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To the point!

Cross-Asset- and Strategy-Research

The skid marks of the war will be long

A normalization of the oil market may not come before late 2027

Once again, investors hang on Donald Trump’s every word, following his increasingly crude and grotesque social-media posts: when will he declare the war victoriously over? That is the moment when many investors’ “Taco trade” (“Trump always chickens out”) would finally pay off. Their focus is, unsurprisingly, on Trump’s pronouncements about the doubly bolted Strait of Hormuz. The sooner this chokepoint is reopened to shipping, the faster trade in oil, gas and fertilizers can recover.

Some market participants seem to treat the peace with Iran like a light switch you can simply flick off and on again. They assume that as soon as the Strait of Hormuz is open again (see fig. 1), gas and oil prices will automatically fall and nothing will stand in the way of an equity-market rally. Trump, for what it’s worth, [appears to share this view](#).

If only it were that simple. The “light-switch faction”, I fear, is succumbing to a naïve fallacy. The consequences of this war will stay with us far longer.

Lasting consequences even after a peace deal

Even if there were soon to be a peace agreement between Tehran and Washington – which looks unlikely in the near term, given how far apart both sides’ demands are – it could repeatedly turn out, in retrospect, to be a false peace. Both the Iranian side and the U.S. president could change their positions at any time and let the situation escalate again. No one knows what Trump will do next, or whether the Iranian leadership can wean itself off the leverage of Hormuz. The absence of rational predictability on both sides makes any peace brittle.

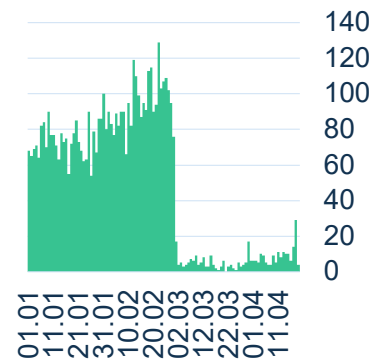
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April 30, 2026

Speculation on the ‘Taco trade’ is ubiquitous

Fig. 1: Transit of ships strait of Hormuz



Source: [IWE](#), LBBW Research

Iran and the U.S. lack rationality

Energy supply will remain critical

Set aside, for a moment, the key actors and their erratic behavior. Even if a peace accord proved durable, the economic fallout from the war would linger. Take energy: for now, the tankers are in the wrong place. It will take time for supply chains to shake back into shape – a lesson we already learned once after the Covid pandemic.

It is also far from clear that shipowners and insurers will simply revert to pre-war practices. They are likely to wait and see whether safe passage through the Strait of Hormuz is reliably and permanently guaranteed. Shipments will therefore not snap back to pre-war levels overnight. Last week the U.S. Defense Department informed members of Congress that [mine-clearing](#) operations in the region could take six months – only to [hastily deny it](#) once the information leaked to the press.

At least as serious is the fact that we still lack a comprehensive assessment of damage to the Gulf states' oil and gas production facilities. This applies in particular to [Ras Laffan in Qatar](#), the world's largest liquefied-natural-gas complex, which before the war accounted for one-fifth of global LNG output. The government in Doha has signaled that it could take three to five years to regain pre-war capacity. Restarting oil production facilities is no trivial matter either. We consider it likely that pre-war oil-price levels will not be reached again until around the end of 2027 – even assuming the blockade is lifted as early as May (see fig. 2).

The head of the International Energy Agency (IEA), [Fatih Birol](#), goes further still, arguing that nothing in the energy world will return to how it was before the war. "The vase is broken," he says, "the damage is done – it will be very difficult to put the pieces back together." What he means is that the war has permanently shaken confidence in fossil fuels. As a result, many societies will turn away from oil and gas and pivot towards renewables and nuclear power.

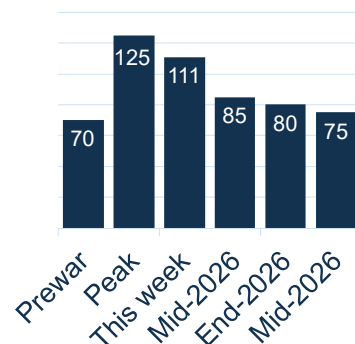
Food prices are set to rise

A few weeks ago, I also pointed out [in this column](#) that the prices of many foodstuffs are likely to rise noticeably because of higher energy costs and fertilizer shortages. The [UN Food and Agriculture Organization](#) (FAO) warns that the risk of food shortages and hunger in poor countries is increasing. But even in rich economies, food prices will fuel inflation well into next year. There is no quick way out of this crisis anymore.

Trump increasingly resembles the sorcerer's apprentice in Goethe's ballad of the same name: "Spirits that I've summoned, my commands ignore." The only question is who will assume the role of the master sorcerer who, in Goethe's poem, ultimately rescues the hapless apprentice. The American voter?

A damage assessment of production facilities is pending

Fig. 2: Brent oil price (USD)



Source: LBBW Research

The risk of famine in low-income countries is increasing

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