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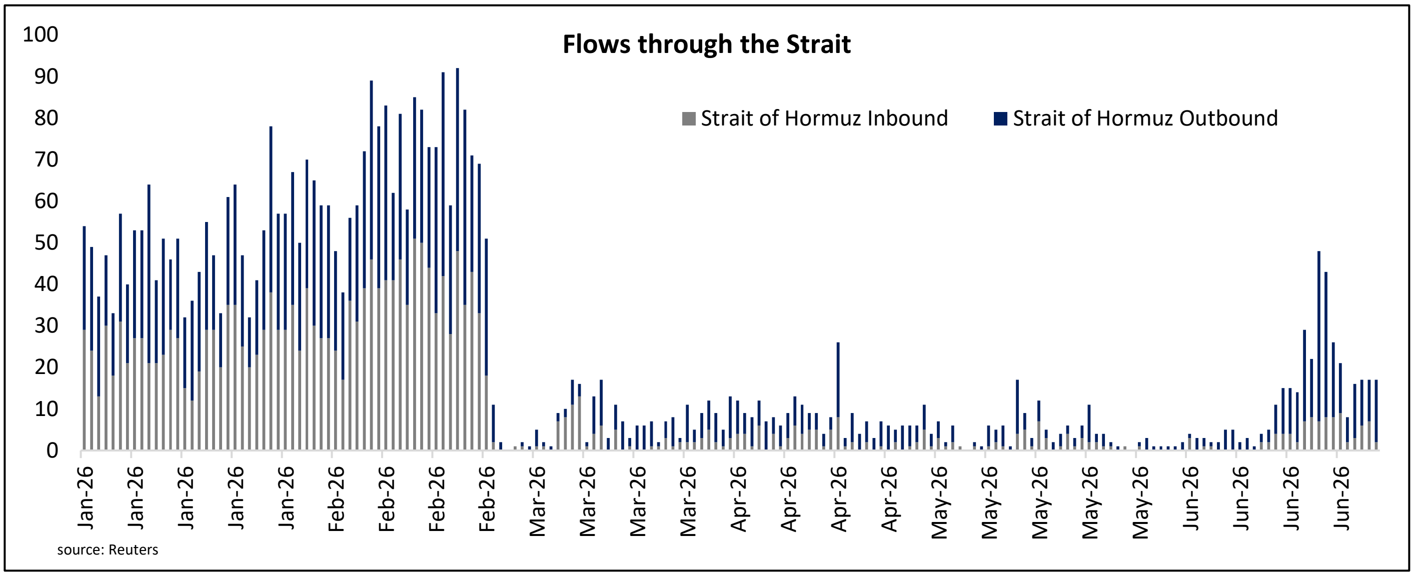
CRUDE OIL QUARTERLY



WTI crude has plunged from its April peak of nearly $118/bbl to below $70/bbl in early July 2026, with MCX crude mirroring the decline. The initial sell-off was driven by growing optimism surrounding US–Iran diplomatic negotiations, as successive rounds of talks and increasingly constructive rhetoric led markets to price in a lower geopolitical risk premium.

However, the subsequent slide below pre-war price levels was triggered by a series of developments that reinforced the narrative of an imminent supply recovery: US–Iran Memorandum of Understanding (MoU) signed on June 17, 60-day waiver on Iranian sanctions announced on June 22, and the gradual movement of previously stranded tankers through Strait of Hormuz. Together, these developments convinced the market that supply normalisation was not only underway but, would be swift and structural.

That interpretation, however, appears premature. Recent price action reflects an aggressive repricing based on expectations rather than evidence of a lasting improvement in market fundamentals. While geopolitical risks have eased, the assumption that global oil flows have fully normalised overlooks several unresolved operational and policy constraints that continue to pose meaningful upside risks to prices.

Market has largely treated the recent events as a geopolitical disruption, when in reality they remain a production and logistics disruption. Geopolitical crises can ease relatively quickly through diplomacy and ceasefire agreements. Physical disruptions, however, operate on an entirely different timeline. Restoring production capacity, normalising export logistics, rebuilding inventory buffers, repairing infrastructure, and repricing of the insurance markets are processes measured in months not days. The ceasefire, therefore, should be viewed as the beginning of the recovery process rather than its completion.

At the same time, market is overlooking a fundamental asymmetry: demand typically responds almost immediately to lower prices, while supply can only recover as quickly as geopolitical developments, operational constraints, and infrastructure permit. Mismatch between these two timelines creates potential for a tighter market than current prices imply. Let's dig deep into some ongoing events and its potential impact on Crude prices.

What Happened at the Strait??

Strait of Hormuz normally carries around 20 mb/d of crude and condensate, accounting for roughly one-fifth of global seaborne oil trade. Around 94% of these volumes originate from Saudi Arabia, Iraq, the UAE, Iran, and Kuwait. While alternative export routes exist, they are far from sufficient. Saudi Arabia's East-West Petroline and the UAE's Habshan–Fujairah pipeline together can transport less than 5 mb/d, while Iraq's southern Basra exports have no viable bypass.

At the peak of disruption, crude flows through Strait fell from around 18 mb/d in February to an estimated 2.3 mb/d by March. By early June, flows did recover but much of this improvement relied on ship-to-ship (STS) transfers in the Gulf of Oman rather than normal tanker traffic. STS operations are slower, costlier, and capacity-constrained i.e. a workaround, not a restoration.

Signing of the US–Iran Memorandum of Understanding (MoU), subsequent sanctions waiver, and gradual return of tanker movements convinced markets that supply normalisation was well underway. In reality, recovery remains partial and fragile.

The durability of the MoU and the broader ceasefire framework remains uncertain, making it premature to conclude that the physical disruption to Gulf oil flows has fully passed.

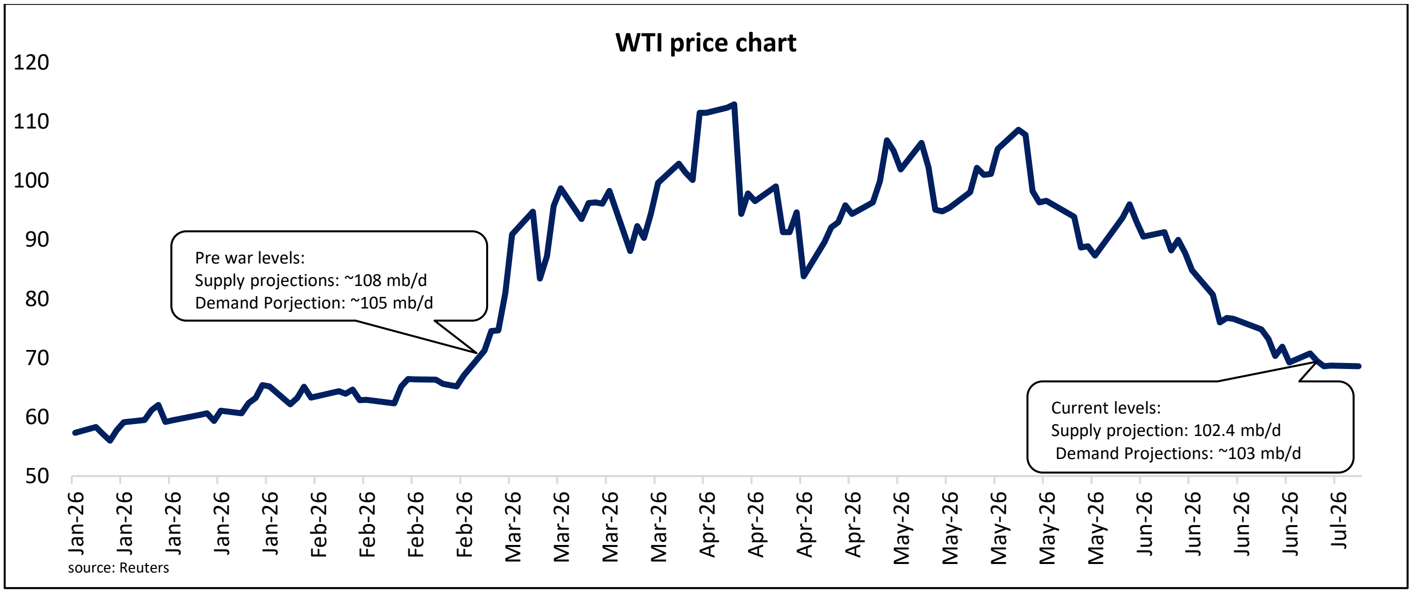
Weekend That Exposed the Fragility

Towards the end of June end, situations demonstrated precisely why the ceasefire should be priced as a conditional, fragile process rather than a settled outcome. Following reports of fresh US and Iranian military strikes, Iran launching missiles and drones at US military sites in Kuwait and Bahrain, Brent spiked intraday before reversing when both parties agreed the same day to halt hostilities and resume technical talks. This price behaviour, a spike followed by a full reversal within hours, is being widely interpreted as market resilience. It is, in reality, overlooking the underlying risks.

Speed of de-escalation on this particular occasion tells you nothing about the speed of de-escalation on the next one. What this episode demonstrates is that the underlying triggers for re-escalation have not been removed; they have been temporarily suppressed. Iran's leverage, Strait, remains intact and fully functional as a coercive instrument. Iran did not remove its mines. It agreed to talk.

While flows have restored somewhat in recent times they are still a managed, limited corridor, not a free waterway. This is supply trickle, not supply normalisation.

Supply s. Demand: The Asymmetry



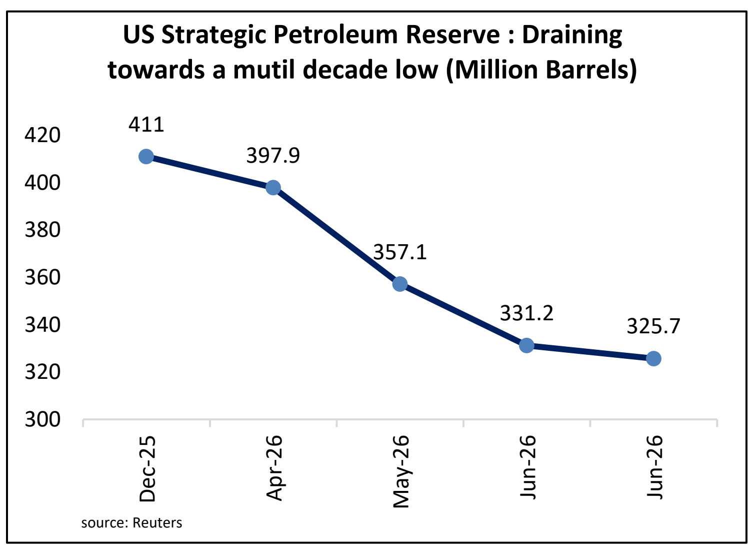
Before war, the IEA projected 2026 global supply at 108.7 mb/d and demand at approximately 104.9 mb/d. By the June 2026 IEA, those numbers had moved to 102.4 mb/d and 102.9 mb/d respectively. Supply has been destroyed by 6.3 mb/d. Demand has contracted by approximately 2.0 mb/d. The ratio is 3.15 to one. This asymmetry is not merely a historical statistic, it is a forward signal.

When both supply and demand begin recovering simultaneously, as they will once ceasefire conditions ease product availability, demand will recover first and faster because it responds to price signals. Supply will lag because it responds to physical reality: mines, insurance costs, damaged reservoirs, depleted tanker fleets, and sovereign commitments that remain to be tested. In the gap between those two recovery curves sits a demand-supply deficit. And critically, that deficit will arrive at a moment when the strategic inventory buffer, the mechanism designed to absorb exactly this kind of gap, has already been heavily depleted.

Inventory Depletion: A Genuine Concern

The US Strategic Petroleum Reserve stood well below 330 million barrels by end of June, its lowest level since 1983, down from over 410 million at the end of 2025. The US is mid-way through releasing 172 million barrels as part of a 400-million-barrel coordinated release with other IEA members.

At a drawdown pace of roughly 9 million barrels a week, there isn't much room left before the reserve hits levels where further releases get physically harder to manage.



This matters because the SPR exists for precisely these kinds of disruptions, to bridge the gap between a supply shock and its resolution. Today, that bridge is far smaller than it was before. If the ceasefire stumbles another strike, a delay in demining, the world would face a renewed supply gap with far less cushion to absorb it than it had the first time around. Therefore, governments and commercial participants are likely to rebuild strategic and commercial inventories that were drawn down during the disruption, both to restore depleted buffers and improve resilience against future supply shocks, creating an additional source of demand once supply stabilises.

The Hidden Demand Stimulus

The most underappreciated dynamic in the demand recovery isn't the headline price decline — it's that Gulf crude coming back online is a demand stimulus, not just a supply event. Dated Brent spiked to an all-time high of roughly $145/bbl in early April before collapsing to around $71/bbl by early July, as Strait of Hormuz flows gradually normalized. But the bigger story sits beneath that headline number. When the Strait shut down, Asian refiners had to scramble for substitute barrels from Norway, the US Gulf, and West Africa, paying record premiums that hit $11/bbl on marker grades like Mars and Johan Sverdrup in early March, spiking further to $30–40/bbl on some WTI Midland cargoes into Asia by April. Asian refineries are largely optimised for Middle Eastern medium and medium-sour crude grades. While they can process lighter, sweeter substitute barrels, doing so is often less economical and may reduce refining efficiency or alter product yields.

The demand-side damage was severe and well-documented: According to Kpler, Chinese seaborne imports fell by around 3.6 mb/d between February and April, while Japan, South Korea and India also recorded significant reductions as refiners cut runs and sought alternative supplies. As Gulf crude becomes available again at normal pricing, that layered cost relief acts like a price cut for Asian refiners, even if Brent itself doesn't move further. In effect, the return of Gulf barrels acts as a demand catalyst as much as a supply recovery, with refining demand likely to respond more quickly than supply can fully normalise.

The Insurance Market

Insurers don't care about press releases, they price actual incident data, and that's exactly why their pricing is the cleanest signal we have. Before the war, war-risk cover for a Hormuz transit ran 0.125–0.25% of a ship's value which spiked to as high as 10% at the worst of the conflict. Now, even after the recent MoU, report from Marsh McLennan Companies (MMC) puts current range at 3–8% of vessel value, significantly higher than the pre-war rates. Getting back to pre-war pricing needs months of incident-free transits, not a signed agreement. Underwriters continue to price policies based on actual security conditions rather than diplomatic announcements, and industry participants remain clear that meaningful premium normalization will require an extended period of incident-free transits. In other words, insurance markets are signalling that confidence near Strait is improving, but it has not yet returned to pre-conflict levels.

Pre-War vs. Post-War Iranian Supply

60-day window (June 22 – August 21) is not expected to restore anything close to pre-war Iranian export volumes. Iran entered 2026 averaging approximately 2.2 mb/d of crude exports. However, the blockade and strikes on more than 80 energy sites crushed that to roughly 330,000 b/d at the low point in May, before partially recovering to around 565,000–600,000 b/d by late June as the MoU took hold.

The most optimistic market reading shows that Iran can add roughly 500,000 b/d of incremental exports within the 60-day waiver window, largely by releasing oil already sitting in storage. However, the assumption that Iranian barrels plus partial Gulf resumption are sufficient to offset the structural shortfall isn't true. Iranian oil in the 60-day window adds, at best, 0.2–0.5 mb/d of incremental supply to global markets.

Outlook

The market has spent the past month debating whether the ceasefire will hold. The more important question is how crude prices respond under either outcome and in both scenarios, the risk appears skewed to the upside.

If the ceasefire endures, lower crude prices make Gulf barrels attractive again, particularly for Asian refiners. Refining demand can recover within weeks, while supply normalisation remains constrained by shipping, infrastructure, and operational bottlenecks. Demand is therefore likely to recover faster than supply, tightening the market even in a peaceful environment.

If tensions re-escalate, the impact could be even more pronounced. Iran retains the ability to disrupt the Strait of Hormuz, while global supply buffers are far weaker than they were before the conflict. The US Strategic Petroleum Reserve and OECD inventories remain near multi-decade lows, leaving the market with limited protection against another supply shock.

At the same time, lower crude prices are expected to stimulate refinery runs and import demand, particularly across Asia, while a significant portion of any additional supply is likely to be absorbed in rebuilding strategic and commercial inventories that were drawn down during the disruption. With global inventories still relatively lean, markets are expected to replenish buffers to improve resilience against future supply shocks.

Although higher production from the US, Russia and OPEC increasing production quotas could act as a headwind, the ceasefire remains fragile and geopolitical risks have not disappeared. On balance, we believe the upside potential for crude prices outweighs the downside. While periods of volatility are likely, our medium-term outlook remains constructive, with crude prices likely to test higher levels as demand recovery outpaces the pace of durable supply normalisation.

For crude oil investors, this creates a favourable risk-reward setup. In a de-escalation scenario, recovering demand has the potential to outpace supply. In an escalation scenario, thin inventories could amplify any disruption. The path may differ, but both outcomes suggest that current crude prices are underestimating upside risks over the coming months.

On the technical front, MCX Crude is currently hovering around the 6,500 level. While prices may witness a modest extension of the current correction before reversing, major support is seen near 5,500. On the upside, prices are expected to test the 7,500–7,800 zone over the medium term.

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