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Iran war upends commodities markets

ESG in Europe on hold despite transatlantic divide

Intuition Know-How

Iran war upends commodities market

The old assumption that commodities markets were primarily driven by supply, demand and economic growth has been overtaken by events. Perhaps like never before, the Iran war has underlined that commodities are geopolitical assets.

The initial market reaction to the Iran conflict was predictable. Crude oil prices surged by around 57% and gold rallied, while freight and insurance costs also rose sharply.

What at first appeared to be a temporary, regional shock has since evolved into something more fundamental. The threat of closure of the Strait of Hormuz – through which roughly one fifth of global oil and a significant share of LNG flows – has transformed a localized conflict into a broader, system-wide commodities shock.

Oil, gas, metals, agricultural products, and even shipping routes are increasingly being priced not just on consumption trends, but on military risk, strategic vulnerability, sanctions exposure, freight disruption, and inflation expectations. The announcement that Indonesia, a major commodities producer, plans to centralize exports through a state-run agency reinforces this shift.

For a broader view of how financial markets are responding to the Iran conflict, read our related article: *Markets attempt to look through Iran conflict for now.*

Oil price building in a “war premium”

Historically, oil prices were largely governed by economic growth, OPEC production discipline, and inventory levels. Today, naval maneuvers and military escalation are just as important.

The effects extend beyond direct supply disruption: elevated geopolitical risk has introduced a persistent “war premium” into crude oil prices, adding a new layer of risk on top of the traditional commodities cycle.

Despite the price escalation to date, some commentators warn that the oil price could move significantly higher and that markets remain relatively complacent based on current futures pricing. While the UAE’s departure from OPEC may support additional supply, others argue that large Chinese reserve buffers have masked the true impact of the crisis, leaving the market yet to fully price in the potential supply shock.

Impact on oil products intensifies

Within the broader energy complex, the impact of the conflict extends well beyond crude oil. Refined products such as diesel, jet fuel, and gasoline may be even more sensitive, as global refining capacity remains tight following years of underinvestment and ESG-driven capital restraint.

This leaves airlines, shipping firms, and logistics operators exposed not only to higher crude prices, but also to wider refining spreads and transport disruption. The aviation sector, for example, illustrates how higher jet fuel costs linked to the Iran conflict can feed through into ticket prices, with effects rippling across tourism, freight, manufacturing, and consumer price.

Natural gas a hostage to geopolitics

Russia’s invasion of Ukraine showed how natural gas and LNG markets are hostage to geopolitical events. The Iran conflict reinforces that lesson, illustrated by damage sustained by Qatar, a country at the heart of global LNG supply.

Any threat to Gulf shipping immediately reverberates through Asian and European gas markets. With LNG exports and liquefaction facilities facing disruption, sharp price spikes in spot LNG markets leave Asian importers – particularly Japan, South Korea, Taiwan, and India – facing renewed concerns over supply security and affordability.

The result is that governments are once again prioritizing energy security over pure market efficiency. Strategic reserves, long-term contracts, domestic production capacity, and supply diversification are once again at the center of policymaking. Permanently frictionless global energy trade can no longer be assumed.

Gold a hedge against political turmoil

Gold's reaction to events signals another structural shift. Traditionally, gold rallies during geopolitical crises as investors seek safe havens. Yet while gold initially strengthened on the outbreak of war, inflation concerns and expectations of higher interest rates created periods of volatility and profit-taking, against a backdrop of rising US Treasury yields.

Nonetheless, investors increasingly view gold not merely as an inflation hedge but as protection against geopolitical turmoil. Gold prices were already supported by strong central bank buying in recent years, reflecting declining trust in dollar-centric reserve systems. The Iran conflict has intensified these concerns.

Other precious metals are likewise affected. Silver, platinum, and palladium serve both industrial and safe-haven functions. Supply chains for many of these metals remain geographically concentrated and vulnerable to sanctions, export controls, or transport disruption.

Knock-on effects on metals

Aluminum prices have surged amid fears of supply disruption and rising energy costs. Copper markets have also become increasingly sensitive to geopolitical risk, given copper's central role in electrification, defense systems, grid infrastructure, and AI-related industrial expansion.

While ferrous markets such as iron ore and coking coal are less directly exposed to geopolitical chokepoints (with supply largely originating from Australia and Brazil), they are still affected through higher energy costs, freight disruption, and shifts in industrial demand.

In a world moving toward economic nationalism and strategic industrial policy, these materials are increasingly treated as strategic assets.

Agricultural commodities and food security risks

Agricultural commodities have not escaped. Oil shocks feed directly into food inflation, as modern agriculture is heavily dependent on fuel, fertilizer, and transport. Fertilizer markets are particularly exposed, with significant volumes of urea and sulfur transiting Gulf shipping routes.

As a result, the Iran conflict has heightened concerns over food security. Wheat, corn, and soybean markets have all reacted to fears of higher transport and fertilizer costs. Countries already vulnerable to food inflation and import dependency face renewed pressure.

Even where physical supply continues to flow, commodity traders face a new reality of higher transport costs, prolonged marine insurance premiums, and the diversion of shipping routes around conflict zones.

Commodities volatility inherently inflationary

This matters because modern commodity markets are deeply financialized, and volatility itself can become inflationary. Businesses facing unpredictable energy and raw material costs delay investment, reduce inventory exposure, and pass higher costs on to consumers.

Analysts warn that the true economic damage from geopolitical conflict lies not simply in higher prices, but in persistent uncertainty and the risk of market paralysis. Bond markets reflect concerns that prolonged commodity inflation could force central banks to keep interest rates higher for longer.

The conclusion is unavoidable. Commodities are no longer merely cyclical assets responding to economic growth; they are strategic instruments in an era of geopolitical turbulence.

The same combination of geopolitical volatility, inflation pressure, and higher-for-longer interest rates is also affecting other asset classes, as explored in our article: *Investors exit private credit.*

Intuition *Know-How* has a number of tutorials relevant to the content of this article:

- Commodities – An Introduction
- Commodities – Crude Oil
- Commodities – Oil Products
- Commodities – Natural Gas
- Commodities – LNG
- Commodities – Precious Metals
- Commodities – Ferrous Metals
- Commodities – Nonferrous Metals
- Commodities – Softs
- Inflation – An Introduction
- Inflation Indicators
- Monetary Policy
- Equity Markets – An Introduction
- Bond Markets – An Introduction

ESG in Europe on hold despite transatlantic divide

A slew of high-profile mandate withdrawals from US asset managers points to a growing rift with European investors over ESG. Yet this has done little to revive ESG momentum in Europe, where policy initiatives remain largely on hold.

Sustainable investing has become something of a political and market "hot potato" across much of the US investment community, amid sustained pressure on ESG. By contrast, attitudes in Europe remain more supportive. This divergence has led to US asset managers – notably BlackRock, the world's largest – losing mandates from European institutions increasingly concerned about a perceived weakening of ESG commitments.

ESG still in rollback mode

Despite relatively stronger support for ESG among European investors, there is little evidence of renewed momentum at the policy level. ESG remains on the back foot in Europe, with regulatory ambition increasingly tempered by economic and political realities.

A key milestone in this shift was the European Commission's Omnibus "simplification" package in February 2025 – a broad set of measures designed to ease sustainable finance regulation, including aspects of the carbon border adjustment mechanism and the EU's wider investment framework. The package marked a clear step back from the original ambitions of the EU's Green Deal, the bloc's overarching framework for climate and sustainability policy.

While not amounting to outright deregulation, the package reflects a decisive shift in direction: reducing compliance burdens, narrowing the scope of requirements, and delaying implementation, while concentrating obligations more heavily on larger companies with the greatest environmental impact.

Factors behind the roll back

There are several drivers behind the shift in Europe:

- The compliance burden became politically contentious, as rapidly introduced and overlapping rules created a heavy reporting and governance load.
- Competitiveness rose to the top of the EU agenda, with policymakers increasingly focused on the US, China, energy costs, industrial weakness, and slow growth.
- SMEs and mid-sized firms highlighted significant "trickle-down" effects, as larger companies and financial institutions continued to demand extensive ESG data from them.
- The political environment shifted, with the regulatory mood since 2024 becoming less Green Deal–maximalist and more attuned to business concerns.
- Practical implementation challenges became clearer, as issues around data quality, systems, assurance, supplier information, and legal liability proved more complex than anticipated.

This implementation burden mirrors a broader compliance trend in financial services, where regulators increasingly expect firms to prove that controls work in practice, not simply maintain policies on paper. Read more: *Bank compliance: Rising regulatory expectations.*

EU Taxonomy proves burdensome

The EU Taxonomy was designed as a common classification system for environmentally sustainable economic activities. It remains a core anti-greenwashing and capital allocation tool, but it has also been criticized for its technical complexity and reporting burden.

In particular, companies have struggled with requirements to assess immaterial activities and gather granular data that may not be central to investment decisions.

As a result, the Commission has moved to simplify Taxonomy reporting, with changes applying from 1 January 2026, covering the 2025 financial year.

SFDR revision seeks clearer product categories

The Sustainable Finance Disclosure Regulation (SFDR) was introduced to standardize disclosures across sustainable investment products. It groups funds into three categories:

- Article 6: no explicit sustainability objective
- Article 8: promotes environmental or social characteristics
- Article 9: explicit sustainable investment objective

In practice, these categories became de facto labels rather than pure disclosure classifications. Article 8 in particular was seen as overly broad, making comparisons difficult for investors.

Asset managers also pointed to extensive templates and legal uncertainty. The result was a regime that generated significant data but often limited clarity, while raising concerns about greenwashing.

In November 2025, the Commission proposed a major revision, aimed at replacing the current framework with clearer product categories and reducing the overall disclosure burden

Omnibus measures narrow CSRD scope

The Corporate Sustainability Reporting Directive (CSRD) significantly expanded ESG reporting requirements, applying to large EU companies, listed SMEs, and many non-EU firms with substantial EU operations.

However, companies – particularly mid-sized firms – argued that implementation had become too costly and complex.

The Omnibus reforms have narrowed the scope considerably. The revised framework now applies primarily to companies with more than 1,000 employees and over €450 million in annual turnover, while third-country thresholds have also been raised.

As a result, many firms previously expected to report will either fall out of scope or see deadlines deferred, with the European Sustainability Reporting Standards (ESRS) also being simplified.

CSDDD considered a competitive disadvantage

The Corporate Sustainability Due Diligence Directive (CSDDD) was intended to require large companies to address human rights and environmental risks across their value chains.

Business groups raised concerns about liability exposure, supply-chain complexity, and the risk that EU companies could be disadvantaged relative to global competitors.

The Omnibus process has delayed and narrowed the regime, with obligations now pushed back to 2029 and the transposition deadline extended to July 2028.

CBAM, deforestation, and broader ESG reforms

The carbon border adjustment mechanism (CBAM) was designed to prevent carbon leakage, but has also been criticized for its administrative complexity and potential trade frictions. Its implementation timetable has been adjusted, with certificate sales now postponed to February 2027.

Other measures have similarly been delayed or simplified. The EU Deforestation Regulation has been pushed back to end-2026, reflecting concerns about traceability requirements, supply-chain readiness, and pressure from trading partners.

Rules on green claims have also faced resistance, with businesses arguing that verification requirements could prove costly and slow.

One area where the EU remains committed is the regulation of ESG ratings providers, targeting opacity and inconsistency in a segment seen as central to market functioning.

CBAM also shows how climate policy, energy costs, and trade exposure are becoming more interconnected. For a market-focused view of that pressure, see our analysis of how the Iran war upends commodities markets. Read more: *Iran war upends commodities markets*

Conclusion

Overall, while Europe remains more supportive of ESG than other regions, the direction of travel is clear: ambition has given way to pragmatism. ESG policy is not being reversed outright, but it is increasingly in a holding pattern, shaped by competitiveness concerns, political change, and the realities of implementation.

Intuition *Know-How* has a number of tutorials relevant to the content of this article:

- **ESG – An Introduction**
- **ESG – Primer**
- **Sustainability & Sustainable Development**
- **Sustainable Finance – An Introduction**
- **Sustainable & Responsible Investing– An Introduction**
- **Sustainable Development Goals (SDGs) – An Introduction**
- **Sustainability Reporting**
- **Taxonomy Regulation (Europe)**
- **Greenwashing**
- **Sustainable Finance Disclosure Regulation (SFDR)**
- **Corporate Sustainability Reporting Directive (CSRD)**
- **Decarbonization**
- **Deforestation**
- **ESG – Data & Ratings**