What’s Hot: Oil prices begin pricing the peace

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Wichtige Erkenntnisse

- The US and Iran signed an MoU, potentially reopening the Strait of Hormuz, although key details remain unknown at the time of drafting this blog.
- Oil flows will depend on shipping security, insurance availability, sanctions relief and any Iranian controls over transit.
- Iranian production could recover from around 2.3 mb/d currently towards its pre-war level of 3.2–3.3 mb/d.
- The UAE's departure from OPEC gives it greater freedom to increase production, adding to supply risks.
- With Chinese and Japanese demand still weak, recovering supply could push the oil market into a significant surplus in 2027.

A tentative agreement, but few details

A Memorandum of Understanding (MoU) between the US and Iran was reportedly signed by President Trump on the sidelines of the G7 summit on Wednesday 17 June. At the time of drafting this blog, the details have yet to be released. Trump has repeatedly said the Strait of Hormuz should be fully open by Friday 19 June and that oil should flow normally again. The Iranian position appears more nuanced, with Iranian media describing the Strait reopening as taking place “under Iranian arrangements.

What will determine how much oil moves?

The volume of oil that ultimately moves through the Strait will depend on several factors:

- Whether Iran retains any special control arrangements;
- Whether tolls or transit restrictions are imposed;
- Who is responsible for mine-clearing and maritime security;
- Whether sanctions relief clearly protects oil importers from secondary sanctions; and
- How quickly insurers are willing to restore cover.

Insurers may need to see evidence of safe passage before restoring full cover, and the reopening of the Strait should not be mistaken for an immediate return to normal market conditions.

Shipping may restart before normality returns

As soon as the Strait reopens, some laden vessels trapped within the chokepoint may begin to move. However, a broader return to normal two-way shipping traffic could take considerably longer.

Many vessels are positioned outside the Strait and are theoretically ready to enter, but practical obstacles remain. These include securing insurance cover, ensuring shipping lanes are free of mines and clarifying the degree of control Iran may retain under any agreement. The introduction of tolls or transit fees would likely be difficult for neighbouring countries to accept.

The MoU is also expected to include some sanctions relief, although the details remain unclear. As a result, countries importing Iranian oil could still face uncertainty over sanctions compliance.

Supply could recover quickly if restrictions ease

If the main obstacles are removed, vessel traffic through the Strait could accelerate rapidly. Prior to the war, Iran was producing around 3.2–3.3 million barrels per day (mb/d) of crude oil. Production subsequently fell to around chinese mb/d as export constraints and storage limitations forced shut-ins, implying that roughly 1 mb/d of production could return as conditions normalise. More of that oil could be sanction free, depending on the conditions of the MoU.

The supply outlook is also being reshaped by the United Arab Emirates' departure from the Organization of the Petroleum Exporting Countries (OPEC) during the conflict. Outside the group's production management framework, the UAE is now free to expand output according to its own commercial and strategic objectives. Given the country's substantial spare capacity and recent investments in production, this could add further downward pressure on oil prices should market conditions permit higher exports.

While full recovery of oil production will not be immediate, the International Energy Agency (IEA) estimates on average in 2026 supply will have declined by 3.9 mb/d, following a 12.8 mb/d decline since the start of the war. That implies a substantial recovery in production during the second half of the year.

Demand is still a question mark

At the same time, Chinese and Japanese demand has been weak, with crude imports into each country falling sharply in recent months. Combined, the two countries have reduced crude imports by almost 6 mb/d. Demand from both countries may rebound once transit normalises, but there is also a risk that weakness persists.

The market could move into a larger surplus

If demand stays soft, the market could tip into oversupply. Before the war, crude oil markets were already oversupplied by around 2 mb/d. The resumption of disrupted supplies, rising Iranian exports, additional UAE production and higher output in the Atlantic Basin could all coincide with weaker demand growth.

The IEA's first 2027 balance forecast points to a significant overhang next year. Global oil demand is projected to rise by a relatively modest 2 mb/d to 105.3 mb/d, while supplies could increase by around 8 mb/d to 110 mb/d. That implies close to a 5 mb/d oversupply.

There is potential for some of that surplus to be absorbed through intentional restocking of strategic and commercial reserves that were drawn down during the conflict. However, that would likely need to be incentivised by policy. In a backwardated oil futures curve, the market provides little encouragement to inventory building, since future prices are lower than spot prices.

OPEC still has room to respond

If this all sounds excessively bearish, OPEC still has the ability to adjust policy and help rebalance the market. However, the group's ability to manage the market may be diminished following the UAE's departure, particularly if Abu Dhabi prioritises market share over price support. OPEC's demand forecasts also remain significantly higher than those of other agencies, while Saudi Arabia may be reluctant to cede market share as non-OPEC producers expand output.

The balance of risks has shifted

While the path to normalisation remains uncertain, the balance of risks has shifted materially. The market is moving from pricing a severe supply disruption towards assessing how quickly supply can return and whether demand is strong enough to absorb it. If the Strait reopens without significant restrictions and sanctions relief proves meaningful, the post-war oil market could look substantially more oversupplied than investors currently expect.

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