TA Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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What if the war starts again?

Trump's ultimatum to Iran via social media should be regarded not as a diplomatic statement but as a move that touches the nerve endings of markets. Because the question on everyone's mind is the same: What happens if this escalates into a hot conflict again?

The answer isn't particularly complex, but the consequences would be quite severe and complicated. This issue isn't just a tension between Iran and the United States; it constitutes a risk that sits atop one of the main arteries of the global economy and refuses to go away.

Let's start with oil. Currently, what determines oil prices is not the supply-demand balance but the risk premium. The Strait of Hormuz is a route through which at least one-fifth of the world's oil passes.

If that region is actually under threat, it makes no sense to discuss whether the price will be $80 or $90. If war breaks out again, oil prices won't just rise; they will stay elevated indefinitely.

This means not just a temporary spike but the formation of a new equilibrium. In summary, prices over $120 may become the norm.

When oil prices rise, the impact doesn't stop there; war will send shockwaves through the economy. First, energy prices rise, followed by food prices, and eventually inflation will settle in firmly. It becomes impossible to break this chain because each link feeds the next.

Analysts refer to this situation as a "secondary inflation wave." The shock experienced in 2022 could return, but this time it will come in a more permanent, stickier manner.

The new face of inflation

The critical issue here is that the impending inflation will not be demand-driven but cost-driven. This means that the classic interest rate weapons of central banks will not be as effective this time.

If interest rates rise, growth will decline, but prices may not fall. If rates drop, inflation will accelerate further. Therefore, central banks will find themselves cornered; whatever they do, one side will remain exposed.

The growth aspect may unfold more insidiously. As Morgan Stanley points out, when energy prices rise, the economy doesn't come to a halt immediately. People continue to spend.

However, after a few months, when the bills start coming in, consumption begins to decline, investments get postponed, and ultimately, growth slows down.

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This results in a delayed contraction rather than an immediate collapse. Such wars do not instantly slow down growth, but after a while, a recession becomes guaranteed.

On the commodities side, a chain reaction occurs. Let's remember, Hormuz is not only a petroleum route; it is also a passage point for LNG, fertilisers, and many industrial commodities. As international analyses highlight, the rise in fertiliser prices is not an issue for today but for tomorrow.

If fertilisers are expensive, production becomes costly, leading to a decline. If production declines, food prices will permanently increase. In other words, today's energy crisis could lay the groundwork for tomorrow's food crisis.

Not just a temporary shock

Indeed, the most dangerous part of this issue lies here. When oil prices rise, they may drop after some time. But when food prices increase, they are much harder to bring back down.

The World Bank's warning that "45 million more people could face food insecurity" is significant for this reason. This is not just an economic data point; it entails social, political, and even security risks.

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Another noteworthy point in international analyses is that such crises don't just raise prices; they also change investment directions. As many analysts emphasise, as oil prices climb, investments in clean energy accelerate.

So, in the short term, oil benefits, while in the long term, it loses. This shows us that war shapes not just the present but also the future.

In conclusion, the situation has come to this point: it's no longer a question of "How much will oil cost?" This is a matter of what balance the global economy will settle into.

If war breaks out again, oil will remain high, the return of inflation will be substantial, growth will slow, a food crisis will knock at the door, and commodity/supply chains will break down. And most importantly, this will not be temporary.

In short, such wars do not just raise prices; they change the price level. And returning from that level won't be as easy as it seems.