



Letter n°146

The Sensitivity of the Global Economy to Oil and Gas Prices

“A canton’s army defeating that of an empire.”— Hegel

- *Lessons of History:*

Hegel, following Herodotus and Thucydides, referred to the victory of small Athens—10,000 men—over the Persians, numbering between 200,000 and 600,000 soldiers (ancestors of modern Iranians), at the land battle of Marathon in 490 BC against Emperor Darius, and at the naval battle of Salamis in 480 BC against Emperor Xerxes.

We should never forget the lessons of history, as there have often been victories of David over Goliath.

Another well-known example involving Persia is Alexander the Great, who in 331 BC, at the famous Battle of Gaugamela—150 years after Thermopylae—with only 40,000 infantry and 7,000 cavalry, defeated Darius III and his army, estimated at between 200,000 and 1 million Persians.

Today, in an irony of history, David is Iranian and Goliath is American—and Trump’s victory is all the less certain given that Iran does not have a “canton army,” to use Hegel’s expression.

- *Present Tensions:*

The near-closure of the Strait of Hormuz removes 7 to 10 million barrels per day (Mb/d) of oil from the market—around 10% of global supply.

Never in history has such a reduction in production occurred. It exceeds, in volume, the 3 to 4 Mb/d of Russian exports placed under sanctions following the 2022 invasion. It is worth recalling that the Gulf accounts for 30% of global oil production and one quarter of LNG supply.

Never before have oil prices experienced such volatility. Within 24–36 hours, Brent crude surged from \$85 to \$119 per barrel, then fell back to \$84, even hitting an intraday low of \$76, before rebounding again to above \$100 per barrel. In June 2025, following the Israeli attack, oil prices had already jumped by 20% to \$79 per barrel.

- *Future Risks:*

According to the IMF, a sustained 30% increase in oil prices would reduce global growth by 0.5 percentage points and raise inflation by 1.2 percentage points. These figures should be viewed in the context of the IMF’s pre-conflict expectations: 3.3% growth and 3.8% inflation. The most affected regions would be Japan, Asia, and Europe.

The risk, therefore, is a scenario of stagflation—slowing growth combined with rising inflation—leading to a loss of purchasing power for consumers, higher production costs, margin compression for many companies, and a slowdown in demand. There is also the risk of a negative spiral if wage increases are triggered. This would place central banks in a difficult position, torn between cutting and raising interest rates.

To better understand the implications, let us focus on four key areas: the state of the oil market prior to the conflict, Trump's interest in Iran, the strategic importance of control over the Strait of Hormuz, and the issue of liquefied natural gas (LNG).

In January, the market was in a situation of surplus capacity:

Production levels in the Gulf countries stood at 10.3 Mb/d in Saudi Arabia, 4.3 Mb/d in Iraq, 3.6 Mb/d in the UAE, 3.45 Mb/d in Iran, and 2.57 Mb/d in Kuwait. Saudi Arabia was estimated to still hold 2 to 3 Mb/d of spare capacity. At the time, Brent crude prices were around \$60 per barrel, and Trump—seeking to appease an electorate concerned with inflation and purchasing power—was pushing for prices to fall to \$50 per barrel.

Iran: A Strategic Issue for Trump

Iran holds around 9–10% of global oil reserves and 15% of global gas reserves. Before the conflict, its exports stood at approximately 2 million barrels per day, representing only about 2% of global demand, and generated roughly \$47 billion in revenue in 2024.

After Venezuela—whose exports were 90% directed to China—Trump sought to exert control over Iranian oil, as China accounts for over 80–90% of Iran's oil exports. In both cases, China was able to secure oil at preferential prices, either by circumventing U.S. sanctions or leveraging its position as a creditor.

Venezuela represented about 3–4% of China's total oil imports, while Iran accounted for roughly 13–14%. Preventing China from accessing discounted oil would, for Trump, eliminate a key competitive advantage for China's industrial sector. It would also counter China's leverage through rare earths, over which it holds a near-monopoly—effectively pitting the “oil weapon” against the “rare earths weapon.”

In this context, the United States has sought to target Kharg Island, located about 25 km off the Iranian coast, which serves as Iran's main oil export terminal and handles the vast majority of its shipments.

Many countries are forced to reduce their production due to the situation in the Strait of Hormuz:

- *The Strategic Role of the Strait:*

The Strait of Hormuz typically allows the passage of around 100 vessels carrying approximately 15 Mb/d of crude oil and 5 Mb/d of refined products, representing about 20% of global oil consumption. It also accounts for one-third of global fertilizer shipments, one-quarter of global LNG trade, and around 10% of global maritime trade.

In 2023, Saudi Arabia exported 6.2 Mb/d through the strait, including 5 Mb/d to China. Iraq exported 3.2 Mb/d, with about half going to South Korea and the remainder to other Asian countries. The UAE exported 2 Mb/d, almost exclusively to India; Kuwait 1.5 Mb/d to Asia; Iran 1.3 Mb/d; and Qatar 0.6 Mb/d, mainly to Europe.

At its narrowest point, the strait is about 50 km wide, but the navigable shipping lanes are effectively only a few kilometers wide due to shallow waters.

While the United States may seek to protect its vessels, they remain exposed to risks such as underwater mines and drone attacks.

- *The Near-Closure of the Strait:*

Major shipping companies such as MSC, Maersk, and Hapag-Lloyd have suspended vessel transit. The near-closure of the Strait of Hormuz and the halt of more than 1,000 tankers are forcing countries fully dependent on the strait—Kuwait, Iraq, Qatar, and Bahrain—to reduce production once storage capacities are saturated. Iraq, for instance, has been compelled to cut output by 70% to around 1.3 million barrels per day and has shut down its terminals. Qatar has halted its liquefied natural gas production, representing roughly 20% of global capacity.

At present, the contraction in Middle Eastern supply is estimated at between 7 and 10 Mb/d. The range reflects uncertainty surrounding shipments by the “dark fleet” heading to China, which Iran continues to allow through. Iran exports around 90% of its hydrocarbons and petrochemical products via Hormuz and therefore has little incentive for a complete closure.

Such a reduction has never been observed, not even during the first oil shock. This stands in stark contrast to the IEA’s early-year scenario, which projected a global capacity increase of 2.4 Mb/d.

- ***Some Alternatives to the Strait of Hormuz:***

Saudi Arabia is the only country with significant spare capacity, but it cannot fully utilize it. It can divert up to 50% of its production via a 1,200 km pipeline to the Red Sea port of Yanbu—potentially up to 7 Mb/d, compared to around 2 Mb/d at the start of the year—but this remains insufficient. The pipeline has rarely operated at full capacity, and the country is still forced to reduce production.

The UAE’s dependence on the Strait of Hormuz is more limited, at around 60%, as it can route part of its production through a 400 km pipeline to the port of Fujairah in the Gulf of Oman. However, loading operations at the port are currently uncertain.

As a result, these two countries are not necessarily the biggest losers, as they benefit from higher oil prices.

Iran, for its part, has the Jask terminal in the Gulf of Oman, with a capacity of around 1 Mb/d—about one-third of its current production capacity.

For refined products, some refineries have been affected by strikes, but the Ras Tanura refinery in Saudi Arabia has since reopened.

While alternatives to Hormuz exist for oil, the same cannot be said for gas, due to the lack of pipeline infrastructure.

- ***Crisis Mitigation Through Storage Capacity:***

To counter rising prices, the 32 Member countries of the International Energy Agency (IEA) have decided to release 400 million barrels from strategic reserves into the market. The United States will contribute 170 million barrels, Japan 80 million barrels, and Europe is expected to follow with similar measures.

Following this release, the IEA would still retain around 800 million barrels in reserves, while the industry holds an additional 600 million barrels in mandatory stockpiles.

The Specific Issue of Liquefied Natural Gas (LNG):

Liquefied natural gas (LNG) accounts for only 8% of global gas production, but it is critically important.

Qatar has halted its production after its facilities were struck, and it estimates that it may take weeks to restore normal deliveries, even assuming a rapid end to the conflict. Prices, after doubling, are now around €57/MWh, compared to a peak of €340/MWh in 2022.

The shock could be even more severe than in 2022 with Russia. At that time, the disruption involved 80 billion cubic meters (bcm) of Russian gas; now, it could reach 120 bcm from the Middle East—primarily from Qatar, which accounts for around 20% of global LNG supply (second-largest globally). Most of this supply is transported by ship, as pipeline infrastructure is limited. Qatar remains dependent on the Strait of Hormuz, with no viable alternative route.

The main importers of Qatari LNG are China and India, followed by Taiwan, Pakistan, and South Korea. Pakistan sources virtually all its LNG from Qatar and the UAE, while India relies on them for about half of its needs.

New U.S. LNG capacity is expected to come online in the coming months, but competition between European and Asian demand is likely to intensify—potentially putting European industry at a disadvantage once again.

Conclusion: *“The reason of the strongest is always the best.” — La Fontaine, The Wolf and the Lamb*

Such is Donald Trump’s credo, but it meets with Iranian national resistance:

- *From a political perspective, the worst-case scenario:*

At this stage, there are many losers in this conflict—American consumers and the Gulf Arab countries among them—while Russia emerges as a beneficiary, following the easing of sanctions decided by Trump.

The worst-case scenario would be a cessation of hostilities initiated by Trump, under pressure from Vance, parts of the MAGA movement, and public opinion, which is largely opposed to the conflict. An agreement allowing the son of Khamenei to remain in power—representing a hardline stance supported by 200,000 Revolutionary Guards and 600,000 Basij members—would amount to a victory for China, Putin, and the Global South, and a defeat for Israel and the Western bloc.

Trump could claim victory, asserting that he has neutralized Iran’s air force, navy, and much of its missile arsenal. However, for the Iranian people, it would mean a heavy cost in terms of repression, and for the United States, it would reflect an inability to erase the humiliation of the 1979 hostage crisis involving its diplomats.

- *From a geopolitical perspective:*

The costly conventional warfare conducted by the United States is struggling against the low-cost drone warfare deployed by Iran. If the conflict drags on, the United States risks expending significant financial resources and munitions, while China—cautiously staying on the sidelines despite its proximity to Iran—could stand to benefit.

This dynamic echoes history: much as England benefited from the financial exhaustion of Louis XIV’s France during its European wars, or how the United States gained from the prolonged confrontation among European powers during the two World Wars.

- *From an economic perspective:*

One key lesson for oil-dependent countries—particularly in Asia and Europe—is the need to accelerate the energy transition toward nuclear power and renewable energy.

Admittedly, \$120 per barrel today is less burdensome than \$120 in 2008, given higher wage levels and lower energy intensity. However, oil still accounts for around 90% of energy consumption in transportation, and in many countries, fuel consumption has doubled since 1973 due to the expansion of vehicle fleets.

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