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Volatility rules: Navigating today's commodities landscape

Executive summary

Commodity markets are balancing high-level global integration with increasingly fragmented and regionalized exposures. This duality is driving a normalization of structural volatility, in which short-term price fluctuations become the norm rather than the exception. For many energy companies, this shows up as larger, more frequent swings in earnings and cash flow compared to a decade ago, as prices react sharply to physical constraints and geopolitical shocks. Physical chokepoints have hardened, trade and industrial policy are rewiring flows around national priorities, and geopolitical tensions and weather extremes are driving shorter planning horizons and more abrupt shifts in supply, demand, and routes.

While oil remains a key indicator, it only tells part of this story. Brent crude's volatility has risen compared to the late 2010s, but oversupply has generally kept prices in check aside from major shocks, such as the

This report was completed prior to escalation of conflict in the Middle East in February 2026. While the global insights and analysis contained within remain relevant, they do not reflect the latest developments in the region. Marsh is actively monitoring the situation and its potential impact. Please reach out to your Marsh representative for any insights or support required.

COVID-19 pandemic and the onset of the Russia-Ukraine war. In contrast, regionally concentrated commodities such as liquefied natural gas (LNG), and coal have seen much sharper volatility as power demand, extreme weather, conflicts, and policy interact in less predictable ways. The rapid growth of LNG trade and interconnection has globalized what were once local disruptions, exposing regional hubs to distant events and amplifying earnings impacts for energy companies.

For executives, volatility is now a baseline condition reshaping risk across strategy, operations, and finance. Concentrated exposure to specific hubs, routes, or feedstocks raises earnings variability and guidance risk. Supply chains face less predictable lead times, higher transit costs, and uneven reliability, while rigid contracts may struggle to keep pace with volatile demand and constrained routes. At the same time, higher risk premiums and uncertainty about interest rates are increasing minimum return thresholds (hurdle rates). This also means the timeframes during which funding is available are becoming shorter and more constrained, and basis and liquidity risks are becoming more acute when hedging across regional markets. Additionally, balance-sheet resilience, operational scale, and liquidity management take on new importance in this environment. These erratic volatility dynamics are reshaping the market structure, driving industry consolidation and financial fragmentation.

Structural risk is not going away. Executives need to plan for volatility rather than hope it passes across their geographic market exposures. The likely winners will be those who manage exposure deliberately: aligning hedges with physical footprints, avoiding single points of failure where they can't hedge, and maintaining flexibility to adjust investments as conditions shift. Success will depend on advanced risk analytics, operational data, and capital and liquidity structures designed to withstand spikes in margin, working capital, and opportunity costs without forcing potentially short-term, value-destructive decisions.

Volatility is here to stay

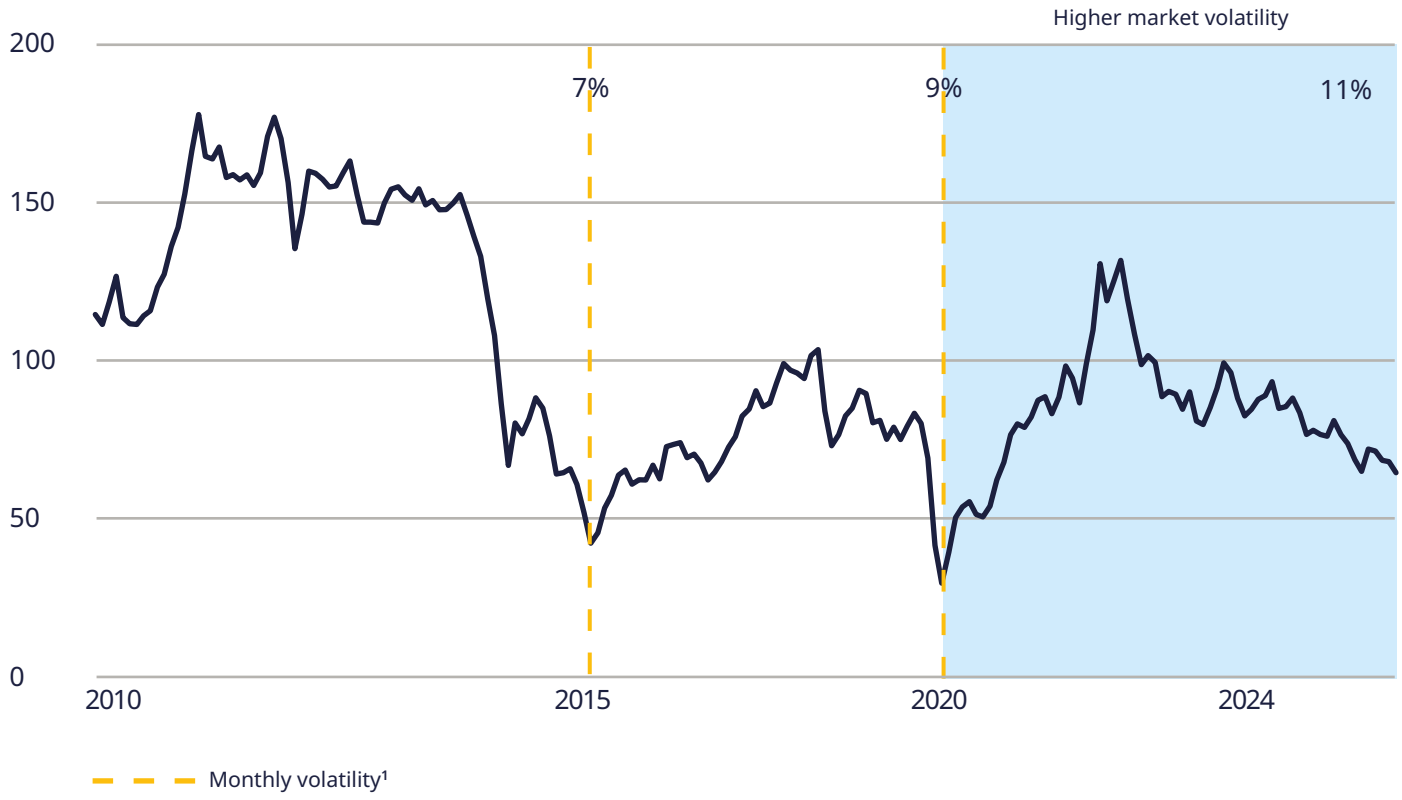
Over the last decade, commodity markets have undergone a structural shift defined by the simultaneous fragmentation of global markets and globalization of regional ones — a dynamic that has driven persistently higher volatility. This shift is evident through three lenses: market structure, commodity price behavior, and how equity markets and practitioners price and describe risk.

At the structural level, the retreat from integrated trade has accelerated, as fiscal and trade policy increasingly prioritizes strategic or national interests over efficiency. The hardening of physical chokepoints has increased transit-time variability and raised insurance premiums, while industrial policy has reshaped commodity flows. Geopolitical shocks have compounded these pressures, shortening planning horizons and repricing risk across the board. The result is a market environment characterized by more frequent price spikes, fragmented liquidity concentrated in regional hubs, and reduced capacity to absorb sudden disruptions.

Over the last few years, equity markets have shown increased volatility, signaling a structural event. According to BlackRock, across sectors, equity markets — one of the most liquid measures of risk — have, on average, experienced double the sensitivity over the last five years compared to the previous 15 years. Equity volatility is understood as a correlated signal of macroeconomic and risk regime changes, rather than direct evidence that commodities are volatile. Equities are sensitive to many of the same factors as commodities, including macroeconomic conditions, interest rates, policy decisions, and trade tensions. Additionally, volatile equity markets can amplify sensitivity in shareholder value and increase the cost of equity, further connecting equity volatility to commodity market uncertainty, as these fluctuations often translate directly into balance sheet risks.

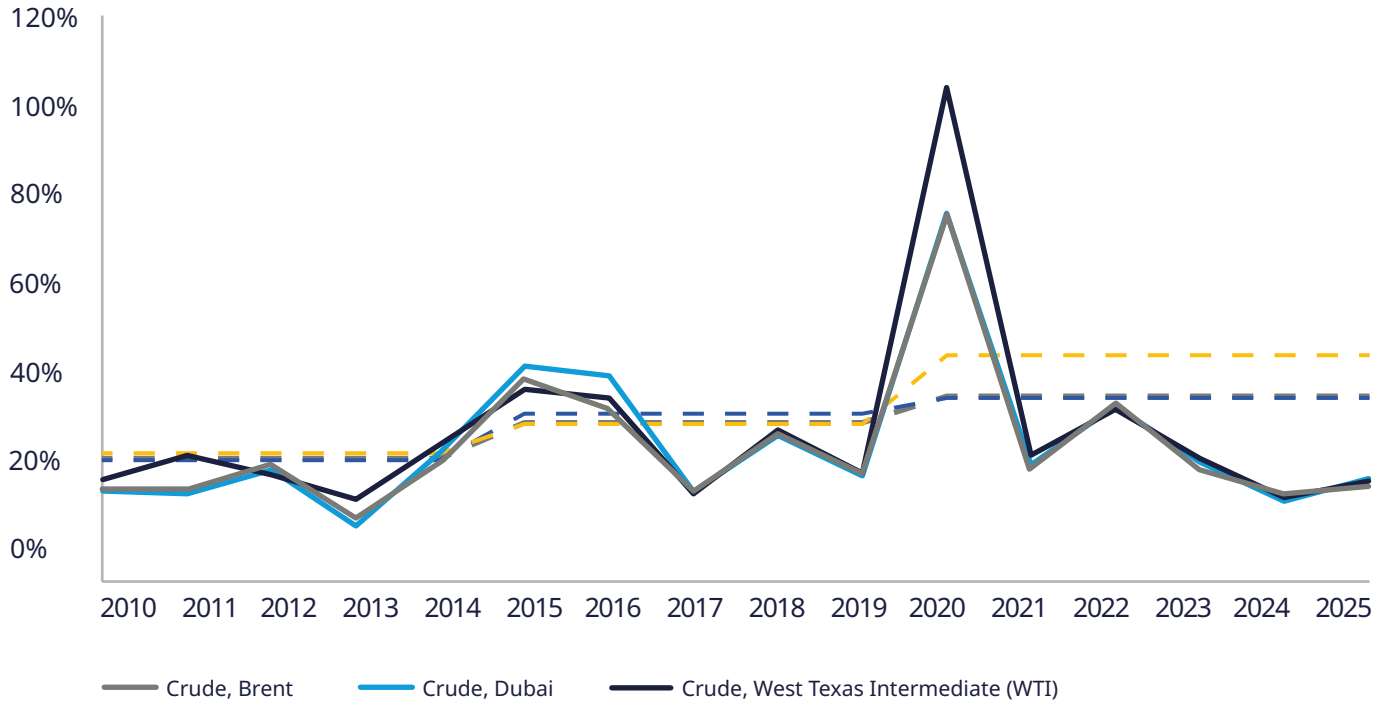
Brent crude oil has also seen an approximately 25% increase in the standard deviation of price returns when comparing 2015–2019 to 2020–2025 (see Figure 1). However, excluding 2020 — which was marked by extraordinary volatility due to the COVID-19 pandemic — Brent's volatility over the last four years has slightly declined, highlighting the persistent influence of oversupply dynamics. Equity analysts generally agree that there will continue to be roughly 1–3 million barrels per day (mb/d) of oversupply, excluding millions of barrels held in floating storage or reserves. As of January 28, 2026, Oliver Wyman research across ten investment banks found that most analysts expect oil prices to remain broadly flat in 2026, barring significant shifts in geopolitics, such as the 2026 conflict in the Middle East, or unexpected supply disruptions, even if demand modestly recovers. This contributes to a relatively steadier price environment for oil companies compared to other commodities. Sensitivity to acute events, rather than sustained volatility, makes oil an exception relative to the broader commodity market.

Figure 1. Brent crude oil price (US$/bbl), January 2010-October 2025



Source: CapIQ, Oliver Wyman analysis

Figure 2. Annualized standard deviation of monthly log returns over time period[1] – crude oil



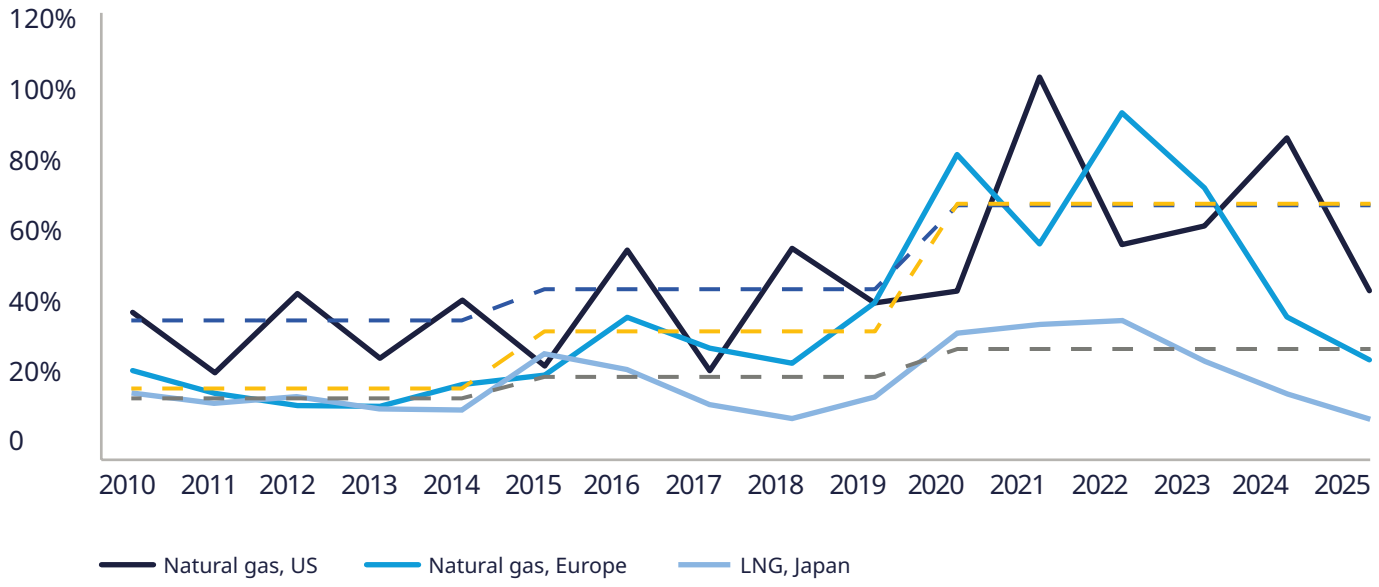
Source: CapIQ, Oliver Wyman analysis

Defining what constitutes a "significant" geopolitical event for oil markets is essential. Recent events in Venezuela and Iran illustrate this distinction. Venezuela currently accounts for less than 1% of global oil supply, so the 2026 US military intervention had minimal price impacts. Even if investments materialize over the next two to three years, incremental heavy sour barrels face constraints from sanctions, infrastructure limitations, and refinery economics, limiting near-term price pressure. In contrast, tensions involving Iran have prompted larger market reactions, with price swings of +/- 3.5% following US policy announcements in late January, and more rapid swings as conflict broke out at the end of February 2026. These reactions reflect both Iran's production scale and the strategic risk to transit through the Strait of Hormuz, a critical chokepoint for global seaborne crude. In short, oil prices are sensitive when threatened barrels are large, hard to substitute, and transmitted through vulnerable logistics — and less sensitive when shocks are small, slow-moving, or readily offset.

Volatility in more regionalized energy products like coal, natural gas, and LNG has nearly doubled in recent years, a consistent pattern across the sector (Figures 3 and 4). Gas and coal prices are closely linked to power demand, especially when gas is unavailable, and coal serves as a substitute. With approximately 36 gigawatts (GW) of new data center capacity coming online by 2030, adding to residential and commercial demand, pressure on power markets is likely to increase, particularly in power-intensive, weather-sensitive hubs. Gas-fired power plants are highly exposed to temperature swings, with extreme heat or cold driving rapid changes in demand and price. The Intergovernmental Panel on Climate Change (IPCC) estimates a 410% increase in extreme heat events over the next decade, reinforcing the link between climate volatility and commodity price volatility. Coal has become the more volatile counterpart to gas amid widening divergence in global transition strategies. In some regions, coal plants are being retired to meet climate commitments. In others, they are being extended or reactivated to preserve affordability and grid reliability. The result is a multi-tiered energy landscape in which traditional and alternative fuels coexist under different policy, financing, and regulatory regimes. For traders and integrated players, diversified exposure across conventional and low-carbon assets has often proven more resilient than single-path strategies anchored to a single transition trajectory. As long as coal remains in the fuel mix, particularly in a peaking or reliability role, episodic price spikes are likely to persist.

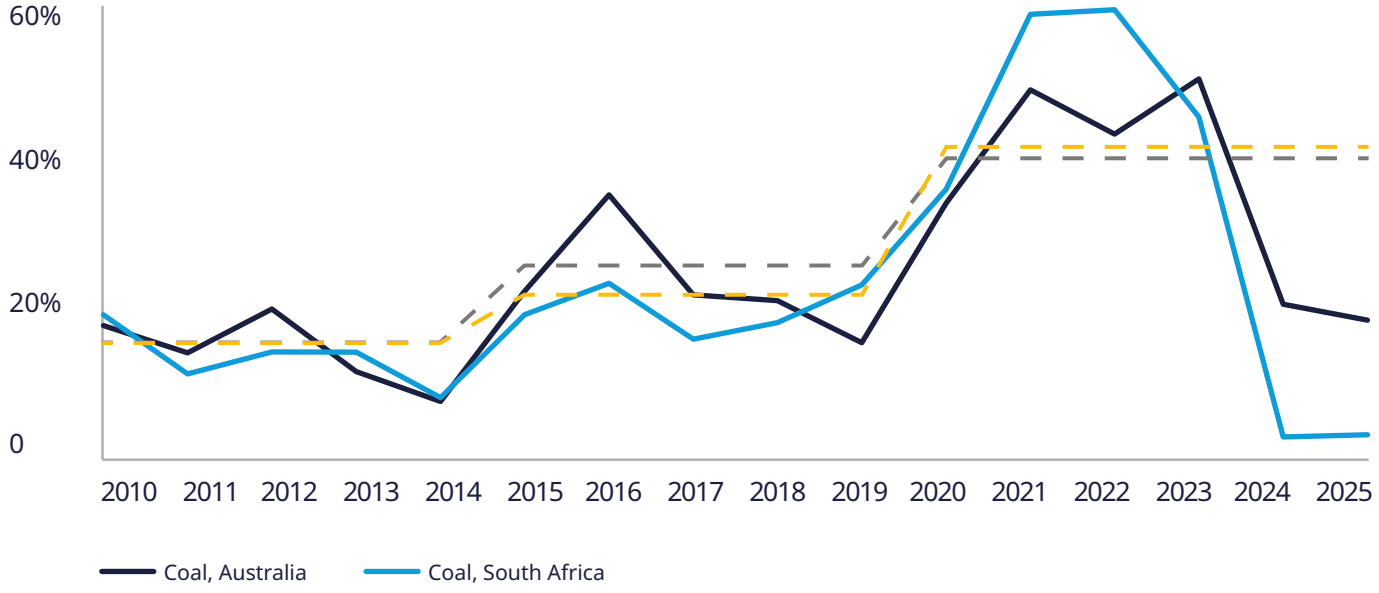
This dynamic extends to LNG, where trade and transit volumes have increased significantly. US natural gas exports accounted for 6% of total production in 2016 and over 23% in 2025, almost exclusively driven by LNG growth, highlighting how regional shocks transmit rapidly across markets. For example, US gas markets are impacted by disruptions in Europe and Asia as LNG cargoes are redirected. Although natural gas and LNG markets stabilized after the initial shock of the Russia-Ukraine war, underlying data highlight their ongoing fragility and volatility.

Figure 3. Annualized standard deviation of monthly log returns over time period[2] – gas



Source: CapIQ, Oliver Wyman analysi

Figure 4. Annualized standard deviation of monthly log returns over time period[3] – coal

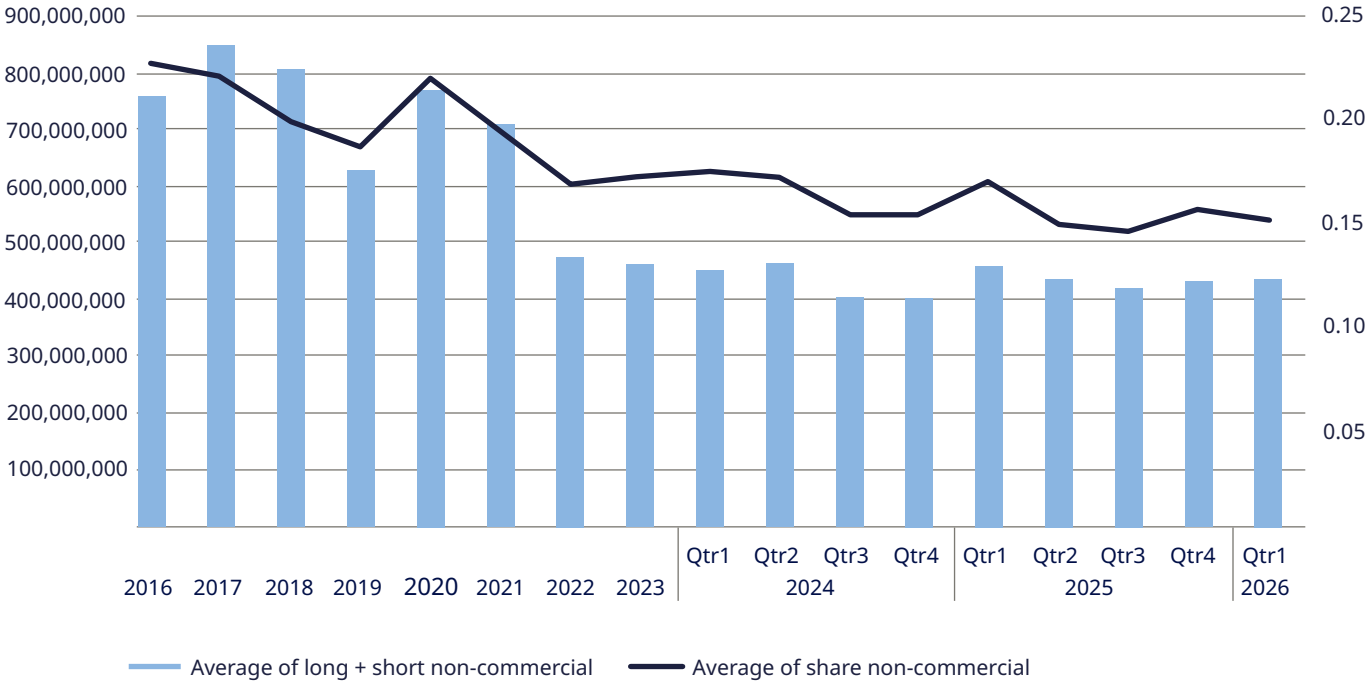


Source: CapIQ, Oliver Wyman analysis

Equity analysts echo this market shift, noting that this time it "feels different." Bloomberg reported that some "traders haven't lost money in a single quarter over the past decade. Yet recent price swings have been hard to navigate," and the CFO of a multinational energy company said, "There is volatility in the market, but it is a different type of volatility. It is driven by political decisions and that is very, very hard to trade around." This aligns with data showing that volatility is increasingly influenced by policy and geopolitics, with less spare capacity and fewer integrated markets to absorb shocks. The uncertainty fueled by geopolitical tensions has sparked traders and analysts to acknowledge a structural shift: the market has lost its shock absorbers.

Traditionally, market shock absorbers consisted of carefully hedged portfolios and arbitrage activities by trading houses. However, many of these liquidity channels have since thinned, complicating efforts to manage downside risk while maintaining upside exposure. Market liquidity is observable in trading volumes and open interest, but is also reflected in the participation of non-commercial actors who are not hedging physical positions, such as hedge funds, commodity trading advisors (CTAs), and other managed money. These counterparties provide marginal liquidity by assuming directional risk. As shown in Figure 5, long and short non-commercial positions in European and Asian gas and coal declined materially after 2021, both in absolute terms and as a share of total open interest. Further contractions occurred in Fall 2024 and again in Spring 2025, following episodes of erratic, rapidly reversing price volatility, suggesting a withdrawal of speculative capital from markets where price behavior has become less predictable and more episodic.

Figure 5. Long and short non-commercial liquidity positions: European and Asian gas and coal



Source: CFTC

The new, fragmented dynamic affects how the energy sector operates in several ways.

Physical movement is constrained

Geopolitical events and climate-related factors have made it more difficult to physically move and trade commodities. Key transit corridors like the Suez and Panama Canals face heightened risks and capacity limits, forcing longer routes, slower transits, and tighter vessel availability. For example, drought-driven draft restrictions in the Panama Canal in 2023 reduced daily transits from 36 ships to as few as 25 and increased LNG waiting times from about 8 to 18 days. This forced cargo onto longer, more expensive routes and tightened regional spot markets. The Strait of Hormuz is one of the world's most important shipping routes, and its most vital oil transit chokepoint, although persistent threats of closure periodically disrupt global oil flows and heighten energy market volatility. Similar chokepoints, such as Türkiye's 2022 insurance rules on Russian crude to disruptions in the Suez, have repeatedly turned

physical bottlenecks into sudden spikes in freight, insurance, and commodity prices. At the same time, inland waterways such as Europe's Rhine and the US Mississippi River have also experienced episodic droughts, which have restricted barge loads, raised freight rates, and delayed deliveries of fuels, coal, chemicals, and grains. Port labor disruptions further increase unpredictability in transit times. For energy companies, these factors translate into higher freight and insurance costs, more variable delivery windows, and greater execution risk
on projects and supply commitments, all of which can erode margins and reduce confidence in long-term planning.

Trade flows are rewired

Trade tensions and policy have amplified disruptions, increasing the cost of balancing global supply and demand and restricting some countries to energy independence or a small pool of trading partners. Russian crude, once primarily shipped to Northwest Europe, is now discounted and redirected to Asian buyers, with exports to Asia and Oceania rising from 41% in 2020 to 81% in 2024, and India's intake alone increasing from about 50,000 barrels per day (kb/d) to 1.7 million barrels per day (mb/d) over the same period. This represents more than a 30-fold increase in seaborne volumes. These shifts continued throughout 2025 and into 2026, and Reuters reported that "India was preparing to cut Russian oil imports below one million bpd by March 2026, with volumes eventually falling to 500,000–600,000 bpd, compared with an average 1.7 million bpd last year. India's Russian oil imports topped two million bpd in mid-2025." Additional US sanctions have impacted Russian oil conglomerates.

US LNG exports have pivoted toward Europe to replace lost Russian pipeline gas, with exports to European terminals rising from about 2.4 billion cubic feet per day (bcf/d) in 2021 (or 27% of Europe's LNG imports) to about 7.1 bcf/d in 2023 (or 48%), as expanded regasification capacity came online and competition with Asian buyers intensified. Meanwhile, China's informal restrictions on Australian coal imports, beginning in late 2020, sharply reduced flows into China, pushing Chinese buyers toward Mongolia, Indonesia, Russia, and greater domestic production. Australian exporters redirected volumes to India and other Asian markets, reshaping Australia's export destinations. Even after China resumed Australian coal imports in 2023, flows have not yet returned to pre-2020 levels, resulting in a more diversified, regionally fragmented coal trade.

These new flows fragment liquidity across routes and hubs, extend voyage distances, tighten vessel availability, and increase exposure to freight and insurance costs. This makes regional price benchmarks generally less reliable for local risk assessment and raises both the cost and complexity of managing commodity exposure. At the same time, commodity settlement is gradually becoming more multi-currency to mirror the physical fragmentation. While the US dollar remains dominant, incremental pricing and settlement in yuan, rubles, and regional currency baskets can introduce new FX exposures, cross-currency basis risk, and liquidity fragmentation across clearing venues. Treasury functions, such as multi-currency collateral management, consistent valuation across benchmarks, and hedging-cost volatility are becoming strategically central and influential in capital deployment. Firms with robust multi-currency liquidity frameworks and upgraded settlement infrastructure will likely be better positioned to manage cash flow timing, margin calls, and capital deployment across fragmented financial ecosystems.

Risk is re-priced

Regional conflicts and frictions are shortening planning horizons and causing sudden, intense disruptions to supply chains and markets. Major events such as the Russia-Ukraine war, attacks affecting Red Sea and Suez traffic, and US–China

tensions have raised exposure to energy and freight price shocks. Analysis of World Bank data shows a pronounced increase in short-term price volatility for key commodity futures coinciding with the demand collapse during the COVID-19 pandemic in 2020, and again during the Russia–Ukraine energy crisis and European gas crunch in 2022, before easing as markets adapted through supply reallocation, demand adjustment, and policy intervention. Volatility in 2024 and 2025 has been driven more by shipping disruptions and geopolitical flare-ups, with more frequent but generally less catastrophic shocks that still force rapid repricing of risk. As mentioned, volatility for commodities like coal, gas, and LNG has roughly doubled, while oil experienced a short-lived fourfold increase due to the pandemic before flattening.

Higher interest rates, the risk of sudden conflict escalation, and rising insurance and shipping costs increase the cost of holding inventory and capacity, even as firms face pressure to build resilience. This can create more challenging trade-offs on buffer levels and drive faster decision-making cycles. While faster decisions can improve agility, they can also increase a firm's exposure to margin call risk and other financial stresses when volatility spikes unexpectedly.

As gas, LNG, and coal continue to play a central role in global power generation, rapid weather shifts and extreme storms are driving sharper, less predictable demand swings. Figures 3 and 4 support this, showing higher realized volatility in gas, LNG, and coal during periods of tighter inventory and demand recovery in late 2021 and during the 2022 European gas crisis, followed by partial normalization in 2023 as uncertainty declined. Weather- and policy-driven demand shocks require companies to understand, model, and price the risk in their portfolios more rigorously, from fuel sourcing through to power sales. Gas, LNG, and coal demand are increasingly shaped by volatile power and heating loads rather than stable baseload assumptions, and contracts are starting to reflect this through greater flexibility, seasonal shaping, and embedded optionality.

Volatility is not only increasing price swings, but also reshaping who can compete. Elevated margin requirements, collateral volatility, episodic liquidity freezes, and growing multi-currency settlement complexity favor firms with scale, diversified trading hubs, and strong balance sheets. In this environment, resilience is increasingly balance-sheet driven.

As speculative capital retreats from episodic and policy-driven price behavior, larger trading houses and integrated players are absorbing a greater share of liquidity provision, necessitating a mix of both paper and asset-backed trades. Firms are pursuing acquisitions to expand cross-asset hedging capabilities, secure access to infrastructure and data, and strengthen capital buffers capable of absorbing margin shocks. For mid-sized or mono-commodity players, the cost of capital, integration risk, and regulatory scrutiny are rising simultaneously, making scale both an advantage and a resilience builder.

Risks are evolving

Commodity volatility introduces evolving risks across the energy sector, shaping financial, operational, and strategic decision-making for executives. Some of these risks are immediate, such as pressure on quarterly earnings, cash flow, and supply chains when prices and routes move abruptly. Others are longer-term shifts accelerated by a more unpredictable environment, including deciding where and how to commit capital, securing funding and liquidity through shocks, and building capabilities, such as AI, analytics, and workforce skills, needed to manage volatility. A clear understanding of these risks is often the starting point for managing volatility.

Strategic risks

Portfolio concentration in high-volatility exposures increases earnings variability and guidance risk, especially when regional conflicts, extreme weather, or OPEC+ supply changes impact specific hubs and benchmarks. Concentration by country and route raises the likelihood of single points of failure at chokepoints, such as Russia and the Black Sea and the Suez and Panama Canals, forcing rerouting, tightening capacity, and disrupting product mix and customer allocations. As majors and national oil companies (NOCs) expand commercial trading desks, enter new regions, and take on larger exposures to new asset classes in search of margin, counterparty and credit risk concentrations are rising. These risks are increasingly prominent on risk registers for both majors and traders, compounding vulnerabilities during market stress or benchmark dislocations. Technology shifts accelerate adoption timelines when costs vary, altering input mixes and competitive positioning as capital and policy gravitate towards gas, LNG, and some low-carbon fuels. This drives firms to rebalance toward more resilient, regionally diversified assets and build optionality in sourcing and offtake to prevent localized shocks from cascading into enterprise-wide setbacks. Lastly, erratic and intraday volatility are likely to accelerate industry consolidation, concentrating liquidity and pricing risk among a limited number of players; consequently, companies will need to assess how much risk their balance sheet can take and whether they have the scale to compete.

Operational risks

Supply chains face lead time uncertainty, increased transit charges, and availability shocks when corridors tighten or insurance premiums rise. Regional disruptions create uneven inventory profiles and service reliability across hubs. According to Marsh's Sentrisk platform, the data shows that 94% of organizations have at least one supplier in a conflict zone, and 65% face single points of failure upstream.

Contract rigidity, such as take-or-pay clauses and minimum-volume commitments, can clash with volatile demand, magnifying penalties and requiring operational workarounds when routes or ports become constrained. For example, in October 2025, Pakistan cancelled LNG cargoes scheduled for 2026 and 2027, as part of the government's strategy to curb excess imports amid evolving domestic energy needs, while continuing to meet demand through existing long-term arrangements. Qatar remains a key LNG exporter, competing with the US for agreements, although some US LNG shipments could become unprofitable if the spread between spot market prices and long-term contract terms narrows. Labor inflation and skills scarcity for advanced operations, data, and AI compound these challenges, prompting investments in control towers, predictive analytics, and flexible contracting that can adapt to regional conflicts and weather events increasingly determining day-to-day execution.

Financial risks

As risk premiums and interest rate volatility push hurdle rates higher, companies are tightening capital discipline, resulting in narrower funding windows due to fluctuating spreads and increased equity risk premiums. Hedge misalignment creates basis and liquidity risks, especially across regional indices and currencies where price behavior diverges, increasing the chance of under- or overhedging hedging during sharp local dislocations. This can also create FX exposure, cross-currency basis risk, hedging-cost pressures, and liquidity fragmentation across currencies and venues. Sustained rate uncertainty and episodic shock pricing raise the structural cost of capital and inventory carry, challenging project economics and increasing the risk of cancellation or delay. This can nudge treasury and risk teams toward dynamic hedging, regional basis management, and contingent liquidity lines designed for markets where localized conflict or extreme weather can rapidly alter cash flow timing and collateral needs within a single season.

The way forward

Structural risk is here to stay. Executives should balance defensive strategies to protect downside risks with offensive moves to create advantage when markets dislocate. Five key actions can help manage future commodity volatility:

Hedging and derivatives

Adopt smarter hedging when possible by aligning swaps and hedge durations with physical exposures to reduce surprises. This includes managing cross-currency basis exposures and upgrading settlement infrastructure to consistently manage cash flows and valuations across multiple clearing venues. Seize cross-commodity opportunities to buy time and shape exposure during disruptions or regional weather volatility. Additionally, consider contingency plans, such as reduced exposure, if positions cannot be hedged in the erratic price environment.

Supplier and market diversification

Prioritize broader supplier and market footprints, so LNG spans oceans and seasons, and critical components have dual sources. Position assets in friend-shored hubs with flexible destinations and prearranged capacity to stay ahead when conflict or storms threaten reliability.

Flexible investment timing and optionality

Use stage-gated project decisions that allow pausing or accelerating investments as rates, spreads, and construction conditions shift. Pair modular designs with storage to enter dislocated markets on favorable terms and capture regional price spreads during disruptions.

Partnerships and policy engagement

Engage early with market operators and policymakers on storage, capacity mechanisms, transparency, and interconnection reform to keep assets resilient. Secure preferred access to regional infrastructure to act swiftly when reliability becomes the priority.

Technology and analytics

Elevate forecasting and digitized supply chain risk so that weather, load, and price signals flag issues before they hit operations. Use real-time data to reroute logistics and act on regional price dislocations when conflicts or severe storms reshape flows.

Capital and liquidity strategy

Establish an integrated capital and liquidity framework that pre-commits stress-sized liquidity and contingent credit lines, calibrated with potential future exposure (PFE), conditional value at risk (CVaR), and stress testing with scenarios that reflect simultaneous price, FX, and funding shocks. Back this with deployable risk capital buffers to fund margining, inventory builds, and opportunistic acquisitions without forced de-risking during market downturns.

Endnotes

1 Standard deviation of monthly log returns over time period. Returns defined as ln (Pt/Pt-1) where Pt is average brent crude price in month.

2. Standard deviation of monthly log returns over time period. Returns defined as ln (Pt/Pt-1) where Pt is average gas price in month.

3. Standard deviation of monthly log returns over time period. Returns defined as ln (Pt/Pt-1) where Pt is average coal price in month.

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1166 Avenue of the Americas, New York 10036