

Since the onset of the Middle East conflict, commodity markets have been at the epicenter of global macro repricing, with energy leading a strong and sustained rally that has progressively filtered through the broader raw materials complex. The disruption of flows through the Strait of Hormuz – through which approximately one-fifth of global oil and LNG shipments transit – triggered a severe supply-side shock, pushing oil prices decisively above the \$100 per barrel threshold and at one stage marking gains in excess of 50 percent from pre-conflict levels. This surge was mirrored across gas markets, with European benchmark prices spiking toward €70-75/MWh, while the knock-on effects extended into agricultural and industrial commodities via higher transportation and input costs. The inflationary transmission mechanism proved immediate and pronounced. Short-term inflation expectations rose sharply, with one-year ahead projections reaching 3.4 percent, driven predominantly by energy, according to the Federal Reserve Bank of New York. Gasoline price expectations surged to 9.4 percent year-on-year, underscoring the sensitivity of households and markets alike to fuel costs. While longer-term expectations remained comparatively stable around 3.0-3.1 percent, the divergence highlights a critical tension: although central bank credibility remains intact for now, repeated energy shocks risk destabilizing the disinflation trajectory and reinforcing a “higher-for-longer” policy environment. In this context, the commodity rally was not merely a price event, but a macro signal –pointing to renewed upside risks in inflation at a time when the path toward policy normalization had already been uncertain.

The announcement of a two-week truce between the United States and Iran has, however, introduced a decisive inflection point, triggering a rapid and broad-based reversal across commodity markets while simultaneously fueling a strong recovery in financial assets. The agreement, which includes the reopening of the Strait of Hormuz and the resumption of shipping flows, effectively removed a substantial portion of the geopolitical risk premium that had been embedded in prices. The reaction was immediate, with commodities correcting sharply as expectations shifted from acute supply disruption toward a gradual normalization of flows. In contrast, financial markets interpreted the development as a relief catalyst, rapidly transitioning into a risk-on environment. This divergence between falling commodity prices and rising equity markets underscores the asymmetry in positioning that had developed during the conflict: commodities had been pricing in worst-case supply scenarios, while equities are now recalibrating toward improved growth prospects and easing inflation pressures. Nevertheless, the temporary nature of the ceasefire introduces a layer of fragility to this adjustment. Markets remain acutely sensitive to headlines, and the durability of the current repricing will ultimately depend on whether the truce evolves into a more sustained de-escalation.

Equity markets responded with a strong and synchronized rally across regions, reflecting both the easing of inflation concerns and a renewed appetite for risk. In the United States, major indices posted significant gains, with the S&P 500 advancing approximately 2.4 percent, the Nasdaq rising more than 2.5 percent, and the Russell 2000 outperforming with gains close to 3.2 percent. The breadth of the rally suggests a broad-based improvement in sentiment, supported by the prospect of lower input costs and reduced downside risks to growth. European markets followed suit, with the DAX climbing nearly 5 percent, the CAC 40 and FTSE MIB registering strong gains, and the STOXX 600 advancing over 4 percent in what represents one of the strongest sessions in recent months. Emerging markets outperformed developed peers, with

equity benchmarks rising by more than 5 percent in several regions, reflecting the outsized benefit of lower energy prices for import-dependent economies. The decline in oil has alleviated pressure on current accounts, inflation, and fiscal balances, thereby supporting both equities and currencies. At the sectoral level, the rotation was particularly pronounced. Airline and leisure stocks surged by double digits, as sharply lower fuel costs improved profitability expectations and supported demand outlooks. Conversely, energy equities declined between 5 percent and 10 percent, tracking the correction in crude prices, while shipping stocks also softened. The latter reflects expectations that the reopening of the Strait will gradually normalize freight dynamics, potentially leading to an initial release of trapped tonnage and a temporary easing in rates. This sectoral divergence underscores the central role of energy prices in shaping both corporate earnings expectations and broader market performance.

In commodity markets, the correction has been both extensive and differentiated, with energy leading the downside and other segments responding according to their specific demand and supply dynamics. Oil prices recorded one of their sharpest single-session declines in recent years, falling by approximately 13-15 percent and bringing Brent back below the \$95-100 per barrel range. European gas prices mirrored this move, declining around 17 percent toward €44/MWh, as expectations for the resumption of LNG flows improved. Bulk commodities followed, albeit with more moderate declines. Iron ore prices eased by around 1-1.5 percent, moving toward the \$104-105 per tonne range, as lower energy and freight costs coincided with rising shipments from major producers. Copper rose by approximately 3 percent, reaching a three-week high, as lower energy prices improved the outlook for global growth and manufacturing activity. Agricultural commodities also corrected, with wheat falling close to 3 percent to a two-week low, corn declining around 1 percent, and soybeans edging lower. The decline in oil has reduced the attractiveness of biofuel production, weakening demand for grains and oilseeds, while improved weather conditions in key producing regions have added further downward pressure. Gold, meanwhile, edged lower as safe-haven demand partially unwound, although the decline remained relatively contained given the ongoing geopolitical uncertainty and the still-fragile nature of the ceasefire.

From a broader perspective, recent developments have illustrated the speed and magnitude with which global markets can reprice geopolitical risk and its macroeconomic implications. The earlier surge in commodities, led by energy, had reinforced inflationary pressures and complicated the policy outlook, raising concerns about the durability of the disinflation process. The subsequent correction, triggered by the announcement of a temporary truce, has provided immediate relief, easing inflation concerns and supporting a broad-based recovery in financial markets. However, the underlying dynamics remain unresolved. The ceasefire is explicitly limited in duration, and structural risks associated with the Strait of Hormuz and broader regional tensions persist. As such, a degree of geopolitical premium is likely to remain embedded in commodity markets, while financial markets may continue to exhibit heightened sensitivity to developments in the region. For the global economy, and for shipping markets in particular, the interplay between energy prices, inflation expectations, and trade flows will remain central. The coming weeks will be critical in determining whether the current adjustment marks the beginning of a more stable phase or merely a temporary reprieve within an environment characterized by elevated uncertainty and volatility.

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