

Commodities Insight

The Oil Shock of 2026

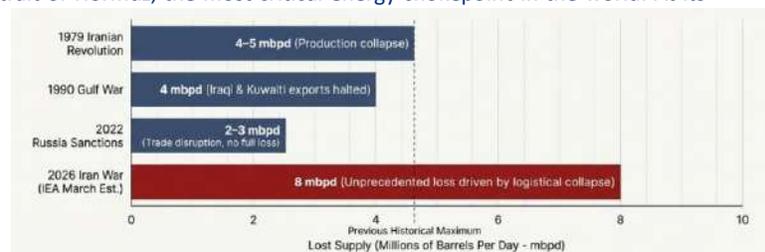
WTI Crude Weekly chart



Global oil markets have entered one of their most volatile periods since the 2022 Russia–Ukraine energy shock. Escalating conflict involving US, Israel and Iran has begun to destabilize the energy flows that power the global economy. What began on February 28, 2026, with coordinated U.S. and Israeli airstrikes targeting Iranian military and nuclear infrastructure has rapidly evolved into a wider regional confrontation. The conflict is no longer limited to military targets; it is now directly affecting the global energy system.

Iran’s response strategy is focused on restricting oil flows through the Strait of Hormuz, the most critical energy chokepoint in the world. At its narrowest point, the strait is only about 21 miles wide, yet it carries roughly one-fifth of global oil consumption and a major share of global liquefied natural gas (LNG) shipments.

According to the International Energy Agency (IEA), the conflict has triggered one of the largest oil supply disruptions in recent history, with global supply expected to drop by around 8 million barrels per day in March, driven by the collapse in shipping through the Strait of Hormuz and the resulting logistical bottlenecks across the Gulf.



Source: Motilal Oswal Research

A War That Targeted Oil Logistics

The defining feature of the current crisis is that the oil shock is being driven less by destroyed production than by the breakdown of the **transport network that moves Gulf oil to global markets**. Iran has effectively turned the Strait of Hormuz into a battlefield. Since the onset of the conflict, repeated attacks on tankers, drone strikes near key shipping lanes, and disruptions around critical export hubs and the Strait of Hormuz have directly impacted oil flows and logistics. While not all infrastructure has been permanently damaged, the heightened security risks and intermittent halts at major Gulf ports have tightened supply chains, driving volatility and supporting prices.

Gulf Production Is Being Shut In

Iran’s retaliatory strikes following the U.S.–Israeli attacks have targeted energy infrastructure and shipping across the Persian Gulf. Major producers including Saudi Arabia, Iraq, Kuwait, the United Arab Emirates (UAE) and Qatar have been forced to scale back output as export routes remain constrained.

When tankers cannot leave ports, storage tanks quickly fill up, forcing producers to cut production. Restarting these oil fields will not be immediate even if the conflict ends as restoring operations could take **weeks or even months**, depending on the duration of the shutdown and the technical complexity of each field.



Source: Mottal Oswal Research

The UAE, OPEC's third-largest producer, has reportedly cut output by more than half after its national oil company implemented widespread well shut-ins. Drone attacks have also forced temporary suspensions of crude loading at **Fujairah**, a critical export hub located just outside the Strait of Hormuz. Meanwhile, China's decision to restrict refined fuel exports has removed a key supplier of gasoline, diesel, and jet fuel from global markets, underscoring how countries are prioritizing domestic energy security amid heightened uncertainty. This comes at a time when crude flows are already constrained, amplifying the broader tightness across energy markets.

Strategic Reserve Lifeline

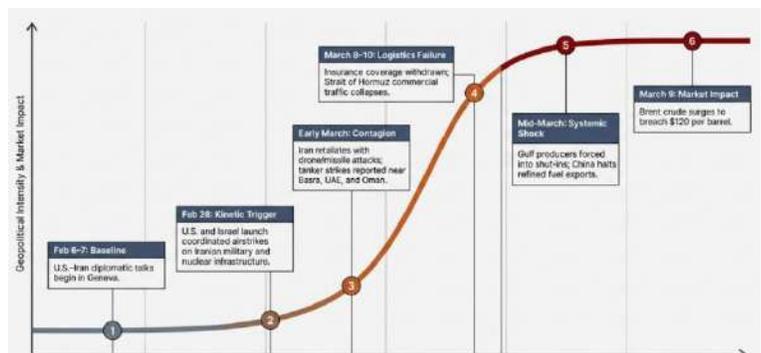
In response to escalating crisis, the IEA approved the **largest coordinated emergency oil release in history**. Member countries have agreed to release **400 million barrels** from strategic petroleum reserves. The US is expected to contribute nearly half of the total, while Japan plans to release roughly **80 million barrels**. The objective is to stabilize markets and reassure that governments are prepared to deploy emergency supplies if Middle Eastern exports remain disrupted. While the reserve release would only cover **roughly three weeks of disrupted flows**, IEA has vowed to increase the quantum of release from SPR's if required which adds some additional pressure on market sentiments, which are already fragile.

Risk of Economic Demand Destruction

Immediate concern remains supply disruption, markets should also be concerned that sustained high prices could begin to erode global energy demand. Governments across Asia have already begun preparing contingency measures ranging from refinery run cuts to fuel conservation policies aimed at limiting domestic consumption. If the disruption persists and prices remain elevated, demand destruction could emerge as a secondary headwind for the oil market, potentially slowing economic activity.

The Strait of Hormuz Remains the Critical Variable

Ultimately, the direction of global oil markets now depends on one question: when or whether the Strait of Hormuz fully reopens. **For now, markets are attempting to price an event whose final scale remains uncertain**. Partial disruptions to tanker traffic could significantly tighten global oil balances, particularly if export flows from major producers such as Saudi Arabia, Iraq, Kuwait and the UAE remain constrained. Even if the war subsides, restoring confidence in Gulf energy infrastructure may take far longer. Shipping insurers, tanker operators and energy companies are unlikely to resume normal operations until security risks decline significantly.



Source: Mottal Oswal Research

Recent developments suggest that disruptions may not remain uniform across all importers. Some vessels are being allowed to transit the Strait of Hormuz, raising the possibility that certain nations could secure limited shipping access through bilateral understandings with Iran. If such arrangements continue, oil flows may shift away from normal market trading toward politically negotiated access, allowing partial supply to continue despite the ongoing conflict. Moreover, given the heavy reliance of Middle Eastern economies on oil revenues, a prolonged and complete disruption to exports appears unsustainable, supporting the case for a gradual normalization in flows even amid conflict.

Now in the third week of the war, a significant portion of the initial supply shock appears to be priced in. While geopolitical rhetoric remains elevated, further escalation alone may not be sufficient to sustain higher prices unless it translates into tangible disruptions to production, exports, or critical shipping routes. In absence of any further updates in escalation in these tensions we could see crude prices taking a breather and consolidating near the pre-war levels.

However, until there is clearer visibility on supply bottlenecks and the intensity of the US–Israel–Iran conflict, along with broader Middle East involvement, prices are likely to remain supported near lower levels. A sustained move in WTI above \$102 could pave the way for a further upside of around 10%.

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