

Oil Shocks Past and Present

The global economy has experienced two iconic and highly disruptive oil shocks, the 1973 OPEC oil embargo and the 1979 Iranian revolution. Other, less significant shocks, include the 1990 Iraqi invasion of Kuwait and the ongoing Russian invasion of Ukraine. So far, the Iran war shock appears less consequential than the 1973 and 1979 crises, which had a major and lasting impact on output and inflation.

Oil Shocks Past

The 1973 OPEC oil embargo reduced global crude output by about 9%. The output lost in 1979 as a result of the Iranian revolution amounted to about 7% of global crude production. With demand inelastic, these supply shocks led to dramatic price surges. Oil prices in 1973 rose by 300% and jumped a further 160% in 1979 as oil prices over the period rose from \$3 per barrel to \$34. It was a period of gas shortages, long lines at gas stations, reduced speed limits, and other ad hoc measures to conserve energy.

The macroeconomic impact of the eleven-fold jump in oil prices was magnified by the highly energy intensive nature of production at the time. With price pressures already in the pipeline, the jump in oil prices contributed to an inflationary spiral in the U.S. that peaked at over 14% in 1980 and required massive monetary tightening and a prolonged recession to contain.

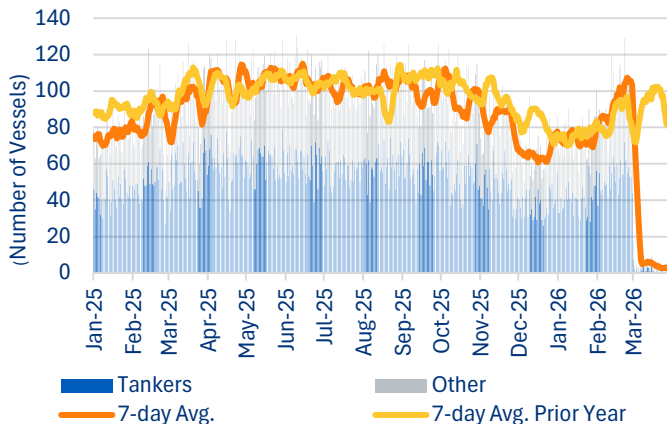
Iran War Impact

Fortunately, the Iran war is unlikely to leave an equally destructive legacy. Since the oil crises of the 1970s, energy efficiency has increased dramatically, and renewable energy sources have increased in importance, thus reducing the oil intensity of output. However, the disruption of trade caused by the Iran war has cut the supply of a broad range of key commodities, not just oil (Exhibit 1).

Exhibit 1

Strait of Hormuz Ship Traffic Plunges

Source: IMF. Daily traffic of tankers and other ships through the Strait of Hormuz. Data through end-March 2026.



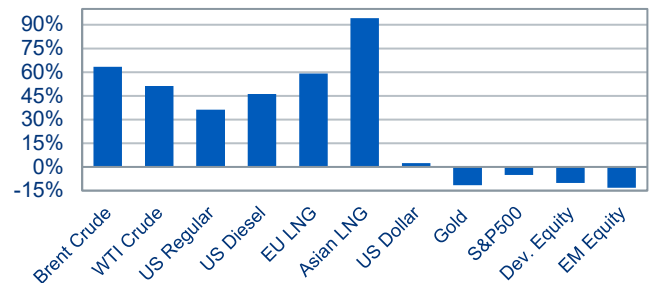
The effective closure of the Strait of Hormuz has bottled up between a fifth and a quarter of the global trade in crude oil, LNG, and refined products. The disruption also extends to fertilizers (30% of global trade), sulfur (45%), aluminum (10%) and helium (25%).

For importers, the closure of the Strait is a supply shock that reduces disposable incomes, increases external deficits, increases inflation, reduces growth, and pressures currencies and foreign reserves. In the U.S., for example, consumer pocketbooks are being drained by a 36% increase in gasoline prices and a 46% increase in diesel (Exhibit 2).

Exhibit 2

Wages of War – Impact on Key Commodities and Markets

Sources: Bloomberg, FRED, IEA, and EIA. Price change since war's onset through March 2026.



There are stark differences in the impact of the disruption across regions and industries. Asian importers of LNG face price hikes of over 90%, while European LNG prices have risen “only” 60%. Shortages and higher prices of diesel and jet fuel are hurting the transport sector across land, sea and air. Petrochemical plants producing plastics face shortages of essential feedstocks. The steep cut in fertilizer supply is threatening the spring planting season. With sulfur supplies constrained, metal producers face higher input costs, with significant knock-on effects. For example, Indonesia, which produces half of the global output of nickel used in EV batteries, sources its sulfur from the Middle East. Reduced helium supply will hurt the semi-conductor industry, with ramifications for the rapidly growing AI industry.

Safe haven assets have not performed as well as might have been expected (see Exhibit 2). The U.S. dollar is up only 2.4% since the onset of hostilities while gold has fallen 11.6%. The anemic appreciation of the dollar seems to suggest doubt about its long-term position as the world’s ultimate reserve asset. The fall in gold prices reflects a partial reversal of speculative retail flows as well as sales by central banks raiding their reserves in the face of deteriorating terms of trade.

From tariffs to the Iran war, the global economy has so far proven itself to be remarkably resilient. However, if the closure of the Strait is prolonged, the full extent of the knock-on effects of the trade disruption will become clearer and their impact will intensify.

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