RV Pro

Flash Update

with Andreas Steno

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Oil Flash Update: Are We in Trouble Again?

Trump has ended the ceasefire, the Strait is on fire again, and cracks are at record highs. But the oil math looks very different from March. Here is why I am not panicking (yet), and what would make me change my mind.

Trump has now decisively ended the ceasefire, but "talks" are still lined up, reportedly. Let's see whether it is the old Friday to deliver bad news and Monday (ahead of open) to deliver good news seasonality that we grew accustomed to while things were ongoing in March, April, and May. By the time of writing this, we are yet to get a true "Monday-hopeium", even though the U.S. already said on Friday that they expect the Iranians to openly communicate that the Strait is open for business (while they insist it isn't).

As I have said a few times last week, the market will never discount the same event twice, so we need a major escalation to truly shake things up in oil markets again, not least since we have gotten a lot of the "locked-in" tanker fleet out (see data from KPLER below).

The Progress Made Since the MoU Is the Reason the Market Is Shrugging

Take a step back and look at what actually happened between June 17 and the re-ignition of the bombing campaign last week. The 60-day MoU window turned into a race to get barrels out of the Gulf, and the race was won convincingly. At least 20 non-Iranian tankers holding roughly 35 million barrels that had been stuck inside the Gulf for more than three months exited the Strait, while the Saudis alone shipped around 34 million barrels through Hormuz in the two weeks following the deal, more than double what they managed in the entire March-to-mid-June period. Iranian tankers snuck out another 20+ million barrels while the sanctions waiver was live. This was a de-facto evacuation of the wartime backlog, and it happened faster than almost anyone predicted (except us - sorry, I had to).

And it was not just old, stranded oil. Gulf production itself came back in size. The IEA has Gulf output up roughly 3.5 million barrels a day in June alone, with total Gulf exports (including the pipeline bypasses) surging by 6.5 million barrels a day to around 16 million. Still miles below the ~24 million barrels a day the region pushed out before the war, but the direction of travel was unmistakable, and it is precisely why oil on water (Chart 2) is approaching record territory. An armada of crude is currently sailing towards refining hubs, and that armada does not disappear just because Trump declares the ceasefire "over" on a NATO stage. Those barrels will land over the coming 4-6 weeks no matter what happens in the Strait this week.

This is exactly what you see in the KPLER data below. The Mideast Gulf "commodities on water" stack exploded from a normal of 70-90 million barrels to almost 200 million as the war locked everything in, and the decline since May/June is the good kind of decline: barrels finally reaching their destinations rather than circling the Gulf as floating hostages. We are now back below 100 million barrels on water in the region, which tells you the hostage situation in the tanker market has largely been resolved.

Chart 1: Strait of Hormuz Tanker Crossings Collapsed Again After a Brief Mou-Driven Revival...

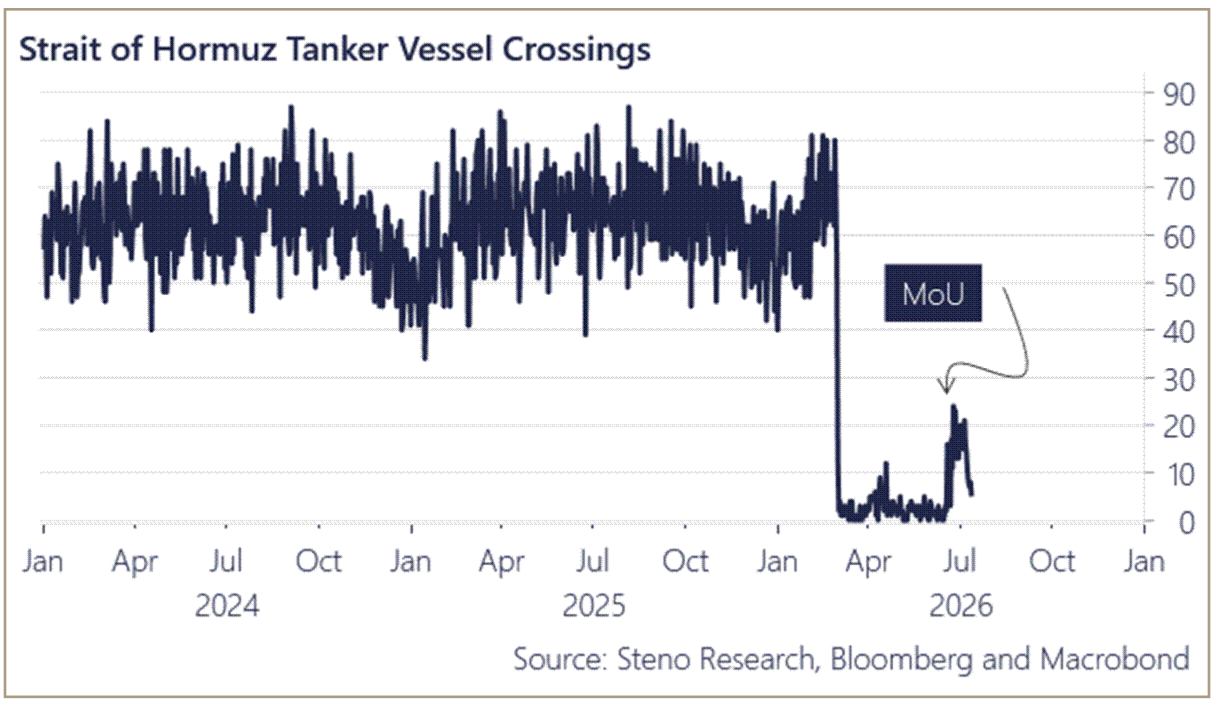


Chart 2: ...But Global Crude Oil on Water Is Flirting With All-Time Highs

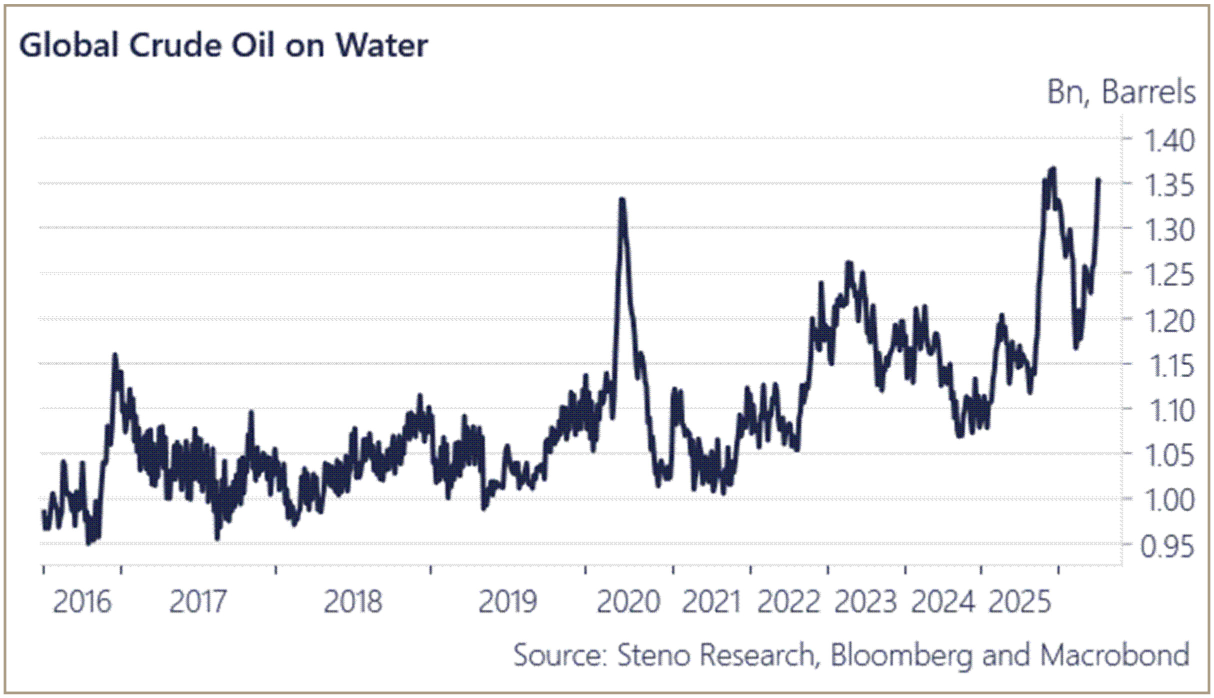
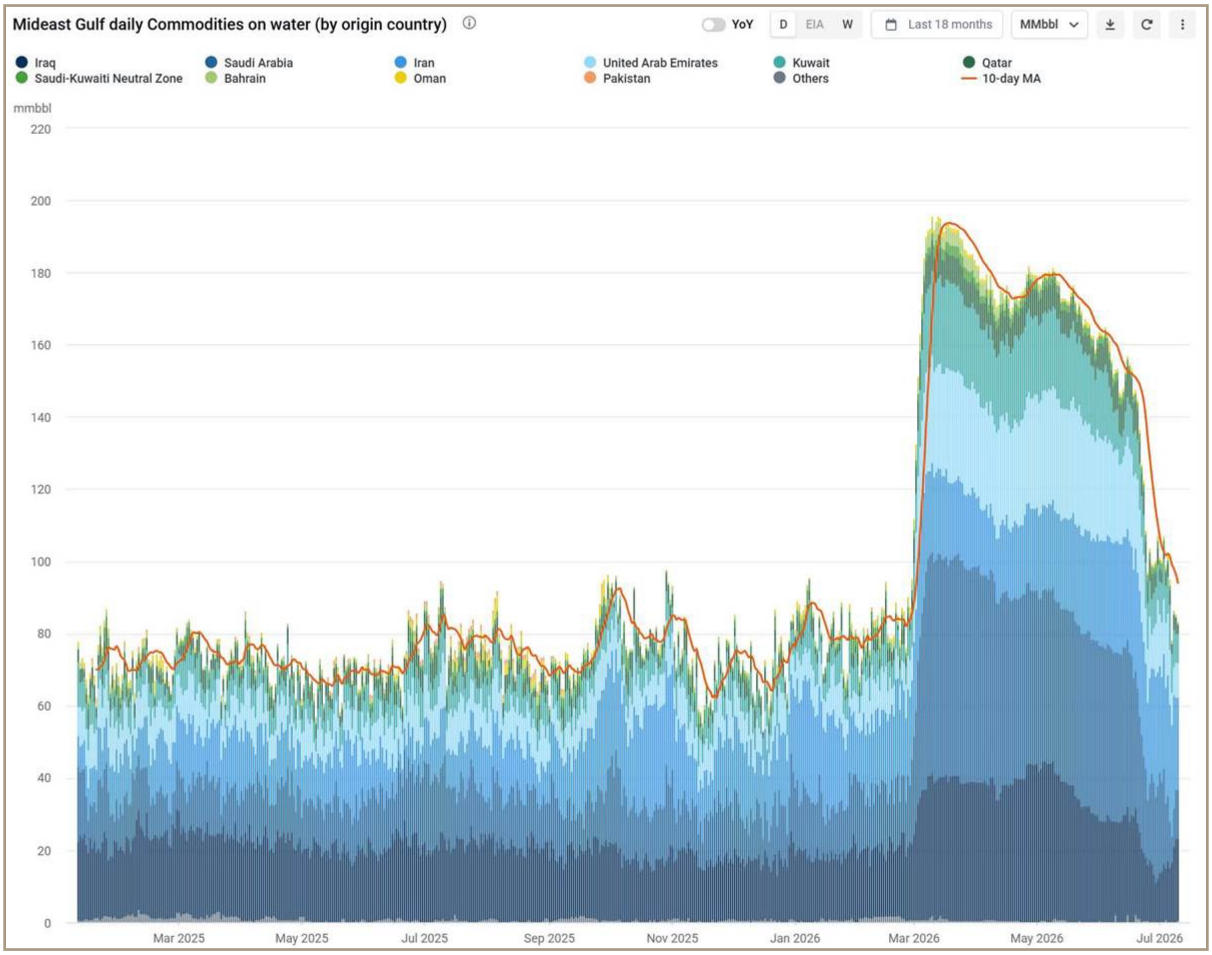


Chart 3: The Locked-in Fleet Has Been Evacuated – Mideast Gulf Barrels on Water Are Back Below 100M



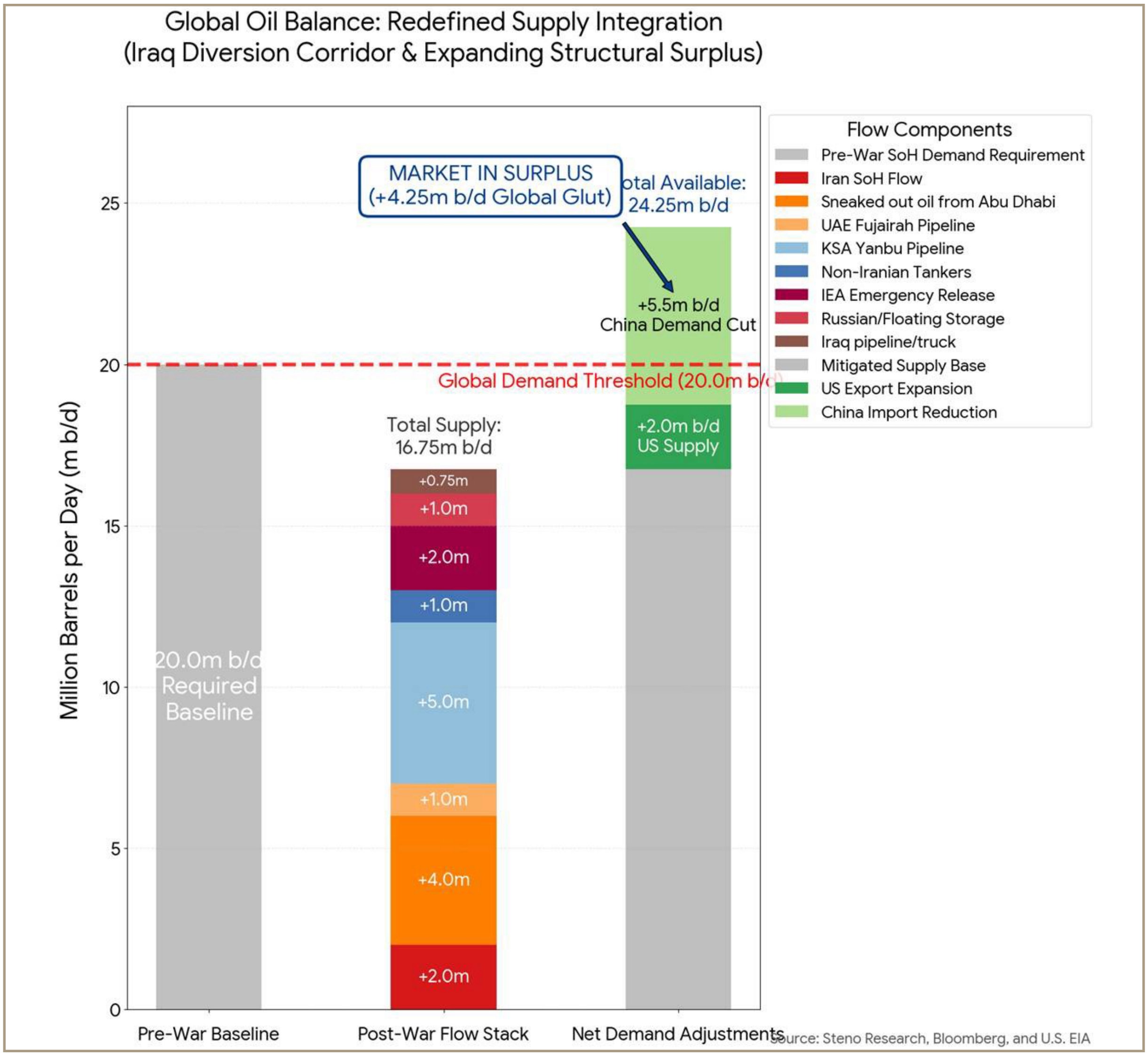
The Oil Math From Here – The Roadmap to 20 Million Barrels a Day

Below, I have tried to update the "roadmap" to the roughly 20 million barrels a day that came out of the Strait before the war. We still have 6.5 to 7.5 million barrels a day being rerouted via pipelines, and that number is growing, with Iraq the latest to join the pipeline-based bypass of the Strait. We also know, at least with a reasonably high degree of certainty, that Abu Dhabi sneaks out 3 to 4 million barrels a day without the ships reporting their positions, often aided by the U.S. Navy, while emergency releases are still taking place across the globe.

So we are probably 3 to 4 million barrels a day short of the 20 million barrels a day, before considering demand destruction, needed to bring the market into balance. Can the US and China deliver that balance for a while longer? That is THE question, and the stack below shows why the answer is (still) yes. Add the ~2 million barrels a day of US export expansion and the 5.5 million barrels a day the Chinese have simply stopped buying, and you land at roughly 24 million barrels a day of "available" supply against a 20 million barrel requirement.

On paper, the market is in a 4+ million barrel a day surplus even with the Strait semi-functional. Let that sink in for a moment… but how sustainable is it?

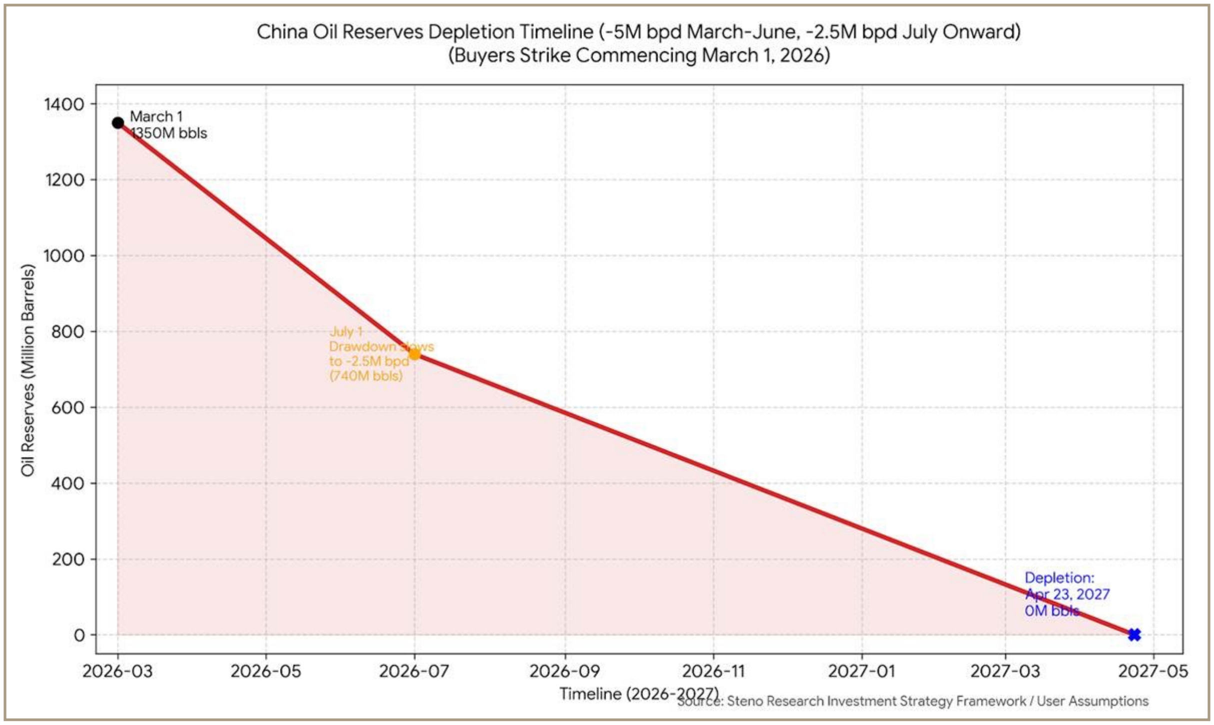
Chart 4: The Roadmap to 20MN Barrels a Day – The Market Is (On Paper) in Surplus Even With a Broken Strait



But paper surpluses rest on two pillars, and both have an expiry date. The Chinese buyers' strike is the single biggest "supply source" in the entire stack, and China is burning through its combined strategic and commercial reserves to sustain it.

I have updated the data on the reserve trajectory under a scenario where China needs to import 2.5 million fewer barrels a day (down from the brutal 5-5.5 million-a-day drawdown pace of March through June, now that flows have partially resumed). The short story: China is not in a hurry. On the current glide path, Beijing does not hit empty until the spring of 2027, and they were smart enough to hoover up cheap barrels in late 2025 and early 2026 before the shooting started. They are playing this with house money.

Chart 5: China Is Not in a Hurry – Reserves Last Well Into 2027 at the Current Drawdown Pace



The U.S. is a different story. The SPR is already running close to pain levels after filling the export void during March, April and May, and while the commercial inventory picture is decent, the combined buffer is thinner than at any point in decades (Chart 6). Run the runway math on the U.S. continuing to export an extra 1.5 to 2 million barrels a day to keep the world balanced, and the U.S. hits strategically important inventory levels already in October or November, with the absolute operating floor probably being reached in December or January (Chart 7).

In other words, we are not yet in a situation where we can live without the Strait. There is clearly a limit to how long the U.S. restarted bombing campaign can continue for this very reason, and think of the above thresholds and timelines in the context of the midterm elections, especially if China suddenly finds it opportune to start buying a bit more ahead of those elections. Xi holds a card here that I am not sure the White House fully appreciates: he can force the U.S. to choose between draining the SPR below comfortable levels into an election and letting oil prices rip. Neither is a vote-winner.

Chart 6: The SPR Is Running Close to Pain Levels, but Commercial Inventory Is Decent

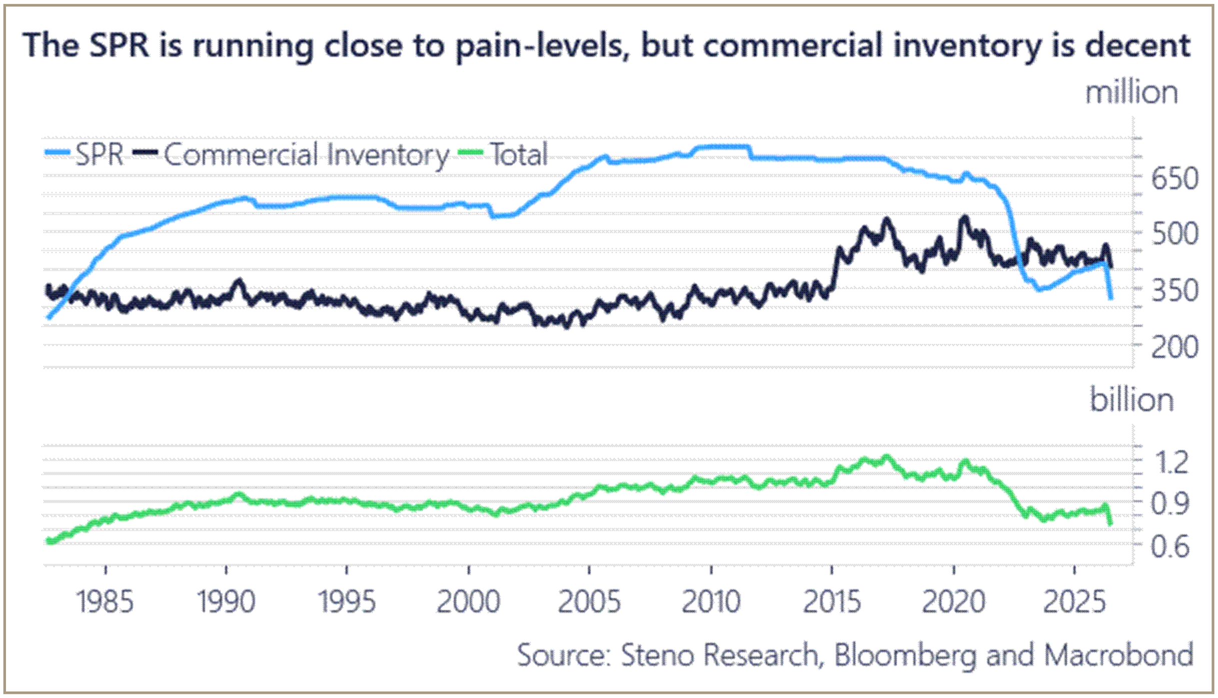
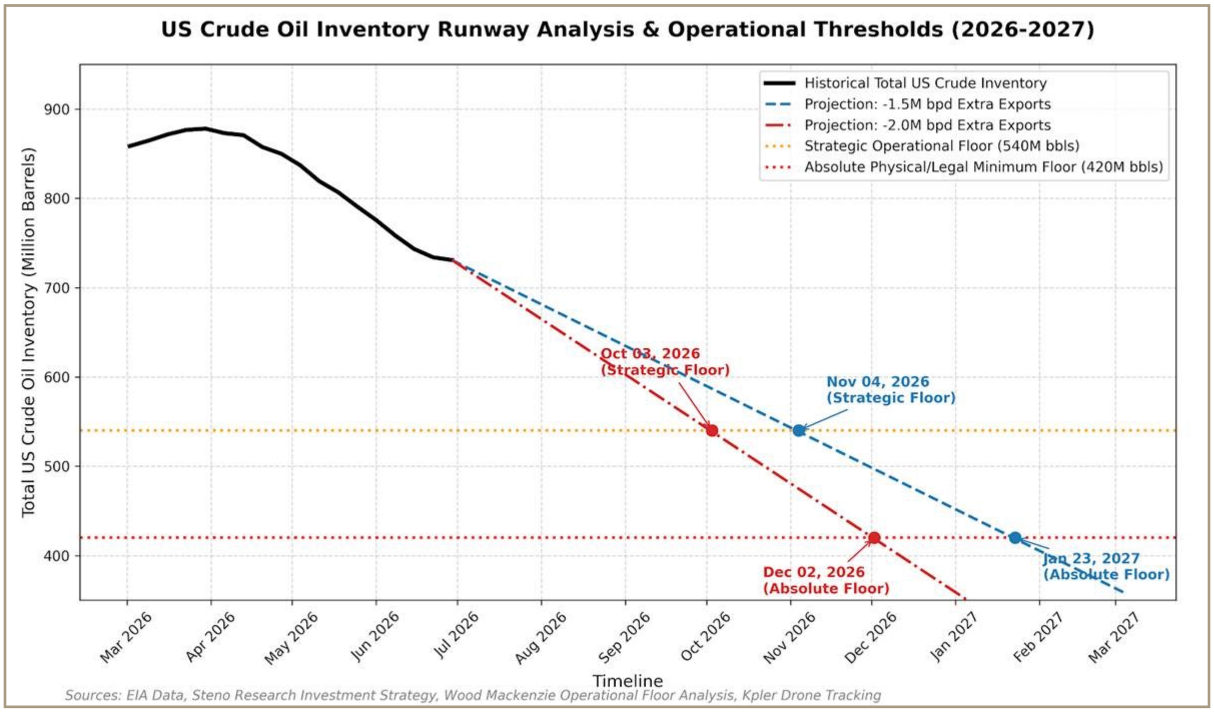


Chart 7: The U.S. Inventory Runway – Strategic Floors Are Hit in October/November, Absolute Floors Around Year-End



Crack Spreads – Why the Product Market Is Where the Real Trouble Lives

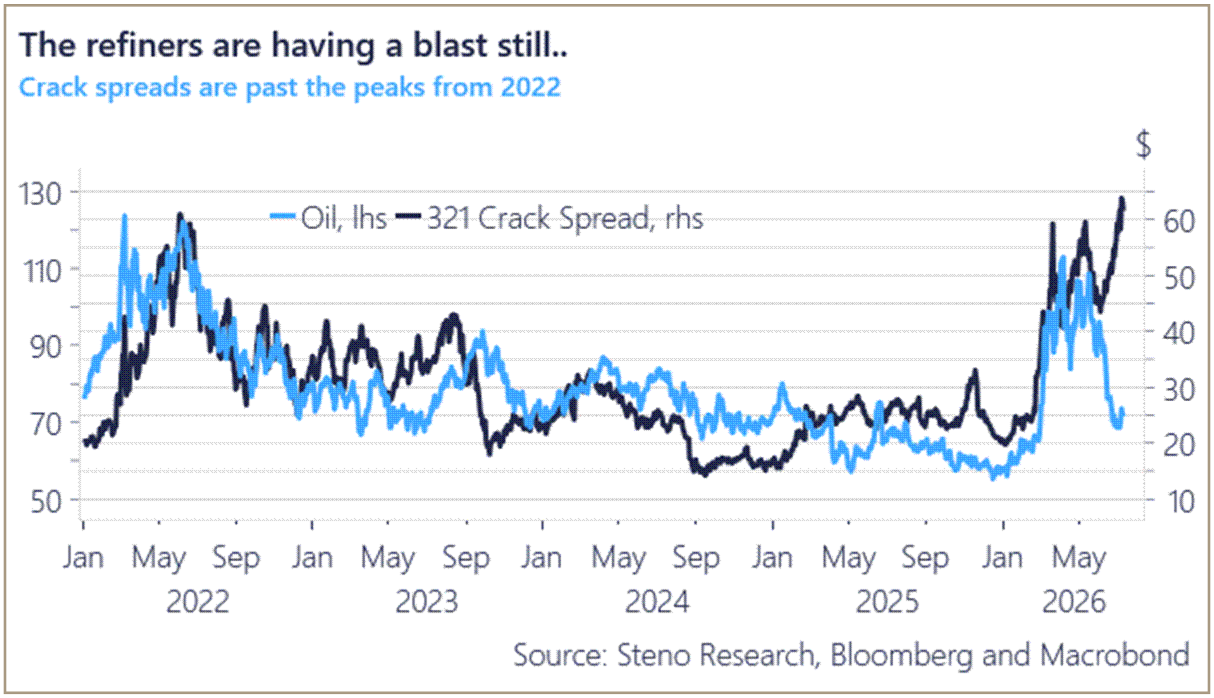
Now to the part of the market that has NOT normalized, and will not for a long while: products. The 3-2-1 crack spread (the "yield" from turning 3 barrels of crude into 2 barrels of gasoline and 1 barrel of diesel) printed north of $60 over the last weeks, past the 2022 peaks, while crude itself trades back around pre-war levels. The refiners are having an absolute blast, and the divergence between oil and cracks in Chart 8 is the single most telling chart in the energy complex right now.

Why? Because you can reroute crude, but you cannot reroute a refinery. The pipeline bypasses that saved the crude market move raw material, not jet fuel, not diesel, not gasoline. Roughly 5 million barrels a day of refined products used to transit the Strait, most of it heading to Asia, and the big Middle Eastern export refineries – Jubail, Ruwais, Al-Zour and friends – are either damaged, locked in, or yet to restart. Those plants were structurally long middle distillates and short local demand: their entire business model was exporting jet and diesel to Europe and Asia through the Strait. Kuwait's Al-Zour alone is a 615k barrel-a-day plant, the largest grass-roots refinery in the world, and Kuwait has no pipeline alternative whatsoever. Meanwhile, Russian refining capacity keeps getting shaved by drone attacks, and the West has spent a decade closing refineries (the US alone has shut or converted more than 1.2 million barrels a day of capacity since 2019). Global refinery runs are still down roughly 6 million barrels a day year-over-year. There is simply no spare kit to make up for the missing product barrels.

Jet fuel is the cleanest illustration. You cannot pipe jet fuel to Europe or Asia, to say the least, and the Middle East was THE swing supplier of jet to both regions. So Western refiners have tilted yields aggressively towards jet to capture the margin, which then tightens gasoline and diesel in turn, and the whole product complex trades tight even as crude softens. Add the restocking bid (everyone who ran inventories to the bone during the war now wants a buffer), and you understand why cracks will stay historically wide for as long as the Strait is only semi-functional.

This also means the consumer will NOT see the full decline in crude at the pump for quite a while – the disinflationary impulse from oil is smaller than the Brent chart suggests.

Chart 8: The Refiners Are Having a Blast Still. Crack Spreads Are Past the Peaks From 2022



The Bigger Picture – The Strait Is Losing Relevance by the Week

Zoom out from this week's fireworks and the structural story is unchanged, and it is bad news for the Iranians: the Strait of Hormuz is losing relevance on an ongoing basis.

The Saudis have ramped the East-West pipeline towards 7 million barrels a day. ADCOP to Fujairah is running close to nameplate capacity, and the UAE has fast-tracked a second West-East pipeline, already roughly half complete, that will double Fujairah export capacity by 2027. Iraq has reopened the Kirkuk Ceyhan line to Turkey and is mulling routes via Jordan, and every drone Iran throws at Fujairah or Yanbu only strengthens the investment case for more steel in the ground. Iran played its hand in February, and the region responded by building around it. Every month that passes, the option value of "closing the Strait" shrinks, which, ironically, is exactly why the IRGC has an incentive to use the threat now rather than later.

And that is the game theory of the current flare-up in a nutshell. The civilian leadership around Pezeshkian gets paid to comply: sanctions relief, investment deals and eventually reparations. The IRGC gets paid not to comply: extortion revenue from the Strait, domestic relevance, and a fight that keeps them at the centre of power. As long as the two heads of the Iranian beast pull in opposite directions, expect exactly what we are seeing: low-intensity attacks on shipping, heavy but measured US retaliation, and talks that never quite die. Weak mediators cannot enforce this deal. The only actor who can truly guarantee it is China, and China is in no rush to spend that political capital while cheapish barrels continue to serve its interests.

My best guess is that the current stress will be fairly short-lived, although nothing is guaranteed. For now, the two big players, the US and China, can easily, and much more easily than in April and May, keep the market roughly balanced. I do not want to go long oil before I see China breaking the ranks in the current cooperation. Watch the Singapore Gasoil to Dubai crack and the Asian import data like a hawk. When Beijing starts buying, that is your signal, not another 90 target strike package on coastal radar sites.

So, are we in trouble again now that the bombs are dropping? In crude, not yet. The math still works into the autumn. In products, we never left trouble. And on the U.S. inventory runway, the clock is ticking louder than the market appreciates, with October and November as the first real test. Having said that, I am still of the view that the market is not oversupplied as I write this.

The two charts, Charts 9 and 10 below, that I watch every day are 1) the Chinese refinery yield, as it reveals whether they are ramping up buying, and 2) the Houston Argus to WTI spread, as it reveals whether the world is screaming for more U.S. Gulf Coast exports. Neither signals that we are in trouble, and if anything, they have actually become a little less worrying since the bombing campaign restarted. We are still good to go for now, and I am not tempted to buy oil yet, while the rest of the equity market should soon receive benign U.S. inflation news and a slightly softer USD to discount as well.

Chart 9: Chinese Refinery Yields in %

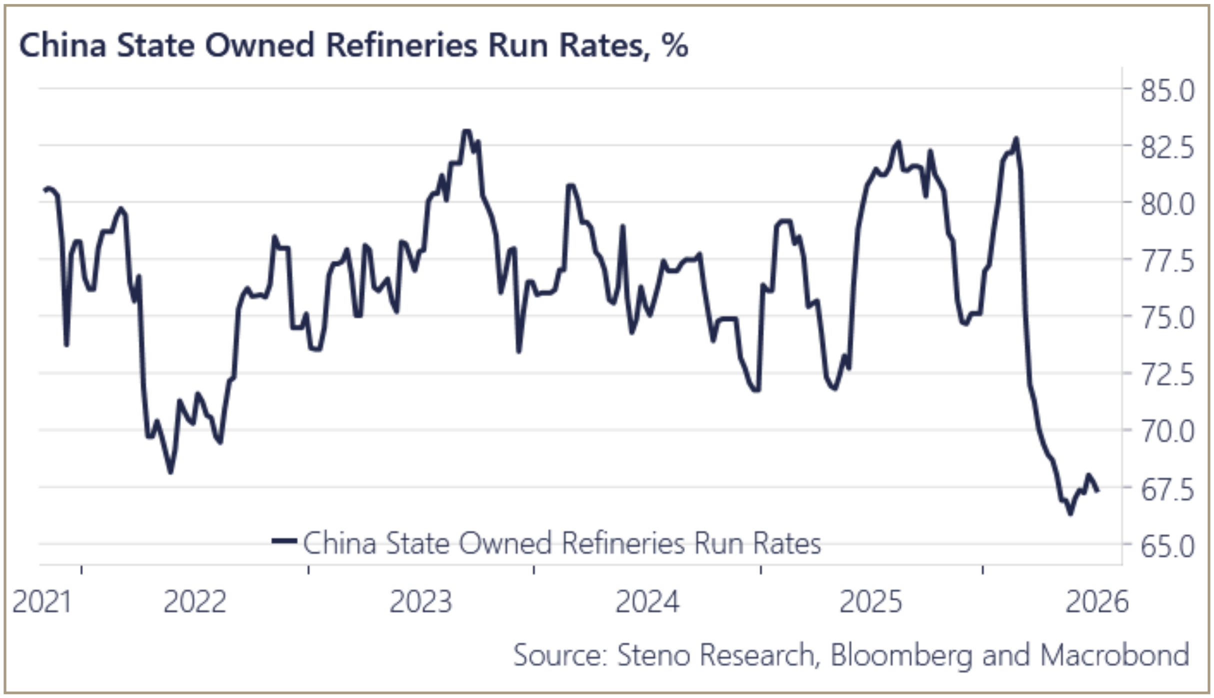
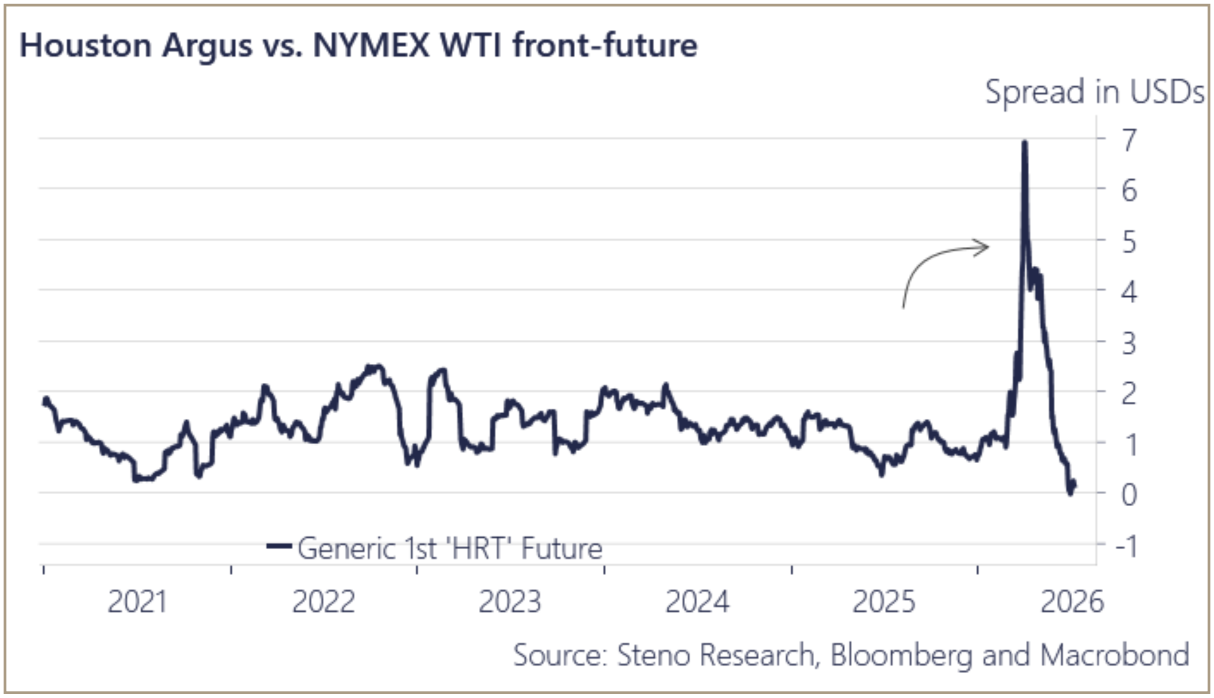


Chart 10: Spread Between Houston Argus and WTI (High if Exports Are Very Needed)



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Andreas is the core macro consultant in Steno Research. Building on years of experience as Global Chief Strategist at Nordea Bank, he is one of the most quoted and sought-after macro analysts out there. Andreas' expertise is the FX/rates, energy, real estate and equity spaces, but doesn't shy away from hot takes on other topics if the underlying analysis is strong enough. Andreas anchors the weekly editorial 'Steno Signals'.

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