War in the Middle East – How short will oil become?

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Due to the closure of the Strait of Hormuz, we are facing a massive supply shortage of crude oil. This could be significantly mitigated through increased use of pipelines, the release of sanctioned oil, higher production outside the region, and exemptions for selected countries, and the remaining demand is likely to be met initially from well-stocked reserves. In the longer term, however, global consumption would have to decline, which would require either another massive rise in prices or government rationing measures.

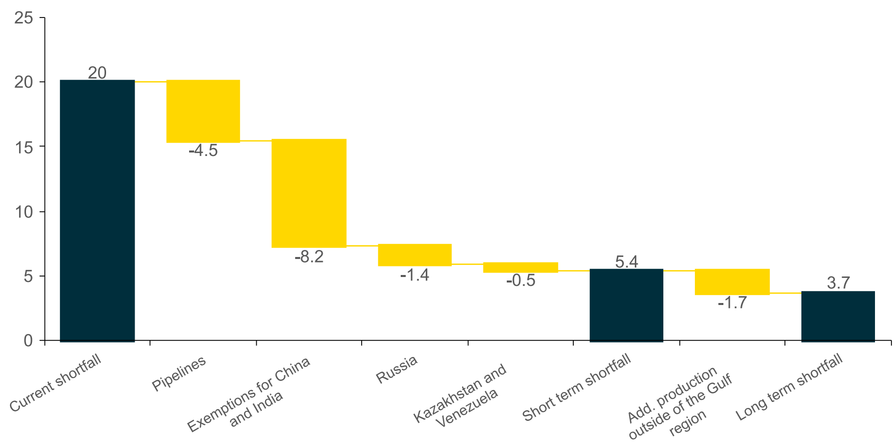
A supply shortage looms due to the blockade of the Strait of Hormuz,...

The war with Iran and the resulting blockade of the Strait of Hormuz have presented the oil market with an unprecedented challenge. After all, the Strait of Hormuz is considered one of the most critical maritime chokepoints for global oil transport. With approximately 20 million barrels per day (of which 15 million are crude oil and 5 million are petroleum products), about one-fifth of global oil consumption is normally transported via this route. The blockade threatens an immediate supply shortage, which would have far-reaching consequences for global markets and energy security. We examine the extent to which this gap can be filled.

...via a diversion through pipelines,...

A portion of the crude oil can be transported via existing and expandable pipelines, bypassing the Strait of Hormuz. In particular, the East-West pipeline in Saudi Arabia and alternative routes through the United Arab Emirates offer the capacity to divert 3.5 to 5.5 million barrels per day, according to **estimates** by the International Energy Agency (hereinafter, we assume the midpoint of this range; Chart 1). This measure is technically challenging and requires rapid coordination between producer and consumer countries. Saudi Arabia is already doing this; according to shipping data, shipments from the Red Sea export terminal are expected to rise to an average of 3.8 million barrels per day in March. This suggests that the capacity limit is not far off, and at least in the short term, the infrastructure cannot be expanded at will.

Chart 1 - The current gap can only be partially closed through supply-side measures
Oil supply shortfall caused by the blockade of the Strait of Hormuz, in millions barrels per day



Source: IEA, CREA, Commerzbank Research

... easing of sanctions, ...

The easing of existing sanctions against some oil-producing countries could also provide some relief. The US has already allowed buyers to purchase Russian and Iranian oil stored in tankers. This exemption is initially valid for 30 days. According to the IEA, the total volume of sanctioned oil stored in tankers amounts to 487 million barrels, which, if sold over the next 30 days, would amount to about 16 million barrels per day. This likely includes oil from Venezuela, for which sanctions relief is also conceivable. However, this would only narrow the gap in the short term.

If sanctions against Russia's major oil companies were lifted, however, additional supply could enter the market on a permanent basis. According to **estimates**, exports from the two main companies fell by a total of 17 million tons between December 2025 and February

2026. If the companies are allowed to ramp up their exports again, this would increase daily supply by about 1.4 million barrels, provided, however, that the recent export outages resulting from Ukrainian attacks do not prove to be permanent.

… Exemptions for China and India …

China and India, two of the world's largest oil consumers, could reach agreements with Iran allowing ships designated for them to pass through the Strait of Hormuz despite the blockade. Before the war, China and India together imported 8.2 million barrels of oil per day from the region (according to the **IEA**: China 5.4 million barrels per day, India 2.8 million barrels per day). There are already precedents for this: **Several ships bound for India** were recently allowed to use the route despite restrictions. Iran has also informed the member states of the International Maritime Organization in a **letter** that ships from "friendly" countries may pass through the strait.

…or increased production outside the Gulf region…

Finally, production in countries outside the Middle East could also be increased. The **IEA** estimates that the US and Canada together could produce an additional 520,000 barrels per day. However, this requires investment and lead times; the full effect would not be felt until the second half of the year at the earliest. During the oil crises of the 1970s, attempts were also made to increase supply by developing new fields and boosting production in non-OPEC countries, though with a time lag.

In addition, the IEA anticipates a supply increase of 1.2 million barrels per day in non-OPEC countries due to the commissioning of new projects and capacity expansions already planned for this year. In the medium term, therefore, approximately 1.7 million barrels per day of additional supply could enter the market. In the short term, there is also spare production capacity in Kazakhstan and Venezuela, should US sanctions be lifted. An expansion of production in these two countries could bring up to 500,000 barrels per day of additional supply to the market in the short term. The IEA estimates the additional spare production capacity at another 300,000 barrels per day (for Mexico, Nigeria, and others). However, the experts themselves point out that this capacity cannot be activated so quickly, partly due to maintenance work planned well in advance.

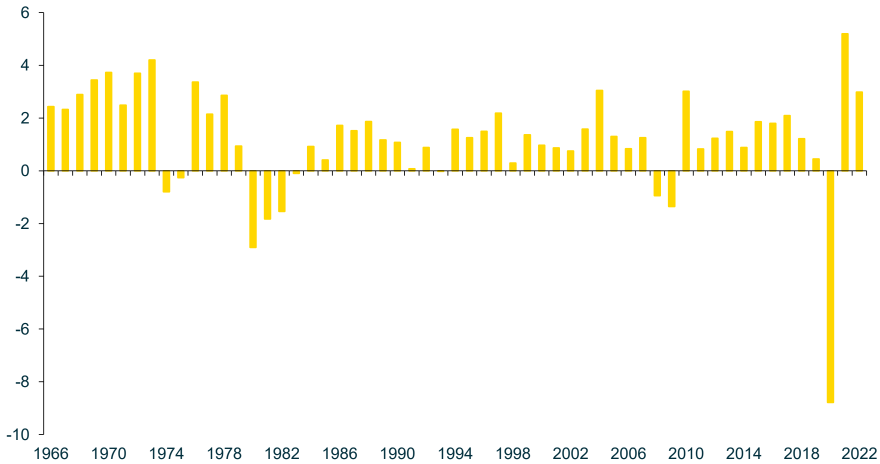
… cannot be fully filled

Even if all the measures mentioned are implemented — some of which, such as the easing of sanctions, are politically sensitive — a shortfall of approximately 5.4 million barrels per day will still remain in the short term (Chart 1). In the longer term, this shortfall could be reduced to 3.7 million barrels per day through increased production, for example in America. But even this would still be a considerable deficit, which could only be closed by a decline in demand.

Sufficient decline in demand only through government intervention

A decline in oil demand on this scale has been rare to date. During the COVID-19 pandemic, daily demand actually fell by nearly 9 million barrels (Chart 2), though this was not due to higher prices but rather to global restrictions on transportation and industrial production. Otherwise, daily demand did fall to the extent now required during the second oil crisis in the late 1970s and early 1980s, with a total decline of just over 6 million barrels (i.e. nearly 10% of consumption). However, this decline occurred over a period of three years, and as with the first oil crisis, it was largely attributable to government measures to reduce demand, such as speed limits, car-free Sundays, and the promotion of alternative energy sources.

Chart 2 - Oil demand has rarely fallen so far
Annual change in global oil demand, in millions of barrels per day



Source: Energy Institute, Commerzbank Research

To close the remaining supply gap, oil prices would have to rise so sharply that consumption would simply no longer be "worth it." It is more likely, however, that policymakers would introduce measures to reduce demand in anticipation of a shortage. Measures currently under discussion, such as a cap on fuel prices, would, however, tend to have the opposite effect. The IEA has already presented concrete **proposals** for reducing oil demand and warns that these are necessary in light of the supply gap. Some countries, particularly in Asia, have already implemented **measures to conserve fuel**.

Stocks provide sufficient buffer for now...

In the short term, however, this is unlikely to happen yet, as inventories can be drawn upon. According to the IEA, these stood at 8.2 billion barrels worldwide in January, the highest level in five years. OECD countries hold industrial and government reserves of more than 4 billion barrels. With a gap of "only" 5.4 million barrels per day, these stocks would last for two years. Higher production outside the Gulf region in the longer term, combined with a slight decline in oil demand, could extend this period even further.

...but this is unlikely to provide lasting relief

However, if inventories visibly decline and it remains unclear how the remaining supply gap can be compensated for in the long term, nervousness is likely to grow. The market would then likely demand a higher risk premium, causing the oil price to remain at elevated levels.

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