



RLA Market Insights – Friday, 06 March 2026

Middle East producers are facing mounting operational pressure as severe shipping disruptions choke both domestic distribution and export activity. Inventory levels are rising rapidly, warehouses are filling up, and producers are finding it increasingly difficult to move material out of the region. Both local sales and overseas business have been hit, leaving plants with fewer outlets for product and growing concern over storage constraints.

Logistics costs have worsened dramatically. Land freight rates have more than tripled, sharply increasing the cost of moving product within the region. At the same time, export shipments have almost ground to a halt. Producers had explored rerouting cargoes overland to ports in western Saudi Arabia, but that option is now largely unworkable because of the higher transport cost and restrictions imposed by shipping companies. As a result, alternative export channels are narrowing just as pressure on storage capacity intensifies.

Insurance has become another major barrier. Premiums have risen to levels far above what market participants consider commercially viable, while some coverage has been cancelled altogether. This has severely reduced shipowner willingness to transit the Middle East, as few are prepared to enter the region without adequate insurance protection. The result is a near-paralysis of Gulf exports.

If these disruptions continue, the impact is likely to move quickly from logistics into production. Within days, regional producers may be forced to cut operating rates to prevent inventories from exceeding available storage space. If the situation becomes more prolonged, temporary shutdowns could become a real possibility. In short, the crisis is no longer just a freight issue, rather it is becoming

a direct threat to plant operations and regional supply continuity.

Impact of US-Iran War on different regions of the world is given down below.

US

US chemical and LPG exports have strengthened sharply since the fourth quarter of 2025, and this momentum is expected to continue as Asian buyers seek alternatives to disrupted Middle Eastern supply. With the Strait of Hormuz closed, LPG flows from the Gulf are constrained, increasing reliance on US originated cargoes. Propane from the US is likely to remain in strong demand across East Asia, particularly in South Korea and Japan.

This demand shift is being reinforced by the sharp rise in Asian naphtha prices, which have climbed to a 3.5 year high amid higher crude costs. In this environment, LPG offers crackers a more economical feedstock option than naphtha, helping producers protect olefin margins. Both naphtha and LPG are used as feedstocks to make olefins, which are then converted into key derivatives such as polyolefins. As a result, high naphtha prices are encouraging greater LPG cracking which is technically and commercially feasible.

The impact could extend beyond feedstocks into downstream polymer trade. The US is also a major exporter of polyethylene, and its cargoes may increasingly move into Southeast Asia. That region will require additional imports since the traditional suppliers such as the Middle East, China, and Northeast Asia face feedstock shortages and production constraints.



Northeast Asia

Asia's petrochemical market is under mounting pressure as naphtha supply tightens sharply, with many regional producers estimated to have only two to three weeks of working inventory. If feedstock disruptions from the Middle East persist, the region could face deeper run cuts and even major shutdowns, particularly among naphtha-based steam crackers.

Cracker operators in South Korea, Indonesia, and Singapore have already announced production cuts amid concerns over securing Middle Eastern naphtha. In South Korea, Lotte Chemical and LG Chem have reduced operating rates, while several sites have declared force majeure. Average run rates at South Korean steam crackers are expected to fall to 69% in March from 80%, highlighting the scale of the disruption. Japan is also in its seasonal turnaround period, which is intensifying concerns over feedstock availability, while downstream buyers in southeast Asia are scrambling for ethylene cargoes.

Northeast Asian nations are the major source of paraxylene and mixed-xylenes to China which can get impacted indirectly, should the South Korean and Japanese petrochemical producers cut on the production and reduce operating rates. Furthermore, weak downstream demand from China given the present situation can further strain the paraxylene and mixed-xylene imports from Northeast Asian nations.

China

Just like others, China is set to face a feedstock crunch be it methanol, naphtha, ethylene, ammonia, urea, ethylene glycol or polyethylene. China sources around 70% of methanol from Iran, and the shutting down of the Strait will have severe implications on the methanol Middle East to China methanol trade. China has already introduced a naphtha consumption tax of about \$300/tonne under its anti-involution policy framework, aimed specifically at domestic merchant transactions.

The main burden would fall on standalone crackers, especially private and joint-venture operators that rely on third-party naphtha purchases. This could support stronger LPG demand, particularly for butane. The problem, however, is China still sources 50% of its LPG, especially butane from Middle East. With Saudi Aramco butane contract prices surging high, the butane imports will again face heightened costs pressuring the already subdued operating margins for the petrochemical producers. Feedstock shortages for olefins and aromatics manufacturing are likely to persist until new reliable sources are identified or the situation in the Middle East de-escalates.

China sources a significant share of its polyethylene from the Middle East, and any disruption such as a potential closure of the Strait of Hormuz could directly affect these supply flows. Although China is largely self-sufficient in polypropylene and exports polymers to Southeast Asia, rising feedstock costs and constrained margins could lead to lower operating rates. This, combined with potential feedstock shortages, may ultimately disrupt polymer shipments from China to Southeast Asian markets.

China's methanol to olefins sector is expected to function as a key balancing lever in the current market environment. Elevated methanol inventories combined with recent plant shutdowns, suggest that additional marginal rate reductions could help cushion near-term price spikes in olefins. However, heightened crude oil volatility is complicating margin dynamics make operating decisions more challenging. By early March 2026, petrochemical futures in China were seen rising by 5.8%. Among the gainers were propane, butane and methanol along with moderate rise seen in propylene, benzene, polypropylene, LPDE, paraxylene, ethylene glycol, PVC, PTA and PET.



India

India is projected to suffer a severe oil shortage and feedstock crunch which can deeply impact its global fertilizer and pesticide exports. India imports major volumes of ammonia and urea from Saudi Arabia, Iran and Qatar which it uses to produce phosphates, fertilizers and pesticides. India reduced its ammonia and urea shipments from Iran due to US tariff threats. The alternate sources are Saudi Arabia and Qatar. India also imports major volumes of styrene and polyethylene from Middle East. However, the shipments are projected to be halted for extended periods. Prolonged disruption in the Middle Eastern energy and petrochemical markets will force Indian importers to seek replacement cargoes from Africa or Russia.

The United States Treasury Department has granted India a temporary 30-day waiver allowing limited purchases of Russian oil to help stabilize global supply amid escalating tensions in the Middle East. The measure is intended to maintain the flow of crude into global markets while restricting additional financial benefits to Russia.

The waiver applies only to Russian crude already stranded at sea. Under the license, transactions involving Russian origin crude or petroleum products loaded onto vessels on or before 5 March 2026 are permitted, provided the cargoes are delivered to India by 4 April 2026. This makes the decision a short-term logistical relief rather than a broader policy change.

Concerns have intensified about a possible blockade of the Strait of Hormuz, a key shipping route for global oil. India is particularly vulnerable because about 40% of its crude imports from the Middle East pass through this chokepoint.

The waiver also follows recent trade tensions between Washington and New Delhi related to India's purchases of Russian oil. Despite these issues, Indian refiners have cautiously resumed buying Russian cargoes, while government officials

say domestic fuel supplies remain stable without any immediate need for rationing.

In the benzene market, Asia could experience increased regional supply pressure. India, the world's second largest benzene net exporter, ships about 65% of its volumes to Saudi Arabia, Kuwait, and Qatar. The closure of the Strait of Hormuz will disrupt these exports, leaving a larger share of Indian benzene within Asia and tightening regional balances. Some of these volumes may be redirected to China, particularly as demand in Europe and the US remains subdued. However, the potential downside may be partly cushioned by India's second quarter maintenance season and possible run cuts linked to feedstock constraints. China's direct benzene imports from Oman and Saudi Arabia remain relatively limited, suggesting that the key impact would not be a loss of Middle Eastern benzene supply into China, but rather the redistribution of Indian export cargoes within the Asian market.

Middle East

Middle East plays a crucial role in supplying feedstocks to Asia's petrochemical sector, particularly LPG and naphtha. About 45% of Asia's LPG imports and 80% of its naphtha imports passed through the Strait of Hormuz. A prolonged disruption in the strait could significantly impact cracker operations, potentially reduce olefins production and cut ethylene output by as much as 10 million tonnes annually.

Some alternative export routes exist but are limited. Saudi Arabia could reroute small volumes through the East-West pipeline to Yanbu, though this would increase freight costs. The UAE may partially bypass the strait via the Habshan-Fujairah pipeline, while Oman's exports remain relatively unaffected as they do not rely on the chokepoint. However, the capacity of these alternatives is restricted and replacement supplies from the US or West Africa would arrive at significantly higher landed costs.



As a result, Asian petrochemical margins would likely come under pressure due to rising feedstock prices, steeper backwardation, and widening arbitrage spreads, increasing the region's vulnerability to Gulf supply disruptions.

China's methanol-to-olefins sector is expected to serve as a key balancing mechanism amid market volatility. High coastal methanol inventories and recent unit shutdowns suggest that further marginal reductions in operating rates could help moderate short-term price spikes. However, rising crude oil volatility is complicating margin calculations for methanol-to-olefins producers, increasing operational uncertainty and financial risk. Methanol futures were seen surging in response to fears of supply disruptions.

Saudi Arabia temporarily halted LPG exports from the Juaymah terminal in Ras Tanura, the country's largest LPG export facility following an accident on 23rd February that damaged part of the propane and butane delivery system. According to Saudi Aramco, the company activated its emergency response plan and suspended all LPG export operations at the terminal. While no leaks or injuries were reported and domestic supply remained unaffected, the duration of the outage remains uncertain. Aramco indicated that all scheduled LPG exports from the facility for the next few weeks would be cancelled.

The disruption had an immediate impact on regional markets, as about 75% of Saudi Arabia's LPG exports normally ship from Juaymah, with the remainder handled at Yanbu. The major destinations include India and China.

Aramco kept its March propane and butane contract prices unchanged at \$545/t and \$540/t, drawing criticism from traders.

Escalating tensions in the Middle East and the potential closure of the Strait of Hormuz are severely disrupting fertilizer shipments from the region. Shipowners are increasingly refusing to send vessels into the Arab Gulf and through the

strait due to rising war risks and the withdrawal of insurance coverage. Several planned cargo loadings have already been cancelled, even where charter agreements had been finalized, after Iran signalled a possible blockade of the waterway. Electronic warnings have been issued to vessels to avoid the area, and at least three tankers have reportedly been hit, heightening concerns over maritime safety.

More than 200 vessels, including fertilizer carriers, are currently anchored to avoid entering the strait. Although ports in the region remain operational, ships already present may load cargo and wait offshore until conditions improve. Industry participants note that insurance constraints, rather than direct conflict, are the main barrier, as shipowners are unwilling to operate without coverage.

The Strait of Hormuz is a crucial trade route through which around 20% of global oil and all regional fertilizer exports pass. Producers in Qatar, Saudi Arabia, the UAE, Oman, and Bahrain collectively export over 16 million tonnes of urea annually, accounting for about 30% of global trade. Any prolonged disruption could tighten global supply, forcing buyers such as India to seek alternative cargoes and potentially driving fertilizer prices higher.



Europe

The European chemicals industry was positioned for a gradual recovery alongside expectations of renewed investment. However, the current geopolitical tensions and rising cost pressures are creating a challenging operating environment, particularly for chlor-alkali producers. Energy and input costs are increasing, yet weak downstream demand is limiting producers' ability to pass these higher costs on to customers, compressing margins across the value chain.

This situation reflects recent market dynamics, where caustic soda contract settlements for the first quarter declined despite elevated winter energy costs. The inability to fully transfer higher production costs to buyers highlights the fragile state of demand in key downstream sectors such as construction, automotive, and manufacturing.

If the ongoing conflict becomes prolonged, it could intensify inflationary pressures across Europe by pushing up energy and feedstock costs. This may complicate monetary policy decisions and delay anticipated interest-rate cuts aimed at supporting economic growth. Higher financing costs and persistent inflation could further dampen industrial activity and investment across the region.

Ultimately, the impact on the European chemicals sector will depend largely on the duration and scale of the conflict. A short-term disruption may only slow the recovery, while a prolonged crisis could significantly delay the industry's rebound and keep margins under sustained pressure.



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