



CIO would expect oil futures to fall quickly once there is greater visibility on an end to hostilities and a potential resumption of normal oil flows. (UBS)

Practicalities and incentives that speak against open-ended conflict

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Crude oil prices surged to their highest level since 2022 and global equities fell on escalating hostilities in the Middle East over the weekend.

Over the weekend, the UAE, Kuwait, and Iraq cut oil output as their limited storage capacities forced them to shut in production after available tankers were fully loaded. Outside the Gulf, oil on water (tankers) is being drawn down due to the limited amount of oil transiting from the region.

Meanwhile, various media outlets have reported that US President Donald Trump is weighing using special forces on the ground to seize Tehran's uranium, Iran has continued attacks on neighboring states, including on civilian infrastructure, and Israel struck fuel depots in Tehran and threatened the Islamic Republic's power grid.

What do we think?

With the conflict entering its tenth day, we make three observations:

- The oil market will continue to tighten until the Strait is re-opened or demand is cut. Currently, only two to three tankers are crossing the Strait each day, compared with the typical level of 30-35. As long as supply is constrained, oil prices

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will rise further until demand falls. Global markets are therefore likely to progressively price a more negative economic outcome as more time passes.

- A resolution may take longer than markets like. An absence of clear regime change may lead the US and/or Israel to persist with military action for longer. Meanwhile, rising energy prices also provide Iran with leverage, and fully eliminating the Iranian threat to shipping is likely to prove very challenging. Even if President Trump wants to “declare victory,” the Strait of Hormuz could remain closed for weeks, given the reluctance of shippers to risk passage and the logistical challenges the US may face in organizing a safe convoy.
- A resolution might not end risk-off trade. Even in a scenario where the White House wishes to pursue a swift resolution, it could take at least another week for the US to complete their objectives, and then Iran could spend at least another week escalating the conflict to improve its own negotiating position. Oil prices could climb higher throughout this period, with tanker traffic still minimal and insurance coverage unresolved.

Given the rapid degradation of Iranian military capabilities and the US's desire to avoid a prolonged period of higher energy prices, we think there are practicalities and incentives that speak against open-ended conflict. We would expect oil futures to fall quickly once there is greater visibility on an end to hostilities and a potential resumption of normal oil flows. History also suggests short-lived oil price spikes rarely inflict lasting economic damage.

Still, risks of higher energy prices materially affecting the growth and inflation outlook have risen, and the increased complexity of the conflict means we expect market volatility to stay elevated in the near term.

Original report – [Oil price surge prompts risk-off sentiment, 9 March 2026.](#)

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