Oil shortage – how much higher will prices have to go?

The hoped-for reopening of the Strait of Hormuz has been delayed, which is significantly reducing the supply of oil. We are examining the extent to which rising oil prices dampen demand and thereby narrow the supply gap.

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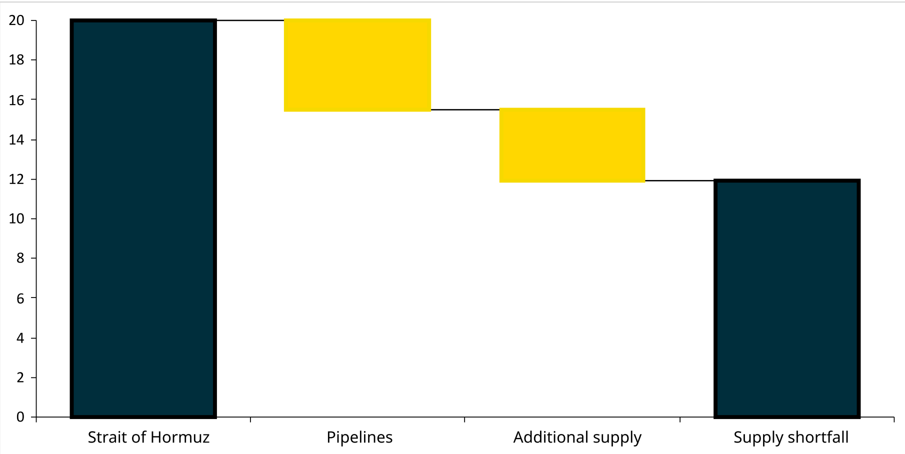
Higher oil prices are curbing consumption, ...

The closure of the Strait of Hormuz has significantly reduced supply on the global oil market. After all, approximately 20% of global oil supply previously passed through this strait. Only a portion of this supply can reach consumers via alternative routes or be replaced by increased production in other regions—such as Kazakhstan. Overall, without the Strait of Hormuz reopening, daily oil supply on the global market is likely to be about 12 million barrels per day lower in the long term than it was before the start of the Iran War (Chart 1).[1]

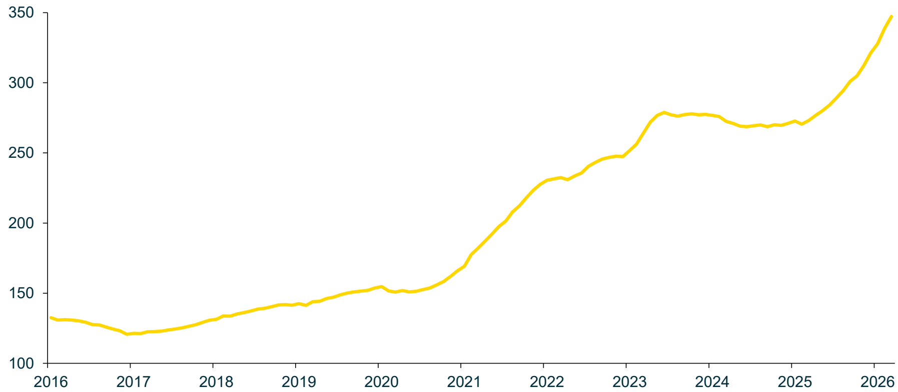
Chart 1 - The blockade cannot be easily offset
in million barrels per day



Source: Commerzbank-Research

If the Strait of Hormuz remains closed, oil demand will have to adjust to this reduced supply. There are already early signs of this: In March, more than 100,000 electric vehicles (including plug-in hybrids) were newly registered in Germany—more than in any other month since 2024—and German airlines have already canceled thousands of flights: Furthermore, sentiment indicators point to a noticeable economic slowdown, which will cause companies to consume less energy. This comes at a time when low-emission technologies are becoming increasingly popular anyway. As a result, exports of these goods from China continue to rise unabated (Chart 2).

Chart 2 - Chinese exports of green technology are on the rise
Monthly exports of green technology from China to the rest of the world, 12-month moving sum, in billion USD



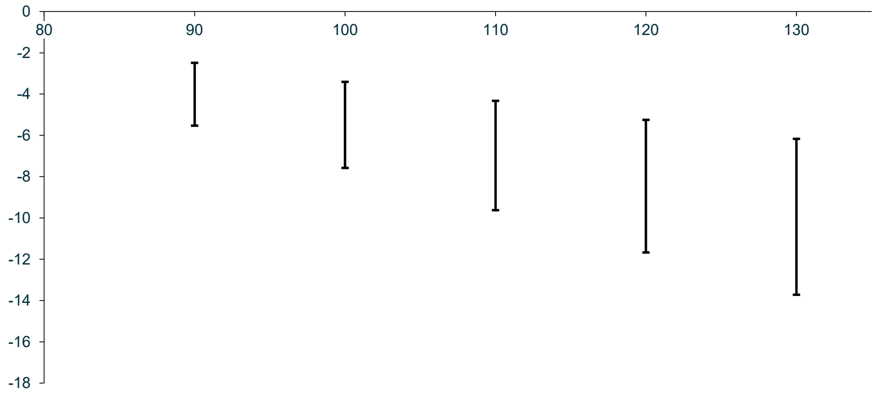
Source: National Bureau of Statistics of China, Commerzbank-Research

... but the reaction to the current price ...

But are current oil prices sufficient to close the supply gap through lower demand? The answer to this question is fraught with uncertainty. This is because oil demand is determined by a multitude of factors (economic conditions, preferences, expectations) that simultaneously influence consumer behavior, and whose impact cannot be clearly distinguished from the effect of a change in the oil price. That is why we have evaluated five well-known studies whose results, in our view, are most applicable to the current situation. Chart 2 shows the magnitude by which daily oil consumption is projected to decline after one year at a given oil price (x-axis).[2]

Chart 3 - Demand could drop significantly

X-axis: Assumed oil price for one year in USD; Y-axis: Decline in Mb/d



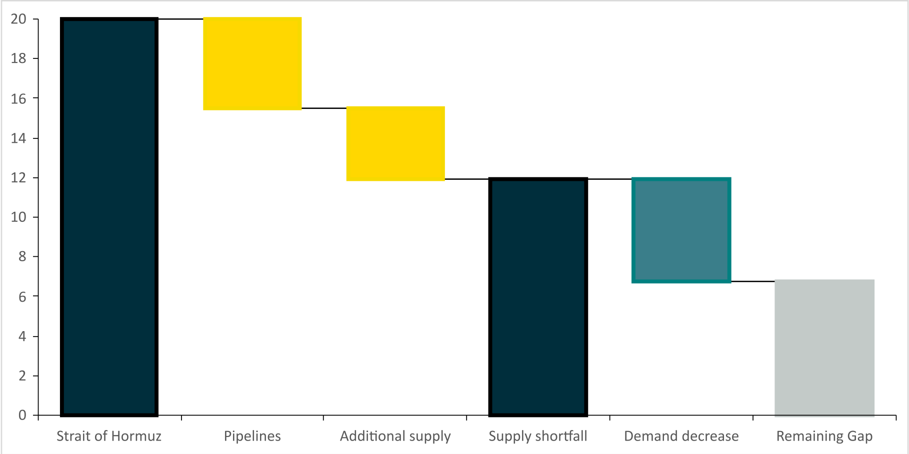
Source: Commerzbank-Research

… is not enough to close the supply gap

The range of results across the studies is considerable. With the price of Brent crude at USD 110 per barrel, the decline in demand ranges from just over 4 million barrels to just over 10 million barrels per day—neither of which is sufficient to offset the decline in supply. Especially since we assume that the actual effect is likely to be at the less negative end of the range—that is, closer to 4 million barrels than to 10 million barrels. This is because the studies we have reviewed generally examine the response of oil consumption in specific groups of countries, and unlike the world as a whole, individual countries can, for example, replace oil imports with imports of energy-intensive goods such as processed metals. Furthermore, the studies we have reviewed do not extend to the present day but often examine earlier oil price shocks, when consumers were able to switch to other energy sources or adjust their behavior more quickly. Given the economy's lower oil intensity, demand is unlikely to react as strongly to price changes as it did back then. Overall, we estimate, for example, that daily demand for oil would likely decrease by about five million barrels per day over the course of a year if the average oil price were USD 110.[3] In addition to the pure price effect, the income effect is likely to play an important role here; that is, higher oil prices are likely to increasingly weigh on the economy, thereby further dampening demand.

Chart 4 - Who will compensate for the Strait of Hormuz?

Million barrels per day; assumption regarding decline in demand: 75% increase in oil prices



Source: Commerzbank-Research

What happens if the Strait of Hormuz remains closed for an extended period?

Clearly, this is not enough to offset the reduced supply in the event of a prolonged closure of the Strait of Hormuz. For a time, the remaining shortfall might be smaller by drawing on reserves or granting exemptions to individual ships from the blockade. In the medium to long term, however, this is likely to reach its limits. Instead, demand would have to fall further.

Theoretically, this could be achieved through rationing. On the one hand, however, this would not be particularly efficient. More importantly, though, it is unlikely that a significant number of countries could agree on such measures. This leaves only the option of allowing the price mechanism to continue to operate. Part of the savings would likely result from the fact that, in the longer term, demand would react more strongly to the price increase that has already occurred than is the case in the short to medium term. In addition, however, oil prices would likely have to rise significantly once again, which in turn would further weaken the economy and push inflation even higher. Based on the study's findings, oil prices would have to rise meaningfully above the recent high of USD 125 to balance supply and demand in the event of a permanent closure of the Strait of Hormuz.

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[1] To this end, we assume—based on the additional supply of 3.6 million barrels per day—that sanctions against the two Russian oil companies would be eased. (back to text)

[2] Cf. **Fawcett und Price (2012)**, **Cooper (2003)**, **Caldara et al. (2016)**, **Helmi et al. (2024)** und **Gao et al. (2020)**. (back to text)

[3] This corresponds to a price elasticity of demand of -0.07. In concrete terms, this means that if the price rises by 10%, demand for oil falls by 0.7%. In our example, the price jump from about $63 at the start of the year to about $110 most recently—an increase of just under 75%—thus leads to a decline in demand of slightly more than 5 million barrels per day. (back to text)

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