RLA Market Insights – Thursday, 05 March 2026

US – Iran War and Its Impact on Chemicals

28th February 2026 marked the fateful day when the US and Israel began the bombardment of Iran which was followed by Iranian retaliating against Gulf Cooperation Council states hosting US bases. This development has significantly intensified tensions in the Middle East along with sending negative signals for the global energy and chemical markets. The reported killing of Ayatollah Khamenei has amplified fears of a wider conflict.

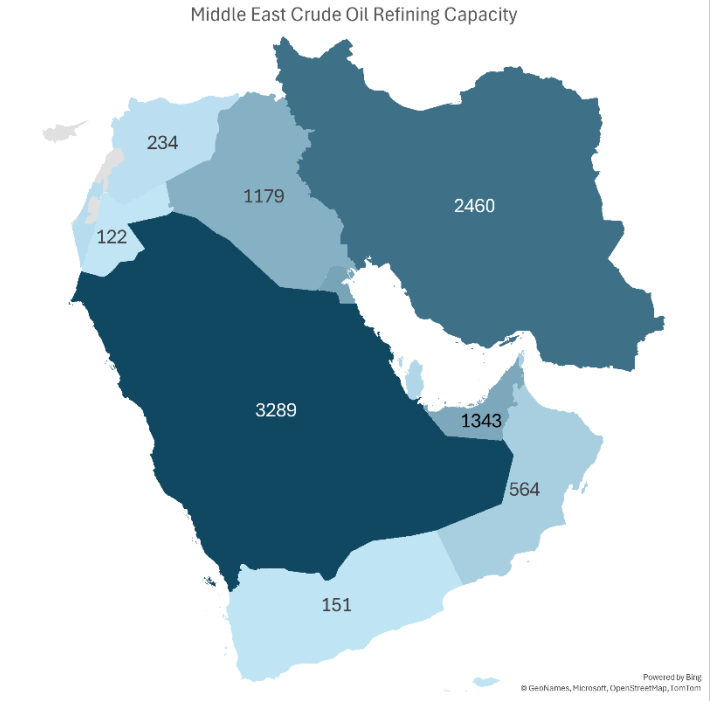
The focus remains be on the Strait of Hormuz which serves a strategic chokepoint handling around 20% of global seaborne crude flows. Iran has effectively shut the Strait down following the missile attacks. LNG tanker movements is reported to have ceased since 28th February. Gulf exports of crude, condensate, LNG and petrochemicals stand close to a standstill for now.

This disruption has threatened the feedstock availability for refineries and petrochemical chains, particularly for naphtha, LPG, and ethylene dependent producers in Asia and Europe. Crude oil price has seen recent spikes with brent reaching as high as $79/bbl, tighter aromatics and olefins supply and increased volatility across polymers and fertilizer markets. The situation presents one of the most serious energy supply risks since prior Gulf crises.

With continuous missile attacks on civilian infrastructure from Iran, the total refining capacity in Middle East remains under a broader risk, threatening global supply chain disruptions and shortages. The total refining capacity in Middle East is said to stand ~12 million bbls/day. This includes key countries such as Bahrain, Iran, Israel, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Syria, UAE and Yemen **(Refer Figure 1)**.

OPEC+ has agreed to increase collective production by 206,000 bbls/day, with Saudi Arabia and the UAE already ramping up crude output. Given the transits through the Strait remains restricted, these incremental volumes are likely to provide only modest price relief, limiting the crude flow to global markets and petrochemical chains.

Figure 1 Middle East Refining Capacity (000 bbls/day)



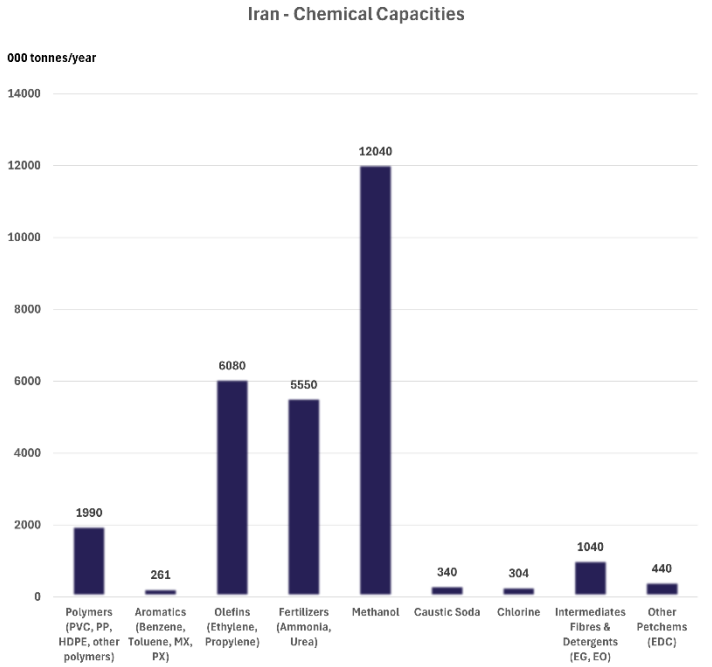
Since the Strait of Hormuz functions as a vital passage for feedstocks like Methanol, Urea, Ammonia, LPG and naphtha, its closure poses a major implication for the petrochemical producers across Asia. Major chemical importers like India and China which previously depended on Iranian cargoes will now require to shift to alternate suppliers, that too at a time when other Middle Eastern supplies also face supply chain disruptions. India, although was already seen diverting its ammonia sourcing away from Iran to China and other Middle Eastern nations amid tariff threats by the US. China for now, is expected to feel the crunch since it was the biggest importer of Iranian Methanol.

Iran exports methanol, ethylene glycol, HDPE and LDPE to China all of which are now facing increased price pressures further squeezing margins for the Chinese petrochemical producers. Iran plays a major role in global petrochemicals, accounting for around 9% of global exports of feedstocks like ethylene and methanol. Chinese imports of methanol from the Middle East account for 70% of the total methanol inflows. Restrictions on Iranian crude flows could further increase the crude price, thereby, increasing the prices of naphtha, which could result in raising olefins and aromatics production costs. At the same time China also imports around 50% of its LPG from Middle East. Reduced LPG and naphtha availability is projected to further lower steam cracker operating rates in Asia, which are already struggling with declining margins at present. It's expected that Asian refiners and crackers could potentially implement significant run cuts to avoid forced shutdowns amid squeezed margins and feedstock shortage.

Iran's chemical capacities amounting to ~28 million tonnes/year are currently under a heightened risk from persistent missile attacks by the US and Israel. The chemical capacities are a major source of aromatics (261,000 tonnes/year), olefins (6.0 million tonnes/year), fertilisers (5.55 million tonnes/year), polymers (1.99 million tonnes/year), intermediates fibres & detergents (1.04 million tonnes/year), methanol (12.0 million tonnes/year), caustic soda (340,000 tonnes/year), chlorine (304,000 tonnes/year) and other petrochemicals (440,000 tonnes/year) to Asian markets especially India and China.

A list of Iranian chemical capacities is listed in Figure 2.

Figure 2 Iran - Chemical Capacities



China's methanol to olefins sector is expected to function as a key balancing lever in the current market environment. Elevated methanol inventories combined with recent plant shutdowns, suggest that additional marginal rate reductions could help cushion near-term price spikes in olefins. However, heightened crude oil volatility is complicating margin dynamics make operating decisions more challenging. By early March 2026, petrochemical futures in China were seen rising by 5.8%. Among the gainers were propane, butane and methanol along with moderate rise seen in propylene, benzene, polypropylene, LPDE, paraxylene, ethylene glycol, PVC, PTA and PET.

Future Projections

Prolonged Strait of Hormuz Closure could potentially restrict feedstock supply not only from Iran but from other countries like Saudi Arabia and Qatar as well, triggering a feedstock shortage along with elevated prices globally. Under such case, Asian steam crackers, refiners, PDH facilities and petrochemical producers will find it difficult to operate and could see forced closures, given the increased operating costs and squeezed margins. Naphtha shortage into China could be another big issue given the recent Naphtha tax implemented by government under the anti-involution policy. Cracker operators could see shift towards propane and butane, however, the flexibility remains limited, given that 50% of LPG and 80% of naphtha imported into Asia arises from Middle East. Paraxylene imports into China also will face an indirect burnt. Although China doesn't really import paraxylene from Middle East, but its major suppliers South Korea and Japan could also face the same naphtha feedstock crunch.

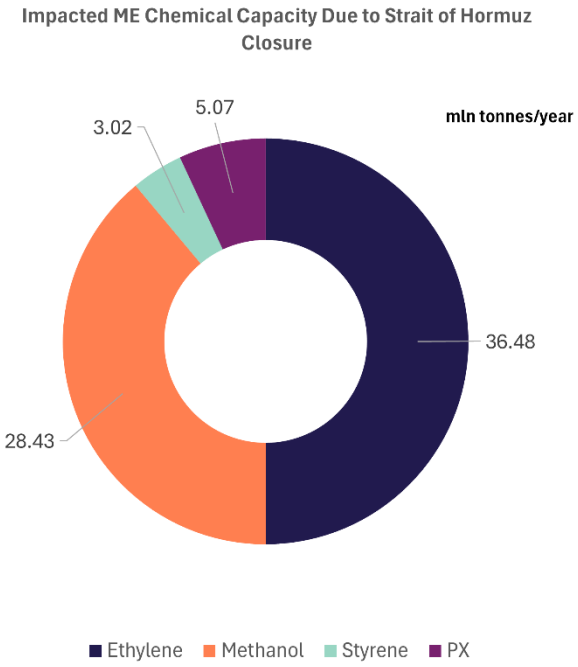
For Benzene, the trade usually is the other way round, with India being the top supplier of benzene to Saudi Arabia, Qatar and Kuwait. The availability of Benzene in Middle East again will depend on successful opening of the Strait of Hormuz.

Figure 3 shows total impacted Middle Eastern chemical capacities around Strait of Hormuz

From April 2026, however, additional 206,000 bbls/day of OPEC+ supply was expected largely from Saudi Arabia and UAE. The spare capacity will only be accounted if at all it reaches market efficiently.

Should the situation in Middle East resolve within one or two weeks, the crude oil prices are expected to slide back to normal levels but that would take some time. A return to normality usually takes some time since there is always a risk-premium attached to it. Moreover, early the re-opening of Strait of Hormuz could be seen as a temporary delay in the feedstock availability rather than a supply side shortage.

Figure 3 Impacted ME Chemical Capacities Due to Strait of Hormuz Closure



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