World Bank details Iran war global commodity shock

Nick Beams
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Late last month, the World Bank issued a report on the impact of the war on Iran detailing its inflationary effects and the hit to global growth, which is fast travelling beyond oil and gas to impact food, industrial metals and chemicals, plastics, fertilisers and many other basic commodities.

Some figures give an indication of the reverberations from the ongoing closure of the Strait of Hormuz.

According to the *Financial Times*, 50 percent of the world's seaborne trade in sulphur passes through the waterway, along with 34 percent of the trade in crude oil, 29 percent of liquified petroleum gas, 19 percent of liquified natural gas, 19 percent of refined oil products, 13 percent of chemicals, including fertilisers, and 10 percent of aluminium.

Overall, the bank estimates that its energy price index will increase by 24 percent this year—a shock of almost 40 percent relative to what was expected in January.

But this "baseline projection," for oil and gas as well as for other commodities, rests on the assumption that "the most acute phase of supply disruptions" will start ending in May. That seems increasingly unlikely, with the price of oil rising again at the end of April, hitting over $120 a barrel at one point.

Speaking on the report's results, World Bank chief economist Indermit Gill said economic growth had been "dampened materially."

"The war is hitting the global economy in cumulative waves: first through higher energy prices, then higher food prices and finally higher inflation, which will push up interest rates and make debt even more expensive," he said.

The price increases go across the range of vital agricultural and industrial commodities. The bank's fertiliser index surged to a post-2022 high in March, the second highest jump in the past decade, mainly driven by a 50 percent rise in the price of urea, "which is at the epicentre of the halt in seaborne exports from the Middle East."

Even before the war, the report noted, the market for base metals had been tight.

"The war has since exacerbated supply challenges for base metals, either by impeding production and shipments directly, such as for aluminium, or by curtailing the supply of essential production inputs such as sulphuric acid." Aluminium prices have risen by 10 percent, the second largest rise in a decade.

"Prices for aluminium, copper, and tin—essential materials for many products … are expected to reach all-time highs, marking a third consecutive year of rising prices."

While the bank made its predictions according to its baseline assumptions, in some cases predicting a fall in prices in 2027 as conditions somewhat normalised, it was not very confident of them.

"Risks to the commodity price projections are markedly tilted toward higher prices," it said. "Most prominently, the severity and duration of commodity supply disruptions in the Middle East could be greater than assumed."

Central banks have not yet responded to the surge in inflation by increasing their interest rates, but they are set to do so. The US Federal Reserve meeting earlier this week saw three dissents from the majority decision. That was not because they disagreed with the decision to keep rates on hold but because they wanted language which indicated a bias toward lowering rates to be removed from the Fed's statement on monetary policy.

The European Central Bank has also held rates steady, but with a surge in inflation to 3 percent last month, it could change course.

The World Bank noted that an unforeseen tightening

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of financial conditions could curb credit growth and business investments, and combined with resurgent trade tensions and policy uncertainty, this could broadly weaken demand. That is, while it did not use the word, it pointed to a situation of global stagflation.

The continuation of high oil prices will have disastrous consequences for the populations of poorer countries.

"Estimates suggest that an extended conflict keeping oil prices above $100 [a barrel] could push up to 45 million more people into acute food insecurity this year," the bank said.

The report warned that rising fertiliser prices this year would lead to a decline in their use because farmers could not afford the increased costs, leading to reduced crop yields in future growing seasons.

An even sharper warning on the crisis in energy markets has come from the London-based *Economist* magazine. In an article last month headlined "Global energy markets are on the verge of a disaster," it reported that what it termed a "comforting picture" in Western countries—where people were still able to drive, trucks were continuing to operate, and planes were still flying—was "deeply misleading."

Constructing what it called a dashboard of indicators to show how close the world is to an "energy catastrophe," the magazine suggested that "grave damage has already been done."

"Worse, without a reopening, costs could soar, triggering events that cause the fuel system to seize up. A reopening of the strait now would—just—avoid a complete disaster. But some additional pain is already inevitable."

Three factors were pushing the world towards the cliff edge, the *Economist* said.

"Oil cargoes available to buy are drying up [because the ships that left the Gulf before the war have now arrived.] Refineries are slashing the output of fuel. And demand remains artificially high, especially in Europe. Something big must give somewhere for energy markets to balance."

Asia, dependent on the passage of tankers through the strait for much of its supplies, has been hard hit, with inventories running out. Korea is tapering its releases from strategic reserves and Japan's are expected to be exhausted this month, the *Economist* reported.

The article cited an estimate from the trading firm Trafigura, which said there will be a cumulative loss of 1.5 billion barrels of Gulf oil, 5 percent of annual global output, and that it could easily double.

"The last time oil demand fell by 10 percent in short order was during the COVID-19 lockdown of 2020, a shock that also brought about a fall in world gross domestic product. The time to avoid a similar tumble is running out," the article concluded.

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