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Conflict and energy consultancy

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Executive Assessment

The conflict has now stabilized into a structurally constrained system in which the apparent reduction in military intensity has not translated into functional recovery across energy, logistics, or financial systems. The ceasefire between the United States and Iran has produced a visible pause in direct confrontation, yet the operational backbone of the global energy system—specifically the Strait of Hormuz—remains impaired to a degree that continues to shape global economic behaviour.

What distinguishes the current phase is the shift from disruption to controlled restriction. Maritime flows are not blocked outright; instead, they are selectively permitted under conditions that remain undefined, politically contingent, and commercially uninsurable. Industry data confirms that tanker operators are not returning to the Gulf in meaningful numbers. There are effectively no new insurance requests being issued for transit through Hormuz, and shipowners are delaying or cancelling movements due to unresolved safety concerns and uncertainty over Iranian permission frameworks and potential toll structures.

This is the clearest indicator that the system has not normalized. It has been structurally altered. The persistence of low vessel traffic—confirmed by the collapse from pre-war levels of roughly 135 daily crossings to a capped range around 10–15 vessels—demonstrates that the chokepoint is now operating under a managed-access regime rather than open transit.

At the same time, political signaling is increasingly decoupled from operational reality. While U.S. leadership emphasizes progress in negotiations and attempts to stabilize the conflict narrative, it is simultaneously intervening directly to prevent escalation in Lebanon, acknowledging implicitly that the ceasefire is fragile and geographically incomplete. The system, therefore, is not transitioning toward resolution. It is settling into a persistent condition in which economic disruption continues despite reduced military tempo.

Security and War Developments

The security environment has fragmented into parallel theatres that are no longer governed by a single strategic framework. The U.S.–Iran track is now partially contained within a diplomatic channel, yet the Israel–Lebanon theatre remains highly active and is increasingly the dominant source of escalation risk.

Direct intervention from Washington illustrates the severity of this divergence. The U.S. president has urged Israeli leadership to reduce the intensity of strikes in Lebanon specifically to protect ongoing negotiations with Iran, indicating that the Lebanese front has become the primary variable capable of collapsing the diplomatic process. This intervention highlights a

critical structural issue: the conflict cannot be stabilized through bilateral agreements when one of its most active theatres remains outside the scope of those agreements.

At the same time, the absence of a clearly defined U.S. command structure for managing the Lebanon file reflects a deeper fragmentation in operational oversight. This reduces the coherence of policy execution and increases the probability that localized escalation can disrupt broader strategic objectives.

Additional instability is introduced by secondary actors. Statements from Houthi leadership explicitly indicate the possibility of further escalation and "surprise actions," confirming that maritime risk is not confined to Hormuz but extends across the wider regional shipping network. The cumulative effect is a layered security system in which direct confrontation, proxy warfare, and maritime disruption coexist without coordination, reinforcing systemic instability rather than resolving it.

Security Layer	Observed Reality	Structural Effect
U.S.–Iran	Negotiations ongoing	Temporary containment
Lebanon	Continued Israeli strikes	Escalation risk
Proxy network	Active (Houthis, Hezbollah)	Multi-theatre pressure
U.S. coordination	Fragmented	Reduced control

Energy System Disruption

The energy system is now experiencing simultaneous degradation across production, refining, and transport layers, creating a compounded effect that extends beyond the initial shock of maritime disruption.

The most significant new development is the confirmed damage to the SATORP refinery in Saudi Arabia, one of the largest refining complexes globally with a processing capacity of approximately 465,000 barrels per day. The shutdown of processing units following damage sustained during recent incidents introduces a downstream constraint that directly affects refined product availability.

This disruption is layered on top of existing upstream and midstream constraints. Saudi production capacity has already been reduced by approximately 600,000 barrels per day due to attacks on energy infrastructure, while throughput on the East–West pipeline—Saudi Arabia's primary bypass route to avoid Hormuz—has fallen by around 700,000 barrels per day.

The combination of these factors produces a system in which supply is constrained not by a single failure point but by multiple simultaneous bottlenecks. Even where crude is available, it cannot be efficiently transported or processed, creating persistent pressure across the entire value chain.

Energy Layer	Disruption	System Impact
Upstream	−600k bpd production	Reduced supply
Midstream	−700k bpd pipeline	Export bottleneck
Downstream	SATORP damage (465k bpd)	Refining constraint
Maritime	Hormuz restriction	Flow suppression

This multi-layered disruption ensures that energy markets remain structurally tight even in the absence of further escalation.

Hormuz and Maritime Control

The Strait of Hormuz has transitioned from a contested chokepoint into a controlled economic mechanism. Vessel traffic data shows a clear pattern: an initial spike reflecting emergency clearing activity, followed by a collapse to minimal flows, and then a gradual stabilization at levels far below historical norms. The recent increase to approximately 7–10 vessels per day reflects not recovery but the establishment of a controlled throughput regime.

Under this system, access to the strait is conditional. Iran effectively determines the pace and volume of transit, allowing limited flows while maintaining the ability to restrict or expand access as needed. This provides a continuous lever of influence that does not require escalation.

At the same time, proposals to introduce transit fees—estimated at around $1 per barrel or up to $2 million per vessel—indicate an attempt to formalize this control into a monetized system. The implication is that Hormuz is no longer being treated as an international common but as a regulated economic asset. The absence of insurance activity reinforces this interpretation. Without clarity on access conditions, shipping companies cannot price risk, effectively freezing commercial activity even in the absence of direct attacks.

Maritime Variable	Current State	Strategic Meaning
Vessel traffic	~10–15/day	Controlled flow
Insurance activity	Near zero	Confidence collapse
Access rules	Politically determined	Sovereign control
Pricing model	Proposed tolls	Monetization

Global Market Transmission

The global economic impact of the conflict is now being transmitted primarily through logistics and energy pricing rather than direct supply loss. Oil prices have returned to approximately $100 per barrel, reflecting continued risk premiums despite the ceasefire. However, the more significant signal is in global trade behavior. Shipping data indicates that companies are fundamentally reconfiguring supply chains in response to persistent disruption. Air cargo

capacity to the Middle East has declined by more than 50% on an annual basis, while freight rates on key routes such as Vietnam to Europe have nearly doubled.

In response, companies are adopting unconventional routing strategies, including transporting goods from Asia to Europe via the United States to avoid Middle Eastern bottlenecks. This significantly increases both cost and transit time but is still being adopted due to the lack of viable alternatives. In extreme cases, companies are paying five to six times the normal cost to move critical cargo, reflecting the urgency of maintaining supply chains under disrupted conditions.

Market Layer	Observation	Structural Effect
Oil prices	~$100	Persistent risk premium
Air cargo capacity	−50%	Network contraction
Freight costs	2x–6x increase	Cost inflation
Trade routes	Rerouted globally	System inefficiency

Energy Markets – LPG Shock

A second-order energy crisis is now emerging in LPG markets, driven by the collapse of Middle Eastern exports. Data indicates that LPG exports from the region have fallen by approximately 73%, dropping to around 419,000 barrels per day.

This has driven spot premiums to record levels and forced major importers such as China and India to seek alternative supplies from the United States and other regions. U.S. LPG exports are expected to reach approximately 2.7 million barrels per day, with around 1.8 million barrels directed toward Asia. However, these alternative flows are structurally less efficient. Transit times from the United States to Asia exceed 30 days, compared to roughly two weeks from the Middle East. This creates additional strain on supply chains and contributes to rising costs.

The supply shock is already producing demand destruction. LPG consumption in industrial applications has declined significantly, while household costs for cooking gas are rising across multiple Asian markets.

LPG Market Variable	Current Level	System Impact
Middle East exports	−73%	Supply shock
U.S. exports	Record highs	Partial substitution
Transit time	+2x longer	Delayed supply
Demand	Falling	Economic pressure

Regional Economic Impact

The economic consequences of the conflict have expanded beyond energy markets into broader financial and industrial systems. ASEAN financial authorities have explicitly identified Middle Eastern tensions as a key risk factor, highlighting concerns related to capital flow volatility, policy uncertainty, and debt sustainability.

At the same time, industrial production is being affected by energy shortages and rising input costs. Petrochemical plants in Asia are reducing output due to feedstock constraints, while households face increasing costs for essential fuels such as cooking gas.

The cumulative effect is a broad-based increase in economic vulnerability, particularly in regions that are highly dependent on imported energy.

Economic Layer	Pressure	Outcome
Industry	Feedstock shortages	Output cuts
Households	Rising LPG prices	Cost burden
Trade	Disrupted logistics	Inefficiency
Finance	Risk perception	Volatility

Forward Look (Next 7 Days):

- Hormuz transit remains the decisive variable; flows likely stay capped (~10–15 vessels/day), keeping supply constrained
- No meaningful return of marine insurance activity expected; tanker hesitancy persists
- U.S.–Iran talks continue but unlikely to produce operational breakthroughs on transit or sanctions within one week
- Lebanon front remains primary escalation risk; Israeli strikes or Hezbollah retaliation could disrupt diplomacy
- Oil prices likely range-bound (~$95–105) with upside risk tied to any maritime or infrastructure disruption
- Refining and LPG constraints continue to pressure downstream markets and Asia supply chains
- Global logistics remain rerouted; high freight costs and reduced capacity persist
- Diplomatic activity increases in volume but remains fragmented, with no convergence on core issues
- Base case: controlled instability continues; economic disruption persists without full escalation or resolution