

Some Serious Strait Talking

This article '*Some Serious Strait Talking*' appeared as a column by Neelkanth Mishra in the Economic Times on 23 March 2026. The US-Israel war against Iran is rolling into unrestricted warfare – until oil and gas inventories last.

The war in West Asia is now like a chess endgame in which one side is trying to survive by running down the clock, and the other is racing against time to checkmate.

In their 1999 book 'Unrestricted Warfare', two Chinese colonels Qiao Liang and Wang Xiangsu wrote that war is no longer confined to the battlefield or soldiers. That a weaker nation can retaliate against a stronger one by attacking the latter's 'soft' underbelly like financial markets. Iran has deployed this tactic by disrupting global energy supplies through the Strait of Hormuz.

Of the 7% of global energy supply that flows through the strait, some can be offset by:

- **Alternative routes**, like Saudi Arabia quadrupling throughput of its eastwest pipeline.
- **Other providers**, like oil from Russia, Iran or Kazakhstan.
- **Other energy sources**, like India shifting from gas to coal for electricity.

But nearly 4% of energy supply may remain disrupted. Which means 4% of global GDP. Economic damage may be exacerbated by supply-chain disruptions (tile shortages hurting house construction, scarcity of fertiliser, helium, sulphur, carbon black, etc), and reflexivity (financial market turbulence). Despite efficiency gains, this can hurt global GDP by more than 3%.

This would occur through higher prices. When supply is abruptly curtailed, like now, prices rise to a level where some buyers cannot afford it, and economic activity is disrupted. The jump in prices since the Hormuz Strait closed suggests that this process is already on. This is likely to intensify.

In the near term, inventories help. IEA estimates these at 8.2 bn barrels in early March, or 78 days of total supply. While in theory, as net disruption may only be around 10% of supplies, inventories can last for many more days, not all will be drawn down, as there is no clarity on how long supplies remain disrupted. Over time, holders may slow inventory release, as they begin to prioritise energy security over gains from higher prices.

The duration of closure of the strait will also affect how quickly supplies normalise once it is reopened. If the closure ends in a few weeks, the global economy could recover in a quarter. But if it lasts a few months, stabilisation may take several quarters. Gas or oil wells once capped take time to restart. There is limited capacity to move energy, and hoarding is likely once supplies restart.

Given the complexity of calculating this impact, decision-makers track financial markets, which move in advance and, like neural networks, display collective intelligence even if no individual has perfect foresight.

Market volatility may, thus, be an essential condition for the end of war.

Markets have not panicked yet. Prices of oil contracts a few months out suggest markets still expect an early end to the conflict. That should change by mid-April as inventories deplete, and supply chain stress compounds. The resulting market turbulence and sustained high fuel prices in the US would be politically costly for the US regime. Even for China, which accounts for 45% of receipts for Tehran, and is at the table, a global slowdown will be costly.

This explains strategies of the two warring sides. The June 2025 strikes on Iran by the US likely forewarned Tehran that in the absence of air defences, they needed to prepare to survive long enough for global markets to get stressed and force the US to some agreement. That may have meant multiple levels of succession-planning and decentralisation of operations.

The US, aware that it cannot declare 'mission accomplished' till ships are flowing freely through the Hormuz Strait again, has tried, unsuccessfully, to get allies to help in opening it up, and is buying more time by removing sanctions on Russian and Iranian oil and getting IEA members to release strategic reserves.

Perhaps accepting that regime change in Iran is unlikely, the US and Israel are racing to maximise damage to the current Iranian administration, and to get some bargaining chips before financial market turbulence forces them to negotiate in return for a reopening of the strait.

The US and Israel tried to take Kharg Island – through which most of Iran's exports are routed – have now threatened to take out power plants, and could try to block Iranian shipments through the Gulf of Oman. They run the risk of escalating the conflict, potentially forcing Iran to use Houthis to close the Red Sea route, or attack other oil assets in the region.

As important as this battle's outcome is the shape of the 'grand war' between the US and China. The US is trying to reduce Chinese influence on global choke points like the Panama Canal (and Venezuela), the Hormuz Strait (China has a dual-use facility in Jask), and the Red Sea.

Another important dimension to their conflict is energy. While China is betting on renewable power, US wants large volumes and low prices of oil and gas, which are 72% of its energy mix.

So, even as high energy prices hurt India's growth, inflation and rupee in the near term – and are a warning for the future – they may not last long. Risks to that view can come from possible longer-term damage to energy facilities in West Asia, and Iran's government lacking sufficient control on its regions to implement a peace deal.

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