Danske Bank

27 March 2026

- ***In focus:*** *The war in the Gulf risks becoming a defining energy shock, comparable to the oil crises of the 1970s, with major implications for Europe's energy transition. Again, the 2026 crisis exposes the structural vulnerability of Europe's fossil fuel dependence. The experience after earlier oil shocks shows that crises can catalyse lasting structural change - from nuclear build out to transport and efficiency reforms - if policymakers act decisively. Persistently high and volatile fossil fuel prices also act as a de facto carbon price, which together with streamlined regulation, renewed support and long-term policy visibility can accelerate transition activities. However, higher inflation, financing costs and political pressure to dilute climate policy risk slowing capital intensive transition investments and sapping transition momentum. Striking the balance between short-term relief and long-term policy credibility will be decisive for Europe's competitiveness and energy security. Meanwhile, China appears positioned to quietly benefit, leveraging its dominance across clean energy value chains as the world accelerates its transition away from fossil fuels.*
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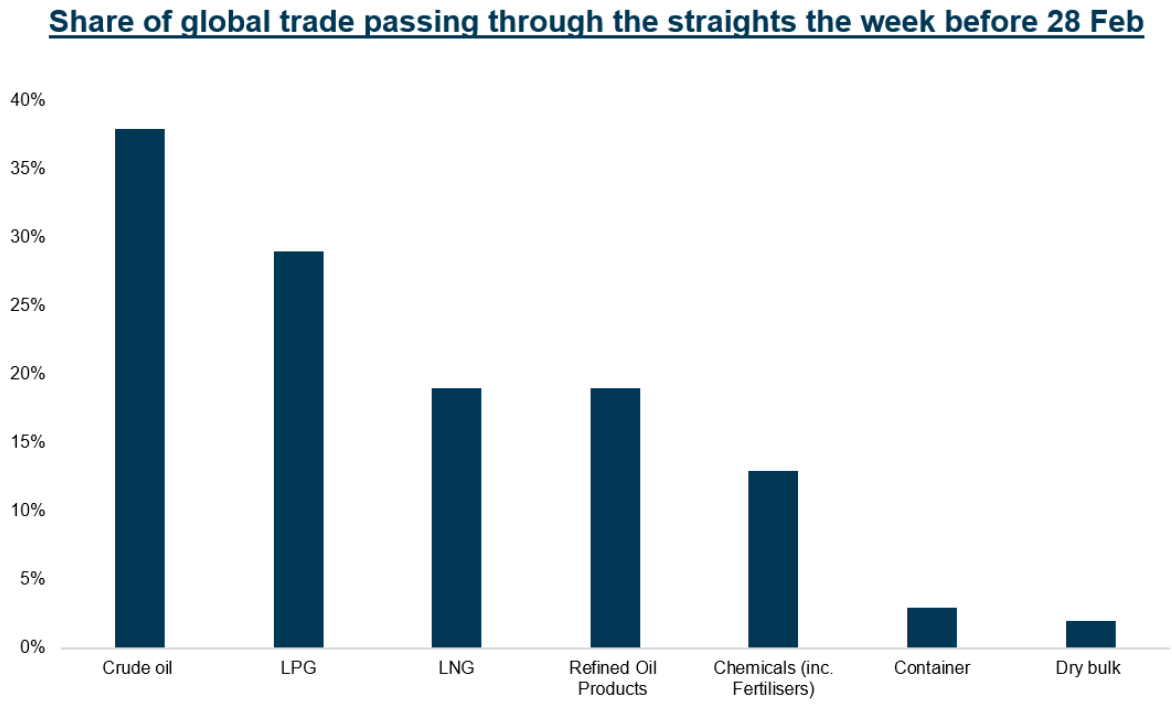
In focus: Is this a 1973 moment for the energy transition?

It is now nearly a month since the US and Israel launched their war on Iran. The expectation from the Trump Administration of a quick conflict using American and Israeli military supremacy now increasingly appears a protracted tit-for-tat war where Iran can hold the global economy hostage. Iran's closure of the Strait of Hormuz - about 50km wide at its entrance and exit, and 33km at its narrowest point – is causing a tremendous shock to the global energy market. The strait usually sees about 20% of the world's oil and liquified natural gas (LNG) pass together with a large volume of fertilisers and other crucial industrial inputs like bromine, helium, and sulphur (see graph below).

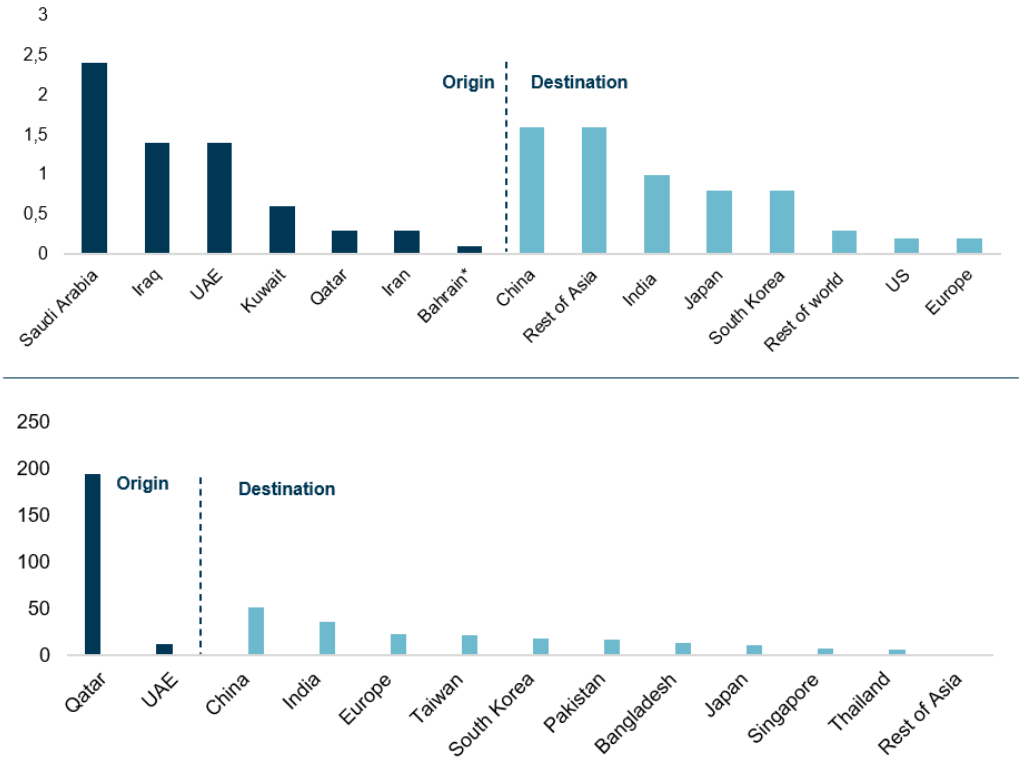


Source: *UNCTAD based on Clarksons research*

Closed waterways and infrastructure attacks: A new reality dawns for the Gulf

The Strait of Hormuz connect significant volumes of fossil fuel and derivative products from Gulf producers with mostly Asian end-users (see graph below). Normally, about 15 million barrels per day (Mb/d) of crude oil and 5Mb/d of petroleum fuels cross the strait daily.

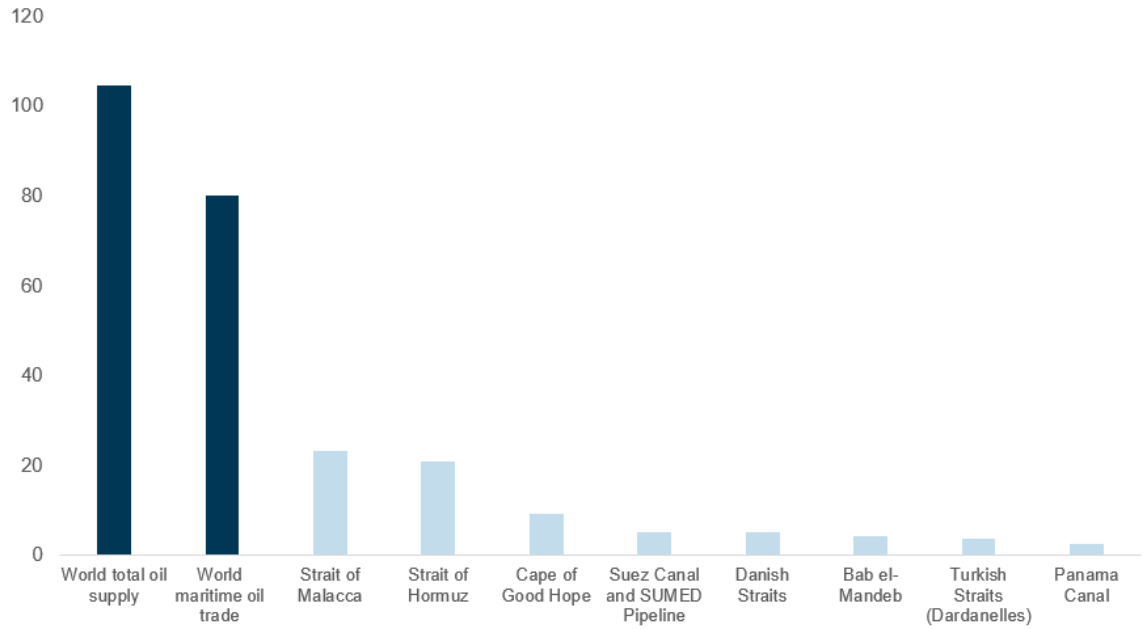
Hormuz export flow past 14 months:
Crude oil, bn barrels (top) and LNG, mn m3 (bottom)



Source: Reuters

Rerouting partial exports via pipelines is an option for Saudi Arabia and UAE, and it has been estimated that Gulf exporters (including Iran) could reroute up to 3.5Mb/d. This still suggests a significant supply shortfall of at least about 11Mb/d – viewed by the International Energy Agency (IEA) to be the "largest supply disruption in the history of the global oil market". According to Energy Information Administration (EIA), the world's Maritime oil trade was about 80Mb/d over first half of 2025, of which 73Mb/d travels through various chokepoints (see graph below).

Total oil supply and maritime trade compared to crude oil and petroleum liquids flow through world's largest chokepoints, Mb/d, H1 2025

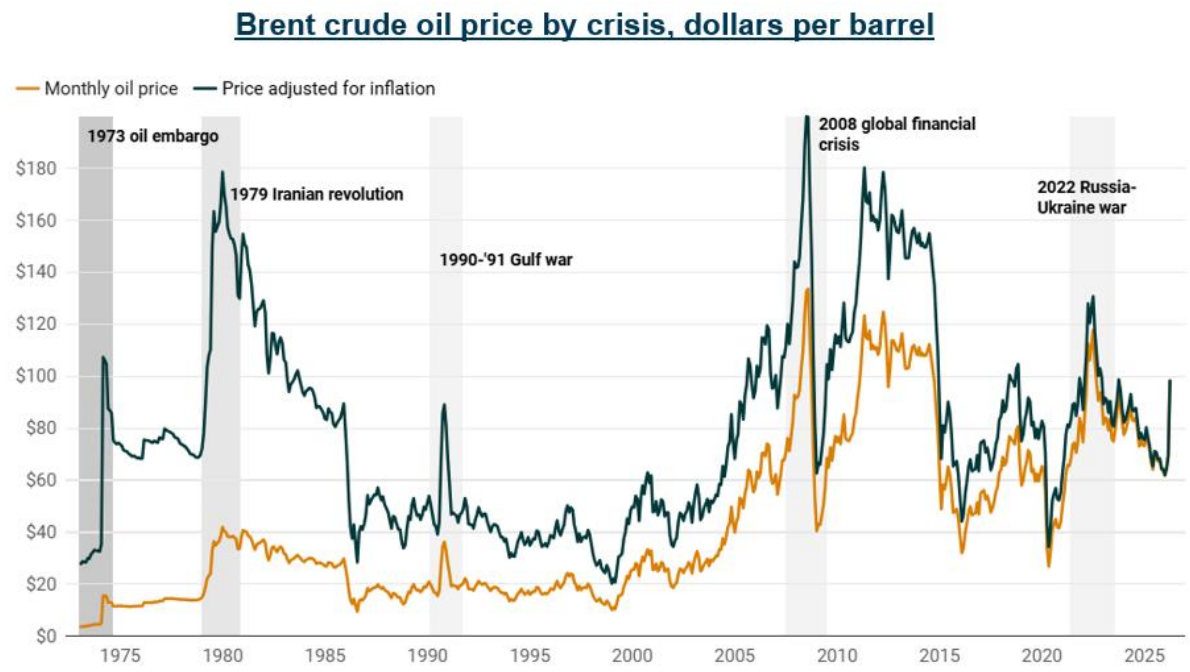


Source: Energy Information Administration

Beyond stuck shipments and offline production, the attacks on energy infrastructure are particularly concerning for the long-term. Iranian retaliation to the Israeli attack on infrastructure connecting to the South Pars field on March 18 reportedly knocked out 17% of Qatari LNG capacity up to five years – with partially damaged Ras Laffan normally making up 20% of global LNG production. Further, 30-40% of Gulf refining capacity had, as of March 25, been damaged or destroyed by Iranian retaliatory strikes. This creates a new reality for Gulf producers and challenge the region's status as a reliable source of energy. Falling short of a complete resolution of the conflict, the risk of future supply shocks due to conflict flare ups will remain a concern for energy planners.

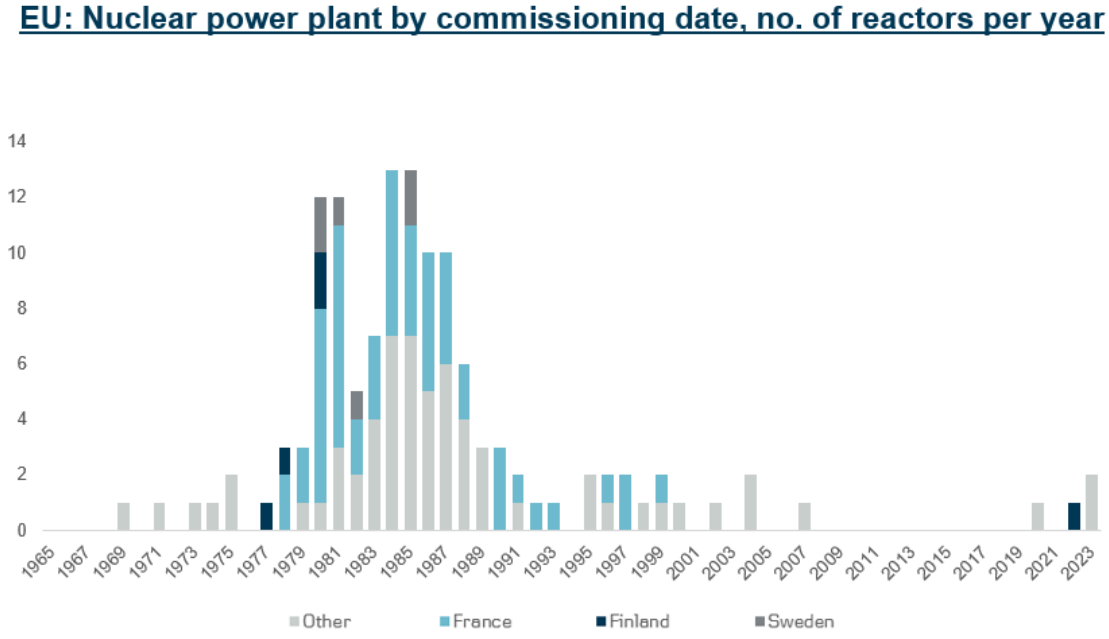
The lessons of 1973 and 1979: Never let a good crisis go to waste

Significant supply shocks from the Gulf are not new. Following the Yom Kippur war in 1973, OPEC's oil embargo withheld about 4.5mbpd off the market for five months – about 7% of global supply. The result was a quadrupling in prices and extensive fuel rationing globally and the establishment of the IEA. The 1979 crisis triggered by the Iranian revolution led to a 4% drop in global oil supply, led to speculative fuel hoarding – and doubled prices (see graph below).



Source: Al Jazeera based on LSEG data

In response to both crises, there was a strong focus on energy use curtailment like car-free Sundays, fuel efficiency through moving from Cadillacs to smaller cars and adding alternative sources of fossil fuels and energy. The Netherlands built an unrivalled cycling infrastructure while France built a vast fleet of nuclear reactors through the "Mesmer plan" in the 1980s that has benefited the country ever since by making up 75% of annual total power generation (see graph below and also graph of the month at the bottom of this newsletter).



Source: WNA

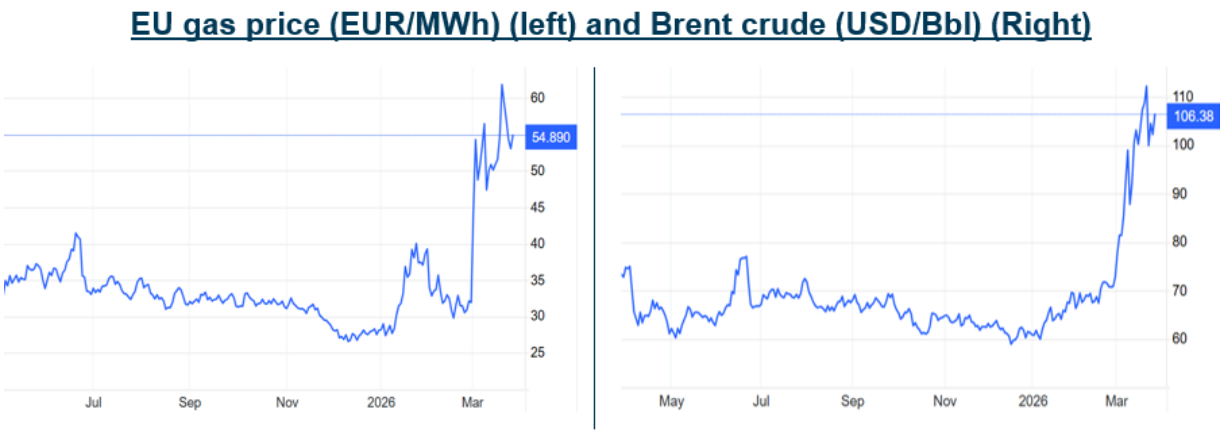
Near-term responses focus on curtailment and price easing are only temporary solutions to long-term problems...

While it remains to be seen how long the 2026 crisis lasts and what the long-term implications are, the immediate response is one of curtailment and cutting fuel levies and taxes to ease price increases. The closure of the Strait of Hormuz, except for select "non-hostile" ships, has led several Asian countries to curtail energy use due to cost sensitivity and look towards cheaper coal to avoid blackouts. With Brussels not issuing a unified short-term response to the crisis, the response from member states has been a mix of tax cuts, price caps and delayed action thus far.

Further, to address the sudden supply demand imbalance, the IEA announced the release of 400 million barrels (at a regulated rate over time) of its members' 1,8-billion-barrel emergency reserve – its largest release in history. Trump, on the other hand, has eased American sanctions on both Russian and partial Iranian oil – facing a bipartisan backlash as a result.

…But long-term, the 2026 energy crisis should accelerate the European transition

We are still waiting to see the contours of long-term impacts, which depends on when and how the crisis is resolved. What is clear, is that the cost of sudden fossil fuel spikes in retrospect makes high costs associated with transitioning away from fossil fuels appear palatable. Earlier in March, the UK Climate Change Committee had noted that the cost for the country to reach net zero by 2050 would be less than the costs incurred by the fossil fuel spike from the invasion of Ukraine in 2022 – an apt point amid the 2026 crisis.



**gas price is based on TTF futures. Brent Crude is based on North Sea oil. Source: Trading Economics.*

A similar logic should apply for Europe. For example, REPowerEU and emergency permitting rules launched in the aftermath of Russian invasion helped the EU generate more power from wind and solar than fossil fuels for the first time in 2025. Draghi competitiveness report from 2024 also highlighted imported expensive fossil fuels as a big challenge for EU competitiveness. However, competitiveness has also been highlighted as the reason for watering EU sustainability regulation, such as adjusting the prohibition on selling petrol cars by 2035. Further, an increase in

already high fuel prices in the EU means the European Commission is due to announce measures such as an "emergency brake" to carbon prices next week to protect industry – falling short of initial asks by member states of a carbon market freeze (see more in in-brief).

That said, a blocked Strait of Hormuz highlights again the importance of transition. High fossil fuel prices – a de facto high carbon price – becomes a huge cost burden for energy intensive industry. The Industrial Accelerator Act, announced by the European Commission on March 4th, support green European industrialisation with a focus on the automobile sector, energy-intensive sectors with a focus on steel and green technology such as solar panels with a focus on permitting, controlling foreign investment and requiring local manufacturing. It appears clear, though, that an accelerated energy transition reducing energy costs is as important for competitiveness. This would entail delivering on what the contested EU Green Deal from 2019 focused on, namely rapid decarbonisation.

It was timely then, that Germany – Europe's biggest economy – announced this Wednesday that it would focus efforts on building more wind power and subsidising electric vehicle (EV) sales to reduce fossil fuel imports and meet climate targets. This follows pre-war German announcements of aims to tender tens of gigawatts of gas-fired power capacity able to eventually run on hydrogen. The clear insecurity now associated with Europe's fossil fuel imports, coupled with expectations for excessive costs, should create more space for European politicians to act to accelerate the energy transition and electrify where possible.

Challenges to the European transition on the horizon

It will not be easy, however. The jump in inflation and therefore interest rates following the Ukraine invasion made it more difficult to deliver CAPEX-intensive renewable energy projects and new technologies like hydrogen. For example, several offshore wind tenders failed in Europe the last couple of years due to auctions inadequately incorporating inflation adjustment mechanisms in tender design and generally offering too little in terms of incentives when input and financing costs have been on the rise. Should the war prolong – similar challenges will have to be dealt with. Highlighting this risk, OECD announced it had increased its US inflation forecast from 2.8% to 4.2% for 2026 due to the war.

Furthermore, near-term measures to reduce energy costs for consumers could end up increasing policy uncertainty for long-term solutions and in effect punish decarbonisation frontrunners and reward laggards. Concerns over spiralling fuel prices due to the war also led several EU members to ask for a freeze of the European Emissions Trading Scheme (ETS) - which seems to culminate in the aforementioned emergency break. Striking the balance of offering regulatory relief while providing long-term policy certainty could prove difficult.

China: Winning quietly?

Over decades, the closure of the Strait of Hormuz would have been considered Beijing's worst nightmare as the biggest importer of fossil fuels through its waterways. One month into the conflict, it seems China was prepared through building up a strategic petroleum reserve estimated at 500 million barrels, helped by cheap sanctioned Russian oil. And while China as a big exporter stands to lose from a global recession, it will likely come out strengthened in the energy market long term. As the rest of the world scrambles to switch to renewables, China's iron grip on solar, wind, battery and electric vehicle value chains means it is well positioned to gain as the developed and developing countries transition their energy systemfor a post-2026 crisis world.

Sustainable products update

Sustainable Bond Market – Q1 2026

Despite the market volatility seen in recent weeks, the first quarter of 2026 has been notably strong for the sustainable bond market. Global sustainable bond issuance is up approximately 13% year-on-year, with green bond issuance increasing by around 20%. This makes Q1 2026 the second strongest quarter on record, surpassed only by Q1 2024.

The growth has been driven primarily by Europe, while issuance in Asia has been noticeably more subdued compared to last year, and the Americas have remained broadly flat at relatively low volumes.

Corporate and Financials: Strong Momentum in EUR Markets

EUR-denominated corporate green bond issuance has increased by roughly 70% year-on-year. Corporates' share of the sustainable bond market stands at around 19%, broadly in line with 2025 levels, while the sector has nonetheless been a key driver of overall issuance volumes. The uptick was widely anticipated given the substantial volume of 2026–2027 maturities, corporates' ongoing refinancing needs, and favourable funding conditions, which have supported issuance activity. Utilities have been a key contributor, driven by accelerating investment needs in power generation, grid expansion and electrification, alongside refinancing of earlier-generation green bonds.

EUR financial green bond issuance has also performed well and is up around 20% in Q1. In contrast, SSA Green Bond issuance has been softer and is down approximately 5% compared to Q1 2025. However, sustainability bond issuance within SSA has doubled year-on-year, reaching the highest quarterly volume ever recorded, signalling a shift in issuance trends.

Growing Interest in the EU Green Bond Standard

A key theme entering 2026 was whether the EU Green Bond Standard (EuGB) would continue to gain traction among issuers. In Q1, we have observed a clear increase in interest from financial institutions, with four financial issuers entering the market with a European Green Bond. Notably, Nordea became the first Nordic bank to issue a European Green Bond, marking an important milestone for the region.

The issuance pipeline continues to develop. In the Nordics, Länsförsäkringar Bank became the first Nordic bank to publish an EU Green Bond factsheet—supported by Danske Bank as sole advisor—marking an important milestone for the region. The factsheet covers both Länsförsäkringar Bank and Länsförsäkringar Hypotek (its mortgage institution) and is available in both English and Swedish, making it the first EuGB factsheet published in Swedish.

Outlook

Looking ahead, ongoing market turbulence and rapidly shifting macro and policy signals make near-term market direction difficult to assess. That said, the strong issuance activity seen in the first quarter provides a solid foundation for what could develop into another robust year for the sustainable bond market. Key drivers are expected to include refinancing-led issuance and increased investments in the transition, adaptation to climate risks, and digital infrastructure, such as data centre growth.

In brief:

- **H&M Group adopts science-based targets for nature**. H&M is one of the first companies globally, to do so, and the third company ever to have external verification of such targets. Following Science Based Targets Network (SBTN) ARRRT framework (Avoid, Reduce, Restore, Regenerate, Transform) H&M adopts three core land targets;
  - No Conversion of Natural Ecosystems targets: H&M has set a target for their upstream impacts, with low exposure to conversion of natural ecosystems in its direct operations. Action: Target 100% sustainably sourced material 2030 and strengthen risk management processes.
  - Land Footprint Reduction target: H&M Group commits to reduce absolute agricultural land footprint from upstream impacts 3.85% by 2030 from a 2019 base year. Action: increase the share of recycled materials to 50% by 2030.
  - Landscape Engagement target: H&M Group is engaged in the Regenerative, Ecologically and Economically viable agriculture (REEVA) project in Central India and in the Regenerative Wool Project in the Eastern Cape Drakensberg Grasslands of South Africa. Action: Continue to financially support H&M Group and WWF's partnership projects.

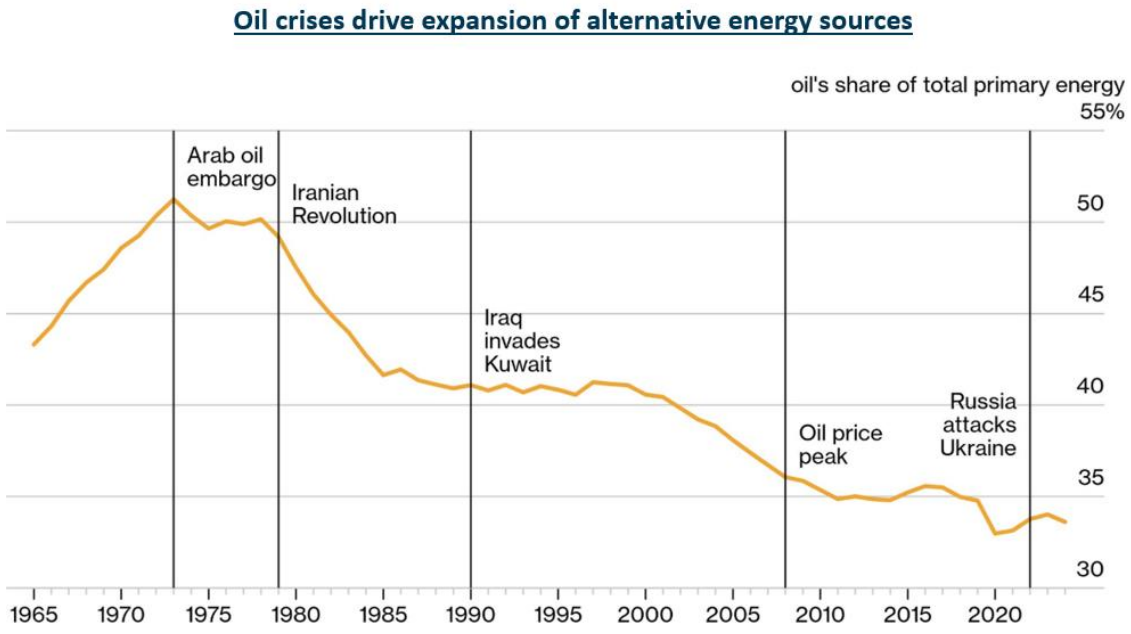
- **Norges Bank Investment Management update expectations for nature risks**. Norges Bank Investment Management (NBIM), managing the Norwegian sovereign wealth fund, has updated its nature expectations to guide engagement and investment decisions. The framework outlines eight broad expectations for portfolio companies, addressing the material risks posed by land, freshwater and marine degradation to long-term corporate value. Companies failing to address nature-related risks may face assessments for risk-based divestment as part of NBIM's commitment to responsible investment and risk management.

- **EU Emission Trading System (ETS) under pressure.** Italy, Austria, Poland, and Czech Republic are calling for a temporary suspension of the EU ETS, to reduce the impact on the markets from the closure of the Strait of Hormuz. Spain has defended the carbon trading system, warning that suspending it would be a "big error". According to a recent FT article, Brussels plans to limit carbon prices after pressure from industries facing soaring costs. The same source cites that the European Commission intends to announce the measure next week, which would stop carbon prices from surging by keeping credits in the market that would normally be cancelled. The system also came under pressure during the 2022 energy crisis exacerbated by Russia's invasion of Ukraine, but the EU ultimately chose not to suspend the system at that time.

- **UK sets standards for nature credits**. The British Standards Institution has released two new standards covering biodiversity and nutrients markets, setting out how to assess the credibility of credits. Jointly developed by the UK Department for Environment Food and Rurals Affairs, the frameworks define how a credit must be measured and reported as well as the parameters of how they might be used by buyers. The standards build on the UK's position as a frontrunner in nature markets through its Biodiversity Net Gain legislation, which requires most developments to deliver a 10% net gain on site or through the purchase of offsite credits.

- **Sweden's climate leadership is slipping.** According to the Swedish Climate Policy Council's latest report, Sweden needs a change of course in the upcoming term or risks failing to meet its climate targets. Established in 2018, the Climate Policy Council is tasked with assessing whether the government's overall policies are aligned with national climate targets. In its assessment, the Council concludes that climate policy during the current term has been insufficient, weakening Sweden's ability to meet both its national climate targets and its legally binding EU commitments. The Council criticises a fragmented, short-term policy approach that undermines the long-term credibility of the transition. Rising greenhouse gas emissions indicate that current policies deviate from the pathway set out in the Climate Act. As a result, Sweden is not on track to meet its climate targets for 2030 or 2040, nor its long-term objective of achieving net-zero emissions by 2045. A notable addition to this year's report is a dedicated analysis of civil and military defence, where the Council warns that the ongoing military build-up risks locking in new fossil dependencies unless climate objectives are systematically integrated into defence planning and investment decisions.

Graph of the month:



Source: Bloomberg based on EI Statistical Review of World Energy

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