

EcoFlash

Reopening of the Strait of Hormuz: the oil market between short-term relief and persisting uncertainties

The United States and Iran have reached an agreement to extend the ceasefire by 60 days and gradually reopen the Strait of Hormuz to traffic. The oil markets reacted swiftly: Brent prices have fallen by around 7% since the announcement and by 32% from a peak reached on 29 April. However, they remain 27% above the average for January. Despite this optimism, a comeback to normality for the oil market is likely to take several weeks.

The reopening of the Strait of Hormuz will not be immediate

Technical and logistical constraints remain. Although various measures have been taken in recent weeks to increase traffic through the strait, around 500 vessels are currently stuck to the west of the passage. Clearing the area of mines is a prerequisite for the resumption of smooth traffic flow. Furthermore, it will take several weeks to restore all oil facilities to working order, or even months in the case of Iraq (OPEC's second-largest producer).

Limited downward impact on European inflation

According to a relatively optimistic scenario, the fall in oil prices is expected to continue. Oil prices could fall quite rapidly and significantly in the short term, settling within a range of USD 70 to 80 per barrel. Indeed, additional oil inflows implied by the reopening of the Strait of Hormuz will meet a market characterized by a demand, which had been negatively impacted by the crisis, particularly in Asia, which is the region most dependent on Middle Eastern hydrocarbons. An initial assessment of the macroeconomic consequences of this agreement could lead us to revise downwards the contribution of energy to *headline* inflation in the Eurozone by around a quarter of a percentage point for 2026. This decline in the contribution of energy could become more pronounced in 2027.

Short-term risks linked to the build-up of imbalances in the oil market

However, the short-term outlook remains uncertain. This agreement is only the beginning of a difficult negotiation process where both parties seem unlikely to compromise. In this context, a resurgence of sporadic tensions in the event of a breakdown in talks would disrupt the resumption of traffic through the Strait.

Moreover, this agreement has been signed at a time where the balance of the global oil market is precarious and seems increasingly unsustainable. Since the first ceasefire agreement last April, two factors have helped to cushion the impact of the market's net loss of around 7 million barrels per day: 1/ a rapid acceleration in the drawdown of strategic oil reserves within the OECD (primarily in the United States, where the weekly drawdown averaged 8 m/b in May), 2/ a significant fall in Chinese imports, which reached their lowest level in a decade in May. These buffers are not sustainable, and the International Energy Agency anticipates reserves reaching a critical level during July. This would have a significant upward impact on oil prices.

Persistent tensions in the European gas market

In the European gas market, this agreement is pushing prices downwards but against a backdrop of persistent tensions. The resumption of liquefied natural gas (LNG) flows will ease the pressures on the gas market, which have already been reduced by the coming on stream of additional liquefaction capacity (notably in the United States). However, the fall in prices is expected to remain limited. Around 17 per cent of Qatar's production capacity (20 per cent of global LNG trade) has been damaged. Furthermore, in Europe, demand is being driven by the ongoing stock-building campaign. We must also consider the strong demand during the summer from the Asian gas market, which is correlated with the European market.

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