



RIVERLAKE

Towards a sustainable
industry together

Situation Overview

- Diplomatic talks collapsed in late February, triggering a rapid escalation in regional tensions. On 28 February, coordinated US-Israel strikes targeted Iranian military infrastructure, marking a significant turning point in the conflict. Reports of the death of Iran's Supreme Leader Ali Khamenei have further intensified the situation and are widely viewed as the beginning of a more direct confrontation between Iran and Western-backed forces.
- These developments have quickly translated into disruptions across regional infrastructure. Energy facilities across the Gulf have been targeted, including Saudi Arabia's Ras Tanura refinery, which was reportedly struck by an Iranian drone. Port infrastructure in Duqm, Oman has also been damaged, while airports in Dubai and Doha briefly suspended flights as a precautionary measure following heightened security concerns.
- The maritime security environment has deteriorated sharply, particularly around the Strait of Hormuz. Iran has issued threats against vessels transiting the strait, and several ships have reportedly been damaged by missile and drone attacks. As a result, war-risk insurance coverage has been suspended by several insurers, contributing to a decline in vessel traffic and raising concerns about the stability of one of the world's most critical energy shipping routes.

Initial Market Reaction

The outbreak of the conflict triggered an immediate reaction in global oil markets. Brent crude surged as markets rapidly priced in the risk of supply disruption in the Middle East Gulf, briefly jumping nearly 9% to around \$82 per barrel. The move reflected growing concerns that escalating regional tensions could threaten production and export flows from one of the world's most critical energy hubs.

Shipping and insurance markets reacted just as quickly to the deteriorating security environment. War risk insurers halted coverage for vessels transiting the Strait of Hormuz, forcing shipowners and charterers to reassess voyages through the region and significantly increasing operational uncertainty for tankers operating in Gulf waters.

Tanker freight markets also responded sharply to the heightened geopolitical risk. Benchmark VLCC earnings reportedly surged to around \$424,000 per day as charterers rushed to secure available tonnage, reflecting expectations of tighter vessel supply and potential disruptions to normal trading routes.

At the same time, maritime traffic through the Strait slowed significantly as security concerns intensified. Vessel movements declined as ships reduced speed, rerouted around high-risk areas or waited outside the Gulf while operators reassessed the evolving security situation.

Strait of Hormuz – Strategic Importance

Strategic energy chokepoint

The Strait of Hormuz is one of the world's most critical energy chokepoints.

Around 20 million barrels per day of oil and petroleum liquids transit the passage.

This represents roughly 20% of global oil supply and ~35% of seaborne crude exports.

The corridor also carries ~20% of global LNG trade and a significant share of refined products.

Key artery for tanker trade

Most crude exports from Saudi Arabia, Iraq, Kuwait, the UAE and Qatar transit through Hormuz.

The route is primarily served by VLCC tankers transporting Gulf crude.

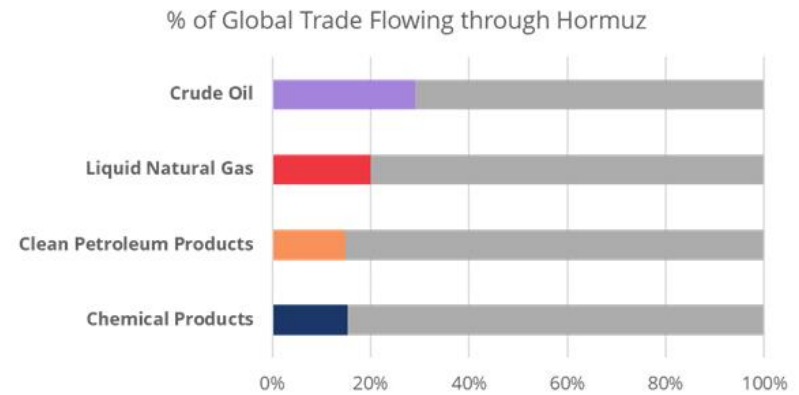
Flows are largely directed toward Asian import markets, particularly China, India, Japan and South Korea.

Limited alternative export routes

Alternative export routes remain limited

Saudi Arabia's East-West pipeline to the Red Sea has capacity of about 5 million b/d.

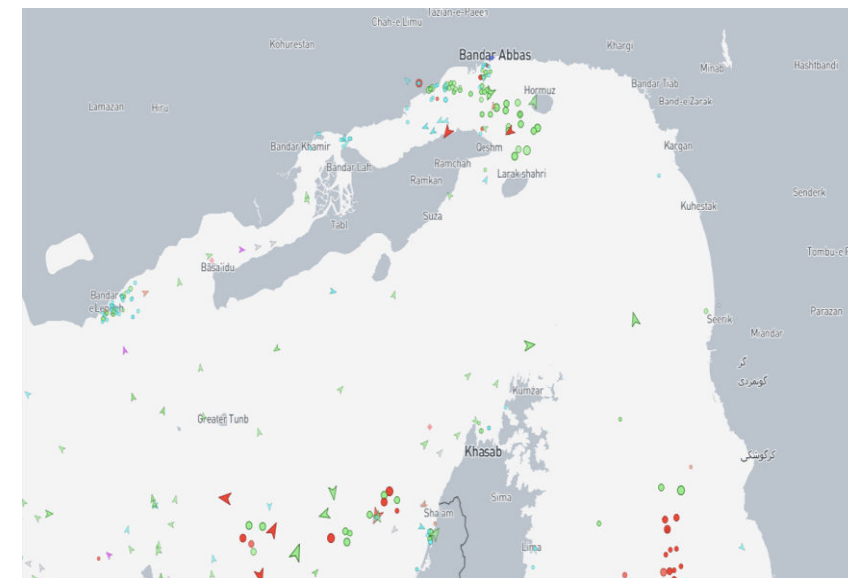
In the event of a disruption, a large share of Gulf crude exports would remain exposed to Hormuz transit risk.



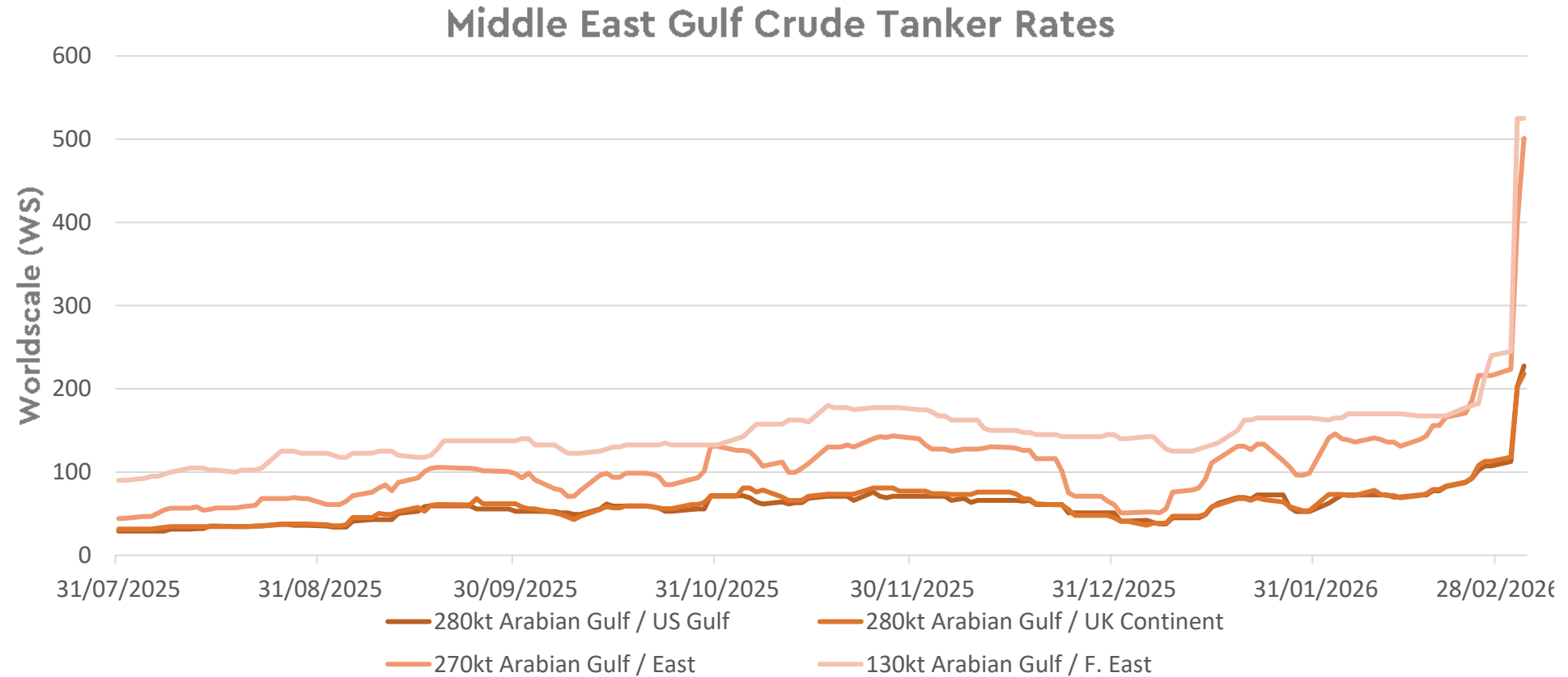
Source : Lighthouse Chartering

Immediate Operational Impact

- Commercial shipping has been directly affected by the recent attacks. Several vessels were reportedly struck in the Gulf of Oman and in UAE coastal waters, including the tankers Mark V, Stena Imperative and Skylight. In response to the deteriorating security environment, the Joint Maritime Information Center (JMIC) raised the regional maritime threat level to CRITICAL, highlighting the growing risks faced by commercial shipping operating in the area.
- At the same time, insurance and security constraints have begun to significantly disrupt operations. Multiple P&I clubs and war-risk insurers suspended coverage for vessels transiting the Strait of Hormuz, sharply increasing insurance costs and discouraging shipowners from undertaking voyages through the region amid escalating uncertainty.
- AIS data also indicates a sharp collapse in vessel traffic through the Strait of Hormuz following the escalation on 28 February. Vessel movements reportedly dropped by around 70% within hours of the incident, while arrivals fell to roughly 80% below normal levels as ships slowed, diverted or delayed entry into the Gulf.
- As a result, large segments of the global fleet are currently immobilised or waiting outside the Gulf. Approximately 3,200 vessels, representing around 4% of the global fleet, remain inside the Middle East Gulf, including 112 crude tankers (around 70 VLCCs) and 195 product tankers. In addition, roughly 500 vessels are currently waiting near UAE and Omani ports as operators assess the evolving security situation and transit conditions.

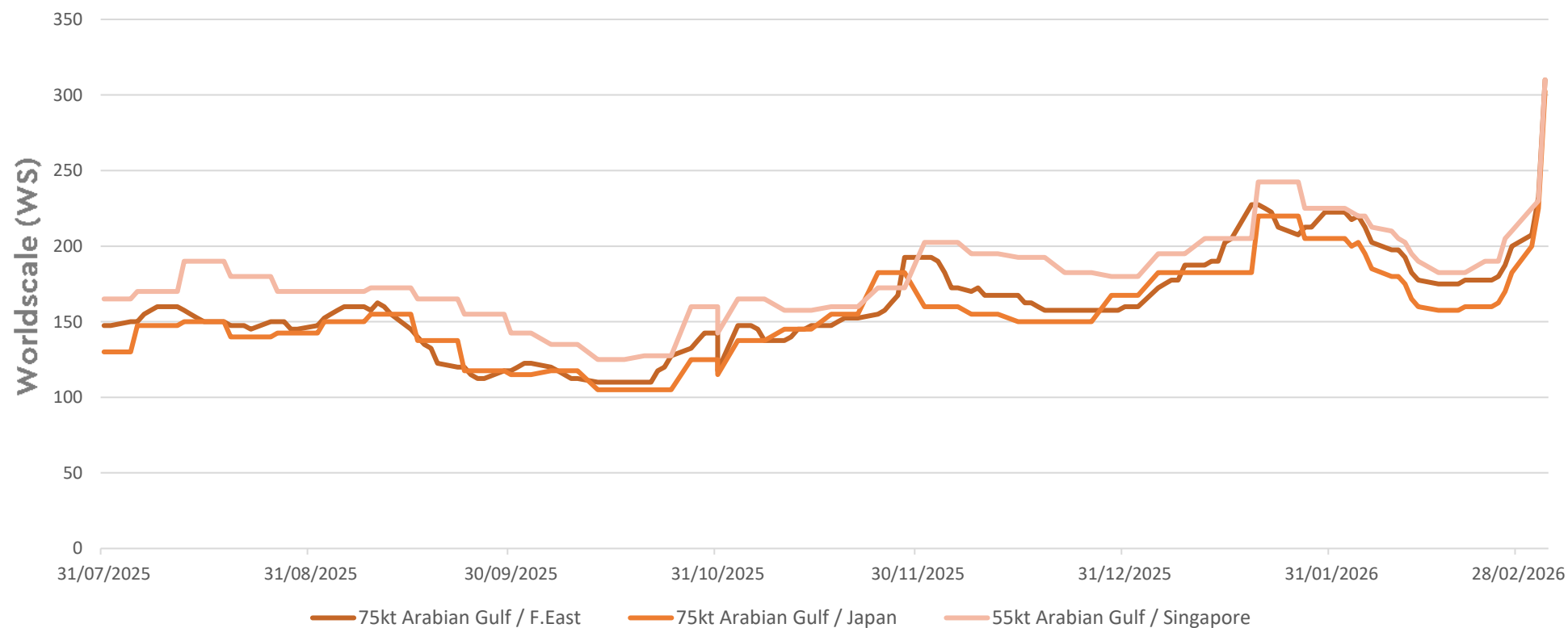


Freight Reaction - Crude



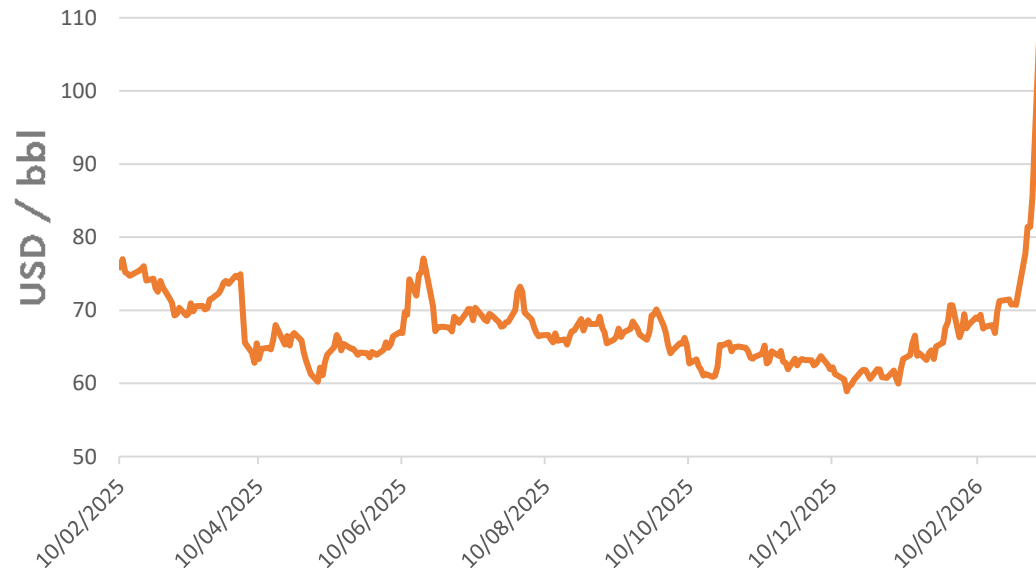
Freight Reaction - Clean

MEG Clean Tanker Rates

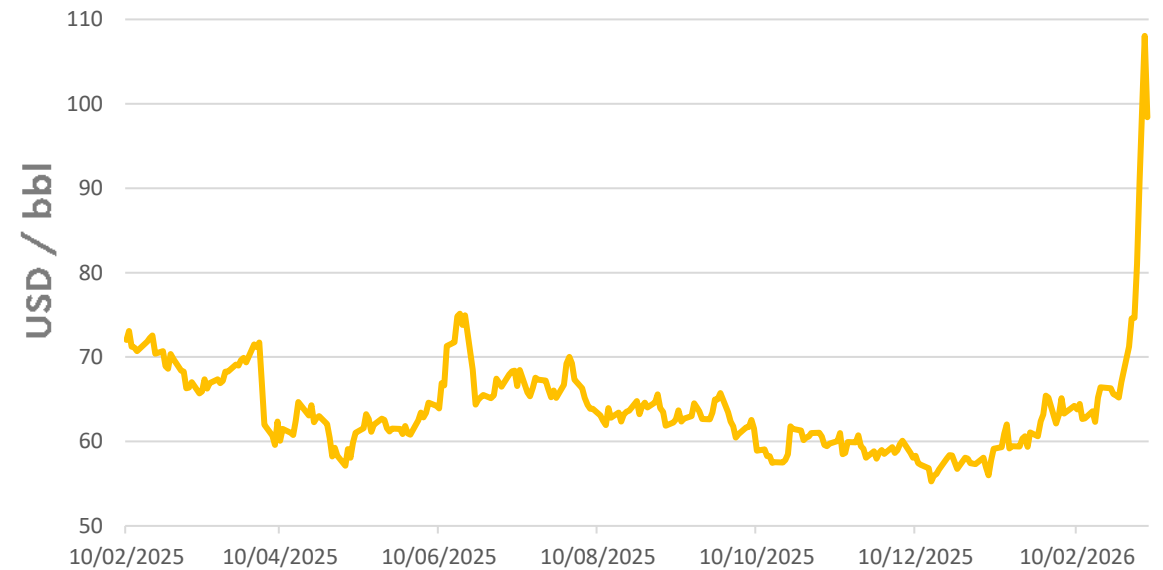


Oil Market Reaction

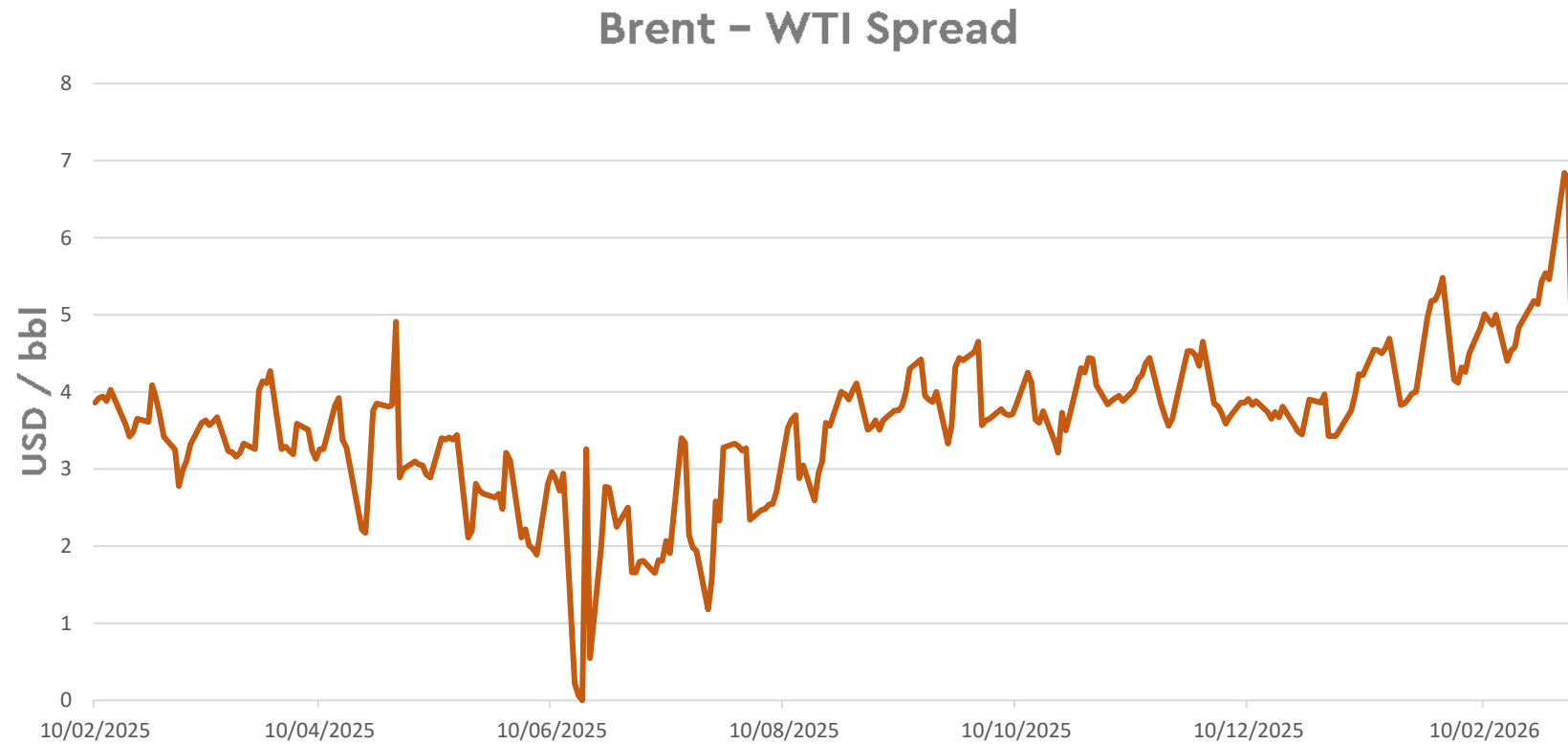
Brent Crude Oil Price



WTI Crude Oil Price



Crude Benchmark Spread



Trade Flow Reconfiguration Risk

Disruptions across key maritime chokepoints are increasingly constraining Middle East export flows. With the Strait of Hormuz effectively closed, Gulf producers are relying more heavily on pipeline exports toward the Red Sea. However, this alternative corridor offers limited capacity, preventing a full substitution of seaborne exports through the Gulf.

At the same time, renewed Houthi threats in the Red Sea are raising concerns over the reliability of this alternative route. Further disruptions in the region could significantly complicate export logistics for Gulf producers and increase pressure on already constrained maritime supply chains.

Asian buyers are increasingly turning to alternative crude suppliers as uncertainty surrounding Middle East supply intensifies. In particular, purchases of US crude in the Far East have risen sharply as refiners seek to secure more stable supply sources outside the Gulf region.

As these trade flows shift, freight rates for US Gulf crude exports have climbed to their highest levels since the Covid pandemic. The surge reflects growing long-haul demand as crude cargoes increasingly move from the US to Asian markets.

Stronger US crude exports are also beginning to reshape tanker deployment across segments. Increased crude movements are drawing LR2 tonnage into crude trading, reducing the number of vessels available for clean petroleum product trades.

As a result, MR tankers are increasingly absorbing these displaced flows, tightening vessel availability in the clean tanker market and contributing to firmer freight conditions across product tanker segments.

Refinery and Demand Risk

Disruptions to Middle East supply routes are beginning to tighten global diesel markets. As logistical constraints affect product movements from key exporting regions, diesel availability is tightening and prices have surged to multi-year highs. European diesel crack spreads have also widened significantly, reaching their strongest levels in more than two years as supply concerns intensify.

These developments underline the growing sensitivity of refined product markets to disruptions in Middle East supply chains. With diesel remaining essential for industrial activity and transportation, sustained constraints on supply routes could further increase volatility across global energy markets.

At the same time, product flows to Europe are becoming increasingly exposed to disruptions. The region has grown more dependent on diesel imports from the Middle East and Asia following the sharp reduction in Russian supply, making European markets particularly sensitive to any disturbances affecting Gulf refining activity or shipping routes.

As a result, any further instability in Gulf refining or maritime transport could quickly translate into tighter product availability in Europe. This growing reliance on long-haul imports increases the vulnerability of European energy markets to geopolitical developments affecting key refining hubs and export corridors.

Refining activity across parts of Asia may also slow in response to uncertainty surrounding crude supply. Some refiners are reportedly considering run cuts of between 20 - 30% as concerns grow over the reliability and timing of crude arrivals.

In China, the National Development and Reform Commission (NDRC) has reportedly suspended new fuel export contracts, reflecting a broader shift toward safeguarding domestic supply. This prioritisation of internal energy security could further limit product availability on international markets.

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