

Global Gas and Power Market Impacts from the Iranian Conflict

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Over the past several years, the LNG market has become increasingly interconnected and globalized. This is a double-edged sword.

The market has evolved far beyond its origins, when a small number of buyers and sellers relied on physical, long-term bilateral contracts pegged to oil prices. Today, multiple buyers and sellers employ complex financial contracts, many with flexibility regarding the ultimate destination of the LNG cargo. This has increased liquidity and diversification, reducing risk and improving resilience to political and physical shocks. However, these same features have also interlinked once economically separate gas and power markets.

Even short-term interruptions in LNG exports due to the Iranian conflict are reverberating far beyond the Gulf, affecting natural gas and electricity markets as well as the broader macroeconomies of Europe and North Asia. Even the United States, a large and growing LNG exporter, is being impacted. The severity of these impacts will increase non-linearly with the duration of the export disruption and will vary in intensity based on the subtleties of different nations' energy systems and policies.

Approximately 20% of globally traded LNG transits the Strait of Hormuz, primarily from Qatar, with the majority destined for Asian markets, which, with the exception of China, are largely dependent on LNG for

their gas supply. Compared to its northeastern Asian neighbors, China faces much less overall exposure to gas imports, given the availability of pipeline-based imports from Russia and diversification of LNG suppliers, chiefly for its coastal cities. Following the Russian invasion of Ukraine, Europe is also now highly dependent on LNG, with about 15% coming from Gulf states.

While events remain very fluid, we believe it is important to understand how material this could be for gas and power markets globally. We examined two scenarios, a short two-week interruption and a prolonged two-month disruption, to develop back-of-the-envelope estimates of gas and power market impacts in the U.S., Europe and Northeast Asia. The distinction in duration is critical. A short event primarily generates volatility and risk premia. A longer disruption triggers repricing based on underlying scarcity as gas storage depletes and near-term redirection of LNG cargoes is no longer available. The impact in each region depends on the interaction of multiple factors including:

- Gas supply diversification
- Seasonal demand patterns
- The position of gas-fired generation within each power market's supply and power market design
- Indirect impacts of fuels that can serve as substitutes for natural gas and power market design.

Short Interruption: Volatility Without Scarcity

In a two-week interruption, gas markets would likely experience sharp but temporary price spikes. Recent movements of 20–50% in European natural gas benchmarks demonstrate how quickly geopolitical risk is priced. Near-term prices reflect a bidding war between different regions for the available spot cargoes that can be redirected. In markets with heavier reliance on spot markets and financial contracts, like India, this can create the risk of physical shortages. Storage withdrawals and flexible LNG cargo redirection can mitigate physical shortages.

Estimated gas price impacts range from de minimis in the United States to 10–20% in most Asian and European markets. However, given the overall tightness of the LNG market, even near-term gas prices could spike 50% or more, especially in highly LNG-dependent markets like the UK. Despite China's access to a range of domestic storage and pipeline-based import alternatives, in the very near term it is unlikely to be able to take advantage of these resources and so will be exposed to similar price volatility.

Power prices will rise in proportion to how often gas sets the marginal price. In the U.S., even in regions like PJM and Texas where gas often sets the marginal price, the modest near-term uptick in gas prices means power prices could increase only marginally, and even less in other regions. In the United Kingdom, where gas sets prices in nearly all hours this time of year, and with much greater LNG exposure, wholesale electricity prices could rise by less than 10% to up to 50%. Germany's diversified generation stack dampens average impacts to roughly 10% to 30%. Japan and Korea sit between these extremes, reflecting their reliance on LNG but partial substitution through coal and nuclear, especially in the case of Japan.

Prolonged Interruption: Structural Impacts

A two-month disruption fundamentally alters market dynamics. Europe would enter the storage refill season under severe constraints, having already depleted storage and planning further reductions of Russian short-term pipeline and LNG gas imports, forcing sustained competition with Northeast Asia for LNG cargoes. Furthermore, in markets such as Northeast Asia where oil prices still influence natural gas prices, disruption to global crude markets from the Iranian conflict would lift the ceiling on natural gas prices further. Gas price increases could exceed 60–120% in Europe, 40–120% in Japan and 15–50% in the U.S.

Wholesale electricity prices could rise less than 10% to 30% in gas-based power markets in the U.S., 25–100% in the UK and somewhat less, at 20–60%, in markets like Germany, Japan and Korea with larger coal-fired generation fleets. China's diverse generation portfolio will help limit price impacts on its power markets. In Europe, carbon markets would amplify effects. Sustained coal substitution could push EU ETS prices 5–25% above baseline levels, raising marginal power costs further.

Strategic Implications

Many of the lessons of the currently unfolding conflict are self-evident. This rough analysis underscores the value of diversification in both fuel supply and generation mix. Regions with balanced portfolios, including renewables, nuclear, coal and flexible LNG access, absorb shocks more effectively. The globalization of LNG markets has improved resilience through cargo flexibility and trading liquidity. On the other hand, it has also transmitted geopolitical risk more directly to domestic consumers in gas-exporting countries who have traditionally been more insulated from global price volatility.

There are some less obvious implications as well. Liberalized electricity markets that price power at short-run marginal cost are especially exposed, as gas volatility feeds rapidly into bills. The non-linearity of the impacts of a short versus longer-term disruption is also striking. For energy-intensive industries, prolonged price elevation would challenge competitiveness and could prompt renewed policy debate over electricity market design, carbon pricing and strategic storage policy. With the potential political stakes so high, we should also expect significant yet unpredictable political intervention in energy markets. This could take the form of setting aside decarbonization targets, diplomatic deals to increase or accelerate pipeline-based gas imports from Central Asia and Russia, perhaps even in Europe, as well as more direct market intervention to drive conservation, fuel switching and price caps.

If the AI revolution has served as a reminder of the centrality of energy to geoeconomics, this conflict is reminding us how globalized and geopolitically relevant the once very local gas and power markets have become.

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