

Crude in war: Spike, then repricing

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OIL MARKETS ARE no longer trading on escalation risk—they are trading on active war. After Israel launched strikes on Iranian targets and Tehran responded with retaliatory attacks, the Middle-East conflict has moved from threat perception to direct military engagement, pushing the Strait of Hormuz back to the centre of global energy market calculations.

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CRUDE HAS ALREADY firmed nearly 10% in recent sessions, rising from around \$65 per barrel to \$72-73 per barrel, as traders embed disruption risk into prices.

Yet history suggests that oil's first reaction to war is often an overreaction.

A sector note by Equirus Securities, now increasingly relevant amid active hostilities, examines five decades of conflict-driven price shocks and finds a consistent pattern: oil prices have surged between 25% and 300% during geopolitical crises, even when actual physical supply losses proved temporary. The report said the real forecasting challenge is not predicting the spike, but estimating how long the embedded war premium persists.

"Oil overreacts first, embeds a geopolitical risk premium, and then gradually adjusts as trade flows reroute and fundamentals reassert themselves," the analysts wrote. The historical record is stark. During the 1973 Arab oil embargo, prices jumped nearly 300%, from around \$3 to \$12 per barrel after OPEC cut supplies to Western economies. The 1979 Iranian Revolution triggered another 180% surge as exports were halted and panic buying amplified shortages.

In the 1990 Gulf War, crude rose from roughly \$17 to \$41 — a 140% spike —



before retracing as Saudi Arabia and others offset lost Iraqi and Kuwaiti barrels. Even in 2003, when the US-led coalition invaded Iraq, prices rose about 40% but quickly retreated as the actual disruption proved limited.

More recently, Russia's invasion of Ukraine in 2022 lifted Brent from the early \$80s to above \$120 — a roughly 50% move. At peak, sanctions and price caps embedded a war premium estimated at \$30–\$47 per barrel. Yet within six months, Russian crude found alternate buyers, including India, and prices normalised.

Even the brief 12-day Iran-Israel escalation in 2025 triggered a more than 15% spike in Brent within days, despite no actual supply disruption. The difference now is that conflict has moved beyond signalling into active military engagement, raising the probability —

though not certainty of physical supply impact.

Iran currently produces roughly 3.3 million barrels per day, accounting for about 3% of global supply. Its exports stand at 1.5-1.6 mbpd, with over 90% flowing to China. On pure volume metrics, Iran's systemic importance has diminished compared to earlier decades.

However, geography amplifies its influence. The Strait of Hormuz bordering Iran handles nearly 20% of global oil supply and a similar share of LNG trade. Crude and condensate flows through Hormuz average around 14–16 mbpd, while LNG volumes exceed 10 bcf per day. That chokepoint leverage is what markets are pricing.

Prashant Vasisht, senior vice-president and co-group head, corporate ratings, ICRA, said the risks extend beyond Iran's own production. "The conflict in Middle-East and

reported attacks on several oil producers would exacerbate the volatility in crude oil prices. The Strait of Hormuz is a vital energy choke point through which about 20% of the global petroleum liquid and 20% of the global liquified natural gas passes. As Iran and Middle-East energy producers straddle the Strait of Hormuz, a conflict in the region would impede shipping of energy through the same. Additionally, any attack on oil and gas production facilities of other major Middle-East producers would further aggravate the situation," he said.

"Already over the past few days, crude oil prices have risen from ~\$65/barrel to \$72-73/barrel now owing to the buildup of geopolitical tensions in the region. A prolonged and/or widening conflict involving several oil and gas producers and Strait of Hormuz could adversely impact global crude oil and LNG supplies and raise prices of energy globally," Vasisht added. Equirus models that if Iran's 3.3 mbpd output — roughly 3% of global supply — were disrupted, and assuming a 3-5% price response for every 1% supply shock, crude could rise 9-15%. On a \$70 base, that implies a move toward \$76-\$81 purely on mechanical supply loss. But wars are not priced mechanically.