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MONDAY MORNING QUARTERBACK

ENERGY MARKETS WEEKLY BRIEFING NOTE

"From the Nepal Mountain Tops to the Panama Swamps the Water Crisis is Disrupting Global Trade & Driving Inflation"

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ENERGY MARKETS WEEKLY BRIEFING NOTE – Aug. 31st

From the Nepal Mountain Tops to the Panama Swamps the Global Water Crisis is Disrupting Trade and Driving Inflation

By Sean Evers, Managing Partner, Gulf Intelligence

The catastrophic flash floods along the Nepal–Tibet border have exposed the deadliest dimension of a rapidly intensifying global water crisis. A collapsing mass of Himalayan ice and rock unleashed a high-speed debris flow that devastated communities, transport links and hydropower infrastructure. Climate change acts as a major background multiplier: rising temperatures melt permafrost, weaken glaciers and destabilise high-mountain slopes, priming the Himalayas for catastrophic failure—even if the precise trigger for an individual event requires further scientific assessment.

The same destabilised water cycle is producing a dual infrastructure crisis elsewhere. Water is both a transport highway and an essential input for hydropower and thermal-plant cooling. When levels fall—as in the Panama Canal and across Europe's Rhine and Danube—vessels carry less, freight rates rise, factories lose inputs and power systems lose output.

These water-driven disruptions are hitting global trade when it is already under severe geopolitical pressure. Conflict around the Strait of Hormuz and Bab el-Mandeb has disrupted energy and commercial shipping, increased insurance and fuel costs, and forced vessels onto longer routes. Drought in Panama and Europe is therefore an additional shock to a trading system already absorbing congestion, diversions and rising costs.

The consequences ultimately reach businesses and consumers. Canal surcharges, longer voyages, reduced barge capacity, replacement land transport and higher energy costs increase the delivered price of raw materials, manufactured goods and essential services. From destructive floods in Nepal to severe drought across Panama and Europe, extremes at both ends of the water cycle are disrupting trade, weakening growth and creating a new source of global inflation.

Panama Canal Exposes the Vulnerability of Global Trade

The Panama Canal will reduce daily vessel transits from 36 to 34 in early September and then to 32 from September 15. Between May and August, rainfall across the canal watershed was 34% below its historical average, while reservoir inflows were 44% lower.

Panama, unlike the sea-level Suez Canal, depends on freshwater to operate its locks. Every ship crossing the isthmus requires

water from the same reservoirs that supply drinking water to much of Panama's population.

Lower reservoir levels restrict both the number of vessels that can cross and the maximum permitted draft of larger ships. Vessels must carry less cargo, offload containers or divide shipments between additional ships.

Unreserved vessels were already waiting approximately eight to ten days in August. Competition for priority passage drove average Neopanamax auction premiums to around $2.5 million, with one vessel reportedly paying approximately $4 million.

These costs are feeding into container markets. Asia–US East Coast freight rates reached $9,568 per 40-foot container, up 19% in three weeks. Panama-related carrier charges range from approximately $100–$150 per twenty-foot equivalent unit to as much as $500—potentially adding $1,000 to a standard 40-foot container.

Geopolitical disruption is intensifying the squeeze. Reduced access through the Strait of Hormuz has encouraged Asian buyers to seek more US crude, LNG and LPG, while insecurity around Bab el-Mandeb has pushed vessels away from the Red Sea and Suez Canal.

US energy cargoes destined for Asia must consequently compete with container ships, grain carriers and vehicle carriers for constrained Panama capacity. Ships unable or unwilling to pay the premium face longer journeys around Africa.

A gas carrier travelling from Houston to Japan takes roughly 26 days through Panama but approximately 45 days via the Cape of Good Hope. The diversion occupies vessels for longer, consumes additional fuel and tightens effective fleet capacity. Water scarcity and geopolitical conflict are reinforcing one another, removing flexibility when global shipping needs it most.

Europe Faces a Transport and Power Shock

Europe's drought reveals the other side of the crisis. The Rhine is Germany's industrial conveyor belt, connecting inland factories, refineries and power facilities with North Sea ports.

Exceptionally low water around the Kaub bottleneck has forced barges to operate part-loaded, suspend passages or transfer freight to road and rail. In the most constrained sections, vessels have carried around 20% of normal loads.

The industrial consequences are already visible. Thyssenkrupp suspended its own barge operations and reduced blast-furnace production at Duisburg because iron ore and coal deliveries were constrained. Covestro declared force majeure on selected products.

Chemical, steel, refining, agricultural and manufacturing companies face delayed inputs and higher distribution costs.

Rail and road provide only a partial solution. Europe does not have unlimited spare land-transport capacity waiting to replace its rivers. A sudden modal shift creates congestion, raises emissions and pushes costs through ports, terminals and continental supply chains.

Drought is simultaneously constraining electricity generation. Romania shut both

reactors at its Cernavodă nuclear plant as Danube cooling conditions deteriorated. Hungary sharply curtailed output at Paks, while Bulgaria reduced one Kozloduy unit by 120 megawatts—the plant's first drought-related reduction in 52 years.

In Poland, low Vistula water restricted cooling at coal-fired plants, removing approximately 1.3 gigawatts from the system. France has curtailed nuclear generation because heated cooling water cannot be discharged into already-warm rivers without damaging aquatic ecosystems.

Hydropower faces the most direct impact: less flowing water means less electricity. Lost hydro and nuclear output must be replaced with gas, coal or imports, often when heatwaves are increasing demand for air conditioning.

Water Risk Is Now a Board-Level Issue

The economic transmission mechanism is clear. Reduced vessel utilisation raises freight costs. Disrupted deliveries constrain industrial production. Lower electricity output requires expensive replacement generation. Geopolitical diversions add voyage time, fuel consumption and insurance costs. These pressures flow into producer prices, corporate margins and consumer inflation.

The Bundesbank warns that restricted river transport and higher logistics costs will impair German industrial production, exports and economic activity. In the United States, canal-related costs threaten the price and availability of Asian clothing, electronics, furniture, pharmaceuticals and other imports.

Higher transport costs also affect services. Logistics providers, retailers, utilities and manufacturers pay more for fuel, electricity, warehousing, insurance and inventory financing. Those costs appear in delivery charges, household energy bills, construction contracts and food prices.

Not every freight increase will immediately reach consumers. Large companies may absorb part of the shock. But the longer restrictions persist—and the more water, energy and geopolitical disruptions occur simultaneously—the greater the likelihood of broader inflationary pass-through.

Businesses must treat water availability as a strategic variable rather than an environmental footnote. Supply-chain mapping should include river-fed suppliers, canal exposure, cooling-water-dependent power markets and vulnerable maritime chokepoints. Companies need alternative routes, selective inventory buffers and contracts that allocate low-water, war-risk and diversion costs.

The strategic threat is not one Himalayan flood, one dry river, one constrained canal or one geopolitical chokepoint. It is correlated failure across transport, energy and industrial systems.

Climate volatility is transforming water from an assumed resource into a measurable economic risk. Companies and governments that redesign infrastructure, logistics and energy systems accordingly will be better prepared for a world in which neither reliable water nor unrestricted trade routes can be taken for granted. ■

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