

The US-Iran ceasefire agreement should be viewed positively but with caution. The ceasefire has halted the destruction of energy infrastructure in the Gulf, which was increasingly impacting medium-term global supply of oil, gas, critical byproducts and the global economy.

However, a full reopening of the Strait of Hormuz is unlikely in the near term, which will continue to constrain supply chains and the Gulf's contributions to the global economy. The status of the ceasefire remains in doubt at the time of writing because of a difference between Iran and the US/Israel over whether the ceasefire covers Lebanon. Iran's position on Lebanon appears to be supported by Pakistan, which mediated the ceasefire, but Israel is adamant that its actions in Lebanon are unaffected by the US-Iran agreement. If this difference is resolved, the ceasefire may be extended beyond two weeks as the Iranians, in particular, seek to prolong negotiations, which is their usual strategy. But a resumption of the war is also a possibility, given how far apart the sides are on fundamental issues. Each side will likely remain on a war-footing until a durable settlement takes hold. Unless there is rapid agreement over the implications of the ceasefire for Israel's action in Lebanon, we may see two weeks of brinkmanship with the risk of miscalculation leading to a resumption of hostilities.

Status of the Strait – The operating system for the Strait of Hormuz is of prime importance, given the impact its closure had on shipping, insurance and many industries that depend on Gulf energy and byproducts. Short-term arrangements will likely increase the flow of shipping, including through *ad hoc* payments and arrangements by some countries, but full reopening is likely to be elusive. Major shipping companies will likely take the opportunity to retrieve tankers and cargo ships trapped inside the Persian Gulf, if they can arrange it without sanctions or insurance risk and with clarity regarding whether there are mines in the strait, providing a short-term boost to global supplies of energy and byproducts. But they may not risk sending ships back until a comprehensive peace agreement is reached. Iran will try to make permanent its current control over strait shipping, perhaps shared with Oman, demanding steep concessions on other issues to allow the strait to return to *status quo ante*. In sum, Gulf shipping is likely to be constrained and costly until confidence in a new system grows.

Global Economic Impacts – If shipping through the Strait of Hormuz remains sharply constrained for months to come, or if fighting and destruction of energy production resumes, global economic impacts could become serious – possibly reaching some level of “demand destruction,” a sustained drop in consumer demand due to high prices or limited supply. If, on the other hand, strait shipping resumes to near pre-war levels in the near-term, the impact on the global economy will be significant but manageable, even as some supply chain disruptions ripple through for months to come.

Beyond Shipping – Air freight through Gulf airports will resume more quickly and robustly than maritime. Expats who evacuated are unlikely to return until there is more clarity on a longer-term settlement, inhibiting the resumption of many business activities. Gulf states will focus on quick rebuilding of damaged buildings and infrastructure, more pipelines to diversify export routes and defenses against drones and missiles. There may be longer-term implications for the geopolitical alignment of some Gulf states as they seek to hedge their bets in an increasingly uncertain world.

Diplomacy – As the conflict shifts from the military to the diplomatic arena, it will be important to assess how the negotiations are organized, including who will negotiate for each side, where, and in what formats. Pakistan, which has strong relationships with China and the US, and has maintained a relationship with its neighbor Iran, has emerged as the key enabling country in finding a way forward. Current reporting indicates Vice President J.D. Vance will lead the US delegation in Pakistan beginning on 11 April, lending unusual stature to negotiations with a pariah regime. Iran is expected to be represented by Parliament Speaker Mohammad Bagher Ghalibaf, who has strong links to the Islamic Revolutionary Guard Corps (IRGC).

Influencing Negotiations – World leaders will seek to influence the negotiations to protect their countries' economic, commercial and security interests, including visiting Washington DC to meet President Donald Trump. They can be expected to carry messages on behalf of major industries and companies, as will US elected representatives and prominent business representatives.

Bottom Line – Our bottom-line prediction from last week's report held up well: “While fighting could subside in the coming weeks, a clear resolution that fully reopens the Strait of Hormuz to energy exports, food imports and that encourages an early return of expat executives and workers to the Gulf is unlikely.” While the ceasefire is important relief, the likely roller-coaster of negotiations will prolong uncertainty in the weeks to come.

Sector Analysis

Supply chain pressures have intensified in recent weeks, with the Logistics Managers Index (LMI) rising to 65.7 in March, its tightest constriction since May 2022, after Russia's full-scale invasion of Ukraine. This is well above the neutral 50 threshold and signals strain across US logistics networks.

Shipping and Logistics

Adjustments in the logistics sector are likely to continue for some time, despite the ceasefire. Global inventories are lean, leaving firms with fewer goods to absorb potential supply shocks, while transportation capacity is tight. These constraints mean that even minor disruptions could still potentially trigger stockouts and market pullbacks in the industry, despite the ease that the ceasefire offers.

For shipping, the economic impact has been magnified by the extended period of the disruptions in the Strait of Hormuz. Over 34,000 ships were diverted during the first four weeks of the conflict, effectively shuttering most shipping activity from the Persian Gulf. Now that the activity might be resumed, stakeholders are reluctant to move without clarity. The Japanese Shipowners' Association, for example, has announced that it will first examine the specifics of the ceasefire agreement before communicating guidance to its members about how to proceed in the region.

Even if the ceasefire quickly reopens the strait to cargo shipping traffic, the insurance market behind these vessels will be much slower to act. Restoring large-scale shipping through the Strait of Hormuz depends on tanker owners regaining confidence and reestablishing insurance, even as the specific conditions and "technical limitations" imposed by Iran remain unclear. The instability of the region, even under a ceasefire, will continue to be a disruptive factor. So, it is unlikely that traffic through the Strait will return to pre-conflict levels until a more formalized negotiation and end of hostilities takes place.

Plastics and Synthetics

Pre-conflict, roughly US\$20-25 billion in petrochemical products passed through the Strait of Hormuz annually; the war's disruptions have pushed prices significantly higher across industries that rely on petrochemicals and plastic-derived components, such as electronics, synthetic textiles and toys. Critical industrial gases have been affected as well, like helium, which is commonly used in semiconductor manufacturing. Furthermore, repairs to critical infrastructural assets, like Qatar's Ras Laffan LNG facility, which resulted in a shorting of 4% of global liquified natural gas (LNG), will likely require several years to restore to full operations.

Agriculture

The agricultural sector is also facing severe disruption due to the rising costs of fertilizers like nitrogen, urea and ammonia, which is already impacting American farmers' planting decisions. Farmers are shifting to more soybeans over corn primarily due to lower production costs, especially for fertilizer, and higher export demand for biofuel. While the short-term ceasefire may allow shipments of these petrochemicals to reach fertilizer producers, the significant supply chain disruption and risk of future conflict will prevent rapid production of these much-needed agricultural products.

Mining and Heavy Industry

Mining and other heavy industry operating diesel generators and equipment has and will continue to see disruption due to supply shortages and price increases of fuel. This impact is especially pronounced in regions like Sub-Saharan Africa, where mining operations often lack access to local power grids and must rely on diesel generators. Many mining operations typically maintain only a four-week fuel supply on-site. Since the conflict has neared the six-week mark, these fuel reserves are being depleted.

What Next?

Despite the ceasefire, regional instability and tensions will persist; political disagreements may delay full normalization of shipping and production in the region. Ensuring ongoing stability will be a necessary first step ahead of the reopening operations. Buyers and insurers will likely remain cautious until long-term stability is established. Beyond security in the region, the "domino effect" of logistics planning will take time to fully reset. Obtaining contracts and investments and providing an environment for insurers and shippers to re-engage will all take time and strong signals of stability. Afterwards, producers will need to draw down their current stores of crude oil, to make room for new stores. Critical production infrastructure, like wells, will have to be assessed and repaired as needed. Then refining operations could begin renewed production, and the loading and exporting of refined products could potentially begin. However, even after on-the-ground operations resume, markets may remain volatile for some time. New regulatory measures and supply chain restructuring may need to be coordinated, all of which will contribute to a slower recovery to global markets.

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