

Oil markets dominate the headlines, but diesel shortages are the bigger concern

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Key points

- Brent crude is expected to trade between \$US70 and \$US100 a barrel in the second half of 2026.
- Strait of Hormuz flows remain the key driver of oil prices.
- Diesel supply disruptions could take longer to unwind.

Brent oil futures fell as low as \$US70 a barrel on 2 July as oil flows through the Strait of Hormuz rebounded in the wake of the US-Iran Memorandum of Understanding (MoU) signed on 17 June.

However, as violence escalated between the US and Iran from 7 July, undermining the MoU, Brent oil futures quickly escalated towards \$US100 a barrel as markets increasingly worried about global oil and refined product inventory depletion.

But optimism and pessimism over a US-Iran deal have subsequently seen Brent oil futures drop as low as \$US78 a barrel in early August, before rising to current levels of \$US95-100 a barrel.

We continue to expect Brent oil futures will trade between \$US70-100 a barrel in the second half of 2026 with elevated price volatility.

Hormuz flows remain crucial

The lower bound of \$US70 a barrel is aligned to expectations or evidence of modest oil flows through the Strait.

We estimate that only 40-45% of pre-war oil flows are required to transit through the Strait of Hormuz to keep global oil and refined products unchanged.

This helps explain why oil markets are so quick to fall on any talk of a US-Iran deal. The reason that the Strait of Hormuz does not need to see pre-war levels of flow is because of the pipeline bypasses to the Strait of Hormuz, structurally lower Chinese oil imports and rising oil supply outside the Middle East.

The upper bound of \$US100 a barrel reflects worries over inventory depletion and would be consistent with oil flows through the Strait of Hormuz being restricted.

We estimate that global oil markets still have around 15-20 weeks of stockpiles left based on our view that oil flows through the Strait are averaging about 30% of pre-war levels.

This is a highly contested view. Reports from the US government indicate that flows through the Strait are now averaging 40% of pre-war levels even without a US-Iran deal.

Meanwhile, ship-tracking and satellite imagery data are showing flows through the Strait as low as about 20% of pre-war levels, implying five to 11 weeks of oil and refined products before inventory depletion.

With satellite imagery over the Strait now less frequent due to pressure from the US government, oil markets are increasingly turning to secondary sources to confirm actual flows through the Strait.

Markets are justified in maintaining an oversupply bias given little evidence of global oil and refined product inventories declining.

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Diesel shortages pose the bigger concern

While oil price volatility has been two-way since renewed US-Iran fighting from 7 July, Singapore gasoil spot prices, which are the main benchmark for Australian diesel prices, have seen price volatility skew more to the upside.

Diesel prices have been supported by disruptions to diesel exports from the Persian Gulf and Russia.

Persian Gulf diesel exports have yet to recover in the same way as crude oil compared to pre-war levels due to the longer restart time for refineries in the region, damage to refining capacity and the fact that pipeline bypasses are transporting crude oil only.

Middle East refined product exports tracked around half of pre-war levels in June and July.

Meanwhile, Ukraine's attacks on Russian refineries have also sidelined a key source of global diesel and pushed Russia to ban diesel exports until 30 September.

Russia's refinery throughput fell to its lowest level in more than 21 years in July. All in all, global diesel exports declined about 35% year-on-year in July.

While we believe Singapore gasoil spot prices will gradually normalise over the next 12 months as global diesel disruptions are eventually mitigated, the pace of normalisation will be slower than for crude oil.

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