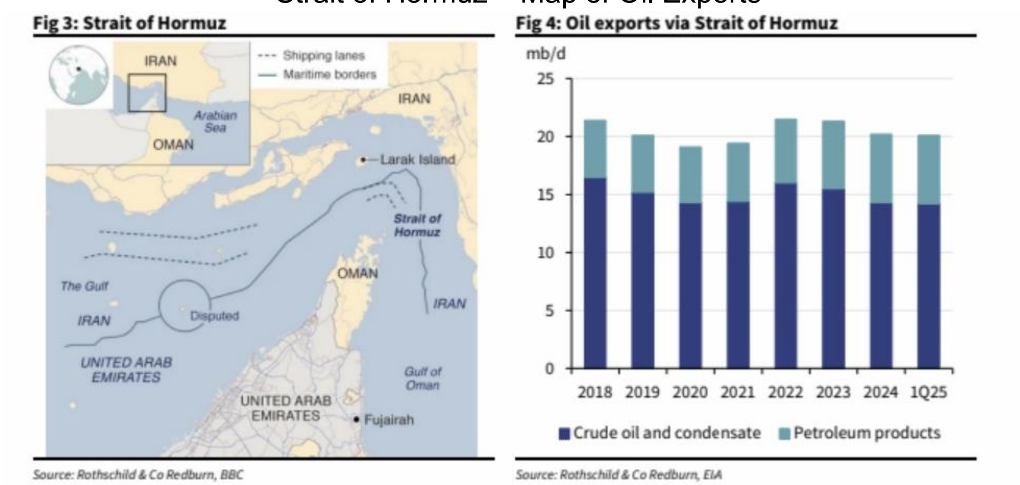
Iran Situation Continues to Evolve

Day three of the Iran/U.S./Israel conflict brings more questions than answers. What we do know, is that the surrounding nations are being impacted with numerous knock-on events unfolding. The extent of these events will depend upon the duration of this conflict, with the U.S. suggesting events could take up to four weeks to achieve its objectives. First and foremost is the question surrounding the ability of shipping lanes to remain open in the Strait of Hormuz. Iran has suggested the lanes will remain open, but attacks have occurred on three petroleum tankers, and insurance companies have indicated policies are ‘invalid’, resulting in anchoring of vessels, effectively closing the Strait. As illustrated below, approximately 20% of crude and product are transported through this choke point with very little work-around export capacity available. It has been suggested that Iraq storage is limited with potential shut-in of oil fields occurring first. Qatar has also shut-in its enormous LNG facility that supplies ~20% of global supply and Saudi Arabia suspended activity at its Ras Tanura refining complex (~550k/d) due to drone attacks. Additional impacts may unfold in fertilizer markets (urea, nitrogen, phosphate), aluminum and iron ore pellets, to name a few.

Strait of Hormuz – Map of Oil Exports



Source: Redburn, BBC, EIA.

We are closely watching the duration of this conflict. A prolonged conflict of four weeks or more will have implications on physical deliveries for the above-mentioned commodities for months/quarters going forward. Beyond this point, longer-lasting impacts are very likely in price determination and durability. Given the death of the Ayatollah, the leadership position remains in transition with intelligence strategists suggesting a succession plan was in place. This key factor will likely determine if escalation or de-escalation occurs quickly or if the situation is prolonged.

While our portfolios are not constructed around immediate geopolitical events, we continue to monitor our energy and materials holdings and believe they are positively positioned given they are primarily anchored in Canada. Please reach out if you would like to arrange a call to discuss this further or if you have any specific questions.

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