# The War in the Middle East – Week 8

**What Has Happened and the Far-Reaching Implications**

We can only provide some of our observations at this stage. Investors should prepare for the worst while hoping for the best, as the global economy is now operating in largely uncharted territory.

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**Part 1 – Introduction**

This conflict differs materially from previous global crises including the Global Financial Crisis (GFC), the Covid pandemic, the Russia-Ukraine conflict and, more recently, the tariff war initiated by President Trump approximately a year ago. While certain elements resemble aspects of those earlier disruptions, the scale and breadth of the current crisis appear significantly more severe.

The tariff war impacted virtually every geography and sector globally. However, markets eventually recovered fully, supported largely by continued optimism surrounding artificial intelligence and technology-led productivity growth.

Similarly, the Russia-Ukraine conflict triggered a major energy crisis that was most acutely felt in Europe, with secondary impacts extending into fertiliser and food markets. Yet global equity markets ultimately stabilised and moved beyond the disruption.

**We believe the current crisis is substantially more serious than either of the above events**. Even if the conflict were resolved in the near term — which itself remains uncertain — many of the negative implications may persist for considerably longer.

One of the more striking observations has been the degree of investor complacency, both prior to and immediately following the outbreak of war on 28 February 2026. Before the conflict escalated, markets remained largely focused on AI disruption, pressure on software valuations and the expected path of interest rates. The prevailing consensus appeared to assume that conditions would eventually normalise with limited lasting damage.

We question that assumption.

The current crisis stems primarily from:

- The effective closure of the Strait of Hormuz (SOH);
- Qatar’s decision to completely shut down its 14-train LNG export complex;
- The disruption of approximately 20–25% of globally traded oil and gas supply;
- Significant interruptions to fertiliser exports from the Gulf region, which accounts for roughly 30% of global supply; and
- Acute aluminium shortages following operational disruptions at Bahrain’s major smelting facilities.

Collectively, these disruptions have created cascading consequences across energy, industrial production, agriculture and transportation.

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**Part 2 – Energy Price Movements: The Most Critical Development**

The most important market developments have not been crude oil prices alone, but rather the sharp escalation in diesel, gasoil and jet fuel prices, followed by natural gas and naphtha.

**Since the war began:**

1. Brent crude oil prices have risen approximately 60%, while diesel and jet fuel prices have increased substantially more — between +80% and +120%.
2. Natural gas prices have diverged sharply. US Henry Hub prices remain relatively subdued, while European TTF gas prices and Asian LNG prices have surged, albeit now below peak levels.
3. Naphtha prices have increased approximately 60% since the conflict began.
4. Fertiliser prices have risen approximately 60% since mid-February 2026.
5. Petrochemical products such as polypropylene (PP) and polyethylene (PE) have also moved materially higher.
6. Crude oil tanker freight rates surged more than +150% before retracing closer to pre-war levels, though they remain significantly above levels seen a year ago.

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**Why Diesel, Fuel Oil and Jet Fuel Matter Most**

Most countries remain poorly prepared for this type of energy shock.

Under normal market conditions, fuel oil is generally inexpensive and overlooked — effectively the residual product from the bottom of the petroleum refining barrel. However, the current conflict has fundamentally reversed that dynamic.

Fuel oil has now become one of the most sought-after and expensive commodities globally, representing an extremely negative development for the world economy despite receiving insufficient attention from financial markets.

Consumers naturally focus on petrol prices at the pump, but the far more important issue is the price and availability of:

- Diesel, which powers manufacturing, mining and agricultural machinery;
- Fuel oil and bunker fuel, which sustain global shipping; and
- Jet fuel, which underpins both passenger and cargo aviation.

To date, crude oil markets have weathered the shock relatively well, with Brent prices broadly ranging between US$95–120 per barrel. However, conditions in refined fuels are substantially more severe, with diesel, jet fuel and fuel oil trading in the US$180–200 per barrel range.

The issue is no longer merely price — it is increasingly one of physical availability. Several key ports are at risk of running critically low on bunker fuel supplies, potentially disrupting global shipping operations. Fuel oil inventories in Singapore and Fujairah, two of the world's most important bunkering hubs, have fallen to extremely low levels.

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### The Disconnect Between Crude Oil and Refined Products

Financial markets typically monitor benchmark crude prices such as WTI and Brent. However, refiners purchase crude oil, while the real economy consumes refined products including petrol, diesel and fuel oil.

Historically, crude and refined product prices move broadly in tandem, with refined products trading at a modest premium reflecting refinery margins.

That relationship has now broken down entirely.

While crude oil trades near US$100–120 per barrel, heavier refined fuels have reached US$180–200 per barrel — levels exceeding peaks experienced during both 2008 and 2022.

The primary driver is the closure of the Strait of Hormuz.

The Gulf region is not only a critical export route for crude oil, but also for refined products from Saudi Arabia, the UAE and Kuwait. Gulf crude grades naturally yield higher proportions of diesel and fuel oil relative to many US crude grades. Approximately 20% of globally traded diesel originates from the Gulf region.

As a result, alternative supply from the US or Russia cannot fully offset the shortage.

The situation is further complicated by disruptions to LPG supply, which remains essential for household cooking needs across large parts of India and South Asia.

Shipping companies and refiners are now rushing to redirect diesel and fuel oil cargoes from Europe and North America to Asia and the Middle East. The longer the Strait of Hormuz remains effectively closed, the greater the risk that critical parts of the global economy begin to seize up.

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### What About Natural Gas?

Qatar's shutdown of its 14-train LNG complex has removed roughly 20% of global LNG supply, much of which normally flows into Asia.

Importers including Japan, Korea and Taiwan must now seek replacement cargoes from the United States and Australia.

Prior to the conflict, global LNG markets were expected to move into oversupply within two years. That outlook has now reversed completely.

The global LNG market may remain structurally undersupplied until at least late 2027.

The implications are particularly severe for Asia, where LNG remains the dominant fuel source for electricity generation in Korea, Japan and Taiwan.

For poorer South Asian economies, elevated LNG prices may simply become unaffordable, increasing the likelihood of a substantial shift back towards coal-fired power generation.

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### Naphtha – The Critical Petrochemical Feedstock

Naphtha prices remain closely linked to crude oil because it is refinery-derived.

During Middle Eastern disruptions, downstream petrochemical products such as polyethylene (PE) and polypropylene (PP) typically rise in price, but usually not as quickly as naphtha itself.

This severely compresses margins for non-US petrochemical producers, particularly across Europe and Asia.

By contrast, US ethane-based petrochemical producers benefit from structurally lower feedstock costs derived from natural gas, giving them a substantial competitive advantage during periods of energy stress.

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**Part 3 – A Serious Food Crisis May Be Next**

**Fertiliser Shock and Export Controls**

A global food crisis now appears increasingly likely — potentially worse than the disruption experienced during the Russia-Ukraine conflict.

Approximately 20–45% of global fertiliser supply, particularly urea and nitrogen-based products, originates from the Middle East. The Gulf region alone accounts for approximately 20% of global seaborne fertiliser exports.

The closure of the Strait of Hormuz has severely disrupted exports of:

- Urea;
- Ammonia; and
- Nitrogen-based fertilisers.

At the same time, Russia, China and Turkey have also curtailed fertiliser exports to protect domestic supply, meaning almost 45% of globally traded nitrogen supply is now disrupted or restricted.

This is occurring precisely as the Northern Hemisphere enters spring planting season and Australia approaches winter planting.

Even if the Strait of Hormuz were to reopen immediately, significant disruption may already be unavoidable.

An expected El Niño weather pattern could further compound the crisis.

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**Why the Fertiliser Shock Matters**

The fertiliser shock may ultimately prove even more dangerous than the oil and gas shock.

Unlike oil markets, there is no equivalent of the International Energy Agency capable of releasing strategic fertiliser reserves into global markets.

Approximately one-third of global urea exports remain trapped within the Gulf region.

China and Russia — the world's two largest fertiliser producers — have imposed export controls at precisely the worst possible time.

Global urea prices have now reached approximately US$680 per tonne, having briefly exceeded US$850, representing a rise of roughly 60% since February 2026.

For Australia, the implications are particularly concerning:

- Domestic refining capacity has already been reduced substantially;
- Diesel shortages are emerging; and
- Agricultural fuel costs are rising sharply.

The United States also faces challenges due to its "just-in-time" agricultural supply chain model, with many farmers failing to pre-purchase fertiliser inventories.

The most vulnerable countries are likely to be lower-income South Asian nations including Bangladesh, Pakistan and parts of India, where dependence on Gulf fertiliser imports remains high while domestic production has collapsed due to natural gas shortages.

It is estimated that approximately two million tonnes of urea supply per week is currently being removed from global markets.

The likely sequence from here is:

1. Fertiliser shortages;
2. Lower crop yields;
3. Food inflation; and potentially
4. Social and political instability in vulnerable regions.

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**Helium – An Overlooked Semiconductor Risk**

An additional and underappreciated consequence is the disruption to helium supply.

Qatar accounts for approximately 35% of global helium production, much of it associated with LNG processing. The shutdown of LNG production has therefore significantly disrupted helium supply chains critical to semiconductor manufacturing.

The United States remains the largest producer globally, but supply constraints are now emerging across the broader technology and semiconductor ecosystem.

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**Part 4 – Implications for the Global Economy and Equities**

**Winners and Losers by Geography**

| Region | Relative Beneficiaries/Winners | Most Vulnerable/Losers |
|---|---|---|
| Asia-Pacific | Malaysia | Philippines, Taiwan, Korea, Vietnam, India, Pakistan, Bangladesh |
| | China, Singapore and Japan relatively insulated due to strategic reserves | |
| | Indonesia mixed impact as a net oil importer but gas exporter | |
| Europe | Norway | Germany and much of industrial Europe |

| Region | Relative Beneficiaries/Winners | Most Vulnerable/Losers |
|---|---|---|
| | France less impacted due to nuclear generation | |
| | Spain better positioned via Algerian gas pipeline and LNG terminals | |
| Americas | Brazil, Canada, Colombia | Most energy-importing economies |
| | Chile and Peru may benefit through commodities exposure | |

**Winners and Losers by Sector**

| Sector Beneficiaries | Sector Headwinds |
|---|---|
| Energy Producers | Airlines and travel-related industries |
| Energy Shipping | Luxury goods |
| Chemicals and Fertilisers | Energy-intensive manufacturing industries |
| Food Conglomerates | Broader industrial sectors exposed to fuel inflation |

**Portfolio Positioning**

Our highest priority remains capital preservation.

While our long-term investment strategy remains broadly unchanged, we are making tactical adjustments to maximise shorter-term trading opportunities while exiting marginal positions that no longer add sufficient value.

Unlike the initial market reaction to last year's tariff war — which we largely ignored while keeping the portfolio unchanged for 9–10 months — this time we are responding proactively to what we believe is the most serious energy shock since the 1970s, and one likely to persist far longer than many commentators currently expect.

**Key Portfolio Positioning**

**Integrated Energy**

**Core holdings include:** Shell, TotalEnergies, ENI, Chevron, Exxon Mobil, PetroChina and Petrobras. Since the outbreak of war we have added:

- **Equinor** — which we believe stands to be among the largest beneficiaries as Norway's national oil and gas champion;
- **Repsol** — given its strong diesel refining exposure.

**Energy Producers**

This segment remains highly suited to active trading strategies.

Alongside core holding CNOOC, we continue to selectively trade volatility across upstream producers.

**Energy Refiners**

We maintain Bangchak Thailand as a core holding and recently added Phillips 66 in the United States.

**Energy Infrastructure**

We re-established our previous holding in Cheniere Energy and initiated a new position in Venture Global.

Both companies own LNG export infrastructure in the United States and stand to benefit materially from the disruption to Qatari LNG exports.

**Chemicals**

Our core chemical holdings remain Linde and Air Liquide, both global leaders in industrial gases and major helium suppliers.

We also hold:

- CF Industries — a leading US nitrogen fertiliser producer; and
- Petronas Chemicals — a Malaysian chemicals and fertiliser producer benefiting from low-cost natural gas feedstock.

Both companies possess meaningful cost advantages relative to global peers.

**Energy Shipping**

Our core holding remains Cosco Shipping Energy Transport, China’s largest oil tanker operator with a growing LNG carrier fleet.

We have also added Scorpio Tankers, the world’s largest independent refined-products tanker company.

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**Appendix – Estimated Global Disruption from the Strait of Hormuz Closure**

| Area of Disruption | Estimated Impact |
|---|---|
| Crude oil supply disruption | ~20 million barrels/day (~20% of global supply) |
| LNG supply disruption | ~30% of global LNG capacity disrupted. LNG supply loss from 3 locations 77mn tonne capacity per year in Qatar + 6mn tonne capacity per year in UAE + 877mn tonne capacity per year in Oman. |
| LPG disruption | ~5% of global supply impacted |
| Refined product disruption | >3.6 million barrels/day (~10% of global refining supply) |
| Asian naphtha cracker disruption | ~50% of regional supply impacted |

| Area of Disruption | Estimated Impact |
|---|---|
| Crude Official Selling Prices (OSP) | 3–4x above pre-war levels |
| VLCC freight rates | 8–10x above pre-war peaks before normalising |

LNG supply loss from 3 locations 77mn tonne capacity per year in Qatar + 6mn tonne capacity per year in UAE + 877mn tonne capacity per year in Oman.

**Key Charts**

**1. Brent Crude Oil**


**2. European Natural Gas (TTF – EUR/MWh)**

### 3. Naphtha Price (USD/Tonne)


*All material in this article is general information only and does not consider any individual's investment objectives.*

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