

## THE STRAITS OF HORMUZ TURNS INTO DIRE STRAITS FOR THE WORLD ECONOMY.

*We are now reaching the 8<sup>th</sup> week since Usrael attacked Iran. Two months was the threshold where many analysts predicted real enduring harm would be caused to the world economy. Yet despite no peace in sight, global stock markets have reversed all their falls since February 28<sup>th</sup>.*

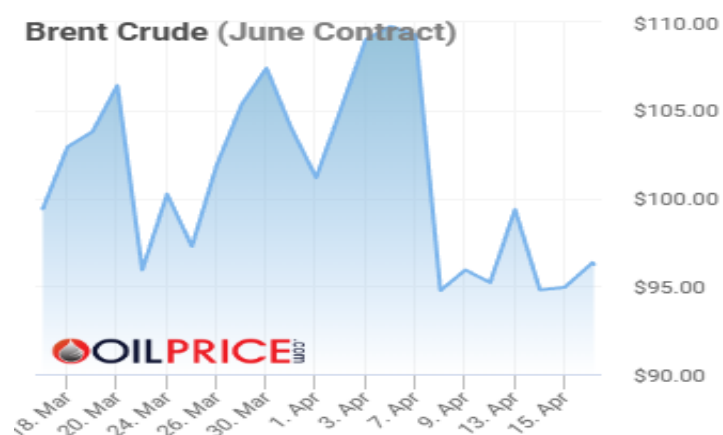
[Even a forecaster like the IMF](#) is sanguine about the prospects for the world economy, reducing globally growth by a paltry 0.2%. Both the forecasters and the markets suffer from a double miscalculation or better still delusion, they assume the world economy is resilient and that the US will force a peace favourable to the West. Both assumptions are wrong.

Add in myopic algorithms driving investment decisions based on the usual narrow metrics such as interest rates, profit forecasts, cost savings etc, while broader political considerations together with contradictory perspectives are ignored because the algos cannot deal with them, and we have the spectacle of investors and speculators tap dancing on thin leveraged ice. The global economy is not resilient - there is a debt crisis unfolding and the AI bubble is getting thinner. As for peace, it is both complex and not assured given the magnitude of the geopolitical stakes involved.

I wrote in my earlier article on the Iranian war, that when contrasting the Iranian 10-point plan to the US 15-point plan, it was the case of Iran demanding US capitulation, whereas on the other side, it was the US demanding Iranian capitulation. These demands are irreconcilable and normally settled on the battlefield unless both sides have been sufficiently hurt already or fought to a standstill, and/or expect to suffer incalculable hurt should the war resume, and are therefore willing to compromise.

As expected, the US delegation led by Vance left Pakistan after an aborted 21 hours of negotiations without informing the Iranians. Talk about arrogance and unprofessional conduct. The Iranians remained for another day to complete the agreed two days. It appears that the US delegation, prompted by repeated phone calls to Washington and Tel Aviv, insisted that the negotiations begin with Iran's enrichment programme. When the Iranians refused to accept US demands to immediately and unconditionally hand over their nuclear material, Vance and his team abandoned the negotiations.

Later Washington agreed to a two-week extension to the ceasefire. As all things Trump, this offer was accompanied by the usual threat. The US would institute a total blockade of the Hormuz Strait as an act of taking control away from and suppressing the selective Iranian blockade which favoured allies notably China. Despite this TACO threat of closure and owing to the extension of the cease fire, oil prices fell from their previous highs to under \$100, and then down to the mid-eighties by weekend.



It is worth restating the irreconcilable positions of the Iranians and Usrael. The Iranians insisted on their continuing nuclear programme, called for the withdrawal of all US military personnel and equipment from the region, for recognition of their ongoing control of the Gulf of Hormuz, for the right of Iran to support their regional allies such as Hezbollah, for the removal of all sanctions and the return of all frozen Iranian assets. The Iranians considered their missile programme to be a given and did not even include it on their agenda.

For their part Usrael demanded Iran decommission its enrichment programme and hand over any enriched material, that it abandons the development and production of long-range missiles while destroying all its stocks of missiles and drones, that it stopped interfering with shipping in the Straits of Hormuz, and finally that it disowns its regional allies. In other words, in the absence of regime change, Usrael demanded that Iran and their allies destroy their right and ability to defend themselves.

Despite his insistence that Iran's allies be dumped, Trump pressured Israel to begin negotiations with Hezbollah, their first in 34 years. The equation was always clear, to minimise damage to the world economy rather than maximising support for Israel. Of course there is an alternate explanation, that like the USA, Israel is conserving its forces to once again attack Iran.

On all sides there is a build up towards the resumption of war once the cease fire ends. Iran is restoring its damaged infrastructure and unblocking tunnels while adding to its arsenals. Despite [Trump's unconfirmed assertion](#) that China has now agreed not to help Iran re-arm this is contradicted by the facts on the ground.

China has played a central role in organising and pushing for the ceasefire. China has sought to reconcile two objectives. To degrade the US militarily while mitigating the damage to the world economy and therefore to their export driven economy on which they rely. [Chinese exports](#) rose by only 2.5% in March yoy down from 21.8% in Jan-Feb. Clearly, they assess that Usrael has suffered a significant military setback, one sufficient to further shift the balance of forces towards multi-polarity creating the opportunity to prop up the world economy with lower oil prices. [China's main theme](#); for peace and reconciliation in the region, has remained unaltered over the course of the war.

There has also been a shift in the Gulf Kingdoms with more frequent discussions with Russia, China and even Iran. The UAE, one of Iran's most implacable opponents has entered into high level talks with Iran [causing ripples to spread over the region](#). As has a [visit to China](#) with arms purchases on the agenda. Whatever the peace negotiations achieve, there has been a permanent realignment of interests in the Gulf at the expense of the USA and Israel. Unless the USA can pull bombs out of the hat, Iran will emerge as the dominant power in the Gulf with its allies immeasurably strengthened.

The fact that Iran now controls the Straits of Hormuz with the US Navy still powerless to reverse it, demonstrates that Iran exited the war in a more powerful position than when it entered it. This control is an undeniable and inescapable challenge to US hegemony which the US cannot ignore nor evade. In the end, it will be this issue, not enrichment nor missile range, which will test the shift in global power.

We live in the age of the missile not the aircraft carrier. In such a missile environment, especially in the phase of the high-speed missile, defenders must expend many more interceptor missiles to destroy each incoming missile. This means Iran needs to replenish fewer offensive missiles compared to Usrael which needs to replenish many more interceptors. The advantage is with Iran, Russia and China.

## The world economy is in trouble.

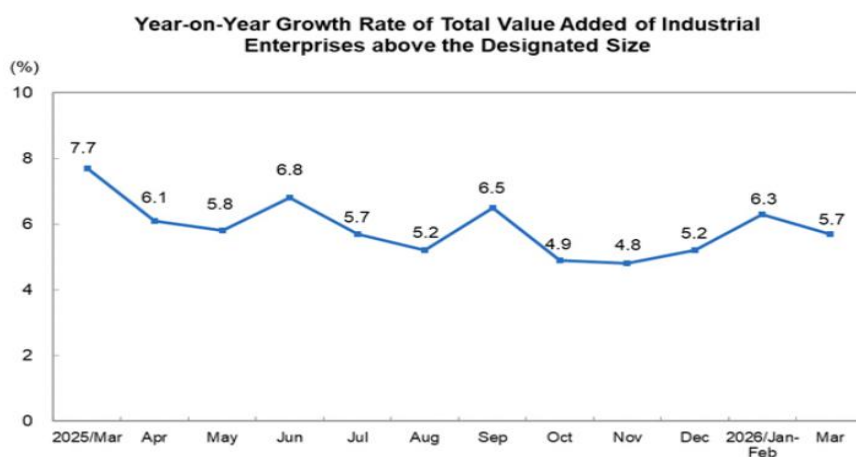
In 2025, daily global oil production amounted to 105 million barrels. Of this total, 30% was mined in the Gulf and a similar amount in North America. Russia accounts for 11%. The US is the biggest producer of oil shielding it somewhat from the blocked Straits of Hormuz. However, [the price of US crude as measured by the WTI index](#), has crept up to the Brent index and even risen above it during the peak of the emergency. This is unusual as WTI normally trades at a discount of at least \$5 to Brent. This reflects the internationalisation of the oil market, where foreign buyers, seeking alternative stable supplies, have bid up the price of US crude. This means that although North American supplies are less affected than in Asia and Europe, the US consumer is suffering the same price hikes as elsewhere.

Each day the Straits of Hormuz is blocked and potentially the Strait of Aden, between 13 million and 20 million barrels of oil are lost to markets. Given the over 40 days which has elapsed since the 28<sup>th</sup> of February, this amounts to a potential loss of up to 600 million barrels of oil. [El Jazeera](#) estimates the loss at over 300 million barrels but this excludes oil on tankers trapped in the Gulf. This compares to the [400 million barrels of oil](#) the IEA is seeking to release from its 32 member strategic stockpiles.

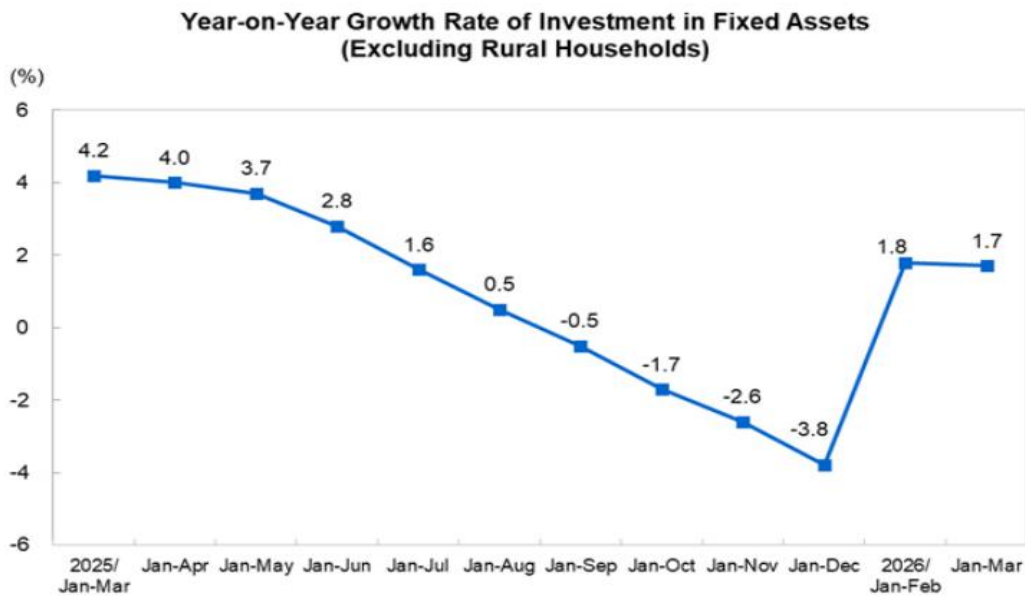
It is this math that has led China to encourage Iran to allow oil tankers to transit through the Gulf with permissions, and which on Friday caused oil prices to plunge by 10%. However, geopolitical considerations intervened. Over the weekend Iran once again blocked the Gulf due to the US Navy refusal to grant ships which have passed through the Gulf the right of passage into the Arabian Sea. If this issue is not resolved, Monday is going to be a tumultuous day on the markets and a brutal lesson to investors and speculators to not count their peaceful chickens before they hatch. The markets, bless the silk socks, still does not grasp the magnitude of what is unfolding in Western Asia (Middle East).

It is still an open question whether Iran will be able to walk away from the peace negotiations with its pledge to levy a toll on shipping in the Gulf, intact. If it can and it does this will mark a decisive and unrecoverable defeat for US hegemony whose effect will only be fully felt years later. And it will reinforce Iran's second arrow; it's stipulation that preference will be given the shipments priced in Yuan not Dollars. This has prompted speculation that a [Petroyuan could diminish the Petrodollar](#) which is one of the pillars supporting the status of the Dollar as the world's Reserve Currency.

Both China and the US are facing economic pressures. In China the [net revenue for industry](#) was stable but down 2% yoy.



[Investment](#) picked up from its lows in H2 of 2025 but measured against the first quarter of 2025 it rose by only half the earlier rate.



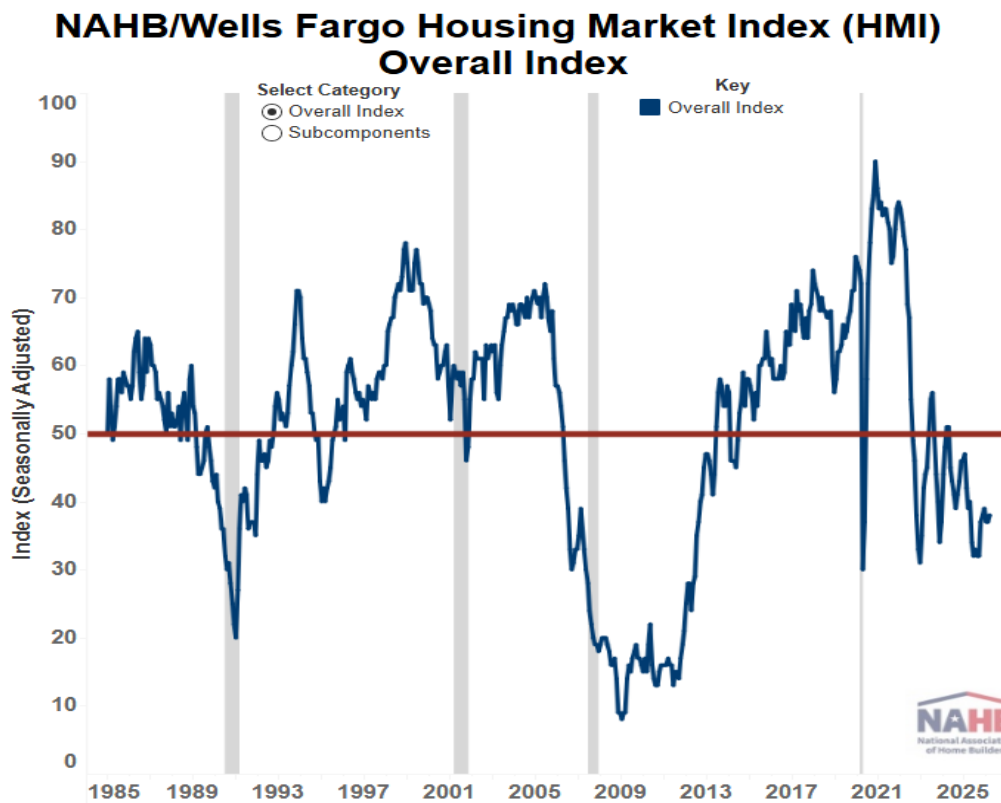
[Retail sales](#) remained weak.



Despite generally weaker components except for exports, Chinese GDP at 5% matched the growth rate in Q1 2025. Underneath the hood the Chinese economy remained fragile. One indicator of this was credit formation. “According to preliminary statistics from the [People’s Bank of China](#), the cumulative increase in aggregate social financing in Q1 2026 was 14.83 trillion yuan, down 354.5 billion yuan YoY.” The fall in demand for household loans was one of the drivers as confirmed by the fall in retail sales. A retrenchment in credit issuance is always a sign of indebtedness coupled to a corresponding increase in lending standards. A risk-on credit environment is always ominous for future growth.

The same economic pressure to negotiate a peace deal supportive of the markets hangs over the Whitehouse. In March the economy suffered a dip outside the shimmer of Big Tech. In particular small companies saw business contract. *“WASHINGTON, D.C. (April 14, 2026) – The [NFIB Small Business Optimism Index](#) fell 3.0 points in March to 95.8, leaving it below its 52-year average of 98.0. The last time the Optimism Index fell below its historical average was April 2025. The Uncertainty Index rose 4 points from February to 92, well above its historical average of 68.”* *“A seasonally adjusted net negative 5% of all owners reported higher nominal sales in the past three months, down 6 points from February. This decline ended a string of four consecutive months of improvement.”*

The housing market continued to weaken. The [Wells Fargo Housing Market Index](#) was soft in both March and April despite the move into peak buying season. *“The latest HMI survey also revealed that 36% of builders cut prices in April, down slightly from 37% in March. The average price reduction was 5%, down from the 6% figure in March. The use of sales incentives was 60% in April, down from 64% in March, and marking the 13th consecutive month this share has reached 60% or higher.”*



[Existing home sales](#) fell to a yearly low in March. According to [Redfin data](#) house prices were no higher in March 2026 than they were in March 2025. Although there is not an up to date Index on Commercial Properties the Indexes which cover the back end of 2025 show sharp declines.

TSMC’s and ASML’s forecasts continue to show advanced chips demand holding up with [ASML projecting sales growth](#) of at least 10% over the course of 2026 with its monopoly profits intact despite technical advances in China. On the other side concerns about shadow or private banking or unregulated banking has grown. We are well into phase two of the crisis. A reluctance to lend to this trillion Dollar high yield and leveraged sector has now extended from the commercial banks to insurance and pension companies who were formerly large lenders in search of yield. It appears we could be close to entering phase 3, the phase of crisis where lenders try to reclaim their money before

charging for the exits. If the Straits of Hormuz remains closed next week this could bring the financial emergency forward. Debt is not only a problem in China, but also an acute problem in the USA which is more indebted and leveraged than China. In the end, it is the issue of leverage which stands out, which amplifies a financial crisis making it more intractable.

The reality is that both the Chinese and the US economy, under the hood of official statistics, are both fragile and both will be significantly hurt by the resumption of war. Wars are always unaffordable but some wars are more unaffordable than others.

### **Conclusion.**

Wall Street is clearly incapable of addressing fundamental historical events, treating them instead as passing phenomena which can be managed without severe enduring economic consequences. If the Straits remain closed and oil shoots up above \$100 then investors, analysts and speculators will be taught a savage lesson next week. There is only so many times markets can be talked up. There is only so many times politicians such as Trump can manage to mislead markets. The markets may learn some wisdom, not to jump on the wagon to make an early profit but to wait until the wagon comes to a standstill or its path becomes clear before investing.

What is happening in Iran is end of Empire in its magnitude. A tectonic shift. And the US, short of a nuclear strike, is running out of options. No doubt the US is massing ground troops in the region, but if used they will be used not as an invasion force but as a limited tactical force intended to pressure the Iranians. What is equally true is that in the age of the missile, Iran enjoys certain advantages, and it is likely to be able to fight Usrael to a standstill once more. One thing is clear; the US stands to lose too much to admit defeat. Hegemonic powers do not behave this way. This is not a Trump thing.

Russian intelligence has concluded that Iran will be attacked some time next week. This prognosis has been made more likely by Iran withdrawing from the second round of ceasefire talks despite Trump saying on Sunday morning on his [Truth Social](#) site that his negotiators were heading back to Pakistan. If the Straits remain closed and no further talks are envisaged, then an attack after Tuesday is likely, but in this war radioactive rabbits have been pulled out of the hat at the last moment repeatedly. So, we will have to wait and see.

Brian Green, 19<sup>th</sup> April 2026.