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MARCH 3rd, 2026

ENERGY MARKETS BRIEFING NOTE

“Are Oil Markets Underpricing the Gulf’s Disruption Stress?”

Are Oil Markets Underpricing the Gulf's Disruption Stress?

By Sean Evers, Managing Partner, Gulf Intelligence

In Kuwait, the sirens are sounding six or seven times a day. Residents hear incoming drones, interception blasts and the heavy thud of impact in the distance. Ramadan evenings unfold under the constant tension of missile alerts. Families continue daily life, but always with one ear tuned to the next alarm. The anxiety is real and sustained. For those living across the Gulf, this is not a theoretical geopolitical premium debated on trading desks. It is a lived operational reality unfolding hour by hour.

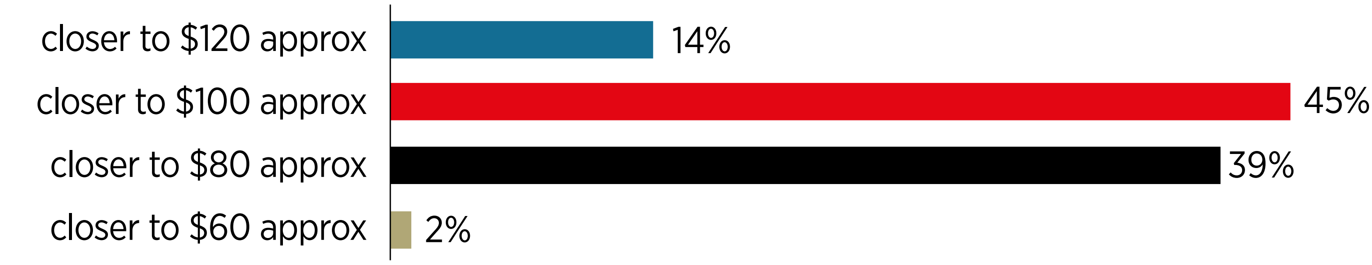
Meanwhile, Brent crude has now moved back above $80 a barrel. That rebound reflects elevated risk, but it still suggests markets believe disruption will be contained and temporary. Freight rates have surged, spreads have widened and volatility has increased, yet flat prices imply confidence that physical supply losses will not materialize. The question investors should be asking is whether that confidence is justified. What is unfolding across the Gulf is not merely a pricing event. It is a logistics stress test of the global energy system, and the decisive variable is not intensity but duration.

The Illusion of Logistical Resilience

Kuwait's vulnerability is structural. Unlike the United Arab Emirates, which can bypass the Strait of Hormuz through Fujairah, or Saudi Arabia, which can redirect volumes westward via its East-West Petroline to the Red Sea, Kuwait has no meaningful alternative export route. Its crude exports must transit Hormuz. Industry leaders in Kuwait confirm that while some storage exists outside the Gulf, it offers only short-term relief. If exports are constrained beyond a brief window, production would need to be reduced "to the limits where very little can go out." Operationally, Kuwait can shut in production within two to three days if required. The constraint may not even be physical damage. Insurance refusals alone could freeze commercial flows before infrastructure is directly hit.

Iraq faces similar exposure, particularly in the south where most exports move through Basra terminals reliant on Hormuz transit. Northern fields in the Kurdistan region have already seen precautionary curtailments amid heightened security risk. However, Iraq lacks sufficient infrastructure flexibility to reroute southern crude northward at scale. Southern storage buffers are estimated to provide roughly 11 to 15 days of flexibility. Beyond that window, production shut-ins become increasingly likely. If disruption extends beyond one month, curtailments in southern Iraq become highly probable. Combined, Kuwait and southern Iraq

What will be the price of Brent crude oil at end of March if Trump is right when he said yesterday that US war on Iran would last 4+ weeks?



*(*nb. Polling conducted with 100+ Energy Market Stakeholders March 3)*

represent more than four million barrels per day of exports. That volume is not marginal to global supply balances. It is central.

The market today appears to be pricing elevated transport costs rather than lost production. There is a critical distinction between friction and absence. Higher freight rates and insurance premiums reflect logistical strain. Production shut-ins represent structural supply loss. Under two weeks of disruption, buffers may absorb stress. Beyond two weeks, Iraq faces curtailment risk. Beyond one month, systemic Gulf production losses begin to emerge. The longer the commercial paralysis persists, the harder it becomes to prevent physical supply contraction.

Gas Markets Signal the Deeper Shock

The sharper stress signal is emerging in natural gas markets. Qatar has halted liquefied natural gas production after Iranian drone strikes targeted facilities at the Ras Laffan industrial complex, home to its massive gas-processing trains, as well as the Mesaieed industrial zone. QatarEnergy is preparing to declare force majeure on LNG shipments. Qatar accounts for roughly 20 percent of global LNG supply and plays a critical role in balancing demand across Asia and Europe.

The halt comes alongside additional regional strain, including the suspension of most oil production in Iraqi Kurdistan and the shutdown of Israeli gas fields affecting exports to Egypt. At the same time, Saudi Aramco's 550,000-barrel-per-day Ras Tanura refinery was partially shut as a precaution after drones were intercepted at the site. Debris caused a limited fire, though domestic fuel supplies were not disrupted. Individually, these events may be manageable. Collectively, they signal a region operating under sustained stress.

Gas markets are inherently tighter than oil markets and lack comparable shock absorbers. Strategic petroleum reserves can cushion crude disruptions temporarily. There is no equivalent global reserve system for LNG. If Qatar's halt persists for multiple weeks, competition for spot cargoes will intensify, particularly as Europe approaches storage refill season and Asian demand remains structurally firm. Gas tightens first. Oil follows if duration extends.

The Strait of Hormuz does not need to be formally declared closed to generate crisis conditions. Commercial paralysis can arise through insurance withdrawal, vessel hesitancy and risk management decisions alone. Even without catastrophic damage, flows can stall. Investors must therefore focus less on headlines and more on timelines. Brent above $80 reflects rising tension, but it does not yet reflect systemic Gulf shut-ins.

If disruption persists beyond current storage buffers, repricing will not be incremental. It will be structural. Oil markets today are pricing risk. They may not yet be pricing duration.■

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