

# Market turmoil set to intensify as war in Iran enters second week

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For the first week of the US-Israeli onslaught against Iran global stock markets remained relatively stable, apparently in the belief that it would soon be over. That situation may be about to change as the consequences of the war unfold.

The exception to the relative calm was Asia, marked by a plunge in the high-flying Korean market of 12 percent last Tuesday, the largest single-day fall ever, eclipsing that incurred in the global financial crisis of 2008. Other markets in the region also went down significantly because of the severe impact on Asia of the closure of the Strait of Hormuz.

The selloff could extend further this week as the oil price continues to surge amid predictions that it could soon top the \$100 per barrel mark for benchmark Brent crude. Major producers in the Middle East, including the United Arab Emirates, Iraq and Kuwait, have announced they are cutting back production. Qatar has invoked force majeure over its inability to meet liquefied natural gas (LNG) contracts.

The price of Brent crude settled at more than \$92 per barrel at the end of last week, up by 28 percent since the start of the war, to reach its highest level since 2023. It was \$70 a barrel before the war began. The American benchmark, West Texas Intermediate, jumped 36 percent for the week to reach more than \$90 per barrel in its largest weekly rise since 1983.

Goldman Sachs, among others, has warned that crude prices could go over \$100 per barrel this week “if no signs of solutions emerge by then.” In a note to clients its analysts said oil prices could go to “demand destruction levels even more quickly than history and simple models focusing on Persian Gulf exports only suggest” and that the “unprecedented” supply shock was 17 times worse than in the weeks after the Russian invasion of Ukraine.

The “solutions” being demanded involve a further escalation of the military onslaught.

According to Mike Sommers, the chief executive of the American Petroleum Institute, the largest US lobby group, whose remarks were cited in the *Financial Times* (FT): “The real focus has to be on clearing the Strait of Hormuz.”

This was because none of the other options, “even all of them together, would provide the kind of stability that I think world economies will require.” Other options would only have a “marginal” impact on price.

In an interview with the FT, at the end of last week, the energy minister of Qatar, Saad al-Kaabi, said the war could “bring down the economies of the world,” Gulf energy exports could halt production within days, and the price of oil could go to \$150 per barrel.

He said even if the war stopped immediately it would take weeks to months to restore normal deliveries following an Iranian drone strike at its largest liquefied natural gas facility. Qatar is the world’s second largest LNG supplier.

“If this war continues for a few weeks, GDP growth around the world will be impacted. Everybody’s energy price is going to go higher. There will be shortage of some products and there will be a chain reaction of factories that cannot supply.”

Asian economies dependent on supplies from the Middle East which pass through the Strait of Hormuz are already being adversely affected. The Taiwan government said it was seeking a mutual assistance framework with Japan and South Korea to help deal with any LNG shortages.

Japan has set up a special government office to deal with energy supply issues. The trade minister said it would work “with a sense of urgency.”

South Korea is to enact emergency energy

procedures. It imports around 70 percent of its crude oil from the Middle East along with 20 percent of its LNG, all of which passes through the Strait of Hormuz.

The chief economist for the Asia-Pacific at the French investment bank Natixis, Alicia Garcia Herrero, has characterized the situation as “terrible” for Taiwan, South Korea and Thailand because of their lack of reserves and their dependence on supplies coming via the Strait of Hormuz.

One of the main effects in Europe is the rapid rise in LNG prices. Over the past week they have risen by around 50 percent, the largest hikes since the energy crisis following the Russian invasion of Ukraine.

Another effect is the wild movements in power prices during the course of a day as electricity from solar panels is replaced by gas-fired supplies. On March 4, for example, the price in Denmark went from €26 per megawatt hour (MWh) to almost €430 MWh less than four hours later. The price in the Netherlands jumped from €24 to €450 over the same period.

Apart from the effect on the general level of power prices, one of the consequences of such violent movements is disruption in the financial markets if speculators, especially those financed by debt, are caught on the wrong side of a shift.

Financial markets are already being impacted because of decisions taken on the basis that the general direction taken by central banks would be to lower interest rates. That scenario has been blown out of the water by the fear that the oil price rises could set off a new inflationary surge.

The chief economist of the European Bank, Philip Lane, has said there could be a “substantial spike” in inflation and a “sharp drop in output” in the Eurozone depending on how long the war lasted.

He warned that the “impact would be amplified if it also gave rise to a repricing of risk in financial markets”—the words used by bankers and financial analysts to describe a significant selloff.

The indications of that are muted as yet but they are present and could rapidly rise to the surface.

One of the signs is that government bonds are not being regarded as a safe haven under conditions of potential turmoil. According to an FT report: “Global bond markets are suffering one of their biggest routs in recent years as inflation fears created by the Middle East conflict have forced traders to dump bets based on

interest rate cuts in big economies.”

A sharp expression of this development was the fall in the price of UK 10-year government bonds or gilts as they are known. They had their worst week since the so-called “Liz Truss crisis” of September–October 2022, which required intervention by the Bank of England.

US Treasury bonds were also sold off. The yield, or interest rate, went up by 0.17 percentage points which was the biggest movement since the financial storm set off by Trump’s “reciprocal tariffs” last April.



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