

Vessels are seen in the Strait of Hormuz near the beach of Bandar Abbas, Iran, on July 27. Guest columnist Mark Zupan writes that roughly 20 percent of the oil consumed by the world daily (20 million out of 100 million barrels) has historically flowed through the narrow water passageway. RAZIEH POUDAT/ISNA/VIA WANA VIA REUTERS

A look at the forces shaping the price of oil



Your Turn
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Guest columnist

In retaliation for the joint air strikes launched by the United States and Israel on Feb. 28, Iran closed the Strait of Hormuz. Roughly 20 percent of the oil consumed by the world daily (20 million out of 100 million barrels) has historically flowed through the narrow water passageway.

Given that demand for oil is not very responsive in the short run to price increases, economists predicted that the price would rise by at least 100 percent from the $72/barrel price prevailing at the start of the conflict to at least $140-150/barrel in order to account for the 20 percent reduction in oil supply. However, several countervailing factors have kept the oil price from spiking so severely to date.

These factors, unfortunately, are not likely to persist. This editorial explains why not and why we are likely to soon see much higher oil prices.

Alternative Shipping Routes: Saudi Arabia has more than doubled the amount of oil it ships though an east-west pipeline that extends to the Red Sea (from under 2 million to over 4 million barrels daily), thereby bypassing the Strait of Hormuz. However, recent attacks on shipping in this alternative waterway by the Houthis have undermined the viability of this bypass.

Instead of exiting through the southernmost Bab al-Mandab Strait adjoining Yemen at the Red Sea's southernmost tip, tankers will have to head north toward the Suez Canal. This involves much more time and expense to reach Asian markets, given that fully loaded tankers are too large to transit the Suez Canal and thus oil needs to be unloaded near the canal's entrance, transported by pipeline to Egypt's Mediterranean coast and reloaded onto tankers there.

Similarly, the United Arab Emirates has been shipping nearly 500,000 more barrels per day through a pipeline to the Gulf of Oman that bypasses the Strait of Hormuz. Attacks by Iran on shipping facilities and ships associated with the pipeline's terminus at Fujairah have diminished the viability of this go-around.

Reserves: In anticipation of a possible conflict, oil shipments through the Strait of Hormuz increased appreciably from late last year until the end of February 2026 for reserve-building purposes. Moreover, countries with existing oil stockpiles have been rapidly depleting those accumulated reserves in recent months. For example, according to the Kplr research firm, U.S. oil stockpiles are now nearly 25 percent, or 250 million barrels, lower than has been the norm since 2019. If depletion rates continue, the ability to rely on such energy price shock observers will be attenuated.

China: Since the onset of the Iranian conflict, China, the world's largest oil importer, has slashed purchases by 6 million barrels per day. The extent to which this has been accomplished through dipping into their oil stockpiles (the largest in the world), relying more on alternative power sources such as coal and renewable energy, or clamping down on consumption remains unclear. The Chinese government keeps a tight lid on information about its use of reserves. Yet, there are signs that these efforts will not be sustainable for much longer. The International Energy Agency has observed recent heightened procurement efforts by China.

Alternative Production Capacity: Venezuelan oil production picked up in the months following the capture of Nicolas Maduro and his wife by U.S. forces. Russia also ramped up oil production with the onset of the Iranian conflict. Such alternative supply sources have been crimped recently on account of a massive earthquake in Venezuela and highly effective Ukrainian drone attacks on Russian oil refineries.

Temporary Truce: The June 17 truce between Iran and the United States led to a sharp uptick in oil shipments through the Strait of Hormuz. The prior blockade by the U.S. had kept more than 1.5 million barrels per day of Iranian oil from reaching global markets. After the blockade's lifting, Iran shipped 45-50 million barrels through the Strait over the next three weeks—2 .1-2.4 million barrels per day. Saudi Arabia and the United Arab Emirates likewise ramped up shipments through the Strait to 6 million barrels per day—over triple the average daily amount in the months prior to the truce. With the ending of the truce in mid-July, such direct shipments through the Strait have wilted.

TACO: In the Iran conflict's early months, traders were regularly reassured by President Trump that the fighting would be over soon. His messaging coupled with the past validity of a TACO (Trump Always Chickens Out) trading strategy put downward pressure on oil prices. The resumption of hostilities between the United States and Iran since July 7 has cast serious doubt on the validity of the president's messaging and a TACO outlook.

In sum, the countervailing factors that have limited a spike in oil prices since the U.S. and Israeli strikes on Iran began in February are attenuating. This foretells significantly higher oil prices yet to come unless the shadows presently attenuating the countervailing factors are addressed.

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