

Commodity Special Feature: Market Developments and the Real-Time Impact of Geopolitics on Energy Prices

Primary commodity prices decreased by 6.3 percent between March 2026 and August 2026. Prices of precious metals fell, driven by tighter monetary conditions, and energy prices retreated from highs reached following the escalation of conflict around the Strait of Hormuz. Agricultural price trends diverged across commodity groups, with prices of wheat, beverages, and cereals showing significant increases. This Commodity Special Feature proposes a new analytical framework for analyzing the transmission of geopolitical shocks in commodity markets and their macroeconomic implications in real time.

Commodity Market Developments

Oil prices have been volatile since the April 2026 World Economic Outlook (WEO), reflecting the ebb and flow of the war in the Middle East. As shipments through the Strait of Hormuz nearly halted, disrupting about 20 percent of global oil supply, oil prices peaked in late March at \$126 a barrel, reflecting extreme tightness in the physical market, visible in the Dubai-Brent spread widening to \$54. The market adjusted through increased production outside the Persian Gulf (notably in Brazil, Kazakhstan, the United States, and Venezuela); a drawdown of oil inventories, especially through the International Energy Agency (IEA) emergency stocks release, and of China's stocks; and a compression of crude oil demand, especially large in absolute terms, from China (see also Natal and Sadikov 2026). In early June, the market stabilized at about \$100 a barrel, with a supply deficit of 1.9 million barrels a day (mb/d) being covered by rapidly depleting reserves. The mid-June signing of a memorandum of understanding between Iran and the United States led to a brief and sudden reopening of the Strait and the release of about 90 million barrels of oil accumulated in the Gulf during its closure. This created a temporary glut, which led to a collapse in prices to \$68 a barrel.

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The short-lived ceasefire has now been replaced by a low-intensity conflict, which has expanded to the Red Sea and threatens additional exports from the region.

Refined petroleum product markets have been affected more than crude oil markets, with prices still between 70 percent and 95 percent above prewar levels. Refinery outages and damage in the Gulf and Russia have chipped away about 20 percent of the international supply of refined products, and export curbs have further tightened markets. Price pressures initially centered on jet fuel but are now most pronounced for diesel and gasoline, with impacts varying across regions according to their exposure to Gulf and Russian exports and domestic demand conditions.

Additional pressure on global crude oil and product markets has stemmed from attacks on Russian oil infrastructure on shore and in the Black Sea. The attacks have prevented exports of Kazakh crude oil through the Caspian Pipeline Consortium route and the Black Sea, while Russia's overall oil exports have declined owing to a sharp drop in diesel and other refined petroleum products. Because of these supply shortages, global reserves continue to be depleted by about 2.7 mb/d and are rapidly reaching stress levels that could lead to nonlinear price adjustments. Futures exhibit a steep backwardation, which is in line with a gradual resumption of flows from early 2027. Brent futures indicate a return to preconflict prices of \$79 a barrel by the end of 2027.

While the Strait of Hormuz remained mostly closed for Gulf oil exports until the end of August, traffic picked up significantly in September. Exports of crude from the Gulf reached an average of 16.7 mb/d or 88 percent of prewar levels, and ended the month at 13.4 mb/d. Much of this increase reflects renewed traffic through the Strait of Hormuz, substituting for Red Sea bypass routes. Although risks, freight rates, and insurance costs remain elevated, recent attacks and threats against Red Sea-bound oil infrastructure by the Houthis and other Iran-aligned militias have prompted shipments to return to the Strait of Hormuz. Despite this favorable development, the crude market remains tight and the geopolitical risk premium remains high.

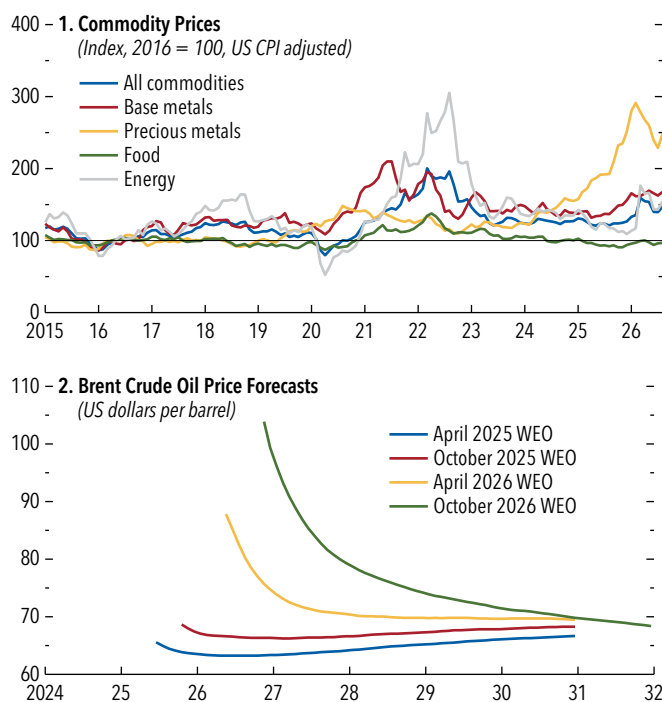
Natural gas prices have been even more volatile, reflecting market-specific features. Title Transfer Facility (TTF) trading hub prices increased by 18 percent between

March 2026 and August 2026 to \$20.9 a million British thermal units (MMBtu). Relative to oil markets, the European natural gas market displayed greater volatility, amplified by severe damage to the energy infrastructure of Qatar, the region's main exporter; historically low gas stockpiles in Europe, near 15-year lows; and repeated heat waves during the summer. Gas-to-coal substitution in Asian markets and stronger gas deliveries from non-Gulf sources have limited some of the impact on European prices. Meanwhile, the US natural gas market has remained insulated from the effects of the Middle East conflict, with Henry Hub prices falling by 9.2 percent to \$2.8 a MMBtu amid robust domestic gas supplies and strong domestic underground storage inventories. Futures markets suggest that TTF prices will average \$19.8 a MMBtu in 2026, steadily decreasing to \$8.4 a MMBtu in 2031, owing to expectations of an end to current supply disruptions and the prospect that US export capacity will double. Henry Hub prices are expected to increase from \$3.1 a MMBtu in 2026 to \$3.6 a MMBtu in 2031 as foreign demand builds.

Inflationary risks and associated tightening of monetary conditions have driven demand away from precious metals, whereas supply disruptions in the Strait of Hormuz have put upward pressure on prices for a subgroup of base metals. The IMF's metals price index declined 4.5 percent between March and August 2026 (Figure 1.SF.1, panel 1). Prices of precious metals drove the drop, with the gold price losing 9.1 percent and the silver price decreasing 17 percent as higher interest rates increased the opportunity cost of holding nonyielding assets and investors shifted toward more liquid, interest-bearing alternatives. On the other hand, the base metals price index increased 4.9 percent, influenced by supply constraints from the closure of the Strait, through which a large share of aluminum and sulfur (a key input for nickel production) transit. Futures markets suggest a modest increase of 2.3 percent in 2027.

Agricultural prices have been driven higher by gains in prices for cereals and beverages, whereas fertilizer markets have remained mixed. Between March and August 2026, the IMF food and beverages price index increased by 0.8 percent, reflecting mixed developments across agricultural markets. Wheat and corn prices increased 22.7 percent and 3.8 percent, respectively, amid disruptions to Black Sea grain flows and heat waves across Europe, and soybean prices increased 5.3 percent on weather-related supply concerns and resilient demand. Higher fuel and transportation costs also added upward pressure across grain markets.

Figure 1.SF.1. Commodity Market Developments



Sources: Bloomberg Finance L.P.; Haver Analytics; IMF, Primary Commodity Price System; International Energy Agency; and IMF staff calculations.

Note: In panel 2, expiration dates are on the x-axis. CPI = consumer price index; WEO = World Economic Outlook.

In contrast, seafood prices fell sharply, led by a 16.0 percent decline in salmon prices as abundant farmed supply weighed heavily on spot markets, with prices for other fish and for shrimp also moving lower.

Beverage prices increased 19.2 percent, led by an 83.6 percent increase in cocoa prices as adverse weather in Côte d'Ivoire and Ghana renewed supply concerns. Coffee prices increased 8.0 percent after heavy rainfall in Brazil's Minas Gerais state delayed harvesting and increased concerns about crop quality. Although cocoa prices remained elevated, expectations of a market surplus this year are likely to limit further gains.

Fertilizer prices have diverged since March. While the IMF fertilizer index declined 10.5 percent, supply disruptions have kept the price of phosphate up by 22.4 percent. Prices of nitrogen-based fertilizers, on the other hand, have dropped 31.5 percent since March, as higher Chinese exports and weaker seasonal demand across the Northern Hemisphere have weighed on urea prices.

Food prices are projected to increase 5.0 percent in 2026 and 2.4 percent in 2027, whereas beverage prices are expected to fall 21.5 percent in 2026 and increase

3.2 percent in 2027 due to El Niño. Upside risks stem from elevated fertilizer prices ahead of the Southern Hemisphere planting season, which could reduce input use, lower yields, and tighten grain supplies in 2027. A stronger-than-expected El Niño event could further disrupt weather conditions in key producing regions, and tariffs and geopolitical tensions could put additional upward pressure on prices.

Pricing Geopolitical Risk: Real-Time Evidence from Oil and Gas Markets

Motivation

In March 2026, the war in the Middle East effectively closed the Strait of Hormuz, stranding in the Persian Gulf oil and liquefied gas equal to about 20 percent of world consumption. In episodes like this, policymakers naturally focus on the supply loss. But fears of supply disruptions can also exert upward price pressure. Indeed, in January and February, before the start of the war, oil prices increased by about 10 percent amid rumors of an impending US attack on Iran.

Energy prices are among the most important drivers of inflation and business cycles. But not all energy price increases have the same causes or require the same policy response. It is thus essential for policymakers, and especially central banks, to understand why energy prices are moving. The case for monetary tightening is clearest when oil prices increase on stronger *demand*: Higher energy prices signal broader demand pressures, and stabilizing inflation is consistent with stabilizing activity (Blanchard and Galí 2007). A policy trade-off arises only when prices increase because of *supply* disruption, actual or expected. When barrels are physically unavailable, headline inflation increases and real activity weakens. When tightening, central banks must balance the risk of an inflation spiral against the risk of deepening the output loss (Woodford 2003). Much will depend on the persistence of the shock and how it spills over to inflation expectations and broader price setting (Natal 2012). The case for tightening is more uncertain still when prices increase because of geopolitical supply risk—the threat of potential future supply disruption—which increases precautionary oil inventory demand and risk premiums. If the anticipated supply disruption does not materialize, the associated increase in energy prices may prove short-lived, making policy tightening unnecessary or even counterproductive (Caldara and others 2026). If the risk is realized, however, geopolitical tensions give

way to actual supply disruptions, and the standard inflation-output trade-off reemerges.

Because multiple shocks often unfold simultaneously, identifying their relative importance, and doing so in real time, is critical for an appropriate policy response. Waiting for official data, which are available only with lags, can lead to costly mistakes. Despite substantial progress in disentangling demand and supply shocks in structural empirical models (among others, Kilian 2009, Baumeister and Hamilton 2019 for oil, and Nick and Thoenes 2014 for gas), the literature has paid relatively little attention to isolating the contribution of geopolitical risk separately from actual supply disruptions. With geopolitical risks at levels not seen in decades (see the April 2026 WEO), policymakers need new tools.

This Commodity Special Feature fills this need by developing a framework that separately identifies geopolitical risk shocks and supply shocks (alongside traditional demand shocks), providing policymakers with a tool—the Commodity Price Tracker—for assessing energy price movements as events unfold. It also addresses two key questions. First, what drives movements in oil and natural gas prices? In particular, what are the respective contributions of *current* and *expected* demand and supply conditions? Second, what are the *macroeconomic effects* of these different drivers of energy prices? Do these effects depend on the source of the shock, and do they differ between oil and natural gas markets?

Determining the Drivers of Oil and Gas Price Fluctuations: A New Analytical Framework

Economic shocks rarely occur in isolation, and to calibrate monetary and fiscal policy adequately, it is critical to disentangle the supply and demand drivers of energy prices in real time. In early April 2025, for example, energy markets faced two almost simultaneous surprise announcements: the US announcement of broad new trade tariffs on April 2 and the surprise unwinding of oil production cuts by OPEC+ (Organization of the Petroleum Exporting Countries, including Russia and other non-OPEC oil exporters) on April 3. Consequently, oil and European gas prices dropped, but a key question arises: How much of the oil price drop was driven by each announcement?

This Commodity Special Feature develops a high-frequency four-variable structural vector autoregression (SVAR) model (Gomez-Gonzalez and others 2026)—the Commodity Price Tracker—that builds on

Gazzani, Venditti, and Veronese (2024). The model decomposes oil and European gas (TTF) price fluctuations using daily financial and newspaper-based data, which unlike GDP data are not subject to revision. The sample covers June 1, 2007 (October 4, 2013, for gas), to May 29, 2026, and it is estimated using Bayesian methods with the European Central Bank's Bayesian Estimation, Analysis, and Regression (BEAR) toolbox (Dieppe, Legrand, and van Roye 2016).

The SVARs include the following daily variables—adjusted front-month energy price,¹ 13-month futures price, returns from an equity index (a world index for oil and a European index for gas), and the newspaper-based Geopolitical Risk Threats (GPRT) index from Caldara and Iacoviello (2022)²—to decompose energy price movements into four shocks: *current* demand, *forward-looking* demand, *current* supply disruption, and *forward-looking* supply disruption or geopolitical supply risk.³

The first innovation of the approach is distinguishing between realized supply disruptions and geopolitical supply risk—the possibility of future disruptions—in real time. This richer decomposition is relevant for policymakers, because these shocks can have markedly different macroeconomic effects and demand different policy responses. A second innovation is the extension of the framework to natural gas markets, recognizing the growing macroeconomic importance of gas, particularly in Europe.

Distinguishing between *current* and *forward-looking* oil *demand* shocks is important. Current demand shocks, typically characterized by cyclical changes in economic activity that affect energy demand, such as a slowdown in manufacturing, often have only temporary effects. Forward-looking demand shocks capture changes in expected future economic activity and therefore may signal more persistent macroeconomic developments (Gazzani, Venditti, and Veronese 2024) that require a stronger monetary policy response.

¹For oil front-month prices, a weighted average of Front-Month Brent and Dated Brent is used, so that the resulting index always refers to a barrel to be delivered one month forward. For gas, front-month and 13-month futures prices are first adjusted to smooth changes in delivery dates from futures contracts and subsequently seasonally adjusted. See Gomez-Gonzalez and others (2026) for further details on the transformations.

²The Geopolitical Risk Threats index reports the share of articles from 10 US newspapers that include keywords related to war threats, imperiled peace agreements, military buildups, nuclear threats, and terror threats.

³The last shock can be interpreted as a change induced by geopolitical tensions in the expectation of future supply.

Similarly, disentangling *current supply* from *expected future supply* shocks (geopolitical supply risk) is key for policymakers, as geopolitical supply risk may have a more transient impact on prices and activity than current supply shocks. To disentangle these shocks, the SVAR combines an instrumental variable using stock and oil market volatility indices (the Chicago Board Options Exchange Volatility Index, or VIX, and the Crude Oil Volatility Index, or OVX), gold prices, and front-month oil prices with a set of parsimonious sign and relative magnitude restrictions based on economic theory.

The *natural gas* market is fragmented, with the US market largely disconnected from that in the rest of the world and European and Asian markets competing for the largest share of liquefied natural gas supply. Focusing on European prices, the identification strategy for gas closely mirrors that for oil on the supply side, with a few differences. The equity index considered is narrower and includes only European firms, reflecting the regional focus of the TTF. In addition, the SVAR is adapted to the specifics of gas markets when identifying demand-side shocks. Unlike oil markets, gas markets are less financialized: Whereas oil futures have long been traded as a financial asset, such trading is a relatively recent phenomenon in regard to the TTF. Instead, short-term gas demand is strongly influenced by weather conditions, particularly unexpected cold spells or heat waves that increase electricity demand for heating or cooling (Mu 2007). The SVAR therefore uses daily forecast temperature anomalies (Saha and others 2014) as an instrumental variable for current demand.⁴

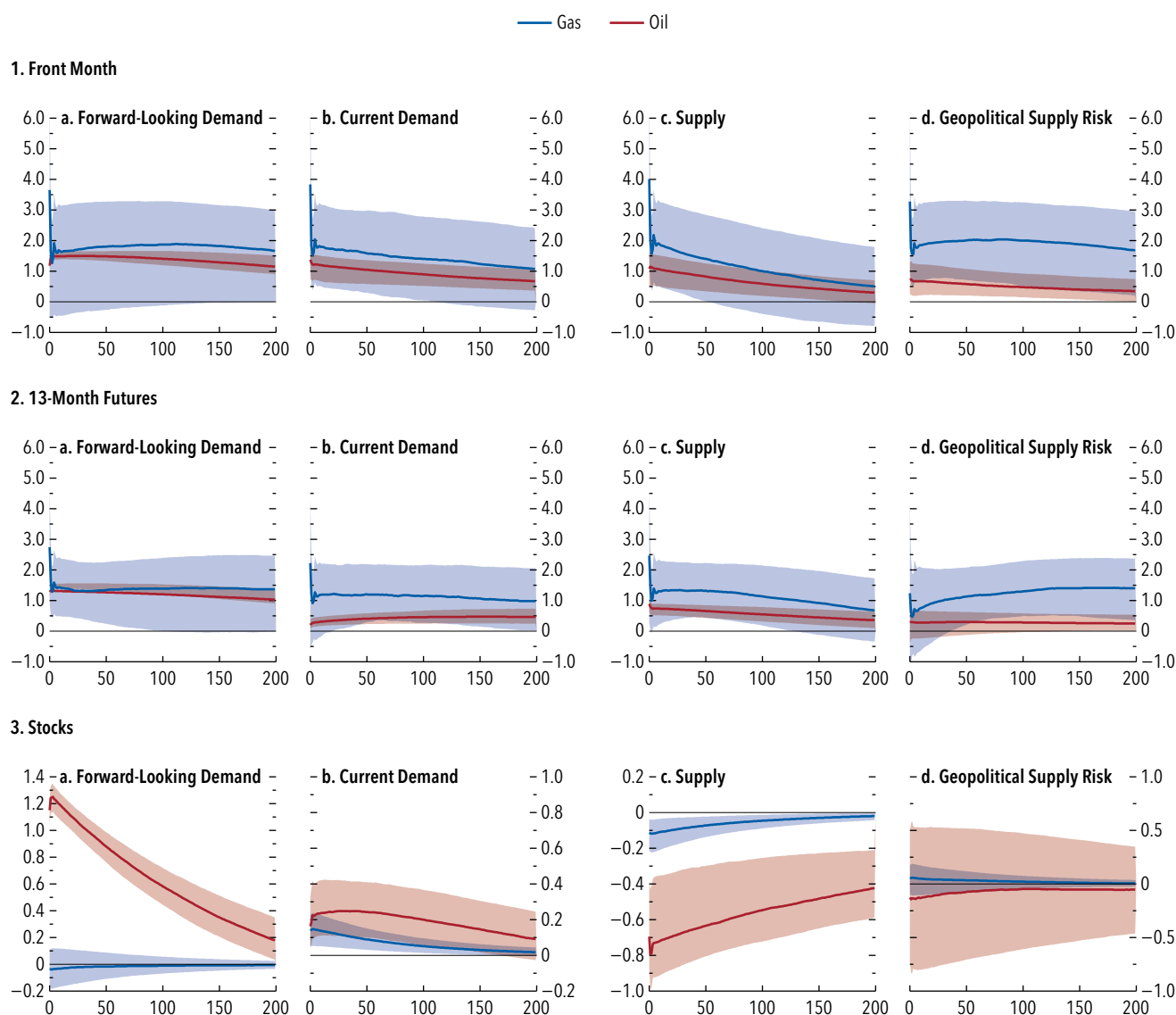
Transmission of Shocks to Financial Markets and the Macroeconomy

Before historical episodes are decomposed into different shocks, it is important to understand how each individual shock affects energy prices and financial variables (Figure 1.SF.2, with shocks normalized to one standard deviation) and their implications for policy-relevant macroeconomic variables (Figure 1.SF.3, with shocks normalized so that the front-month price increases 1 percent on the shock's impact).

Daily oil SVAR impulse response functions (red lines in Figure 1.SF.2) show that both forward-looking

⁴The identification strategies for the oil and gas markets are discussed in more detail in Online Annex 1.1. All online annexes are available at www.imf.org/en/Publications/WEO.

Figure 1.SF.2. Impulse Response from Four-Variable High-Frequency VAR
(Percent change; days after the shock on the x-axis)



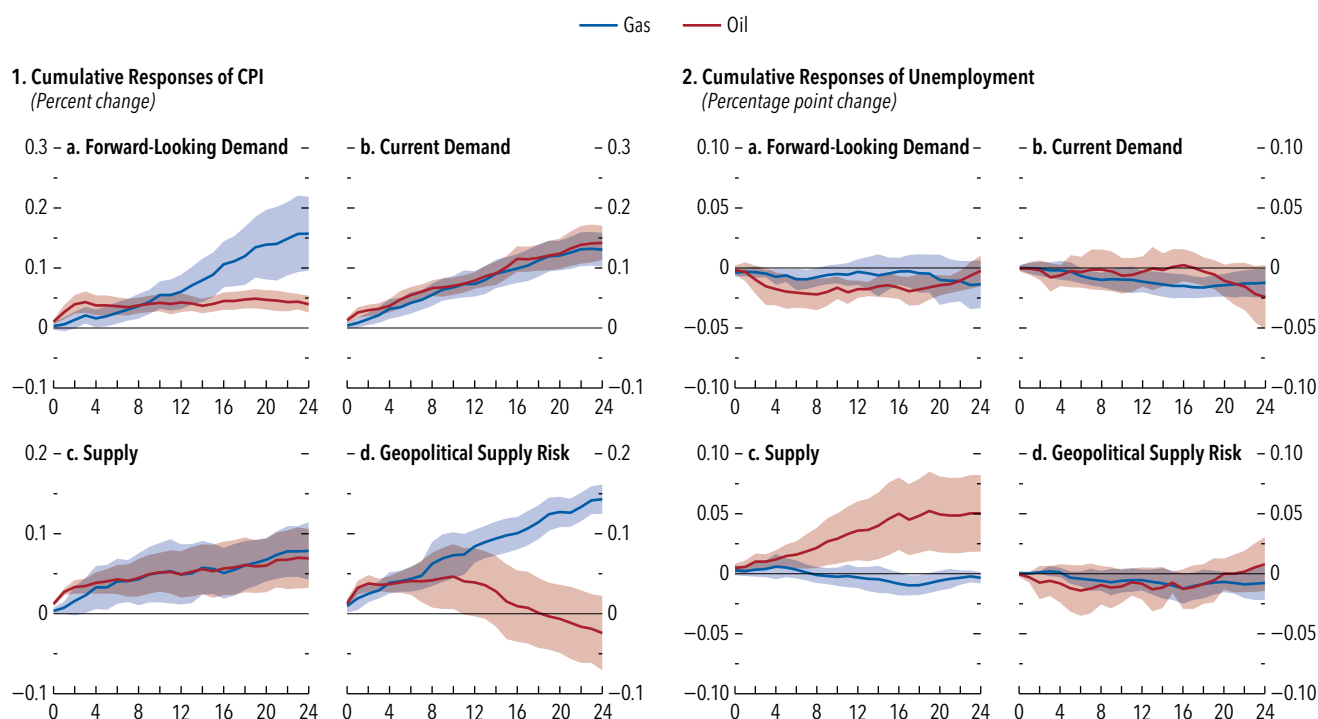
Sources: Bloomberg Finance L.P.; Caldara and Iacoviello 2022; MSCI; and IMF staff calculations.

Note: Rows show endogenous variables in VAR: "Front Month," "13-Month Futures," and "Stocks." Columns show structural shocks identified from VAR: "Forward-Looking Demand," "Current Demand," "Supply," and "Geopolitical Supply Risk." All responses are expressed as percent deviation from a no-shock baseline. "Front month" ("13-Month Futures") refers to the price of futures contracts for the nearest available maturity (13 months ahead); "Stocks" refers to the MSCI Global (Europe) Index in the oil (natural gas) analysis. Each shock is normalized to one standard deviation. Solid lines represent median responses, and shaded areas denote 68 percent confidence intervals. Red corresponds to oil (Brent), and blue corresponds to natural gas (Title Transfer Facility). Sample coverage: June 1, 2007, to May 29, 2026, for oil; October 4, 2013, to May 29, 2026, for natural gas, with daily frequency. VAR = vector autoregression.

and current demand shocks lead to increases in the prices of energy—front month and futures—and equities. However, whereas current demand promotes backwardation (a bigger increase of front-month than of 13-month futures) in line with the temporary nature of the shock, forward-looking demand causes an upward shift of the whole futures curve. Similarly

to a current demand shock, a current supply shock promotes backwardation, as the physical market tightens. Equities fall after a supply shock, consistent with firms' lower profits.

The results for gas exhibit some important differences. First, current demand shocks do not affect European equities, as current demand is driven by

Figure 1.SF.3. Local Projections of Oil and Gas Shocks on the Consumer Price Index and Unemployment

Sources: Haver Analytics; and IMF staff calculations.

Note: Responses to oil shocks are estimated for advanced economies that are net oil importers; responses to gas shocks are estimated for the five largest European economies. Reported responses net out the effects of the COVID-19 pandemic. The figure plots the response of the log differences $[(t+h)-(t-1)]$ in the log of the consumer price index (CPI, headline inflation) and in the unemployment rate at different monthly horizons (h) to shocks identified using high-frequency oil and gas structural vector autoregressions at time t . Shaded areas denote 90 percent confidence intervals. Daily shocks are aggregated to monthly frequency using averages and scaled such that, on impact, energy prices increase by 1 percent. The local projection specifications include country fixed effects, 12 lags of monthly inflation in the CPI equations, 12 lags of monthly unemployment in the unemployment equations, a COVID-19 dummy, and an interaction between the COVID-19 dummy and the shock. CPI = consumer price index.

weather conditions, which have little bearing on the broader European stock market. Second, the impact of future demand shocks on front-month TTF prices is not statistically significant, consistent with weather remaining the dominant driver of short-term fluctuations in gas prices. Finally, the response of gas prices (front month and futures) to current demand is more persistent than that for oil, highlighting the key role of gas inventories in smoothing the effect of shocks on prices.

Turning to the *geopolitical risk shock*, the main difference with the actual supply disruption concerns the response of equities. For both gas and oil, a supply shock decreases equity prices, and their response to the geopolitical supply risk shock is not different from zero, with statistical significance in line with earlier work (April 2025 *Global Financial Stability Report*). This suggests that although geopolitical tensions do impact energy prices, the effect on the real economy is bound to be quite small.

To gauge the macroeconomic impact of these shocks—and in particular the difference between geopolitical supply risk shocks and actual supply disruptions—daily shocks are aggregated to monthly frequency and their impact on inflation and unemployment analyzed using local projections (Jordà 2005). The results presented are for a panel of oil-importing advanced economies. When the impact of gas shocks is explored, the focus is on European countries only, given the regional importance of TTF.⁵

All oil shocks are inflationary, as expected, but the magnitude and persistence vary considerably depending on the shock (Figure 1.SF.3, panel 1). Although forward-looking demand, current demand, and actual supply shocks that increase front-month monthly oil prices by 1 percent all increase prices by

⁵Gomez-Gonzalez and others (2026) extend the sample to emerging market economies and low-income countries, when data availability allows.

roughly 0.06 percent⁶ after one year, the effect of the geopolitical supply risk shock on inflation is short-lived, with prices back to their preshock levels within six months to a year.⁷ For oil importers, demand-driven oil shocks, especially the forward-looking one, decrease the unemployment rate persistently, with unemployment below its preshock levels almost two years after the shock (Figure 1.SF.3, panel 2). Negative supply shocks that increase front-month oil prices by 1 percent increase the unemployment rate by 0.04 percentage point one year after the shock. The geopolitical supply risk shock has no statistically significant impact on the unemployment rate.⁸ This exercise underscores the policy relevance of disentangling actual oil supply disruptions from geopolitical supply risk shocks, as the former have large and persistent effects on inflation and unemployment, whereas the latter do not.⁹ It also highlights the benefit of isolating changes in the probability of future supply disruptions from (1) geopolitical shocks that increase macroeconomic uncertainty captured in forward-looking demand and (2) actual supply disruptions, since these two other shocks tend to have bigger macroeconomic effects (Kilian, Plante, and Richter 2026; Verduzco-Bustos and Zanetti 2026).

The inflationary pressures of gas shocks in Europe vary considerably across shocks (Figure 1.SF.3, panel 1). A shock, normalized so that the TTF price increases by 1 percent, increases the price level by about 0.05 percent after one year when driven by forward-looking demand or supply shocks and by roughly 0.08 percent when driven by current demand and geopolitical supply risk shocks.¹⁰ All shocks, and particularly geopolitical supply risk, have more

persistent effects on inflation than their oil counterparts. This difference reflects the greater persistence of natural gas prices following gas shocks, especially geopolitical supply risk shocks, compared with the response of oil prices to oil shocks, highlighting the role of inventories in smoothing fluctuations (Figure 1.SF.2). The responses of the unemployment rate to gas shocks are relatively muted (Figure 1.SF.3, panel 2), as natural gas is used mainly for heating and cooling, whereas oil is used primarily for transportation (IEA 2025).¹¹

Revisiting Historical Energy Price Shocks

The analytical framework just presented is particularly useful during periods of multiple concurrent shocks and geopolitical escalations. To illustrate the model's ability to disentangle shocks in real time,¹² front-month oil and gas prices are decomposed into their main drivers during two relevant and recent conflicts with varying degrees of supply disruptions: Russia's invasion of Ukraine in 2022 and the 2026 war in the Middle East.¹³ Russia's invasion of Ukraine entailed a major supply disruption for European gas markets, with TTF prices quadrupling in six months, whereas the oil disruption was minimal. Still, oil prices spiked. In contrast, both oil and gas supplies have been heavily disrupted during the 2026 war in the Middle East, and fears of a worsening geopolitical situation have been paramount.

The decompositions show that geopolitical supply risk exerted upward pressure on prices of energy, both oil and gas, before the wars began (Figure 1.SF.4),¹⁴ reflecting increasing expectations of military escalation. Once the conflicts started, the decomposition of oil prices reveals notable differences across episodes.

⁶The inflationary effect of the oil shocks is broadly in line with other estimates found in the literature (Choi and others 2018; Känzig 2021), though slightly larger.

⁷The short-lived impact of geopolitical supply risk on inflation echoes the findings in Caldara and others (2026) and is consistent with the model in Ambrosino, Chan, and Tenreiro (2026).

⁸The response of the unemployment rate to geopolitical supply risk is also muted when the sample is restricted to before November 2022, when ChatGPT was launched (see Online Annex Figure 1.1.1). This ensures that the AI boom in US financial markets is not acting as a confounding factor during a period of high geopolitical risk and relatively strong labor markets.

⁹The relatively muted impact of geopolitical supply risk on activity is consistent with the model in Kilian, Plante, and Richter (2026), which shows that geopolitically induced changes in the probability of an oil production shortfall (higher geopolitical supply risk) are not a major driver of macroeconomic fluctuations.

¹⁰These magnitudes are very similar to the one found in López and others (2026) for gas supply shocks.

¹¹The relatively muted effects on aggregate activity are consistent with previous work that highlights the power of substitution—geographic and of energy sources—in explaining very mild recessions after natural gas shocks (Moll, Schularick, and Zachmann 2023).

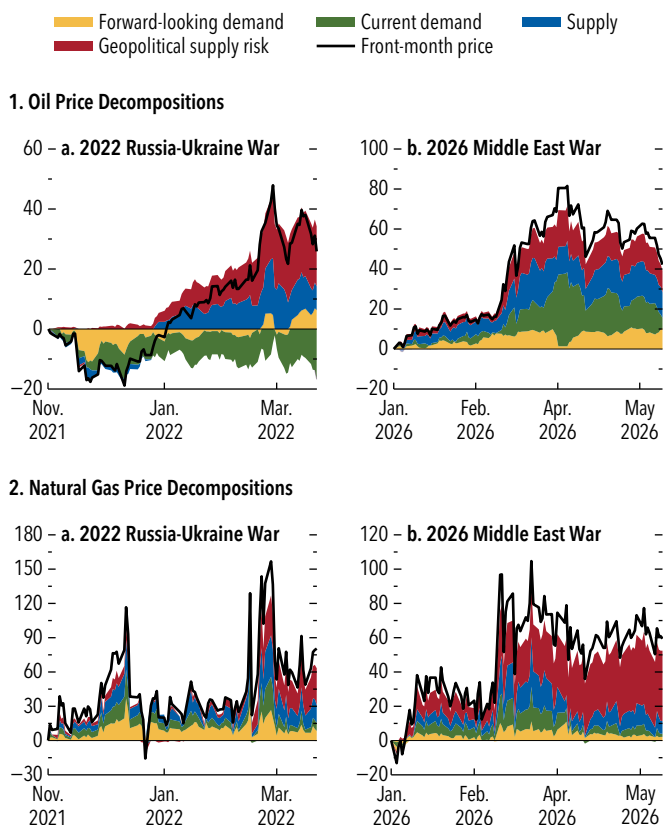
¹²To be sure, the analysis presented here is quasi-real time. Although the data used to estimate the SVAR are daily financial data and are not revised, the model is estimated over the whole sample. Robustness exercises in Gomez-Gonzalez and others (2026) show that the results are not different when only data available in real time are used to estimate the model.

¹³The decomposition of oil and gas prices at the time of the US announcement of tariffs in early April 2025, described earlier and an example of concurrent shocks, is in Gomez-Gonzalez and others (2026).

¹⁴The starting dates of these conflicts were February 24, 2022, for the conflict in Ukraine and February 27, 2026, for that in the Middle East.

Figure 1.SF.4. Front-Month Price Decompositions around Selected Episodes

(Percent change from value at beginning of period)



Sources: Bloomberg Finance L.P.; Caldara and Iacoviello 2022; and IMF staff calculations.

Note: The figure shows variance decompositions of front-month energy prices using four-variable structural vector autoregression models. Front-month price refers to the price of futures contracts for the nearest available maturity. Data used to estimate the models for oil are from June 2007 to May 29, 2026; those used to estimate the models for natural gas are from October 4, 2013, to May 29, 2026 (daily frequency).

During the war in Ukraine, the contribution of geopolitical supply risk has been more than twice as large as that of actual supply, whereas during the 2026 Middle East war, the two shocks have contributed roughly equally. This difference is consistent with the greater severity of the actual supply losses in the latter episode. In contrast, supply emerges as a key driver of gas price movements during the war in Ukraine, reflecting the prominent gas supply disruptions in that conflict. In the 2026 Middle East war, geopolitical supply risk has put substantial upward pressure on gas prices, followed by supply, again in line with the elevated uncertainty, shipping affected by the closure of the Strait of Hormuz, and damage to Qatari facilities. The contribution of demand, however, has been similar

across oil and gas during the 2026 war. It exerted upward pressure on prices at the beginning of the war, as refineries and electrical firms likely competed for the scant crude and liquefied natural gas available. As the war has continued, the decomposition starts showing a lower demand contribution, signaling demand compression. A key takeaway from these decompositions is that realized energy shortages do not eliminate the influence of geopolitical risk. Even after supply disruptions materialize, heightened geopolitical supply risk continues to exert upward pressure on energy prices during geopolitical crises. Hence, not all the observed increase in energy prices during these crises should be interpreted as evidence of physical scarcity; part of the rise reflects elevated risk premiums associated with uncertainty about future disruptions.

Conclusion

The key takeaway from this Commodity Special Feature is that effective policy responses to energy-related shocks require identifying the source of energy price movements in real time. Because the macroeconomic implications are different, policymakers should be able to distinguish between price increases driven by demand shocks and those driven by supply shocks and, among the latter, between price increases as a result of geopolitical tensions and those caused by actual supply disruptions. For example, whereas oil-related geopolitical supply risk typically has only short-lived effects on prices and no measurable effect on unemployment, supply disruptions and forward-looking demand shocks generate larger and more persistent macroeconomic effects.

Policymakers' task is further complicated by the fact that shocks usually arise simultaneously. Recent events in the Middle East show that energy prices often increase in anticipation of supply disruptions and that geopolitical risk continues to influence prices even when shortages have already occurred. As a result, interpreting higher energy prices solely as evidence of physical scarcity can lead to inappropriate policy responses.

The Commodity Price Tracker offers a real-time framework for distinguishing among commodity price shocks, thereby supporting more timely and effective policy responses. Whereas the focus of this Commodity Special Feature is on oil and gas, the framework is flexible enough to be extended to other commodities of interest in the future.