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MONDAY MORNING QUARTERBACK

ENERGY MARKETS CEO BRIEFING NOTE

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This Oil Market Is No Longer Investible: War in the Gulf Is Breaking Price Signals and Rewriting Capital Flows

By Sean Evers, Managing Partner, Gulf Intelligence

From Price Discovery to War Pricing

The defining feature of today's oil market is not that prices are high, but that price no longer reflects reality in a way investors can trust. Brent crude has surged above $110 per barrel, up more than 80% since the start of the year, yet even this dramatic move understates the scale of disruption rippling through the system. The Strait of Hormuz, the artery of global energy flows, is effectively closed, with tanker movements collapsing to near zero and no west to east crude shipments recorded since early March.

The real story is not Brent, but the complete breakdown between paper and physical markets. Physical crude in the Gulf is now trading at extraordinary dislocations from benchmark pricing. The Dubai assessment has surged to $168.75 per barrel, implying a physical premium of $63.44 over Brent. Murban is trading at $159.26 and Oman at $160.28, reinforcing the severity of scarcity in the physical system.

This is not a normal market dislocation but a system under extreme stress. Brent is no longer the clearing price of global oil and instead functions as a lagging financial reference point, while the real price of barrels is being set in constrained physical markets where availability determines value. The widening gap between benchmarks and reality is the clearest signal that traditional pricing mechanisms are no longer functioning.

This is why the most important conclusion from market participants is also the most uncomfortable. This market is no longer investible in the conventional sense. Liquidity has thinned, volatility has become structural, and pricing is increasingly driven by geopolitical headlines rather than supply and demand fundamentals. Capital cannot deploy with confidence because the signals it relies on are no longer coherent.

Even the forward curve reflects this uncertainty. Emirates NBD, the 4th largest bank in the Gulf by assets, said in a note on March 23rd that it now expects Brent to average around $90 per barrel in the second quarter before moderating later in the year, but only if flows from the Gulf are restored. That conditional outlook highlights the core issue. Until the Strait of Hormuz reopens, there is no meaningful anchor for price expectations and the market has shifted from price discovery to war pricing.

Goldman Sachs Group Inc. has also raised its oil price forecasts for 2026 due to the prolonged disruption of flows through the Strait of Hormuz, which it has described as the largest-ever supply shock for the global crude market. Brent is expected to average $85 a barrel in 2026, up from an earlier forecast of $77, and the full-year outlook for West Texas Intermediate was hiked to $79 from $72, the bank said in a note to clients dated March 22nd.

Gas Shock, Physical Breakdown, and the Limits of Policy Response

If oil markets are distorted, gas markets are under even greater strain. The closure of Hormuz is not just removing crude from the system but choking off flows of liquefied natural gas, refined products, and petrochemical feedstocks that underpin global industry. The Emirates NBD research note describes global oil and gas markets as being in a condition of shock, with energy buffers rapidly being drawn down.

The divergence between financial markets and physical reality is now stark. Strategic stockpile releases coordinated by the International Energy Agency are providing some level of comfort to sentiment, but they are only delivering a fraction of the volumes lost through the Strait. Tanker and carrier flows have effectively collapsed, reinforcing the severity of the supply shock and highlighting the limits of policy intervention.

Across major consuming regions, adjustment is already underway. Industrial demand is beginning to soften, governments are preparing contingency measures, and energy systems are shifting fuels where possible. Gas markets are tightening more aggressively than oil because of their structural rigidity, with limited ability to reroute supply or substitute infrastructure in the short term.

Despite this, Brent still does not fully reflect the stress in the system. The pressure is instead visible in spreads, freight costs, insurance premiums, and the extraordinary physical premiums now embedded in crude markets. A premium of more than 60 dollars for physical barrels is a clear signal that scarcity is immediate and real, even if benchmark pricing has yet to fully adjust.

The options market reinforces this view by pricing a wide distribution of outcomes that includes the risk of further price spikes if disruption persists. However, higher prices do not translate into a straightforward bullish market. At a certain point, rising energy costs begin to erode demand, tighten financial conditions, and slow global economic activity.

The Emirates NBD outlook itself anticipates some moderation in prices later in the year, but only if flows recover. If they do not, the adjustment will come through demand destruction rather than increased supply. This creates a fundamental tension where supply disruption pushes prices higher while macroeconomic damage limits how long those gains can be sustained. It is this tension that makes the current market environment so unstable and so difficult to invest in.

Gulf Sovereign Wealth and the Shift from Expansion to Retrenchment

For the Gulf states, the implications of this crisis are profound and deeply paradoxical. On the surface, higher oil prices should strengthen fiscal balances and expand the capacity of sovereign wealth funds to deploy capital globally. However, the Emirates NBD analysis highlights a more complex reality in which production is being shut in and exports are constrained, with a return to pre war levels expected to take time.

This creates a structural disconnect between price and revenue. Crude may be trading at record premiums in physical markets, but if barrels cannot move, those premiums are not fully monetisable. Logistics, insurance, and security constraints all reduce the effective benefit of higher prices and introduce new layers of uncertainty into fiscal planning.

At the same time, the broader economic model of the Gulf is being tested. The region has spent the past decade positioning itself as a global hub for capital, technology, and innovation, with sovereign wealth funds at the centre of this transformation. War introduces a different set of priorities that shift the balance away from expansion and toward resilience.

The first impact is increased caution. In an environment where regional stability is uncertain and global markets are volatile, sovereign wealth funds are likely to slow the pace of international investment and prioritise capital preservation and liquidity management. The second impact is a redirection of capital toward domestic and regional priorities, including infrastructure resilience, energy security, and strategic industries, particularly as the risk of attacks on critical assets such as power and desalination facilities rises.

The third impact is exposure to global economic conditions. Sovereign wealth funds are deeply integrated into global financial markets, and a prolonged energy shock that leads to recession will affect their portfolios across equities, private markets, and credit. In effect, they are both beneficiaries of higher oil prices and vulnerable to the broader economic consequences those prices create.

This dynamic is likely to drive a period of strategic retrenchment in which Gulf sovereign wealth funds adopt a more defensive posture, preserving capital and waiting for clearer signals before re engaging at scale. This does not represent a structural retreat from global markets, but it does mark a cyclical pause in the global expansion of Gulf capital.

At the same time, the geopolitical landscape is being reshaped. As Gulf exports are constrained, alternative suppliers gain influence and market share, altering the balance of power in global energy markets and creating new competitive dynamics that will persist beyond the immediate conflict.

For Gulf policymakers, the lesson is clear. Energy security is no longer defined solely by production capacity but by the resilience of export routes, the protection of infrastructure, and the stability of the broader economic system. The Strait of Hormuz is not just a shipping lane but the foundation of the Gulf's economic model, and its disruption has exposed the vulnerabilities within that model.

The conclusion for investors is equally clear. This is no longer a market that can be approached using traditional frameworks. Oil and gas are no longer trading purely as commodities but as instruments of geopolitical risk, logistical constraint, and macroeconomic stress.

This market is no longer investible in the way it once was. It is a war market, and until physical flows resume, price signals realign, and geopolitical risk subsides, capital will remain cautious, sovereign wealth will remain selective, and the rules of Energy and Money will continue to be rewritten in real time. ■

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