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Report: Potential Oil Supply Disruptions from the US-Iran Conflict and Economic Impacts

Summary

The escalating conflict between the United States, Israel, and Iran—marked by joint US-Israeli airstrikes on Iranian targets, including nuclear facilities, and Iranian retaliatory attacks—has triggered immediate disruptions in global oil supplies. The conflict, which intensified over the weekend following strikes that killed Iran's Supreme Leader Ayatollah Khamenei, has effectively halted tanker traffic through the Strait of Hormuz, a critical chokepoint for approximately 20% of the world's oil and 20% of liquefied natural gas (LNG) trade. Oil prices have surged 7-13%, with Brent crude reaching around $79-80 per barrel. If prolonged, this could drive prices above $100, risking a global recession through higher inflation and slowed growth. The US, as a net energy exporter, may experience muted direct impacts but faces inflationary pressures and political risks. Globally, energy importers like Europe, China, and India are most vulnerable, with potential supply chain breakdowns and increased volatility in financial markets.

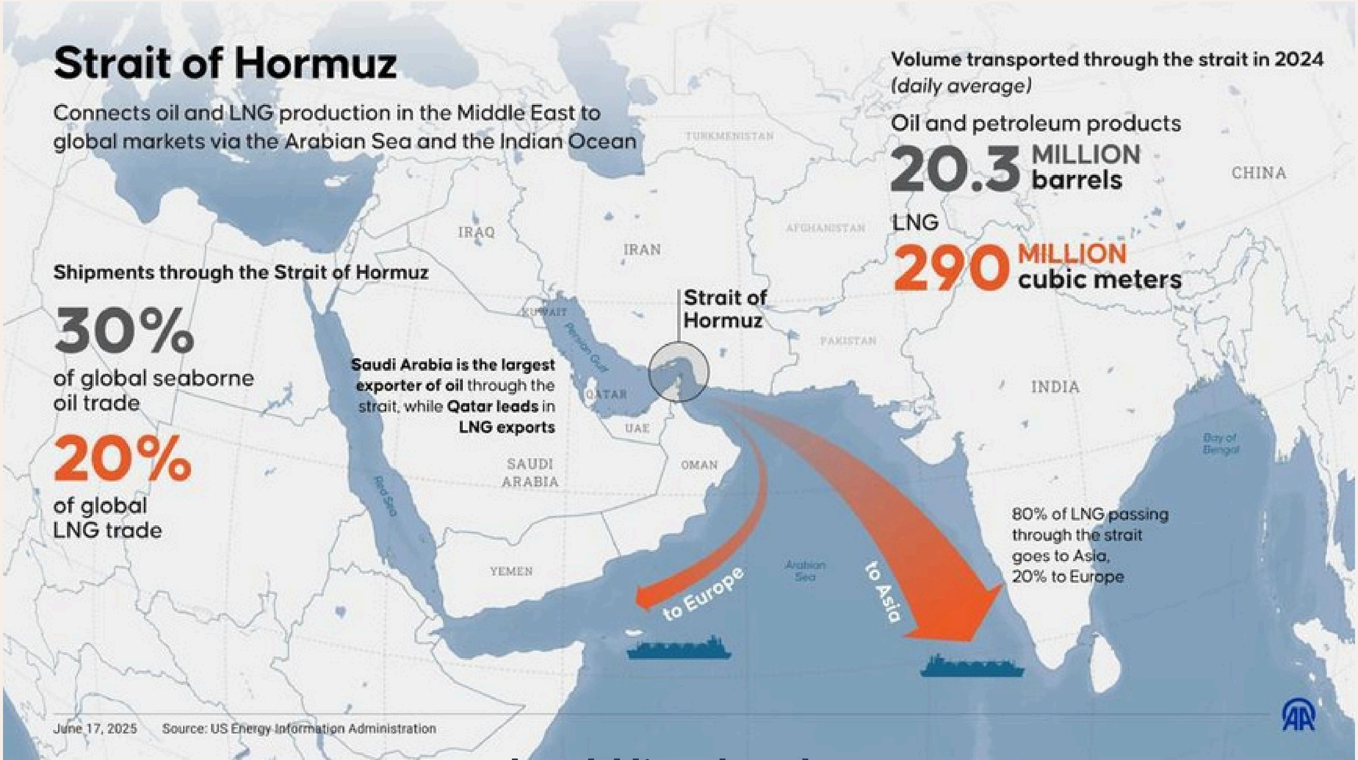
Background on the US-Iran Conflict

Tensions between the US and Iran have been building since late 2025, fueled by Iran's violent suppression of domestic protests, advancing missile and nuclear programs, and regional proxy activities. The current crisis erupted in early March 2026 with US-Israeli strikes on Iranian military and nuclear sites, prompting Iranian missile and drone retaliations against US bases, Israeli targets, and Gulf energy infrastructure.

Donald Trump has indicated the campaign could last weeks, aiming to neutralize Iran's nuclear capabilities. Key flashpoints include attacks on oil tankers and facilities in Saudi Arabia and Qatar, exacerbating fears of broader regional involvement.

Potential for Oil Supply Disruptions

Iran's strategic position along the Strait of Hormuz makes it a linchpin for global energy flows. The strait handles about 20.3 million barrels of oil and petroleum products daily, plus 290 million cubic meters of LNG—representing 30% of global seaborne oil trade and 20% of LNG trade. As of March 2, 2026, tanker traffic has slowed to a trickle due to Iranian warnings, insurer withdrawals of war-risk coverage, and direct attacks on vessels. Over 150 ships are stranded in the Gulf, and facilities like Saudi Arabia's Ras Tanura refinery and Qatar's LNG plants have halted operations following drone strikes.



Iran's Weapon Of Mass Economic Destruction: Hormuz

Potential scenarios for disruptions include:

- Short-term halt (days to weeks): Limited to current slowdowns, with oil prices rising 10-20%. Pipelines in Saudi Arabia and the UAE could reroute 5-7 million barrels per day (bpd), but 8 million bpd remain at risk.
- Prolonged closure (weeks to months): Iran mining the strait or escalating attacks could block 15-20 million bpd, pushing prices to $100-120 or higher. This mirrors 1970s-style energy shocks, with global hoarding by importers like China.
- Worst-case escalation: Involvement of other Gulf states or ground invasions could disrupt an additional 3 million bpd from Iran itself (4% of global supply), leading to triple-digit prices and rationing.

OPEC spare capacity (about half of Iran's output) could mitigate some losses, but alternatives like rerouting around Africa add weeks and costs to shipments. Real-time reports indicate insurers have canceled coverage, forcing shipping pauses.

Disruption Scenario	Oil Price Impact	Supply Loss (bpd)	Duration Risk
Short-term Halt	+10-20% ($80-90)	5-8 million	Days-Weeks
Prolonged Closure	+50-100% ($100-150)	15-20 million	Weeks-Months
Full Escalation	+100%+ ($150+)	20+ million	Months+

Effects on the US Economy

The US, now a net energy exporter, is somewhat insulated but not immune. Immediate impacts include:

- **Higher Energy Costs:** Gasoline prices could rise $0.50-1.00 per gallon if oil hits $100, adding to inflation at a time when consumer concerns are high. This could exacerbate political pressure on President Trump, whose approval ratings have dipped amid economic worries.
- **Inflation and Growth**: A sustained $100 oil price might add 0.6-0.7 percentage points to inflation, potentially delaying Federal Reserve rate cuts. However, US shale production could benefit from higher prices, boosting energy sector stocks like Exxon and Chevron.
- **Market Volatility**: S&P 500 futures fell 1% on March 2, with broader declines in tech but gains in defense and energy. A prolonged strait closure could trigger a recession, depleting strategic reserves and straining transportation/logistics.
- **Opportunities**: Increased exports to allies like China (resuming US crude purchases) could offset some losses.

Overall, short-term effects are manageable via reserves, but extended conflict risks stagflation—slowed growth with rising prices.

Effects on the Global Economy

Energy-importing economies face the most acute risks. Asia (receiving ~80% of Strait-transited oil) could experience shortages affecting China, India, and Japan, with China potentially losing access to 1+ million bpd. Europe may face renewed LNG tightness from Qatar disruptions, echoing 2022 volatility.

A prolonged halt risks global recession through stagflation—rising inflation combined with slowed growth—disrupting supply chains, manufacturing, and transportation. Financial markets have shown immediate reactions, with declines in equities and surges in safe-haven assets. While OPEC+ adjustments and inventories offer short-term cushions, sustained high prices could dampen demand and growth worldwide.

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