Geopolitics, Energy Shocks & Asia's LNG Crisis: Lessons for Pakistan & South Asia

By: ICMA Research and Publications Department

The global economic environment is going through a major structural change. Commodity market volatility is no longer driven mainly by supply and demand fundamentals. Instead, geopolitical tensions, supply chain disruptions and systemic risks are becoming the primary drivers. As a result, global commodity markets including energy, metals, fertilizers and agricultural inputs have become increasingly sensitive to geopolitical shocks. Price formation is now shaped more by risk perception, transport insecurity and policy uncertainty than by economic fundamentals. This represents a broader shift towards a less stable global economic environment where interconnected markets spread shocks rapidly across regions and asset classes.

At the same time, financial innovation including tokenization and digital market infrastructure is reshaping capital markets by improving efficiency, transparency and liquidity. However, commodity markets remain tied to physical supply chains, making them more vulnerable to geopolitical disruptions. This widens the gap between financial modernization and real sector exposure. Against this backdrop, ICMA emphasizes that understanding these structural shifts is essential for strengthening macroeconomic stability, energy security and policy resilience in developing economies such as Pakistan. In such economies, external shocks directly translate into inflationary pressure, fiscal stress and energy insecurity.

Introduction

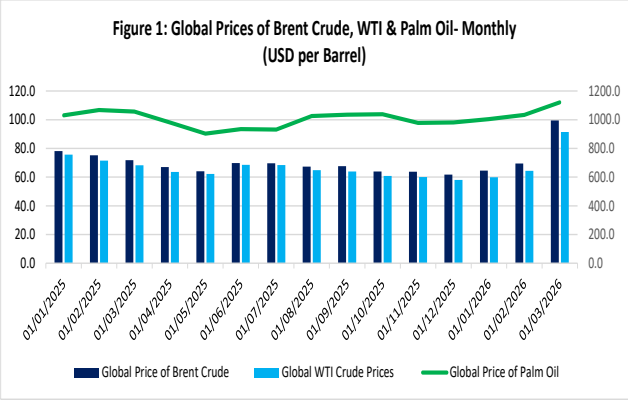
The movement of global commodity prices, particularly Brent crude, WTI crude and palm oil, clearly shows how global energy and agricultural markets moved from a period of gradual correction in 2025 to severe instability in early 2026. This shift was driven mainly by geopolitical shocks, policy uncertainty and systemic global risk rather than traditional supply and demand factors. The change is visible not only in commodity prices but also in the synchronized movements of key uncertainty indicators. These include the Oil Price Uncertainty Index (OPU), World Policy Uncertainty Index (WPUI) and Geopolitical Risk Index (GPR), all of which point to a global economic system that is becoming increasingly fragile and vulnerable to external shocks.

During 2025, global oil markets largely reflected a period of normal adjustment. Brent crude fell from 78.2 USD per barrel in January 2025 to 61.8 USD by December. WTI similarly declined from 75.6 to 58.0 USD over the same period, reflecting weak global demand, moderate consumption growth and broadly balanced supply conditions. Palm oil prices also moved lower over the same period, falling from 1,030 USD in January 2025 to approximately 981 USD by year end, reflecting easing agricultural cost pressures and stable supply conditions.

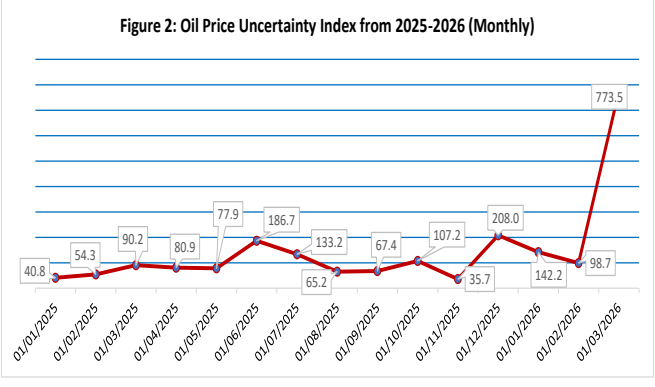
Table 1: Global Price of Brent Crude in USD per Barrel (Monthly)

Date	Brent Crude Price	WTI Crude Prices	Price of Palm Oil
1/1/2025	78.2	75.6	1030
2/1/2025	75.2	71.5	1067
3/1/2025	71.7	68.2	1057
4/1/2025	66.9	63.6	981.2
5/1/2025	64.1	62.2	902.8
6/1/2025	69.8	68.5	934.5
7/1/2025	69.6	68.4	931
8/1/2025	67.2	64.9	1026
9/1/2025	67.6	64.0	1035
10/1/2025	64.0	60.9	1038
11/1/2025	63.7	60.0	977.1
12/1/2025	61.8	58.0	981.2
1/1/2026	64.6	59.9	1004
2/1/2026	69.4	64.4	1034
3/1/2026	99.4	91.4	1121

Source: Federal Reserve Bank of St. Lousi & Macrotrends

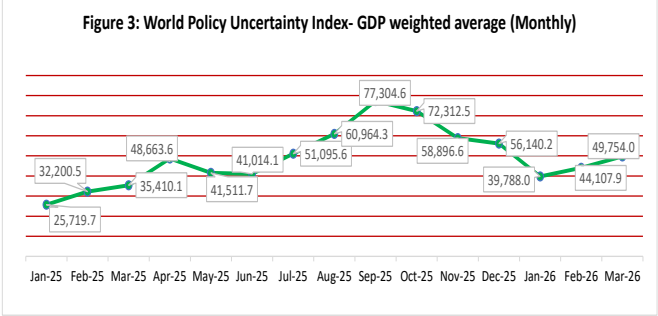


However, despite this apparent stabilization in commodity prices, major global uncertainty indicators pointed to deepening systemic vulnerabilities. The Oil Price Uncertainty Index rose sharply from 40.8 in January 2025 to 90.2 in March, then surged to 186.7 in June, and reached 208 by December, indicating persistent instability in market expectations despite temporary price moderation.



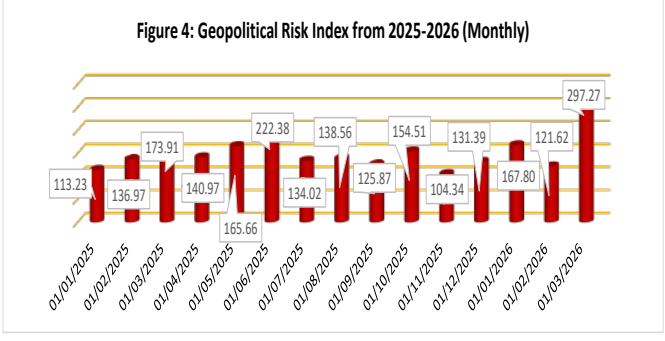
Source: Economic Policy Uncertainty

The World Policy Uncertainty Index (GDP-weighted average) also showed sustained escalation, rising from 25,719.7 in January 2025 to 77,304.6 by September before remaining elevated at 56,140.2 in December. This persistent rise reflected increasing uncertainty in global economic governance, trade regulations, monetary policy coordination, and macroeconomic management.



Source: World Uncertainty Index

Similarly, the Geopolitical Risk Index demonstrated repeated spikes throughout 2025, rising from 113.23 in January to 173.91 in March, surging dramatically to 222.38 in June, and remaining structurally elevated throughout the year. These movements highlight the intensification of geopolitical tensions, military conflicts, sanctions risks, and strategic competition, particularly in energy-producing regions and critical maritime corridors.



Source: Economic Policy Uncertainty

Together, the simultaneous elevation of OPU, WPUI, and GPR throughout 2025 indicates that while commodity prices appeared to stabilize temporarily, the structural underpinnings of global markets were increasingly destabilized by uncertainty, policy fragmentation, and geopolitical stress.

This fragility became more visible in early 2026, when the global economy entered a period of heightened volatility in commodity markets driven by geopolitical shocks. Brent crude surged from 64.6 USD in January 2026 to 99.4 USD by March, while WTI increased from 59.9 to 91.4 USD over the same period. Simultaneously, the Oil Price Uncertainty Index rose sharply from 142.2 in January 2026 to 773.5 in March, the highest level in the observed series, reflecting extreme instability in energy market expectations.

The World Policy Uncertainty Index, although lower than its 2025 peak, remained significantly elevated at 39,788.0 in January 2026 and increased further to 49,754.0 by March, indicating sustained policy instability amid rising geopolitical tensions.

Similarly, the Geopolitical Risk Index rose from 167.80 in January 2026 to 297.27 by March, marking one of the most pronounced increases in the dataset. This increase reflects intensifying geopolitical conflict, disruptions in key maritime supply routes such as the Strait of Hormuz, and growing concerns over prolonged regional instability, all of which increasingly influenced market behavior.

The combined rise in oil price uncertainty, policy uncertainty, and geopolitical risk suggests that the 2026 commodity shock extended beyond physical supply constraints and was also shaped by broader systemic uncertainty linked to geopolitical fragmentation and policy unpredictability.

Palm oil prices increased from 1,004 USD in January 2026 to 1,121 USD by March, indicating the transmission of energy market volatility into agricultural and food commodities. Given palm oil's dual role as a food input and biofuel feedstock, its pricing increasingly reflected developments in energy markets, reinforcing cross commodity spillovers.

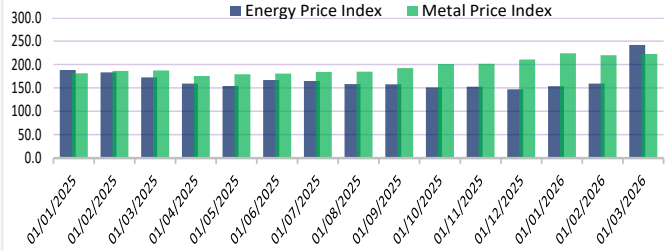
The divergence between Brent and WTI highlights growing segmentation in global energy markets. Brent recorded stronger gains due to higher exposure to maritime risk, Gulf supply disruptions, and transport related risk premiums, while WTI remained comparatively supported by US domestic production and storage capacity. This divergence underscores the increasing importance of geography, logistics, and geopolitical exposure in price formation.

Overall, the simultaneous increase in commodity prices alongside elevated levels of the Oil Price Uncertainty Index, World Policy Uncertainty Index, and Geopolitical Risk Index indicates a more unstable and interconnected global risk environment. Commodity pricing is increasingly influenced not only by traditional supply and demand factors but also by geopolitical developments, strategic chokepoints, policy fragmentation, and financial uncertainty. This reflects a structural shift toward a more volatile and unpredictable global economic setting.

Global Commodity Shock & Energy-Metal Stress (2025–2026)

Global commodity markets during 2025–2026 reflect a clear transition from cyclical normalization to geopolitically driven structural instability. This shift is evident across energy, metals, and related input markets, where initial price stabilization in 2025 was abruptly replaced by a broad-based shock in early 2026, driven primarily by escalating geopolitical tensions, particularly in energy producing regions and strategic maritime corridors such as the Strait of Hormuz.

Figure 5: Global Energy Price Index & Metal Price Index (Monthly)



In line with the World Bank Group's Commodity Markets Outlook, the global economy entered 2026 under severe commodity stress, with energy prices projected to rise by around 24%, reaching their highest level since 2022, while overall commodity prices are expected to increase by 16%, driven by energy, fertilizer, and metal markets. This reflects a systemic transmission of geopolitical shocks into global pricing systems rather than isolated market movements.

The Global Energy Price Index illustrates this transition clearly. After declining from 188.6 in January 2025 to 154.2 in May 2025, and further easing to 147.4 by December 2025, energy markets initially reflected post crisis stabilization, moderating demand, and relatively balanced supply conditions. However, this trend reversed sharply in 2026, with the index surging from 153.7 in January to 242.3 in March 2026, marking one of the steepest quarterly

Table 2: Global Energy Prices Index & Metal Price Index

Date	Energy Price Index	Metal Price Index
1/1/2025	188.6	181.2
2/1/2025	183.1	186.3
3/1/2025	172.8	187.3
4/1/2025	159.5	175.9
5/1/2025	154.2	179.1
6/1/2025	167.1	180.6
7/1/2025	165.1	184.3
8/1/2025	158.3	184.7
9/1/2025	157.9	192.6
10/1/2025	151.1	201.3
11/1/2025	152.7	201.8
12/1/2025	147.4	210.8
1/1/2026	153.7	224.2
2/1/2026	159.2	220
3/1/2026	242.3	222.9

Source: Macrotrends

increases in the series. This abrupt escalation coincided with major geopolitical disruptions that constrained global oil supply, including significant interruptions in key export routes and production hubs and production networks.

A similar structural transition is observed in the Metal Price Index, which showed a steady upward trajectory throughout 2025, rising from 181.19 in January to 210.77 in December, driven by sustained industrial demand and tightening supply conditions. In 2026, the index remained elevated, increasing further to 224.18 in January, peaking at 222.85 in March after sustained high levels in February (220). Unlike energy markets, metals did not experience a sharp spike but rather a persistently high plateau, reflecting ongoing pressures from industrial restructuring, supply chain constraints, and increased demand from technology intensive sectors such as electric vehicles, data centers, and renewable energy infrastructure.

These developments are strongly reinforced by global price dynamics in energy and agriculture linked commodities. The World Bank highlights that energy markets have experienced one of the largest supply shocks on record due to geopolitical disruptions, with crude oil supply reductions reaching up to 10 million barrels per day at peak stress levels. Brent crude prices, which had averaged around USD 69 per barrel in 2025, surged to an expected average of USD 86 per barrel in 2026, with temporary spikes significantly higher during acute disruption phases.

The spillover effects extend beyond energy into fertilizers, food security, and industrial inputs. Fertilizer prices are projected to rise by 31% in 2026, while base metals and precious metals are reaching historic highs, reflecting both industrial demand and heightened demand for safe haven assets. These price movements are further amplified by strong transmission effects across commodity classes, where oil price shocks propagate into natural gas and fertilizer markets, intensifying inflationary pressures globally.

The structural nature of this volatility is further evident in the interaction between energy and metal markets. While 2025 reflected divergence—energy prices declining while metal prices steadily increased—2026 marks a synchronized escalation phase, where both indices remain elevated under the influence of geopolitical fragmentation and supply chain disruptions. This convergence highlights a critical structural shift: commodity markets are no longer independently driven by supply and demand fundamentals but are increasingly shaped by interconnected geopolitical and financial risk factors.

Overall, the evidence confirms that global energy and metal markets have entered a high volatility regime characterized by persistent external shocks, elevated price levels, and reduced predictability. The transition from stabilization in 2025 to synchronized escalation in 2026 underscores that geopolitical risk has become the dominant force shaping global commodity dynamics, reinforcing inflationary pressures, weakening growth prospects, and intensifying the broader environment of structural global economic uncertainty.

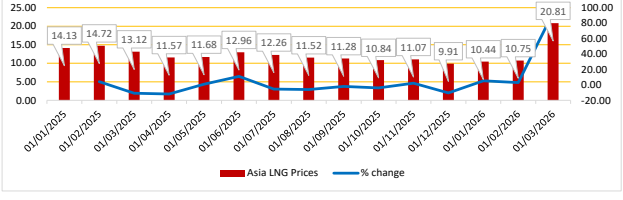
Insights about Asia LNG Price Trends (2025–2026)

The observed dynamics in Asia LNG prices during 2025–2026 can be directly explained through a combination of structural oversupply conditions and abrupt geopolitical disruptions in global energy markets. The global LNG market entered 2026 with a significant supply expansion, as approximately 93–150 mtpa of new liquefaction capacity came online across major exporting regions, including the United States, Qatar, Australia, and Nigeria.

This expansion, representing roughly 10 percent growth in global LNG supply, shifted the market fundamentally from a seller dominated structure to a buyer driven regime, where prices were expected to soften due to excess availability. At the same time, global LNG demand growth, estimated at around 8.5 percent in 2026, remained concentrated in emerging Asian economies but was insufficient to fully absorb the supply surge, while Europe's imports stabilized and China's recovery remained gradual and uneven. These conditions explain the relatively range bound and declining price pattern observed through most of 2025 and early 2026.

However, this structurally bearish outlook was disrupted by acute geopolitical tensions affecting key maritime energy routes, particularly chokepoints such as the Strait of Hormuz, which handles a significant share of global LNG trade. These disruptions introduced shipping risk premiums, cargo diversions, and short-term supply bottlenecks, while LNG's inherently low short run supply elasticity amplified the impact of these shocks. As a result, despite underlying oversupply conditions, the Asia LNG market experienced a sharp nonlinear price spike in March 2026, rising by 93.58 percent in a single month. This indicates that while structural oversupply was exerting downward pressure on prices, the market had become highly vulnerable to geopolitical shocks, which temporarily overrode fundamentals and triggered extreme volatility through panic buying, reallocation of cargoes to higher paying markets, and supply chain disruptions.

Figure 6: Asia LNG Prices- Monthly (USD per Million Mertic British Thermal Unit)



Source: Macrotrends

Asian LNG Price Responses (2025–2026): A Comparative Case Study

Japan - Japan, one of the world's largest LNG importers, faced acute supply security risks due to geopolitical disruptions in maritime corridors such as the Strait of Hormuz. In response, it strengthened strategic LNG stockpiles, expanded long term procurement contracts, and improved coordination among utilities for cargo swapping and emergency reallocation, maintaining stability in power generation despite global price shocks.

South Korea - South Korea adopted a resilience-oriented approach based on diversified supplier contracts, state coordinated procurement, and higher storage utilization. It also accelerated investment in nuclear and renewable energy to reduce structural dependence on LNG imports.

China - China, despite being the largest LNG importer, remained relatively resilient due to its diversified energy mix, including coal, domestic gas, and pipeline imports. In 2025 it opportunistically increased spot LNG purchases during price declines, while in 2026 it emphasized contract diversification, storage expansion, and demand side flexibility through industrial load adjustments.

India - India faced rising import costs and responded by diversifying LNG sourcing toward the United States, Qatar, and Australia. At the same time, it accelerated renewable energy expansion and maintained coal-based backup generation to reduce exposure to price volatility.

Pakistan - Pakistan experienced severe stress due to heavy reliance on spot LNG markets and limited fiscal space. The March 2026 price spike strained import capacity, leading to emergency LNG tenders, industrial gas rationing, and temporary fuel switching to furnace oil and coal. The country also expanded solar and net metering capacity as a short-term hedge while seeking longer term contracts and concessional financing.

Bangladesh - Bangladesh faced similar pressure due to spot market dependence and fiscal constraints. The price spike triggered emergency procurement, industrial rationing, and greater reliance on alternative fuels to maintain power stability, alongside a gradual shift toward contract-based LNG sourcing.

Sri Lanka - Sri Lanka, constrained by external imbalances, reduced LNG exposure by prioritizing fuel oil and hydropower, while delaying further development of gas-based infrastructure.

Regional Impact

The 2026 LNG shock functioned as a regional stress test of energy security frameworks in Asia, revealing sharp divergence in resilience. Advanced economies relied on hedging, storage, and supply diversification, while developing economies depended on demand compression, fuel substitution, and emergency procurement. This highlights how geopolitical risk amplifies existing structural inequalities in energy security and financial capacity across the region.

Asian LNG Price Volatility Responses (2025–2026): Strategies & Lessons for Pakistan

Country	Crisis Challenges	Strategic Actions	Lessons for Pakistan
Japan	Heavy LNG dependence, maritime chokepoint risks, power security concerns	Strategic reserves, long-term contracts, cargo swaps, supplier diversification, coordinated utility planning	Expand strategic storage, strengthen long-term contracting, institutionalize emergency cargo-sharing
South Korea	LNG import vulnerability, power generation exposure	Diversified sourcing, strategic storage, state-led procurement coordination, nuclear & renewable acceleration	Improve state-led procurement coordination, diversify suppliers, accelerate renewable & alternative baseload
China	Demand volatility, supply balancing, industrial energy security	Contract diversification, domestic gas expansion, pipeline imports, storage growth, flexible procurement	Increase regional pipeline integration, strengthen domestic alternatives, improve demand-side flexibility
India	Rising import costs, energy security concerns, industrial demand growth	Diversified LNG imports, renewable expansion, coal backup, non-Middle East supplier engagement	Further diversify LNG sources, scale renewables, strengthen coal & alternative backup planning
Bangladesh	Fiscal constraints, spot market exposure, power shortages	Emergency tenders, fuel switching, demand rationing, long-term contract pursuit	Reduce spot reliance, improve procurement planning, strengthen concessional long-term agreements
Sri Lanka	External balance weakness, high import dependence	Fuel oil substitution, hydropower prioritization, delayed LNG infrastructure expansion	Improve domestic diversification, strengthen hydro/renewables, avoid overdependence on imported LNG
Vietnam / Taiwan	Growing LNG dependence, infrastructure expansion needs	Regasification investments, long-term infrastructure planning, diversified energy imports	Expand LNG infrastructure resilience, improve storage & regasification capacity
Pakistan	LNG import disruptions, fiscal stress, power shortages, overreliance on Qatar	Emergency spot procurement, supplier diversification, fuel substitution, solar expansion, targeted subsidies, austerity	Institutionalize strategic reserves, strengthen diversified long-term contracts, expand domestic renewables, improve digital subsidy targeting, deepen energy diplomacy

Key Strategic Priorities for Pakistan from Regional Best Practices		
Strategic Priority	**Best Practice Source**	**Relevance for Pakistan**
Build Strategic LNG Storage	Japan, South Korea	Reduces risk of short-term geopolitical supply disruptions
Use Long-Term LNG Contracts	Japan, China, India	Lowers exposure to volatile spot LNG markets
Diversify Suppliers Beyond Gulf	India, South Korea	Reduces overdependence on Strait of Hormuz routes
Accelerate Renewables	India, Pakistan (emerging), China	Lowers structural LNG import burden
Set Emergency Procurement Frameworks	Bangladesh, Pakistan	Ensures supply continuity during crises
Expand Digital Subsidy Targeting	Pakistan (existing)	Can be expanded for broader social protection
Promote Energy Efficiency & Conservation	Multiple Asian economies	Reduces fuel burden during crisis periods
Strengthen Regional Diplomacy	Pakistan	Supports geopolitical de-escalation & price stability

Based on the structural transformation in global commodity markets, Asia's LNG crisis experience, and Pakistan's specific vulnerabilities, ICMA may propose the following integrated policy framework for government and policymakers:

ICMA Policy Framework for Pakistan (2026 & beyond)			
Priority	**Strategic Recommendation**	**Practical Actions**	**Expected Outcomes**
LNG Contracts	Shift from spot buying to long-term diversified sourcing	Secure multi-regional LNG contracts (Qatar, US, Australia, Africa); institutionalize hedging; improve state procurement	Lower exposure to price spikes & supply shocks
Route Diversification	Reduce reliance on Strait of Hormuz & Gulf chokepoints	Expand non-Gulf sourcing; pursue pipeline diplomacy (Central Asia, Iran if feasible); diversify shipping routes	Stronger geopolitical resilience
Renewables	Accelerate domestic renewables as structural hedge	Scale solar, wind, hydropower, battery storage, distributed generation, net-metering	Lower import dependence & greater energy sovereignty
Fuel Flexibility	Institutionalize alternative fuel contingency plans	Upgrade LNG plants for multi-fuel use; preserve coal, hydel & renewable balancing systems	Better power continuity during crises
Fiscal Buffers	Create commodity shock stabilization funds	Establish energy stabilization funds; variable levies; fiscal contingency reserves	Protect public purchasing power & macroeconomic discipline
Digital Subsidies	Replace broad subsidies with targeted digital support	Link petrol/RLNG subsidy platforms with BISP & social safety nets	Efficient relief for the poor with less fiscal leakage
Energy Conservation	Launch national energy conservation strategy	Use work-from-home, fuel quotas, public transport incentives, industrial efficiency standards	Lower import burden during crises
Risk Monitoring	Institutionalize commodity intelligence & scenario planning	Create National Commodity Risk Monitoring Unit under economic planning agencies	Better anticipation of global shocks
Food Security	Reduce imported inflation transmission	Build strategic edible oil reserves; stabilize fertilizers; promote domestic oilseeds	Greater resilience to food & fertilizer inflation
Energy Diplomacy	Use energy diplomacy as economic security tool	Strengthen ties with Gulf states, Central Asia, China & multilateral bodies	Better access to emergency finance & stable supply
Industrial Support	Shield export sectors from energy cost shocks	Provide temporary industrial energy support during crises; link incentives to productivity	Protect industrial growth & jobs

Conclusion

The evidence from global commodity markets and Asia's LNG experience between 2025 and 2026 clearly indicates that the world has moved into a structurally unstable commodity regime, where geopolitical risk has become the dominant determinant of price behavior. The transition from a relatively balanced and declining price environment in 2025 to a synchronized escalation and shock driven volatility in 2026 highlights a critical transformation: global markets are no longer governed primarily by supply demand equilibrium, but by interconnected geopolitical risks, transport insecurity, and financial uncertainty. This shift has intensified inflationary pressures, weakened growth prospects, and increased systemic unpredictability across energy, metal, and agricultural markets.

Asia's LNG experience further reinforces this structural reality. Despite a global supply surge and expectations of downward price pressure, the market experienced extreme volatility due to supply route disruptions, demand fragmentation, and low short run elasticity, culminating in sharp price spikes that exposed the fragility of regional energy systems. The comparative responses of Asian economies demonstrate a clear divide between advanced economies relying on hedging, storage, and diversification, and developing economies forced into reactive measures such as fuel substitution, demand compression, and emergency procurement.

For Pakistan and similar economies, these developments carry a clear policy implication: short term reactive measures are no longer sufficient in an era of persistent geopolitical shocks. Instead, resilience must be built through integrated structural reforms encompassing energy diversification, strategic reserves, long term contracting, renewable transition, fiscal shock absorbers, and targeted social protection systems. In this context, the ICMA policy framework emphasizes a shift from crisis response to strategic preparedness, enabling policymakers to transform external volatility into manageable risk. Ultimately, the 2025–2026 commodity shock serves as a critical warning that economic stability in the future will depend not only on sound macroeconomic management, but also on the ability to anticipate, absorb, and adapt to an increasingly geopolitically fragmented global economy.

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