explore how market changes have impacted commodity prices, our outlook for demand and supply as well as CAPEX. We will also share a preview of upcoming changes to the client portal, results files and reports.

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Overview – Regional Significance

The Middle East has outsized importance to the global economy due to the region's role as an energy exporter. The region's dominant role in oil and gas exports makes any instability in the region a major risk to energy supplies and therefore commodity prices. This is especially acute in the West who are seeking to remove Russian hydrocarbons from their energy mix as a result of the Russian-Ukraine war.

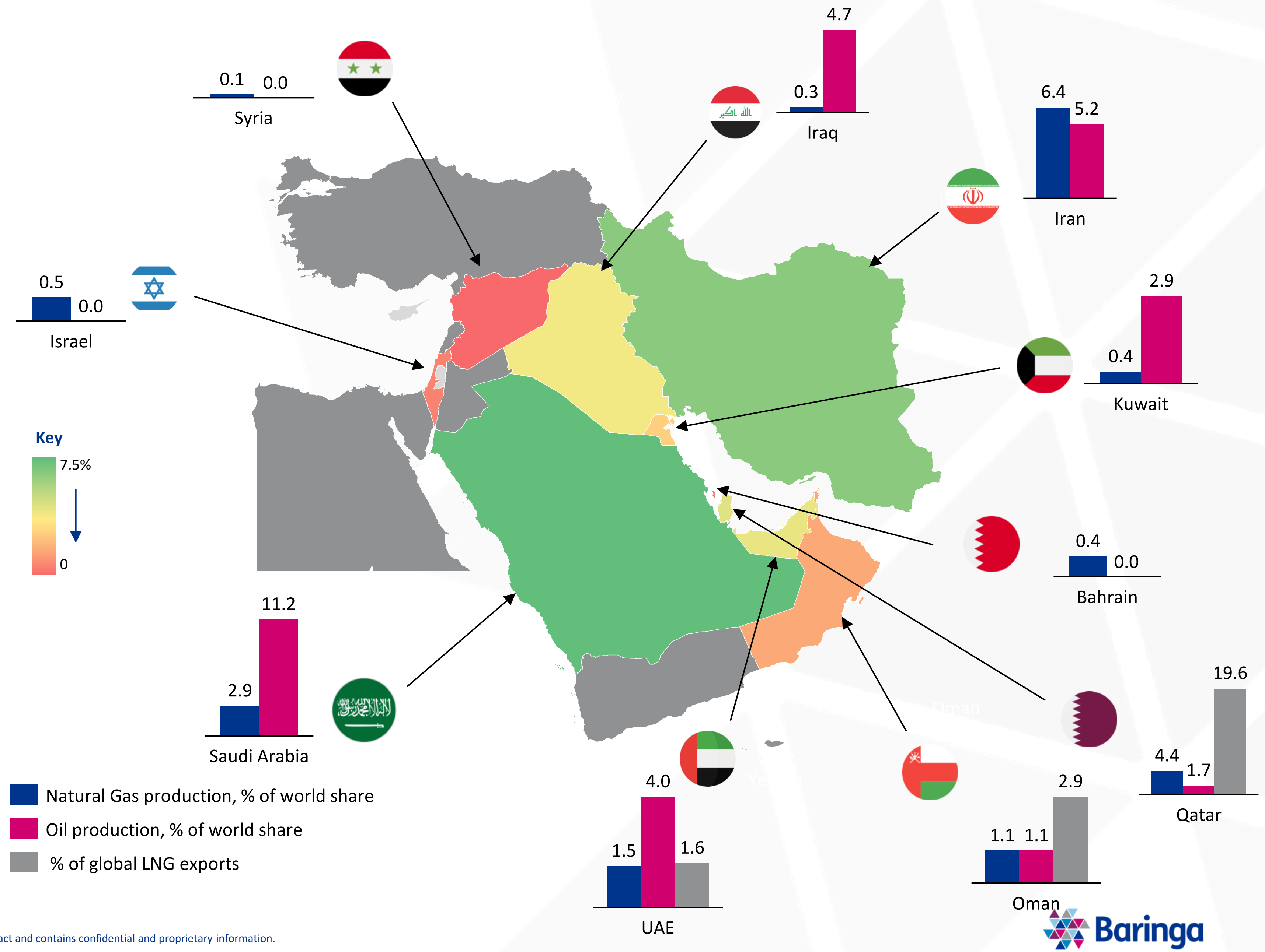
Source: Energy Institute Statistical Review of world energy

Share of Total World Exports 2024, selected regions (%)

	Oil	LNG
Middle East	**34.9**	**24.2**
North America	23.1	21.2
CIS	13.2	9.4
Asia-Pacific	8.3	32.8
Africa	8.1	9.4
South and Central America	6.2	2.9
Europe	3.1	0

The Key Players In The ME Energy Market

Saudi Arabia, Iran, Iraq, the UAE and Kuwait collectively represent a significant share of global oil production, while **Qatar and Iran** are among the world's largest natural gas producers. Much of this supply is either produced in, or exported via, the Gulf; creating a high geographic concentration of globally traded energy.



Source: Energy Institute Statistical Review of world energy

The Strait of Hormuz is a major energy choke point

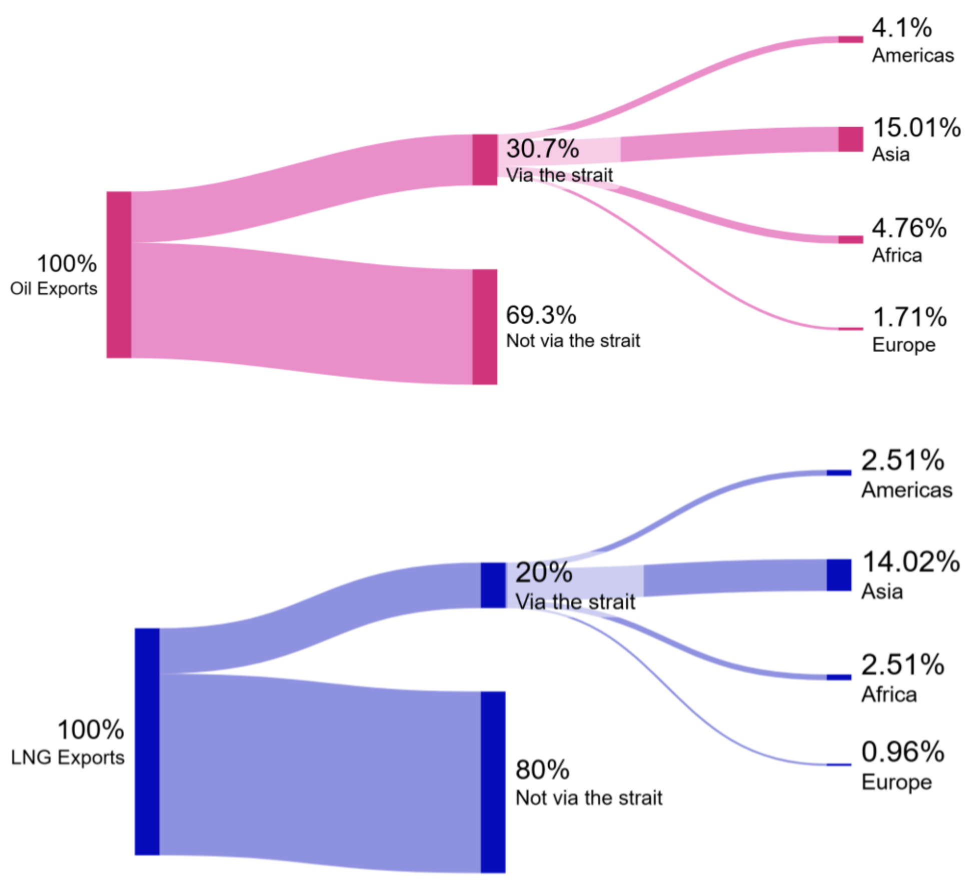
The Strait of Hormuz is a critical global energy chokepoint, with around **31% of seaborn crude oil** and **20% of liquefied natural gas** passing through it.

Exposure is highly asymmetric across regions. **Asian markets are the most directly dependent**, accounting for the majority of both oil and LNG flows transiting the Strait, while Europe and the Americas have relatively limited physical reliance.

However, the risk is global. Any disruption to Hormuz removes marginal supply from seaborne markets; tightening balances, raising insurance costs, and pushing up both oil and LNG prices worldwide, even in regions not directly reliant on transit through the Strait.

Source: Energy Institute Statistical Review of world energy

Share of exports via the Strait of Hormuz, selected regions (%)



What's Happened?

Maritime disruption

Tanker traffic through the Strait of Hormuz has dropped sharply, with over 100 oil and LNG vessels anchoring off the UAE and Omani coasts after major tanker owners suspended transits following attacks in and around the waterway. Several commercial ships have either reversed course or halted entirely, contributing to what industry sources describe as a *de-facto closure* to one of the world's primary energy trade routes.

At the same time, around 150 vessels, including crude and LNG tankers, are now stranded, with multiple tankers reportedly damaged by projectile or drone strikes. Major insurers have begun withdrawing war-risk cover for Gulf transits, sharply increasing shipping costs and further reducing available vessel capacity.

Production disruption

Production has also been affected. Drone attacks on Qatar's Ras Laffan LNG complex and Saudi Arabia's Ras Tanura refinery have prompted temporary shutdowns, with Qatar halting LNG output amid fears of a potential 20% drop in global supply if disruption persists.

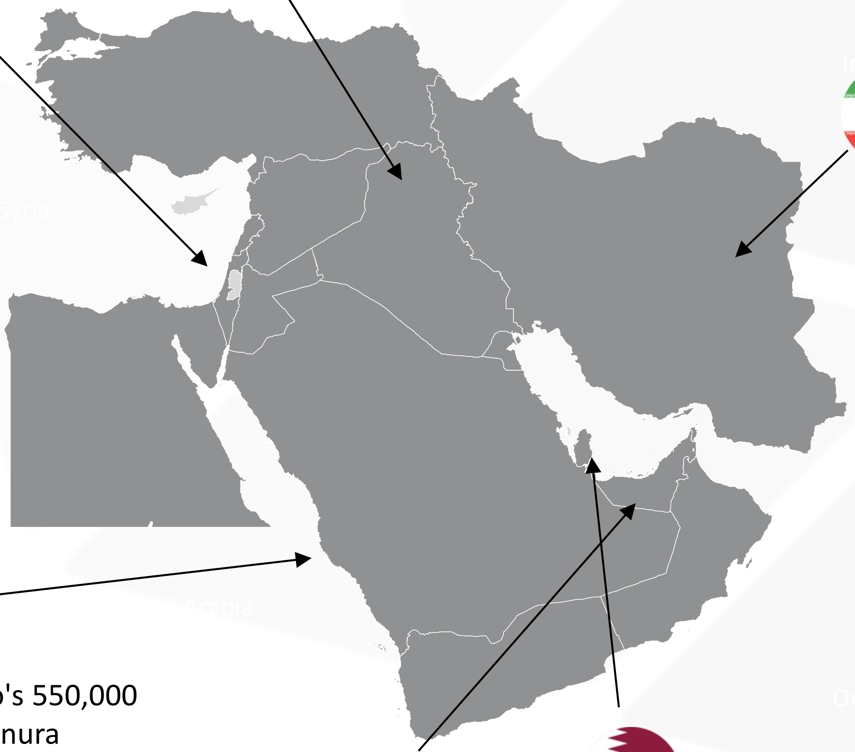
In addition without tankers, production has had to stop at Ras Laffan , the largest LNG production facility, as storage has reached maximum; demonstrating how any shipping disruption can have knock-on implications for production.

Taken together, these developments are constraining both the availability of physical supply and the ability to move it to market; tightening global oil and gas balances even before any sustained loss of upstream production materialises.

Key Production Disruption Events

In Iraqi Kurdistan, which exported 200,000 barrels of oil per day (bpd) via pipeline to Turkey's Ceyhan port in February, companies including Gulf Keystone Petroleum Dana Gas and HKN Energy have stopped output at their fields as a precaution, with no damage reported.

The Israeli government instructed Chevron to temporarily shut down the giant Leviathan gas field. A spokesperson for Chevron, which also operates the Tamar gas field offshore Israel, said its facilities were safe.



In Iran, explosions were heard on Saturday in Kharg Island, which processes 90% of Iran's crude exports. It was unclear how the facilities were impacted.

State oil giant Saudi Aramco's 550,000 barrels per day (bpd) Ras Tanura refinery, which was shut as a precautionary measure, is part of an energy complex on the kingdom's Gulf coast which also serves as a critical export terminal for Saudi crude oil.

UAE facing severe disruptions with LNG plant production shut in and storage facilities at the Port of Fujairah subject to drone attacks with vessels unable to reach the plant.

Qatar Energy has been forced to suspend production from Ras Laffan – the world's largest LNG plant, responsible for 77 mtpa (106 bcma) of LNG supply – as without vessels able to reach the plant, it has reached maximum storage capacity

Source: Statistical Review of world energy

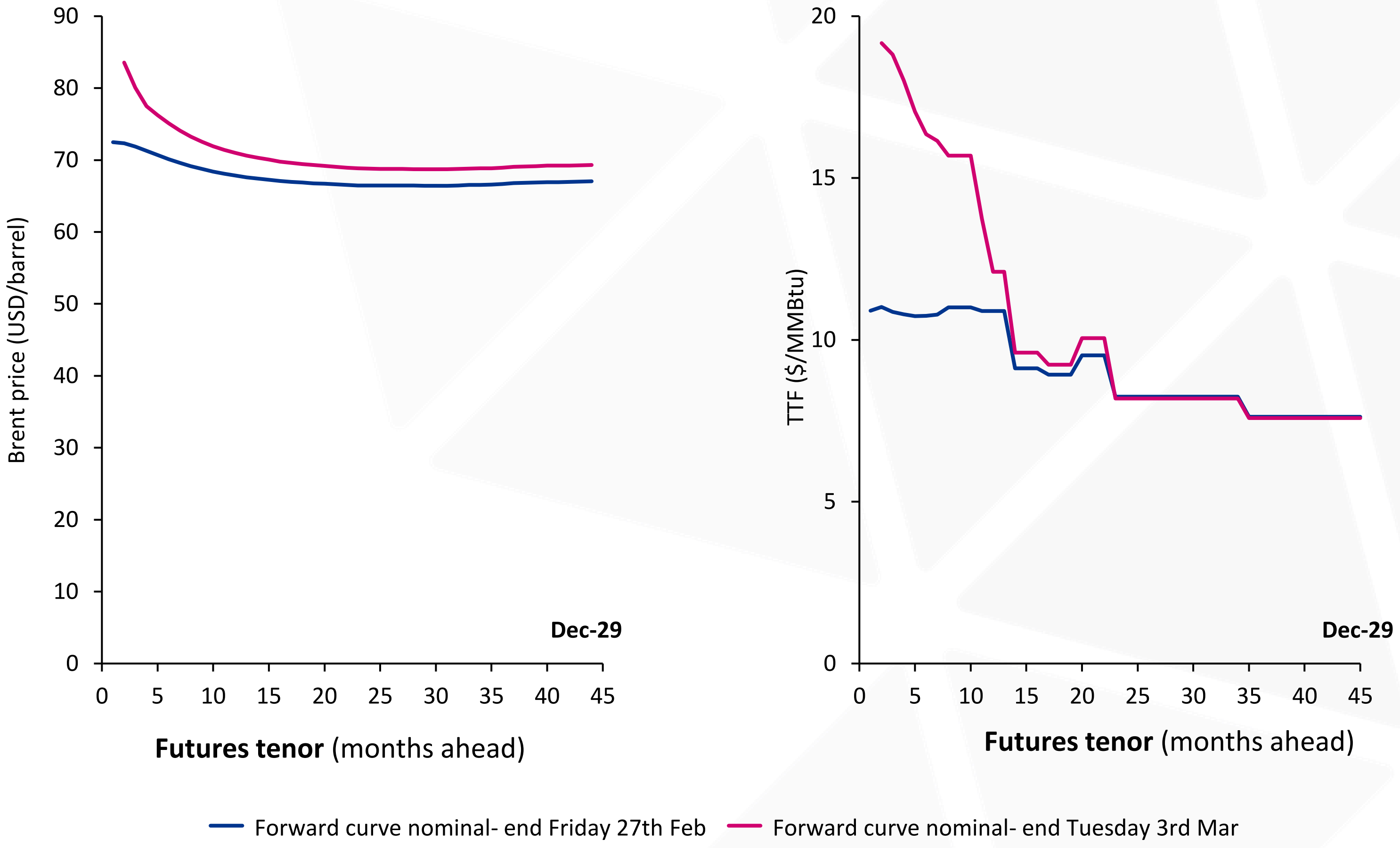
Price Impacts

The recent shock has driven a sharp but front-loaded repricing across energy markets.

Gas has reacted more strongly than oil, with TTF up materially across the front of the curve, reflecting immediate concerns around LNG availability and European supply security. Brent has also risen, but the move is smaller. It sustains at a low level ($1-2/bbl), signaling a current market belief of a more modest global oil risk premium relative to gas albeit for longer.

Source: Argus

Brent and TTF Price Impact (27th Feb to 3rd Mar)



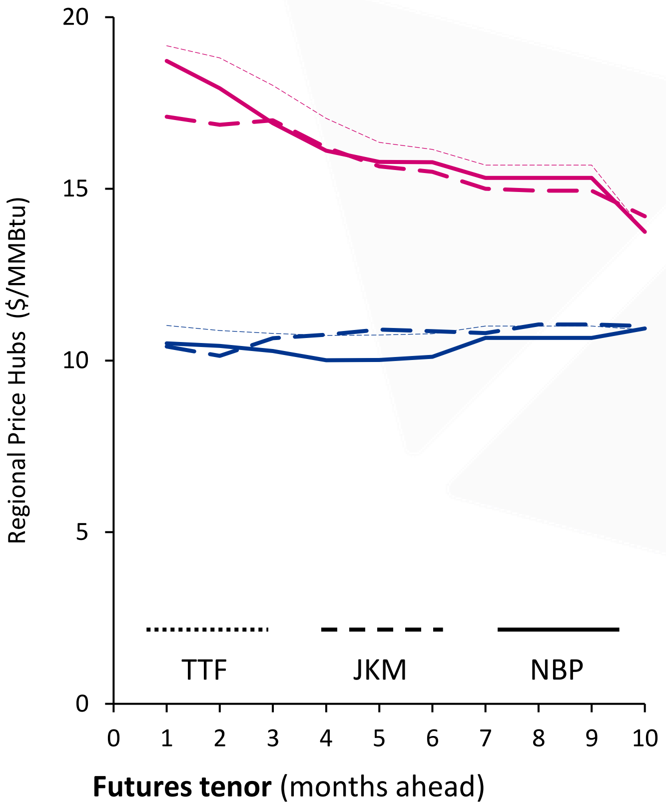
*Argus, month ahead end of day prices

Regional Gas Spread

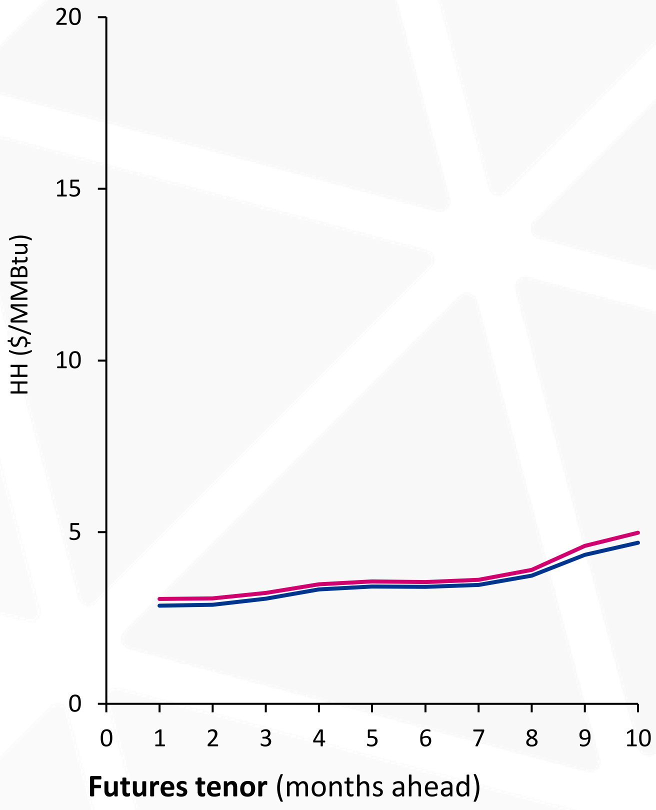
As each is a global spot gas price, driven by the same global market fundamentals, the Dutch TTF, UK NBP and Asian JKM benchmarks have responded relatively uniformly to the market shock. Futures curves have shifted upward in a broadly symmetrical manner between 27 February and 3 March. By contrast, US Henry Hub prices – indicative of local North American dynamics – have moved only modestly, underscoring the relative insulation of the North American gas market from global gas market dynamics.

Regional Gas Benchmarks

TTF, NBP & JKM Futures 27th of Feb vs 3rd March



Henry Hub Futures 27th of Feb vs 3rd March



Forward Curve nominal- end Friday 27th Feb — Forward Curve nominal- end Tuesday 3rd Mar

*Argus, CME month ahead end of day prices

Regional Power Impact

The April power repricing highlights how uneven Europe's exposure to the gas shock remains, largely reflecting where gas sets the marginal unit in the generation stack.

Gas-linked systems have moved the most. The UK and Italy show the largest increases (+€25/MWh), followed by Romania and parts of CEE (+€16–18/MWh). In these markets, gas frequently sets the marginal power price, and LNG plays a direct role in balancing supply. When LNG tightens, the impact transmits almost one-for-one into forward power curves.

Core continental markets have seen solid but more moderated moves. Germany, the Netherlands and Hungary are up ~€14–16/MWh. While still gas-exposed, deeper interconnection and a broader generation mix (coal, renewables, nuclear imports) temper the scale of repricing relative to fully gas-marginal systems.

Hydro and renewables-heavy markets are more insulated. The Nordics (+€5/MWh) and Spain (+€0.5/MWh) show limited reaction. In these systems, hydro and renewables often set the price, meaning LNG only indirectly influences the curve through interconnector flows rather than directly setting the marginal cost.

Source: Argus

European April Power Future €/MWh (as of 03.03.26)

Country	Feb 24	March 02	Change
UK	79.3	104.6	+25.4
Italy	91.4	116.5	+25.1
Romania	73.3	91.2	+17.9
Netherlands	71.4	87.2	+15.9
Hungary	76.4	92.3	+15.9
Germany	72.6	87.2	+14.7
Czech Republic	75.8	89.8	+14
Nordics	65.8	70.9	+5.2
France	32.2	36.2	+4.1
Poland	91.4	95.3	+3.9
Spain	20.9	21.4	+0.5

Size of impact

Scenario Overview

Scenario	Description
1. **Coercive pro-Western realignment** (Venezuela Scenario) 3 Month Disruption	Iranian military intervenes to sideline the Islamic Revolutionary Guard Corps (IRGC) as an autonomous political-economic actor, consolidating power under a reconstituted central command. Rather than triggering collapse, this enables a controlled intra-regime transition focused on stabilisation, sanctions relief, and conditional re-engagement with the US and regional actors; reducing proxy activity and disruption to Gulf shipping routes. Analogous to the recent Venezuela action.
2. **Temporary Resistance Before Western Alignment** (Serbia - Post-1999 Kosovo Conflict) 6 Month Disruption	The regime retains central authority but initially responds with calibrated asymmetric escalation; disrupting Strait of Hormuz tanker traffic via proxy mobilisation and limited interference with Gulf energy infrastructure. Mounting economic pressure and the risk of direct US confrontation ultimately drive a pivot to de-escalation within weeks, allowing maritime flows and regional export volumes to progressively normalise. Analogous to Serbia – post 1999 Kosovo conflict.
3. **Regime Collapses & Civil Conflict Emerges** *(Libya-Style Fragmentation) Prolonged Disruption*	Central authority fragments following sustained confrontation between regime loyalists, IRGC-aligned networks, and regular military factions, triggering a multi-sided civil conflict across key energy-producing regions. Oil and gas infrastructure becomes both a strategic asset and a conflict target, resulting in prolonged outages, export losses, and elevated risk of sustained non-state maritime disruption in the Strait of Hormuz. Analogous to Libyan style civil war.

Energy Impacts

Market pricing suggests belief in scenario 1 for now, but without very much conviction – as prices for the second half of the year have increased daily so far. It could start to look more like scenario 2 in the coming days if uncertainty increases. Scenario 3 represents a plausible if yet unlikely downside scenario in the event that the conflict is prolonged and / or damage to facilities is more severe

		Impact in Europe	
	Scenario	**Oil**	**Gas**
1.	**Coercive pro-Western realignment** (3 Month Disruption)	Impact relatively low. Oil price has already moderated given supply side flex with a $10-20/bbl increase for a while but back to normal when stabilised Increase of $10-20/bbl from end-Feb level ($65-70/bbl) for ~3 months	Short-term price spike persists until security clarity emerges and the Strait of Hormuz reopens. After the initial 2–3 months of conflict, prices are expected to ease back toward pre-conflict levels. Current price Increase to c. €50–65 remains for ~3 months before returning closer to pre crisis level (€42/MWh) and then declining as new LNG supply enters market
2.	**Temporary Resistance Before Western Alignment** (6 Month Disruption)	As above with slightly higher peak price. Increase of $10-20/bbl from end-Feb level ($65-70/bbl) for ~6 months	As above, with risk of higher for longer if supply still significantly disrupted as winter approaches. Likely to keep prices elevated and risk of significant spikes in crunch periods By 2027, expect new LNG supply to be sufficient to bring things back down somewhat Price spike risk in winter Further increases to current price levels (ie to €70-80/MWh) for 2026, as risk of under or expensively-filled European gas storage pulls Q2 and Q3 prices up and leads to higher priced winter
3.	**Regime Collapses & Civil Conflict Emerges** (Prolonged Disruption)	Higher price risk as infrastructure in region could be damaged and Iranian oil is out of the market for much longer. Price increases $20-40/bbl for prolonged period, subject to rebalancing via increased output from OPEC	Structural loss of Qatari LNG as sustained disruption in the Strait of Hormuz removes capacity from global markets. Prices remain structurally elevated despite new supply elsewhere, with lost Qatari volumes offsetting additions. Price-spike risk persists across multiple winters, tightening the global supply-demand balance and driving demand suppression in price-sensitive markets. Risk of price levels similar to heart of Russia/Ukraine crisis (€100+) until global market rebalances in ~2 yrs

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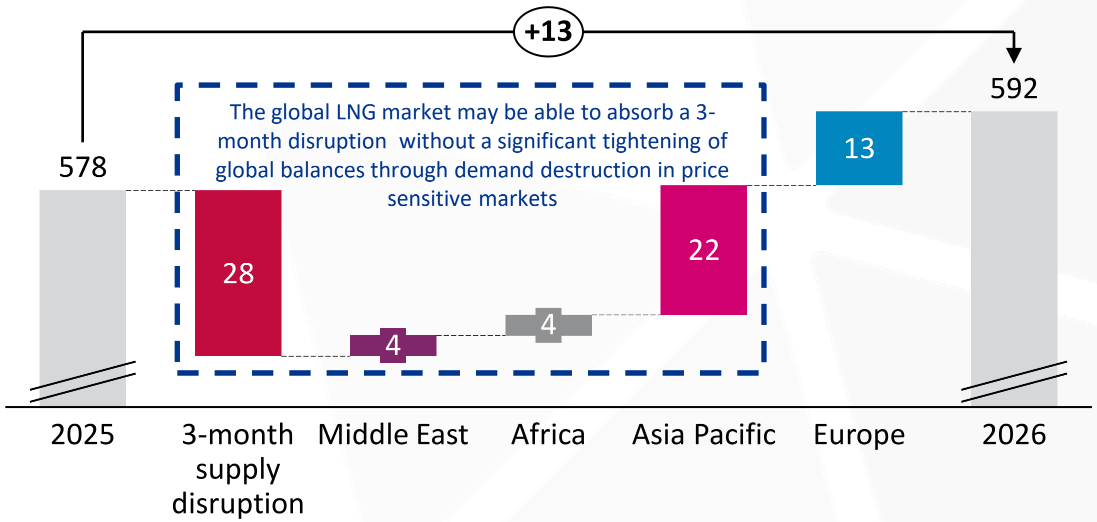
A 3-month disruption to Strait of Hormuz flows may be absorbed by the market, but a 6-month disruption would elicit a significant price response to curtail demand

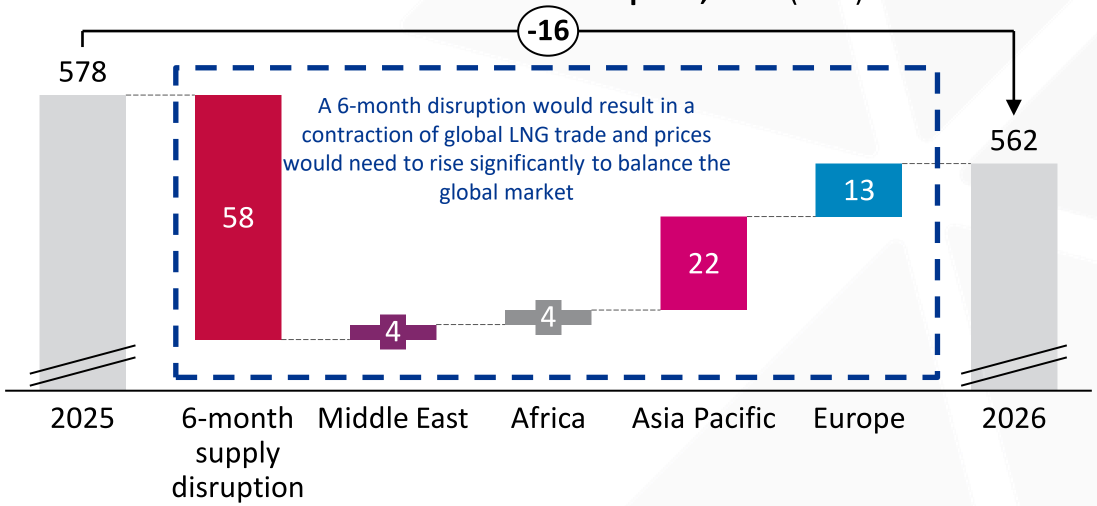
Global demand and supply was expected to rise by 42 bcm in 2026. However, some of this demand growth was to be found in price sensitive markets in Asia and elsewhere leading to potential demand reduction and supply-demand rebalancing.

Global LNG balance based on a 3-month disruption, 2026 (Bcm)



In Scenario 1: a three month scenario we expect price sensitive markets in Asia, the ME and Africa to absorb a supply loss of c28 bcm, leading expected demand growth in Europe of 13 bcm unaffected. This would mean minimal demand destruction in Europe.

Global LNG balance based on a 6-month disruption, 2026 (Bcm)



In Scenario 2: a six month disruption, with a c.58 bcm loss would lead to a net fall in LNG supply from 2025 of -13 Bcm. With a corresponding prolonged hit to TTF and demand destruction in all markets including Europe.

Source: Baringa Modelling

Energy Prices & Inflation

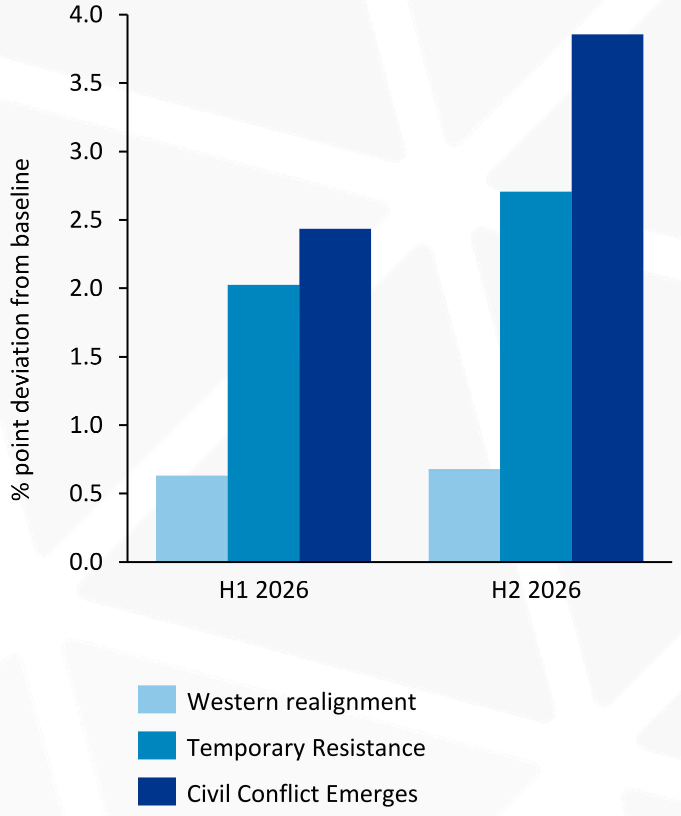
We have used NiGEM's macroeconomic model to provide indicative economic implications to our three scenarios. The commodity prices describe the price ranges used at peak with the duration of the shock extending from 3 months, 6 months to 1 year.

Source: NiGEM model**,** Baringa Modelling

Commodity Prices Assumptions % Change on Pre Crisis

	Oil price ($/bbl)	Gas price (US$/MMBtu)
1. Western realignment	80-90 ***(+14%)***	15 ***(+37%)***
2. Temporary Resistance	90-95 ***(+51%)***	20 ***(+82%)***
3. Civil Conflict Emerges	120 ***(+56%)***	25 ***(+127%)***

World Inflation, deviation from pre-crisis baseline



Economic Impact: Inflation

Energy price shocks feed directly into inflation, with the scale depending on the severity and duration of disruption. Importantly, the figures represent **percentage point (pp) deviations from the pre-crisis inflation baseline**.

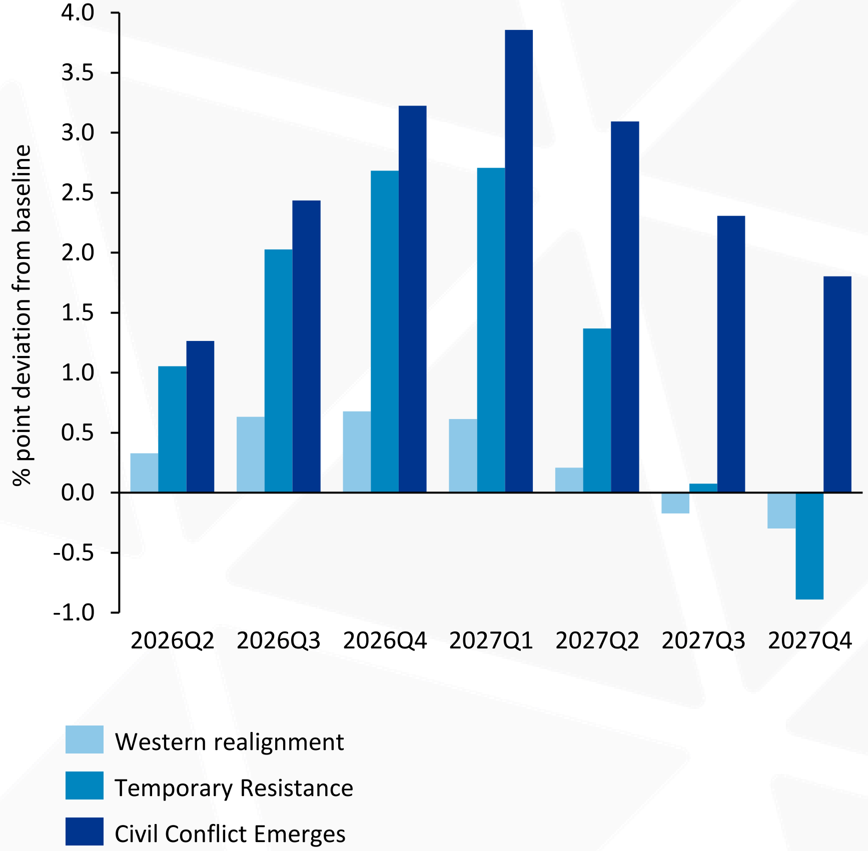
Under 1. **Western realignment**, the impact is modest (**~0.3–0.7pp** across major economies). In the 2. **temporary resistance** scenario, sustained energy price pressure raises inflation by **~1.4–2.5pp**. In the 3. **civil conflict scenario**, prolonged supply disruption drives the largest effect, with inflation rising by **~1.9–3.5pp above the baseline**.

Source: NiGEM model**,** Baringa Modelling

Annual Inflation Deviation from Pre-crisis (2026)

	Scenario 1	Scenario 2	Scenario 3
	0.6%	2.4%	2.9%
	0.7%	2.5%	3.3%
	0.3%	1.4%	1.9%
	0.6%	2.5%	3.5%

World Inflation, deviation from pre-crisis baseline



Economic Impact: Base Rates

Higher inflation from the energy shock initially **reduces real interest rates in 2026**, as prices rise faster than policy tightening. The decline is **largest in the 3. civil conflict scenario**, where real rates fall by around **~2–2.6pp below the baseline** across major economies. The 2. **temporary resistance scenario** also sees a sizeable fall, while the 1. Western **realignment scenario** produces only a modest deviation.

As central banks respond to more persistent inflation, **policy rates rise in 2027.**

Source: NiGEM model**,** Baringa Modelling

Annual Real Rates (Deviation from Pre-crisis)

	PP deviation from 2026 Base Rate			PP deviation from 2027 Base Rate		
	Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
US	-0.5%	-1.9%	-2.2%	0.3%	1.2%	0.5%
EU	-0.7%	-2.0%	-2.6%	0.4%	1.4%	0.8%
UK	-0.2%	-0.8%	-0.9%	0.1%	0.3%	0.1%
Australia	-0.3%	-1.3%	-1.5%	0.4%	1.9%	1.7%

Economic Impact: GDP

Higher energy prices weigh on economic activity, with GDP declining relative to the pre-crisis baseline.

In the **Western realignment scenario**, the impact is limited, with GDP falling by around **0.4–0.5pp** across major economies. Under **temporary resistance**, the prolonged energy shock leads to a more pronounced slowdown, with GDP declining by roughly **1.5–2.2pp**. In the **civil conflict scenario**, sustained supply disruption drives the largest macroeconomic impact, with GDP falling by around **2.6–3.4pp** relative to baseline.

*These figures represent **percentage point (pp) deviations from the baseline growth path**.

Source: NiGEM model, Baringa Modelling

Annual GDP Deviation from Pre-crisis (2026)

	Scenario 1	Scenario 2	Scenario 3
	-0.5%	-2.0%	-2.8%
	-0.4%	-1.6%	-2.6%
	-0.5%	-2.2%	-3.4%
	-0.4%	-1.5%	-2.7%

World GDP, deviation from pre-crisis baseline