

Commodity markets reprice as conflict blockades Strait of Hormuz

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Find out how the strait blockage supply shock is impacting commodities trade and prices.

The ongoing conflict in the Middle East has effectively blocked the Strait of Hormuz – a key maritime trade channel through which one-fifth of the world's oil and liquified natural gas (LNG) supply passes. Widespread attacks on regional energy infrastructure, alongside restricted alternative supply and offtake routes have forced a rapid repricing of commodities from oil to metals across global markets.

We analyse what the hostilities and the strait's blockade mean for supply chains and the energy and metals sectors.

Strait of Hormuz: A strategic straitjacket

While the threat of the strait's closure had lingered for years, it had never been fully tested until now, notes Philippe Dauba-Pantanacce, Global Head of Geopolitical Analysis and Senior Economist, Standard Chartered.

"After this war, no one will look at the strait in the same manner and there could be some economic scarring that will follow," he adds, noting that regional actors will now prioritise policies and investments as a hedge against this vulnerability.

The conflict has triggered systematic stress from upstream production to downstream delivery as "alternative export routes aren't as secure as previously thought as," says Emily Ashford, Head of Energy Research, Standard Chartered.

Prices of crude and related products are expected to remain elevated for longer which, along with high insurance costs and shipping delays, will impact trade flows.

The longer-term range for oil has shifted higher, with USD 70 per barrel of oil potentially acting as a new floor and any further escalations could see prices spike towards the previous high of USD 119.50 per barrel of oil seen on 9 March.

In the longer term we expect prices to remain at a premium over their pre-conflict values, related to the lag in returning supplies and associated logistics. On the natural gas front, European benchmark prices could move above EUR 80/MWh if the conflict continues into the injection season when storage facilities are refilled in preparation for the winter.

In the long run, however, it's our view that the war could lead to an increase in alternative pipelines out of the Gulf to reduce reliance on the Strait of Hormuz, and an increased focus on energy security and maintaining larger strategic reserves.

Aluminium: Under heavy pressure

Beyond the energy sector, the aluminium market, especially, is significantly vulnerable to supply risks stemming from the Middle East, which accounts for 23 per cent of global production (excluding China). “One cannot overstate the importance of this region for the aluminium market,” says Sudakshina Unnikrishnan, Head of Base Metals Research, Standard Chartered. “The Strait of Hormuz is absolutely key in terms of two-way trade.”

Supply constraints are already being felt, with smelters in Bahrain and Qatar announcing force majeure and curtailing production even as imports of essential feedstocks like alumina and bauxite are restricted, which will likely lead to further production outages.

And with a rise in physical premiums predating the conflict and ongoing supply risks, prices are likely to remain elevated until there is more clarity on when the conflict might end.

Gold: Retaining its safe haven status

Gold has pivoted to providing liquidity in the near term but in the longer term, remains a portfolio diversifier and safe haven. This is despite facing downward pressure, testing the 100-day moving average initially and then the 200-day moving average.

While gold tends to benefit from a geopolitical risk premium in the short run (as seen following Russia's invasion of Ukraine), elevated gold prices before the Middle East conflict gave investors the option to liquidate holdings to meet cash needs and reallocate portfolios, explains Suki Cooper, Global Head of Commodities Research, Standard Chartered.

And while near-term prices may remain under pressure during the current reallocation, the long-term outlook for gold remains constructive, with the potential to test higher levels as rising energy prices enhance its appeal as an inflation hedge.

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Reasons to be bullish on gold

The precious metal has suffered a sell-off during the Middle East war but the outlook is more positive.

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