

The \$116 Barrel: How Closing the World's Most Critical Waterway Starved China's Energy Supply and Delivered Australia's Biggest Energy Windfall

Every decade or so, a single geopolitical event reshapes the global energy order overnight. On 1 March 2026, it was the closure of the Strait of Hormuz. For most of the world, the consequences were immediate and painful. For Australia, they were unexpectedly profitable. This paper examines how the crisis reshaped China's energy needs and what that redirection meant for Australian LNG and crude oil markets.

1. Introduction

The Strait of Hormuz (Figure 1.0) is a 33-kilometre waterway located between Iran and Oman and is widely considered the most consequential energy chokepoint in the world. On any given day, approximately 21 million barrels of oil and around 19% percent of global LNG supply pass through it (Britannica, 2026; OilPrice.com, 2025, Figure 1.1). On 1 March 2026, that flow collapsed. Following the US-Israeli Operation Epic Fury, a coordinated strike campaign that killed Iranian Supreme Leader Ali Khamenei and triggered outrage within the IRGC, Tehran initiated a wave of retaliatory actions across the Middle East. As part of this response, Iranian forces effectively blockaded the Strait of Hormuz and warned that any tanker attempting to transit the passage could be targeted. Tanker transits fell from 24 per day to near zero almost overnight. Brent crude surged past \$100 per barrel for the first time in four years, briefly reaching \$116 before retreating (Trading Economics, 2026).



Figure 1.0: The Strait of Hormuz

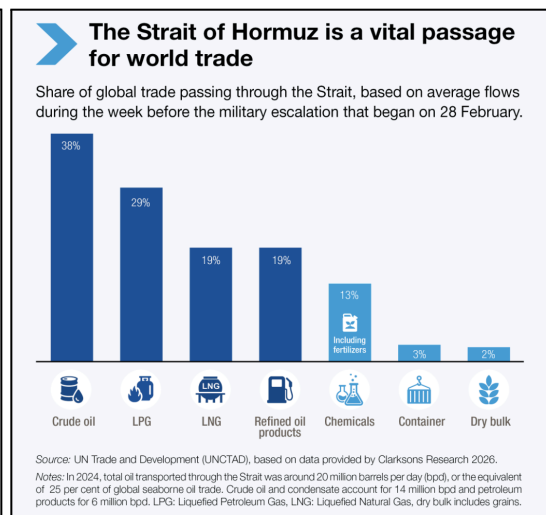


Figure 1.1: SH Share of Global Trade

2. The Broad Energy Infrastructure Crisis

The disruption, however, extended well beyond the Strait itself. Iran's retaliatory strikes systematically targeted energy infrastructure across six countries in under a week, creating a supply shock that no single reserve could easily absorb. After an Iranian drone struck Saudi Aramco directly, the company was forced to shut down its Ras Tanura Refinery, one of the world's largest oil processing facilities with a capacity of roughly 550,000 barrels per day (FinancialContent, 2026). The UAE's Ruwais Industrial Complex, capable of processing 922,000 barrels per day and serving as the central hub for Abu Dhabi's entire downstream energy operations, was similarly forced offline after a drone strike ignited a fire at the site (Al Jazeera, 2026). Most critically, QatarEnergy announced a full halt to liquefied natural gas production at Ras Laffan Industrial City, the world largest LNG producer, sending Asian LNG prices surging nearly 39% and European gas prices up to 50% within hours of announcement (UNCTAD, 2026). Although many countries depend on these major producers for their daily oil and LNG supplies, the heightened risks to exports caused the market to react, driving prices upward. Australia, a country which relies mostly on Asian refineries (South Korean, Japanese, Malaysian, etc) for its oil, is now put in a strange position. Although limited by supply, they benefit from this situation from its largest trade partner, China.

3. China's Energy Exposure and Strategic Resilience

As the world's largest crude oil importer, China brings roughly 11.6 million barrels per day, with over 70% of its total consumption dependent on imports (Downs, 2026). Of those imports, approximately 42% of crude oil originates from Middle Eastern nations, while 31% of China's LNG supply comes from the same region, with Qatar alone accounting for 28% (Columbia University Center on Global Energy Policy [CGEP], 2026). Critically, up to 45-50% of China's crude oil imports transit the Strait of Hormuz, meaning Iran's closure of the waterway placed nearly half of China's primary energy supply at direct risk (CGEP, 2026). However, China is not without defenses. As of 2 March 2026, China held 1.39 billion barrels of oil in strategic storage, enough to cover approximately 120 days of net crude imports at 2025 levels (CGEP, 2026). China has also been stockpiling aggressively throughout 2025, importing a record-high 11.6 million barrels per day as geopolitical tensions mounted, with national oil companies planning an additional 169 million barrels of new storage capacity across 2025-2026. While China may have been prepared for a contingency of this sort, a prolonged disruption to the Strait would impose significant pressure on its energy security, forcing Beijing to draw down strategic reserves and accelerate trade efforts to their favour.

4. Australia's Benefit

LNG

Following tightening conditions in China's LNG market and reduced inflows caused by major supply chain disruptions, the country was compelled to pivot toward Australian LNG imports, and despite already being Australia's largest LNG export customer prior to the crisis, these pressures drove Beijing to further increase its demand. Australia's key LNG assets, including Woodside's Pluto and North West Shelf operations, Santos's Darwin LNG, Inpex's Ichthys terminal, and Shell's Prelude FLNG, are strategically positioned to supply Asian markets without exposure to the Strait of Hormuz, which significantly enhanced Australia's role as a reliable and commercially attractive source of LNG and crude and allowed these facilities to absorb redirected Chinese demand at elevated spot prices.

On 1 March 2026, Woodside Energy's share price surged 11% in a single trading session, marking its largest single-day gain in nearly six years, while Santos Limited rose 9% on the same day (Seeking Alpha, 2026). The timing amplified the impact considerably, the surge coincided with Woodside having just reported record 2025 production of 198.8 million barrels of oil equivalent, leaving the company fully exposed to the upside at the precise moment prices spiked (Stake, 2026). This convergence of peak production and a sudden LNG price uplift underscored the operating leverage embedded in Woodside's asset base, where earnings are highly sensitive to short-term commodity price movements, positioning the company to generate outsized cash flow during periods of market dislocation. For investors and policymakers alike, the Hormuz crisis signals a structural shift in regional energy thinking. Middle Eastern supply dependence is now widely recognised as a vulnerability, and Australian producers with geographically secure, scalable capacity are likely to command sustained pricing power and demand preference across South-East Asian markets well beyond the immediate crisis.

Crude Oil

The crude oil channel delivered a parallel but equally significant windfall for Australian producers. Brent crude surged from approximately US\$70 per barrel pre-crisis to a peak of US\$116, a 65% surge in under three weeks (Trading Economics, 2026; EIA, 2026). Unlike Middle Eastern exporters effectively locked out of global markets, Australian producers faced no constraints. As Asian refiners scrambled to replace lost Middle Eastern barrels, the discount that Australian crude grades have historically traded at relative to Brent compressed sharply and, in some cases, inverted entirely. Comparable Asia-Pacific grades commanded premiums of up to \$10/bbl above benchmark as buyers prioritised supply security over price (Economy Post, 2026). The combined effect of a surging benchmark

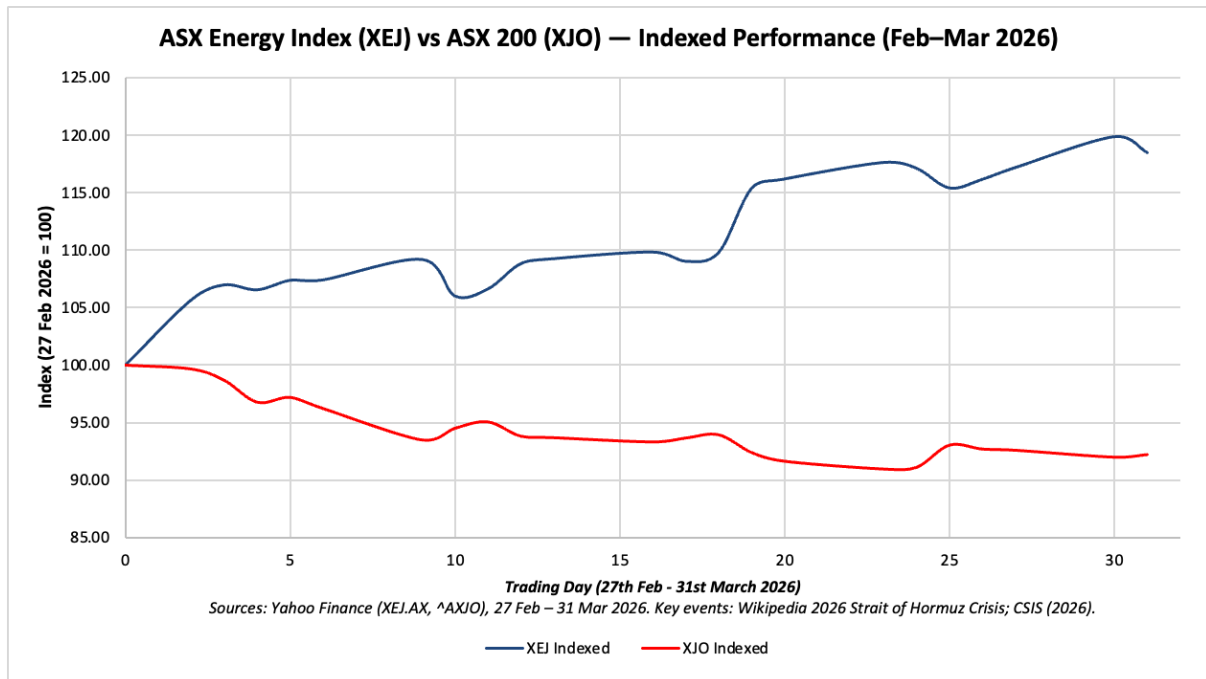
price and a simultaneous improvement in the differential meant Australian producers were capturing outsized returns relative to any prior pricing environment. This immediately meant that the sustained elevation of crude prices inflated the net asset values of underdeveloped Australian reserves, strengthening the investment case for expansion projects that had previously struggled to clear internal hurdle rates. Analysts estimated that every \$10/bbl increase in crude oil translates to an approximate 40% uplift in Woodside's net profit, meaning the \$46/bbl surge from pre-crisis levels represented a transformational shift in equity valuation for Australian energy producers (MarketIndex, 2025).

The crude oil windfall translated directly into equity market performance across the broader ASX energy sector. Smaller, pure-play crude producers experienced even sharper moves. Karoon Energy, whose revenue is primarily derived from direct Brent crude-linked oil sales, gained 18.64% over the month of March alone as crude prices hovered near US\$98/bbl (Kalkine, 2026). Unlike the LNG majors, Karoon's gains were driven almost entirely by the crude price channel rather than gas dynamics, underscoring the breadth of the windfall across the Australian energy sector. By late March, Woodside's year-to-date gain had reached nearly 50%, cementing its position as one of the standout performers on the ASX as oil prices climbed above US\$116/bbl (Motley Fool Australia, 2026). The pattern was consistent and telling. The steeper a company's exposure to crude, the more dramatically it was rewarded. For investors, the crisis served as a live stress test of Australian energy equities, and the result was unambiguous: producers insulated from supply-side disruptions by geography carry deeply embedded leverage to exactly this kind of market dislocation, and that leverage, when activated, is both swift and substantial.

5. ASX Implications

The divergence between the ASX Energy Index (XEJ) and the broader ASX 200 (XJO) over the February–March 2026 period captures the windfall in aggregate. While the XJO declined 7.79 points over the period, reflecting the broader economic anxiety triggered by the crisis, the XEJ surged 18.51 points on an indexed basis, producing a spread of 26.30 percentage points between the two indices by 31 March (Yahoo Finance, 2026). The energy sector's outperformance was not incidental; it was structural. As the rest of the market repriced downward on inflation fears, supply chain disruption, and geopolitical uncertainty, Australian energy producers moved in the opposite direction, their Hormuz-independent assets converting the same crisis into record revenues. For investors and policymakers alike, this divergence is instructive, it confirms that Australia's LNG and crude exposure does not merely provide commodity upside in ordinary conditions, but functions as a genuine

geopolitical hedge, one that appreciates precisely when the broader economy comes under pressure.



6. Conclusion

The Hormuz crisis of 2026 was, for most of the world, a supply shock. For Australia, it was a structural opportunity. As Iranian forces closed the world's most critical energy chokepoint, Australia's geographic insulation, Hormuz-independent infrastructure, and proximity to Asian demand converged into a windfall that spanned LNG, crude oil, and equity markets simultaneously. The XEJ's 26-point outperformance over the XJO during this period captures the dynamic in aggregate: while the broader economy absorbed the shock, the energy sector monetised it. More broadly, the crisis has accelerated a structural realignment in how Asian buyers think about supply security, one that is unlikely to fully reverse even as the Strait gradually reopens. Australia's energy assets are not merely export commodities. They are strategic infrastructure in a region increasingly defined by geopolitical risk, and their value is never more apparent than when the alternative disappears.

7. Appendicies

Date	XEJ Close (AUD)	XJO Close (AUD)	XEJ Indexed	XJO Indexed	Spread (XEJ-XJO)	Key Event
27 Feb 2026	9,591.60	9,198.60	100.00	100.00	+0.00	
2 Mar 2026	10,136.10	9,167.50	105.68	99.66	+6.01	<i>Hormuz closure confirmed; IRGC warns tankers</i>
3 Mar 2026	10,262.10	9,077.30	106.99	98.68	+8.31	
4 Mar 2026	10,220.80	8,901.20	106.56	96.77	+9.79	
5 Mar 2026	10,300.40	8,940.30	107.39	97.19	+10.20	
6 Mar 2026	10,303.80	8,851.00	107.43	96.22	+11.20	
9 Mar 2026	10,474.20	8,599.00	109.20	93.48	+15.72	<i>Trump announces intent to seize Hormuz</i>
10 Mar 2026	10,169.20	8,692.60	106.02	94.50	+11.52	<i>Iran begins planting naval mines</i>
11 Mar 2026	10,227.60	8,743.50	106.63	95.05	+11.58	<i>Large wave of ship attacks; multiple vessels damaged</i>
12 Mar 2026	10,439.90	8,629.00	108.84	93.81	+15.04	
13 Mar 2026	10,481.10	8,617.10	109.27	93.68	+15.60	
16 Mar 2026	10,536.10	8,583.40	109.85	93.31	+16.54	
17 Mar 2026	10,459.30	8,614.30	109.05	93.65	+15.40	
18 Mar 2026	10,533.20	8,640.60	109.82	93.93	+15.88	
19 Mar 2026	11,068.50	8,497.80	115.40	92.38	+23.02	<i>US military campaign begins to reopen strait</i>
20 Mar 2026	11,146.60	8,428.40	116.21	91.63	+24.59	
23 Mar 2026	11,284.50	8,365.90	117.65	90.95	+26.70	
24 Mar 2026	11,236.60	8,379.40	117.15	91.09	+26.06	
25 Mar 2026	11,071.10	8,557.60	115.42	93.03	+22.39	
26 Mar 2026	11,144.20	8,525.70	116.19	92.68	+23.50	
27 Mar 2026	11,242.30	8,516.30	117.21	92.58	+24.63	
30 Mar 2026	11,499.80	8,461.00	119.89	91.98	+27.91	
31 Mar 2026	11,367.10	8,481.80	118.51	92.21	+26.30	
Period change	+1,775.50	-716.80	+18.51	-7.79	+26.30	

Sources: Yahoo Finance (XEJ,AXJ, XJO), 27 Feb – 31 Mar 2026. Key events: Wikipedia 2026 Strait of Hormuz Crisis; CSIS (2026).

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