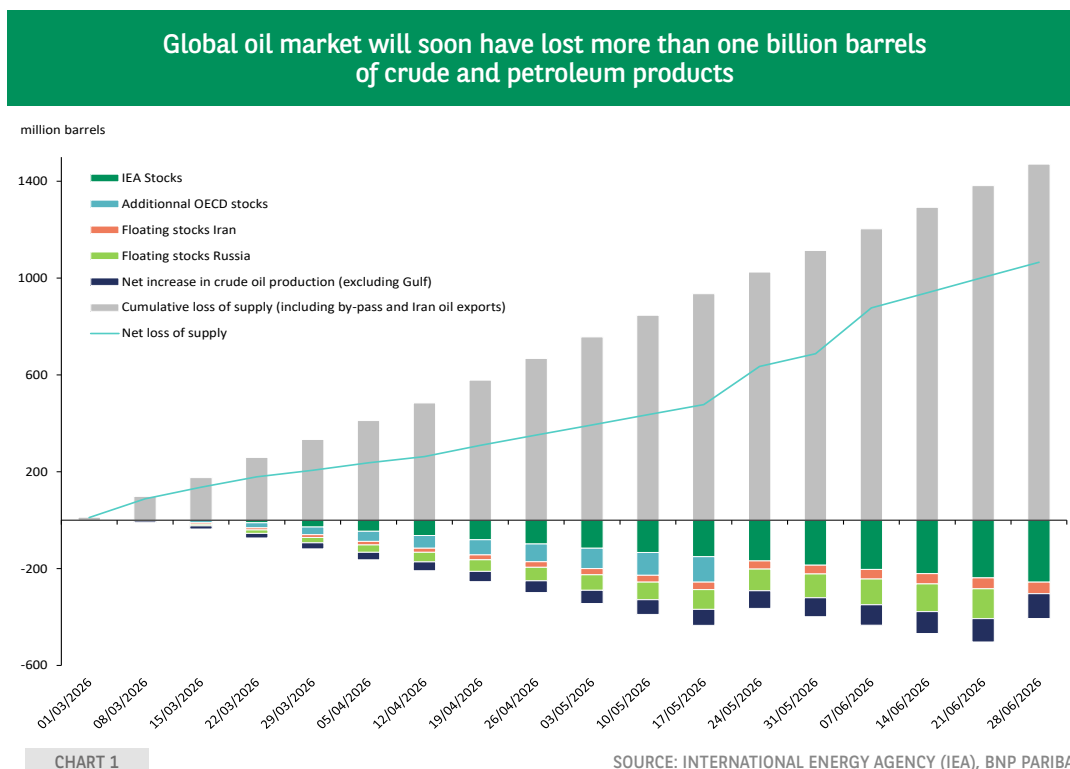


BLOCKADE OF THE STRAIT OF HORMUZ: THE OIL MARKET SOON TO RUN OUT OF OPTIONS

Pascal Devaux



The blockade of the Strait of Hormuz over the past two and a half months has significantly reduced the amount of oil available globally. The use of regional bypass, and the release of commercial stocks and strategic reserves are only partial and temporary solutions. Without the restoration of oil flows through the strait, the growing shortfall in petroleum products will accelerate the rise in oil prices and destruction in global oil demand.

A considerable volume of oil is out of the market despite the use of alternative routes

Under normal circumstances, nearly 19.8 million barrels per day (mb/d) of crude oil and refined products pass through the Strait of Hormuz. Due to the blockade, part of this flow is being diverted through existing alternative transit infrastructures. Around 7 mb/d are thus being diverted through various bypass pipelines¹.

In addition, there were 2 to 3 mb/d of Iranian exports via the Strait until the US blockade was imposed on April 13th. Taking these bypass capacities into account, the volume of oil production absent from the market is estimated at around 9 mb/d, which remains considerable.

Massive stock drawdowns offer temporary relief

In response to this growing oil supply shortfall, the International Energy Agency (IEA) announced on March 11th the coordinated release of strategic stocks by member countries. Totalling a record 426 million barrels, these stocks consist of 70% crude oil and 30% refined products. Uncertainties remain regarding the pace at which these stocks will be released, but our assumption is at a rate of 2.5 million barrels per day. Added to these volumes are a further 100 million barrels of oil mobilised by other OECD member countries (Japan and South Korea). At the same time, the United States has temporarily eased certain sanctions on Russia's seaborne shipments (which may now be traded until the end of June) and Iranian shipments already in transit (thus allowing access to floating stocks). Finally, increased production in other oil-producing countries (the United States, Canada, Argentina, etc.) is also helping to ease global supply pressures.

Thus, the estimate of the net quantity of oil lost to the market takes into account the capacity to bypass the strait as well as the support measures implemented (*chart 1*).

¹ The East-West pipeline from Saudi Arabia to the port of Yanbu on the Red Sea, the Habshan-Fujairah pipeline from the United Arab Emirates to the Gulf of Oman, and the Kirkuk pipeline used by Iraq to the port of Ceyhan in Türkiye.

Is the surge in US exports sustainable?

Other external factors are helping to limit, at least temporarily, the effects of the current market disruptions and to contain price rises to a certain extent.

i/ Firstly, market disruptions and rising prices are reducing global oil demand. According to the latest IEA report, it could contract by 2.4 mb/d during Q2 2026 and decrease by a total of 0.42 mb/d over the year 2026 compared to 2025, reaching 104 mb/d.

ii/ Secondly, the United States has significantly increased its exports of crude oil and refined products. These exports reached an all-time high of 14.2 mb/d during the week of April 24th, compared with an average of 10.7 mb/d in 2025, according to the US Energy Information Administration (EIA). However, the sustainability of this US effort is raising questions. Maintaining a high level of exports implies increased drawdowns on domestic stocks (chart 2), which are falling at a very high rate (an all-time high during the week of May 8th). This is unsustainable in the short term, and could fuel market concern.

Furthermore, according to the US EIA, the retail price of gasoline in the United States now exceeds USD 4.50 per gallon. However, this trend is economically costly, particularly as a seasonal rise in fuel consumption begins. Furthermore, it could also be costly from a political perspective as November mid-term elections approach, at a time when US households' purchasing power is already weakened by persistently high inflation. It is therefore uncertain whether the US will continue this policy of sharply increasing exports for more than a few weeks, particularly for refined products.

iii/ Finally, the decline in Chinese imports of oil is limiting upward pressure on global prices, without, however, drastically reducing China's commercial stocks and strategic reserves (estimated at 1.4 billion barrels). According to some estimates, China has reduced its crude oil imports by an average of 3.6 million barrels per day (they are now reportedly at 8.1 mb/d compared with 11.7 mb/d before the war). This is notably the result of a decline in activity in the petrochemical and refining sectors in April (year-on-year). This contraction is likely to be temporary.

Markets are taking stock of the shock

Markets now seem to be taking the full extent of the current supply shortfall more clearly: nearly a billion barrels are estimated to be missing since the closure of the strait. This is particularly reflected in the narrowing of the spread between the price of a barrel of 'physical' oil (dated Brent, the nearest physical delivery) and the Brent futures price on international markets (now less than USD5 per barrel). Furthermore, Brent futures prices (maturing in December 2026) are trending upwards and remain close to USD92 per barrel, having reached their highest level on 4 May (chart 3).

Temporary solutions are running out of steam, raising market concerns. Tensions in the global oil market will continue to rise to the point that the gap between supply and demand becomes too wide for temporary solutions to be sufficient to mitigate it. For the United States, the drawdown of strategic reserves (Strategic Petroleum Reserve) and commercial reserves held by private companies could heighten concerns from the end of Q2 onwards. The European Union, for its part, could face an abrupt market adjustment for refined products in June (through supply disruptions). Around half of the barrels to be delivered via the oil stocks released by the IEA to supply the market remain available. Yet the seasonal rise in consumption of petroleum products during the summer in the northern hemisphere risks rapidly depleting them. Therefore, the possibility of bringing an additional volume of oil to the market could be evoked, but it would be at the risk of reducing stocks to an alarming low level (which is difficult to estimate at this stage) and could push the market even further towards extreme pricing.

Pascal Devaux, with the help of Clara Ngo Ba Do (intern)
 pascal.devaux@bnpparibas.com

The massive US stock release will be difficult to maintain in the short run

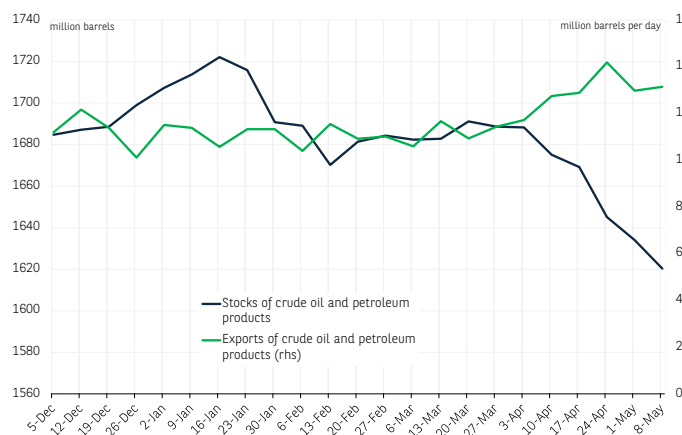


CHART 2 SOURCE: EIA, BNP PARIBAS

The energy shock is better priced by the market

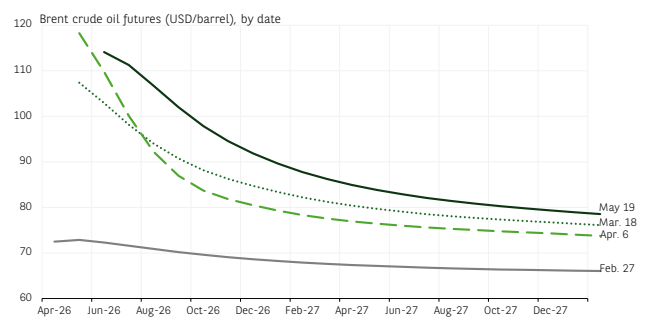


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