FLASH NOTE | Impact of the Middle Eastern Conflict

04.03.2026

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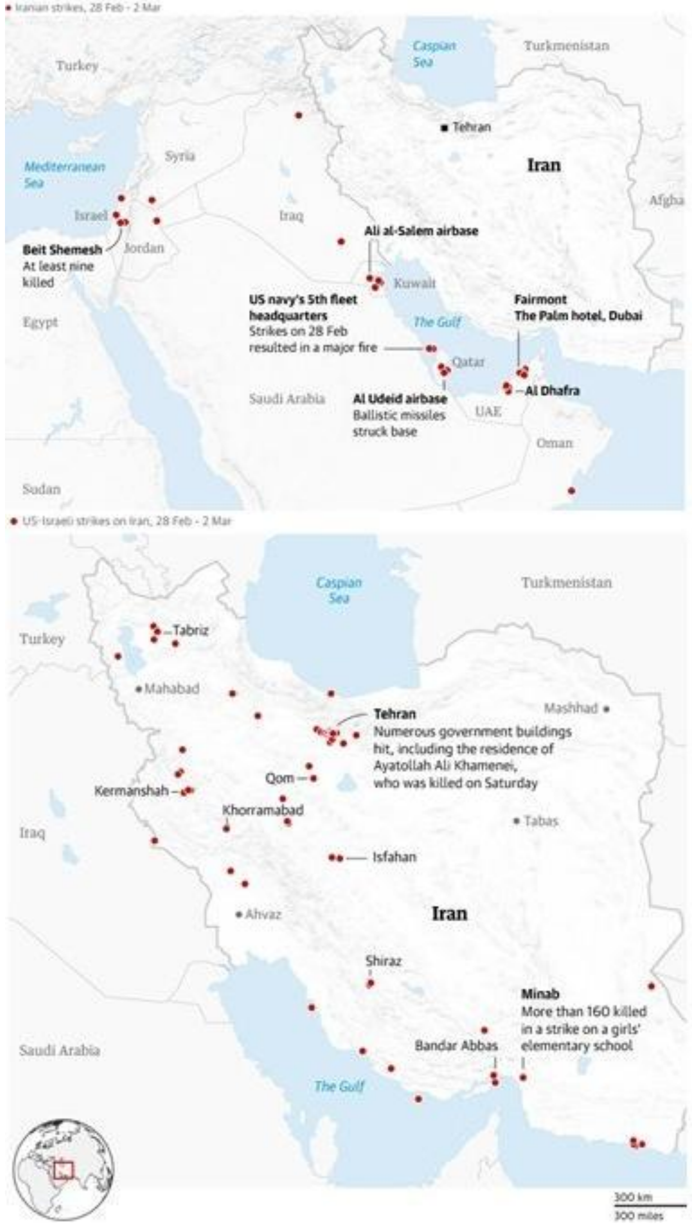
Background to Israel-Iran conflict

- After the initial strike on Iranian nuclear facilities on **June 13, 2025**, the conflict intensified into a broader regional confrontation involving Israel, the United States, Iran, and Hezbollah, with coordinated airstrikes and retaliatory drone and missile attacks reported across multiple fronts beginning on **February 28th , 2026.**
- Israeli and US forces have conducted extensive strikes targeting Iranian military and leadership-linked sites, while Hezbollah has launched drones into northern Israel and Iran has reportedly targeted oil infrastructure and US-linked assets in the region.
- Casualties have mounted significantly, with more than **700 deaths reported in Iran and damage recorded across at least nine countries**. The conflict has also expanded beyond direct battle zones, with a US embassy in Riyadh hit by a drone strike and evacuation advisories issued for American citizens across several Middle Eastern countries.
- Tensions have raised concerns over maritime security in the Strait of Hormuz, a critical global energy corridor, following threats from Iran to target vessels navigating the waterway. Both Israeli and US leadership have indicated that military operations could continue for weeks, signaling that the situation remains fluid and the duration of the conflict remains uncertain

Source: The guardian

Attacks reported to date



Source: Guardian graphic, Global conflict tracker

Latest Developments and Likelihood of Escalation

- The Middle East conflict has now entered its fourth day, marked by **sustained airstrikes, expanding missile exchanges, and rising casualties across the region**. What began as coordinated military action by the United States and Israel targeting Iranian military, leadership, and infrastructure assets has rapidly evolved into a broader regional confrontation. The conflict is now affecting at least 12 countries, increasing geopolitical uncertainty and raising concerns over energy markets, trade routes, and regional stability.
- Although the US President has indicated that military operations could continue **for up to 4 weeks**, experts who that mounting diplomatic pressure from other global powers suggests that the intensity of the conflict may begin to ease in the coming period.
- **Reasons the conflict may continue for an extended period**
  - The US administration has signaled that operations could last several weeks.
  - American officials have indicated that attacks may intensify before any de-escalation.
  - The risk of broader regional involvement is rising, particularly if additional countries are directly impacted by Iranian retaliatory actions.
- **Reasons the conflict may not continue for an extended period**
  - **Domestic political pressure in the US:** The US President faces increasing scrutiny and pressure from Congress, particularly if casualties, costs, or oil price spikes intensify.
  - **Limited direct allies for Iran:** Unlike larger military alliances, Iran has limited formal state-level military backing, potentially constraining its ability to sustain prolonged conventional warfare.
  - **Resource constraints:** Sustained missile exchanges and military operations are costly. Over time, Iran may face constraints in replenishing advanced weapon systems under existing sanctions.
  - **China's strategic interests:** China is heavily dependent on Middle Eastern oil supplies and stable trade routes. A prolonged conflict that disrupts energy flows and supply chains may prompt stronger diplomatic intervention aimed at de-escalation.

Source: Press releases

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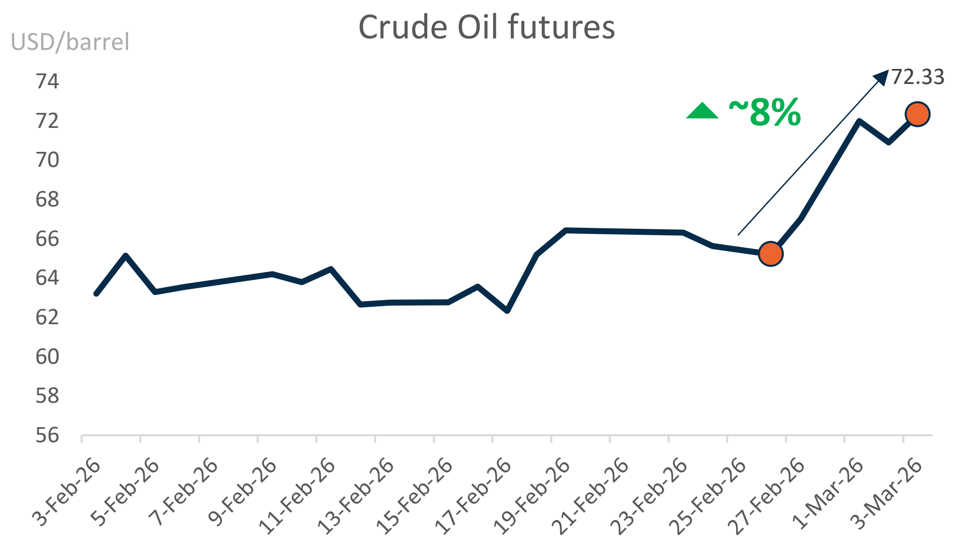
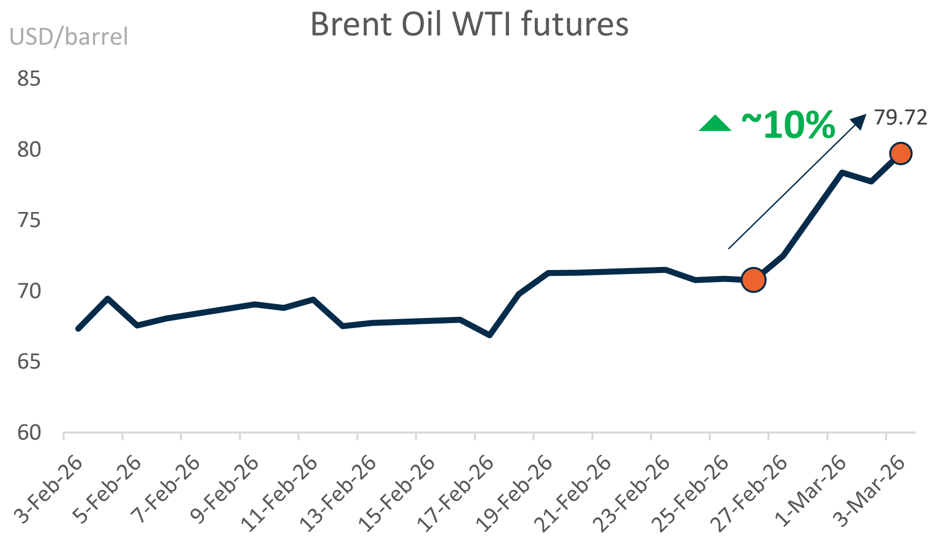
Impact on the global oil market

- Disrupting maritime activity through the **Strait of Hormuz**, which carries **roughly 20% of global oil and gas supplies**, has significantly impacted energy markets and pushed crude prices sharply higher.
- Brent crude has climbed to about $79.44 per barrel, up around 6–8% on the day, with prices earlier spiking as high as ~$82 per barrel on heightened supply fears, while U.S. West Texas Intermediate crude has risen to around $72–$73 per barrel amid ongoing conflict risk.
- Oil futures saw spikes of 7–10% following the widening US–Israel–Iran hostilities, with Brent moving roughly 10% higher to near $80 per barrel in early trading and markets pricing in the potential for further gains.
- If disruptions through the Strait of Hormuz persist, Reuters shows that prices could approach or exceed $100 per barrel due to sustained supply risk and restricted flows. **Market forecasts are already being revised upward, with major forecasts lifting 2026 Brent price assumptions to around $80 per barrel and potentially $120–$150 per barrel** in extreme prolonged conflict scenarios.
- The combination of real physical disruption, insurance pullbacks, and bottlenecks in global shipping continues to maintain a substantial “geopolitical risk premium” in crude prices as the conflict unfolds.

Source: Reuters



Source: Investing.com



Source: Investing.com

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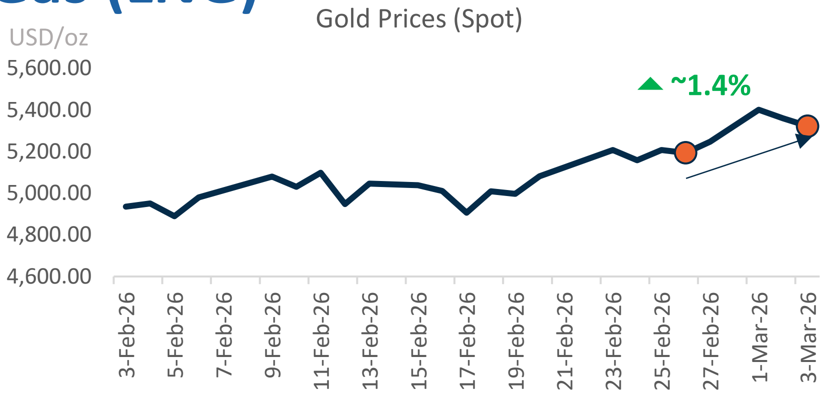
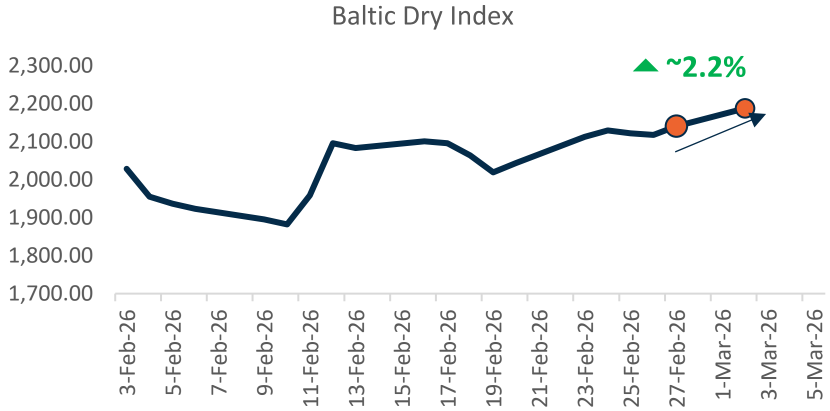
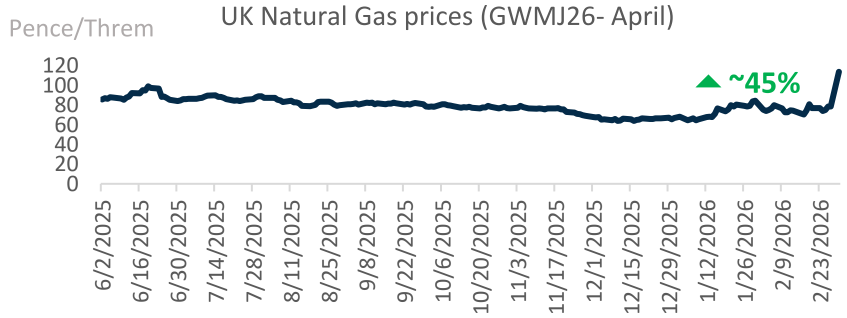
Impact on the Gold prices & Liquified Natural Gas (LNG)

- Gold prices rose following the U.S.–Israeli strikes on Iran, with spot gold gaining 0.4% to $5,297.31 per ounce after earlier surging more than 2% in the earlier session, **while U.S. gold futures settled 1.2% higher at $5,311.60**, reflecting increased safe-haven demand amid geopolitical uncertainty.
- The widening Middle east war has significantly raised global oil shipping costs, with supertanker charter rates from the Middle East to Asia climbing to multi-year highs as traders rushed to secure vessels amid heightened security threats around the Strait of Hormuz.
- For the first time since 2020, **the cost of hiring a Very Large Crude Carrier from the Middle East to China exceeded $200,000 per day**, highlighting severe freight market stress linked to potential disruptions in Gulf crude flows.
- As tensions intensified, marine insurers began cancelling war-risk coverage for ships operating in the Middle East Gulf, further driving up freight rates as risk premiums increased and some shipowners withdrew vessels from the region.
- **The disruption has stranded tankers, slowed bookings and pushed LNG freight rates up by more than 40%**, while rerouting around longer passages such as the Cape of Good Hope has added both time and cost pressures to global energy supply chains.







Source: Reuters, Investing.com

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Sri Lanka's Top Imports and Exports from Iran & Israel

Iran

Exports from SL (2024)	USD Mn
Tea in Bulk	57.28
Tea Packets	4.86
Coco Peat, Fiber Pith & Moulded products	1.86
Products of Base Metal	1.39
Imports from Iran (2024)	**USD Mn**
Products of Plastics	0.76
Fertilizers	0.47
Pharmaceutical Products	0.30
Plants and Parts of Plants	0.21

Israel

Exports from SL (2024)	USD Mn
Diamonds	62.97
Tea Packets	9.32
Fish Fresh or Chilled	3.52
Tea in Bulk	2.68
Imports from Israel (2024)	**USD Mn**
Diamonds	72.67
Yarn	9.96
Aircrafts & Parts	4.42
Other Electrical & Electronic Products	4.30

Note: All the Figures represent the year 2024

Source: Sri Lanka Export Development Board

Sri Lanka's Top Imports and Exports from Middle east countries

UAE

Exports from SL (2024)	USD Mn
Tea in Bulk	81.36
Petroleum Oils	35.96
Tea Packets	34.83
Men's and Women's Under Garments	14.1
Imports from UAE (2024)	**USD Mn**
Sugars, Sugar Confectionery & Bakery Products	60.03
Standard Wire of Aluminum, Copper & Iron	49.45
Edible Fish	47.74
Mineral Products	30.34

Bahrain

Exports from SL (2024)	USD Mn
Bananas	3.25
Tea Packets	1.61
Miscellaneous Edible Preparations	0.75
Pneumatic & Retreated Rubber Tyres & Tubes	0.47
Imports from Baharain (2024)	**USD Mn**
Products of Base Metal	22.02
Petroleum Oils	21.80
Fertilizers	12.98
Petroleum Products	12.54

Qatar

Exports from SL (2024)	USD Mn
Tea Packets	2.09
Bananas	1.83
Alcoholic Beverages	1.71
Fruits	1.6
Imports from Qatar (2024)	**USD Mn**
Fertilizers	30.29
Products of Plastics	17.31
Petroleum Gases	4.68
Standard Wire of Aluminum, Copper & Iron	3.04

Kuwait

Exports from SL (2024)	USD Mn
Tea Packets	13.99
Miscellaneous Edible Preparations	6.83
Coconut Milk Powder	0.56
Pneumatic & Retreated Rubber Tyres & Tubes	0.49
Imports from Kuwait (2024)	**USD Mn**
Products of Plastics	14.22
Petroleum Gases	5.55
Organic Chemicals	1.98
Pulp of Wood, Waste & Scrap of Paper /Paper Boards	0.46

Jordan

Exports from SL (2024)	USD Mn
Tea Packets	32.88
Knitted Fabrics	27.04
Woven Fabrics	3.78
Other Textile Articles	1.72
Imports from Jordan (2024)	**USD Mn**
Fertilizers	3.89
Products of Base Metal	2.14
Pharmaceutical Products	0.38
Products of Plastics	0.19

Oman

Exports from SL (2024)	USD Mn
Men's Outerwear	1.63
Desiccated Coconut	1.13
Petroleum Oils	0.91
Fuel Wood & Charcoal	0.73
Imports from Oman (2024)	**USD Mn**
Petroleum Gases	204.3
Petroleum Oils	133.5
Fertilizers	14.90
Mineral Products	12.45

Note: All the Figures represent the year 2024

Source: Sri Lanka Export Development Board

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

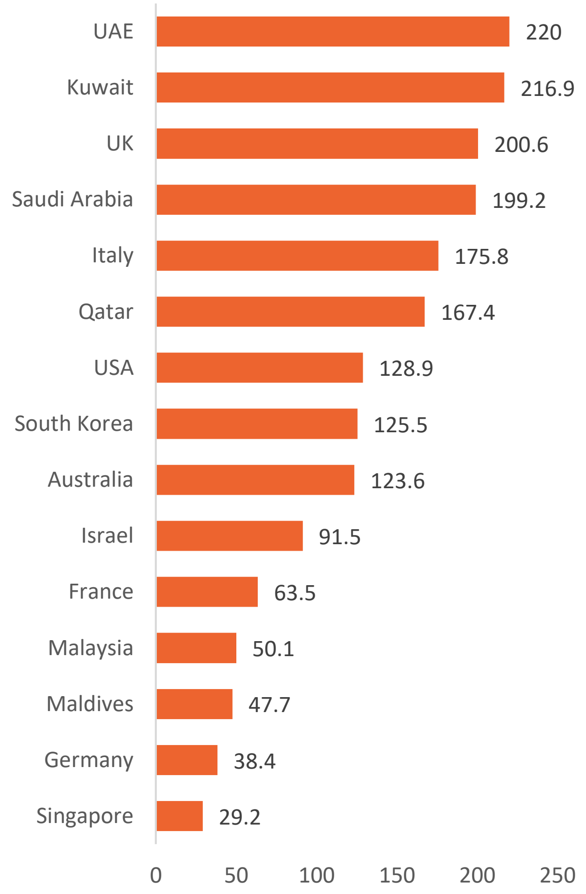
- **Surging fuel and energy prices intensify inflationary pressures**
  The sharp escalation in the Iran–Israel conflict and disruption risks surrounding the Strait of Hormuz have pushed crude oil prices significantly higher, with Brent rising into the high $70s range and registering weekly gains of around 7–10%. Given that Sri Lanka imports nearly 100% of its fuel requirements, sustained elevated global oil prices will directly transmit into higher domestic transport, electricity and production costs, placing renewed upward pressure on inflation.

- **Widening trade deficit amid higher import expenditure**
  Higher global crude prices increase Sri Lanka's fuel import bill at a time when external buffers remain limited. With energy accounting for a sizable portion of total imports, prolonged elevated oil prices will worsen the trade balance and exert pressure on foreign reserves. This deterioration in the current account position heightens external sector vulnerability and reduces the economy's resilience against future external shocks.

- **Downside risks to GDP growth from cost-push effects**
  Rising fuel and power costs will feed through to agriculture, manufacturing, tourism and logistics, increasing operating expenses and compressing profit margins. Higher input costs may delay private sector expansion plans and discourage new capital investment. Additionally, global economic uncertainty stemming from prolonged geopolitical tensions could dampen export demand, further constraining foreign exchange inflows and slowing overall economic momentum.

- **Remittance and capital inflow uncertainty**
  Escalation across Gulf economies raises risks to employment conditions for Sri Lankan migrant workers in the region, **particularly given that the highest remittance inflows originate from the UAE and Kuwait, amounting to approximately USD 212 million and USD 206 million**, respectively. Any disruption to these remittance flows would weaken household consumption, which remains a key driver of domestic demand. Furthermore, heightened geopolitical risk and global financial market volatility could reduce foreign direct investment and delay externally funded development projects, thereby affecting medium-term capital formation and growth prospects.

Workers' Remittance Inflows by Country (Q4-2025) (USD Mn)



Source: CBSL

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The CSE fell 5.44%, mirroring the weakness observed in global equity markets

Sri Lankan Market Immediate Response on 3rd March

Index	Change (points)	Change (%)
ASPI	▼ -1,291.67	-5.44%
S&P SL20	▼ -322.73	-4.86%

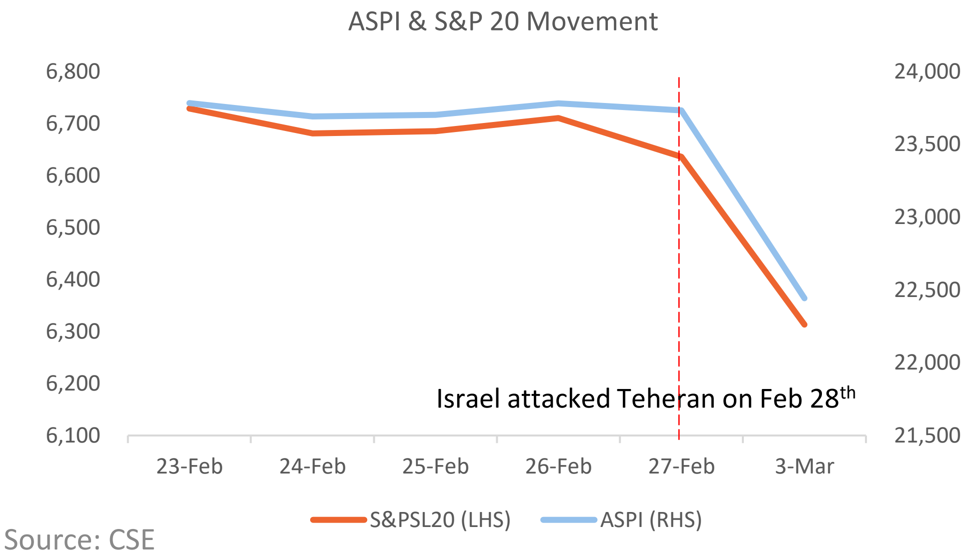
Both the ASPI and the S&P SL20 declined following the outbreak of the war over the weekend, experiencing a significant drop during morning trading that triggered a circuit breaker.

Regional and Global Markets

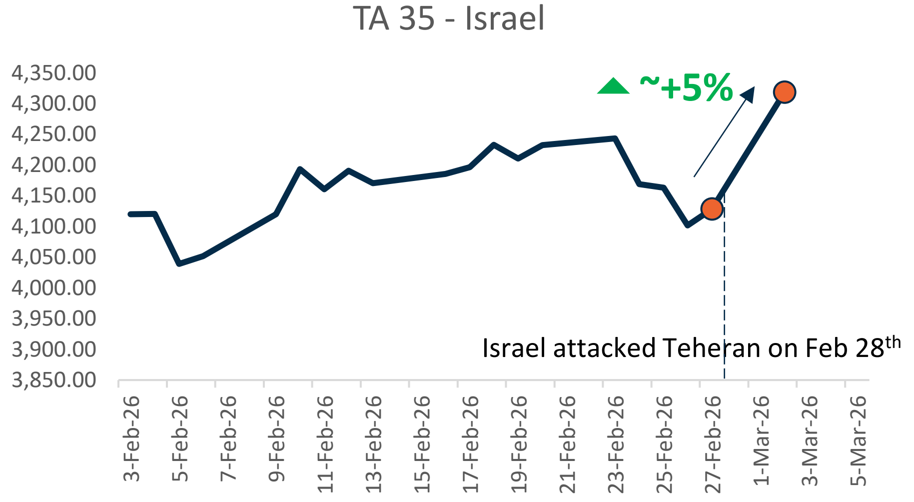
Index	Change (points)	Change (%)
Pakistan, KSE 100	+6,244.02	+4.11%
India, Nifty 50	-312.95	-1.24%
India, BSE 500	-1,048.34	-1.29%
Japan, Nikkei 225	-1,787.74	-3.08%
The UK, FTSE 100	-232.48	-2.16%
The US, S&P 500	+2.74	+0.04%
Saudi Arabia, Tadawul	+73.85	+0.70%
UAE, FTSE ADX General Index	-141.41	-1.33%

Regional and global markets changes up to date.

Source: CSE, Investing.com, ADX



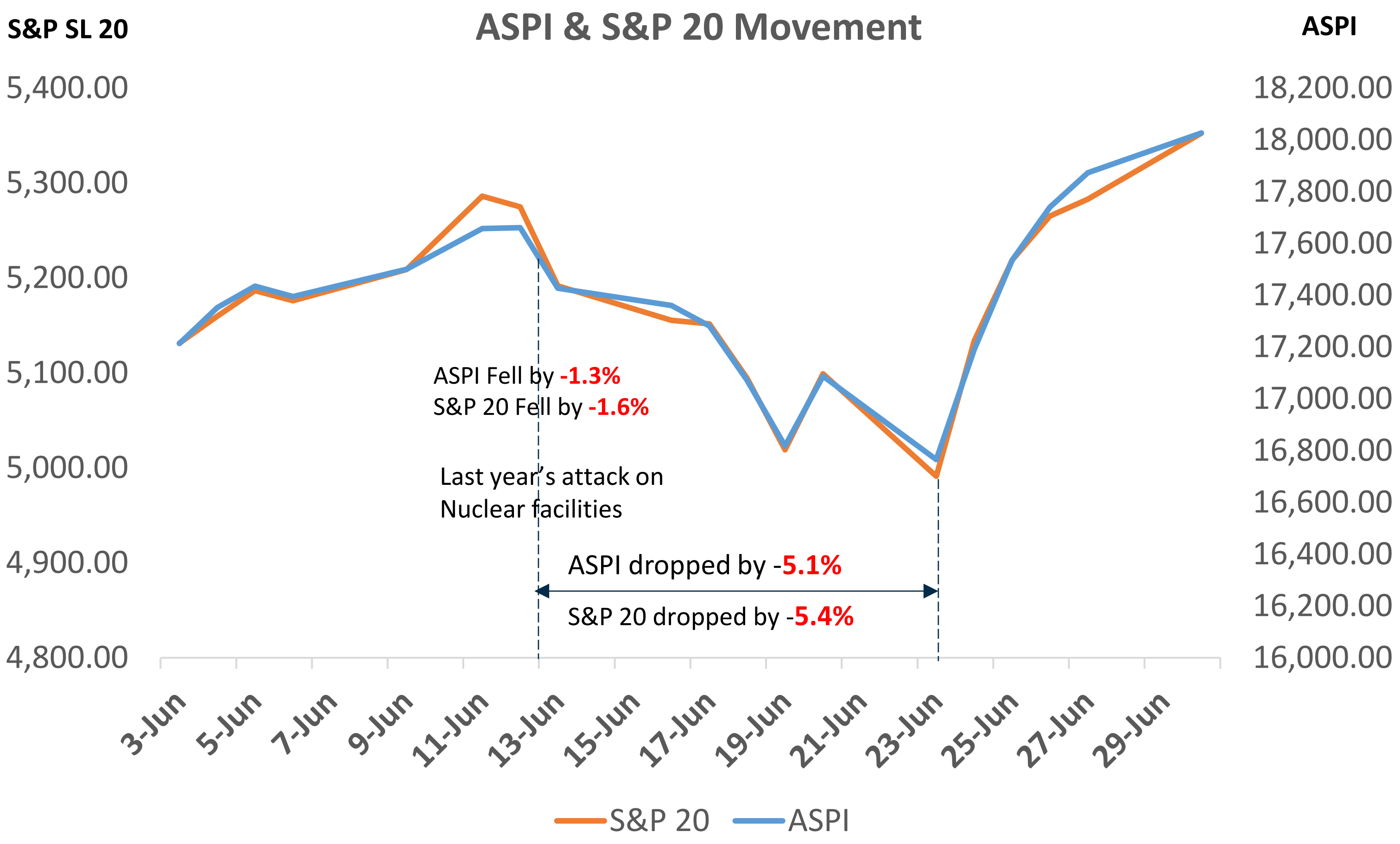
Source: CSE



Source: Investing.com

Updated as of 2nd March 2026

Market behavior during last year's attack..



Last year	Change (%)	Days took to recover
ASPI	-5.1%	10 days
S&P SL 20	-5.4%	10 days

Market Direction

While Sri Lanka is not directly involved in the conflict, the escalating regional tensions could indirectly affect the economy through elevated commodity prices, fluctuations in foreign investment flows, and increased uncertainty in investor confidence

Focus on Fundamentally Strong Stocks

- Position portfolios toward companies with durable business models, strong capital buffers, and predictable earnings streams, particularly during periods of elevated geopolitical uncertainty. Defensive opportunities remain concentrated in sectors such as banking, diversified financial services, construction-related manufacturing, and real estate, where balance sheet strength and asset backing provide relative stability.

  Banking: HNB, COMB, SAMP
  Leasing & Financial Services: CFIN, LFIN, PLC, COCR
  Construction & Building Materials: AEL, ACL, TKYO
  Real Estate & Property Development: RIL, PLR, OSEA

- In addition, rising gold prices could create a supportive environment for banks and finance companies with meaningful exposure to gold-backed lending. Higher bullion prices enhance collateral values, potentially lowering loan-to-value risk, reducing default probabilities, and improving asset quality, particularly for institutions with strong pawnbroking portfolios.

Freight and logistics companies

Amid the Middle east war and heightened risks surrounding the Strait of Hormuz, Colombo Port could experience an increase in transshipment activity as shipping lines reroute vessels through relatively safer corridors. This potential diversion may strengthen Colombo's position as a key regional transshipment hub. Consequently, domestic freight and logistics players with exposure to port operations including SPEN, JKH, HAYL and HHL could benefit from higher cargo throughput and improved operational volumes

Export counters

Rising geopolitical tensions could weaken consumer sentiment in the Middle East and Europe, while escalation near the Strait of Hormuz may raise shipping costs due to rerouting and higher insurance premiums. Increased global volatility could also place depreciation pressure on the Sri Lankan rupee against the US dollar, potentially improving export price competitiveness. However, Iran remains an important trade partner, **with Sri Lanka's tea exports to Iran valued at approximately USD 62.25** million in 2024, accounting for the majority of total exports to Iran of about USD 67.8 million, making trade flows vulnerable to prolonged regional instability.

Source: Press Releases, Ambeon Estimates, Company reports

Market Direction cont.'

Tourism Sector – Near-Term Challenges, Structural Upside Potential

While Sri Lanka's tourism sector has demonstrated a strong post-recovery trajectory, the recent escalation of tensions including attacks on Dubai could reshape regional travel flows in the near term. As Dubai serves as a major global aviation hub connecting Europe, Asia and the Middle East, disruptions there may lead to flight cancellations, rerouting and higher airfares, temporarily weighing on global travel sentiment. However, **Sri Lanka could emerge as a relatively safer alternative destination** within the region if instability persists in key transit and tourism hubs. Travelers seeking destinations away from active conflict zones may redirect demand toward South Asia, potentially supporting inbound leisure flows.

Monitor Energy-Linked Impacts

A prolonged conflict could lift oil prices further, widening Sri Lanka's import bill and increasing currency pressure. Investors should monitor fuel-sensitive sectors such as transport and energy-intensive industries

LIOC *maintains an inventory holding period of approximately* ***37.5 days****. The recent spike in global oil prices likely enabled the company to benefit by selling existing lower cost inventory at higher prevailing market prices, resulting in short term margin expansion. However, if elevated oil prices persist beyond the current inventory cycle, margins may come under pressure as the company replenishes stocks at higher replacement costs, potentially narrowing spreads.*

LGL*'s relatively low inventory holding period of approximately* ***20 days*** *provides an advantage in a volatile environment by limiting working capital exposure and reducing the risk of holding high-cost inventory during commodity price swings; however,* ***in the event of prolonged supply chain disruptions or shipping delays*** *linked to Middle East tensions, the short inventory buffer could pose a disadvantage by increasing the risk of stock shortages and potential revenue interruptions.*

Keep Cash Allocations and Stagger Entries

Preserve liquidity to capitalize on potential market pullbacks and gradually build positions. Given the difficulty of pinpointing market bottoms during geopolitical volatility, a phased accumulation strategy in fundamentally strong stocks is recommended.

Source: Press Releases, Ambeon Estimates, Company reports

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