On the Minds of Investors

Where do oil prices go from here?



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triggered a global oil demand collapse or recession. By September, Middle East oil supply was already rebounding, with Gulf producers using alternative routes to lift crude exports to 13.9 million barrels per day (mb/d), above 75% of pre-war levels.

Oil flows from 4Q25–2Q26 show several buffers absorbed the hit:

- **Continued flows, less inventory building:** Pre-crisis oil flows averaged 21.3 mb/d, and 3.3 mb/d continued after the conflict began. The pre-crisis inventory build also stopped, narrowing the supply-demand gap by another 2.5 mb/d.
- **Rerouting via bypass pipelines:** Gulf producers leaned on alternatives to Hormuz, especially Saudi Arabia's East-West line to Yanbu and Abu Dhabi's line to Fujairah, adding 4.7 mb/d. Where pipelines fell short, ship-to-ship transfers and military-protected convoys moved cargoes from the Gulf of Oman to larger tankers.
- **Inventory drawdowns:** Emergency releases, led by the US and China, supplied roughly 3.5 mb/d, though this cushion is fading. By late August 2026, global draws hit roughly 0.5bn barrels. The US SPR[1] fell to about 280mb (versus 400mb at end-2025), its lowest since 1982.
- **Additional supply outside the Gulf:** Extra output from the US, Brazil, Kazakhstan, Venezuela and others added ~0.5 mb/d.
- **Demand reduction:** Global consumption fell 6.8 mb/d, over 5% versus late 2025. China drove ~35% of the decline through electric vehicle substitution and alternative transport fuels. Southeast Asia curbed consumption via rationing and policy measures.

Incentives to negotiate may be rising, but pricing is still risk-led near term

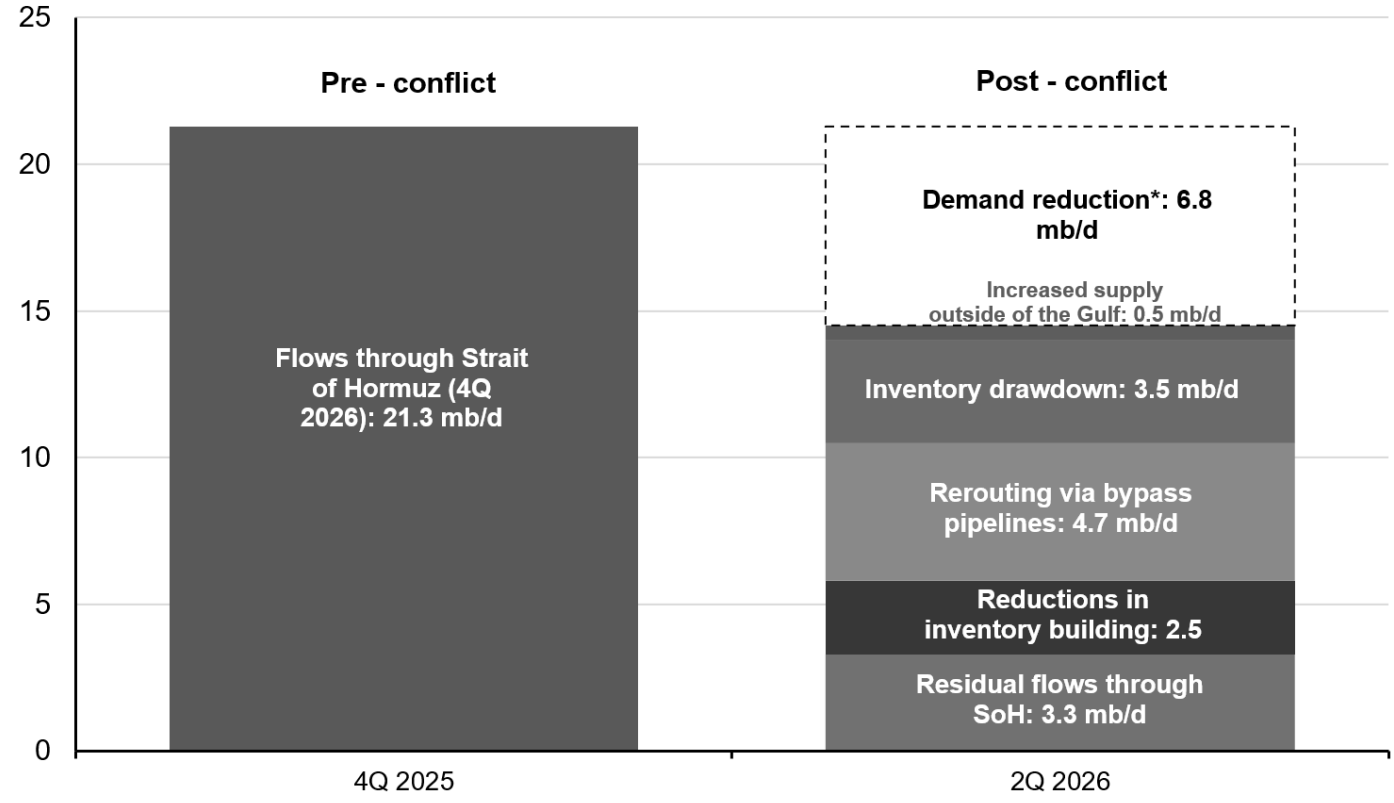
These buffers bought time, not a permanent fix. With inventories thinning and refined product markets tightening, pressure for a peace deal is building. Gulf producers are also racing to cut Hormuz dependence, including the UAE's fast-tracked West-East pipeline, set to double Fujairah export capacity by 2027[2]. If new pipelines meaningfully cut reliance on Hormuz, Iran's leverage to turn disruption into sustained shortages could fade, strengthening the case for a deal. That, plus new oil production coming online in 2027, could bring some relief. Brent oil futures point to $85/bbl by end-2027.

Near term, however, markets still price in logistics constraints and escalation risk despite improving flows. Political milestones like the midterm elections remain a hurdle, and investors are watching for spillover risk at other chokepoints like the Red Sea. The market increasingly treats this as a logistics-and-risk problem, rather than a pure supply outage. Freight costs are the clearest signal: Gulf-to-Asia shipping rates hit roughly 5x pre-war levels by mid-October. Until de-escalation looks durable, a geopolitical risk premium will likely stay embedded in Middle East-linked commodity prices.

For portfolio resilience against geopolitical risk, investors should look to real assets. **Transportation stands out**, as vessel earnings rise with higher freight rates and longer voyages avoiding chokepoints. **Infrastructure also offers diversification**, combining stable cash flows with built-in inflation protection.

Strait of Hormuz oil flows

Millions barrels per day, 4Q2025 to 2Q2026



Source: International Energy Agency, Energy Aspects, Mckinsey Global Institute, J.P. Morgan Asset Management. Numbers are subject to uncertainty. Figures are 2Q 2026 daily averages relative to 4Q 2026. Drawdowns are estimated based on known inventories. *Includes seasonal demand of around 0.5 MMb/d. Data as of October 28, 2026.

[1] The U.S. Strategic Petroleum Reserve (SPR) is an emergency stockpile of petroleum maintained by the United States Department of Energy. It stood at 600mb pre-2022.

[2] According to Reuters.

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