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Conflict and energy consultancy

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Executive Assessment

The conflict has now entered a structurally different phase in which escalation is no longer measured by intensity alone, but by the degree of system integration across military, energy, and financial domains. What was previously a high-intensity but geographically bounded confrontation has evolved into a multi-layered system in which battlefield developments, infrastructure targeting, maritime disruption, and global market reactions operate as a single, interdependent mechanism.

The most critical shift is that energy is no longer a consequence of the conflict—it is the conflict's primary transmission channel. The Strait of Hormuz is no longer simply threatened; it is being actively used as a tool to regulate global economic pressure. Limited vessel movements do not indicate normalization but rather selective release of pressure within a controlled escalation framework. This distinction is essential: the system is not stabilizing, it is being managed.

At the same time, global markets have moved into a regime where pricing reflects expected persistence of disruption rather than temporary shock absorption. Oil prices stabilizing above $110 are not a sign of balance, but a reflection of constrained equilibrium under sustained risk. Bond markets, meanwhile, are adjusting to a scenario in which inflation remains elevated while growth prospects deteriorate—an early-stage stagflation configuration.

The conflict now operates through reinforcing feedback loops. Military escalation leads to infrastructure damage; infrastructure damage constrains energy flows; constrained energy flows amplify financial stress; financial stress feeds back into political decision-making and escalation incentives. These loops increase both the persistence and unpredictability of the system, making de-escalation more complex and less responsive to traditional diplomatic interventions.

Security and War Developments

The operational environment has expanded beyond bilateral confrontation into a distributed regional battlespace. Iranian missile and drone operations across the Gulf are not episodic but sustained, indicating a deliberate strategy of continuous pressure rather than symbolic retaliation. The scale of interception activity—particularly in the UAE and Saudi Arabia—confirms that the conflict has reached a level where defensive systems are engaged on a near-constant basis.

GCC Air Defense Activity	Scale
Ballistic missile interceptions (UAE cumulative)	400+
Drone interceptions (UAE cumulative)	1,900+
Saudi Arabia multi-day waves	Repeated
Daily interception pattern	Near-continuous

This sustained engagement indicates that the Gulf is no longer a secondary theater but a core operational domain. Iranian targeting patterns show increasing emphasis on economic and infrastructure nodes, suggesting a shift from military deterrence toward economic coercion through distributed targeting.

Simultaneously, Israeli and U.S. operations continue to focus on degrading Iran's strategic depth, including military-industrial facilities and infrastructure with dual-use capabilities. The targeting logic is no longer limited to immediate battlefield effects but extends toward long-term capacity reduction. A critical development is the integration of industrial assets into the conflict. The strike on Emirates Global Aluminium's Al Taweelah facility represents a transition from military targeting to global supply chain disruption. This facility is not only regionally significant but globally relevant, linking the conflict directly to industrial production networks.

Industrial Impact Example	Detail
Facility	Al Taweelah aluminium complex (UAE)
Damage level	Significant
Global relevance	~9% of global aluminium supply chain affected
Strategic effect	Industrial disruption beyond energy

The implication is clear: the war is no longer confined to military outcomes. It is actively reshaping economic and industrial systems.

Energy System Disruption

Energy markets are now operating under structural stress conditions in which volatility is driven less by immediate supply-demand imbalances and more by systemic uncertainty. The surge in oil prices—approaching a 60% monthly increase—is indicative of a market transitioning from cyclical fluctuation to **crisis-driven pricing behavior**.

Oil Market Structure	Current State	Strategic Meaning
Brent crude	~$114–115	War-driven equilibrium
Monthly increase	~58%	Historical-scale disruption
WTI crude	~$100+	Secondary alignment
LNG flows	Disrupted	Cross-market impact
Market driver	Geopolitics	Fundamentals secondary

The deeper issue lies in the decoupling of production from delivery. Oil may still be produced, but export routes are constrained, insurance costs are elevated, and shipping decisions are increasingly driven by risk calculations rather than logistical efficiency. This creates bottlenecks that amplify price pressure without necessarily reflecting absolute supply loss.

Efforts to mitigate the disruption, particularly through Saudi rerouting via Red Sea infrastructure, have provided partial relief. However, these measures are inherently limited by capacity constraints and introduce new vulnerabilities, especially as the conflict extends toward additional chokepoints such as Bab el-Mandeb.

The energy shock is now cascading into broader economic systems. Rising fuel costs are increasing transportation expenses, affecting global trade flows, and feeding into inflation across multiple sectors. Industrial production, particularly in energy-intensive sectors, is beginning to experience cost pressures that could translate into reduced output and higher consumer prices.

Hormuz and Maritime Control

The Strait of Hormuz has become the central strategic lever of the conflict, but its significance lies not in complete closure, but in **controlled disruption**. The operational reality is one of selective functionality, where transit is possible but unreliable.

The case of Chinese container ships requiring multiple attempts to successfully transit the strait highlights the emergence of a new maritime environment defined by uncertainty. Passage is no longer guaranteed, and this unpredictability itself becomes a mechanism of pressure.

Hormuz Status Indicator	Current Condition	Strategic Interpretation
Physical closure	No	Corridor partially open
Functional disruption	High	Reliability degraded
Shipping behavior	Intermittent	Risk-driven
Insurance costs	Elevated	Financial barrier
Strategic status	Contested	Active leverage tool

This condition can be described as controlled intermittency, where neither side seeks full closure or full normalization. Instead, the strait is used dynamically to influence global markets and political decision-making.

The implications extend beyond oil. Container shipping, metals exports, and LNG flows are all affected, creating multi-layered disruption across global supply chains. Maritime insurance markets amplify this effect, effectively acting as a secondary choke mechanism.Hormuz has therefore evolved into a real-time indicator of escalation, where shipping patterns directly reflect shifts in the strategic environment.

Global Market Transmission

Financial markets are now fully aligned with the conflict's systemic nature. The most significant development is the shift toward stagflation pricing, where markets anticipate sustained inflation alongside slowing growth.

Bond Market Movements (March 2026)	Change	Interpretation
US 2-year yield	+50 bps	Inflation persistence
UK 2-year yield	+98 bps	Severe policy stress
Germany 2-year yield	+69 bps	Eurozone spillover
Global bonds	Sharpest fall in years	Structural repricing

This synchronized movement across major economies indicates that the conflict is being priced as a global macroeconomic event rather than a regional disruption.Equity markets are increasingly driven by narrative dynamics. Rapid reversals tied to diplomatic statements demonstrate that investor behavior is highly sensitive to perceived shifts in escalation risk. However, these reactions are temporary and often disconnected from underlying structural conditions.

The result is a market environment characterized by cycles of optimism and correction, reinforcing volatility and reducing stability.

Regional Economic Impact

The economic impact of the conflict is becoming increasingly visible across both regional and global contexts. Israel's downward revision of growth projections reflects the cumulative effects of sustained military engagement, increased defense spending, and broader economic uncertainty.

Regional Economic Indicator	Current Status	Strategic Effect
Israel GDP growth	~3.3–3.8%	War-induced slowdown
Gulf equities	Mixed / declining	Risk repricing
Industrial output	Disrupted	Supply chain stress
Trade flows	Fragmented	Logistics instability

Gulf economies face a dual dynamic. Elevated oil prices provide short-term fiscal support, but direct exposure to missile threats and infrastructure damage introduces new forms of economic vulnerability. Industrial disruptions, particularly in aluminium and petrochemicals, are amplifying the conflict's global impact. The fragmentation of trade flows is particularly significant. Rerouting, delays, and increased costs are affecting global supply chains, reinforcing inflationary pressures and reducing economic efficiency.

Diplomatic Landscape

Diplomatic activity remains active but structurally constrained. Mediation efforts involving regional and international actors indicate ongoing attempts to establish negotiation channels, but these efforts are occurring within a context of continued escalation.

Diplomatic Channel	Role
Pakistan	Primary mediator
Türkiye / Egypt / Saudi Arabia	Supporting actors
EU engagement	Coordinating

The key issue is that diplomacy is no longer operating as an external stabilizing force. Instead, it functions as a signaling layer within the conflict, influencing market perceptions without fundamentally altering the underlying dynamics.

Forward Look (Next 7 Days)

- U.S. decision on striking Iranian energy infrastructure will determine escalation direction
- Strait of Hormuz transit levels will remain the primary indicator of stabilization vs disruption
- Oil prices expected to stay elevated ($110–120+) with volatility driven by political signaling
- Continued Iranian focus on Gulf infrastructure will sustain regional economic pressure
- Risk of spillover into Red Sea / Bab el-Mandeb increasing
- Global markets likely to remain headline-driven and unstable
- Bond markets signaling persistent stagflation risk
- Diplomatic activity expected to continue without near-term breakthrough
- Regional military activity likely to persist at current intensity
- System remains in controlled escalation, not de-escalation trajectory