Pressure on the oil market is mounting

The renewed escalation in the Persian Gulf has pushed crude oil prices up sharply. Prices could rise further, as another transport route, the Strait of Bab al-Mandab could be closed as well. The first bottlenecks, however, are looming in some oil products whose inventories have fallen significantly.

Thu Lan Nguyen [AC]

An oil supply gap has reopened ...

The framework agreement between the US and Iran only brought temporary calm. Fighting has flared up again and the Strait of Hormuz, through which around one fifth of global oil supplies were transported before the war, is largely blocked. As a result, the price of a barrel of Brent has risen by USD 30 to most recently USD 100 per barrel.

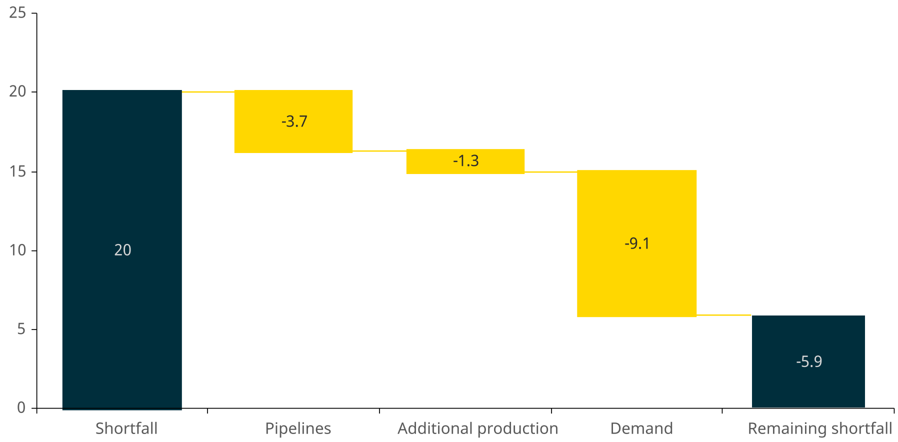
... but inventories still provide a buffer

Even higher oil prices have been prevented in recent months by the oil market proving surprisingly adaptable. The missing oil from the Gulf region amounting to around 20 million barrels per day (including oil products) has only had to be partially offset by drawing on inventories. OECD countries' stocks have fallen from around 4.1 billion barrels at the end of February to just 3.9 billion barrels at the end of May. The OECD countries thus still have a fairly comfortable buffer. We confirm our previous assessment (see **here**) that stocks will last roughly until the middle of next year.

Higher production, ...

So far, relief has been provided by the fact that production outside the Gulf region (above all in the US, Brazil and Kazakhstan) has been ramped up. According to the IEA, it averaged 1.3 million barrels per day higher between March and May than in February (Chart 1).

Chart 1 - The supply shortfall in the oil market has been absorbed primarily by lower demand
Average volume of oil between March and May, in million barrels per day



Source: Kpler, IEA, Commerzbank Research

... use of alternative transport routes, ...

Almost 4 million barrels per day were also rerouted via alternative export routes. Saudi Arabia in particular is using a pipeline to transport crude oil from the blocked east coast to the west coast on the Red Sea. In June, around 3 million barrels per day more were shipped through the Strait of Bab al-Mandab, which connects the Red Sea with the Gulf of Aden and the Indian Ocean. A further roughly 600 thousand barrels per day were rerouted by the United Arab Emirates via a pipeline to a port on the Gulf of Oman.

... and demand has adjusted significantly.

The biggest relief (9.1 million barrels) has, however, come from a surprisingly sharp decline in oil demand. According to data provider Kpler, refineries have processed significantly less crude oil. As a result, crude oil demand between March and May is likely to have been reduced by almost 6 million barrels per day on average, primarily in Asia – which was most dependent on oil deliveries from the Gulf region – in the Middle East and, to a lesser extent, in Russia. Little seems to have changed in June. Initial figures from China's statistical office show that refineries in China processed around 2 million barrels per day less than in March.

In addition, Kpler reports that demand of oil products fell by an average of 3.5 million barrels per day. Here, too, the decline is likely to have been concentrated mainly in Asia, as some oil products became scarce in the region's petrochemical industry. According to IEA data, demand for oil products in the Asia/Oceania region fell by almost 20% between February and April, while the decline for the OECD countries as a whole was only around 5%. The IEA estimates that demand bottomed out in May, with a recovery setting in from mid-June.

But new supply disruptions are looming …

Lower demand, re-routing via pipeline, higher production in countries outside the Gulf region – the oil market has been able to absorb the missing supply from the Gulf region well in recent months; widespread supply shortages and massive price spikes towards USD 150 have been avoided. For the coming months, however, new supply outages are emerging that could necessitate a sharper inventory drawdown and/or price increase.

Iran has threatened to block the Strait of Bab al-Mandab as well, with the help of allied Houthi rebels. According to Kpler estimates, 7–7.5 million barrels per day of oil were shipped through this strait in June. The Houthi rebels have already announced a naval blockade against Saudi Arabia, which recently shipped around 3 million barrels per day through the Strait of Bab al-Mandab. If the government in Tehran were to succeed in completely closing the Bab al-Mandab Strait, the supply gap of currently 5.9 million barrels could, in the worst case, widen by up to 7.5 million barrels per day[1].

… and the supply of oil products already appears significantly tighter …

Conditions are already more fragile for oil products such as diesel or jet fuel than for crude oil. Crack spreads – i.e. the price differentials between oil products and crude oil – have risen since the end of June and signal a tight supply situation (Chart 2).

Chart 2 - Oil product prices have not fully followed the decline in crude oil prices
Prices of various oil products, index 1 January 2026 = 100

Source: Bloomberg, Commerzbank Research

This is mainly due to the constrained refinery activity in the Gulf states, which is also a consequence of war damage. As a result, product shipments from the Gulf region in June, when the Strait of Hormuz was reopened following signature of the framework agreement, climbed to only just under half of their pre-war level. By contrast, crude oil exports from the Gulf states in June reached three quarters of their February level, according to the IEA.

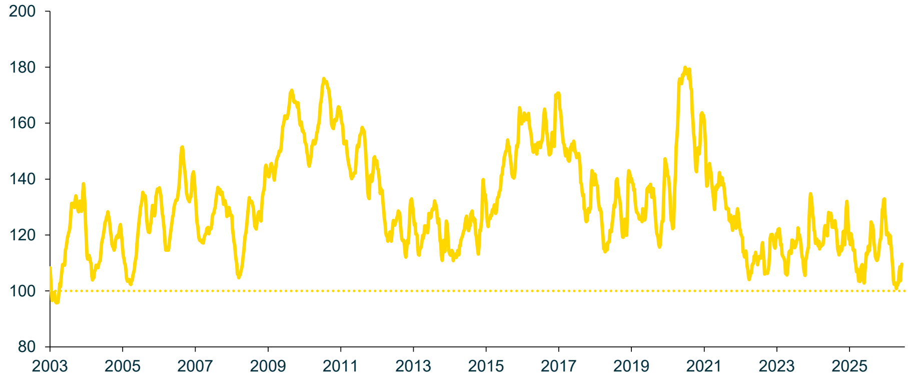
In addition, there has been a marked decline in exports of oil products from Russia, as crude processing in Russian refineries had to be significantly curtailed following numerous Ukrainian drone attacks. For a few weeks now, Russia has also imposed an export ban on diesel, initially in force until the end of July. Europe has not imported diesel from Russia for more than three years. Nevertheless, diesel supply in Europe is tightening. This is because former buyers of Russian diesel such as Turkey, North Africa and Latin America must now source diesel elsewhere, competing directly with importers in Europe.

… and could tighten further outside the US

Another factor pointing to further strain on oil product markets in the coming weeks is that the US will likely export less diesel and jet fuel. Since the end of February, the US has increased exports of oil products far more strongly than production, with gasoline inventories, for example, in early July as low as they were 14 years ago (Chart 3). This raises the prospect of rising US gasoline prices ahead of the midterm elections in autumn. This argues for the US having to redirect more refining capacity towards gasoline for the domestic market in the coming weeks and, correspondingly, exporting less diesel and jet fuel.

Chart 3 - Diesel, jet fuel & others: US inventories at their lowest level since 2003

US inventories of middle distillates, in million barrels



Source: EIA, Bloomberg, Commerzbank Research

Conclusion: Risks continue to rise – especially for oil products

All in all, global crude oil inventories still appear comfortable. However, a possible closure of the Bab al-Mandab Strait could push crude prices up further. On the oil product markets, the situation is already more strained. If the US reduces its exports for fear of its sharply depleted domestic inventories, regional shortages – particularly of diesel and jet fuel – could occur later this year.

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[1] Ships could use the Suez Canal to bypass the strait, though this would entail longer transport routes and therefore higher costs. (back to text)

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