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INSIGHT

Effects of Iran Conflict on Natural Gas Prices

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The U.S./Israel military operations against Iran that commenced on February 28, 2026, quickly raised the specter of a closure of the Strait of Hormuz, a key waterway in the Persian Gulf for the transit of natural gas, oil, and other commodities. Approximately 20% of the world's liquefied natural gas (LNG), primarily from Qatar, uses the Strait to reach global markets. Iran reportedly struck Qatari LNG infrastructure in retaliation for Israeli attacks against Iran's energy infrastructure. The conflict's impact on global natural gas prices, however, has been less pronounced and regionally varied than the conflict's impact on oil prices. The differences in how the conflict has affected these two commodities underscores some key features of these markets and highlights associated policy considerations for Congress.

The global natural gas market remains less integrated than the global oil market. As shown in **Figure 1**, while U.S. crude oil prices have trended upward since the war with Iran began, U.S. natural gas prices have stayed relatively flat. This is, in part, because the crude oil market is more connected globally, so that an event anywhere generally affects prices everywhere. Natural gas is a more regional commodity and the global market is not as reactionary. Almost 30% of U.S. crude oil is exported, while 23% of U.S. natural gas is exported.

One of the key factors that affects natural gas prices is the weather. As shown in **Figure 1**, the January 2026 freeze in the United States greatly affected domestic natural gas prices. This is partially because a major use of natural gas is to provide heat to homes, businesses, and industrial processes. In addition, natural gas is the primary fuel used in electricity generation in the United States, where data centers are likely to increase demand for electricity and consequently natural gas. By comparison, the United States' use of oil for heating is limited to certain regions, mainly the Northeast. Oil is primarily used in the transportation sector.

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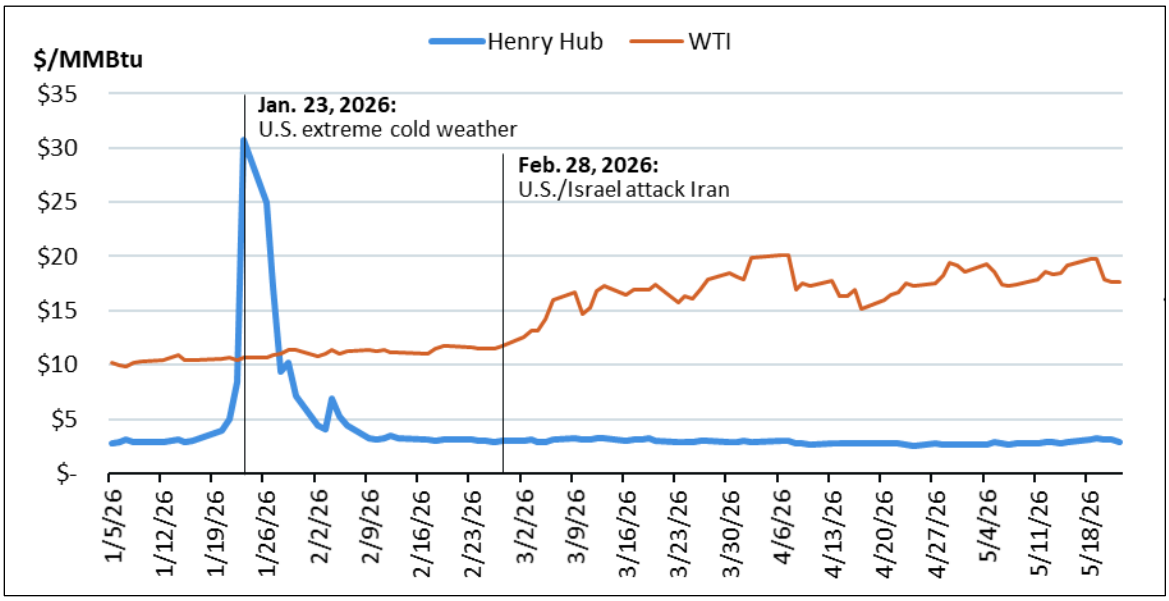
Figure 1. U.S. Natural Gas and Oil Benchmark Spot Prices

January-May 2026



Source: U.S. Energy Information Administration, Natural Gas Spot and Futures Prices (NYMEX) and Spot Prices for Crude Oil and Petroleum Products.

Notes: The spot price is for a one-time open market transaction for immediate delivery of a specific quantity of product at a specific location where the commodity is purchased "on the spot" at current market rates. For comparison purposes, the graph shows prices in a common unit, dollars per million British thermal units ($/MMBtu). Henry Hub is the U.S. benchmark price for natural gas, and West Texas Intermediate (WTI) is the U.S. benchmark price for crude oil.

Globally, natural gas prices in the U.S. market are lower than in the other two major markets, Europe and Asia (see **Figure 2**). Between February and May 2026, European and Asian natural gas prices have increased 44% and 66%, respectively, while U.S. prices declined by 6%. As both Europe and Asia are net importing regions, curtailment of Qatari exports and other Middle Eastern LNG exports from the Persian Gulf may have a bigger impact on both regions. Europe, in particular, has also been affected by Russia's reduction of gas exports. By comparison, global oil prices rose 50% between February and May 2026. Almost half of worldwide oil production is exported, while less than 30% of worldwide natural gas is exported to foreign markets, mostly by pipeline. Total U.S. exports of natural gas make up approximately 23% of U.S. natural gas production, as noted. The volume of exports has contributed to upward pressure on prices, but not as strongly as other factors such as the weather.

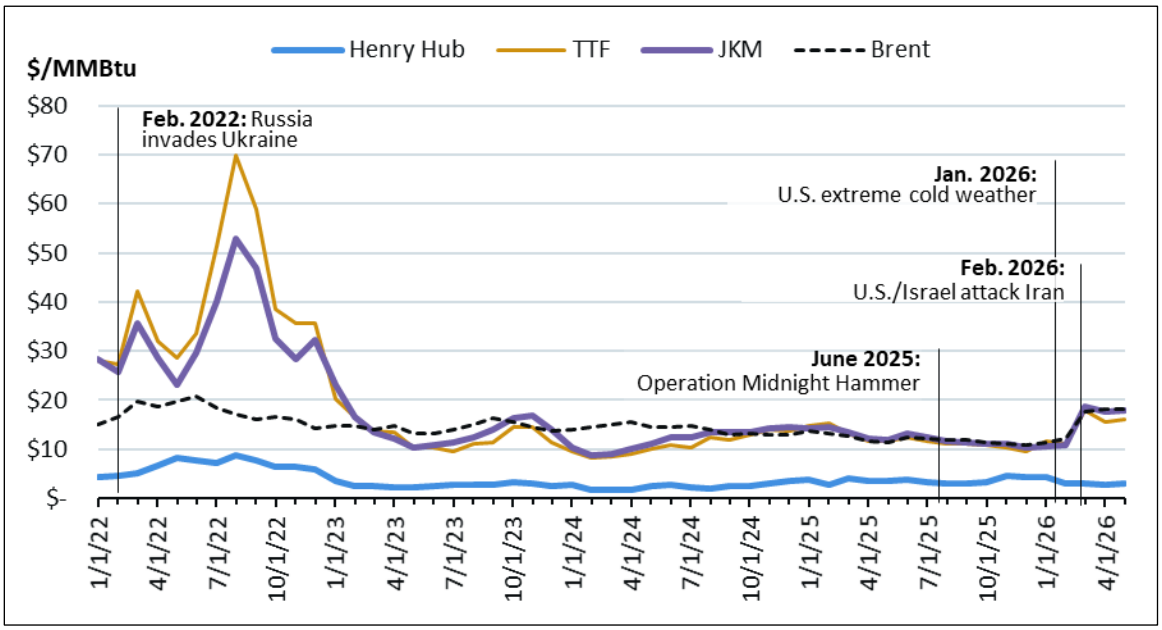
Historically, the effects of a closure of the Strait on natural gas prices were of less concern to policymakers, but as natural gas becomes a more global commodity, events like closing the Strait likely will have greater global effects. For example, geopolitical events such as Russia's invasion of Ukraine in 2022 have highlighted the importance of natural gas in the global economy. Global energy commodities have faced unprecedented events over the last several years:

- The COVID-19 global pandemic was responsible for declines in energy demand and prices. (March 2020)
- After Russia—a major oil and natural gas producer and exporter—invaded Ukraine, prices in all markets rose. (February 2022)
- When the United States captured and arrested the head of state of Venezuela—a significant oil producer and exporter—the event initially added uncertainty to energy markets and put modest upward pressure on prices. (January 2026)

- U.S. and Israeli attacks on Iran (a significant oil producer and exporter), including on Iran's energy infrastructure, contributed to Iranian retaliation against neighbors, including those that are major oil and natural gas producers and exporters, putting upward pressure on global prices. (February 2026)

Figure 2. Selected International Futures Prices for Natural Gas and Oil

January 2022-May 2026



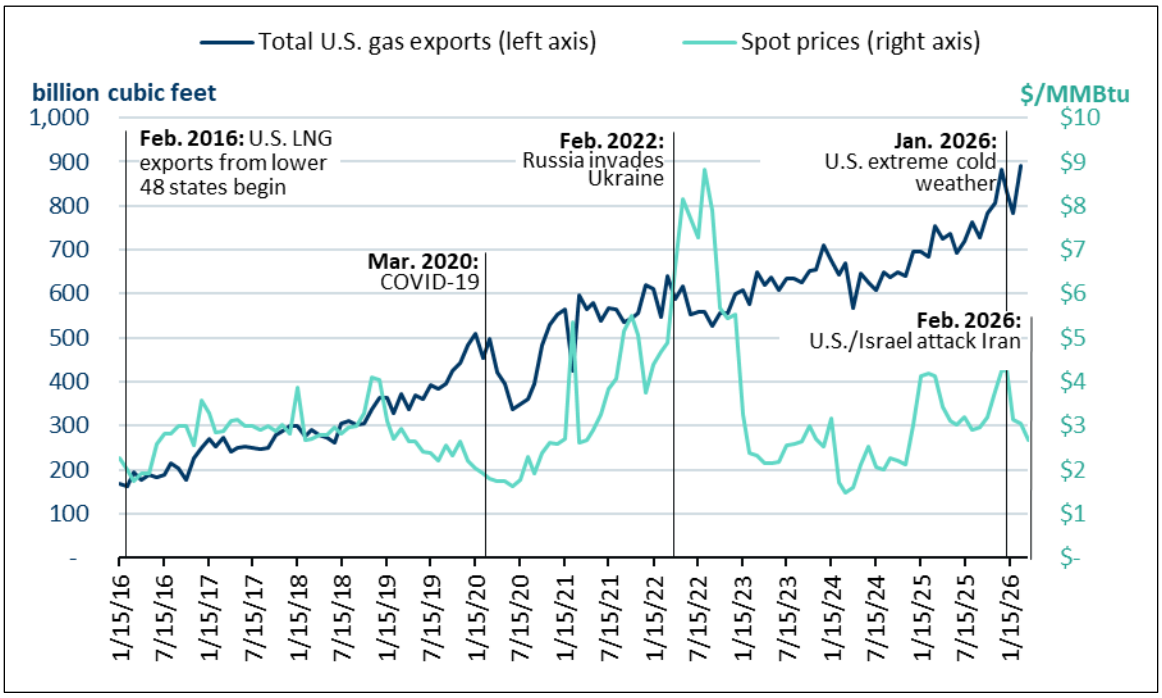
Source: Data from the U.S. Energy Information Administration and Bloomberg L.P., a subscription service.

Notes: $/MMBtu = dollars per million British thermal units. The futures prices represent the delivery month for a certain quantity of a commodity at a specified time and place in the future. The natural gas prices are at the U.S. (Henry Hub), European (TTF), and Asian (JKM) trading hubs and are in nominal dollars. Brent is the international benchmark for crude oil. Operation Midnight Hammer refers to the June 2025 U.S. military operations against Iran.

Figure 3 shows how U.S. natural gas exports have grown since 2016, when the United States started exporting natural gas as LNG from the lower 48 states. The export data in **Figure 3** include LNG and pipeline exports, the latter of which go primarily to Mexico; pipeline exports to Mexico have increased significantly since 2000, accounting for 27% of total U.S. natural gas exports in 2025. **Figure 3** also shows an overall rise in U.S. natural gas exports despite more volatile prices. To meet the growth in exports, U.S. natural gas production has also steadily increased, which has contributed to keeping U.S. prices relatively stable and low compared to other countries' prices.

Figure 3. U.S. Natural Gas Exports and Prices

January 2016-April 2026



Source: U.S. Energy Information Administration, U.S. Natural Gas Exports and Re-Exports by Country and Henry Hub Natural Gas Spot Price (Dollars per Million Btu).

Notes: LNG = liquefied national gas. The graph shows monthly, nominal prices in dollars per million British thermal units ($/MMBtu). For natural gas volumes, the graphic uses monthly export data in billion cubic feet.

Natural gas markets have unique characteristics, which may be relevant when evaluating different policies. The ramifications of policies may also not necessarily yield their intended effects. For example, a policy intended to dampen effects on U.S. natural gas prices by limiting exports may lead to higher prices in the long term as producers may scale back drilling because of the lower prices. Events such as the U.S./Israel conflict with Iran may have unanticipated consequences on market components because the effects are wide and varied.

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