# Oil Markets Face a Supply Shock—and the Offsets Aren't Enough

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## Key Takeaways

- Oil prices have surged back above $100 (and remain volatile day by day) as disruptions in the Strait of Hormuz threaten roughly 20 million barrels per day of supply, and Aldo Spanjer explains why available offsets like strategic reserves and pipelines fall materially short of stabilizing the market.
- While emergency reserves and rerouting infrastructure offer temporary relief, their limited daily capacity and logistical constraints highlight a structurally tight energy system where prolonged disruptions could force demand destruction and higher prices.
- With LNG markets even more vulnerable—potentially losing 20% of global supply—and cross-commodity volatility rising, investors may consider diversified exposure through strategies like the WisdomTree Enhanced Commodity Strategy Fund (GCC) to navigate inflation and geopolitical risk.

Energy markets have once again been thrust into the spotlight. In recent weeks, geopolitical tensions in the Middle East have pushed Brent crude back above $100 per barrel and triggered sharp moves across oil, gas and refined products markets. The catalyst is simple but profound: a disruption of flows through the Strait of Hormuz, one of the most critical arteries for the global energy trade.

Roughly 20 million barrels of oil per day pass through the Strait of Hormuz, representing a significant share of global supply. When that flow is threatened—even partially—the consequences ripple quickly across markets.

How resilient is the global energy system to such a shock? And what would it take to stabilize prices?

To understand these dynamics, we spoke with Aldo Spanjer, Global Head of Energy Strategy at BNP Paribas, who provided a detailed breakdown of what is happening beneath the surface of the oil market.

## The Scale of the Oil Supply Disruption

At first glance, there appear to be several potential offsets to mitigate supply disruptions: strategic petroleum reserves, alternative pipeline routes and sanctioned barrels waiting for buyers.

Yet when placed alongside the scale of lost flows, the available alternatives appear relatively modest.

“There are a few offsets, but they are not going to get you close to the 20 million barrels per day you’re effectively losing,” Aldo explained. “It’s a patch—not a solution.”

The International Energy Agency’s strategic reserve release is the most immediate response. A planned release of around 400 million barrels sounds significant, but the math quickly reveals its limitation.

At current disruption levels, that volume would only cover around 20 days of lost flows.

Even more importantly, strategic reserves can only be released at a limited daily rate. Historically, drawdowns have averaged around 1–1.5 million barrels per day, meaning they can replace only a fraction of disrupted supply.

In short, reserve releases can buy time, but they cannot fully rebalance the market.

## Pipelines and Alternative Routes

Another potential workaround lies in pipelines that bypass the Strait of Hormuz.

Saudi Arabia and the United Arab Emirates both operate infrastructure designed to route oil exports away from the strait. The largest of these is the Saudi pipeline running from the Gulf to the Red Sea.

In theory, this pipeline has a capacity of around 7 million barrels per day. However, practical limitations reduce the usable volume.

“Pipeline capacity is one thing—but you also need ports and shipping logistics that can handle that much oil,” Aldo noted.

The Red Sea export terminal that receives these flows can handle roughly 4–4.5 million barrels per day, leaving only a few million barrels of spare capacity at best.

Even that infrastructure may not be entirely secure.

“If someone wants to disrupt the flows, these pipelines themselves can become targets,” Aldo added.

This highlights a key theme of the current crisis: logistics are as important as production. Even if oil exists in the ground, moving it safely to market is another challenge entirely.

## Production Shut-Ins and the Risk of Escalation

One of the most striking developments has been the rapid rise in production shut-ins across the region.

As export routes become constrained and storage fills up, producers have been forced to reduce output.

Current estimates suggest around 7 million barrels per day of production has already been shut in, according to Aldo.

Some of these shutdowns are precautionary, allowing production to return quickly if conditions improve. Others could take longer to restart, particularly in older fields where interruptions can damage reservoirs.

“Seven million barrels a day is massive,” Aldo said.

If the disruption persists, that number could rise further. Tanker availability is already tightening, and storage capacity in many producing countries is limited.

This makes the duration of the conflict the key variable for markets.

“The longer the war goes on, the harder the pain becomes,” Aldo explained.

## Why Oil Prices Could Keep Rising

Oil prices have already experienced dramatic volatility, swinging between $90 and $120 within a single week in the early stages of the crisis.

While headlines often focus on extreme scenarios—such as oil reaching $200 per barrel—the more likely trajectory depends on how quickly the geopolitical situation stabilizes.

If disruptions continue for months, the oil market could face a much deeper imbalance.

“If you keep it out long enough, prices will just keep ticking higher,” Aldo warned.

The reason is simple: demand destruction becomes the only effective balancing mechanism when supply is constrained.

Historically, removing 20 million barrels per day of demand from the system has only occurred during extreme events such as the COVID-19 lockdowns.

In other words, stabilizing the oil market under such conditions would likely require a global economic slowdown.

## Natural Gas: An Even Tighter Market

While oil dominates headlines, the natural gas market may face an even greater vulnerability.

Qatar is one of the world’s largest exporters of liquefied natural gas (LNG). Disruption to shipping routes in the Gulf could remove roughly 20% of global LNG supply.

Unlike oil, LNG markets have far fewer alternatives.

There are no strategic reserves for gas, and LNG export facilities typically operate near maximum capacity. This leaves little room to increase supply quickly.

“Compared to oil, gas is much more at risk,” Aldo said.

Even though most Qatari LNG flows to Asia, the impact would still be felt in Europe.

LNG markets are globally integrated. If Asian buyers suddenly scramble for alternative supply, they would compete with Europe for cargoes—particularly shipments from the United States.

That competition would push prices higher everywhere.

“LNG is global. If Asia starts bidding for cargoes, everyone pays more,” Aldo explained.

For Europe, this matters greatly. The region relies heavily on LNG imports to refill storage ahead of winter.

A prolonged disruption could leave Europe entering winter with significantly lower reserves.

## Strategy Implications for Investors

From an investment perspective, energy market disruptions reinforce the role commodities can play in diversified portfolios.

Periods of geopolitical stress often coincide with rising inflation risks, falling correlations between commodities and traditional assets, and heightened volatility across financial markets.

Commodity allocations can act as both inflation hedges and diversification tools in such environments. However, implementation matters.

The WisdomTree Enhanced Commodity Strategy Fund (GCC) is an actively managed exchange-traded fund and intends to provide broad-based exposure to the following four commodity sectors: Energy, Agriculture, Industrial Metals, and Precious Metals primarily through investments in futures contracts. The emphasis of the strategy is on diversification as opposed to having the bulk of exposure in any one of these commodity groups. If the primary outcome of the crisis ends up being volatility and a lowering of inter-commodity correlations, it could be a particularly compelling broad commodity strategy.

## Important Risks Related to this Article

There are risks associated with investing including possible loss of principal. An investment in this Fund is speculative, involves a substantial degree of risk, and should not constitute an investor's entire portfolio. One of the risks associated with the Fund is the complexity of the different factors which contribute to the Fund's performance. These factors include use of commodity futures contracts. In addition, bitcoin exchange-traded products (ETPs) and bitcoin futures are relatively new and the markets may be less developed. They are subject to unique and substantial risks, and historically, have been subject to significant price volatility. As a result, the markets for bitcoin futures and bitcoin ETPs may be less developed, and at times, potentially less liquid and more volatile, than more established commodity futures and ETP markets. While the bitcoin futures market has grown substantially since bitcoin futures commenced trading, there can be no assurance that this growth will continue. In addition, derivatives can be volatile and may be less liquid than other securities and more sensitive to the effects of varied economic conditions. The value of the shares of the Fund relate directly to the value of the futures contracts and other assets held by the Fund and any fluctuation in the value of these assets could adversely affect an investment in the Fund's shares. Because of the frequency with which the Fund expects to roll futures contracts, the price of futures contracts further from expiration may be higher (a condition known as “contango”) or lower (a condition known as “backwardation”) and the impact of such contango or backwardation may be greater than the impact would be if the Fund experienced less portfolio turnover. **The Fund will not invest in bitcoin directly.** Please read the Fund’s prospectus for specific details regarding the Fund’s risk profile.