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Conflict and energy consultancy

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Executive Assessment

The conflict has entered a structurally entrenched phase in which military escalation, energy system disruption, and global economic stress are mutually reinforcing and self-sustaining. What began as a targeted military campaign has evolved into a system-level confrontation affecting maritime trade, energy flows, and financial markets simultaneously.

The operational reality is defined by contradiction: while diplomatic signaling suggests momentum toward negotiations— "the U.S. was in 'negotiations' with 'the right people' in Iran"—Iran's military leadership categorically rejects this, stating that Washington is "negotiating with itself" and insisting "not now, not ever". This divergence reflects a dual-track environment where escalation and diplomacy coexist but do not yet intersect.

At the same time, the Strait of Hormuz has become the central strategic lever. With approximately 20% of global oil and LNG flows normally transiting the strait, its effective closure has triggered what is described as "the worst energy supply shock in history", driving systemic disruption across global markets.

Conflict Assessment

The conflict is no longer confined to a bilateral confrontation but has evolved into a regionalized system with global economic consequences. Military operations, energy infrastructure damage, and financial market reactions are now tightly interconnected.

Energy infrastructure is being physically degraded rather than merely threatened, creating long-term supply constraints. Israeli strikes have targeted missile production sites and urban infrastructure in Tehran, while Iranian retaliation has extended to Israel, Gulf energy facilities, and U.S. bases across Kuwait, Bahrain, and Jordan.

The Strait of Hormuz has shifted from a contested chokepoint to a selectively controlled system. Iran has effectively blocked most maritime traffic while allowing limited passage for "non-hostile vessels" under coordination requirements. This reflects a transition from denial to selective geopolitical management of global energy flows.

Global markets are transitioning into a "higher-for-longer" energy regime. Price movements are increasingly driven by geopolitical expectations rather than supply-demand fundamentals alone, while economic impacts are spreading across sectors and regions.

The system now operates through reinforcing feedback loops. Military escalation drives infrastructure damage, infrastructure damage drives energy disruption, and energy disruption drives financial and macroeconomic stress. These dynamics increase persistence, complexity, and systemic risk.

Security Developments

The operational tempo remains high with sustained airstrikes and cross-domain attacks. Israeli forces have conducted strikes on naval cruise missile production sites in Tehran, while Iran has launched coordinated missile attacks targeting Israeli urban centers and military positions.

Regional spillover is intensifying. Iranian-linked attacks have targeted U.S. bases and Gulf infrastructure, while Kuwait and Saudi Arabia report continued drone interceptions. Iraq has emerged as an additional vector, with airstrikes killing multiple soldiers and escalating tensions with Baghdad. The conflict is now clearly multi-theater, involving:

- Core front: Iran–Israel
- Secondary fronts: Lebanon, Iraq
- Strategic depth: Gulf states, U.S. bases
- Maritime domain: Strait of Hormuz

This expansion increases the probability of unintended escalation through overlapping operational zones.

Diplomatic Landscape

Diplomatic activity is accelerating but remains structurally fragile. The United States has transmitted a 15-point framework that fundamentally reshapes Iran's strategic posture.

U.S. Demands:

Core Requirement	**Description**
Nuclear rollback	"No uranium enrichment on Iranian territory"
Facility dismantling	Natanz, Isfahan, Fordow to be dismantled
Stockpile transfer	~450 kg of 60% enriched uranium to IAEA
Full inspections	"Full access, transparency and oversight"
Proxy disengagement	End funding and arming of regional proxies
Maritime condition	Hormuz must function as a "free maritime corridor"
Missile limits	Range and quantity restrictions

Proposed Benefits for Iran:

Incentive	Description
Sanctions relief	"Full lifting of sanctions"
Civil nuclear support	U.S. assistance in civilian nuclear program
Snapback removal	Elimination of automatic sanctions mechanism

This framework effectively demands a strategic rollback across nuclear, military, and regional influence domains in exchange for economic normalization. However, Iranian leadership has rejected the premise of negotiations entirely. Statements such as:

"No one like us will make a deal with you. Not now. Not ever." highlight a deep credibility gap and a perception of diplomacy as coercive rather than reciprocal.

Simultaneously, mediation efforts are intensifying. Pakistan has offered to host talks, while Turkey is actively working to prevent Gulf escalation. Yet, these efforts remain constrained by the underlying escalation logic and mutual distrust.

Energy and Maritime Dynamics

The Strait of Hormuz has become the central strategic variable of the conflict. According to maritime and energy analysis, the situation mirrors—but exceeds—the failed Red Sea security efforts. Previous operations required billions of dollars and still resulted in four ships sunk and persistent disruption, suggesting that Hormuz—given Iran's capabilities—will be significantly harder to secure.

Key structural realities include:

- Iran possesses missiles, drones, sea mines, and swarm attack capabilities
- Coastal geography allows rapid strike execution (5–10 minutes engagement window)
- Escort operations require dozens of warships and sustained air cover
- Even partial losses (e.g., a destroyer) would "change the calculus of everything"

As one expert noted: "Defending convoy operations in the Strait of Hormuz is significantly more challenging than in the Red Sea."

The economic implications are immediate and global. Without reopening the strait:

- Supply shortages will intensify
- Energy and food prices will rise
- Trade flows will remain structurally disrupted

There is "no substitute for the Strait of Hormuz," underscoring its irreplaceable role in global energy logistics.

Global Market Transmission

Market behaviour reflects a system driven by geopolitical expectations rather than fundamentals.

Energy Market Snapshot:

Benchmark	Price	Daily Change	Intraday Range
Brent	$112.19	+$3.54 (+3.26%)	—
WTI	~$98.23	+$2.68 (+2.8%)	$92.47 – $98.75

Oil prices have surged sharply, reflecting both physical disruption and forward-looking risk pricing.

Equity Market Reaction:

Region	Performance
Americas	-2.7%
Global	-4.5%
Europe	-7.8%
Asia	-8.2%

The divergence between energy and equities highlights a classic geopolitical shock pattern, with commodities rising while risk assets decline. At the macro level, the shock is transmitting through inflation, consumer sentiment, and political pressure. U.S. gasoline prices approaching $4/gallon are already affecting domestic politics, contributing to declining approval ratings and increasing pressure for de-escalation.

Maritime Disruption and Hormuz Dynamics

Hormuz is no longer simply contested—it is actively governed as a strategic instrument. Iran's approach combines:

- Physical denial (blocking traffic)
- Selective access (conditional transit permissions)
- Economic leverage (potential transit fees)

The strait has effectively become a controlled flow system, where access is determined by alignment and compliance.

Meanwhile, global actors are struggling to respond. The Red Sea precedent demonstrates that even sustained military operations cannot guarantee secure shipping lanes, raising serious doubts about the feasibility of restoring normal operations in Hormuz in the near term.

Forward Outlook (7 Days)

- The immediate trajectory will be determined within a narrow decision window shaped by U.S. policy choices. If strikes on Iranian energy infrastructure proceed, rapid escalation is highly likely, including a potential full closure of Hormuz and broader regional retaliation.
- If restraint continues, the conflict will likely remain within its current framework of controlled escalation, characterized by sustained military activity, restricted maritime flows, and elevated economic pressure.
- Oil prices are expected to remain elevated, with volatility driven primarily by political signaling rather than underlying fundamentals. Military operations will likely continue at current intensity, while diplomatic engagement remains constrained by structural distrust and incompatible strategic objectives.
- The most critical variable remains maritime stability. Even limited normalization of Hormuz transit would significantly ease global pressure, while further disruption would amplify both energy and financial shocks.
- At this stage, the conflict has transitioned into a persistent geopolitical-economic system, where short-term developments influence tactical outcomes, but structural impacts—on energy markets, supply chains, and regional stability—are likely to endure well beyond the immediate horizon.