ACHINTYA

Achintya Securities Limited

Global Energy Shock

The Strait of Hormuz Crisis and Its Far-Reaching

Introduction

The world economy is once again confronting a structural vulnerability—its deep dependence on a handful of geopolitical chokepoints for energy security. The escalating crisis in the Strait of Hormuz, triggered by military tensions involving Iran, United States, and Israel, has rapidly evolved into a global economic risk event. What makes this episode particularly severe is not just the military escalation, but the near paralysis of one of the most critical arteries of global energy trade. With oil flows disrupted, tanker traffic collapsing and risk premiums surging across commodities and financial markets, the crisis underscores how fragile the global energy architecture remains despite decades of diversification efforts.

Strategic Importance of the Strait of Hormuz

Geographically positioned between Iran to the north and Oman and the United Arab Emirates to the south, the Strait of Hormuz is a narrow maritime corridor just about 50 km wide at its broadest navigational span, yet it carries an outsized share of global energy flows. This chokepoint connects the oil-rich Persian Gulf to the open waters of the Arabian Sea, making it indispensable for exports from major producers like Saudi Arabia, Iraq, Kuwait, Qatar and the UAE.

From a quantitative standpoint, the scale is staggering:

- ~20 million barrels per day (mb/d) of crude oil and petroleum products transited through the strait in 2025—roughly 20–25% of global consumption.
- Liquefied Natural Gas (LNG): Qatar alone exported ~9.3 billion cubic feet/day, while the UAE added ~0.7 bcfd, together accounting for ~20% of global LNG trade.
- Beyond hydrocarbons, the route facilitates ~one-third of global fertiliser trade and ~45% of sulfur exports, both critical for agriculture and industrial supply chains.
- The total annual energy trade passing through Hormuz is estimated at $600 billion+, making it arguably the most economically significant shipping lane in the world.

What Triggered the Current Crisis?

Following the February 28, 2026 strikes involving the US and Israel, Iran responded with a multi-layered maritime disruption strategy rather than a formal blockade. This includes:

- Deployment of naval mines in key transit lanes
- Use of fast-attack boats and swarm tactics
- Drone and missile strike on commercial vessels
- Electronic warfare and radio warnings deterring passage

The operational impact has been dramatic:

- Monthly tanker traffic (~3,000 vessels) has nearly collapsed
- Only ~21 tankers managed transit post-escalation
- 15–21 confirmed attacks on ships

This is effectively a "grey-zone blockade"—not officially declared but functionally restrictive enough to halt trade.

Oil Market Shock and Macroeconomic Fallout

The immediate consequence has been a sharp repricing of oil risk:

- WTI Crude: surged from ~$60–67 to ~$100 per barrel
- Brent Crude: spiked above $82, stabilizing near $79

However, the more important story lies in forward expectations. According to scenario modelling (e.g., Federal Reserve regional frameworks):

- **1-quarter disruption:**
  - Oil ~$98/barrel
  - Global GDP growth reduced by ~2.9 percentage points
- **2-quarter disruption:**
  - Oil peaks near $115/barrel
  - Growth shock deepens across emerging markets
- **3-quarter disruption:**
  - Oil could hit $130+, triggering stagflation risks globally

In response, the International Energy Agency has already initiated the release of ~400 million barrels from strategic reserves—one of the largest coordinated supply responses in recent history. Yet, such measures only smooth volatility—they don't replace lost flows.

Secondary Effects: Inflation, Trade, and Supply Chains

The ripple effects extend far beyond oil markets:

1. Inflationary Pressures

- Fuel price increases feed into transportation, aviation, and manufacturing costs
- Airlines are raising ticket prices due to jet fuel spikes
- Petrochemical derivatives (plastics, fertilizers) are becoming more expensive

2. Supply Chain Disruptions

- Longer shipping routes (e.g., via the Cape of Good Hope) increase transit time and cost
- Insurance premiums for tankers have surged sharply
- Global trade bottlenecks are re-emerging, similar to pandemic-era disruptions

3.Emerging Market Stress

For oil-importing economies like India:

- Every $1 increase in crude raises the import bill by ~$2 billion annually
- Leads to currency depreciation (INR pressure)
- Pushes inflation higher, complicating monetary policy
- Raises bond yields due to fiscal stress

Investment Implications: Risk and Opportunity

This environment creates a complex landscape for investors:

Risks :

- Equity valuations under pressure due to lower global growth
- Volatility in energy-intensive sectors (aviation, chemicals, logistics)
- Currency and bond market instability in emerging economies

Opportunities :

- Upstream oil and gas companies benefit from higher realizations
- Energy transition themes (renewables, storage, hydrogen) gain strategic importance
- Market corrections may allow accumulation of quality stocks at discounted valuations

In essence, this is a macro-driven market phase, where geopolitics overrides fundamentals in the short term.

Conclusion: A Wake-Up Call for Global Energy Security

The Strait of Hormuz crisis is not just a geopolitical flashpoint—it is a stress test of the global energy system. Despite advancements in renewables and diversification, the world remains heavily reliant on a few critical supply routes. This episode reinforces three structural lessons:

1. Energy security is inseparable from geopolitics
2. Supply chain resilience requires redundancy, not efficiency alone
3. Diversification—across fuels, routes and suppliers—is no longer optional

For investors, policymakers and businesses alike, the message is clear: prepare for a world where energy shocks are not exceptions, but recurring features of the global economy.

Achintya Securities Limited

Member: NSE, BSE, MCX, NCDEX, MSEI | DP: NSDL,CDSL