

(Observatory) Global: Iran Update on Munitions, Missile Launchers, Shipping, and Insurance

Observatory Group

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Global: Iran Update on Munitions, Missile Launchers, Shipping, and Insurance

Observatory View

- Day 5 of the conflict with Iran is ending. The Trump administration has indicated it could go on for three more weeks, or longer. This creates some key risks and policy dilemmas.
 - The US, Israel and regional allies could run low on key military supplies, including defensive interceptor missiles, as well as some offensive munitions.
 - **Destroying Iranian missile stocks and launchers has become a key metric for the Trump administration in deciding when to end or deescalate the conflict.**
 - **Companies are unlikely to resume pre-conflict levels of shipping through the Strait of Hormuz in the short term** because:
 1. there is a high risk of loss of life and damage or sinking of vessels,
 2. the offer of US government insurance from the DFC is not yet fully operationalized and commercial coverage from Lloyd's has stopped, and
 3. the US Navy currently has no capacity to escort vessels while the conflict rages at the current level,
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Military supplies risk

- **The US and Israel and some of its regional allies like the UAE could be facing a logistical crunch on many offensive and defensive weapons used to stop Iranian missiles and drones.** Many of these munitions are so complex their production cannot be scaled up quickly and require rare earths which may be hard to obtain given Chinese export controls. **The US potentially cannot keep up the pace of its use of these high-tech munitions for the full campaign that is expected.**
- There is still a possibility that the US increases the use of conventional bombs as we saw during yesterday's raids by B-52 bombers across Iran. The US could also resort to unconventional warfare, such as an electromagnetic pulse and cyber-attacks.

Iranian missile capability

- After successfully decapitating several layers of Iranian regime leadership, the US and Israel are focused on destroying:

- Iranian missile launchers, stores and factories, and
- the Iranian navy and coast guard.
- Doing so should reduce:
 - the capacity for future disruption by Iran of the Strait of Hormuz, and
 - attacks on regional allies, especially their oil and gas infrastructure.
- **A key success measure will be the number of launchers and missiles destroyed. If substantial, the US can start finding off-ramps from the conflict, if it chooses.**
- Another wild card that has been introduced is whether the US has armed and funded a potential ground force of Kurdish militias in. **Should a ground war begin, the US would likely provide air support, and this could lengthen the duration of any conflict.**

Availability of shipping insurance and naval escorts

The bottom line is that private insurance for commercial shipping in the Strait of Hormuz has dried up. **We do not believe the US government can meaningfully fill that gap any time soon. Nor does it have the military capacity to provide escorts while combat operations remain active. These announcements were instead meant to bolster market confidence.**

- The US announced yesterday that the International Development Finance Corporation (DFC) will be offering war insurance to shipping firms using the Strait of Hormuz. Treasury Secretary Bessent's name was in the release as a signaling mechanism to markets. Separately, US naval escorts were offered "as soon as possible."
- In our view, both moves were primarily intended to restore rapidly market confidence and convince the oil market that goods and crude will be flowing again sooner than expected.
- The insurance offer had the hallmarks of a temporary action to calm nerves, although there is historical precedent for the US government to offer such policies and it would fit well with the long-term plans of restoring maritime power and resource nationalism.
- **We disagree with some market participants' view that a sufficient number of commercial ships will be insured, and the US navy will provide escorts so that shipping will resume shortly.** This is not likely until combat operations have ended or been dramatically reduced.
- The Navy has said that it cannot spare any vessels for escort duty at present. We do not believe it will be possible until the hostilities are pretty much over.
- As for the insurance, the DFC released the following statement: "DFC will offer support to commercial shipping charterers, shipowners, and key maritime insurance providers to minimize market disruptions and help ensure the free flow of goods and capital. DFC is here to provide support and stability in order to ensure there are minimal disruptions to operations and markets. President Trump's decisive show of strength and fortitude in the Middle East is building the foundation for a new era of lasting peace and prosperity in the region. DFC's Political Risk Insurance and Guaranty products will help ensure commerce, capital, and energy can operate at capacity during the ongoing conflict."
- DFC is a small agency, and it is unlikely to be able to handle a surge in private sector demand from companies with which it has no prior relationship. There is only an email address on a post on X.com to get in touch with the agency. There is also an issue of taxpayer liability for such insurance, given that the DFC only has \$205 bn to lend or guarantee in total for all projects, including critical mineral investment.

- There have been discussions within the Trump administration for some time about the US providing insurance via the DFC and/or the Department of Transportation. But that is a much longer-term project to try to restore US maritime influence.

- There are two theories for why Lloyd's and other UK-based maritime insurers have ceased to offer policies.
 1. It has become impossible given Solvency II insurance regulations. We think this is correct. The risk that this conflict constitutes a "200-year event" was too high to continue to offer the insurance at any price without endangering the providers' solvency.
 2. They lack the minimum intel to make underwriting decisions. The theory is that the US has just stopped or reduced provision of key information to its Five Eyes allies—the UK, Canada, Australia and New Zealand. We are skeptical about this theory.

- Federal insurance for shipping was widely used during the Second World War, but we do not believe the US currently has the infrastructure or capacity to substantially replace UK-based commercial maritime insurers to permit crude importers to deliver.

- Another question is whether shipowners and shipping lines would even want US insurance if it were available. It might come with onerous strings, e.g., requiring that all ship captains be Americans or only from certain US-allied countries, the ships reflag to become American, and/or that the cargo can only be destined for countries that are not adversaries of the US.

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