A Post Mortem on the 2026 Oil Shock*

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1. Introduction

One fifth of the world's crude oil usually moves through the Strait of Hormuz, and for most of this year it has been all but closed. A disruption of that scale would once have been enough to trigger a recession, but the financial market response has been remarkably orderly throughout. Crude oil prices rose well above their pre-war levels but never approached the catastrophe a literal reading of the supply loss would imply. Longer dated energy futures moved substantially less than the front month and the premium for physical cargoes, having spiked dramatically in April, collapsed back to almost nothing through May. That collapse, it now appears, was the market correctly anticipating what has since arrived. The US/Iran peace framework is expected to lift the blockade and reopen the Strait, albeit gradually. The spot price of Brent, which peaked near $120, has since fallen back below $80.

This composure was never confined to oil. Equity markets held up, and in places extended gains, credit spreads fell through the episode, and the inflation premium priced into bond markets rose only modestly. A geopolitical shock that closed one of the world's most critical energy chokepoints registered, in the end, as a manageable inconvenience rather than a systemic event. That broader calm was itself revealing, as financial markets appeared relaxed not only about oil but about the macroeconomic consequences they expected it to cause. As we will argue, the forward curve that anchored much of that serenity read the direction of travel correctly, but is now likely too sanguine about where oil ultimately settles.

The explanation for the modest reaction has two halves and the apparent resolution of the conflict has tested both. The calm was partly earned, as the world economy is far less oil dependent than it was in the 1970s. This means a shock of this size hurts less than it once would have. But the calm was also partly borrowed, as much of the disruption was absorbed by drawing down inventories. This cannot be repeated indefinitely. In the event, the borrowed portion was repaid before the loan was called, since the US/Iran peace deal arrived before inventories reached the floor that would have forced a disruptive price spike.

Going forward inventories are likely to be replenished. This is likely to hold oil prices above the current forward curve rather than returning them to pre-war levels. The macroeconomic damage is real, but it is largely already reflected in the data, especially for inflation. The peace deal accelerates an anticipated disinflation process rather than triggers a fresh disinflationary shock.

*We thank colleagues at Fulcrum for helpful comments and discussions. All remaining errors are our own.

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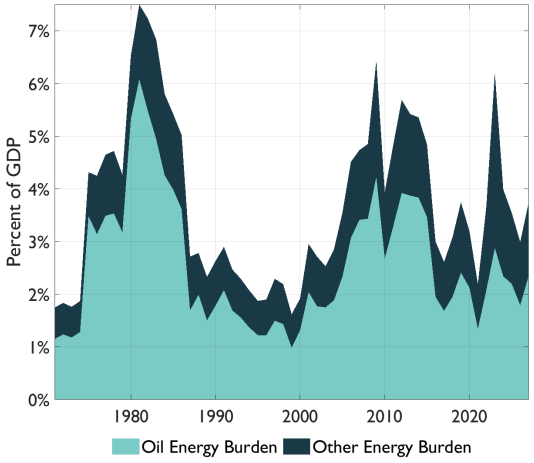
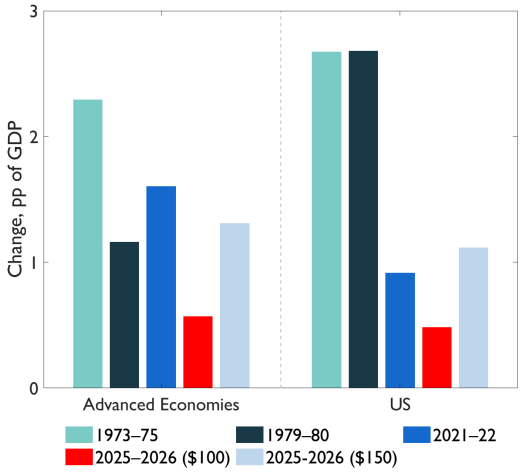
Figure 1: Global Energy Burden

(a) Over Time



(b) Change During Major Shocks



Sources and Notes: Fulcrum Asset Management LLP and Haver Analytics. The left hand panel shows the global energy burden, measured as nominal expenditure on oil, gas, and coal as a share of GDP. Local benchmark energy prices are used (for instance Henry Hub gas prices for the US and TTF gas prices for Europe). The right hand panel shows the change in the energy burden (percentage points of GDP) associated with selected energy shocks. 2026 estimates are based on scenarios in which oil prices average either $100/bbl or $150/bbl for the remainder of the year, with corresponding adjustments to other energy prices.

2. A larger shock in barrels, than burden

The first half of the explanation for the muted response to the shock is structural. The size of the current shock is best seen by stepping back from oil barrels to ask what those barrels are worth to the economy that consumes them at currently prevailing prices. The energy intensity of the global economy has fallen steadily since the 1980s. Figure 1, panel (a), shows the energy burden, or nominal spending on oil, gas and coal as a share of global GDP. This is the value of energy inputs required to generate one unit of world GDP. A given volume shock today lands on an economy far less oil dependent than the one that faced the disruptions of the 1970s, 1980s or even the 2010s. The US illustrates this point in its starkest form. Over the same period, the US has moved from being the world's largest oil importer to a net exporter of petroleum, so that a sustained rise in crude prices now largely works through an improvement in the terms of trade, redistributing income within the US economy rather than transferring it abroad. The country once most exposed to an oil shock is now among the most insulated.

Measured in barrels, the near closure of Hormuz was enormous. But measured by economic burden, the shock proved far more manageable. The price response was large in nominal terms, but as a claim on real income it remained contained, and well below the levels reached in earlier episodes. Figure 1, panel (b), clarifies this. At its height the energy burden, or nominal spending on oil, gas and coal as a share of GDP, rose by around 0.5% of GDP, shown in the **red bars**. Even at the peak this fell

[1]The burden was also not borne evenly. The insulation that shields the US does not extend to the importing regions of Asia or, to a lesser degree, Europe. Asia is the natural home of Gulf crude as the Dubai and Oman benchmarks price the barrels that transit Hormuz and Asian buyers must compete most directly for the supply that remains. The dislocation was consequently concentrated there, both in crude and, with a lag, in the oil indexed liquefied natural gas contracts that dominate Asian gas

short of the 2022 energy crisis, shown in the **blue bars**, and of other historical supply disruptions.[1]

That the burden stayed contained, however, was conditional on where prices settled. At an oil price near $100/bbl the shock was relatively benign through a historical lens. But it would have become materially less so had prices reached $150/bbl. That adverse scenario, shown in the light blue bars of Figure 1, panel (b), would have pushed the burden closer to the 2022 experience. As we argue in Section 4, that outcome was a genuine risk while inventories were drawing down toward their floor, but it is precisely the outcome the peace deal intends to take off the table.

The second half of the explanation attributes the Hormuz supply loss to various channels, including offsetting supply factors, demand reduction, and inventory drawdowns. These changes in oil balances are summarised in Table 1. An average of 25mb/d flowed through the Strait of Hormuz during 2025, over 23% of global supply. Not all of this was removed from the market, as the Strait never closed completely, and the disruption was cushioned by offsetting flows, predominantly the Saudi pipeline to the port of Yanbu on the Red Sea and some "shadow" shipping. These have proved larger than first feared, and a trough closer to 14 mb/d was being lost during May and early June, around 13% of global supply. This is still an extraordinary volume of oil lost from the market, and measured purely by the volume of barrels removed at source, this ranks among the largest supply shocks the modern oil market has experienced.

Further attributing the 14 mb/d supply loss between changes in demand and inventories is a complicated exercise, with several data limitations. Nevertheless, our estimates suggest that the bulk of the adjustment, between 10 mb/d and 13 mb/d, had been absorbed through inventory drawdowns. As a result, the effective shortfall that the global economy confronted was considerably smaller than the headline supply loss implied. In contrast, demand destruction, the reduction in oil demand triggered by high prices, accounted for a relatively modest share of the adjustment, estimated at between 3 mb/d and 5 mb/d.

Table 1 also shows how we expect the adjustment to evolve going forward. As the Strait reopens, we expect the supply shortfall to narrow sharply in the second half of the year. However, some loss of supply is likely to persist, as infrastructure damage remains significant and is expected to outweigh any opportunistic production increases. The peace process is also unlikely to be smooth and small supply disruptions are still likely. The inventory drawdown, which played such a large role in absorbing price pressure, is likely to be reversed over the next six months, although this process is subject to considerable uncertainty. We return to this mechanism, and our projections, in Section 4. This rebuilding is likely to place upward pressure on prices, holding them above both pre-war levels and the current forward curve. As a result, demand is expected to remain lower than in 2025 at these higher price levels.

pricing. The aggregate picture of a contained shock therefore concealed a sharp geographic skew. Although the barrels lost were absorbable for the world as a whole, they were absorbed very unevenly, with the regions least able to substitute away from Gulf crude carrying the heaviest share of the adjustment.

Table 1: Global Oil Market Balance (mb/d)

	2025 Ave.	May-26		Jul-26		Dec-26	
	Level	Level	Change	Level	Change	Level	Change
Supply	106	91	-15.3	96	-10.0	104	-2.0
Hormuz	25	11	-14.0	15	-10.0	23	-2.0
Demand	104	101	-3.0	101	-3.0	101	-3.0
US	21	20	0.5	20	0.5	20	0.5
China	17	16	-1.2	16	-1.2	16	-1.2
Inventory Change	2.0	-10.3	-12.3	-5.0	-7.0	3.0	1.0
On water	0.7	-4.6	-5.3	0.0	-0.7	0.5	-0.2
OECD	0.2	-3.7	-3.9	-2.5	-2.7	1.3	1.1
EMs	1.1	-2.0	-3.1	-2.5	-3.6	1.2	0.1

Sources and Notes: Fulcrum Asset Management LLP and Goldman Sachs. The table shows the balance of supply and demand in the global oil market. All figures are in millions of barrels per day. "Change" refers to the difference relative to the 2025 average. Any discrepancies are due to rounding.

3. The current market adjustment

3.1. Quantities

High frequency data from the world's two largest economies confirm this picture. They also highlight the crucial role of international trade in cushioning the shock. In both the US and China, adjustments in trade flows have helped absorb supply disruptions, smoothing the rebalancing process and limiting the impact on the global economy.

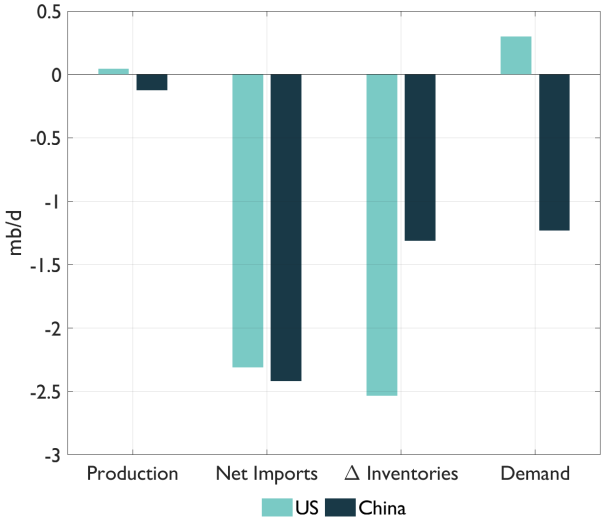
For both countries, domestic oil production has remained broadly unchanged since the conflict began, as shown in Figure 2. US output stayed close to 14 mb/d throughout, and there has been no production revival riding to the rescue. Indeed, the shale industry, which responded rapidly and elastically to higher prices during the 2010s, has shown little sign of increasing supply. Despite strong price incentives, production has remained remarkably stable.

However, both countries reduced their net oil imports by roughly 2.3 mb/d. In the US, this adjustment primarily took the form of higher exports, whereas in China it reflected a decline in imports. Together, these changes freed up approximately 5 mb/d of supply for the rest of the world market.

Beneath this aggregate, the domestic adjustment mechanisms differed markedly. In the US, the response came overwhelmingly through the drawdown of inventory buffers, with little evidence of any meaningful reduction in demand. In contrast, the Chinese adjustment combined lower imports with some genuine softening in consumption, though even there the fall in demand was modest. Part of this reflected a shift away from the rapid inventory accumulation that characterized the pre-conflict period. Rather than continuing to expand strategic and commercial stockpiles, China largely maintained existing inventory levels. Some of the decline in Chinese oil demand appears to be structural rather than a direct consequence of the energy shock. The rapid adoption of electric vehicles and a broader decline in the oil intensity of economic activity both predate the conflict. Although both the US and China used inventory drawdowns to reduce imports, demand only fell in China.

The inventory buffer has not been exhausted and has carried the adjustment for long enough that the disruption is likely to be resolved by the peace deal, before inventory levels reach their operational floor. A disruptive price spike has been avoided so far, and we examine this in greater detail in Section 4. But the inventory buffer's role does not end there. Having absorbed the shock as supply was disrupted,

Figure 2: Change in Crude Balances Since War Began



Sources and Notes: Fulcrum Asset Management LLP, Haver Analytics, EIA, National Bureau of Statistics of China. Figure shows the change in the balance between the latest data and the end of March, expressed on a monthly annualized basis and converted into millions of barrels per day. Minor discrepancies with Table 1 arise for two reasons: (1) Table 1 shows monthly changes, whereas this figure shows the averages of the cumulative changes since March; and (2) Table 1 includes refined products, while this figure is restricted to crude oil only to ensure comparability across countries.

inventories must now be rebuilt. The rebuilding phase is likely to keep energy prices elevated even as the conflict subsides.

3.2. Prices

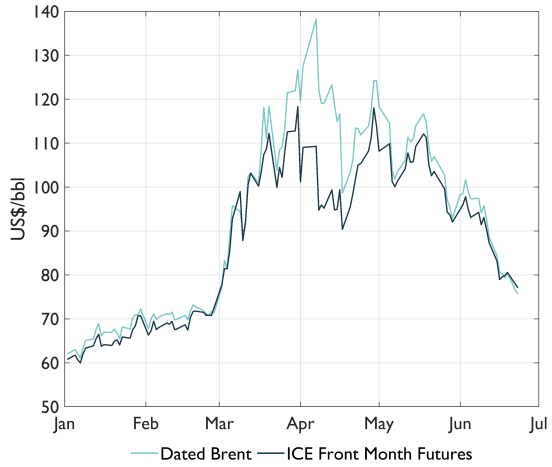
Another part of the reason markets appeared relatively calm is that the most widely quoted oil price is not necessarily the best measure of current physical tightness. The benchmark reported in the financial press is typically the front-month Brent futures contract. After briefly touching $120/bbl at the peaks in late March and April, front-month Brent has fallen back to around $80/bbl. Futures prices further out the curve have also softened, with the December contract now trading closer to $75/bbl. This appears to signal that the worst is over.

During the crisis, however, futures prices, which are forward looking financial instruments, diverged sharply from conditions in the physical market. The premium of Dated Brent over Brent futures, normally only a few dollars per barrel, widened to almost $36/bbl at its April peak as refiners scrambled for prompt cargoes. Figure 3, panel (a), shows the scale of this dislocation. The spread has since narrowed to less than $3/bbl as optimism grew that the Strait will reopen and a peace deal was announced. That convergence is itself revealing. It suggests not that April's physical tightness was illusory, but that markets expected it to prove temporary, a judgement the deal has since vindicated. Supply is still impaired and, with an inventory rebuild likely, the current forward path, which projects oil prices down towards $75/bbl, may prove too optimistic.

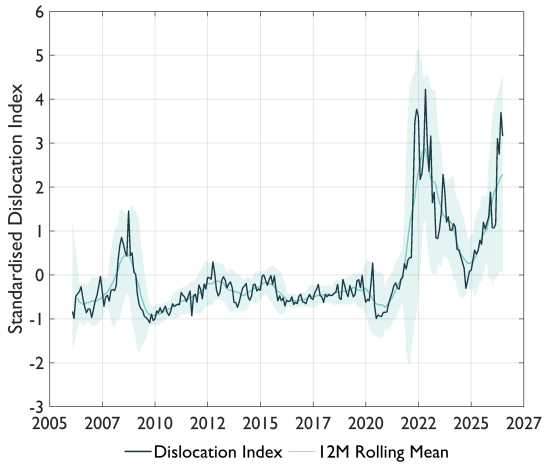
The dislocation was largely a feature of the Brent complex, where the physical and financial benchmarks reference different delivery mechanisms and time horizons. But because Brent futures remain the principal pricing and hedging benchmark for globally traded crude, the episode signalled a degree of prompt physical scarcity that the futures curve

Figure 3: Energy Market Pricing Dislocation

(a) Physical and Financial Brent Prices



(b) Global Crude Product Dislocation Index



Sources and Notes: Fulcrum Asset Management LLP. Figure shows the dispersion between physical and financial Brent prices. Panel (a) compares dated Brent (physical market) with the ICE front month Brent futures contract. The divergence observed in April subsequently reverses, indicating a temporary dislocation between the two pricing benchmarks. Panel (b) shows the first principal component extracted from a panel of 12 standardised price dislocation measures. These include US petroleum product crack spreads, European product crack spreads, and fertiliser spreads relative to dated Brent crude. All series are converted into z-scores using a pre-shock baseline and aligned at a monthly frequency. The first principal component is interpreted as a global "dislocation factor", capturing the common co-movement across closely linked commodity product markets. The shaded band represents a 2 standard deviation envelope around a 12 month rolling mean.

alone did not fully capture.

The same logic extends one step downstream. If inventories were absorbing the shock cleanly, the dislocation visible in crude would be the whole story, and refined product prices would simply track dated Brent. Instead, product markets suggest a more cautionary message. Although crude inventories have cushioned the headline price response, stress in the product complex has continued (Box 1). The buffer that has calmed the crude market does not extend evenly down the barrel.

Box 1: A warning from the product complex

A crack spread measures the margin a refiner earns between a refined product and the crude input from which it is derived. In normal conditions, this margin is relatively stable and mean reverting, driven mainly by seasonal demand patterns and refinery utilisation. If a crude shock is transmitted cleanly through the system, product prices rise broadly in line with dated Brent and crack spreads remain close to their historical norms. Instead, if product markets are additionally stressed, through refinery outages, shipping disruption, or precautionary stockpiling, these spreads widen independently of crude prices.

In Figure 3, panel (b), we construct an aggregate measure of refined product price dislocation. We first calculate crack spreads for a range of products, including US and European petroleum products, jet fuel, and fertiliser, and then convert each to a z-score. These series are then combined into a single indicator in which positive values indicate that product prices have risen by more than can be explained by movements in dated Brent alone. The largest dislocations are observed in European products and jet fuel, consistent with limited substitutability and reliance on Middle Eastern refining capacity.

The signal is a cautionary one. Inventory drawdowns have held the crude market calm, but they do not reach evenly into refined products, where buffers are thinner and substitution is harder. Even as crude prices have fallen, the product dislocation has not eased by much yet, and the level of stress is still close to that seen during the 2022 energy crisis. This effectively serves as a warning indicator, revealing tightness in product markets that movements in crude oil futures contracts still conceal.

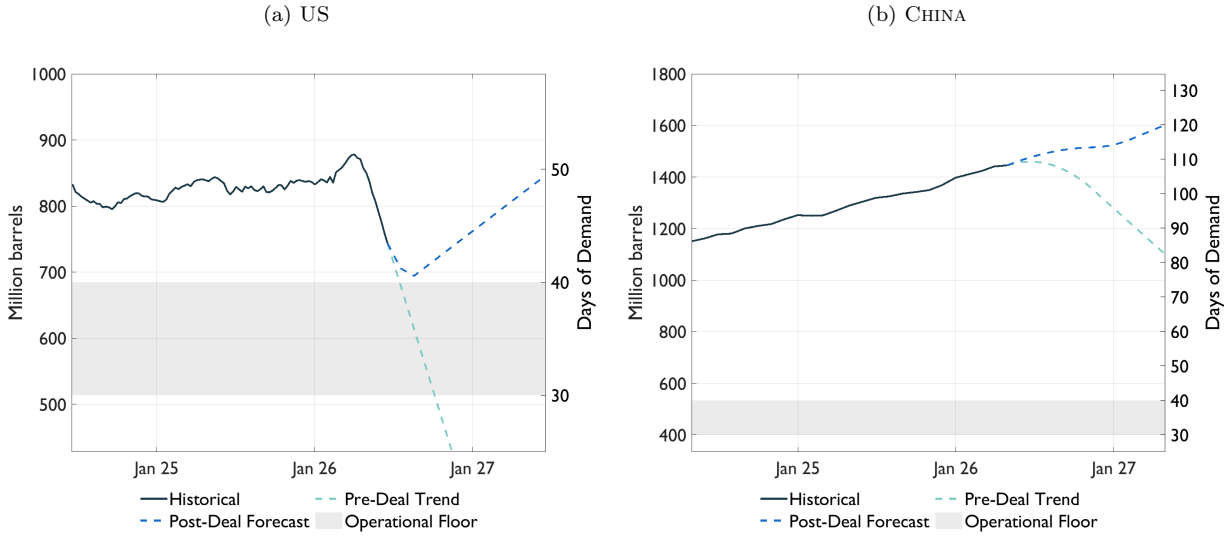
4. The near miss

As we have seen, the calm rested on two foundations. The first was a stock of inventories which were rapidly drawn, and the second was a market expectation that the disruption would resolve before those inventories ran out. Both foundations were genuinely fragile, and for several weeks the risk that they would give way was the dominant feature of the oil market. The resumption of supply appears to have arrived just in time to spare greater volatility. But it is worth setting out how close the system came to disorder, as the mechanism which rescued it is the same one that now shapes the path ahead.

The immediate danger was that inventories would run out. Analysts generally place the operational floor, the minimum working level below which inventories cannot practically fall, at between 30 and 40 days of demand. Here the asymmetry between the US and China was decisive. Although both countries chose to draw down inventories a substantially lower starting level meant that, prior to the US/Iran peace deal, the US was fast approaching its floor. US crude inventories had fallen to around 750 mb, or 45 days of demand. On the pace of drawdown prevailing through the spring, a simple extrapolation implied the floor would be reached within a few months. This is shown as the pre-deal trajectory in the **dashed teal** lines in Figure 4, panel (a). That trajectory was never a forecast so much as a warning of what continued drawdown would mean. A material part of the US drawdown was met by releases from the Strategic Petroleum Reserve and an active decision to slow, halt or reverse the pace of releases was always understood to alter that date. The date at which the US reached minimum working levels was therefore always as much a policy choice as a market outcome.

In contrast, the adjustment in Chinese inventories was smaller, as demand has also fallen, and the starting base was far greater at around 1,440 mb,

Figure 4: Level of Crude Inventories



Sources and Notes: Fulcrum Asset Management LLP, Haver Analytics, EIA, National Bureau of Statistics of China. The operational floor, highlighted by the **grey region** is assumed to be between 30 and 40 days of current demand. The pre-deal trend, shown by the **dashed teal** lines, assumes for the US a continued steady decline in inventories consistent with the latest data. For China, it assumes a more conservative pace of inventory accumulation, gradually slowing as imports remain under pressure, in line with the latest high-frequency trade data. The post-deal forecast shown in the **dashed blue** line, assumes a gradual reopening of the Strait over the coming three months, after which inventories stabilise and recover to slightly above their pre-war level in the US, and trend in China.

over 100 days of demand. This comfortable buffer means the inventory constraint was never likely to bind this year, as shown in the **dashed teal** lines in Figure 4, panel (b).

The potential danger was not the drawdown alone but what could happen at the operational floor. As inventories approach their minimum practical level, the price of holding the last barrels rises sharply, and the market must bid the spot price up relative to futures to coax those barrels to the market. The adjustment can be abrupt rather than smooth, consistent with the classic convenience yield logic of commodity storage theory (Kaldor, 1939; Working, 1949). This was precisely the scenario the oil executives had been describing, with talk of physical Brent spiking to $150 to $160 once inventories hit their lows (Box 2). The probability of such a spike was rising with every week of continued drawdown.

That spike never came, because expectations for a lasting peace deal arrived first. As the Strait reopens, even gradually, the previous trajectories in panel (a) and (b) are replaced by new post-deal paths, shown in **dashed blue** lines. In this forecast, consistent with our projections in Table 1, we envisage US inventories stabilising short of the operational floor and then starting to recover. Chinese inventory levels follow a delayed return to their previous trend. The system reached the edge of the critical range and stepped back from it. The convenience yield logic that threatened a disruptive spike was disarmed not because the buffer proved deeper than feared, but because the disruption was resolved before the buffer was tested to destruction.

But the same logic now operates in reverse, which is critical for the path ahead. The drawdown that suppressed the price as supply fell is likely to be replaced with a desire to rebuild inventories as new supply enters the market. Having seen how readily the Strait can be closed, natural inventory holders in the market are unlikely to return to their pre-war operating levels. Instead the demonstrated vulnerability is likely to raise the desired level of precautionary stocks. The absorbing buffer therefore becomes an additional source of demand, as commercial and strategic holders restock against the next disruption. The mechanism has not gone away. It has changed sign, and in so doing places a floor under prices well above the level a simple supply normalisation would imply, a point we develop in Section 5.

A second mechanism reinforces the first, and concerns the shape of the futures curve rather than its level. The macroeconomic damage from energy shocks depends on whether the market expects these to be temporary or persistent. A disruption judged to be temporary tilts the curve, with the spot price rising more than longer dated contracts, while one judged to be persistent shifts the whole curve up in parallel and is associated with larger macroeconomic effects for the same initial price move (Chiu and Wales, 2026). Throughout this episode the curve tilted rather than shifted, indicating that the market consistently treated the disruption as temporary. That assessment now appears to have been vindicated.

Box 2: Competing explanations for the calm

Through the disruption, market analysts and industry producers offered contrasting explanations for why the market appeared calm, and the disagreement was substantive rather than semantic. Analysts read the calm as genuine and durable. After a trip to China, JP Morgan's oil team concluded that Chinese demand may have fallen by as much as 9% (around 1.5 mb/d), with the adjustment occurring abruptly and with limited visible disruption, as the crisis accelerated efficiency gains, modal substitution, and the shift toward electric vehicles (Kaneva et al., 2026). Goldman Sachs also attributed the muted response of spot prices to demand side factors, pointing to ample buffers, the unwinding of precautionary restocking, and an underlying deterioration in end-use demand (Struyven et al., 2026). According to these views, the supply disruption was met by a real and partly permanent fall in demand.

In contrast, oil executives saw borrowed time. Exxon's senior management warned that inventories were approaching "really, really low levels" and that physical Brent could spike to $150 to $160 within weeks once buffers are exhausted. Chevron's chief executive made a similar point, emphasising that inventories and other shock absorbers were being steadily drawn down. They stressed the upward pressure on physical prices had been expected to emerge as inventories approached their operational floors.

The two perspectives ultimately hinged on whether the demand that has disappeared was gone for good, or merely deferred behind a buffer which was running down. In hindsight neither camp was quite right. The spike the executives feared did not arrive, but nor had demand been durably destroyed as the analysts argued. The data show only a modest adjustment. What bridged the gap was the buffer, and it held not because it was inexhaustible but because the disruption resolved before it ran out.

5. The reckoning deferred

Even if an extremely disorderly outcome was avoided, it does not follow that the episode has concluded. The current resolution likely leaves spot prices settling higher than the forward curve implies and a macroeconomic shock that is smaller than feared and largely already in the data.

5.1. Repayment is not a return to cheap oil

The forward curve reads the reopening of the Strait as a return towards the pre-war world, with Brent spot price drifting down towards $75. This is likely too low, and we hold a year-end view closer to $90. This is above the current forward path as shown in Figure 5, panel (a). In our view, two forces keep the price elevated even as the conflict resolves. The first is that supply is unlikely to fully recover quickly. The reopening will take time before shipments travel freely and some physical impairment exists, due to infrastructure damage in the region. The peace deal is also unlikely to be a smooth process. Together this likely leaves supply below the pre-war level, as highlighted in our projections for December in Table 1, even on a constructive reading of the deal.

Secondly, the rebuilding of inventories is likely to begin promptly. The convenience yield mechanism of Section 4 should now run in reverse. During the crisis, a reduction in physical oil inventories added supply to the market and helped to prevent the price from rising further. Going forward replacing those stocks will act as an addition to demand and help support the price. This episode has likely permanently increased the optimal level of oil inventories as, having seen how quickly the Strait could be closed, commercial and strategic buyers are unlikely to return to their pre-war operational level. The demonstrated vulnerability is itself a reason to hold more and restocking against the next disruption will now compete with current consumption for barrels until a new, higher, equilibrium inventory level is reached. Our projections in Table 1 try to project this directly, as the inventory line moves from heavy drawdown at the height of the crisis to a rebuild by year-end.

5.2. The macroeconomic impact

The price path matters because of how those prices impact overall output and inflation in the economy. A useful starting point is the price elasticity of oil demand, which indicates how large a price response is required to clear the market for a given supply loss. Estimates in the literature are consistently small, ranging from approximately -0.14 to -0.18 depending on the horizon and estimation method (Caldara et al., 2019; Helmi et al., 2024; Johnson et al., 2026).[2] Acknowledging this variation, we anchored our assessment of the impact using a short-run elasticity of approximately -0.15, broadly representative across countries.

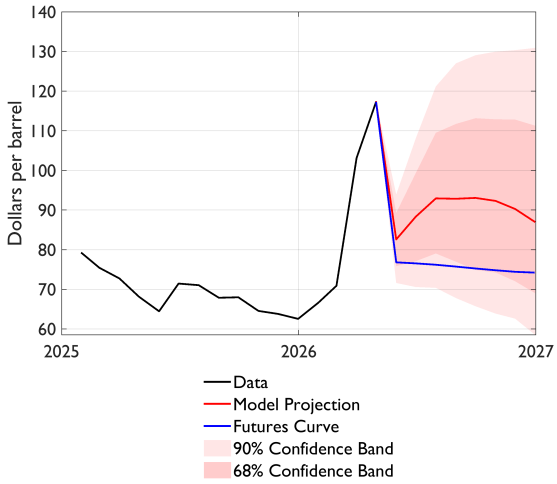
This inelasticity is precisely what makes oil supply shocks so disruptive, and it frames how much work the inventory buffer did. Applied to the rerouted supply loss of around 14 mb/d, the quantity confronting the market after rerouting but before any inventory response, a market-clearing adjustment would have required a price increase of roughly 90%, enough to lift Brent oil prices from their pre-war level near $68/barrel to around $130. That counterfactual is highlighted in **red** in Table 2. It never occurred, because inventory drawdowns absorbed the bulk of the shortfall and reduced the effective shock facing the market to something closer to a 3 mb/d reduction in demand. That far smaller effective shock, shown in **teal**, is consistent with the price path actually observed, and is the clearest single illustration of how much the buffer, rather than demand destruction, did to calm the market.

Feeding the realised price path and our projection, shown in Figure 5 panel (a), through our Bayesian Structural Vector Autoregression (SVAR)

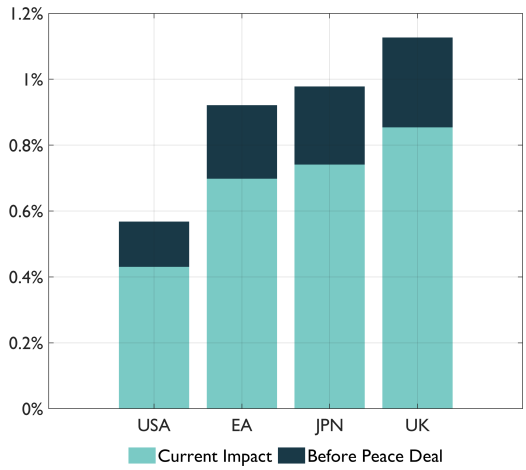
[2] Kilian and Murphy (2014) report a slightly larger elasticity for the US at around -0.26, while Coglianese et al. (2017) finds an even higher value of -0.37 when focusing on US gasoline demand.

Figure 5: Current Energy Shock and Economic Impact

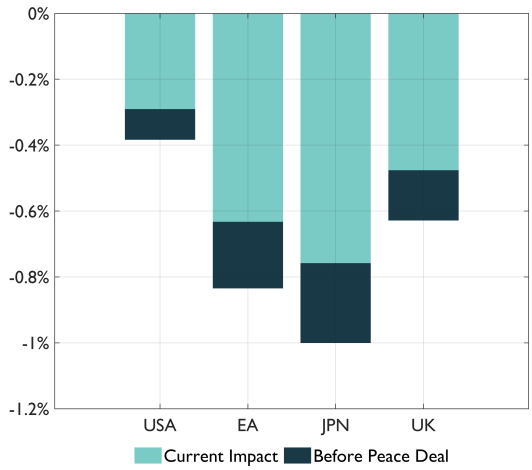
(a) Monthly Brent Oil Price



(b) Price Level Impact



(c) GDP Level Impact



Sources and Notes: Fulcrum Asset Management LLP. Figure shows the projected impact of the current energy supply shock. The impact on the monthly average Brent Crude oil price is shown in panel (a). The **blue line** in panel (a) shows the futures prices. The cumulative effects on consumer prices are shown in panel (b), while panel (c) reports the corresponding effects on GDP by year-end. Results are presented for the United States (USA), Euro Area (EA), Japan (JPN), and the United Kingdom (UK). These responses are derived from a Structural Vector Autoregression (SVAR) model that estimates the macroeconomic effects of oil supply shocks on key aggregates. Panels (b) and (c) are decomposed into the impact expected after the US/Iran peace deal, in **teal bars**. This is consistent with the Brent crude oil price forecast shown in the **red line** in panel (a). The additional impact which was anticipated before the peace deal is shown in **blue bars** of panels (b) and (c). This additional impact had assumed a local currency dated brent equivalent average energy prices of close to $100 in Q3. As of June 24, 2026.

Table 2: Scenarios for Brent Oil Price as Function of Exports and Price Elasticity

	Oil Export Volumes Lost from Persian Gulf (mb/d)										
Price Elasticity	22	20	18	16	14	12	10	8	6	4	0
0.09	234	219	204	189	174	159	144	128	113	98	68
0.11	204	192	179	167	155	142	130	117	105	93	68
0.13	183	173	162	**152**	**141**	**131**	120	110	**99**	**89**	68
0.15	168	159	150	**141**	**131**	**122**	113	104	**95**	**86**	68
0.17	156	148	140	**132**	**124**	**116**	108	100	**92**	**84**	68
0.19	147	140	132	125	118	111	104	97	89	82	68
0.21	139	133	126	120	113	107	100	94	87	81	68

Sources and Notes: Fulcrum Asset Management LLP, based on an original table by Robin Brookes. The table shows the oil price required to offset a range of potential supply losses resulting from a closure of the Strait of Hormuz (columns), across a range of price elasticities of demand (rows). Estimates assume an initial oil price of $68 per barrel and pre-closure flows of 25 million barrels per day through the Strait. All prices are expressed in US dollars per barrel, and the negative sign of the elasticity is omitted for convenience. Cells highlighted in **red** indicate the scenario we currently consider most plausible, corresponding to a total supply disruption of around 14 million barrels per day and a price elasticity of approximately −0.15. Cells highlighted in **teal** indicate the disruption currently facing the market, given the inventory offset.

translates these market dynamics into macroeconomic effects. Figure 5 also shows the impact through to the end of the year on the aggregate price level, in panel (b), and on the level of GDP, in panel (c). The effects are economically meaningful but, along the central path, well short of catastrophic, consistent with a shock that is large in barrels but moderate in burden. In light of progress towards a lasting US/Iran peace deal our assessment of the impact has fallen. It now rests at close to a drag of −0.3% of GDP in the US and closer to −0.6% in the euro area, Japan and the UK, with a broadly similar addition to the price level. The qualitative features of this shock are common across countries, as a cost-push channel raises the price level while the demand destruction channel reduces output. The US was always anticipated to remain more insulated for the structural reasons set out in Section 2.

This is already visible downstream. US retail gasoline, having spiked toward $4.60, has begun falling back as the crude decline passes through, bringing forward to households a relief that the forward curve had not initially expected until later in the year.

5.3. Implications for markets and policy

Financial markets are forward looking and, throughout this episode, consistently appeared to anticipate that a deal would be reached before the summer. As a result, the announcement itself does not constitute a new shock for market participants. The macroeconomic implications were also largely expected. Consequently, the changes in the impacts shown in Figure 5 partly reflect the earlier timing of a deal that was already embedded in the projected path. For instance, lower energy prices had long been incorporated into market forward curves, while the decline in spot prices primarily brings forward the disinflationary impulse rather than creating a new one. Even with a deal in place, both headline and core inflation remain above target across much of the world, and it is still unclear whether second round effects will emerge. Central bankers remain acutely aware of this risk.

The deal does, however, materially reduce the probability assigned to more adverse escalation scenarios. For central bankers, the de-escalation of tensions and the accompanying reduction in uncertainty may be the most significant consequence of the agreement. A sustained rise in oil prices towards

$150 per barrel would have presented policymakers with a genuine trade-off between supporting economic activity and maintaining price stability. By reducing the risk of such an outcome, the deal is likely to leave many central banks in a more comfortable holding pattern.

The rapid change in magnitude of the shock may have caught central banks off guard, both during the escalation and the subsequent de-escalation phases. Initially, the FOMC chose to leave its economic and interest rate projections largely unchanged at their March meeting. By the time policymakers were finalising their latest forecasts ahead of the June meeting, news of the peace agreement had already emerged. As a result, the Fed delivered a substantial hawkish surprise to financial markets at precisely the moment the episode had peaked. Despite starting from a different position, the ECB also appears to have tightened policy prematurely by raising interest rates. Whether these responses ultimately prove "robust" in the face of a rapid de-escalation remains an open question. Fixed income markets in both countries may still be catching up to the fact that the inflationary shock has largely dissipated.

6. Conclusion

The oil market's calm throughout the 2026 energy shock was ultimately vindicated. That calm was both earned and borrowed. It was earned because the world economy is now far less oil dependent than in the past, so a shock that would once have triggered a recession produced effects that, while material, were manageable. It was borrowed because the major economies, particularly the US and China, absorbed the bulk of the shortfall by drawing down and redirecting inventories rather than through new supply or any lasting destruction of demand. The distinction matters, because borrowed calm now has to be repaid.

A lasting peace deal appears to have arrived before the inventory buffer was exhausted, so any discontinuous price spike that the drawdown was steadily making more likely never occurred. But repayment is not the same as a return to the pre-war world. Just as the inventory drawdown helped to suppress prices, the rebuild will now support them alongside a supply base which is likely to remain impaired for some time.

The macroeconomic impact, though real, is largely already in the data and the resolution pulls forward a disinflation which was always anticipated. It does, however, give central banks room to hold rather than reason to ease, while also highlighting how rapidly changing conditions left policymakers struggling to calibrate their response. Fixed income markets may still be catching up to the fact that the inflationary shock has largely dissipated. The episode is therefore better read not as a crisis averted but as a demonstration of how much disruption the modern oil market can absorb, and of what that absorption costs.

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