

# FLASH Note

## Middle Eastern Conflict: Global Implications and Sri Lankan Market Impact

**AMBEON**  
SECURITIES

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## Background to Israel-Iran conflict

- On Friday, 13th June 2025, Israel launched a series of aerial strikes on Iran, specifically targeting nuclear facilities. The attacks resulted in the deaths of several key figures, including the commander of Iran's Revolutionary Guard and multiple nuclear scientists. These strikes occurred just days before planned nuclear talks between the US and Iran were scheduled to resume over the weekend.
- In retaliation, Iran launched multiple waves of missile attacks on Israel. According to Iranian state media, hundreds of missiles were fired across three separate waves on Friday night.
- Iran also issued warnings to the US, the UK, and France, stating that their military bases and naval vessels in the region would be targeted if they intervened to block Iran's missile and drone response to Israel's assault.
- By June 19, the U.S. has repositioned its military assets in the region and is preparing for a potential strike on Iran.



Source: Guardian graphic

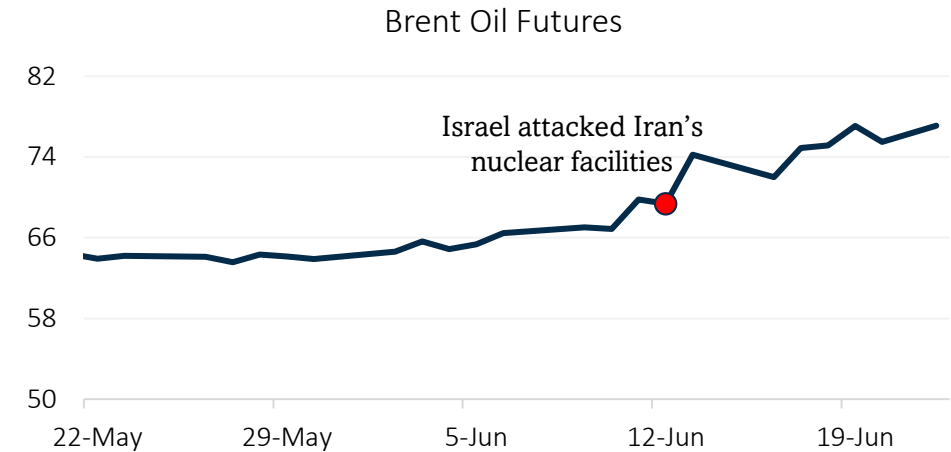
## Latest Developments and Likelihood of Escalation

- On June 22, U.S. forces launched strikes on Iran's three main nuclear facilities—Natanz, Isfahan, and Fordow. President Donald Trump warned that Tehran would face even more devastating attacks if it failed to agree to peace terms.
- Following the strikes, the International Atomic Energy Agency (IAEA) reported no increase in off-site radiation levels. However, its Director General, Rafael Grossi, stated that it was too early to assess the extent of underground damage.
- A senior Iranian source told Reuters that most of the highly enriched uranium stored at Fordow had been relocated before the attacks, though this claim remains unverified.
- In a significant escalation, Iran's parliament has reportedly approved the closure of the Strait of Hormuz—a critical maritime chokepoint. While the final decision lies with Iran's Supreme National Security Council, such a move could severely disrupt global trade, as nearly 20% of the world's oil and gas supply passes through this narrow waterway between Iran and Oman.
- The potential closure poses a serious threat to major buyers of Iranian oil, particularly China.
- China, expressing concern over the strikes, criticised the U.S. for damaging its international credibility and warned that the situation could spiral out of control.
- Meanwhile, Russia accused the U.S. of initiating a new war, asserting that the attacks would only bolster support for Iran's Supreme Leader, Ayatollah Ali Khamenei. The Kremlin, which maintains strategic ties with both Iran and Israel, had earlier cautioned that American strikes could push the region into chaos.

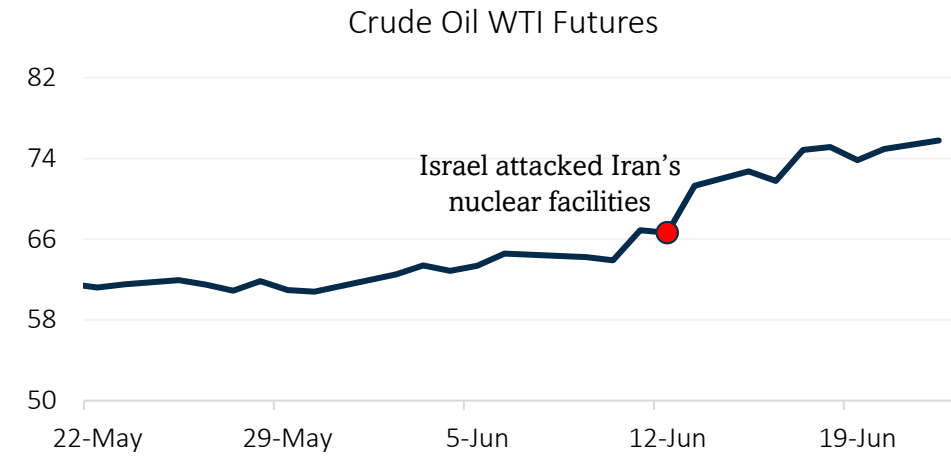
## Impact on the global oil market

- Disrupting maritime activity through the Strait of Hormuz would thus severely impact oil and gas markets.
- Oil prices jumped on Friday, 13th June and settled 7% higher as Israel and Iran traded air strikes.
- Brent crude futures settled at \$74.23 a barrel, up \$4.87, or 7.02%, after earlier soaring over 13% to an intraday high of \$78.50, **the highest level since January 27**. Brent was 12.5% higher than a week ago.
- As per June 23 Reuters reports, Oil prices jumped on Monday to their highest since January as the United States' weekend move to join Israel in attacking Iran's nuclear facilities stoked supply concerns.
- Brent crude futures were up \$1.52 or 1.97% to \$78.53 a barrel as of 0503 GMT. U.S. West Texas Intermediate crude advanced \$1.51 or 2.04% to \$75.35.
- Both contracts jumped by more than 3% earlier in the session to \$81.40 and \$78.40, respectively, touching five-month highs before giving up some gains.
- **Iran is the third-largest producer** among members of the Organization of the Petroleum Exporting Countries. The concern is the fighting could disrupt its oil supply and raise prices.

Source: Press Releases



Source: Investing.com

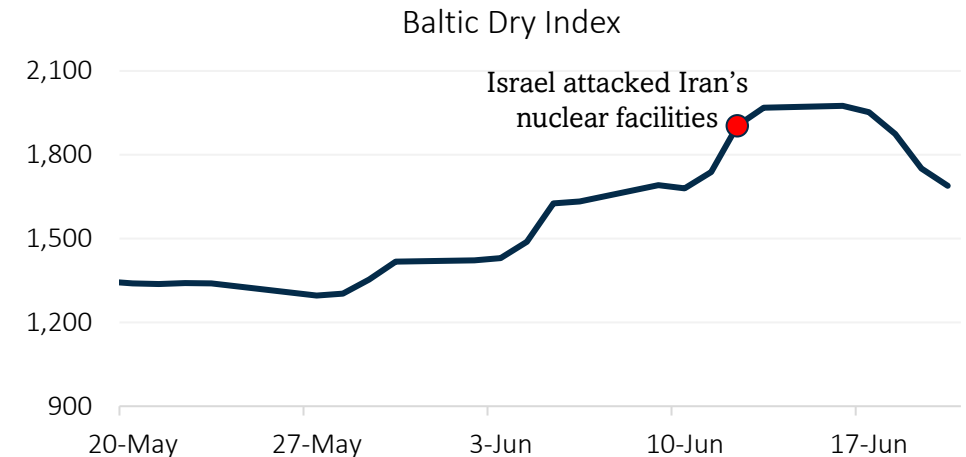


Source: Investing.com

## Impact on the global freight rates and gold prices

- On June 14, Iran **partly stopped gas production** at the South Pars gas field in the Gulf region. **South Pars**, which is shared with Qatar, is **the world's biggest gas field**. It produces around 610 million cubic meters of natural gas per day, accounting for around 80% of Iran's total gas output.
- The global benchmark rate for a very large crude carrier (**VLCC**) **moving oil from the Middle East Gulf (MEG) to Japan**, known as TD3, **rose over 20%** on June 13, after the tensions broke out, according to LSEG data.
- As per the Reuters report, gold prices gained by 19 June, as the Iran-Israel conflict entered its seventh day, while platinum rose to a more than 10-year high on expectations of a supply shortfall.
- As per June 23 Reuters reports, Gold prices edged lower on Monday as investors favoured the dollar following the U.S. attack on key Iranian nuclear sites over the weekend, with markets closely watching for Iran's response.
- Spot gold was down 0.4% at \$3,354.03 an ounce, as of 0532 GMT. U.S. gold futures fell 0.5% to \$3,369.10.

Source: Press Releases



Source: Investing.com



Source: Investing.com

## Sri Lanka–Iran/Israel Trade Relationship



and



and

### Sri Lanka's Top Export Products to Iran (2022-2024)

Product	2022	2023	2024
Tea in Bulk	59.85	36.21	57.28
Tea Packets	7.34	1.00	4.86
Coco Peat, Fiber Pith & Moulded	2.65	2.03	1.86
Products of Base Metal	2.92	0.61	1.39
Desiccated Coconut	3.21	1.30	1.27

### Sri Lanka's Top Import Products from Iran (2022-2024)

Product	2022	2023	2024
Products of Plastics	0.23	0.42	0.76
Fertilizers	-	1.41	0.47
Pharmaceutical Products	0.20	3.16	0.30
Plants and Parts of Plants	0.06	0.12	0.21
Fruits	0.26	0.21	0.15

### Sri Lanka's Top Export Products to Israel (2022-2024)

Product	2022	2023	2024
Diamonds	115.99	128.24	62.97
Tea Packets	8.92	7.90	9.32
Fish Fresh or Chilled	8.19	6.64	3.52
Tea in Bulk	1.87	2.75	2.68
Pneumatic & Retreated Rubber Tyres & Tubes	2.53	2.19	2.22

### Sri Lanka's Top Import Products from Israel (2022-2024)

Product	2022	2023	2024
Diamonds	97.13	84.21	72.67
Yarn	13.74	6.36	9.96
Aircrafts & Parts	-	1.86	4.42
Other Electrical & Electronic	2.61	1.14	4.30
Telephone Sets, Audio/Video Equip. & Parts	0.04	0.10	2.65

All Values in USD Million

Source: Sri Lanka Customs, Sri Lanka Export Development Board

# Impact of the Middle Eastern conflict on Sri Lanka's economy

## Surging fuel and energy prices lead to higher inflation

- A supply shock from Middle East tensions has significantly driven up crude oil prices by around 7–11% as the conflict intensified. Sri Lanka imports nearly all its fuel, so rising global oil prices will feed directly into domestic transport and power costs, pushing overall inflation higher.

## Worsening trade balance due to import cost inflation

- As fuel prices rise, Sri Lanka's import bill will increase, negatively impacting its trade balance and further depleting already fragile foreign reserves. This decrease in net exports heightens external vulnerability and diminishes the buffer against future shocks.

## Pressure on GDP growth

- Higher input costs (fuel, transport, power) will ripple through agriculture, manufacturing, tourism, and logistics, squeezing profit margins and possibly delaying investments. In parallel, a possible decline in external demand for exports may further weigh on economic activity, tightening foreign exchange inflows and reducing production incentives.

## Remittances and development inflows at risk

- Prolonged Middle East instability could disrupt the flow of remittances from Sri Lankans working in Gulf states. Less remittance income weakens household consumption. Economic volatility might also reduce foreign investment or foreign-backed aid projects, affecting domestic capital formation.

# Impact on World Markets and CSE since the conflict started

## Sri Lankan Market

Index	Change (points)	Change (%)
ASPI	-896.05	-5.07%
S&P SL20	-283.83	-5.38%

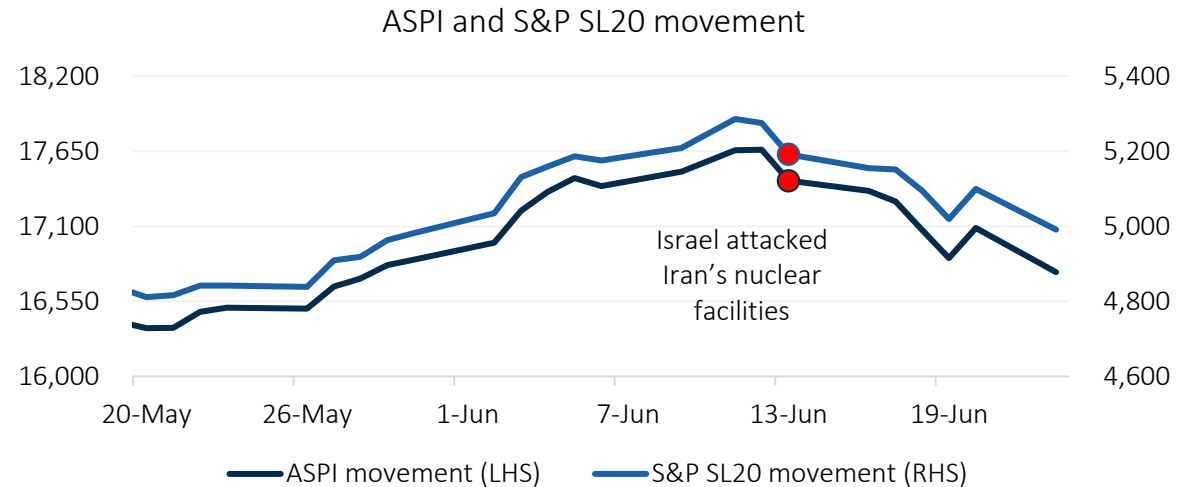
Both the ASPI and the S&P SL20 experienced a decline since the conflict began on June 12. However, there was a slight recovery on June 20. On June 23, the market fell again due to the U.S. attack on key Iranian nuclear sites over the weekend.

## Regional and Global Markets

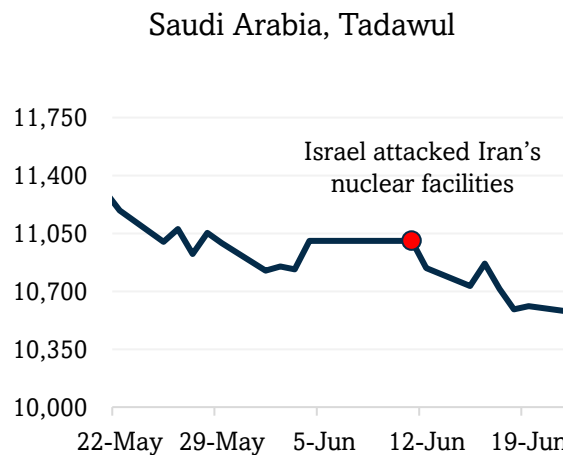
Index	Change (points)	Change (%)
Pakistan, KSE 100	-3,909.50	-3.15%
India, Nifty 50	+224.20	+0.90%
India, BSE 500	+4.06	+0.01%
Japan, Nikkei 225	+230.14	+0.60%
The UK, FTSE 100	-110.27	-1.24%
The US, S&P 500	-77.42	-1.28%
Saudi Arabia, Tadawul	-266.67	-2.46%
UAE, FTSE ADX General Index	-180.36	-1.86%

Regional and global markets changes up to date.

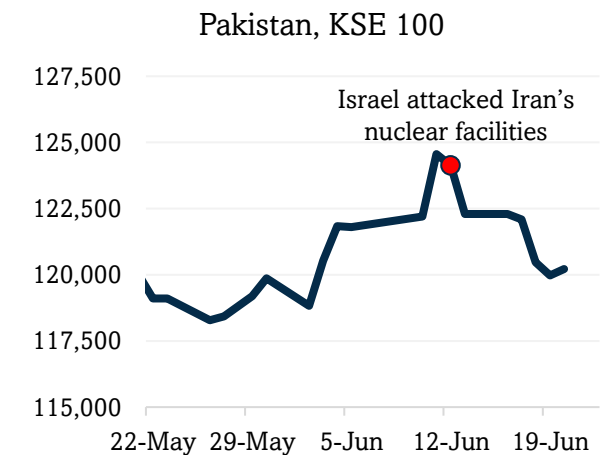
Source: Press Releases, CSE, Bloomberg



Source: CSE



Source: Bloomberg



Source: Bloomberg

## Market Direction

Sri Lanka's direct exposure to the conflict remains limited, however the broader regional instability poses implications for commodity prices, foreign fund flows, and investor sentiment.

### Focus on Fundamentally Strong Stocks

Invest in companies with resilient business models, solid balance sheets, and strong earnings visibility. Sectors such as banking, manufacturing, consumer staples, and real estate offer defensive value in times of geopolitical risk.

*Banks – HNB, COMB, SAMP*

*Leasing and financial services – CFIN, LFIN, PLC*

*Construction – AEL, ACL, TKYO*

*Real estate – RIL, PLR, OSEA*

Rising gold prices could benefit banks and finance companies offering gold-backed loans by boosting collateral value, reducing default risk, and improving asset quality and margins, especially for those with strong pawnbroking exposure.

### Freight and logistics companies

Due to the Israel–Iran conflict and potential disruptions in the Strait of Hormuz, Colombo Port is likely to face a surge in transshipment volumes, as vessels opt for alternate, safer routes, positioning Colombo as a strategic transshipment hub in the region. This would likely benefit local freight and logistics companies operating through Colombo Port, such as SPEN, JKH, HAYL and HHL.

### Export counters

Rising geopolitical tensions could weaken consumer sentiment, especially in the Middle East and Europe. If conflict escalates near the Strait of Hormuz, shipping costs may rise due to rerouting. However, the rupee may depreciate against the USD due to global market volatility, making Sri Lankan exports more price competitive.

## Market Direction cont.'

### Tourism Sector – Short-Term Caution, Long-Term Opportunity

While Sri Lanka's tourism sector has shown strong recovery, we expect short-term headwinds as global travel sentiment weakens amid war fears and rising airfares due to oil price hikes. However, the long-term outlook remains intact, especially for quality names with strong brand equity and operational efficiency.

India (20.3%), Russia (9.8%), and the UK (8.6%) were the top source markets for tourist arrivals to Sri Lanka in 2024. This trend continued during the first five months of 2025. Rerouting flights around conflict zones will increase global flying costs, which could lead to higher airfares and dampen tourist arrivals to Sri Lanka, particularly from key long-haul markets like Europe, which together accounted for over 50% of arrivals in 2024.

### Monitor Energy-Linked Impacts

A prolonged conflict could drive oil prices higher, increasing Sri Lanka's import bill and currency pressure. Investors should keep an eye on sectors sensitive to fuel costs, such as transportation and energy-intensive industries.

*LIOC maintains an inventory holding period of 50.07 days. The recent spike in global oil prices allowed the company to benefit by selling its existing lower-cost inventory at higher market prices, likely resulting in short-term margin gains. However, if elevated oil prices persist beyond this inventory cycle, future margins may come under pressure as the company begins to replenish inventory at higher costs.*

### Keep Cash Allocations and Stagger Entries

Maintain liquidity to take advantage of market corrections and average into positions. Timing the bottom is difficult in geopolitical-driven volatility, so a staggered entry into quality stocks is advisable

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