Industry Update

From the Strait to the Shelf:

How the Middle East conflict flows into food prices

On February 28th, U.S./Israeli strikes on Iran effectively shut down the Strait of Hormuz, which moves ~20% of the world's oil and a significant amount of its fertilizer. Iran retaliated by hitting targets in U.S.-allied Arab states, including Qatar's Ras Laffan industrial complex, the world's largest natural gas hub. Ras Laffan supplies the world's largest single-site producer of urea (a type of nitrogen fertilizer) nearby. Operations have been shut down indefinitely and will take weeks to reach full production capacity once they are online again.

While most of the news headlines grabbing the public's attention are focused on the military campaigns and geopolitical factors, the strikes have the potential to affect food supply chains in deeper ways. Specifically, a Middle East conflict reaches the grocery store through three primary channels: energy, freight, and fertilizer, each influencing food prices in a different way.

Why This Reaches Your Grocery Bill

As a result of the conflict, Brent crude oil prices skyrocketed 65% (the largest weekly price jump in 43 years) before settling well above pre-conflict prices. While jumps in energy prices are felt immediately, the effects will also ripple through the food value chain if prices remain elevated for an extended period. The more persistent inflationary pressure comes through global shipping disruptions and fertilizer markets, where cost increases can become embedded in production economics.

Freight is often the most underappreciated channel. When war-risk insurance premiums spike and tankers divert around disrupted chokepoints, rerouting around Africa can add weeks to voyages. Those delays raise shipping costs on everything that moves by sea: grain, oilseeds, fertilizer, and imported ingredients across the food system. This is not just an energy story; it broadens into higher delivered costs for core agricultural commodities.

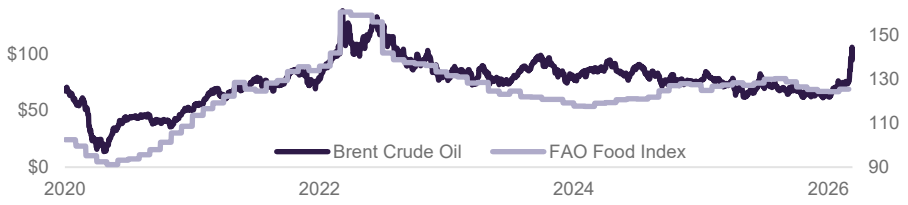
Fertilizer, which initially spiked 25% along with crude oil, is the next critical transmission point. Nitrogen fertilizer is the most energy-intensive component of the fertilizer complex and is particularly important for corn production. Nitrogen fertilizer isn't mined; it's manufactured using natural gas as its primary ingredient. Disruption to Qatar's supply therefore places a significant share of globally traded urea at risk.

As an example, corn sits at the center of several major agricultural supply chains. It is the primary feed grain for livestock, a key ingredient in food manufacturing, and roughly one-third of the U.S. crop is processed into ethanol and blended into gasoline. Corn represents the nexus of the energy markets, fertilizer costs, and food supply chains.

Still, higher farm-level costs do not fully translate into grocery-store inflation. Retail food prices also reflect labor, packaging, transportation, and retail margins. Farm inputs are only one slice of the final food dollar. The extent of the consumer impact depends on two factors:

1. How long the shock persists
2. How much cost processors, retailers, and restaurants absorb instead of passing through

Crude Oil and Food Prices are Correlated



Historically, **major swings in Brent crude have consistently aligned with turning points in global food prices,** most visibly during the 2020–2022 spike, when both surged sharply.

Sources: LSEG, spot Brent Crude oil prices updated daily through 3/10/2026, the Food & Agriculture Organization (FAO) Food Index is updated monthly and through 2/28/2026.

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Three Shocks, Three Timelines

As these channels transmit the shock inward through energy, freight, and fertilizer, the impact doesn't land all at once. It rolls through the economy in an observable sequence, starting fast and then stretching into longer cycles.

Wave 1: The Pump

- Fuel prices rise immediately in Wave 1, tightening household budgets
- Consumers respond by trading down, name brand to private label, premium to value proteins, and specialty to basics
- Value channels and private-label manufacturers benefit first before broader market adjustments occur

Wave 2: The Plate

- Wave 2 shows up as higher food costs as fuel, freight, and storage expenses work through supply chains
- Fresh items adjust fastest, eggs, milk, produce, while packaged and processed foods rise more slowly due to contracts and hedges
- Duration matters more than the spike itself: the longer elevated costs persist, the more they flow into retail prices

Wave 3: The Planting

- Wave 3 emerges when farmers purchase fertilizer for the 2027 crop, after existing contracts and inventory run out
- U.S. nitrogen supply is stable, but prices rise anyway because fertilizer trades globally and the global market has absorbed a supply shock
- Switching from corn to soybeans offers limited relief as soybeans need less nitrogen, but oversupply can erode prices and dilute the benefit

Implications of the Effects: Few Companies Purely Win or Lose

A long-lasting spike in energy and fertilizer prices does not create simple winners and losers. Food production resides in a complex web of market forces that can have both positive and negative effects on any given supply chain segment.

For example, poultry and egg producers may benefit as shoppers trade down from beef, but higher corn and soybean meal prices hit their feed input costs immediately. Corn farmers themselves are not clean losers either; those who locked in fertilizer last fall are largely insulated this spring. And if grain futures move enough, the revenue side partially offsets the cost side. The nuance runs through almost every category.

That same mix of trade-downs, cost pressure, and timing differences shows up across the value chain, from premium CPG brands losing volume, to discount retailers picking it up.

The only true winners are the companies structurally positioned to benefit from higher global prices without taking on higher costs. U.S. Liquefied Natural Gas (LNG) exporters fall into that category. With domestic supply unaffected, they simply sell more at better prices. U.S. nitrogen fertilizer producers do too, since their input costs stay tied to relatively stable domestic natural gas while the global prices they sell into move higher.

For everyone else, the outcome depends on hedge coverage, contract timing, transportation exposure, and how long the shock lasts. In short, a sustained disruption reshapes margins unevenly and pushes every link in the chain to manage risk more actively.

The Way Forward: Two Problems, Two Off Switches

Despite the complexity of the effects, the Iran conflict has created two distinct problems that need to be resolved: the closing of both a critical global shipping lane and a hub for natural gas & fertilizer production. Markets expect the Strait of Hormuz to reopen, which would remove the short-term fear premium on oil and bring fuel prices back down. However, Ras Laffan is different. With physical damage and shutdowns that could take weeks to restart and much longer to fully recover, the LNG and fertilizer disruption may outlast the conflict itself. This distinction matters because reopening the Strait ends the immediate oil shock, but the Ras Laffan outage drives the longer-term food inflation risk regardless of diplomatic developments.

Sources: EIA (STEO Mar 2026; Today in Energy LNG); IEA (Strait of Hormuz Oil Security); CRS (R45281); farmdoc daily / USDA RMA (2026 Projected Price); USDA-ERS (corn use).