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The ripple effect

The Strait of Hormuz turns a regional tension into a global energy crisis. A single chokepoint can move oil, freight, and investor sentiment in the same day. A problem that starts locally can quickly ripple across financial markets and global geopolitics. That is why the Strait of Hormuz matters far beyond the Gulf.

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Introduction

On 28 February 2026, US-Israeli strikes on Iranian energy infrastructure caused the largest oil supply shock since the 1973 OPEC embargo. Iran effectively closed the Strait of Hormuz, which carries about 20 million barrels per day roughly a quarter of global seaborne oil. Prices surged nearly 70% in under a week, turning a long-feared risk into reality. Emerging markets are hit harder by this situation because energy is more expensive, prices are rising, and it's harder for them to borrow money, forcing policymakers to choose between supporting growth and controlling inflation.

1. Spillover mechanisms

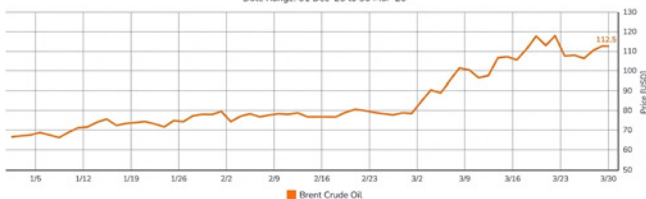
A geopolitical energy shock quickly spreads beyond fuel markets, affecting sovereign creditworthiness, capital flows, and central bank policy across multiple countries. Understanding the sequence of spillovers helps anticipate where risk migrates next.

Step 1 - The commodity price shock

The first impact is financial. Energy prices react instantly, long before any real supply shortage appears. In this case, oil briefly surged to USD 120 per barrel before stabilising around USD 100-110, as markets anticipated alternative supply routes and releases from strategic reserves. The International Energy Agency coordinated a historic release of 400 million barrels from global reserves, providing a temporary buffer of roughly 73 to 124 days. Still, market expectations were already shaken. Emerging markets are highly oil dependent because domestic production is limited while industrialisation, transport, and urbanisation drive growing demand. Many rely on oil-fired power and subsidised energy, and alternatives like renewables or domestic coal are underdeveloped.

Brent Global Spot Crude Oil Prices: 3-Month Trend

Date Range: 31 Dec '25 to 30 Mar '26



Source: Facset

Beyond oil, the Strait of Hormuz carries about 19% of global liquefied natural gas (LNG) flows. Recent drone strikes on Qatar's Ras Laffan and Mesaieed facilities have tightened gas markets across Asia, while shipping costs and war-risk insurance have surged, raising prices for all Gulf-traded goods. Market models underestimate how this shock cascades across sectors. Gas shortages have already forced fertilizer plant closures in Bangladesh, while 8.2 million litres of helium stranded in the Gulf are expected to be lost by mid-April. As Asia reaches its oil limits, knock-on effects on fertilizers, plastics, and semi-conductors will further amplify inflation globally.

Step 2 - Currency market repricing risk

Financial markets reacted almost immediately. Within two weeks of the conflict's outbreak, the Egyptian pound fell 9.2% against the dollar, the Hungarian forint dropped 8%, and the Chilean peso lost 4.9%. Investors moved into safe-haven assets such as the US dollar, gold, and the Swiss franc, putting broad pressure on emerging-market currencies. For countries with low foreign-exchange reserves, the impact was particularly severe: Ethiopia had just 3.7 months of import cover, and Vietnam only 2.3 months. Currency depreciation then amplified the original energy shock by raising the local cost of imports, creating a feedback loop that showed up in inflation data in the following weeks.

Egyptian Pound versus Dollar :



Source: LSEG

Step 3 - Inflation builds and the stagflationary trap closes

As the disruption persists, inflation becomes the main transmission channel. Allianz Research estimates that even under two months of Strait of Hormuz disruption, emerging-market inflation could rise by 0.8-1.0 percentage points, as higher energy costs feed through to electricity, transport, food, and manufacturing. Households in these markets, which spend more on food and energy, are hit first. Local bonds reflect the pressure: South Africa's 10-year breakeven rises by 57 bps, Poland's by 34 and Turkey's by 181, contributing to a 233-bp spike in nominal yields. Energy dependence amplifies the effect, with Hungary and Romania potentially seeing inflation rise by more than 3 percentage points, trapping central banks in stagflation despite slowing growth.

Emerging Markets: Debt Premium Volatility and Geopolitical Shocks

Sovereign and corporate spreads surge following key global events



Source: LSEG Datastream

The transmission from gas to food is direct but often invisible, natural gas makes ammonia, ammonia makes urea, urea drives crop yields. Nearly half of global urea exports pass through the Strait of Hormuz. India has shut or cut 30 ammonia and urea plants, Bangladesh, with 170 million people, produces no domestic fertilizer. Critical planting windows, for example the US Corn Belt in April-May, India's kharif season in June coincide with peak fertilizer shortages. With consumers highly sensitive to food prices, simultaneous disruptions to nitrogen and phosphate supply drive sharp price increases. India's cereal stocks provide a buffer, but their reliance on fertilized yields masks a deeper structural vulnerability.

Step 4 - Gulf economies absorb the direct hit

For countries closest to the conflict, the shock was immediate and severe. A six-week closure of the Strait of Hormuz cut Saudi GDP by around 1.6 percentage points and UAE GDP by 3.3 points, driven by lower hydrocarbon exports and a collapse in tourism. Dubai's listed real estate developers saw share prices drop 13-17% in the first week alone. Beyond oil and gas flows, strikes on desalination infrastructure especially in Kuwait highlighted the vulnerability of energy-intensive water systems, raising operational costs and supply risks across the region. Bahrain's sovereign credit default swaps (CDS) spreads widened by nearly 40%, the largest move in the Gulf, signalling that investors were already differentiating sharply between Gulf credits based on fiscal resilience.

Step 5 - Sovereign spreads widen and capital flight accelerates

As inflation rose and currencies weakened, foreign investors began reassessing their exposure to the most vulnerable emerging-market sovereign issuers. Spreads widened unevenly: countries with high external financing needs

and limited reserve buffers Egypt and Pakistan faced the sharpest outflow pressures. Using the Ukraine conflict as a reference, a sustained closure of the Strait of Hormuz could push spreads higher by roughly 180 basis points for Egypt, 80 for Turkey, and 35 each for the Philippines and India.

The timing is especially sensitive. Emerging-market sovereign hard-currency issuance hit a record USD 236 billion in 2025, meaning the cost of rolling over debt has risen significantly for the most exposed borrowers just when market access is more critical than ever.

Step 6 - Foreign direct investment (FDI) stalls and long-term growth is damaged

The slowest-moving spillover is often the most persistent. Foreign direct investment reacts to geopolitical shocks with a lag, and once investor confidence in a region's security is shaken, recovery can take years. Historical experience illustrates this, Egypt's FDI took five to seven years to rebound after the political instability of 2013-2017. In the Gulf, the stakes are especially high given the scale of ongoing diversification efforts. Attacks on Amazon data centres in the UAE and Bahrain have already disrupted digital infrastructure and raised doubts about the region's ability to host AI hubs, financial services platforms, and smart-city projects key elements of its post-hydrocarbon strategy.

Tourism, another pillar of Gulf economic diversification, faces a recovery timeline of one to two years in a short conflict scenario, extending to five to seven years if perceptions of regional security are deeply altered. For emerging markets more broadly, sustained energy-price volatility discourages manufacturing investment by increasing input-cost uncertainty, compounding the growth damage already triggered by inflation and widening spreads.

2. Winners and losers map

Emerging Markets Exposure

Country	Exposure to the Middle East crisis				Market reaction since Feb 27		Coping mechanisms					
	Energy balance (% of GDP)	Strategic oil reserves (days of consumption)	Vulnerability to energy price shock	Vulnerability to ME supply shock	FX (% change vs USD)	Bond yields (lps)	Fiscal balance (% of GDP)	Current Account (% of GDP)	FX reserves (months of imports)	FX outlook	Central Bank stance	Risk of fiscal slippage throughout
Argentina	0.6	NA	Medium	Low	-0.04	11.0	-1.5	-0.4	3.8	Neutral	On hold	Low
Bangladesh	-3.5	45	High	High	-0.41	32.1	-3.9	-0.9	4.9	Negative	On hold	High
Brazil	0.9	NA	Low	Low	-3.77	85.3	-7.5	-2.3	12.1	Positive	On hold	Medium
Chile	-4.4	25	High	Medium	-4.84	18.5	-0.6	-2.2	6.7	Negative	On hold	Low
China	-2.4	100	Medium	Medium	-0.56	38.0	-5.0	2.6	12.3	Neutral	On hold	Medium
Colombia	3.9	NA	Low	Low	1.31	N/A	-5.7	-2.6	9.6	Negative	Hike	Medium
Czechia	-2.4	117	High	Medium	-4.47	58.8	-2.1	0.4	9.3	Negative	On hold	Medium
Egypt	0.0	NA	Medium	High	-9.16	40.0	-10.7	-4.3	4.3	Negative	On hold	High
Ethiopia	-4.0	NA	High	High	-0.67	N/A	-1.7	-2.6	3.7	Negative	On hold	Medium
Hungary	-3.6	215	High	Medium	-8.02	94.0	-5.1	0.9	3.7	Negative	On hold	High
India	-3.7	30	High	Medium	-1.61	2.0	-1.8	-1.4	8.1	Neutral	On hold	Medium
Indonesia	1.1	30	Low	Medium	-1.04	40.7	-2.7	-1.2	7.1	Negative	On hold	High
Jordan	-8.0	45	High	High	0	-50.7	-3.5	-5.5	7.7	Negative	On hold	Medium
Kenya	-4.5	NA	High	High	-0.27	10.0	-5.6	-3.4	5.7	Negative	On hold	High
Malaysia	-0.4	NA	Medium	Medium	-1.23	7.6	-3.6	1.8	5.3	Negative	On hold	High
Mexico	0.7	NA	Low	Low	-4.25	48.5	-4.1	-0.3	4.3	Neutral	On hold	Medium
Morocco	-5.0	30	High	Medium	-3.28	21.5	-4.5	-1.5	7.4	Neutral	On hold	Medium
Nigeria	12.2	NA	Low	Low	-1.91	61.3	-3.7	3.6	12.0	Neutral	On hold	Medium
Pakistan	0.0	28	High	High	0.02	65.0	-4.1	-0.4	11.6	Negative	On hold	High
Peru	-0.5	NA	High	Low	-3.1	30.7	-2.2	1.2	16.6	Negative	On hold	Low
Philippines	-4.2	60	High	Medium	-3.59	68.8	-0.3	-3.5	8.2	Negative	On hold	Medium
Poland	-2.1	121	High	Medium	-4.86	91.1	-6.3	-0.8	5.7	Negative	On hold	High
Romania	-1.7	92	High	Medium	-3.54	100.0	-6.2	-0.8	6.0	Neutral	On hold	High
South Africa	-2.3	NA	Medium	Low	-6.39	96.0	-5.6	-1.2	5.6	Neutral	On hold	Low
Sri Lanka	-4.5	35	Medium	High	-0.63	4.4	-0.5	0.5	4.5	Negative	On hold	High
Taiwan	-5.1	40	Medium	High	-2.25	4.0	-0.2	13.1	15.9	Negative	On hold	Medium
Thailand	-7.8	60	High	High	-4.58	33.5	-2.5	1.3	8.9	Negative	On hold	Medium
Tunisia	-4.0	60	High	High	-3.07	N/A	-6.0	-2.0	4.9	Negative	On hold	High
Türkiye	-3.6	94	High	Medium	-0.64	233	-0.7	-1.3	2.7	Neutral	Hike	Medium
Vietnam	-2.6	15	Medium	High	-0.89	7.7	-2.3	2.4	2.3	Negative	On hold	Medium

Source: LSEG, Allianz Research. Note: Data as of 13/03/2026

The main takeaway from this shock is that emerging markets are not homogeneous. The energy crisis effectively splits them into three distinct groups: energy importers, commodity exporters, and “triple deficit” economies, each with different vulnerabilities, policy tools, and market outcomes. This crisis differs from 2022 because most Gulf exports lack alternative routes unlike Suez, Malacca, or Panama. The Strait of Hormuz, only 15 km wide, has no bypass making the region highly vulnerable to supply disruptions.

Energy importers

Most emerging markets are energy importers, but their level of exposure varies significantly depending on energy dependence, reserve buffers, and fiscal strength. India is a good example of relative resilience. Around 60% of its crude imports come from the Middle East, creating genuine supply risk. However, this risk is partly offset by several strengths. India holds large foreign exchange reserves covering about 11 months of imports, has slightly improved its fiscal deficit (from -2% of GDP in 2022 to

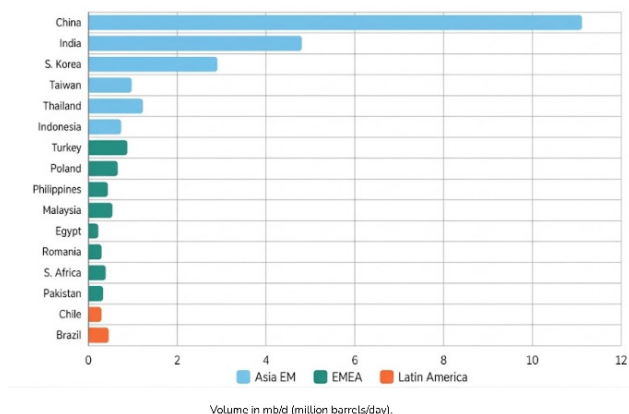
-1.8% in 2025), and can rely more on domestic coal to reduce its dependence on imported energy. As a result, the rupee has remained relatively stable, helped by active intervention from the central bank.

By contrast, Taiwan is far more exposed. It has one of the highest dependencies on Middle Eastern hydrocarbons, very limited oil stockpiles, and a high oil share in its energy mix. Thailand also faces significant pressure, net oil imports represent 4.7% of GDP, meaning that a 10% rise in oil prices worsens the current account by around 0.5 percentage points. Vietnam and the Philippines, both with growing manufacturing bases and limited domestic energy production, are caught between rising input costs and slowing external demand.

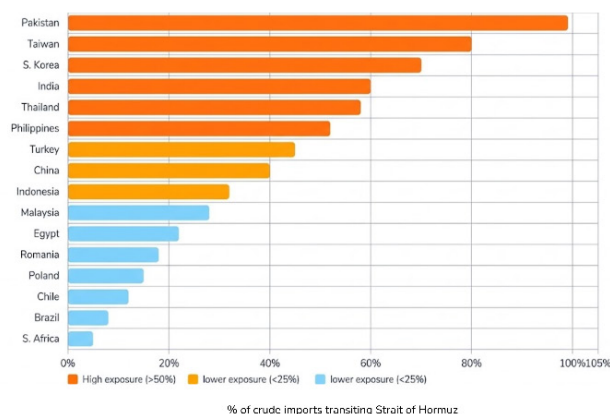
The Philippines, importing 98% of its oil from the Gulf, illustrates a rapid energy crisis. Following disruption, fuel prices doubled, prompting a national energy emergency. The government moved to secure new supplies and one million extra barrels, with reserves covering only 45 days.

Emerging markets energy exposure 2024–2025

Oil imports



Hormuz dependency



Source: EIA, IEA, Energy Institute

Commodity exporters

Energy exporters such as Brazil, Colombia, Nigeria, and Indonesia benefit from higher oil prices, which support fiscal revenues and trade balances. Brazil illustrates this well despite a large fiscal deficit (-7.5% of GDP), its energy export surplus strengthens its external position. The Brazilian real even appreciated slightly in the early phase of the crisis, while Colombia saw bond yields decline as markets priced in improved terms of trade.

However, this advantage is conditional. If the shock triggers a global recession, commodity demand could weaken, limiting the upside. Indonesia represents a middle case its diversified energy mix and low dependence on Middle Eastern imports provide some insulation, but it still faces rising imported inflation if competition for alternative energy sources intensifies.

Triple deficit economies: the most fragile

The most vulnerable countries are those with “triple deficits” fiscal deficits, current account deficits, and energy import dependence. These economies face simultane-

ous pressure from rising import bills, higher subsidy costs, and currency depreciation, which amplifies inflation. This group includes Romania, Poland, Egypt, Pakistan, Tunisia, Kenya, Ethiopia, Jordan, Morocco, Bangladesh, and Sri Lanka.

Egypt stands out as particularly fragile, with a fiscal deficit of -10.7% of GDP, an external deficit of -4.3%, and only 4.3 months of import cover. Energy subsidies already weigh on public finances, and unlike previous crises, Gulf support may be more limited. In Central and Eastern Europe, Romania and Hungary have seen sharp increases in bond yields, while Poland has also faced significant pressure due to its fiscal and energy vulnerabilities.

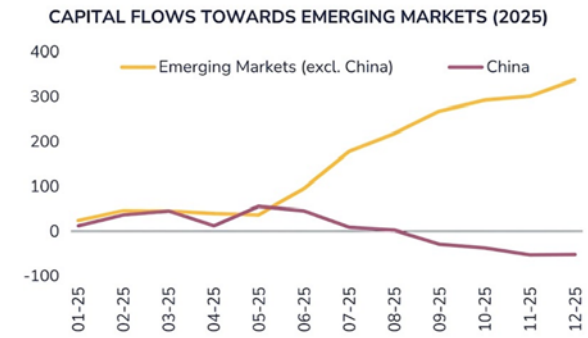
China in this situation

China, the world’s largest energy importer, is relatively insulated from short-term shocks thanks to large strategic oil and gas reserves and diversified supply sources. The government can deploy subsidies, release reserves, and adjust allocations to stabilise prices and production, giving firms with strong state support a potential compet-

itive advantage in global trade. However, prolonged disruptions would force energy rationing in steel, cement, and chemical industries, raising production costs and slowing GDP growth. Extended price spikes and shortages among regional trading partners including Taiwan, Thailand, Vietnam, and the Philippines could further disrupt supply chains, exports, and domestic inflation.

Conclusion

Emerging markets remain resilient overall, supported by strong fundamentals, but risks are unevenly distributed. Energy dependence, fiscal deficits, and external imbalances create significant vulnerabilities in some countries, making broad generalisations dangerous. Navigating this elevated-risk environment requires selective investment based on each country’s energy and fiscal profile.”



Source: LSEG Workspace, Allianz Research

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