Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Is global trade ready for disruptions due to war in Iran?

The war between Iran and Israel has quickly escalated into a major geopolitical crisis that has had a significant impact on energy prices, freight costs, and international trade.

Israel's attack on Iran's nuclear facilities came after a June 2025 landmark resolution from the Board of Governors of the International Atomic Energy Agency (IAEA) formally declaring Iran in breach of its nuclear non-proliferation obligations.

The resolution determined that Iran's repeated failures since 2019 to provide the IAEA with full and timely cooperation regarding undeclared nuclear material and activities at multiple undisclosed sites constituted non-compliance with its obligations under the NPT (Non-Proliferation Treaty) Safeguards Agreement.

The Iranian regime argues that its nuclear programme is for peaceful purposes and to ensure energy supply. This argument makes little sense, since Iran could invest in solar or wind energy like other Arab countries, and its energy supply is more than guaranteed by its vast oil and gas reserves.

Iran has accumulated more than 408 kilograms of uranium enriched to a level very close to the 90% required for nuclear weapons. For peaceful purposes, only 4% enriched uranium is needed.

The excessive amount accumulated, far above the needs of the power generation sector, and the speed of enrichment indicate the risk of military objectives. This volume is the equivalent of nine nuclear bombs, with a third of the enriched uranium produced in just the last three months. This poses a real and growing threat.

Iran has escalated the conflict by attacking civil sites in Israel. Now, with both nations exchanging missile and drone strikes, creating a critical infrastructure threat, geopolitical risk is rising, and it is reflected in financial indices, oil prices, and freight costs.

OPEC's strategy

Global oil prices have reacted immediately to the conflict. Brent crude surged by more than 11% in the week following Israel's initial strikes, peaking at over $77 per barrel. Goldman Sachs attributed this bounce, after months of weakness, to a recovery of the "geopolitical risk premium," estimated at $10 per barrel.

Oil prices have barely recovered from the decline of the first five months of the year and remain significantly below the 2022 levels.

> OPEC was trying to offset any disruption to Iran's production and guarantee global supply

It is not a coincidence that OPEC+ agreed on two major production increases at the same time as the conclusions of the IAEA resolution were made public. OPEC+ seemed to be preparing itself for an important geopolitical event that could have gone from severe sanctions to a military strike.

OPEC's strategy is now clear. They were trying to offset any disruption to Iran's production and guarantee global supply, specifically to Iran's largest customer, China.

OPEC+ can inject 3.5 million barrels per day of production quickly if it needs to mitigate a shock in supply from Iran's export disruptions.

Furthermore, the United States production, currently at 13.4 million barrels per day, can rise quickly to 14.5 million barrels per day. According to the latest data from Baker Hughes, the number of oil rigs in the U.S. dropped to 438 as of June 20, 2025, but it has the potential to rapidly recover when opportunities arise to capitalise on growing demand or higher prices.

Global producers do not seem to foresee a severe disruption, as proven by their decisions in terms of adding new supply or hiring new rigs.

Regional tensions

The risk of broader regional disruption could be evident if shipping constraints materialise in the Strait of Hormuz, as it facilitates nearly 40% of global seaborne oil exports, 16.9 million barrels per day, and nearly 20% of liquefied gas exports, 116.5 bcm, according to JP Morgan.

The Strait of Hormuz, located between Iran and Oman, is the world's most critical oil transit route. Many analysts fear that Iran will force the closure of the strait. Iranian officials have openly threatened to block the strait if the U.S. becomes directly involved in the conflict.

> Shipping companies have advised vessels to avoid Iranian waters

Even without a full closure, the risk of attacks, mines, or electronic interference has already led to vessels rerouting closer to Oman. Shipping companies have advised vessels to avoid Iranian waters. However, the decline in the transit of vessels so far is modest, and we know from previous occasions that Iran's threats are not easy to enforce.

The Caldara-Iacoviello Global Geopolitical Risk Index, a widely followed measure of geopolitical uncertainty, has surged to its highest level since the Russian invasion of Ukraine in 2022, reflecting the fear of a broad regional conflict with major disruptions to global energy supply routes. However, the reaction of other OPEC members and regional leaders suggests that escalation is less likely than feared a week ago.

Risks should not be ignored

Even if we consider the mitigating factors of rising OPEC+ and US oil production if needed, as well as the evidence that shutting the Strait of Hormuz is not as simple as Iranian officials suggest, we cannot ignore the risk to global growth, trade and even some inflationary impact.

The war has generated a significant bounce in oil shipping costs. Charter rates for very large crude carriers (VLCCs) traversing the Strait of Hormuz have more than doubled, according to Clarkson Research, jumping from around $20,000 per day to nearly $48,000 within a week of the war's escalation. Furthermore, rates for tankers carrying refined products have seen a spike of almost 100%.

Risks should not be ignored but must not be exaggerated - Daniel Lacalle

So far, shipping in the strait has been unhindered by the conflict, according to data published by The National. Ships are carrying about 20 million barrels of crude and refined products daily through the Strait to various destinations, including Gulf producers and Iran and Iraq. However, insurance costs are rising, adding a war risk premium and with shorter quote validity periods.

Oil exports remain largely undisrupted for now, but risks to global economic growth should not be ignored. The global economy is already showing weak economic growth in 2025 from trade negotiations and the reversion of large public expenditure programmes from 2024.

However, the negative impact on gross domestic product is not yet evident in the private sector growth or inflationary pressures. The latest Truflation figures for the United States indicate an annual inflation rate as of the 20th of June of 2.1%, while the Atlanta Fed Nowcast for the U.S. second quarter GDP growth shows a robust 3.8% estimate.

Risks should not be ignored but must not be exaggerated. The possibility of a broad regional conflict seems distant, and oil producers have responded quickly to any disruption of supply.

We cannot expect geopolitical risk to decline rapidly, and there may be some negative implications for some developed importing economies, but we must also remember that the energy and shipping sectors have prepared themselves for similar situations for many years.