

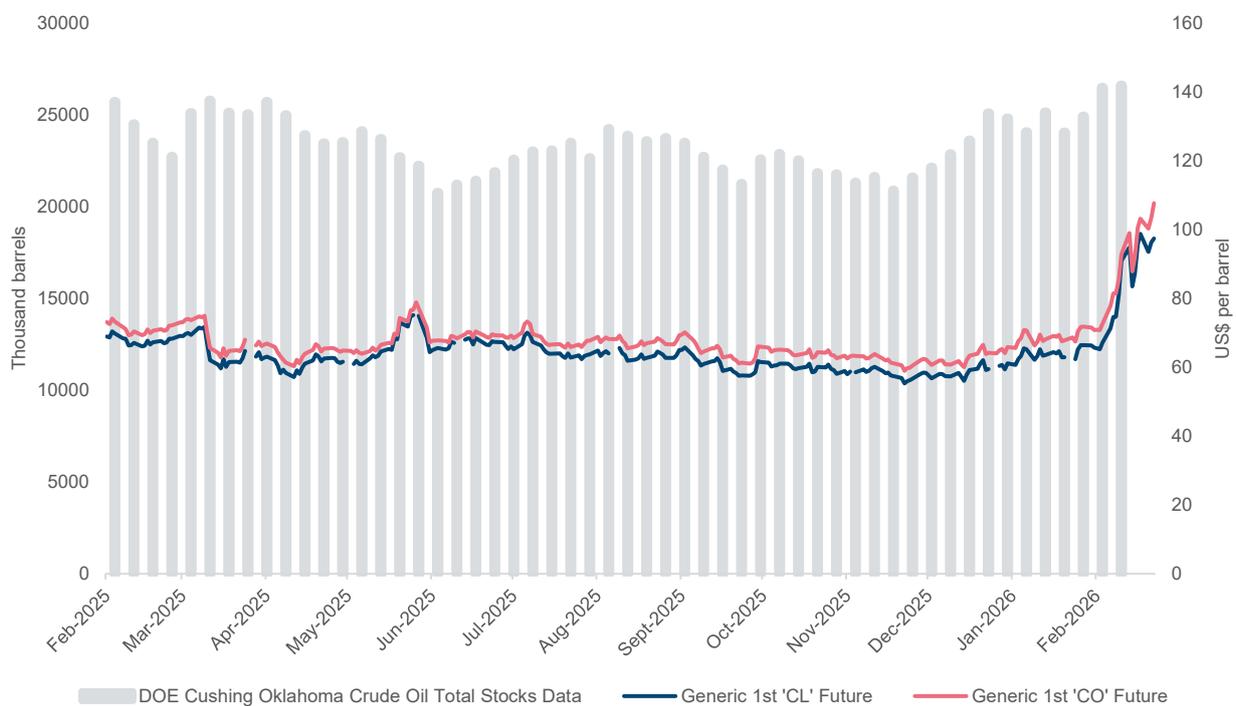
COUNTING BARRELS, COUNTING DAYS: THE ECONOMICS OF ESCALATION

March 2026

OIL AT THE PRECIPICE

Following a coordinated airstrike launched by a US-led coalition with Israel against Iran at the end of February 2026, tensions rapidly escalated into a full-scale regional war. Oil markets did not wait for geopolitical clarity; prices spiked sharply, opening at \$81.57/bbl against the previous day's close of \$72.48/bbl.

Figure 1: Crude Oil Price



Source: Bloomberg

The rally intensified following the closure of the Strait of Hormuz, a vital maritime chokepoint through which roughly 20% of the world's oil passes daily. In the lead-up to the full shutdown during the first week of March 2026, the number of oil tankers transiting the strait plummeted by 60%, with only 70 vessels making the passage. Compounding the supply shock, attacks on regional energy facilities prompted several Gulf states to halt production, further driving global oil prices upward. This environment naturally raises concerns for investors regarding macroeconomic impact and portfolio positioning. Key questions emerge: How long will the conflict persist before a ceasefire is reached? And can US inventory levels serve as a "ticker" indicating how much longer the war can be sustained? The simple answer is possibly, but inventories are not the sole determining factor.

First, there is a significant munitions imbalance at play. Iran relies on inexpensive drones and missiles, while the US utilises far more costly interceptors. These dynamic risks are depleting US stockpiles; reports indicate that nearly double the annual production capacity of certain munitions has already been expended. Second, domestic political pressures could mount ahead of the US midterm elections on 3 November 2026. US President Donald Trump faces the prospect of rising gasoline prices entering the final months of the campaign. If the conflict extends beyond available reserves and enters a period where oil prices surge just



before the election, the political incentive to pursue a ceasefire could become compelling. This leads to the critical questions: exactly how much reserve capacity is available, how long might the war last, and how should an investor navigate this?

Analysing inventory levels offers some insight. The Department of Energy’s Strategic Petroleum Reserve (SPR) can act as a buffer, but the reality is nuanced. Not all oil is alike; some is fully refined while other grades require processing, creating operational friction and logistical delays in delivery. According to the IEA, an average of 20 million barrels per day of crude oil and products were shipped globally in 2025. Based on current SPR levels, this suggests close to a month of cover. While OPEC+ has agreed to increase production in April, it remains uncertain whether this will be enough to fill the supply gap. Furthermore, if tensions escalate further, physical constraints could prevent OPEC+ members from exporting, rendering the production increase ineffective. Recent statements from US Energy Secretary Chris Wright suggest the US has bought itself roughly 120 days of leeway to sustain the conflict without severe domestic consequences. The Secretary announced the release of 172 million barrels from the SPR as part of a broader 400 million barrel drawdown, aimed at curbing prices driven by supply shocks from the war. This release is estimated to take 120 days to deploy, averaging approximately 1.43 million barrels per day.

As tensions escalated in late February, the Strait of Hormuz became the central concern. Given that it handles ~20% of global oil supply, its closure represents a massive supply shock. In March, vessel speed increased as operators rushed to transit, even as the number of tankers entering the strait dwindled ahead of the full closure. The International Energy Agency has warned of the largest supply disruption in history. Goldman Sachs estimates that ~18% of the global oil supply has been taken off the market. Consequently, the energy sector is severely affected, with oil prices soaring globally. This is already impacting consumers; airlines, for instance, are passing on higher jet fuel costs through increased ticket prices. Beyond transportation, heavily dependent Asian economies like China, India, Japan, and South Korea are at risk. The majority of China’s imported oil passes through the Strait of Hormuz, of which a prolonged closure raises the spectre of a global recession.

Figure 2: Crude Oil Vessel in the Strait of Hormuz

	Week 1 Feb 2026	Week 2 Feb 2026	Week 3 Feb 2026	Week 4 Feb 2026	Week 1 Mar 2026	Week 2 Mar 2026	Week 3 Mar 2026 (Till Wed)
Number of vessels in the fleet	175	177	172	175	70	111	11
Underway	61.00%	63.00%	57.00%	52.00%	21.00%	34.00%	27.00%
anchored	26.00%	19.00%	22.00%	34.00%	74.00%	61.00%	73.00%
Moored	11.00%	15.00%	13.00%	5.00%	4.00%	5.00%	0.00%
Vessels were last seen today	83.00%	79.00%	74.00%	73.00%	76.00%	72.00%	91.00%
average speed of vessels (knots)	7.2	8.5	6.70	7.00	6.30	5.60	1.70
Average spread in transit	10	10	9.00	10.70	7.90	9.00	6.00
Capacity (Years)	11.7	11.50%	11.60	11.50	11.60	11.80	13.50

Source: Bloomberg

For South Africa, the implications are particularly acute due to heavy reliance on imported fuel. This exposes the country to the full force of surging global energy prices. Scenario analysis suggests a worst-case increase of more than R8.00 per litre should crude prices surpass \$120/bbl. This would stoke inflation, notably in the transport category, which holds a 13.89% weight in the latest CPI basket (with fuel alone accounting for 3.89%).


Figure 3: Scenario Analysis on GDP, Fuel price and Inflation Impact

Scenarios	Oil Price	Price Increase	Fuel Consumption Reduction	Lower Global GDP Impact (pp) using IMF Coefficient	Upper Global GDP Impact (pp) using IMF Coefficient	SA GDP Impact (pp)	SA Fuel (Petrol) (ZAR)	SA Fuel (Diesel) (ZAR)	SA inflation impact
Baseline (average oil price for 2025) & 31 Dec 2025	\$ 68.00						R 21.41	R 20.01	
Contained Shock	\$ 80.00	17.6%	-0.88%	0.00	0.00	0.00	R 23.23	R 21.83	0.02%
Regime Shift	\$ 100.00	47.0%	-2.35%	0.00	-0.01	0.00	R 26.27	R 24.87	0.07%
Prolonged Crisis	\$ 120.00	76.4%	-3.82%	-0.01	-0.02	0.00	R 29.31	R 27.91	0.11%
Systemic Collapse	\$ 150.00	120 %	-6.03%	-0.01	-0.02	-0.01	R 33.87	R 32.47	0.17%

Note: Analysis isolates the secondary impact of higher oil prices on other categories, such as food, consumer products, etc for inflation (inflation impact is based on current transportation size).

Based on a regression analysis we conducted using data from 1998 of the year-on-year changes in Brent crude oil prices, the USD/ZAR exchange rate, and South African inflation, the following impacts could be expected: a 20% increase in oil prices could add 0.14% - 0.22% to year-on-year inflation, a 40% increase could add 0.27% - 0.44%, and a 120% increase could add 0.81% - 1.31%. Looking at the 2022 period, which featured a USD/ZAR range very similar to the current one, year-on-year oil price movements of 50% - 70% pushed year-on-year inflation into the 6 - 7% range, which would correspond to a sustained price level of around \$120 per barrel.

Figure 4: Macroeconomic Impact

Scenarios	What Could Happen	Global Macroeconomic Impact	South Africa Macroeconomic Impact
Baseline (average oil price for 2025) & 31 Dec 2025	Pre-war levels of which market was focused on OPEC+ supply and demand	Inflation is contained, previous growth projections (supplied by the IMF) translate, and the easing monetary cycle continues	Inflation is contained, previous growth projections (supplied by the IMF) translate, and the easing monetary cycle continues
Contained Shock	More secluded regional impact, the Strait of Hormuz was partially disrupted	GDP could be trimmed slightly, core inflation will be unaffected, but there could be a temporary uptick. Central banks will probably delay the easing cycle on a wait-and-see basis	Fuel Prices could marginally impact discretionary spending, inflation could rise, however, still within the SARB band, and growth forecasts could be lower
Regime Shift	Prolonged closure of Hormuz could risk tanker war premiums. More focus would be on energy infrastructure	China and the Eurozone GDP get compromised, global inflation rises further, and rate cuts would be put on hold	Rate cuts could be delayed or halted completely, retail sales and durable goods weaken, and growth lowers further.
Prolonged Crisis	Major escalations are sustained, reserves are released, and the amount left over becomes a concern	Stagflation becomes a concern, and a possible rate hike is considered to anchor inflation expectations	Could risk entering into a technical recession if quarterly growth weakens for a prolonged time, resulting from a deep consumption shock. Rate cuts are off the table
Systemic Collapse	Full-blown energy war, which could see multiple quarters' supply gap widen	Global recessionary risk is very high, and monetary policy faces a dilemma of forced rate hikes to defend currency and creditworthiness, despite the continual contraction	Soaring fuel subsidy burden, which further puts pressure on SOEs, Transnet and Eskom through higher input costs

Such an increase could trigger a marginal cost-of-living crisis for households and severe margin pressure for businesses. Higher inflation would likely delay any prospective interest rate cuts. However, there is a potential upside for local markets. Geopolitical instability typically drives investors toward safe-haven assets, often resulting in a surge in precious metal prices. Given that the majority of gains in South African equities last



year were driven by the Resources sector, a continued rally in commodity prices could provide a significant further boost to the SA market.

Figure 5: SA Sector Performance



Source: Bloomberg

While the US has secured a roughly 120-day buffer to mitigate domestic consequences, this window is not infinite. Should the conflict persist beyond this or escalate further, the world could face genuine physical scarcity. For South Africa, this creates a dual-edged reality: rising fuel prices will fuel inflation and delay rate cuts, yet the same instability drives capital toward safe-haven commodities. The duration of the war remains the critical unknown; however, amid this uncertainty, investors are reminded to remain anchored. Our Houseview moved into neutral across all asset classes last month, which remains appropriate until greater clarity on the conflict's duration and broader economic impact emerges.