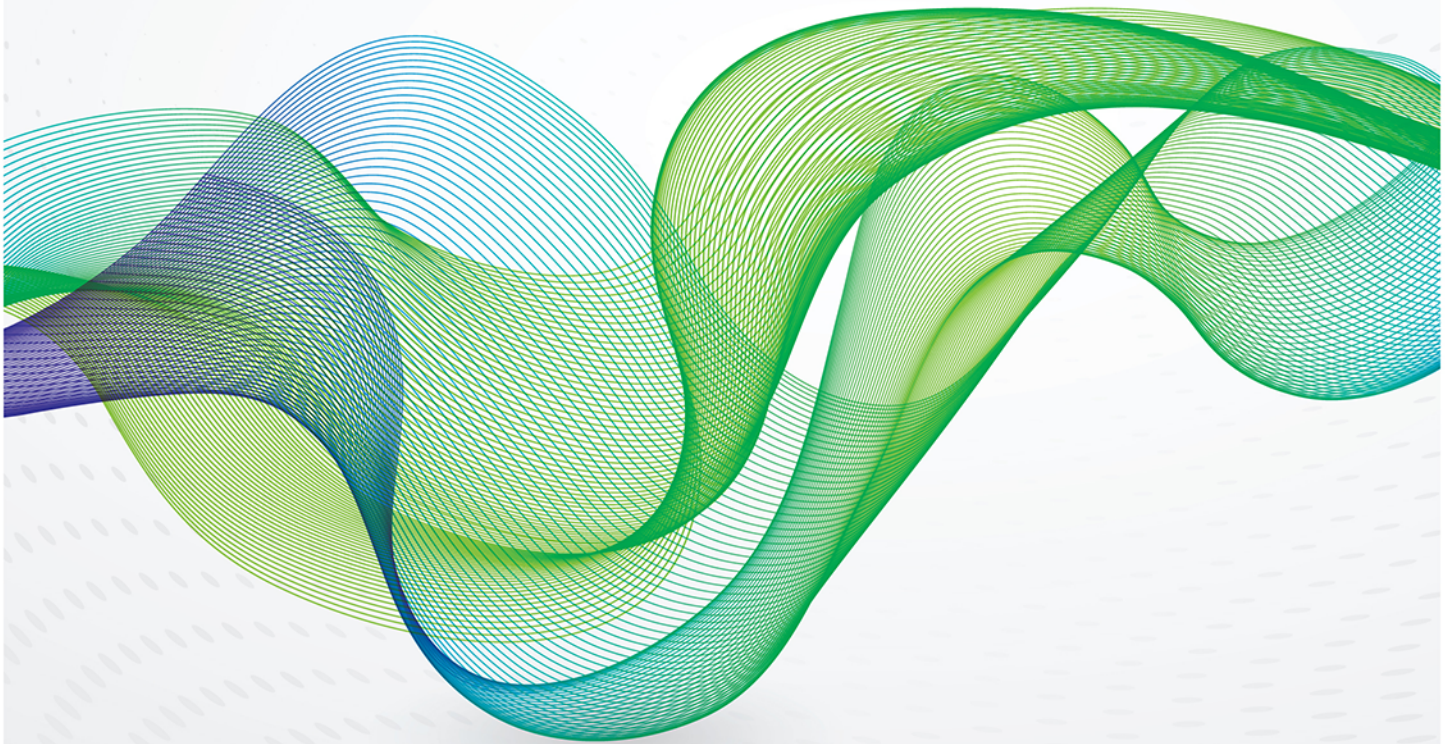
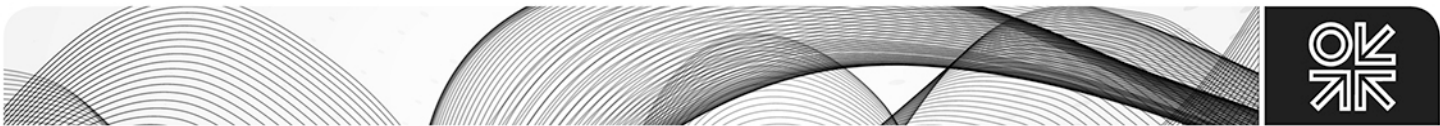


March 2026

# Through the Looking Glass: Oil and the Search for Direction





More than three weeks into the conflict in the Middle East, oil markets remain in a volatile search for a new equilibrium. What was once dismissed as a ‘fat tail’ scenario in boardrooms has become a reality. The scale of physical disruption emerging from the Middle East represents more than just a loss of baseload crude for Asia; it has triggered sharp shocks to product cracks, regional spreads, and physical differentials. This disruption has rippled across the entire value chain—impacting hedging books, refinery economics, and benchmark integrity.

With the market having gone ‘through the looking glass,’ initial hopes for a contained conflict have been replaced by the realisation that any reopening of the Strait of Hormuz (SoH) will be neither swift nor straightforward. The aggressive repricing of the futures curve reinforces this outlook. The damage, however, extends beyond physical flows: paper losses in Asia have mounted into the billions, many GCC energy projects have been damaged which will impact the recovery phase, and confidence across the supply chain has been shaken.

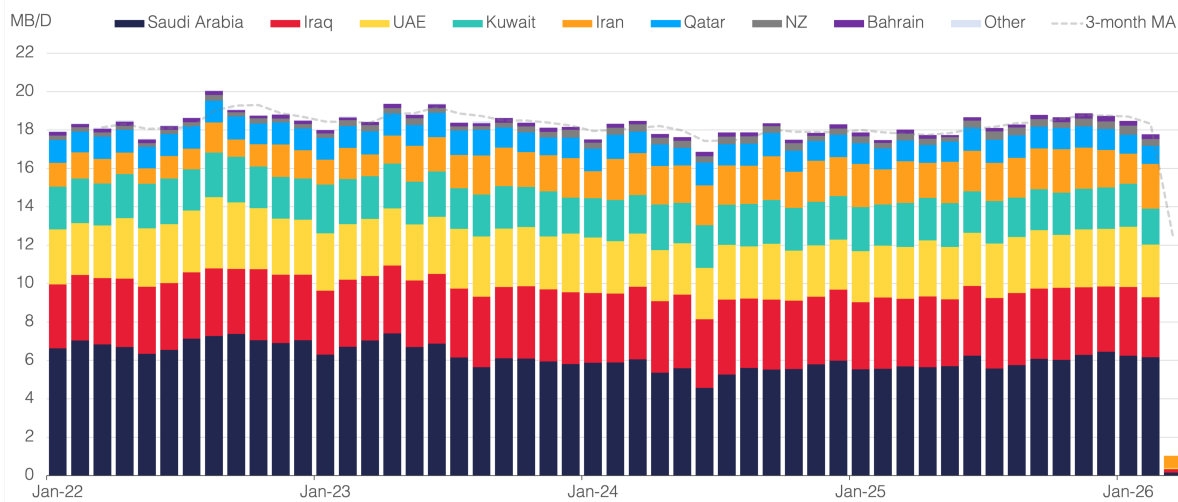
The uniqueness of this crisis lies not only in the volume of stranded crude but in the limitations of market buffers to manage a disruption of this scale. This is a supply-side shock where OPEC+ spare capacity is unavailable and the length and the size of the disruption limits the effectiveness of the remaining buffers, leaving the market hostage to the brutal diktat of zero-sum geopolitics.

As the industry struggles to identify oil’s fair value, how has the market reacted to Iran’s deployment of the “Hormuz card” and in what ways are the physical and financial layers of the oil market interacting?

### From flow shock to supply shock

The scale of the SoH disruption is like no other seen in oil market history. Oil flows via Hormuz have plummeted from around 18 million b/d (mb/d) before the war to a trickle at the time of writing (**Figure 1**). Most of the crude exports previously loading from within the SoH represent baseload volumes to Asian term clients. This reflects the reality that Asian refineries were built and optimised for medium-sour grades from the region.

**Fig. 1: Hormuz crude and product exports by country**



Notes: March 2026 is preliminary as of 23 March. Excludes LPG. NZ stands for Neutral Zone.  
Source: Kpler, OIES

With Dubai as the primary reference for Asian refinery Linear Programming (LP) models, Asian refiners are now having to adjust to a new reality of pulling in every marginal barrel to keep running. This is taking place at a time of unprecedented freight volatility, mixed price signals, extreme widening in regional crude spreads and steep backwardation, impacting forward refining margins.

Beyond term volumes, the other major pillar of sales are equity volumes, allocated to equity lifters, key among them being the trading teams of global majors such as TotalEnergies, BP, Shell, CNOOC and others. The final component of sales includes spot cargoes (primarily from Oman and the UAE), used to underpin physically deliverable exchanges in the region.

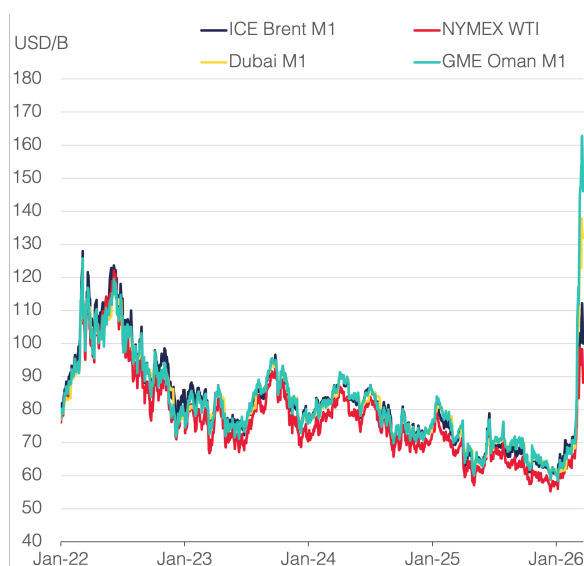
For Asia, the importance of the Middle East is not only reflected in volumetric terms but also the term relationships which bring security of supply. These are designed to cover baseload volumes and are firmly governed by clauses such as operational tolerances, demurrage, benchmark pricing formulas, destination restrictions and force majeure clauses.

The loss of these baseload crude volumes represents the first component of the physical oil shock.

The second component relates to Middle East products. According to the IEA, prior to the war, Gulf producers exported 3.3 mb/d of refined products and 1.5 mb/d of LPG. Key net shorts such as Europe have increased their reliance on the Middle East since Russia's invasion of Ukraine. Meanwhile, in Asia, India's reliance on Middle East LPG volumes has become a source of economic insecurity, as the country takes over 45% of the region's LPG exports.

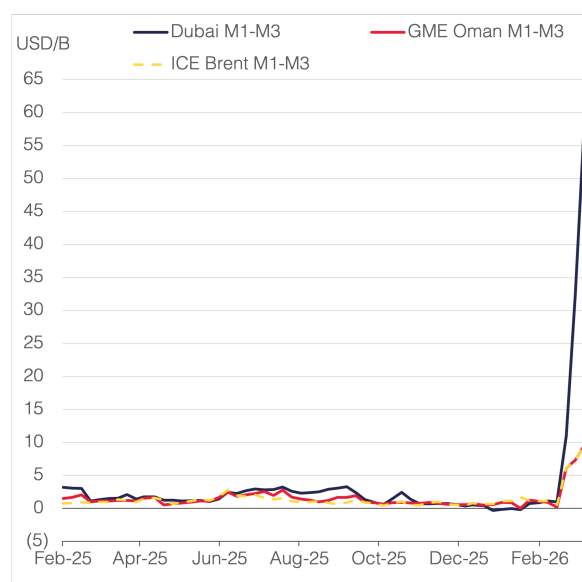
The double whammy in Asian oil markets of a loss of baseload crude and the loss of Middle East products has been reflected in Asian oil benchmarks, particularly medium-sour benchmarks such as Dubai and GME Oman that have increased significantly more than other benchmarks before falling (Figure 2) and the sharp rise in the calendar spreads (Figure 3).

**Fig. 2: Benchmark pricing**



Source: Bloomberg, OIES

**Fig 3: Calendar spreads**



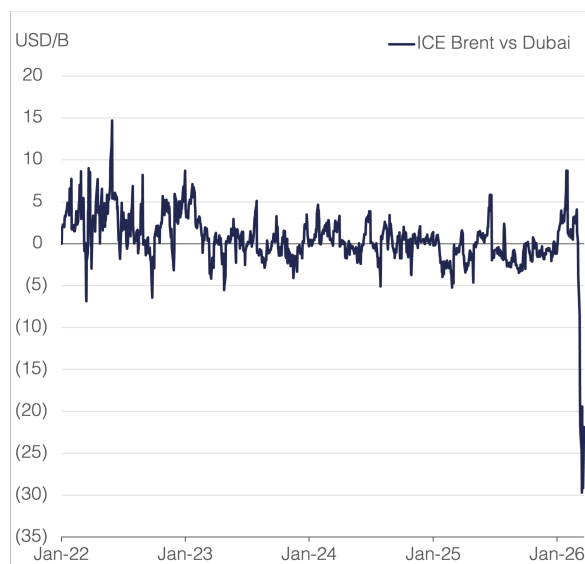
Note: As of week-ending 20 March 2026. By 25 March, Dubai M1-M3 fell to less than \$52/b.

Source: Bloomberg, Argus, OIES

While Asian oil benchmarks are the most steeply backwarddated, reflecting the loss of baseload crude, refiners are also having to grapple with volatile regional spreads Brent-Dubai, WTI-Murban, Dubai-Oman (see Figure 4) and the impact of policy intervention on key benchmarks such as WTI – all factors which complicate pricing signals at a time when Asia is trying to find the fair price of the marginal cost of baseload replacement. As we discuss later, the situation is made more severe by procedural changes to Dubai's benchmark composition at the start of the war, liquidity withdrawals across key pricing benchmarks in the Gulf and delivery challenges associated with exchanges such as IFAD Murban, used in pre-war times to identify the price of marginal light barrels delivered in the Asia-Pacific region. Along with the withdrawal of liquidity, these issues and others have all had implications for hedging practices, pricing formulas and arbitrage trading.

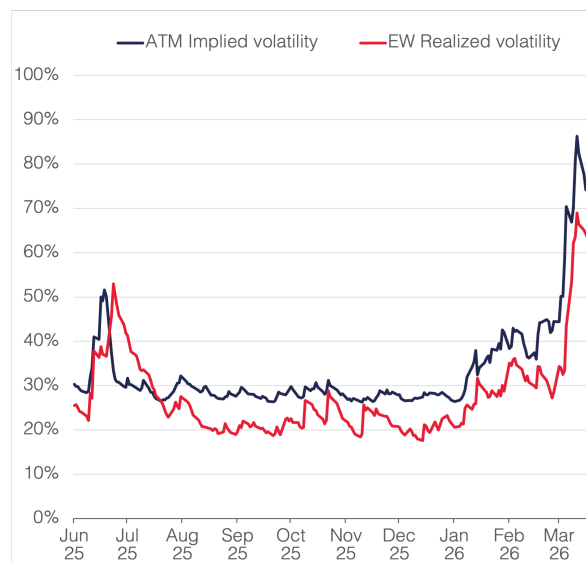
Beyond volatility in the front of the curve (see **Figure 5**), the market is also having to constantly reprice the back end as well. This is likely to be an ongoing process in the coming weeks, and one key issue will be how quickly upstream production can be restarted from shut-in fields. This requires a deeper look at where shut-ins have happened and the different risk profiles of upstream fields, particularly Iraq, the least resilient producer in the region.

**Fig. 4: ICE Brent vs Dubai**



Source: Bloomberg, OIES

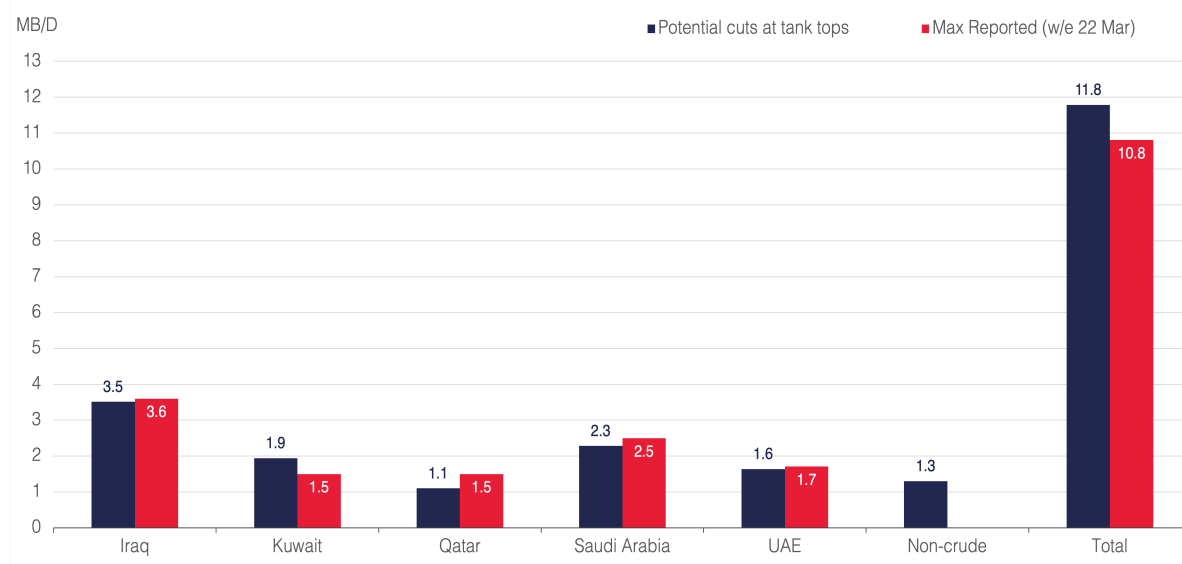
**Fig. 5: ATM Implied and 21-Day Realised Volatility (Brent)**



Source: Bloomberg, OIES.

Even after accounting for Hormuz bypass options from Saudi Arabia and the UAE, we are estimating that production shut-ins across the region at around 10.8 mb/d and could potentially reach around 11.8 mb/d if the disruption continues for an extended period (**Figure 6**).

**Fig. 6: Middle East production shut-ins**



Source: OIES Analysis (OIES Oil Monthly Issue 52, March 2026). Reported is from Argus, Bloomberg and other industry sources. Includes crude, condensate and NGLs.



Looking at the largest shut-ins so far, the following can be said:

**Iraq** has been the first domino to fall given the country's limited storage capacity. Current production losses are now estimated at around 3.5 mb/d, with the bulk of curtailments taking place at South Rumaila, West-Qurna 2, Majnoon and Missan oil fields.

Production, while subject to some curtailment this week, is still running from North Rumaila and Zubair –important sources of supply to Basrah Gas Company (BGC), Iraq's key source of associated gas production. Crude is also feeding Iraq's refineries and power plants, but the risk of run cuts is rising as Iraq lacks significant product storage facilities, particularly for high-sulphur fuel oil (HSFO).

At the same time, Iran is a key source of gas and power supply to Iraq. Challenges in maintaining flows have become a reality, a situation made more severe by attacks on Iran's South Pars field. While Iraq can direct more of its HSFO for power generation purposes, feedstock switching is limited by operational constraints and high maintenance costs. Summer 2026 is likely to prove one of the worst in Iraq's history and with Iraq's parliament currently paralysed, the country's trajectory and future relationship with the US and Iran remains highly uncertain.

Developments in Northern Iraq are no better. Kirkuk production is now almost entirely feeding the 290kb/d Baiji refinery, although internal flows are trying to be reshuffled to allow for more Kirkuk crude to be exported via Ceyhan. Displacing Kirkuk for export and replacing it with crude from Iraq's south will likely prove sporadic given Iraq's lack of infrastructural flex and the operational constraints of the Strategic Pipeline (SP).

In Kurdistan, production has fallen to just 30-40kb/d, down by almost 220kb/d from February's average as IOCs such as Gulf Keystone and HKN have shut in production. Production has also been curtailed from Khor Mor – a key source of supply to the KRG's power plants.

Even under a very optimistic scenario of a restart of flows via the SoH this month, the biggest risk rests with Iraq's supergiant Southern fields which rely heavily on water injection to maintain reservoir pressure. Fields such as West-Qurna 1 require up to 2-3bbl of water for every barrel of crude with the average across Southern Iraq of around 1.5-1.7bbl of water for every barrel of crude. For a shut-in longer than a month, contractors such as BP at Rumaila face a major water-cut challenge as well as clogging risk of wells that have already been worked over, raising opex costs and restart risk. Other costs that will need to be accounted for include workover costs for the fleet of electric submersible pumps (ESP) used across Iraq's southern fields. Flow rates via Iraq's southern export infrastructure may also need to be monitored as Iraq's subsea pipelines have already suffered from pressure deratings in the past year and heavy corrosion. How the shut-in crude interacts with the subsea pipelines remains unknown but reinforce the point that any restart will need to be carefully managed.

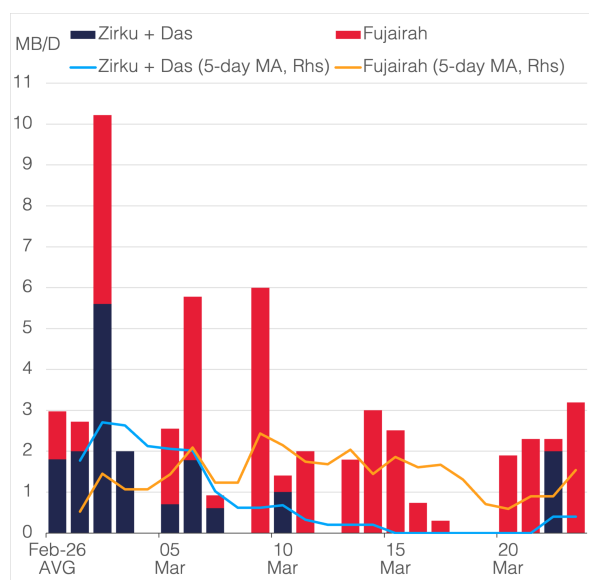
Longer term, it remains unclear how Baghdad will deal with the financial fallout of curtailed production. Iraq has a bad history of managing production shut-ins. IOCs such as BP, PetroChina, CNOOC and others may find they face higher restart costs and opex, driving challenges in how Iraq manages its term/equity portfolio going forward. Iraq's longer-term production profile is further complicated by ongoing negotiations over the future of West-Qurna 2 where Lukoil's exit has meant the field is currently being managed by BOC who are using the financial account of Majnoon to deal with operating costs. A shut-in at both fields exacerbates upstream management at both fields.

After Iraq, **Kuwait** has also seen significant curtailments, with production losses estimated at around 1.5-1.9 mb/d, and according to the CEO of KPC restoring production to full capacity will require 3-4 months after the end of the war. Kuwait's strategic importance to global oil markets has grown in the past several years, not only because of the country expanding its downstream footprint (Al-Zour), a key supplier of distillates to Europe but also its role as a feedstock supplier to Oman's Duqm refinery. Al-Zour's shutdown took place just after the refinery restarted runs after operational challenges in Q425 and it cannot be discounted that restart risks at the refinery continue after the war ends.

Currently, it is just the **UAE** and **Saudi Arabia** who are maximising flows through their Hormuz bypass options. For the UAE, the biggest disruption so far has been to ADNOC's offshore concessions,

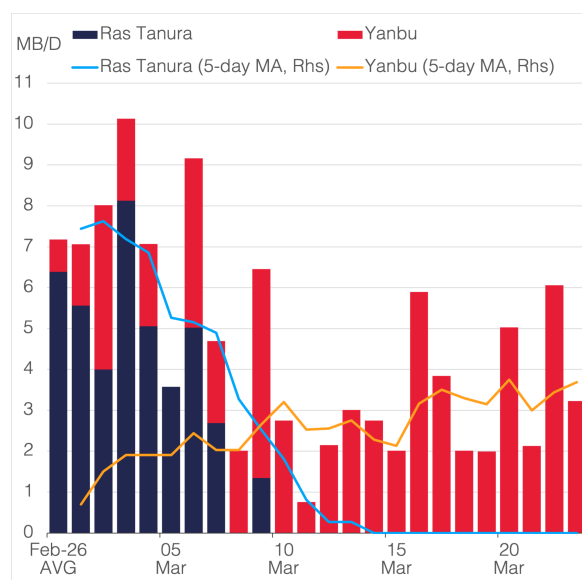
primarily Upper and Lower Zakum (which also faces ESP workover risk). Pre-war estimates of UAE production vary but assuming production level of 3.4m b/d (based on OPEC Secondary sources), the reality is that the UAE is now limited to Murban production (around 2.1 mb/d capacity). Pre-war, Murban loadings were split between Jebel Dhanna (inside Hormuz) and Fujairah (outside Hormuz). ADNOC's bypass strategy to date has been to increase crude supply through the 1.5 mb/d Habshan-Fujairah pipeline, estimated to now be running at its nameplate capacity of 1.8 mb/d (see **Figure 7**). The pipeline also allows ADNOC to fill its 42mb underground storage cavern, a critical buffer against Iranian drone attacks. Despite this, the past fortnight has seen attacks levelled against Fujairah and challenges have been reported at one of the SPMs used by ADNOC for crude loadings.

**Fig. 7: UAE crude exports by origin**



Source: Kpler, OIES

**Fig. 8: Saudi Arabia crude exports by origin**

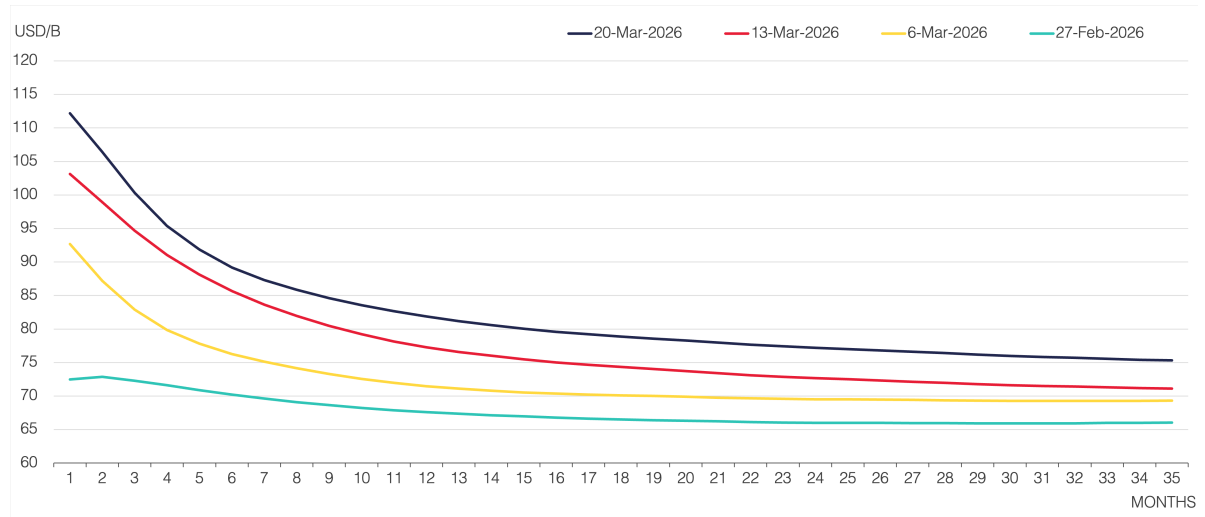


Source: Kpler, OIES

The other key bypass option has been in Saudi Arabia. The 7 mb/d East-West pipeline – which had a run rate of 2.6 mb/d in 2025 – has been a key tool for redirecting volumes from Ras Tanura to Yanbu on the Red Sea (**Figure 8**). It is estimated that loading capacity from the Yanbu terminal stands at 4.8 mb/d of crude and 900 kb/d of products. Yanbu however has not been immune from attacks with a targeted strike against Yanbu's Samref refinery on 18 March. Shut ins have also happened, primarily at offshore fields such as Safiniya, Marjan, and Abu Safa.

With the market slowly absorbing information on restart risks -the restoration to full capacity will vary across producers with some taking up to 3-4 months to ramp up to pre-war levels and with the large cumulative loss in oil barrels forcing an abandonment of the oil glut narrative, the back end is ripe for further repricing (see **Figure 9**). The SoH shock has also been a major supply-side shock where OPEC+ spare capacity has been unavailable, a signal which will also have to be priced both into the front and the back end of the curve. Other upside issues include slower than expected restarts from major producers such as Iraq and the uncertain geopolitical landscape in the Middle East going forward. At the front-end, dislocations in quality and regional spreads have not just been a function of shifts in the physical balance; policy, market intervention and liquidity withdrawal have also played a role, and this has complicated refinery decision-making. With product cracks now having to do the heavy lifting to absorb volatility in physical differentials, it is important to ask how product markets are absorbing the SoH shock.

**Fig. 9: ICE Brent forward curve**

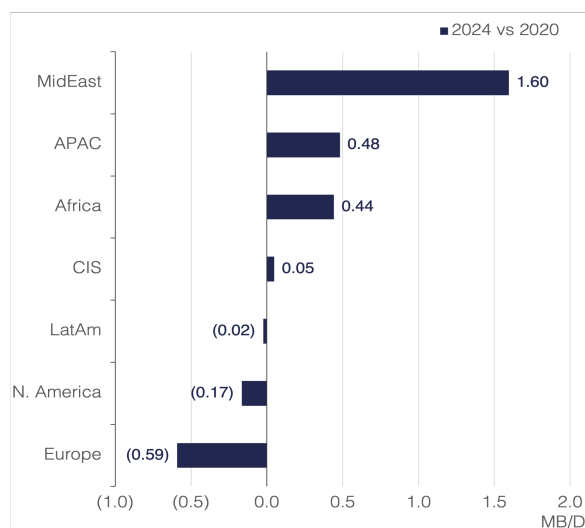


Source: ICE, OIES

### Products remain the weakest link

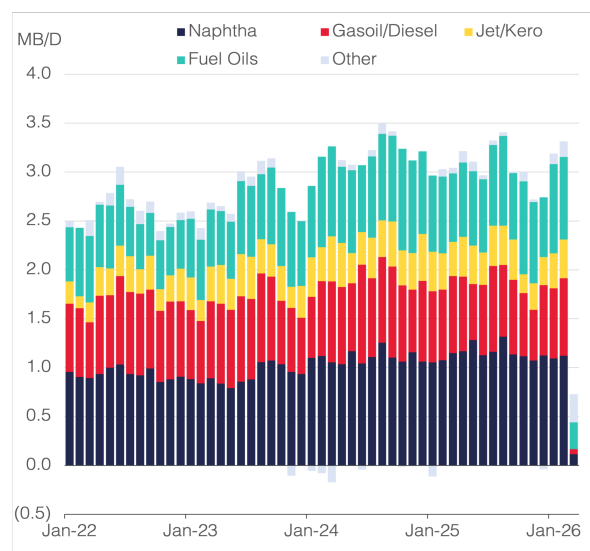
As previously mentioned, the SoH shock is as much a product shock than a simple loss of baseload crude for Asia. Since Russia’s invasion of Ukraine, Middle East net length across gasoil, jet and LPG has grown and against a backdrop of refinery closures in the West of Suez (see **Figure 10**), limited spare refining capacity outside China, and attacks on Russian refinery assets – all factors which reinforce the Middle East’s role as not just a key source of crude supplier but also the world’s balancing point for products (see **Figure 11**). This is especially true for fuel oil, where hubs such as Fujairah have established themselves as the ‘Rotterdam of the East’ for bunkering and fuel oil (re)supply.

**Fig. 10: Global refinery capacity changes, 2024 vs 2020**



Notes: Primary capacity.  
Source: ENI World Energy Review 2025, OIES

**Fig. 11: Middle East product balance**

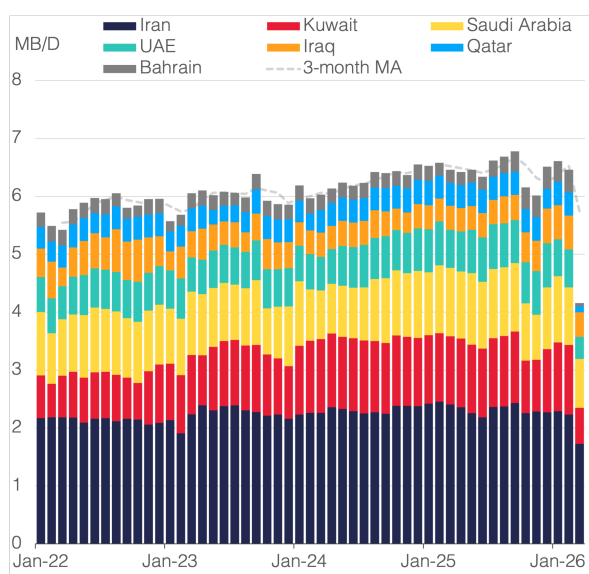


Notes: Excludes LPG.  
Source: Kpler, OIES

Below are a few observations on the shock to product markets stemming from SoH:

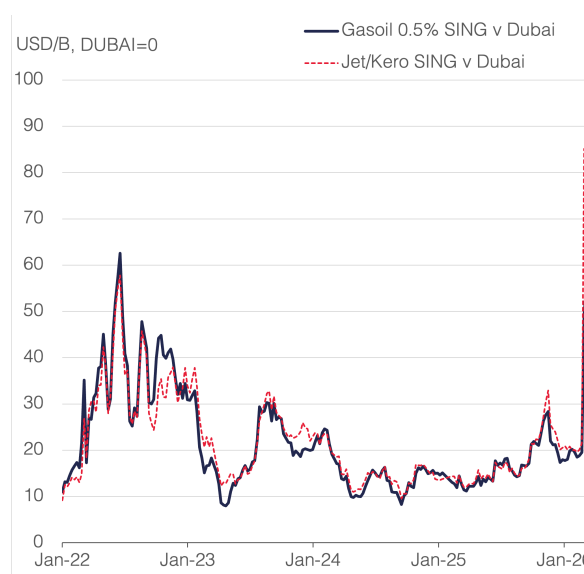
- It is estimated that Iranian strikes have disrupted around 2.5 mb/d of refinery primary capacity across the region, including the UAE’s Ruwais refinery, Bahrain’s Sirta refinery and Kuwait’s Mina Abdulla refinery. Middle East refinery runs are down by around 3 mb/d since the start of the war (as of week-ending 22 March, see **Figure 12**) and together with Asian run cuts, global refinery throughputs are expected to decline by around 4-5 mb/d in March – reinforcing the stress placed on product cracks (see **Figure 13**).
- Jet fuel has so far shown the most volatility in the oil value chain. This is not surprising. Jet requires specialised storage, so stockpiles are typically low. The situation has been compounded by the fact that different Middle East refineries across the region have different product yields, with Al-Zour having a higher jet yield compared to Aramco’s export-oriented Red Sea refineries which can still load from Yanbu.

**Fig. 12: Middle East refinery runs**



Notes: March 2026 is preliminary as of 23 March.  
Source: Kpler, OIES

**Fig. 13: Asian product cracks**



Source: Argus, OIES

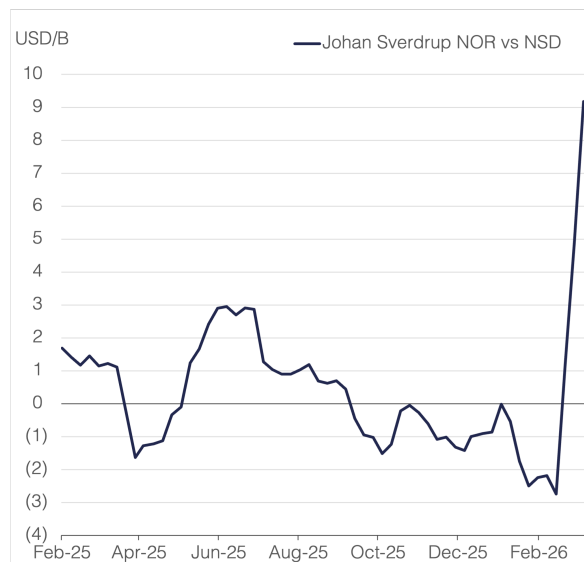
- The loss in Middle distillates have hit net shorts such as Europe particularly hard as the region not only has to grapple with plans to ban products with Russian-origin molecules but also the loss of supply from the Middle East. Gasoil East-West spreads are also reflecting the volatility as Asia has faced tightening cracks from China’s decision to ban product exports. Alongside Europe, Africa also faces significant challenges as the region was a key recipient of Middle East gasoil export volume in 2025.
- The bottom of the barrel also deserves attention. The Middle East represents around 15-20% of fuel oil supply. According to the IEA, in 2025, this included around 270kb/d of straight-run fuel oil, 450kb/d of high-sulphur fuel oil and just under 100kb/d of VLSFO. These losses to the market not only impact feedstock supply to complex refineries in Asia and the US but also the bunkering market, which could invariably impact shipping operations, made more stressful by higher voyage times, higher ton-mile demand and high freight rates. Depending on the duration of the conflict, the stress in fuel oil cracks also present some challenges for executing long-haul arbitrage trades.

Given the different demand elasticities across the barrel and the uncertainties in how governments in Asia will respond to product shortages, cracks are currently sending two signals. For refiners, keep

running at any cost; and for consumers, curtail consumption. Poor government decisions can also affect how product cracks reprice to attract arbitrage barrels.

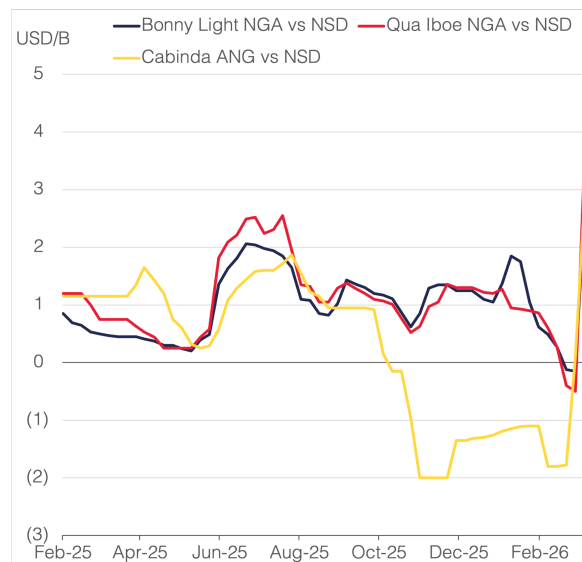
For now, refinery decision-making is trapped between highly elevated product cracks, volatile physical pricing signals, and demand rationing. Making matters worse, a mistaken assumption is that all arb grades can be optimized. Beyond refinery gate value getting hit by freight, refiners must also deal with yield mismatches, accelerating the pull on specific West of Suez grades, a trend seen in Joahn Sverdrup differentials (see **Figure 14**), initially less so in the swing of WAF grades due to prohibitive freight and yield differences, though as China started pulling WAF barrels, these differentials started strengthening (see **Figure 15**). It should also be said that hedging arb or long-haul grades can also become difficult as hedges can start to unravel if refineries can no longer run due to baseload losses driving runs lower.

**Fig. 14: Johan Sverdrup vs North Sea Dated**



Source: Argus, OIES

**Fig. 15: WAF vs North Sea Dated**

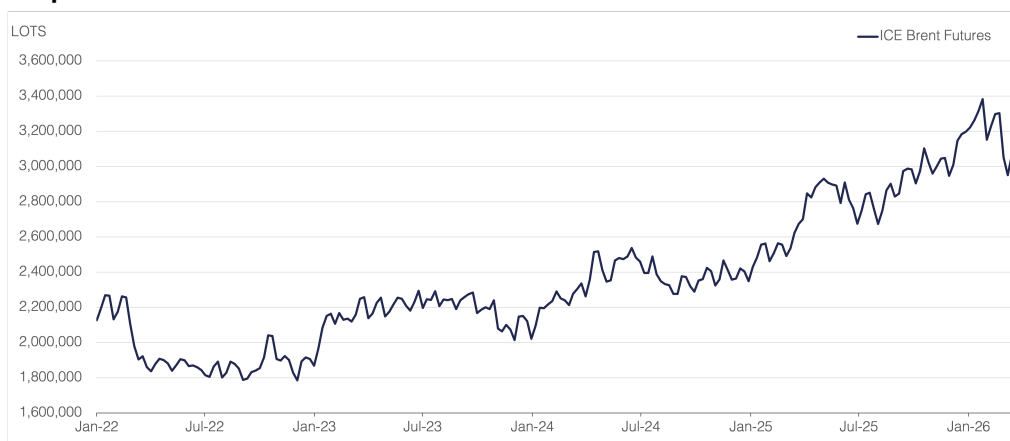


Source: Argus, OIES

### Paper losses, hedging and price discovery

The above repercussions are playing out in other aspects of the market. While ICE Brent has so far shown remarkable resilience to the SoH shock, the front of the curve is approaching untradeable for smaller trading houses. This has been manifested in the decline in open interest for Brent in recent weeks (**Figure 16**). The increase in volatility (see **Figure 5**, p.4) is such that many traders will likely find their available risk capital or VAR is used up very quickly, and the potential for large margin calls means that stops are unlikely to be placed too far from current values.

**Fig. 16: Open interest on Futures Brent**



Source: ICE

Another visible impact has been the scale of hedging and paper losses across the Asia market. While multiple hedging strategies exist in Asia (e.g. back-to-back, crack hedging etc.), typical hedging in East of Suez oil markets involve having a short-Dubai linked swap position offset by long physical. This has grown over the years as more Middle East crude has become freely tradeable and available on the spot market. While Saudi Aramco sells via term and to its own overseas refineries (system barrels), other traditional producers such as Iraq have seen greater equity cargoes allocated – driven by OPEC+ unwinding – which has increased Basrah liquidity in the OTC spot market. Likewise, the ramp up in UAE production since 2025 has also meant higher ADNOC grade availability and while these are OSP-linked to IFAD Murban, they are typically traded and hedged on a Dubai swaps basis. This reinforces the point that while OSP methodologies vary across the Middle East, Dubai remains the core thread of hedging.

Regardless of which OSP methodology, lifters typically convert their OSP flat price exposure into a floating Dubai swaps position. For example, a Murban or Oman cargo would be sold linked to the IFAD Murban OSP or GME Oman OSP. While the lifter is long physical, the lifter would then convert that exposure via a short Dubai swaps position (short Dubai-linked paper). The hedge would then be offset after physical is lifted and the settlement of the swaps position using ICE Dubai. The swap value is based on the monthly average of the Dubai cash price, assessed by S&P Global Platts (Platts).

So, for example, imagine a scenario where a lifter has physical exposure of 10mb of medium-sour crude for Mar-loading. March Dubai swaps in January (when Mar-loading cargoes were trading and hedges set) was around US\$63/b. As of 20 March, the average of the Mar Dubai print used to assess swap values was closer to US\$128/b. A 10mb paper position on ICE Dubai swaps, equivalent to 10,000 lots, in the absence of physical cargoes would leave a naked paper position of around US\$650mn. While the example may seem theoretical, the Jan 26 trading cycle did see up to 10mb of Upper Zakum (Mar-loading) in the Dubai window bought by one trading house.

It is not an exaggeration to say that the hedging losses now circulating in Asia are in the billions and casualties are only likely to keep mounting as swap positions are kept open and VAR exposure increases and credit lines get stretched. ICE margins per lot on the swaps market have also increased, further increasing the pain. Even if short positions are rolled over, the cost of doing so is prohibitive.

Feedback from the Asian market also suggests that the situation has been further compounded by procedural changes in the Dubai benchmark, used to settle the value of swaps. On 2 March, Platts announced it would no longer accept sellers' nomination of Dubai, Upper Zakum, ALS or Murban loading from Jebel Dhanna and it would only accept Oman and Murban loading from Fujairah<sup>1</sup>.

<sup>1</sup> Bloomberg, Platts Changes to Middle East Oil Pricing Causing Trader Angst, March 6, 2026.

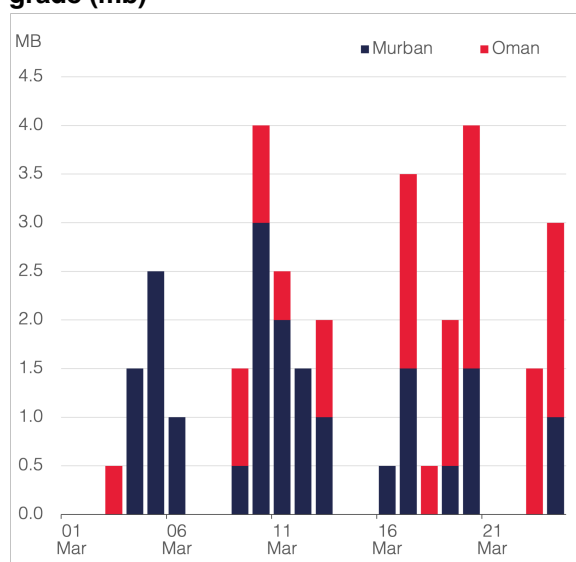
While the move was forced by developments in SoH, alternative moves could have included a decision to expand the list of delivery locations, including crude held in storage in Asia or simply to allow for delivery of similar quality grades or grades such as WTI Midland, now drastically being pulled into Asia due to its global swing status. Interestingly, despite the SoH closure, the market did see a single Upper Zakum trade between Vitol and BP (500kb) on 17 March traded at a premium of US\$6.6/b versus Dubai, not captured in the assessment.

Dubai's liquidity crunch at the start of the cycle also interacted with further layers, including:

- **Totsa's buying spree in the Dubai window.** Totsa is one of the biggest equity players in the East of Suez oil market, with equity barrels across UAE (Murban, Upper Zakum) and Iraq as well as regular lifters of Al-Shaheen via monthly tenders. As of 24 March, the trading major has accumulated 64 cargoes in the Dubai window (18mb for Murban and 14mb for Oman). Lower grade availability in the window means less liquidity, further increasing replacement costs for Asian buyers either subject to SoH cargo cancellations or cuts to equity volumes. For equity producers who lost access to physical barrels, this month's cycle has shown how – in some cases - paper desks have helped offset physical hedging losses, especially those who took the view that the oil market is tighter than implied by the 'glut narrative'.
- **ADNOC's decision to cut equity lifters early in the cycle** took place against a backdrop of security events at Fujairah Oil Terminal (FOT), including damage on 10 March and further attacks in mid-March. ADNOC's loss of Jebel Dhanna and reported damage to one of its SPM's created a delivery squeeze for ADNOC, filtering through allocation decision-making. With Dubai grade liquidity already cut, uncertainty around Murban loading patterns and the cut to equity players made it even more challenging for players with short swap positions to defend Dubai fair value.

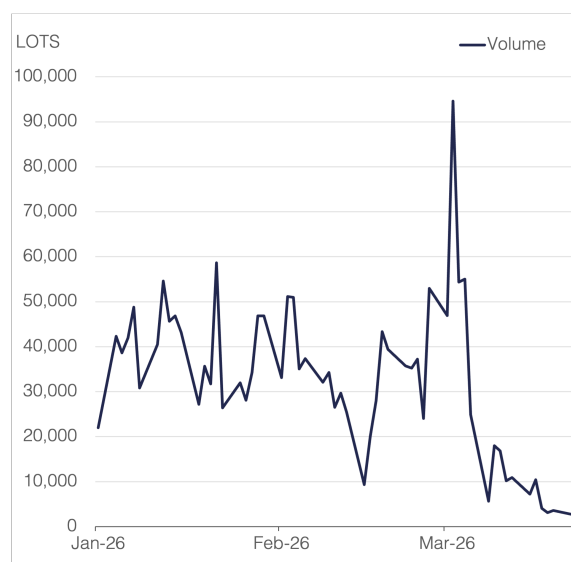
To help boost liquidity, March 20 saw Platts suspend the negative quality adjustment<sup>2</sup> (QA) for Murban, meaning that the grade would not be assessed below Dubai. On 19 March, for example, the Murban QA was assessed at -US\$34.54/b – a prohibitive penalty to any seller wishing to nominate the grade in the window. A simpler way to put it is that by suspending the negative QA, Platts provided an incentive to any seller to nominate the grade by improving its valuation. While the move helped provide sellers with some "bullets" to cool the Dubai price, the effect was short-lived (Figure 17).

**Fig. 17: Dubai daily window convergences by grade (mb)**



Source: Renaissance Energy Advisors

**Fig. 18: IFAD Murban daily volume**



Source: ICE

<sup>2</sup> Dubai, we have a problem: Murban and Middle East crude pricing, OIES, May 2025

Naturally, together with the cut in liquidity to Dubai grades and ADNOC's cut to equity producers, imbalances can be created which impair price discovery. The situation has not been unique to Dubai.

The cut to ADNOC equity volumes and Fujairah's insecurity have also impacted IFAD Murban daily trading volume (**Figure 18**). As a leading physically-backed exchange, the cut to equity producers has impacted a key source of lot liquidity, made more severe by Fujairah's delivery issues.

Further complicating matters is the exit of market maker liquidity, key players for "on screen" liquidity during the 4.30pm Singapore window. Spread volatility has outweighed the financial incentive offered to market makers on a dollar per lot calculation and it is likely that bid-ask spread volatility continues into the June contract.

With the SoH closure still ongoing at the time of writing and the exodus of liquidity impairing price discovery across the Middle East pricing complex, further erratic price moves are likely (March 25 saw GME Oman drop by US\$30/b and IFAD Murban by around US\$16/b). Uncertainties are set to continue to linger for Middle East oil exchanges the longer the SoH disruption continues. Some Asian refiners, for example, have already asked Saudi Aramco for a shift in its Asia OSP methodology.<sup>3</sup>

## System buffers and geopolitical dynamics

Beyond the physical and paper disruption, the SoH closure has also revealed important information about the oil market's system buffers. While previous oil cycles have been used to the idea of "missing barrels", the Hormuz crisis has also ushered in another term: "fake barrels".

In theory, the oil market has multiple buffers to absorb supply shocks, but their effectiveness has been eroded. To start with, the spare capacity in the oil system, primarily in the Gulf countries, is in the same region where disruptions are taking place and hence it can't be utilised.

Second, although OECD countries hold around 1250 million barrels of strategic stocks and they have agreed to release 426 million barrels of these stocks, the effectiveness of these stocks should be measured in relation to flow disruption. Given the size of the disruption with its duration highly uncertain and no clear plans in place on how to resolve the flow problem, the impact of the release of stocks will be very short-lived. Even if you have a volumetric bridge with stock releases, there is the draw rate issue. In 2022, the maximum observed draw was in September at only 1.3 mb/d. US Energy Secretary Chris Wright has indicated a higher flow rate of 1-1.5 mb/d for the US with the total IEA release closer to 3 mb/d. It is yet to be seen whether such high flow rates can be achieved. In addition, the release is directed toward IEA countries instead of non-OECD countries such as India. Even assuming these flow rates, crude will then have to move to Asia which would need to account for high freight rates (USGC-Asia) and volatile spreads, raising questions whether these barrels will be refinery ready.

Third, although China has accumulated large volumes of stocks (estimated at 1200 million barrels ending February 2026), China has not shown any signs yet of its willingness to use these stocks and on top has instructed its refineries to restrict the export of products. The complexities of stock releases are also being revealed in China where Unipet's request for SPR releases was firmly rebuffed, reinforcing the complexity of managing a shock flow with stock releases.

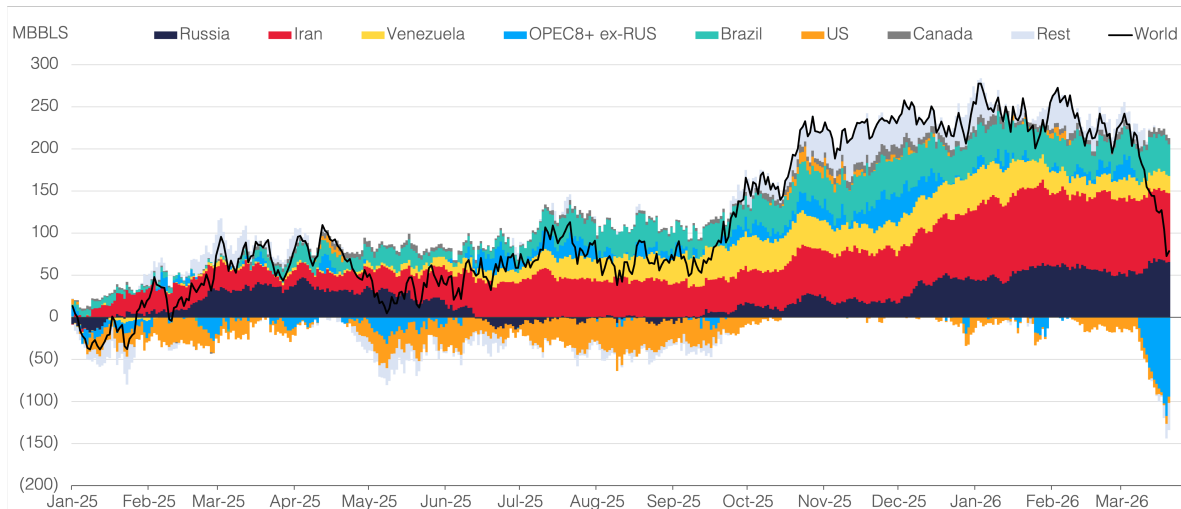
The desperation of the White House to control the upward momentum of the oil price was revealed when the US provided waivers on Russian and Iranian oil stored on tankers. As of end of February, Russian crude in floating storage stood near 25 million bbls while Iranian barrels held near 40 mbbls. While Russian and Iranian oil in transit were higher at 218 million bbls and 128 million bbls, respectively, much of these barrels have likely already been sold. In the case of Iranian barrels, additional hurdles including logistical, payment and insurance aspects must be resolved before buyers beyond China are willing to pick up that crude. The large volumes of crude on water, primarily driven by sanctioned barrels, have been central to glut narrative. However, oil-on-water has now dropped sharply by around 150

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<sup>3</sup> Bloomberg, 'Asia Refiners Ask Saudis to Change Oil Price System Amid War', March 19, 2026.

million bbls (week-ending 22 Mar) since the start of the war, eliminating almost the entire surplus above the five-year average (see **Figure 19**).

**Fig. 19: Oil-on-sea change (cumulative, Dec-24=0)**



Notes: Includes crude and oil products.

Source: Kpler, OIES

As the market absorbs the scale of physical disruption, the market's search for direction now rests on the policy toolkits and geopolitical position of various government responses. So far, the following can be said:

- Limitations of US policy toolkit:** While the US imports from the Gulf are small (less than 1%) thanks in part to the increase in US production and larger imports from Canada, the US can't insulate itself from higher oil prices. Lower oil prices have been at the core of President Trump's energy dominance doctrine. Policies that have been considered by the White House to control the oil price include: Jones Act waivers, lifting of several fuel spec requirements, coordinated SPR release, constraints on some of, or all of crude exports, product exports, or LNG exports, tax offsets and incentives for US producers, and widespread waivers on Russian sanctions. Anxiety around US intervention in futures has also triggered warnings from exchange bosses that such a move would be a 'biblical disaster'.<sup>4</sup> Most of these options have now been utilised, but with limited effect as the underlying flow shock has not been resolved. This has pushed US officials to exaggerate the potential impacts of some of these measures (for instance, exaggerating the new volumes that are available as result of the waiver on Russian and Iranian barrels), also intervening in the oil market heavily in terms of information flows and messaging (not always accurate or correct)<sup>5</sup> and 'coming up with creative solutions by the day to keep the price of oil stable'<sup>6</sup>. This is exacerbating inter and intraday volatility. Just recently, Trump's social media post on March 17 that the US is in talks with Iran to stop the war, caused the flat price to instantly fall by almost \$17/barrel, with claims that thousands of Brent and WTI contracts traded 15 minutes before the US President's message.<sup>7</sup>
- Fractured Middle East geopolitics and SOH:** Iran has been attacking GCC energy infrastructure as part of its campaign to exert maximum pain on the global economy given the critical role that the region plays in oil and gas supplies. While Iran has not 'formally' blocked the SoH, it has shown its readiness to weaponize the SoH by targeting tankers, requesting fees and imposing conditions on free passage, causing safety and security issues and for insurance premiums to rise sharply (from 0.5% to 5%) and for war risk cover to be withdrawn altogether. Any leverage over SoH by Iran

<sup>4</sup> Financial Times, US intervention in oil futures would be 'biblical disaster', CME warns, March 12, 2026

<sup>5</sup> THE HILL, 'Energy secretary says he'll personally review X posts after military escort gaffe', March 12, 2026.

<sup>6</sup> Karoline Leavitt, White House press secretary, Press Conference March 25.

<sup>7</sup> Financial Times, Traders placed \$580mn in oil bets ahead of Donald Trump's social media post on Iran talks, March 23, 2026.

represents a threat to the fundamentals of oil trade, energy security, and from the GCC's perspective, its role as a globally reliable oil and gas supplier. This was expressed clearly by Sultan Al Jaber, the CEO of ADNOC, emphasising that the 'world's critical arteries must remain open', that the SoH 'is one of those arteries' and 'weaponizing the SoH is not an act of aggression against one nation. It is economic terrorism against every nation. And no country should be allowed to hold Hormuz hostage'.<sup>8</sup> In a more fractured geopolitical scene, which power(s) will guarantee the stability of trade through SoH and under which framework is critical for GCC's energy industry and economies and more broadly to its position in the global energy order as a reliable supplier and the sole holder of oil spare capacity.

- **Vindication of Chinese energy security policy:** China is extremely vulnerable to the disruption because of its heavy exposure to flows from SoH. In 2025, China imported almost 50% of its crude, 40% of its naphtha, and 35% of its LPG and ethane through the SoH. However, this risk is partly mitigated by strategic buffers built through Beijing's hedging approach over decades. In recent months, China has increased its strategic storage capacity and accumulated large stockpiles, in part also benefiting from discounted sanctioned barrels. Refineries are mandated to hold 10-15 days of crude on site and if stocks held in ports, bonded tanks and in transit are included, this is extended to 2-3 months of cover. Independent refineries in Shandong have also been importing large volumes of Iranian and Russian barrels and could still have access to these barrels, especially when waivers are being granted. So, in the short term (over the next three months), China's refineries will use a combination of run cuts and alternative flows to deal with the impact. That said the domestic market is likely to see a gap in its crude supplies and if the disruption persists, China remains exposed to rising prices and the compounding pressures of higher oil costs, petrochemical feedstock constraints, and gas outages/price increases, alongside a worsened global economic outlook. Additional restrictions on helium and sulfur are also affecting food security and new energy supply chains. For now, China appears to be in a hoarding phase and this raises questions as to when and how China might release crude stocks, and whether it will ease product export controls to ease the pressure on other Asian economies. Therefore, while Beijing has some buffers, it is by no means sanguine or immune to the shock. A key uncertainty remains as to whether China would exert its leverage with Iran to open the SoH, although it is highly unlikely to do so, seeking mainly to negotiate safe passage for its vessels. But if such a scenario emerges, this will not only shape oil market outcomes; it will also represent a new geopolitical order in the Gulf. And if one of the US objectives behind the Iran war was to dry the sources of sanctioned crude and control the oil and gas flows to China through the SoH, that aim would have been seriously undermined under such a scenario.
- **Russia's strategic interest is to keep the war going, particularly given the repricing of Russian barrels in market:** As discussed above, one of the US tools to help put a lid on prices has been granting exemptions on sanctioned barrels. Russia has been a clear beneficiary of this measure. Before the war, pressure was building on the Russian oil supply chain. US sanctions against Rosneft and Lukoil in November 2025 drove India to reduce its reliance on Russian Urals, pivoting instead to greater Middle East term volumes. A full pivot has been made back to Russian oil. Indian refiners have bought up around 60 million barrels of Russian crude since the US issued a sanctions waiver on 5 March. The US reprieve on Russian oil has led to a major repricing of Urals and ESPO in the physical market with reports indicating that these have traded at premiums to their benchmarks<sup>9</sup>. India's importance as a key distillate swing supplier further increases the likelihood that India's compliance with US sanctions on Russia going forward could ease.
- **Europe remains highly exposed:** Even before the start of the war, Europe's refined products position was already fragile due to multiple factors including the loss of Russian supplies, refinery closures, unplanned outages and energy policies such as the ban on products containing molecules of Russian origin. This was most visible in the case of middle distillates where commercial stocks stood at 25 million barrels below the five-year average and diesel and jet margins reaching a high

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<sup>8</sup> Dr. Sultan Al Jaber Keynote at CERAWEEK, <https://www.youtube.com/watch?v=PbcMfZvrTL4>

<sup>9</sup> Reuters, Russian Urals oil price tops Brent for first time in Indian market, traders say, March 6, 2026.

level of \$86/b and \$100/b by 20 March 2026, from a February elevated average price of \$25/b and \$27/b, respectively. To replace Russian supplies, Europe has become increasingly reliant on imports from the GCC. EU imports of middle distillates from the GCC increased by 52% (600 kb/d vs 390 kb/d), with jet fuel intake more than doubling by 106%, gasoil up by 47% and diesel by 25%. However, a substantial proportion of this supply has now been disrupted. Europe's position as the global net short in gasoil could drive a rethinking of the ban on Russia-origin products.

- **Asian responses:** Asian countries outside China are highly exposed to the flow disruption from the SoH both in terms of availability of crude and products supplies and higher prices. For countries like India and Japan, crude imports through the SoH stood at above 40% and 70% respectively. For India, the LPG and ethane exposure stand at above 80% while for Japan, the naphtha exposure is around 70%. The responses to the shock have been varied: Releasing crude and products stocks (Japan, South Korea), imposing fuel rationing (Sri Lanka, Bangladesh), increasing energy subsidises (Malaysia), shifting to cheaper alternative such as coal (India, Malaysia), repurchasing sanctioned crudes (India), ban on crude exports (Thailand), and securing safe passage through SoH (India, Pakistan)<sup>10</sup>. Also, Asian refineries have been scrambling to substitute the crude losses from the Gulf. WTI flows to Asia have been on the rise supported also by its competitive pricing to grades like Murban. In the post conflict period, growing purchases of US crude alongside grades from Guyana, Brazil, Canada could play a more significant role in Asia's crude slate. However, Asian petrochemicals have been less successful in securing alternative sources for naphtha and LPG feedstock causing many to announce force majeure. Outside China, there has been not yet any restrictions on the export of products, but this could change if the situation persists and governments start prioritizing their local markets.

## Conclusion

The scale of the SoH disruption is like no other seen in oil market history. The oil market has been reacting in phases as new information continues to emerge. In the initial stage, the focus has been centered on the disruption of oil trade flows through the SoH with a prevailing view that the disruption will be short-lived and that the existing 'oil glut' will provide an effective cushion.

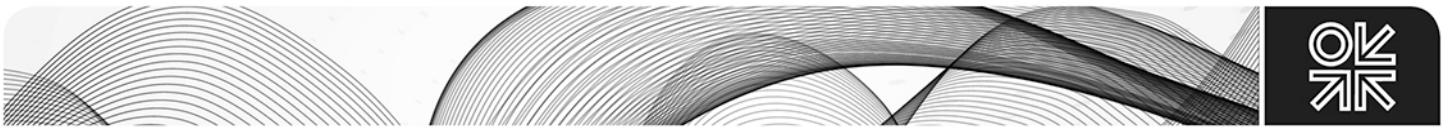
As the disruption to the SoH persisted, the market shifted into a new phase: the conversion of flow disruptions into large production losses. The production losses constituted the first component of the physical oil shock which propagated to products markets, both as a result of lower availability of crude for Asian refineries but also lower Middle East products exports. These were reflected in large movements in physical differentials, volatile inter-regional spreads, and the sharp rise in crack spreads and product prices. The impact of these shocks also propagated through other layers of the oil system impacting physical and financial liquidity and the price discovery process in Asian oil markets. These impacts were amplified by the limited effectiveness of buffers in the oil system and the response of governments, most notably physical market intervention (e.g. stock releases, product export bans) and information signaling, often with creative license.

At the current stage, with no clear visibility as to when trade will resume through the SoH, the market is not only assessing whether output losses could worsen but also how quickly production and refinery runs could recover in the light of the shut ins and damage to physical infrastructure. Alongside the limited effectiveness of buffers and a belief that the war will result in a structural change in the geopolitics of the Middle East, this is causing a repricing of the entire forward curve.

Beyond the uncertainty surrounding the duration of the war, some in the market are already looking ahead to the post conflict period (the day after), examining which features of the previous oil order may fundamentally change. This is a crucial yet complex task, not least because the assumption of a clear-cut resolution to the war is far from certain. It is possible that even as the intensity of the conflict diminishes, disruptions and volatility will continue. While it is still early to assess fully these structural

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<sup>10</sup> Reuters, What are Asian countries doing to offset the oil-price rise, March 9, 2026.



changes and their implications (this will be the subject of a follow up paper), a few trends specific to oil markets are worth watching including the geo-strategic order which will emerge to guarantee the stability of trade flows through the SoH and under which framework; fundamental revisions to energy security policies across both consuming and producing countries; whether or not the two tier system of sanctioned and non-sanctioned barrels will continue and whether the market will witness even further fragmentation; and ultimately how trust can be rebuilt across the value chain.