

## Energy prices rise amid rapid escalation in the Middle East

Energy markets have been sharply repriced at the start of this week amid a rapid escalation in conflict between the US/Israel, and Iran. As nuclear negotiations with Iran were ongoing, joint US-Israel air strikes over the weekend killed Iran's Supreme Leader, Ali Khamenei, and several senior officials, to a mixed global response. Iranian retaliation across the region is targeting US bases and allied positions in the Gulf. Missile exchanges between Israel and Hezbollah in Lebanon have widened the conflict.

The most critical market impact stems from developments around the Strait of Hormuz, the narrow maritime passage between Iran and the Arabian Peninsula, through which roughly 30% of global oil exports and 20% of global LNG transit. Following Iranian threats and heightened naval risk, there is currently a complete suspension of shipping activity. This disruption has rapidly fed through to markets, with Brent crude surging 10%, and gas markets posting their sharpest single-day gains since 2023. Front-month gas contracts opened with close to 30% gains, and front-season products were up around 20%. As of the time of writing, prices have continued to rise and seasonal contracts have now reached over 40% versus Friday close, matching levels at the previous peak in June 2025.

This comes despite European energy security unlikely to be immediately impacted by the widening conflict. Two key factors are providing bearish sentiment: firstly, milder weather forecasts for the remainder of winter limiting immediate demand pressure on the current storage position; and secondly the fact that US LNG flows to Europe remain operational which now make up the majority of supply. The vast majority of LNG volumes transiting Hormuz are Qatari cargoes destined for Asian buyers, meaning the immediate physical shortfall is not felt in European markets where only 6% of LNG is imported from Qatar. Nevertheless, any prolonged disruption will tighten the global LNG balance, forcing Asian buyers to compete more aggressively, and indirectly lift European prices.

Supply chains have also been tightened as Israeli offshore gas exports to Egypt and Jordan have been halted, and Iranian pipeline exports to Türkiye are at risk. Countries that would not typically be active in the spot LNG market may now be forced to secure replacement volumes, adding incremental demand. From a structural perspective, the situation aligns with the broader US energy dominance agenda, as elevated global prices and increased supply insecurity enhance competition of US oil and LNG exports, particularly to Europe which has become structurally reliant on American supply since reducing Russian imports.

The situation is likely to evolve quickly, but with further nuclear talks having been cancelled, and US hostilities not set to cease, near-term diplomatic resolution appears limited. Looking ahead, the duration of the Hormuz disruption will be the dominant driver of price direction. It is now likely that any reopening of the Strait will require a minesweeping operation leading to further transit delays, but an extended closure, escalating war-risk insurance premiums, or any confirmed mine laying in the Strait would likely sustain or extend current bullish momentum. Conversely, any credible reopening of transit routes, naval de-risking operations, and rerouted cargoes to avoid the Strait could trigger a sharp retracement.

|                  | Gas        |            |        |  | Electricity |            |        |
|------------------|------------|------------|--------|--|-------------|------------|--------|
|                  | 27/02/2026 | 02/03/2026 | Change |  | 27/02/2026  | 02/03/2026 | Change |
| <b>April 26</b>  | 2.71       | 4.05       | 49%    |  | 7.5         | 9.13       | 22%    |
| <b>Summer 26</b> | 2.62       | 3.58       | 37%    |  | 7           | 8.96       | 28%    |
| <b>Winter 26</b> | 2.75       | 3.40       | 24%    |  | 7.50        | 8.80       | 17%    |

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