Shockwaves: How an Energy Crisis Spreads Across Commodities

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Key Takeaways

- The conflict initially appears as an energy shock, centred on LNG and gas markets.
- Damage to infrastructure means supply recovery will take months to years, even if shipping resumes.
- Fertilisers and trade flows are highly sensitive to gas and logistics disruptions.
- Chemical inputs like sulphur and ammonia create second-order impacts on metals.
- Investors should look beyond energy to broader commodities as effects ripple through markets.

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At the time of writing, it remains highly uncertain how long the Iran conflict will persist. There are increasing indications that the US may seek a relatively swift disengagement, potentially without fully securing the Strait of Hormuz.

Iran, meanwhile, appears to be pursuing a different objective: asserting control over the Strait and potentially introducing a toll for safe passage. While such an outcome would fall short of a stable geopolitical resolution, it may nevertheless prove economically acceptable. Many countries could find that a moderate but persistent increase in input costs is preferable to the acute price spikes currently being experienced.

This presents a clear trade-off. On one hand, accepting a toll would likely keep energy and transport costs structurally higher than before the conflict. On the other, attempting to secure the Strait militarily would require sustained increases in defence spending and continued exposure to disruption risk.

Even if the Strait reopens, with or without a toll, it is important not to assume that flows will quickly return to normal. The conflict has already caused meaningful damage to production and export infrastructure. In several cases, that damage will take months or even years to repair.

The key point is that geopolitical de-escalation does not immediately translate into supply normalisation. The sections below examine how this plays out across energy, industrial metals and fertilisers, before turning to the less visible but equally important second-order effects.

1. LNG: the deepest and most persistent disruption

Among all commodities, LNG stands out as the most severely affected. The damage is highly concentrated, but it is concentrated in the most critical part of the global system: Qatar's Ras Laffan complex.

Strikes on liquefaction trains have resulted in a meaningful loss of capacity, estimated at around 17%, equivalent to roughly 12–13 million tonnes per annum. At the peak of disruption, this translated into close to one-fifth of global LNG supply being affected. Force majeure declarations underline the severity of the situation.

Additional disruption has occurred upstream, particularly in Iran's South Pars gas field, as well as across a wider set of regional energy assets. In total, more than 40 energy sites across multiple countries have reportedly been damaged, with repair costs already exceeding $25 billion.

What distinguishes LNG from other sectors is the nature of the bottleneck. Liquefaction facilities depend on highly specialised turbines with limited global manufacturing capacity and long lead times. This makes recovery structurally slow.

Figure 1: LNG recovery timelines

Source: WisdomTree based on media searches and government and company announcements following events.

Even in a scenario where hostilities subside quickly, LNG markets are likely to remain tight for several years due to these structural constraints.

2. Aluminium: a combination of physical and energy constraints

The aluminium sector presents a more complex picture. Unlike LNG, where the disruption is concentrated and structural, aluminium is affected through a combination of direct damage and indirect constraints.

There is confirmed physical damage at major Gulf smelters, alongside production curtailments driven by disruptions to gas supply and logistics. Facilities in the UAE and Bahrain have reported damage, while operations in Qatar have been scaled back due to feed gas constraints.

The situation at Qatalum provides a useful reference point. A controlled shutdown was initiated when gas supply was disrupted, and although operations have partially resumed, output remains below full capacity. The expected timeline for a full restart is in the range of six to twelve months. This suggests that, in this case, the constraint is primarily related to energy availability rather than irreversible damage to core assets.

At other sites, where physical damage has occurred, the timeline is more uncertain. Aluminium smelting is a continuous process, and restarting production requires careful management of potlines and electrical systems. Repairs therefore tend to take longer than in many other industrial sectors.

Figure 2: Aluminium recovery dynamics

Source: WisdomTree based on media searches and government and company announcements following events.

Overall, aluminium is likely to recover more quickly than LNG, but not immediately. The combination of physical repair requirements and operational constraints means that supply will remain below normal levels for some time.

3. Fertilisers: driven by gas and trade rather than damage

Fertiliser markets are shaped less by physical destruction and more by disruptions to the system as a whole. Three channels are particularly important.

First, fertiliser production is highly dependent on natural gas, which is the primary feedstock for ammonia. Disruptions to gas supply therefore translate directly into production shut-ins. Second, there has been some physical damage to petrochemical infrastructure, although this appears more limited than in the energy sector. Third, and perhaps most importantly, trade flows have been disrupted by risks to shipping through the Strait of Hormuz.

This combination makes fertilisers highly sensitive to both energy markets and logistics.

Figure 3: Fertiliser recovery dynamics

Source: WisdomTree based on media searches and government and company announcements following events.

In contrast to LNG, fertiliser production can resume relatively quickly once gas supply and logistics stabilise. However, this also means that prices are likely to remain volatile, responding rapidly to changes in underlying conditions.

4. Second-order effects: the hidden supply chain shock

Beyond the direct impact on energy and industrial production, the Middle East plays a crucial role in supplying chemical inputs used across the metals and mining sectors. Disruptions in these inputs create second-order effects that are less visible initially but can be significant over time.

These inputs include sulphur, ammonia and various petrochemical derivatives, all of which are essential to different stages of metal production.

Figure 4: Key input disruptions

Source: WisdomTree based on media searches and government and company announcements following events.

These effects tend to emerge with a lag. Initially, markets react to the most visible disruptions in energy and trade. Over time, however, constraints in chemical inputs begin to feed through into production costs and, in some cases, output levels.

5. A comparative perspective

Figure 5: A comparative perspective

Source: WisdomTree

From energy shock to broad commodity disruption

At first glance, the crisis presents itself as a classic energy shock. The most visible disruptions have been in oil and gas markets, and price reactions have been led by LNG and crude.

However, as the analysis above shows, the impact extends well beyond energy.

Disruptions to gas supply feed directly into fertiliser production. Fertilisers, in turn, are closely linked to agricultural markets and food prices. At the same time, constraints in refining and petrochemical activity reduce the availability of key industrial inputs such as sulphur, ammonia and caustic soda. These inputs are essential to the production of metals including copper, aluminium and battery materials.

What begins as an energy shock therefore propagates through multiple layers of the global economy:

- From energy into fertilisers and chemicals
- From chemicals into metals and mining
- And ultimately into industrial production and food systems

For investors, this has important implications.

Focusing solely on oil and gas may capture the initial phase of the shock, but it risks missing the broader and more persistent effects that emerge over time. As supply constraints ripple through interconnected markets, a wider set of commodities becomes exposed.

A more resilient approach is therefore to consider broad commodity exposure, rather than concentrating only on energy. This allows investors to participate not just in the immediate price response, but also in the second-order effects that tend to unfold with a lag.

In that context, diversified commodity strategies can provide a more comprehensive way to navigate periods where geopolitical disruption affects multiple parts of the supply chain simultaneously.

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Conclusion: reopening is not the same as normalisation

Even in a scenario where the Strait of Hormuz reopens and tensions begin to ease, markets are unlikely to return quickly to pre-conflict conditions.

The reason is that the disruption is not limited to transport routes. It extends into production capacity, industrial systems and upstream supply chains. LNG infrastructure will take years to rebuild, aluminium production will take months to stabilise, and fertiliser markets will remain sensitive to gas and logistics. Meanwhile, second-order effects in chemical inputs will continue to influence metals and mining with a lag.

In practical terms, this means that while the most extreme price spikes may moderate, underlying supply tightness is likely to persist.

The sequence is important. Energy markets react first, followed by trade flows, then industrial inputs, and finally metals. Understanding that sequence helps explain why the full impact of the disruption may only become apparent over time.

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