



Conflict in the Middle East

Update

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ENERGY



The conflict in the Middle East persists but with hopes of de-escalation

Latest developments

- A two-week ceasefire was reportedly brokered by Pakistan, although disagreement over the terms has undermined confidence in the arrangement. Israel has disputed the reported inclusion of Lebanon and has continued heavy attacks.
- More than 20 hours of talks between the U.S. and Iran took place in Islamabad, but no agreement was reached on a longer standing peace.
- The U.S. began a blockade of Iranian ports and wider coastline, while stating that it will not impede non-Iranian vessels transiting the Strait of Hormuz.
- Iran has described the blockade as an act of piracy and stated that it intends to maintain control over the Strait of Hormuz after the conflict warning that if Iranian ports are not secure, then no ports in the Gulf can be considered fully safe.
- The US blockade has drawn broad international criticism, including from China, which has described the move as dangerous and irresponsible and risks further escalating tensions in the region. China is a significantly off-taker of Iranian oil and will therefore be negatively affected by the blockade.
- A summit focused on the Strait of Hormuz is expected later this week, with the UK, several EU states and other international participants set to attend. The discussions are set to focus on diplomatic efforts to de-escalate the conflict and restore safe passage through the Strait.
- The security of shipping routes and regional ports remains central to developments as the conflict continues.

Market impacts

- Gas markets remain highly volatile and continue to react quickly to geopolitical developments, although the recent move lower from the 19th March peak suggests that some immediate risk premium has started to unwind.
- Winter '26 gas prices have fallen by around 45% from peak levels, but at approximately 40% above pre-conflict levels they indicate that the market is still pricing in a meaningful degree of ongoing supply risk.
- Power prices have closely tracked gas, reflecting the continued importance of gas-fired generation in setting wholesale electricity prices. Although Winter 26 power has eased by around 30% from conflict highs, it remains roughly 20% above pre-conflict levels, showing that elevated gas costs are still feeding through to power markets.
- Oil prices have also remained highly reactive to events, with Brent currently trading just below \$100/bbl compared with highs of around \$120/bbl at the end of March.
- Summer 26 monthly gas contracts are trading broadly in line with Winter 26, a dynamic that continues to weaken the incentive to inject gas into storage. This creates an additional layer of risk ahead of winter if stock levels fail to build at a sufficient pace.
- Gas and power curves remain strongly backwardated, with near-term contracts trading well above longer-dated deliveries. This indicates that the market currently expects the greatest pressure to be concentrated in the near to medium term.

Outlook



Traffic through the Strait of Hormuz remains the key factor shaping price direction over the coming weeks and months. A sustained easing in prices is likely to depend on meaningful de-escalation in the Middle East and a more substantive peace agreement that allows vessels to pass through the waterway freely and without heightened security risk. Such an outcome would also reduce the threat of further damage to regional energy infrastructure, although disruption already sustained is likely to have lasting implications for LNG supply.

The duration of the disruption will be critical in determining how far price pressure extends along the curve. If the majority of traffic does not resume within the next few months, the impact on global LNG availability could become more structural, potentially taking years to replace despite the contribution from new LNG projects. While additional supply capacity is due to come online, this is unlikely to provide an immediate solution, meaning the global gas market may remain tight and vulnerable to further price shocks should additional supply disruptions occur.

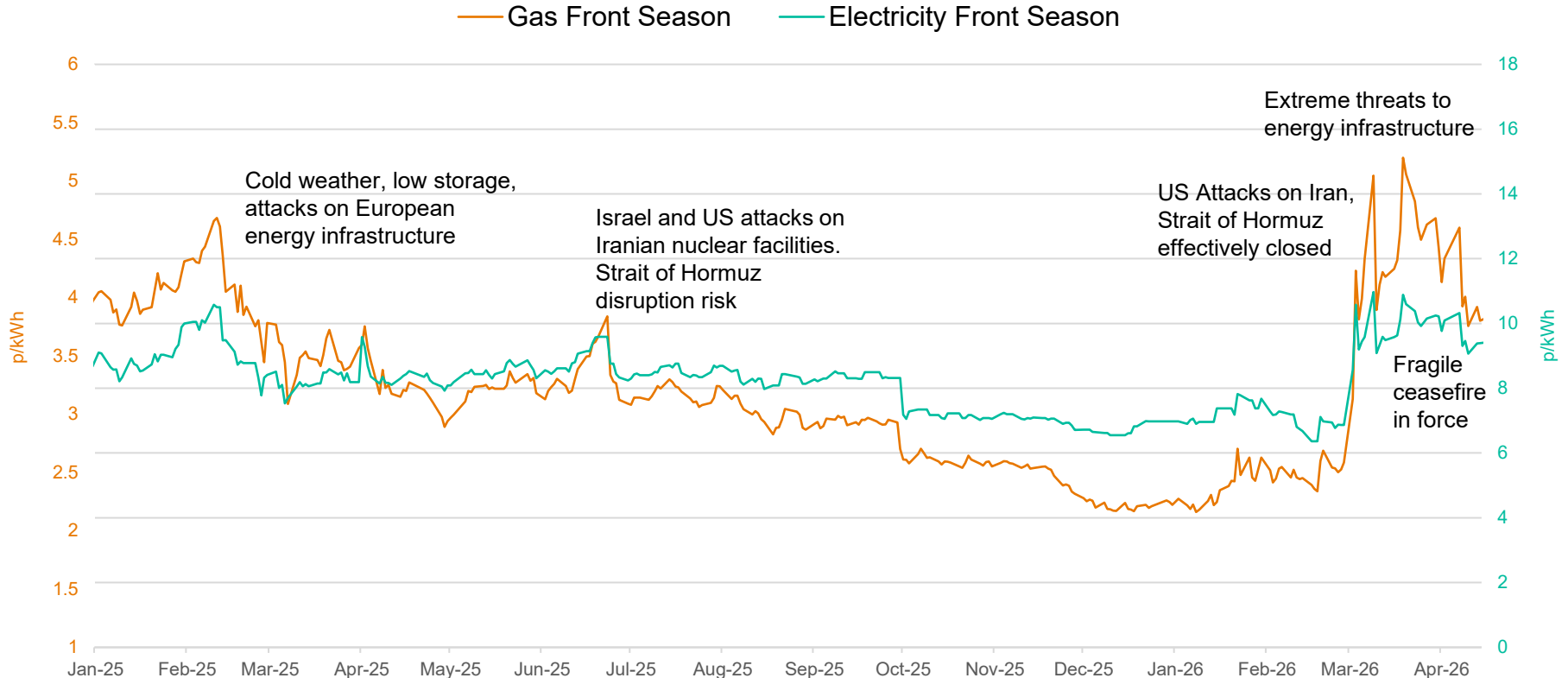
At present, forward prices suggest that the most acute impact is expected in the near to medium term, with the market remaining strongly backwardated. However, the longer disruption persists, the greater the likelihood that elevated pricing will extend further along the curve. European storage levels will also remain an important area of focus. Stocks are currently around 30%, below the five-year average of 37%, and relatively high summer prices are reducing the commercial incentive to inject gas into storage. There is also growing potential for the EU to relax mandated storage targets to ease price pressure. If Europe enters winter with lower-than-normal storage levels, this would increase risk further out on the curve and could prolong the period of elevated prices.

Overall, prices are likely to remain elevated for some time, with the restoration of normal supply flows through the Strait of Hormuz remaining the central requirement for any meaningful easing. In the absence of this, bullish pressure is likely to persist as the market seeks to rebalance through demand destruction. Even in the event of a peace agreement and a full reopening of the Strait, some of the risk premiums may unwind, but prices could still remain above previous levels as the market absorbs lost wartime supply and the longer-term impact of damage to LNG capacity at Ras Laffan, the world's largest LNG facility in Qatar.

Historical context (Last 14-months)

The recent ceasefire agreement, despite its fragility, has caused prices to descend from the heights that were witnessed several weeks ago. Whilst we are yet to see any meaningful increase in traffic traversing through the Strait of Hormuz the diplomatic efforts are being viewed as a potential off ramp for the conflict.

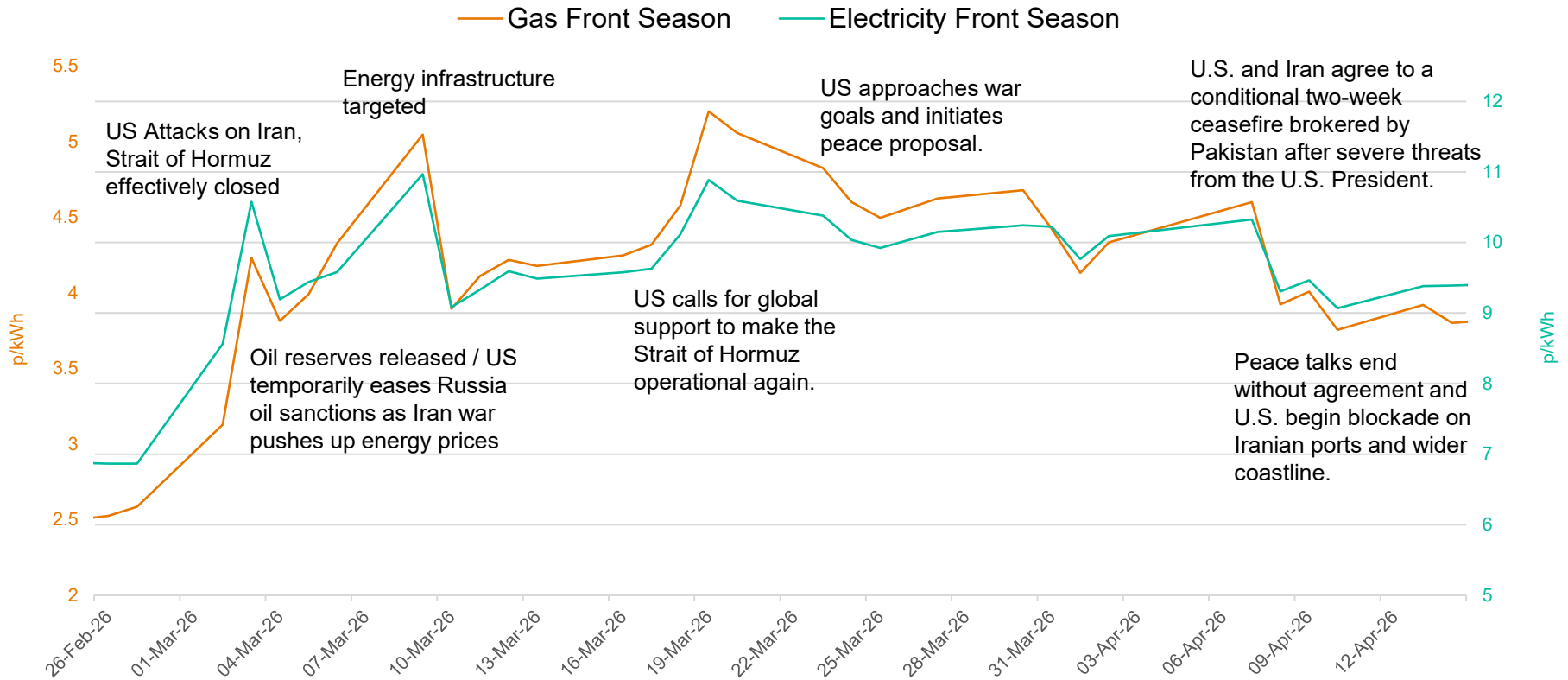
Front Season - at any point in time the price represents the cost of securing energy to be delivered for the 6-month period starting from the next season (e.g., the price in January 25 represents the cost of energy to be delivered from Apr 25 (Apr 25-Sep 25) and in April 25 the price represents the cost of energy to be delivered from October 25 (Oct 25-Mar 26)).



Recent market movement (Last 30-days)

Gas and electricity prices continue to react quickly to incoming developments, as the market attempts to assess both the underlying supply and demand implications and the credibility of the information driving sentiment.

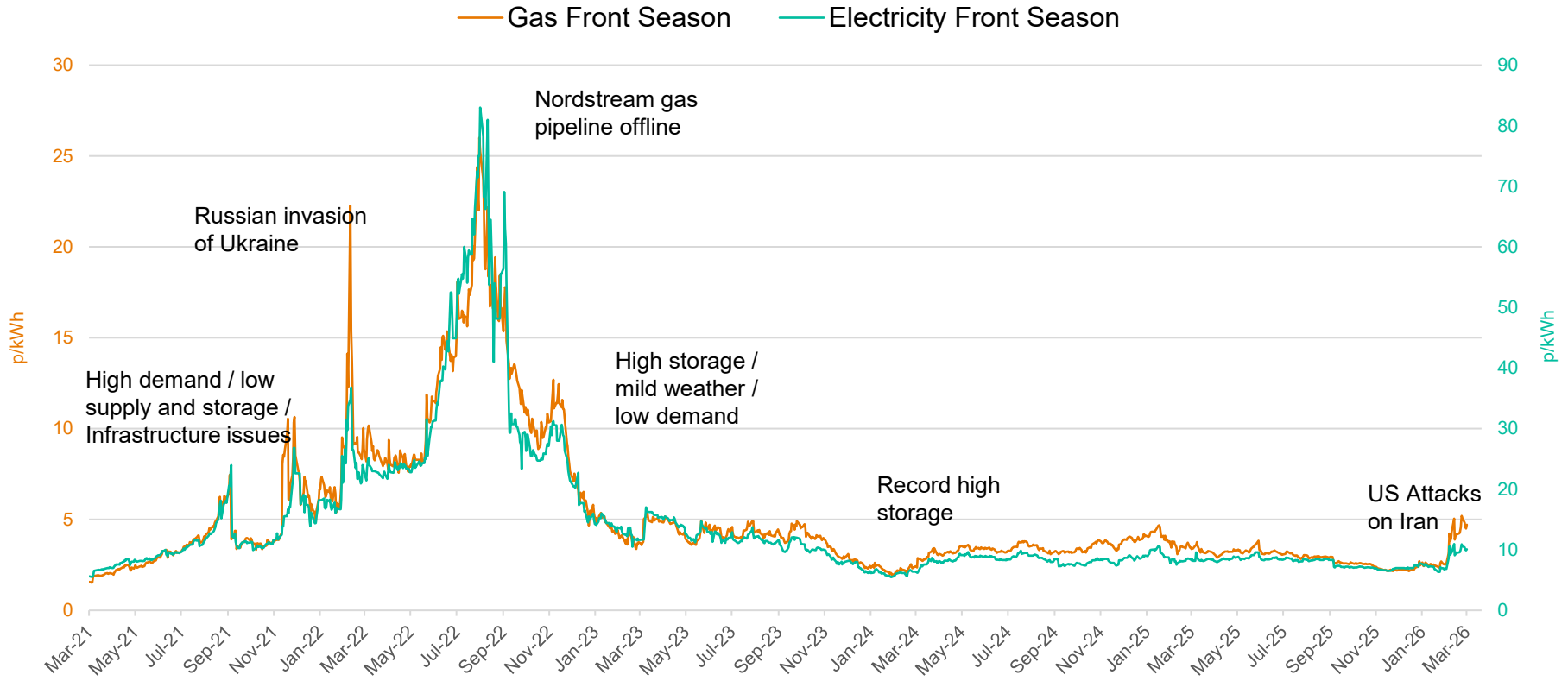
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Wider historical context

Despite the disruption to global gas and oil supplies lasting around 6-weeks we continue to see a relatively contained price response even with the physical realities of a lack of supply now starting to hit markets. Prices still remain well below those witnessed during the first year of the Russian invasion of Ukraine.

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What to do next?

If action is needed now

If a contract decision is imminent, a shorter-term arrangement may offer flexibility while markets remain volatile. However, this should be weighed against the risk that elevated prices could persist for longer.

If renewal is further away


If you have more than six months before renewal, there may be value in waiting before committing. Where procurement processes are complex, it may still be sensible to complete preparatory steps early so you are ready to act when opportunities arise.

Choosing the right approach

The right strategy will depend on your organisation's priorities, whether that is price certainty, flexibility, or tolerance for market risk.

Seeking support

If needed, seek advice from a trusted energy adviser and make decisions based on your organisation's requirements rather than pressure from unsolicited sales contact



The market continues to react very rapidly to price signals.
You should be ready to act too.



Focusing our energy on yours

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