



Global Oil Markets Brace for Conflict with Iran

An In-Depth Analysis by Rick Westerdale, Vice President of Connector, Inc.

The prospect of military action against Iran has sent ripples of anxiety through global oil markets. With U.S. leaders posturing and current headlines hinting at confrontation, policymakers and investors are weighing how a conflict could disrupt the world's oil supply chain. Iran sits at a strategic crossroads of global energy: nearly **one-fifth of the world's oil shipments** pass through the narrow Strait of Hormuz at Iran's doorstep. Any military clash threatens to choke this vital artery and roil markets. This op-ed examines three possible conflict scenarios – from a limited strike to a full-scale war – and their implications for oil supply, prices, and economies. It also considers how the United States and its allies would be impacted and offers pragmatic strategies for hedging against these risks.

Current Tensions and Oil Market Jitters

Geopolitical tensions have already put oil traders on edge. In recent weeks, oil prices jumped over 10% amid U.S. raids in Venezuela and **threats of military action against Iran**, two major crude producers. Brent crude pushed above \$65 per barrel, a multi-month high, as markets began pricing in the **risk of supply disruption**. Analysts warn that if prices surge toward \$80 or higher, it would likely constitute an oil shock – stoking inflation, rattling stocks and bonds, and pressuring economic growth.

Traders are essentially **placing bets on chaos**, buying up protection against a price spike in case conflict erupts. According to analysts, markets are treating a potential Iran showdown as a **“systemic event”** – a threat on par with war or sweeping sanctions. The rush to hedge reflects fears that the Strait of Hormuz could turn from a busy shipping lane into a **strategic choke point** that **chokes off global supply**. In short, **risk alone is tightening the market**, as insurers, financiers, and buyers begin to shy away from a region that suddenly looks perilous. Oil markets are now **“pricing in disruption rather than balance,”** one analyst notes, with a growing geopolitical premium feeding into fuel costs, food prices, and household energy bills. The stage is set: if tensions escalate into actual military action, the reaction could be swift and severe.

What would conflict mean for oil? Below, we explore three scenarios – and how markets and governments might respond in each case.

Scenario 1: Limited Strikes and Rapid Containment

In the first scenario, military action is limited in scope and duration. For example, the U.S. (or Israel) might launch **surgical strikes on Iranian nuclear or military targets**, aiming to cripple a specific threat without igniting a wider war. Iran, in this optimistic case, responds with *symbolic or restrained retaliation* – perhaps missile strikes on remote bases or proxy skirmishes – **carefully calibrated to avoid critical oil infrastructure**. International mediation kicks in to prevent further escalation, and after a brief flare-up, all sides step back.

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Under this best-case containment scenario, global oil flows would see only **minimal disruption**. Crucially, the **Strait of Hormuz remains open** and shipping lanes secure. Oil markets might spike on panic headlines but would likely **quickly recover to pre-crisis price levels** once it's clear that worst-case outcomes (like a blockade of Hormuz) are off the table. Indeed, we have a recent precedent: when conflict briefly erupted in June 2025 – with U.S. and Israeli strikes on Iran's nuclear sites – oil prices jumped only modestly and then **rapidly fell back** once a ceasefire was brokered. Brent crude peaked at about \$79 per barrel (up from \$69) during that 12-day war, far below the triple-digit “doomsday” levels traders once feared. Markets showed “*remarkable composure*” because physical supply was never seriously curtailed.

In this limited-conflict scenario, the **short-term shock** would be contained. Any price spike likely reflects a short-lived fear premium rather than a true supply collapse. Global inflation would see **minimal sustained impact**, allowing central banks to stay their course. For the United States and its allies, the implications would be manageable: gasoline prices might tick up for a few weeks, and financial markets could wobble on uncertainty, but a major energy crisis would be averted. **U.S. strategic oil reserves** might not even need tapping, as OPEC and other producers could **cover minor shortfalls** or simply wait out the brief disruption. Investors, initially spooked, would breathe a sigh of relief and revert to business as usual. In essence, the world would “*breathe a sigh of relief*” and resume its prior trajectory. This scenario highlights an important lesson: sometimes even long-feared events have little lasting impact if they are quickly contained. However, as tensions persist, we must consider less benign outcomes.

Scenario 2: Protracted Tension and Regional Instability

The second scenario envisions a more **drawn-out conflict short of all-out war**. Direct U.S.-Iran clashes might be limited, but hostilities smolder through proxy fights, skirmishes, and recurring incidents. Imagine a tit-for-tat cycle: Iran harasses oil tankers in the Gulf, sponsors militant attacks via proxies in places like Iraq or Yemen, and occasionally lobbs missiles toward regional facilities. The U.S. and its allies respond with strikes on military targets and tightened sanctions. Neither side commits to a full-scale invasion, but **tensions remain high for months on end**. Diplomatic efforts to resolve the standoff make little progress.

In this protracted shadow war, the impact on oil markets would be **persistent and punishing**. Even if the Strait of Hormuz isn't completely closed, the **constant threat of supply disruption** would keep prices elevated and volatile. Every rumor or minor incident could send traders scrambling. A **geopolitical risk premium** becomes baked into the price of every barrel of oil, reflecting the possibility that things could deteriorate further at any time. We might see **oscillating price spikes** – oil surging on bad news, then easing on hopes of de-escalation – but never returning to the serene lows of a stable market. Overall, consumers and businesses would face **higher energy costs for a sustained period**.

For the global economy, this scenario is an inflationary headache. **Elevated oil prices would push up transportation and manufacturing costs**, feeding through to **broader inflation** in many countries. Central bankers, already grappling with post-pandemic price pressures, could be forced into a more hawkish stance to tame energy-driven inflation. Meanwhile, supply chains would feel **strains from uncertainty** – shipping insurers hiking premiums, ships re-routing

away from risky Persian Gulf waters, and occasional delays if skirmishes occur near key ports. These added logistics costs ultimately get passed to consumers worldwide.

U.S. interests would be heavily focused on containing the instability. As a top oil producer itself, the U.S. is somewhat insulated – American shale output and Canadian imports can meet a large share of domestic needs. Yet despite its new role as a net exporter, the U.S. cannot decouple from the **global oil price**: any price surge hits American drivers at the gas pump and American companies through higher fuel bills. In this drawn-out scenario, U.S. gasoline prices could remain uncomfortably high, aggravating inflation just as the Federal Reserve tries to maintain stability. The **Strategic Petroleum Reserve (SPR)** would be a key tool: Washington might coordinate releases of oil stocks – along with International Energy Agency allies – to cap price spikes during flashpoints. Indeed, the ability of spare capacity and emergency stocks to compensate will determine how severe the price impacts get. If Saudi Arabia and other Gulf producers (many of them U.S. allies) keep pumping and have **spare capacity**, they could offset some lost Iranian barrels, although it's worth noting over 90% of the world's spare oil capacity resides in the Middle East itself. That means much of the buffer is in the very region in turmoil.

Allied countries would likewise feel the strain. **European and Asian allies** that rely heavily on Middle Eastern oil would see import bills climb. Japan, South Korea, and India, for example, import a significant portion of their crude from the Gulf; they could face energy security jitters and might turn to the U.S. or other suppliers (at premium prices) to substitute lost barrels. European nations, having recently grappled with reducing reliance on Russian energy, would be dealing with another supply worry – and higher diesel and jet fuel costs feeding into their economies. Politically, such sustained oil inflation could test consumers' patience and governments' resolve. We might see allied governments implement consumer fuel subsidies or draw down their **strategic petroleum reserves** to alleviate the pain at home. Overall, this medium-level conflict path would create “**persistent economic headwinds**” and uncertainty for businesses and consumers around the world. It's a grinding scenario of attrition – one that falls short of the nightmare of an outright Gulf war but still exacts a hefty toll in confidence and growth.

Scenario 3: Full-Scale War and Global Supply Shock

The third scenario is the **nightmare: a full-scale regional war** involving Iran. In this worst-case situation, what might begin as a limited strike spirals into a broader conflict with Iran retaliating massively and the U.S. (and possibly regional allies like Saudi Arabia or Israel) fully engaged. Iran could make good on its threats to **shut down the Strait of Hormuz completely**, using mines, missiles, and its naval assets. This narrow strait is the *nerve center* of the global oil trade – carrying roughly **20 million barrels per day** of crude and petroleum products in 2024, about **20% of worldwide consumption**. If Hormuz is blocked, **there are few alternative routes** to get Gulf oil out to market. Some pipelines exist (like Saudi Arabia's East-West pipeline to the Red Sea and the UAE's pipeline to the Gulf of Oman), but their capacity covers only a fraction of normal flows. In short, the world could lose a huge chunk of supply overnight, with no quick fix.

In a full-fledged war, Iran might also launch or inspire **attacks on critical energy infrastructure across the region** – from Saudi Arabia's giant oil processing sites to UAE export

terminals. One can imagine missile strikes or drone swarms hitting refineries, export hubs, or pipelines. Such attacks could disable facilities that normally export millions of barrels per day, compounding the supply shock. During a 2019 incident, for example, drone attacks on Saudi oil facilities temporarily knocked out 5% of global oil output; in a war scenario, the damage and downtime could be far greater and more widespread.

The immediate effect of a severe Gulf disruption would be an **oil price surge without modern precedent**. Prices could leap into triple digits *within days*, and possibly well beyond \$150 if a large share of the 20 million barrels per day through Hormuz were stranded. How high prices go would depend on the **extent and duration of the disruption**, but it's safe to say the oil market would experience a **violent price shock**. We could witness panic buying, scrambling for alternative supplies, and governments bidding against each other to secure scarce barrels. In the worst case, **fuel rationing** might even re-enter the vocabulary of advanced economies – an echo of the 1970s energy crisis, when motorists faced gas lines.

The **global economic fallout** of this scenario could be dire. Oil is the lifeblood of transportation and an input for countless goods; a sustained price spike acts like a massive tax on consumers and businesses worldwide. Analysts warn that soaring energy costs combined with physical shortages could trigger “**a significant cost-of-living crisis**” and even tip the world into a **deep recession or depression**. Inflation would skyrocket (with some even fearing **hyperinflationary pressures** in extreme cases) as the price of not just fuel, but food and other commodities, jumps across the board. Global supply chains would be **paralyzed** – not only oil tankers stuck, but also container ships disrupted if broader conflict spills over into shipping lanes. Sky-high insurance costs or physical dangers could halt many commercial shipping activities, causing severe shortages in manufacturing inputs and consumer goods. It's no exaggeration to say this scenario is “*the outcome that policymakers and markets dread most*” – a systemic energy shock that undermines economic stability worldwide.

For the **United States**, a full-scale Gulf war would pose a painful dilemma. On one hand, as a major producer, U.S. oil companies could ramp up output and eventually help fill part of the gap – enjoying high prices in the process. On the other hand, American consumers and industries would be hammered by those same high energy prices. The last time oil supply was this severely threatened (the Arab oil embargo of 1973 and the Iran-Iraq war of the 1980s), the U.S. economy suffered stagflation and had to impose rationing and speed limits to conserve fuel. Today, the U.S. has the **Strategic Petroleum Reserve** as a shock absorber – the government could release oil from its stockpiles in a crisis. However, the SPR and other International Energy Agency reserves combined hold on the order of 1.5–2 billion barrels, which can only cover a few months' loss at most, not an indefinite halt of Gulf supplies. Additionally, deploying U.S. military force to reopen Hormuz would be likely; the U.S. Navy has contingency plans to clear mines and escort tankers. **Experts assess that the U.S. military could eventually re-open the strait**, but it might take *days or weeks (or even months)* to fully secure passage – during which the global economy would be in turmoil. The **Pentagon** would effectively find itself not just fighting a war but performing an emergency service for the world economy by restoring oil flows. U.S. allies with capable navies (like the UK, France, or Japan) would likely join such efforts, as keeping sea lanes open is a collective interest.

Allied nations would each face their own emergencies. **European countries** might activate emergency sharing arrangements and could see limited gas shortages if LNG flows from Qatar (which also transit Hormuz) were cut. **Asian economies** like Japan and South Korea, heavily dependent on Middle Eastern oil, could face severe energy rationing and economic contraction unless they secure alternate supplies. China and India (not U.S. allies but major importers from the Gulf) would also be in distress and could take unconventional steps to protect their energy security (potentially breaking sanctions or tapping strategic reserves aggressively). Broadly, a full-scale conflict in Iran would test the resilience of every oil-importing nation. Even **oil-exporting nations outside the conflict**, such as those in Africa or Latin America, might struggle to boost output quickly enough to calm prices, and they would face their own logistical bottlenecks.

In terms of **long-term structural changes**, a cataclysmic oil shock could leave a lasting legacy. Governments around the world would likely double down on efforts to **diversify energy sources** and reduce reliance on Middle Eastern oil. Just as the 1970s oil crisis spurred the creation of strategic reserves and investments in efficiency, a new shock might accelerate the shift to electric vehicles, renewable energy, and alternative supply chains. Countries might rethink the wisdom of depending so heavily on one fragile chokepoint for so much of their oil. In the aftermath, we could see major oil consumers forge new partnerships – for instance, a concerted push to develop oil fields elsewhere (e.g. in Africa or the Americas), or to **expand pipeline networks** that bypass chokepoints. Paradoxically, if the conflict led to political change in Iran (for example, a new government friendly to the West), it might eventually bring **Iran’s vast oil reserves back into the global market** years down the line – a development that could increase supply and lower prices in the long run. But such outcomes are speculative and distant. The immediate reality of a full-scale war scenario is grim: the world could face an energy crisis of historic proportions.

U.S. and Allied Interests: Managing Economic Fallout

From Washington to Brussels to Tokyo, the prospect of an oil supply shock in a conflict with Iran is prompting urgent calculations. **U.S. interests** are best served by maintaining stability in global oil markets – both for economic and strategic reasons. Even though the United States is the world’s largest petroleum producer, it still experiences the same price swings at the pump as any other nation when global oil benchmarks spike. A price shock would hit American consumers’ wallets and could undermine U.S. economic growth, not to mention wreak havoc on financial markets. Moreover, U.S. foreign policy has long been tied to protecting global energy flows (hence the U.S. Navy’s presence in the Gulf). A disruption that sends allies’ economies into recession or causes chaos in developing countries would harm U.S. national interests by destabilizing key regions and possibly encouraging adversaries to take advantage of the turmoil.

Allied countries share the goal of **energy security**, but their exposure varies. **European allies** have some domestic production and North Sea reserves, but many (especially in Southern and Eastern Europe) rely on Middle Eastern imports for oil. They also recall the 2022–2023 gas crisis and are wary of another major energy supply crunch. **Asian allies** like Japan and South Korea are even more dependent on Middle Eastern oil, importing the bulk of their supply from the Gulf. These countries, along with others such as Australia and New Zealand, are part of the International Energy Agency (IEA) framework that coordinates strategic petroleum reserves. In a

severe disruption, the **IEA members would likely execute a coordinated release** of oil stockpiles – flooding the market with millions of barrels from emergency reserves to alleviate shortages. For example, during the 1991 Gulf War and again in 2011 (when Libya’s civil war cut off supply), the IEA coordinated stock releases to calm oil prices. We would expect similar action if Iran’s conflict threatened to shut in significant oil volumes. However, as noted, these reserves are finite.

Allies would also look to the **United States for leadership and support**. The U.S. could assist allies by increasing exports of crude oil and refined fuels (to the extent possible) to friendly nations in need. Diplomatically, Washington might negotiate with other oil producers (like those in OPEC not involved in the conflict, or even Venezuela, which has been the focus of recent headlines) to surge production or release more supply. For instance, if Iranian and possibly Saudi/UAE supplies were offline, the U.S. might urgently seek to accelerate licenses for U.S. companies in places like Venezuela, Guyana or Brazil to increase output. In the most extreme scenario, rationing and demand curbs could become a coordinated policy tool – as unpalatable as that is, allied governments might impose temporary measures to dampen consumption (e.g. odd-even license plate driving restrictions, lowering highway speed limits to conserve fuel, etc.) to ride out the worst of a shortage.

On the military side, **keeping allied sea lanes open** would be paramount. NATO allies and partners might form a naval coalition to escort tankers and clear mines, echoing the “Tanker War” operations of the 1980s when the U.S. and European navies protected shipping from Iranian attacks. Such cooperation would not only be militarily important but would also send a signal to oil markets that the major economies are determined to prevent a protracted supply halt. This could help cap the risk premium somewhat, knowing that a concerted effort is underway to restore stability.

In summary, the U.S. and its allies would deploy **all tools at their disposal – strategic stocks, diplomatic leverage, military protection, and economic management – to mitigate the blow** of an Iran conflict on oil supply. The unity and speed of their response could make the difference between a short-lived price spike and a prolonged oil shock.

From Shock to Structural Shift: Short-Term vs. Long-Term Effects

It’s crucial to distinguish between the **short-term shock** of an oil disruption and the **long-term structural changes** it may bring about. In the short run, oil prices are chiefly a function of **immediate supply and demand**. If conflict removes a large chunk of supply overnight, prices will spike – there’s simply no avoiding that. We’ve seen that even the *fear* of disruption now adds a premium to prices; an actual disruption would have a much larger effect. In Scenarios 1 and 2 (limited or proxy conflicts), the short-term shocks might be measured in weeks or months of higher prices. In Scenario 3 (full war), the shock could be more acute and last longer, until alternative supply routes or a conflict resolution is in sight. During these shocks, **inflation jumps**, consumer confidence tumbles, and governments may face public outcry or even unrest over fuel and food costs. Companies reliant on fuel – airlines, shipping, trucking, petrochemicals – see their **margins squeezed immediately**. Financial markets could swing wildly as investors flee risk assets (stocks) and pile into safe havens (like gold or U.S. Treasury bonds). As one

analyst noted, “*once oil reprices for conflict, the impact flows straight into inflation expectations, currency movements, and equity valuations.*” In other words, a spike in oil acts as a shockwave across the entire economic landscape almost instantaneously.

Long-term, however, crises often **reconfigure the oil market and spur structural adjustments**. A short, contained conflict (Scenario 1) might leave little lasting imprint – markets would chalk it up as a temporary scare. But a prolonged period of tension or a major war would likely accelerate trends already underway. One such trend is the diversification of energy sources. Countries will remember the pain of any oil shock and redouble efforts to invest in **renewable energy, electric vehicles (EVs), and energy efficiency** to reduce their vulnerability to oil supply risks. For instance, an extended oil price spike could make EV adoption far more attractive economically, hastening the peak of oil demand. Governments might also implement or strengthen policies promoting alternative fuels or public transit to cut oil consumption.

On the supply side, **global producers outside the conflict may expand production capacity** in response to higher prices – but these investments take time. The incentive for North American shale producers, Brazil, Guyana, or even Venezuela to ramp up output would increase if prices remain very high. Over a few years, that new output could fill some of the gap and eventually push prices back down. In fact, the current calm in oil markets prior to these tensions has been attributed to an “age of plenty,” with ample supplies and many producers (from the U.S. shale patch to OPEC+ members) having increased output. A severe conflict might temporarily shatter that calm, but it would also likely induce **massive investment in oil projects elsewhere** due to the lucrative price environment, sowing the seeds for future supply gluts.

What to Watch If Tensions Escalate

If military risk involving Iran increases, these indicators will matter more than headlines:

1. **Strait of Hormuz Flow Data**
 - a. Confirmed tanker movements and AIS data reveal reality faster than statements.
2. **Tanker Freight Rates (VLCC, Suezmax)**
 - a. Freight spikes often precede price spikes.
3. **War-Risk Insurance Premiums**
 - a. Insurance withdrawal is an early warning of systemic stress.
4. **Crack Spreads (Gasoline, Diesel, Jet)**
 - a. Refined products tighten before crude runs out.
5. **OPEC Spare Capacity Signals**
 - a. Watch actions, not announcements.
6. **Strategic Petroleum Reserve Messaging**
 - a. Credibility and coordination matter more than volume alone.

Another structural shift could be in **global alliances and trade flows**. If Middle Eastern oil becomes viewed as unreliable, importers might seek long-term contracts with alternative suppliers, reshaping trade routes. We could see more oil moving from the Americas and Africa to Asia, for example, if Gulf volumes are constrained or politically risky. Countries may also pursue **energy stockpiling** more aggressively – expanding strategic reserves or requiring industry to hold larger inventories as a buffer. Just as importantly, an oil crisis can alter public sentiment: citizens and businesses, scarred by price volatility, might permanently change behavior (e.g. favoring fuel-efficient vehicles, insulating buildings to cut heating oil use, etc.). The 1970s shocks left a legacy of energy-conscious policies; a 2020s Iran conflict could do the same for a new generation.

In summary, the short-term impacts of a military clash with Iran would be painful and immediate – higher prices, inflation, potential shortages – but mostly transient if supply can be restored. The long-term changes, however, could be profound: the global oil system might gradually evolve to be **less centered on the Persian Gulf** as producers and consumers adjust strategies. The crisis would serve as a stark reminder of oil’s geopolitical vulnerabilities, likely speeding up the shift toward a more secure and sustainable energy mix in the decades to come.

Conclusion: Risk Is Already Being Priced

The **implications of military action against Iran on global oil markets range from manageable to severe**. A brief contained confrontation might cause only a short-lived price blip, whereas a protracted or expansive war could unleash an oil shock with far-reaching economic fallout. The United States and allied nations would experience both immediate pain (in higher prices and inflation) and be forced into significant long-term adjustments in energy strategy. The global oil supply chain, already under strain from geopolitical tensions, would be tested as never before in a full-scale conflict scenario.

Markets are already signaling unease. The question is not whether prices would rise in a conflict involving Iran. They would. The real question is how long the premium lasts - and how well-prepared governments, companies, and households are to absorb it.

The key lesson is that **preparation and prudence are essential**. Policymakers, business leaders, investors, and the public must understand the stakes and have contingency plans. By hedging against disruptions – whether through strategic oil reserves, supply diversification, financial instruments, or accelerated moves toward alternative energy – we can mitigate the worst outcomes. No one can predict exactly how an Iran conflict will play out, but by examining scenarios and learning from history, we can at least ensure that we are not caught off guard. As the old saying in energy markets goes, *hope for the best, but prepare for the worst*. That adage has never been more apt than in facing the potential of a conflict in one of the world’s most critical oil-producing regions.

Ultimately, the goal for the U.S. and its allies should be to **prevent the direst scenarios through robust diplomacy and deterrence**, even as they harden their economies against possible shocks. The coming months will test the world’s ability to stay balanced on this knife’s edge of risk. Global oil markets are indeed bracing for impact – but with sober planning and cooperation, we can weather whatever storm lies ahead.

Energy security remains national security. And in a world still powered by oil, deterrence at sea matters as much as diplomacy on land.

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Sources: Recent analyses and expert commentary on oil market risks and geopolitical scenarios have informed this op-ed. Key references include reporting on oil price movements amid U.S.–Iran tensions, insights on the Strait of Hormuz’s strategic role, scenario projections for conflict outcomes, and historical lessons from the 2025 flare-up that saw only limited oil impacts. These sources underscore the range of possible impacts – and the importance of preparation – discussed above.

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