



Five Key Questions on the Strait of Hormuz

- **Following the effective “closure” of the Strait of Hormuz in the wake of renewed conflict in the Middle East, this *Update* answers five key questions about the potential impacts on global energy markets.**
- **How much of the world’s energy flows pass through the Strait, and are there any alternative routes?** The Strait of Hormuz is a vital artery for global energy flows, accounting for ~25% of global seaborne oil shipments (20.3mn bpd, of which ~14m bpd is crude oil) and ~20% of LNG flows (19.3 bcf/d) in 2024. (See Chart 1.)
- In principle, some of these oil flows could be exported via other routes. For example, the East-West pipeline in Saudi Arabia connects to the Red Sea and has capacity of 5mn bpd (equivalent to more than 75% of Saudi crude exports in 2025). This pipeline was temporarily expanded in 2019 to be able to transport 7mn bpd of oil when Saudi oil tankers were previously attacked near the Strait. Meanwhile, there is also a 1.8mn bpd pipeline that would enable the UAE to continue exporting crude and bypass the Strait of Hormuz.
- That said, there is only limited pipeline capacity available to be used. For what it’s worth, though, exports from Saudi Arabia’s Red Sea Yanbu port suggest that it may already be making greater use of the East-West pipeline and exporting more oil from the Red Sea. And given that most oil flows originating from Iraq, Kuwait, and Iran itself can’t be diverted, somewhere in the region of 10-20% of global oil supplies could potentially be trapped. Meanwhile, LNG flows from the region cannot be diverted. The lack of an alternative for rerouting LNG flows explains why the European TTF natural gas benchmark price has also surged in trading this morning. (At the time of writing, TTF prices are up ~23%, compared with a ~8% rise in Brent crude.)
- **Who exports this energy and where does it go?** The shipments of LNG through the Strait primarily originate from Qatar, which is a key player in the global market. Meanwhile, almost 40% of crude oil exports through the Strait (~5.3m bpd) come from Saudi Arabia.
- 80-90% of crude oil and LNG exports through the Strait are destined for Asia and China is by far the largest buyer of both Iranian oil, and other crude exports through the Strait. (Combined, these make up 5.4m bpd or just less than 50% of China’s crude oil imports.) That gives China both an outsized influence, and a vested interest in keeping energy trade flowing.
- **What options does Iran have to “close” the Strait?** Any Iranian efforts to “close” the Strait are not binary and encompass a number of actions including attacking and detaining ships using the waterway, impeding navigability through the strait and, at the most extreme, laying mines in the sea. The first two factors have already been in play, with recent reports suggesting that three ships have been attacked, as well as GPS jamming in the area. In any case, the heightened risk of attacks on oil tankers have led to insurers cancelling policies covering ships transiting the Strait. This has led to traffic in the waterway slowing to a trickle.
- The other key factor to consider is how long any disruption could persist, not least as it is not in Iran’s economic interests to cause prolonged disruption to its *own* energy exports. Lower-level disruption could persist indefinitely, but arguably the greater the disruption, the higher the likelihood that third parties – including the US naval presence in Bahrain – step in to protect the flow of energy trade. Meanwhile, the breadth of Iran’s attacks on countries in the region suggests that it is closer to a situation in which it feels that it has nothing to lose, in which case it would arguably be more willing to try to cause severe and long-lasting disruption to shipping in the Strait.

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- **How would disruption in the Strait of Hormuz affect energy prices?** Oil prices had already risen by ~15% this year in anticipation of conflict in the Middle East, to ~\$72pb before the latest military strikes. Looking ahead, the most benign scenario for near-term energy prices would be something reminiscent of the 12-day war between Israel and Iran in June 2025, during which a ~\$10-15pb risk premium emerged and dissipated quickly. This might transpire were there to be a quick resumption of energy flows through the Strait, and it became clear that there had been little to no lasting damage to the region’s energy infrastructure.
- That said, a wider regional war could make this less likely and raises the risk of a wider range of possible outcomes. A middle scenario would see the war continue and risk premia remain elevated, but without a significant reduction in supplies – causing prices to stay in a \$70-80pb range for a prolonged period. In a more extreme scenario in which there is a lasting and more substantial hit to energy flows, oil prices could rise to over \$100pb. Crucially, as well as disrupting the flow of energy to the global market, a “closure” of the Strait would also severely limit the extent to which OPEC+ could employ its spare capacity to offset upward pressure on oil prices.
- Meanwhile, given the potential for Qatari LNG exports to be stranded, European TTF natural gas prices could feasibly spike to around €80-100 per MWh under such a scenario. For context, this range is about twice current levels, but well below the €200+ levels seen in Q3 2022 in the aftermath of the invasion of Ukraine.
- **How were oil traders positioned ahead of the latest military strikes?** Our approach to assessing the levels of risk premium priced in involves assessing investors' perceptions of the risks that are reflected in the options market. These can be shown as probability distributions that display the implied chances of the Brent crude price being at a given level in 3 months' time. When risks heighten, the probability distribution shifts away from a bell-shaped curve, where the peak (the modal estimate) is centred close to the 3-month futures price, towards a curve with a right-hand skew and a modal estimate below the 3-month futures price. The greater the right-hand skew, the greater the implied upside risks embedded in traders' views.
- Through this lens, Chart 2 shows that traders were already factoring in similar-sized upside risks to oil prices on Friday ahead of the military strikes (the pink line) than they were factoring in at the height of the 12-day Israel-Iran war (the blue line). We will be updating this analysis when updated options-pricing data become available.

Chart 1: Trade Flows via the Strait of Hormuz
(% of Global Maritime Trade)

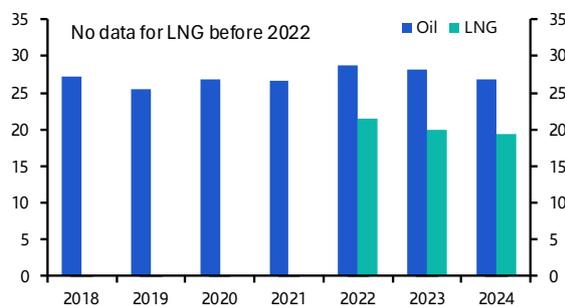
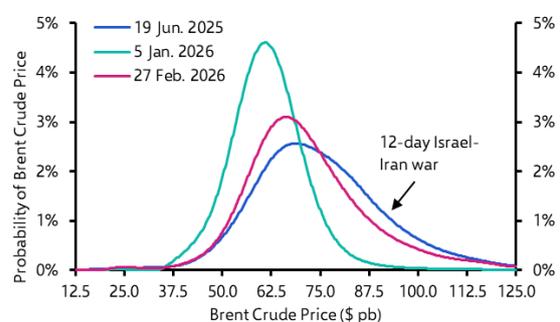


Chart 2: Options-Implied Probability Distribution of Brent Crude Prices in 3 Months' Time



Sources: LSEG, EIA, Capital Economics



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