



Luiz Felix, PhD
Global Head of Asset Allocation at Santander Asset Management

Middle East conflict: Oil & LNG at the center of risk

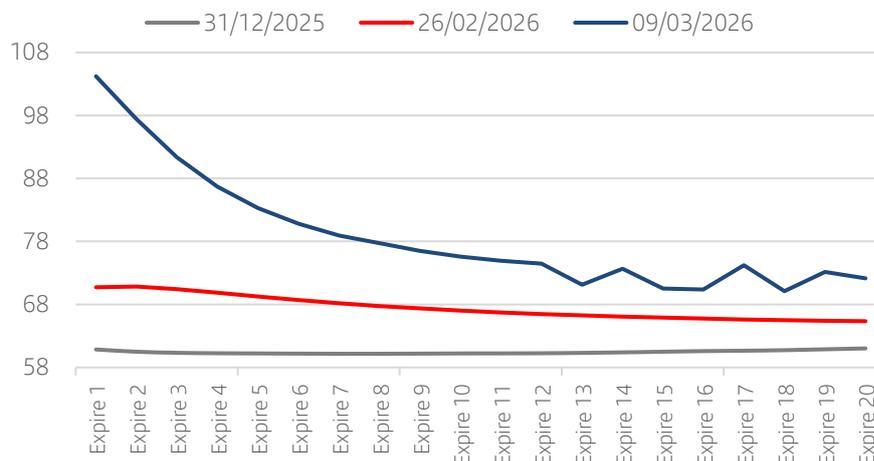
A sharp Middle East escalation in early March 2026 has materially tightened energy flows through the Strait of Hormuz, pushing Brent above \$100/bbl and triggering discussions of an unprecedented coordinated G7/IEA release. Unlike 2022, global commercial oil stocks have rebuilt into 2026. While crude markets benefit from larger stock buffers and limited bypass routes, LNG markets remain structurally tighter, making gas the more immediate vulnerability for several Asian and European importers.

Introduction: Conflict, price dynamics & policy response

In early March 2026 a rapid escalation in the Middle East led to effective disruptions of commercial traffic through the Strait of Hormuz. Markets reacted violently: Brent spiked above \$100/bbl, briefly peaking (so far) near \$118–\$119 intraday on March 9 (see Oil Futures Curve below) before sliding after news of a potential emergency G7/IEA stock release. The episode combined real physical impediments (tankers unable to transit, port disruptions) with large risk premia and ship insurance withdrawals that exacerbated short-term backwardation on the curve.

On the policy and coordination front, the IEA and G7 have convened emergency discussions, including the possibility of a coordinated release in the 300–400 million barrel range to restore market liquidity, although no agreement has been reached at this stage. U.S. Energy Secretary Chris Wright publicly signaled that traffic through Hormuz could resume 'not too long away', underscoring the mix of operational and diplomatic levers in play. The U.S. also temporarily allowed a 30-day waiver for India to purchase Russian oil — a pragmatic step to allow flows to continue despite sanctions and to relieve some regional pressure.

Oil Futures Curve (Brent, USD)



Source: Bloomberg and SAM calculations.

Conflict scenarios & oil price paths

We frame the current environment around three scenarios, with probabilities having shifted materially since the weekend. The likelihood of Scenario 2 (persistent volatility) has risen considerably and now represents our central case, while the probability of the stress scenario has increased and now matches the one of Scenario 1 (gradual normalization).

Scenario 2: "More persistent volatility"

This scenario would materialise if tensions were to extend over several weeks, maintaining pressure on energy prices and creating a more sensitive market backdrop.

In this case:

- Growth could moderate slightly, while remaining clearly positive.
- Markets could experience more pronounced fluctuations.
- Central banks may adopt a more cautious stance in their policy decisions.

Key takeaway: this scenario does not imply a change in the economic cycle, but rather a phase of heightened uncertainty and temporary adjustments

Scenario 1: "Gradual normalization"

Following the initial spike in tensions and the temporary disruption to maritime transit in the area, conditions would be expected to stabilise in the coming weeks.

Key takeaway: there would be no structural shift in the economic cycle

Scenario 3: "Significant escalation"

Tensions to escalate further and persist beyond several weeks, with confirmed physical damage to infrastructure and sustained disruption of flows, significantly tightening global financial conditions.

Key takeaway: global growth could be affected more meaningfully, potentially favouring a more defensive investment stance.

Scenario 1 – Gradual normalization (Brent 70–90 USD): Under this configuration, tensions remain elevated but do not evolve into prolonged physical disruption. Maritime flows may face frictions, higher insurance costs and temporary rerouting, yet systemic transit impairment is avoided. Brent fluctuates within a 70–90 USD range, volatility remains elevated and the front end of the curve stays tight. As risk perception stabilizes and flows progressively normalize, prices would be expected to retrace toward levels more aligned with underlying fundamentals plus a lighter geopolitical premium. This does not imply a regime shift, but rather a temporary risk premium layered onto an otherwise expanding global economy.

Scenario 2 – More persistent volatility (Brent 90–120 USD sustained for several weeks): In this scenario, maritime stress, intermittent export impairment and operational disruptions extend beyond a short window. Shipping capacity remains constrained, insurance coverage stays limited and effective supply availability tightens. Brent holds within a 90–120 USD range for several weeks. Financial conditions tighten moderately through energy price transmission, growth momentum softens and inflation asymmetries widen, yet the global expansion does not automatically break. If tensions subsequently de-escalate and transit flows normalize, prices would be expected to move gradually back toward fundamental-consistent levels, with the geopolitical premium progressively absorbed. Sustained persistence would raise the probability of a cyclical soft patch within our macro framework, though not yet signal a structural regime change.

Scenario 3 – Significant escalation / Structural energy shock (Brent sustained above 120 USD): A durable move above 120 USD would likely require prolonged impairment of key transit routes or meaningful physical damage to export infrastructure. Supply constraints would shift from perceived to realized, risk premia would widen materially across asset classes and financial conditions would tighten significantly. The macro regime would face elevated stagflation risk and a reassessment of expansion probabilities would become necessary. While not our base case, this remains the key threshold for regime reassessment.

Inventories, chokepoints & country vulnerabilities (oil and LNG)

Despite the above scenarios, it is important to acknowledge that the current inventory backdrop differs meaningfully from the conditions prevailing at the onset of the Russia–Ukraine conflict in 2022. At that time, commercial and OECD stocks were already drawing down as post-pandemic demand recovered, and the shock triggered a further tightening of balances. The U.S. Strategic Petroleum Reserve (SPR) was deployed aggressively, with a historic 180 million barrel release that ultimately pushed inventories to multi-decade lows by late 2022. In contrast, entering 2025 and early 2026, commercial inventories had rebuilt across several regions, with the IEA reporting sizeable stock increases and some hubs reaching multi-year highs. The U.S. SPR stands at roughly 415 million barrels (around 58% of its 714 million barrel authorized capacity), modestly replenished from its trough near 347 million barrels. While this provides material emergency coverage—estimated at roughly 125 days of import protection under certain metrics—a large coordinated release (e.g., 300–400 million barrels globally) would meaningfully reduce the system's remaining insurance buffer in the event of a prolonged crisis.



Physical chokepoints remain central to risk assessment. The Strait of Hormuz typically channels approximately 15–20 million barrels per day of crude and refined products. A closure or severe impairment effectively removes this supply from global markets, regardless of whether storage tanks in Gulf producers remain full. Bypass infrastructure provides only partial mitigation. Saudi Arabia’s East–West pipeline and the UAE’s alternative routes can together move an estimated 3–5 million barrels per day under practical constraints, well short of replacing total Hormuz flows. Moreover, export capacity at loading terminals such as Yanbu (belonging to Saudi Arabia but located in the Red Sea) and other port bottlenecks limit rerouted volumes. Additional vulnerabilities arise along the Red Sea and Bab el-Mandeb corridor, where security risks have increased, while Suez Canal and SUMED (Egypt’s) pipeline capacity can assist westbound flows toward Europe but cannot fully substitute eastbound exports to Asia. That said, a wildcard in the oil supply picture—particularly for India—is the increasing activity of sanctioned and “shadow fleet” Russian seaborne volumes in global trade. Significant quantities of Russian crude are currently at sea in floating storage (100+ million barrel according to estimates), and some buyers have expanded purchases through waivers (like the one issue today by the US to India) or secondary channels. While this helps alleviate immediate spot scarcity, it introduces medium-term political and logistical risks and only minimizes vulnerabilities.

The gas market presents a structurally different and, in many cases, more acute vulnerability. LNG is far less fungible than crude oil: cargoes are regionally constrained, storage is limited, and regasification capacity becomes a binding factor during stress. Unlike oil, there is no global strategic reserve mechanism comparable to the IEA framework for coordinated crude releases. As a result, price adjustments in LNG markets tend to reflect immediate physical reallocation. For many Asian importers, LNG inventories are measured in days or weeks rather than months, increasing exposure to short-term supply disruptions or bidding wars in spot markets. South Korea, Japan (particularly on the gas side), India, Taiwan and parts of Europe remain structurally sensitive to LNG price spikes or shipping impairments.

Europe’s position in 2026 is more balanced than in 2022, though not immune. A key difference lies in the seasonal and structural context. Spring brings stronger renewable generation, particularly in Spain, and France’s nuclear fleet is operating at markedly higher availability than during the extensive outages of 2022. The improved reliability of French reactors and increased renewable output reduce marginal gas and diesel demand for electricity generation, providing a partial buffer against fossil fuel disruptions. This contrasts with 2022, when nuclear constraints amplified Europe’s dependence on imported gas and LNG. Nevertheless, Europe remains exposed to prolonged LNG price persistence and shipping disruptions, particularly if Middle Eastern flows are materially impaired.

Taken together, the system today combines higher commercial oil inventories and some diversification advantages with persistent chokepoint risks, structurally tighter LNG flexibility, and diminished strategic reserve headroom relative to pre-2022 levels. Importantly, even economies with strong domestic production capacity are not insulated from global price dynamics: although the United States is effectively energy self-sufficient and a major net exporter of LNG, domestic fuel prices—particularly gasoline—remain closely linked to international oil benchmarks, meaning U.S. consumers and financial conditions are still exposed to sustained energy price increases. The table below identifies the main countries most vulnerable to oil and LNG shocks under these conditions.

Main countries vulnerable to oil and LNG shocks

Country / region	Oil exposure (notes)	LNG exposure (notes)	Inventory cushion (Oil/LNG)	Risk tier
South Korea	Significant crude imports via Hormuz; refiners sensitive	Tight LNG buffer (weeks), rolling blackouts possible	Oil: 200 days (on paper); LNG: ~2–3 weeks	High
India	Large oil importer; U.S. 30-day waiver allowing to buy Russian seaborne oil.	Growing LNG demand; limited short-term storage	Oil: 50+ days (70+ days according to local authorities); LNG: weeks	High
Europe	Relatively low dependence from Hormuz; Diesel/Jet Fuel risk 40% reliant on Middle East	Mixed: some countries exposed but overall in better situation than 2022 (due to Nuclear & seasonality). LNG price at € 60 vs €100+ in 2022 (Russia-Ukraine War)	Oil: ~90 days (recommended by AIE rules), less for Diesel/Jet Fuel. LNG: variable per country	Medium (Mostly Diesel/Jet fuel and LNG)
Japan	Large oil stocks (250+ days) — low oil risk	High LNG dependence; storage limited to weeks	Oil: ~254 days (largest in history); LNG: 4.5 mio tonnes, ~3 weeks	Medium (LNG risk only)
China	World’s largest cushion (1 year+); large commercial stocks and floating storage. 25% sourced locally.	High LNG imports but more diversified supply and 60% sourced from local production	Oil: large commercial/reserve cushion; LNG: moderate.	Medium (LNG mainly)

Source: Bloomberg and SAM estimates.



What we are monitoring

Escalation should be evaluated through persistence and observable disruption, as complement of headlines, using four monitoring pillars: Energy Markets (Brent levels and time spent above 90–120 USD, durability of backwardation, and whether price moves reflect real supply losses or risk repricing); Shipping and Logistics (traffic flows through Hormuz, tanker rerouting or idling, and shifts in maritime insurance costs); Infrastructure (verified damage to export facilities, sustained export impairments, and storage constraints forcing output cuts); and Macro and Financial Conditions (tightening in financial conditions, widening credit spreads and cross-asset volatility, and downward EPS or growth revisions). The decisive variable is not the existence of geopolitical tension itself, but whether energy disruption becomes persistent enough to tighten financial conditions materially.

Conclusion

Recent events have revived energy risks, but our approach remains disciplined and scenario-based. Current oil prices reflect higher risk premia rather than structural supply disruption. We are tracking objective signals across energy flows, infrastructure, and financial conditions to separate volatility from regime change.

Our investment scenario continues to center on a resilient global expansion. We assign a 70% probability to continued expansion with gradually normalizing inflation and broadly supportive policy settings, alongside improving earnings breadth. We see a 15% probability of a stronger-than-expected U.S. growth configuration, where policy tolerance allows above-trend momentum and reflation dynamics to extend the cycle. A temporary cyclical soft patch carries a 10% probability, implying moderation but not recession, while a geopolitically driven recession remains a low-probability tail risk at 5%.

Against this backdrop, and despite the shift in our energy scenario toward more persistent volatility, no change to our central investment scenario is warranted at this stage. We have defined clear triggers for reassessment should disruptions intensify materially. Our allocation remains aligned with expansion, supported by diversification and active risk management, with decisions anchored in data and policy decisions.

Important Legal Notice

This report has been prepared by Santander Asset Management (hereinafter "SAM"). SAM is the functional name of the asset management business conducted by the legal entity SAM Investment Holdings S.L. and its branches, subsidiaries and representative offices.

This document contains economic forecasts and information gathered from several sources. The information contained in this document may have also been gathered from third parties. All these sources are believed to be reliable, although the accuracy, completeness or update of this information is not guaranteed, either implicitly or explicitly, and is subject to change without notice. Any opinions included in this document may not be considered as irrefutable and could differ or be, in any way, inconsistent or contrary to opinions expressed, either verbally or in writing, advices, or investment decisions taken by other areas of SAM.

This report is not intended to be and should not be construed in relation to a specific investment objective. This report is published solely for informational purposes. This report does not constitute an investment advice, an offer or solicitation to purchase or sell assets, services, financial contracts or other type of contracts, or other investment products of any type (collectively, the "Financial Assets"), and should not be relied upon as the sole basis for evaluating or assessing Financial Assets. Likewise, the distribution of this report to a client, or to a third party, should not be regarded as a provision or an offer of investment advisory services.

SAM makes no warranty in connection with any market forecasts or opinions, or with the Financial Assets mentioned in this report, including with regard to their current or future performance. The past or present performance of any markets or Financial Assets may not be an indicator of such markets or Financial Assets future performance. The Financial Assets described in this report may not be eligible for sale or distribution in certain jurisdictions or to certain categories or types of investors.

Except as otherwise expressly provided for in the legal documents of a specific Financial Assets, the Investment Products are not, and will not be, insured or guaranteed by any governmental entity, including the Federal Deposit Insurance Corporation. They are not an obligation of, or guaranteed by, Santander, and may be subject to investment risks including, but not limited to, market and currency exchange risks, credit risk, issuer and counterparty risk, liquidity risk, and possible loss of the principal invested. In connection with the Financial Advisors, investors are recommended to consult their financial, legal, tax and other advisers as such investors deem necessary to determine whether the Financial Assets are suitable based on such investors particular circumstances and financial situation. Santander, their respective directors, officers, attorneys, employees or agents assume no liability of any type for any loss or damage relating to or arising out of the use or reliance of all or any part of this report.

Past performance does not predict future returns. The returns may increase or decrease as a result of currency fluctuations relative to the respective investors' domestic currency. Any reference to taxation should be understood as depending on the personal circumstances of each investor and which may change in the future. Costs incurred for purchasing, holding or selling Financial Assets may reduce returns and are not reflected in this report.

This report may not be reproduced in whole or in part, or further distributed, published or referred to in any manner whatsoever to any person, nor may the information or opinions contained therein be referred to without, in each case, the prior written consent of SAM.

Any third-party material (including logos, and trademarks), whether literary (articles/ studies/ reports, etc. or excerpts thereof) or artistic (photos/graphs/drawings, etc.), included in this report is registered in the name of its respective owner and only reproduced in accordance with honest industry and commercial practices.