

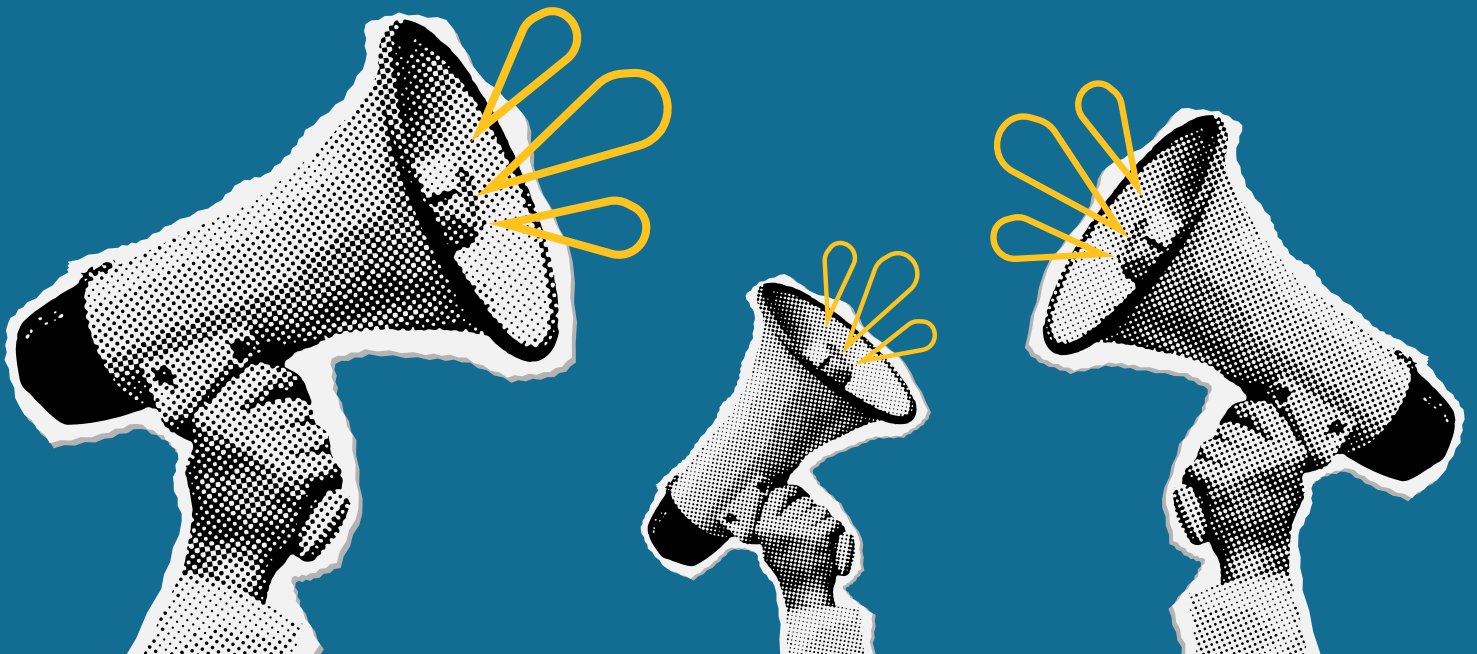


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# WEEKEND READING ENERGY MARKETS BRIEFING NOTE

*“When the Physical  
Oil Market Screams Louder  
Than the Futures Price!”*



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# When the Physical Oil Market Screams Louder Than the Futures Price!

By Sean Evers, Managing Partner, Gulf Intelligence

The easiest mistake to make in a geopolitical crisis is to watch the headline oil price and assume it tells the full story. Today Brent crude trades around \$100 per barrel, a number that suggests a serious but manageable energy shock.

Yet inside the physical oil market, the world of tankers, cargoes and refinery deliveries, prices are sending a far more alarming signal. Traders seeking immediate cargoes have reportedly paid \$130 to \$150 per barrel for prompt barrels, while Dubai crude has surged nearly 70 percent since the war began to around \$139.90 per barrel. When physical oil trades dramatically above the futures market it signals that the real supply system is under strain and that shortages are emerging faster than financial markets are acknowledging.

The widening gap between financial benchmarks and physical cargo prices may be the clearest indication yet that the U.S. Iran war is entering a more dangerous phase for the global economy. Energy markets are increasingly signaling that the conflict is no longer only a geopolitical event but is becoming a structural shock to the global energy system.

### The Strait of Hormuz and the New Energy Battlefield

At the center of the crisis lies the Strait of Hormuz, the narrow maritime corridor through which roughly 20 million barrels per day of oil, about 20 percent of global consumption, flows. Disruptions in the strait have triggered what analysts describe as an unprecedented closure of the Strait of Hormuz, a development that has immediately tightened global supply expectations.

Before the conflict erupted Brent crude closed near \$72 per barrel. Within days prices surged toward \$120 before stabilizing near \$100 as traders tried to determine whether the disruption would prove temporary or prolonged.

Energy markets revolve around chokepoints and Hormuz is the most important of them all. Whoever controls the flow of oil through this narrow passage holds enormous influence over the global economy and over the price of energy worldwide.

The immediate economic consequences of the crisis will not fall evenly around the world. The region most exposed

is Asia, where large industrial economies depend heavily on Gulf oil flows.

Tankers leaving the Gulf typically take three to four weeks to reach Asian refineries, meaning supply disruptions quickly cascade into shortages across the region. China, India, Japan and South Korea rely heavily on Middle Eastern crude and have limited ability to replace those supplies quickly.

When those flows are interrupted buyers must scramble for alternatives from the United States, West Africa or Latin America. Shipping distances expand dramatically, freight costs rise sharply and supply chains begin to tighten across the region.

A war fought in the Gulf therefore becomes an energy security crisis for Asia. At the same time markets are increasingly realizing that this conflict will not end quickly and that the disruption could persist longer than initially expected.

Early optimism that the confrontation might resemble previous brief flare ups in the region is fading fast. Governments have already announced the release of 400 million barrels from strategic petroleum reserves, a step that signals policymakers expect the disruption to last for some time.

Meanwhile analysts warn that the conflict could place as much as 10 million barrels per day of Gulf production at risk of being shut in if shipping disruptions persist. That figure alone represents close to 10 percent of global oil supply, which explains why traders are watching developments in the Gulf with growing concern.

Markets are beginning to absorb the magnitude of what is unfolding. The longer the disruption lasts the greater the strain on the global energy system.

### When Headlines Move Oil Prices

Oil markets have entered a period where geopolitics dominates pricing behavior. Under normal circumstances crude prices move primarily in response to supply and demand fundamentals such as refinery demand, inventory levels and production growth.

Wartime markets behave very differently. Traders now describe the environment as one where prices move 50

percent on fundamentals and 50 percent on headlines and tweets, reflecting how political messaging can instantly shift market sentiment.

The result has been extreme swings in pricing. Brent crude has surged from \$72 before the war to peaks near \$120, only to fall sharply as political statements or rumors of ceasefires circulate through the market.

This volatility reflects a deeper uncertainty. No one yet knows whether the conflict will escalate or stabilize, and traders are forced to react to every new development.

Governments have attempted to calm markets by turning to emergency stockpiles. The 400 million barrel strategic reserve release represents one of the largest coordinated interventions in oil markets in recent decades.

Yet the physical reality remains far less reassuring. Moving oil from underground reserves into the global supply chain requires time, infrastructure and coordination among multiple governments and companies.

Transport logistics, refinery compatibility and distribution networks mean that many of these barrels may take weeks to reach end users. The supply shock created by disrupted shipping is immediate while reserve releases operate on a slower timeline.

Even more striking is the scale mismatch. If Gulf disruptions approach 10 million barrels per day, the entire reserve release would offset barely over a month of supply losses.

Emergency stockpiles can soften the psychological impact on markets but they cannot replace the structural role of Gulf exports in the global energy system. The world still depends heavily on the energy produced and shipped through this region.

Meanwhile the conflict is beginning to ripple through the broader energy supply chain. Tanker movements through the Gulf have slowed dramatically as shipowners assess the risks of operating in a potential war zone.

Hundreds of vessels are now waiting inside or outside the Strait of Hormuz while shipping companies evaluate security risks and insurance costs. These delays are beginning to disrupt refinery schedules and fuel distribution systems across multiple continents.

Refined products are experiencing even greater stress. Jet fuel prices in Singapore have surged 118 percent since the conflict began, reaching roughly \$211 per barrel equivalent.

These numbers illustrate how disruptions at a single chokepoint can cascade through the entire energy logistics system. Modern energy markets are deeply interconnected, and a disruption in one part of the chain quickly spreads across the entire network.

### **A Conflict That Could Reshape the Global Economy**

Energy markets are also revealing a deeper geopolitical dynamic. Several analysts argue that Iran's approach may not focus on defeating the United States militarily but on

imposing economic costs through energy disruption.

One trader describes Tehran's approach as an effort to make energy so expensive that it triggers a massive economic downturn. In this context energy markets become a strategic weapon capable of exerting global economic pressure.

By threatening shipping lanes and energy infrastructure Iran can push global oil prices higher, destabilize financial markets and amplify inflation across Western economies. These pressures can ripple quickly through the global economic system.

In the modern energy system economic disruption can sometimes achieve what conventional military confrontation cannot. The economic consequences of higher energy prices often extend far beyond the battlefield.

Yet markets may still be underestimating the scale of escalation risk. Despite dramatic price swings analysts continue to question how oil can trade near \$100 per barrel when as much as 10 million barrels per day of supply could be disrupted.

The most dangerous scenario would involve direct attacks on energy infrastructure across the Gulf. Facilities in Saudi Arabia, the United Arab Emirates and Kuwait represent some of the most concentrated oil production capacity in the world.

Damage to even a small number of these facilities could send prices far beyond today's levels and trigger a far more severe energy crisis. Such an escalation would reverberate across global markets.

If that scenario unfolds the consequences will not remain confined to energy markets. The shock would quickly spread to transportation costs, manufacturing output and consumer prices.

Energy shocks have historically preceded major economic downturns. Sustained oil prices above \$100 per barrel feed directly into transportation costs, manufacturing expenses and consumer inflation.

One strategist compares the current environment to 2008, when oil prices surged ahead of the global financial crisis before collapsing as recession took hold. The lesson from history is that energy shocks can destabilize economic systems very quickly.

If the conflict continues to disrupt energy flows the result could be a familiar but dangerous economic pattern. Rising inflation could combine with slowing growth across major economies.

Economists describe this combination as stagflation. Energy markets are now warning that the global economy may be approaching precisely such a moment.

The clearest early signal is visible in the physical market itself. When the price of real barrels climbs far above the futures price the message from traders is unmistakable.

The world's energy system is under far greater strain than the headline oil price suggests. ■



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