

# Trump plays Sultan of Swing in the (Dire) Strait of Hormuz

The US, Israel, Iran crisis and the ensuing volatility

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## Executive Summary

On 28<sup>th</sup> February 2026, the global oil market moved from surplus to crisis in less than 48 hours. US and Israeli strikes on Iran were followed by Iran's effective closure of the Strait of Hormuz, the waterway through which 20 mb/d of crude, petroleum products, and LNG normally transit. Brent, which had ended 2025 at \$61/bbl in a market tracking toward its largest surplus since the pandemic, crossed \$100/bbl in March for the first time since 2022 and reached \$115/bbl by month end. This is not simply another geopolitical oil spike. It is the largest disruption to the physical architecture of global energy trade in modern history.

**The scale of the disruption is significant.** Prior geopolitical shocks removed 4-6% of global oil supply, whereas a full Hormuz closure threatens ~20%. Existing bypass infrastructure like Saudi Arabia's East-West Pipeline and the UAE's ADCOP pipeline combined covers 13% of normal flows. Rerouting provides partial relief, and a return to normalcy would likely require diplomatic intervention or military de-escalation.

**The price action is not a classic supply shock.** Oil has exhibited repeated spike-and-retracement moves rather than a clean, sustained repricing. That pattern reflects a market that's pricing severe geopolitical risk while being partially cushioned by International Energy Agency (IEA) strategic reserve releases of 400 million barrels, limited alternative routing, and Russian supply filling the gap for Asian buyers. Those cushions are finite. If the Strait remains blocked beyond 60-90 days, their effectiveness wanes and prices realign with physical supply reality.

Following conclusions define our view:

**The floor is well defined; the ceiling is not.** OPEC's fiscal requirements set a structural price floor. The median fiscal break-even across major producers sits at ~\$79/bbl for 2026; Saudi Arabia's is \$92/bbl and rising when PIF spending commitments are included. Below \$80/bbl, production cuts become a fiscal imperative, not a policy choice. The ceiling is a different matter entirely. In a sustained disruption scenario, there is no historical precedent for what prices could reach, the \$118/bbl high of 31<sup>st</sup> March 2026 is not a cap.

**The beneficiaries are not who you would expect.** Russia, which did not fire a shot has emerged as the primary financial winner. Russian crude bypasses Hormuz entirely; when the Strait closed, Moscow became the default alternative supplier for India and China simultaneously. The Urals-Brent discount narrowed from \$30/bbl to \$6/bbl in four weeks. Iran, meanwhile, has weaponised access rather than simply closing the Strait, granting passage to China, Russia, India, and Pakistan while blocking Western-allied operators, effectively running a geopolitical toll booth that preserves its own revenues while maximising pressure on rivals. The countries absorbing the largest costs, Japan, South Korea, India, made none of the decisions that triggered the crisis.

**The structural consequences outlast the price.** Trade routes are being permanently rewired as major carriers have rerouted via the Cape of Good Hope and Japan and South

Korea are actively developing Pacific-routed supply relationships that will not fully revert when the Strait reopens. Pakistan has emerged as the formal diplomatic channel between Tehran and Washington, having proposed the Islamabad Accord and conveyed Iran's 10-point response to the US on 6<sup>th</sup> April. LNG markets are structurally repriced, Qatar's export capacity is damaged for three to five years regardless of when the crisis resolves. And the GCC's investment narrative, built on a decade of MSCI inclusion and transformation programmes, is under review.

Three scenarios frame the next 6-12 months: base case partial normalization at ~\$90/bbl; upside above the high of \$118/bbl (reached on 31<sup>st</sup> March 2026), if disruption deepens; downside at ~\$75/bbl if Hormuz reopens early.

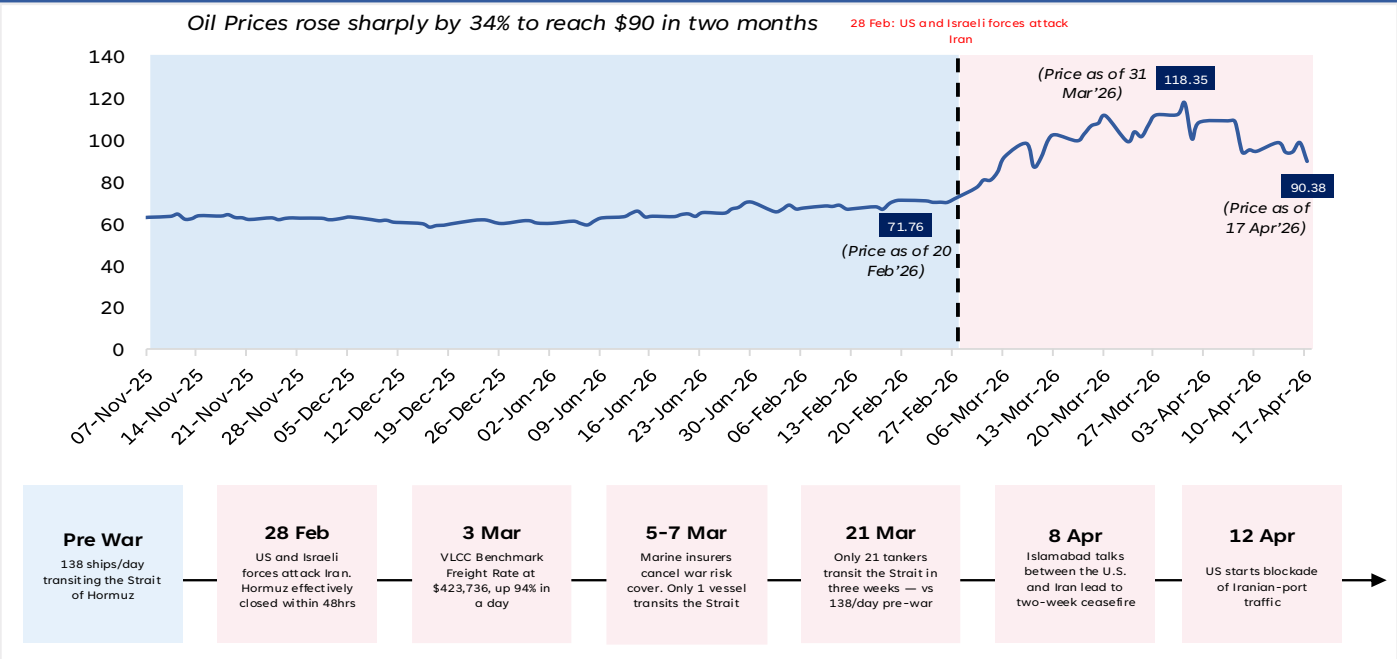
The crisis and the access through the Strait of Hormuz has evolved in phases, with each event having different implications for oil prices as follows:

Date	Event	Impact
28 Feb 2026	U.S.-Israel strikes on Iran; Hormuz traffic is sharply disrupted	Marks the start of the crisis, and the market's shift to a geopolitically driven supply shock.
14 Mar 2026	Iran begins allowing selective transit through the Strait	Signals that access is no longer uniformly blocked, but politically managed and selective.
8 Apr 2026	Two-week ceasefire is announced through the Pakistan channel	Allows some tanker movement to resume and creates the first real opening for de-escalation.
13 Apr 2026	U.S. announces blockade of vessels entering or leaving Iranian ports	Non-Iranian transit is still allowed in principle, but shipping risk remains elevated.
17 Apr 2026	Iran temporarily reopens the Strait of Hormuz	Commercial vessels begin using the route, but movement remains cautious and well below normal.
20 Apr 2026	U.S. seizure of an Iranian cargo ship and renewed Iranian enforcement in the Strait.	Renewed enforcement risk and military tension

# Introduction

On 28<sup>th</sup> February 2026, the global oil market moved from surplus to crisis in less than 48 hours. Coordinated US and Israeli strikes on Iranian nuclear and military facilities were followed by Iran’s effective closure of the Strait of Hormuz, the world’s most critical energy chokepoint. ~20 mb/d of crude oil and petroleum products normally transit the Strait, making this not merely another Middle East flare-up, but a direct shock to the physical architecture of global energy trade.

**Exhibit 1: Timeline of Events post Strait of Hormuz Crisis**



Source: Bloomberg

The oil price response was immediate, but not linear. Brent entered 2026 under pressure, having ended 2025 at ~\$61/bbl amid soft demand expectations, OPEC production increases, and a projected global supply surplus of ~3.8 mb/d. The Hormuz crisis reversed that setup abruptly. Brent crossed \$100/bbl in March 2026 for the first time since 2022 and continued rising to ~\$115/bbl by the end of the month. Goldman Sachs estimated that the market was pricing in ~\$14/bbl of geopolitical risk premium relative to pre-conflict conditions, broadly consistent with a scenario involving a four-week halt in Hormuz flows with only partial bypass capacity deployed.

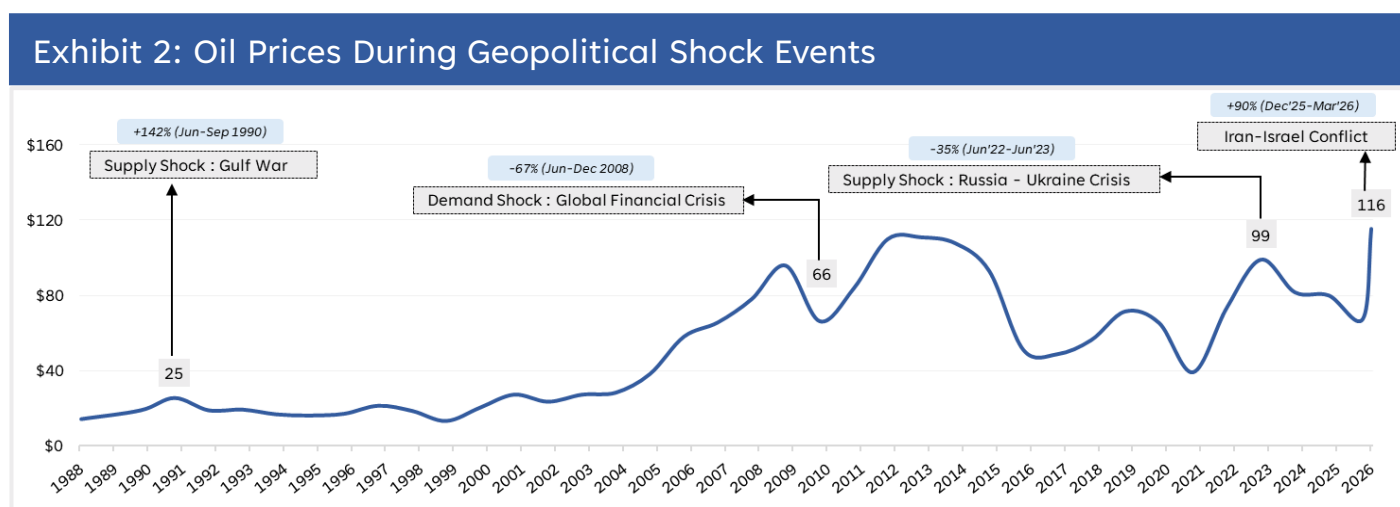
Yet the current price pattern has not resembled a classic one-directional supply shock. Historically, large oil disruptions tend to produce a sharp repricing followed by a cleaner recovery path once the physical supply picture becomes clearer. In contrast, the present episode has been defined by repeated spike-and-partial-retracement moves. That distinction matters. It suggests that the market is pricing an elevated geopolitical premium but not yet pricing a fully persistent physical shortage. Strategic reserve releases, limited rerouting capacity, and alternative supply from non-Gulf producers

have prevented a straight-line surge. At the same time, demand has remained firm enough to prevent any meaningful retracement back to pre-crisis levels.

The result is a market trading between two forces: an upside shaped by geopolitical disruption and a downside anchored by producer policy, fiscal requirements, and still-resilient global demand.

## Oil Price Behaviour Around Shock Events

The current episode is easier to understand when set against the history of major oil shocks. Oil prices do not respond identically to every crisis. The size, source, and duration of a move depend on whether the event is fundamentally a supply disruption, a demand shock, or a combination of both.



Source: Bloomberg

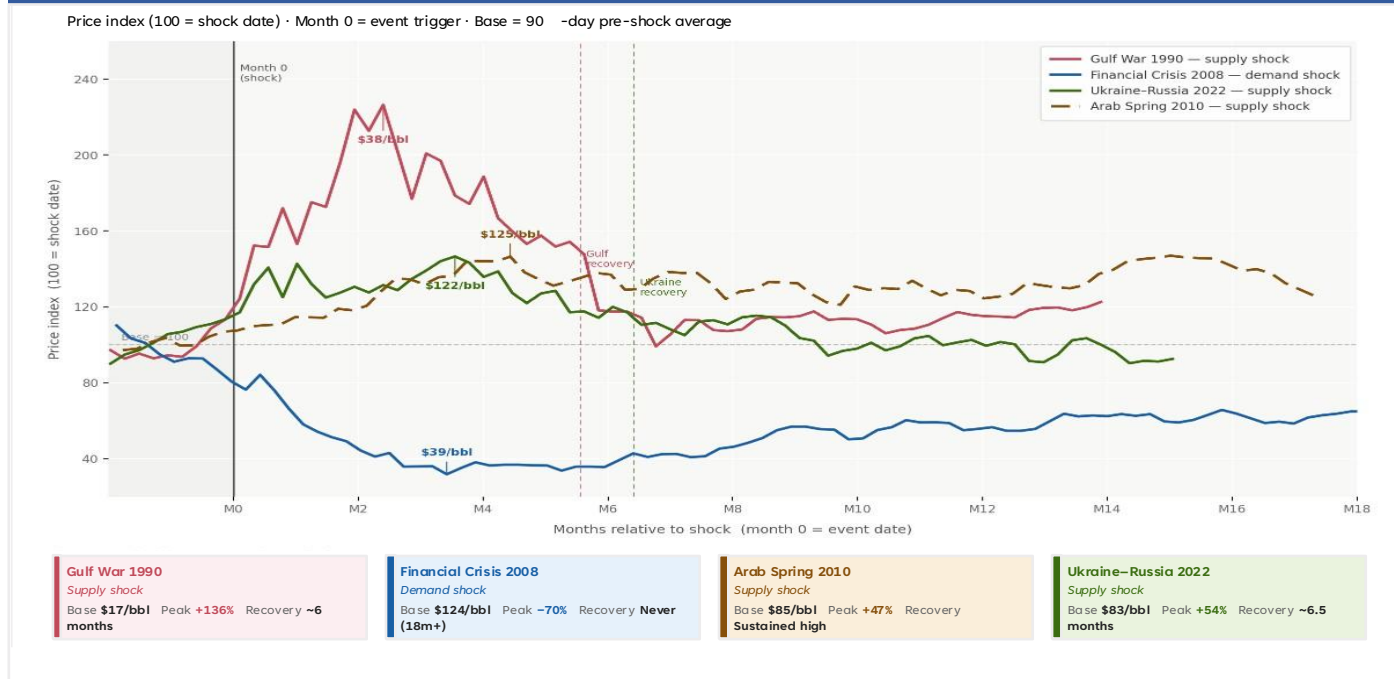
Methodology: Quarterly Brent Prices from 1988 to 2025 were averaged to get annual values.

Note: \$116 is the price of Brent as of 30<sup>th</sup> March 2026.

Three historical patterns are particularly relevant.

- **Gulf War (1990-1991):** This is reflective of a classic supply shock where oil prices rose 2.4x and reached \$39.1 in 3 months between June and September of 1990. However, prices swiftly retraced to pre-crisis levels of \$ 18 in March 1991.
- **Global Financial Crisis (2008-2009):** This is a demand slowdown event with oil prices crashing by 70% in six months, reaching \$45.6 in December 2008. Recovery was slow, with oil prices reaching 2007 levels in Q1 of 2010.
- **Russia - Ukraine Crisis (2022):** The crisis led to a supply shock, with prices peaking to \$115 in June 2022. The prices recovered to \$74 by June 2023, within a 12-month period.

## Exhibit 3: Oil Prices Recovery Post Crisis



Source: GIA Internal Analysis and Bloomberg

Methodology: Chart shows four events, Gulf War (1990), Financial Crisis (2008), Arab Spring (2010), and the Ukraine-Russia war (2022). Prices are indexed to 100 at the start of each event so they can be compared side by side regardless of the actual price level at the time. Supply shocks like wars and geopolitical disruptions tend to spike prices sharply but recover within six months; the 2008 financial crisis was different, as collapsing demand drove prices down by 70% and they never fully bounced back.

The consistent lesson across these episodes is that supply-fear spikes are usually fast and violent, but rarely permanent. They tend to revert once logistics, military outcomes, or producer responses become clearer. Demand-destruction episodes behave differently: they are slower, deeper, and more persistent. The current Hormuz crisis sits between the two. It is a genuine supply disruption at scale, but one occurring in a market that had already been softening on the demand side before the conflict began. That combination explains why prices have risen sharply, but not yet in a clean, uninterrupted move.

History therefore offers a useful reference point, but not a full template. The present crisis is larger in potential scale than most historical precedents and involves a degree of route concentration that few prior shocks have matched.

### Why This Crisis Is Structurally Different

The Strait of Hormuz closure is not simply another geopolitical flare-up in the Middle East. It is a disruption centred on the single most concentrated chokepoint in the global oil system. That alone makes it structurally different from prior events.

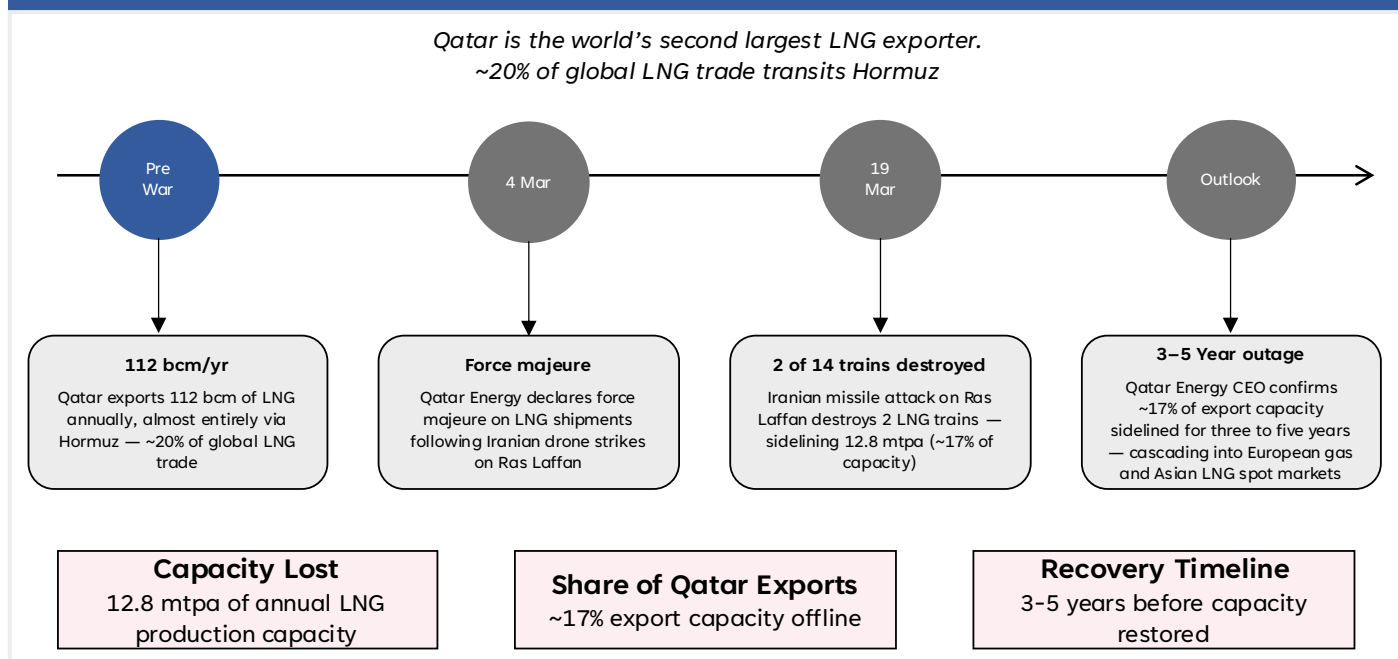
The below structural features separate this event from all prior precedents.

- **Scale of the chokepoint:** The Strait of Hormuz is two miles wide in each navigable direction. ~20 mb/d of crude oil and petroleum products transit the Strait of Hormuz. When closed, there are no meaningful alternatives from where vessels can

reroute. Saudi Arabia's East-West Pipeline and the UAE's Abu Dhabi Crude Oil Pipeline together offer a mere 2.6 mb/d of spare bypass capacity, against 20 mb/d of normal flows.

- **It is not just oil:** Qatar is one of the world's largest LNG exporters, and almost all of its LNG exports transit Hormuz.

#### Exhibit 4: Timeline of Events impacting Qatar's LNG exports



Note: BCM stands for Billion Cubic Metres

- **Recovery is constrained by infrastructure damage, not just transit access:** Saudi Arabia disclosed that attacks reduced oil production capacity by ~600 kb/d and East-West pipeline throughput by ~700 kb/d. By 12<sup>th</sup> April it had restored the pipeline to its full 7 mb/d capacity and recovered volumes from Manifa, while restoration work at Khurais was still ongoing. In the UAE, attacks partly halted Fujairah loadings and suspended operations at the Shah gas field.
- **Gas Infrastructure Damage:** In Qatar, attacks damaged 2 of 14 LNG trains and 1 GTL (gas to liquid) facility, taking 12.8 mtpa of LNG capacity offline for 3–5 years; QatarEnergy later restarted 2 of 3 trains at QELNG North 1 (LNG liquefaction project), but full normalization remains dependent on both infrastructure repairs and safe transit through Hormuz.

A sustained disruption to the Strait simultaneously threatens crude, refined products, and LNG flows. Oil prices may be the most visible indicator, but the transmission mechanism is broader: gas prices, shipping costs, insurance premiums, and industrial input costs all move through the same channel. With damage also affecting parts of the GCC's export and processing infrastructure, restoration depends not only on transit access but also on repair timelines. That is why the Hormuz crisis must be analysed not

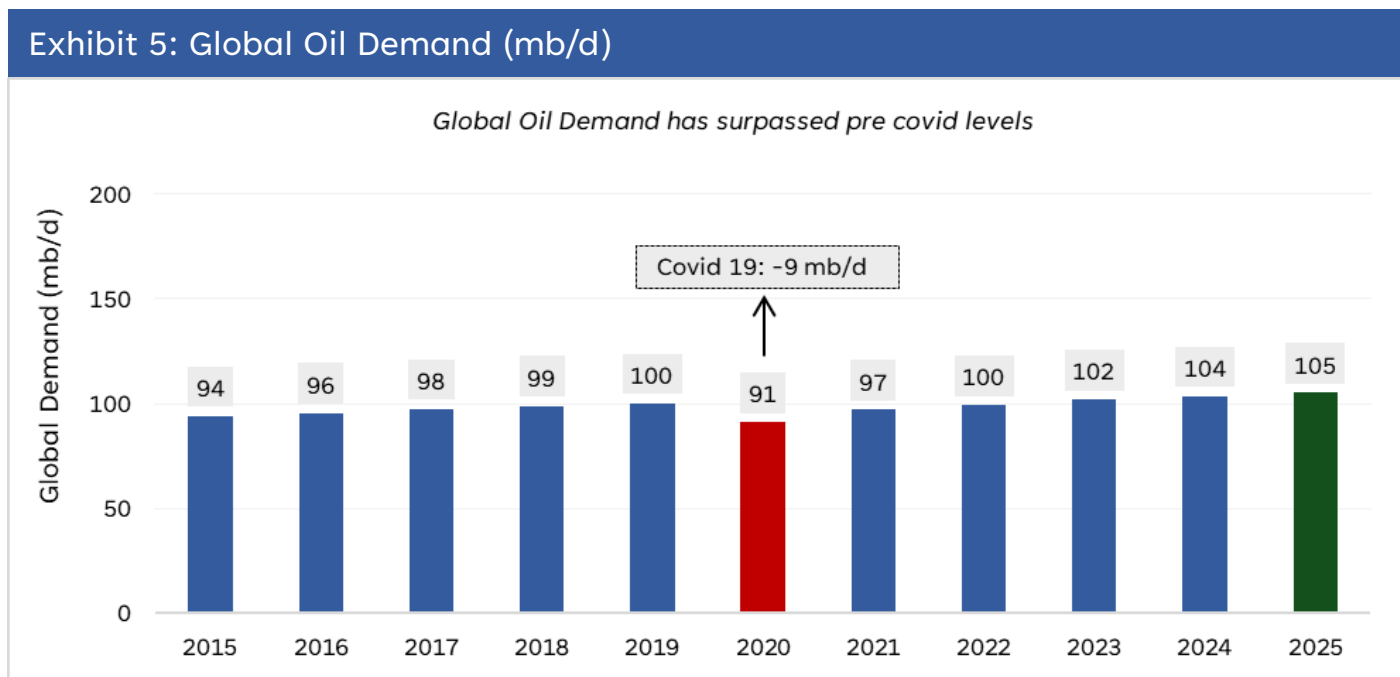
just as an oil price spike, but as a structural test of the resilience of the global energy system.

## The Demand-Supply Equation: Who Needs Oil, Who Has It, and Where the Vulnerabilities Lie

The implications of the crisis cannot be assessed without separating the market into two distinct questions. The first is who consumes oil, in what quantity, and with what level of dependency on Hormuz-linked imports. The second is who produces and exports oil, and whether those exports can realistically be rerouted. The asymmetry between these two sides of the market defines the crisis.

### Global Oil Demand: Where Things Stood Before the Crisis

Global oil demand was running at ~103-104 mb/d at the start of 2026. The post-COVID recovery had run its course, with incremental growth increasingly concentrated in emerging Asia. Demand in Europe and North America had begun to soften, reflecting efficiency gains and industrial weakness.



Source: Statista

The pre-conflict supply picture was one of a surplus:

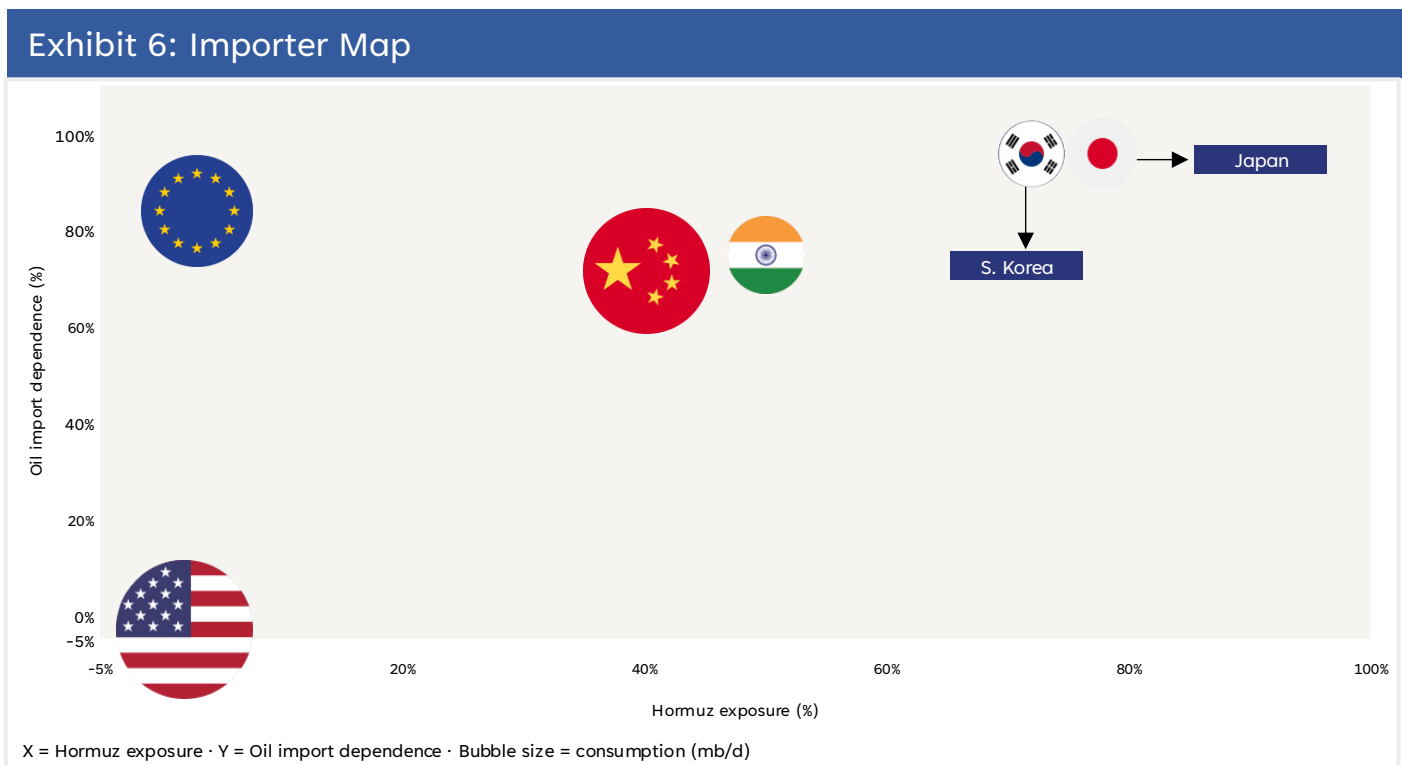
- The International Energy Agency (IEA) had projected a surplus of ~3.8 mb/d in 2026, being the largest since the pandemic.
- US shale, Brazil, Guyana, and Canada were collectively adding supply faster than demand was growing.
- OPEC+ production cuts were the only mechanism holding Brent in the \$60-70 range.

The crisis did not emerge in an already tight oil system. It emerged in a market with softening fundamentals, which is one reason price action has been volatile rather than one-way. However, demand is not the primary constraint in the current episode. The problem is access, who can secure barrels, from where, and through which routes.

This shifts the analytical focus from aggregate demand to geography.

### Demand Geography: The Importer Map

Not all oil-importing countries face the same level of exposure to a Hormuz disruption. **Vulnerability depends on three variables: the share of imports that transit the Strait, the degree of overall import dependence, and the scale of domestic oil consumption.**



Source: U.S Energy Information Administration

Methodology: Import dependence derived as (consumption - production)/consumption.

Note: (1) Hormuz exposure is estimated based on Middle East import share and trade flows (not directly reported).

(2) EU crude imports are largely non-Hormuz (North Sea, Atlantic Basin), with minimal residual exposure.

(3) The U.S. is a net exporter of petroleum liquids, resulting in near-zero import dependence.

A few observations from the exhibit are:

- **Structural vulnerability is concentrated in Japan and South Korea:** Both economies register Hormuz exposure above 70% against oil import dependence of ~95%. With no domestic production base and no credible substitute supply at scale, their risk is structural and cannot be resolved through inventory drawdowns alone.
- **India and China carry material exposure, partially offset by strategic buffers:** Both retain meaningful mitigation capacity, with Russian supply as an alternative and substantial strategic stockpile. The risk for these countries is high but manageable in medium term.

- **Europe and the United States represent price risk, not supply risk:** Despite being the largest consumption volumes at 13.5 and 19.5 mb/d respectively, both have below 5% Hormuz exposure. The crisis transmits to them through global benchmark pricing and LNG market tightening.

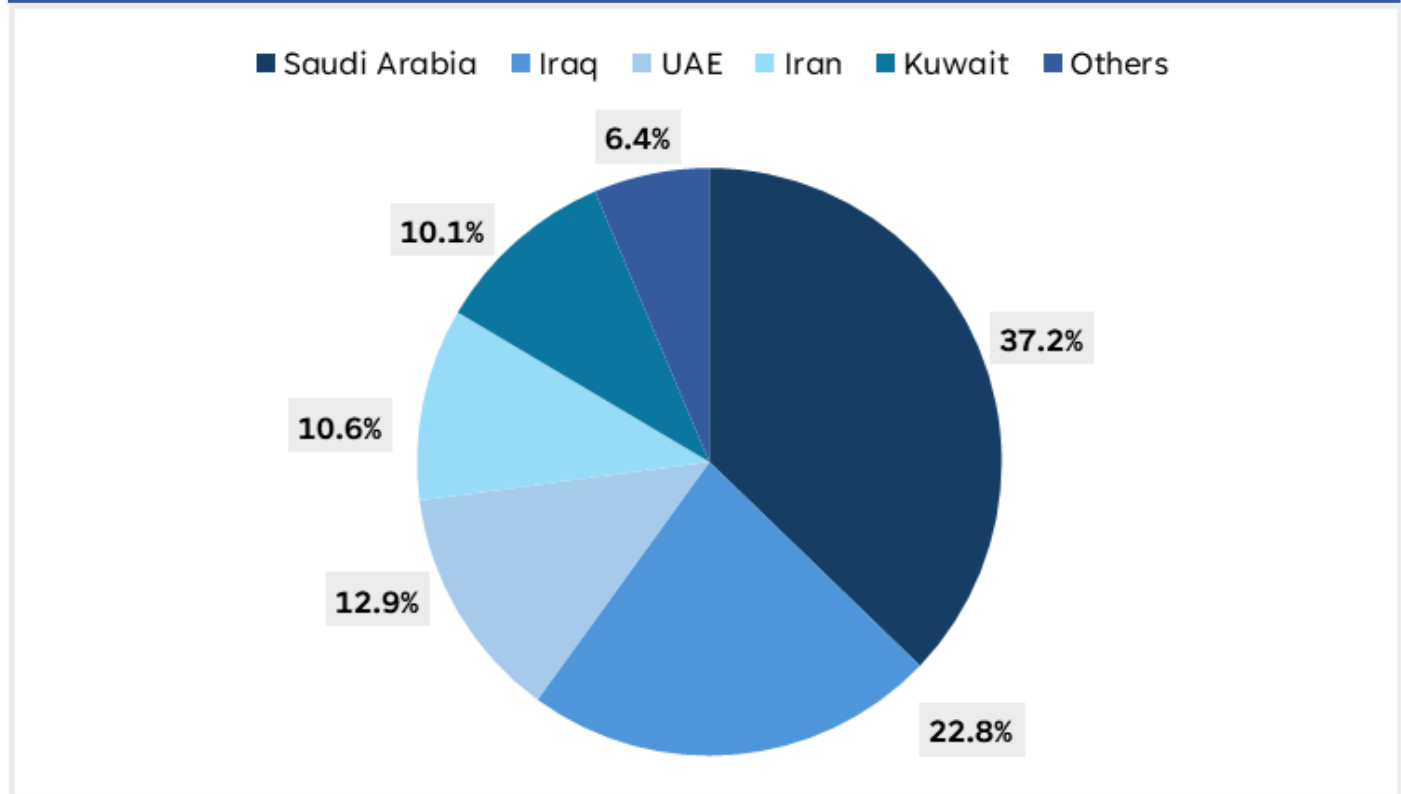
The demand side analysis is clear that the physical risk is concentrated in Asia, while Europe and the US face predominantly second-order effects through benchmark pricing, gas markets, and inflation transmission.

### Supplier Geography: The Producer and Exporter Map

If the demand side identifies who needs oil most urgently, the supply side identifies who is trapped.

The Strait of Hormuz is the primary export artery for the Gulf’s largest producers. For several of them, it is not merely the main route, but effectively the only route.

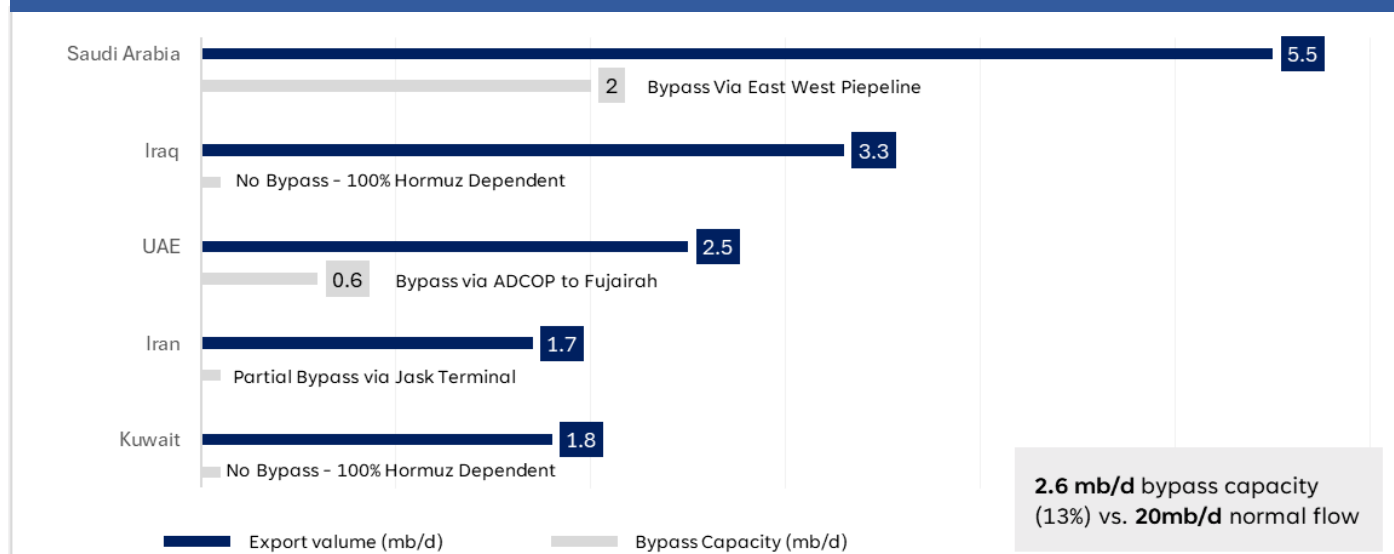
**Exhibit 7: Share of Countries in Crude Oil Exports via Hormuz**



Source: U.S Energy Information Administration  
 Note: Others are primarily consisted of Qatar (4.4%) and Oman

Due to the blocking of the Strait of Hormuz, these oil producers are looking for alternative routes with only a select few having any material bypass capacity

## Exhibit 8: Export Volume and Bypass Capacity of Oil Producer



A few observations from the exhibits 7 and 8 are:

- Saudi Arabia and UAE are the only producers with operational bypass infrastructure:** Although Saudi Arabia's East-West Pipeline to Yanbu can provide bypass capacity to ~35% of its oil export volumes, it combined with UAE's ADCOP pipeline to Fujairah offers an ~2.6 mb/d of available spare capacity, covering just ~13% of the 20 mb/d that normally transits the Strait. This is the entirety of the potential supply-side bypass available to the market.
- Iraq, Iran, and Kuwait collectively account for 43.5% of Hormuz crude flows with no bypass alternative:** All three producers are entirely dependent on the Strait for export. As onshore storage fills, production curtailment becomes the only operational response.

This infrastructure asymmetry explains why there is no truly manageable version of a large-scale Hormuz disruption.

### Iran: A Selective Blockade, Not a Self-Imposed One

Iran has closed the Strait of Hormuz selectively, denying access to Western-allied operators while preserving its own export revenues. This distinction gives Iran greater geopolitical leverage.

The data since 28 February paints a consistent picture:

- Iranian crude has continued flowing through Hormuz majorly destined for China, in a largely uninterrupted, averaging 1.5-2.1 mb/d in early March.
- Iran front-loaded exports, averaging 2.16 mb/d in February 2026, which was the highest level since July 2018, leading to a financial buffer in anticipation of conflict.
- Iran has additionally resumed loading at its Jask terminal on the Gulf of Oman, providing a potential partial export route that bypasses the Strait entirely, acting as a potential hedge for future conflicts.

The result of this strategy is that Kuwait, Saudi Arabia, and the UAE are denied access to their primary export artery while Iran's own revenue stream remains intact.

The market implication is that Iran has no near-term economic incentive to reopen the Strait on terms that restore competitor exports. Every week the closure holds, Iran extracts maximum diplomatic leverage at low incremental cost to its own balance sheet.

### **Russia: The Structural Beneficiary**

The most important non-Gulf variable in this crisis is Russia. Russian crude reaches its major buyers in Asia through routes that bypass Hormuz entirely. That gives it an immediate advantage whenever Gulf exports are impaired. As India and China scramble to secure alternative barrels, Russian oil becomes the natural substitute, increasing Moscow's pricing power.

Russia entered this crisis in a position of fiscal stress, with Urals (Russian oil) trading at ~\$30 below Brent, and oil and gas revenues in 2025 had fallen 24% YoY to their lowest level since 2020. The Hormuz crisis has reversed these conditions for Russia.

The reason for the recovery is Russian crude reaching its primary buyers, India and China via the Indian Ocean, entirely bypassing the Gulf. When the Strait effectively closed post 28 February, Russia's daily oil revenues have been on average 14% higher than in February as per Centre for Research on Energy and Clean Air.

The price trajectory of the Urals reflects this shift:

- In early March, Brent surged faster than Urals, briefly widening the discount to ~\$30.9/bbl, as buyers still demanded sanctions-related incentives to buy Russian barrels.
- As both India and China simultaneously pivoted to Russian crude as their primary replacement supply, Russian oil revenues reached a four-year revenue high in late March leading to a complete reversal from the pre-crisis structure.

The current situation indicates that Russia Moscow has little economic incentive to favour a rapid diplomatic resolution.

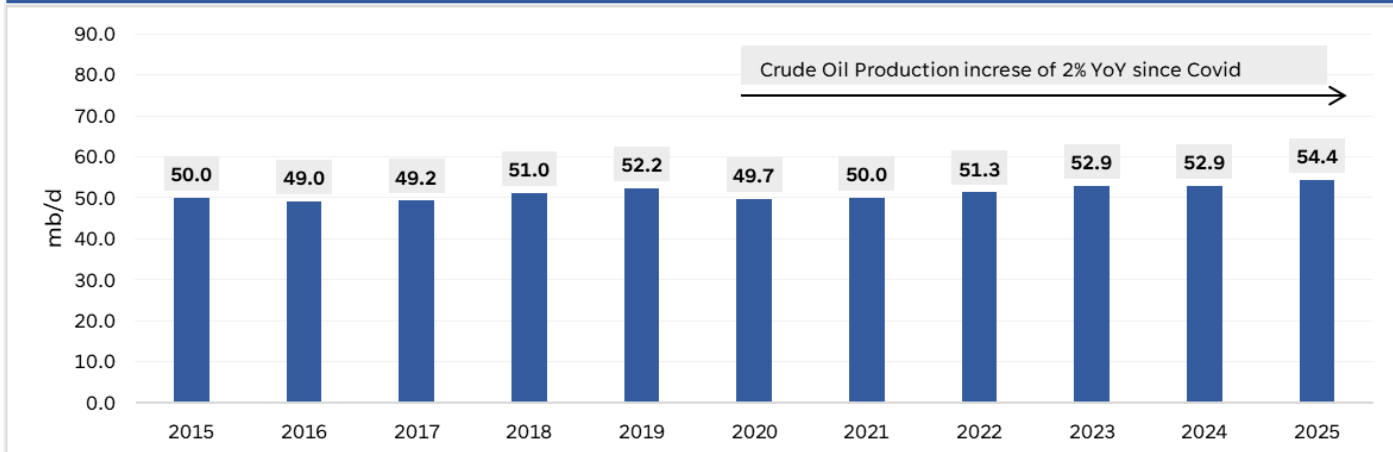
### **Non-OPEC Supply Growth**

While the current crisis is dominated by near-term physical disruption, the medium-term oil outlook is shaped by a different force: non-OPEC supply growth. Before the conflict, production growth from the United States, Brazil, Guyana, and Canada was already expected to expand global supply materially through 2026.

- **United States:** Production averaging 13.6 mb/d in 2026, with shale breakeven costs at ~\$65/bbl for a new well per the Dallas Fed Energy Survey, meaning current price levels will accelerate drilling activity.

- **Brazil:** Output exceeded 4.0 mb/d for the first time in October 2025, with two additional FPSOs scheduled in the Búzios field to add an estimated 0.2 mb/d in 2026.
- **Guyana:** Production at ~0.9 mb/d in late 2025, with the Uaru project adding a further 0.25 mb/d through 2026.
- **Canada:** U.S Energy Information Administration forecasts a 0.5 mb/d increase over 2024-2026 from continued oil sands expansion

Exhibit 9: Non-OPEC Crude and Lease Production



Source: U.S Energy Information Administration

The International Energy Agency (IEA) projected non-OPEC+ supply growth of 1.2 mb/d in 2026 before the crisis. At high prices, US shale becomes increasingly attractive, encouraging more drilling and faster capital deployment. This supply growth limits the plausibility of a sustained multi-year price regime far above historical norm. In other words, the near-term ceiling may be open in a severe disruption, but the medium-term ceiling is still constrained by the responsiveness of non-OPEC supply.

## The Break-Even Floor: What Producers Need, and Why They Will Defend It

Much of the market focus in this crisis has been on upside scenarios. Yet the downside is, in many ways, easier to frame. That is because oil's price floor is not determined purely by marginal extraction cost. It is increasingly determined by fiscal requirements.

### Two Break Even Numbers - Only One Matters

There are two distinct break-even concepts in oil markets, and only one sets the effective price floor.

- **Production Break Even:** This is the cost to extract a barrel of oil equivalents. Saudi Arabia led Gulf producers, operate among the lowest-cost oil production regimes in the world, with extraction costs representing only a fraction of any commercially

relevant price level. The production economics alone impose no meaningful price floor.

- **Fiscal Break Even:** This is the oil price at which the government can balance its national budget. This acts as the relevant price constraint, since, in OPEC nations, the government controls the supply and production decisions are instruments of fiscal policy. A Gulf producer can potentially sustain selling oil at \$40/bbl at the company level. It cannot do so as a sovereign government simultaneously funding healthcare, subsidies, public sector wages, and national transformation programmes.

*In summary, producers do not cut supply when the oil company loses money. They cut supply when the state does.*

### Fiscal Break-Even Estimates by Producer Nations

Fiscal Break-Evens vary meaningfully across countries.

Country	2025E (\$/bbl)	2026E (\$/bbl)	Key Driver
Saudi Arabia	92.3	86.6	• Vision 2030 infrastructure spending and mega-project commitments.
Iraq	78.6	79.1	• Public sector wage bill and post-conflict reconstruction spending.
Iran	121.2	128.1	• Sanctions have suppressed exports and forced the government to sell oil at steep discounts.
Kuwait	80.2	76.7	• Rising government expenditure and declining oil exports have pushed the breakeven higher.
UAE	50.4	45.2	• Diversified economy reduces reliance on oil revenue to balance the budget.
Algeria	156.6	141.9	• Subsidised domestic economy with limited non-oil revenue sources.
Libya	66.7	63.2	• Political instability has constrained production.
<b>Median</b>	<b>80.2</b>	<b>79.1</b>	

Source: IMF Regional Economic Outlook Statistical Appendix  
Note: bbl stands for a Barrel of Oil

The key point is not that every producer needs the same price. It is that the median fiscal requirement across major oil-exporting states remains well above pure production cost. That creates a structural incentive for coordinated price support whenever the market weakens materially.

### The GCC Median and Trajectory of Fiscal Consolidation

The fiscal floor price is declining across the GCC, with regional median fiscal breakeven projected to fall from ~\$70/bbl in 2025 to \$62/bbl by 2030. The reasons for this are as follows:

- **Non-oil revenue reforms and economic diversification:** Non-oil sectors accounted for 73.2% of GCC real GDP in Q1 2025, underscoring the region’s continued diversification away from hydrocarbons.
- **Foreign Equity Participation in the GCC:** MSCI inclusion of Saudi Arabia, UAE, Qatar, and Kuwait has doubled foreign equity participation across GCC markets, compressing the region's equity risk premium from 6.6% in 2016 to 2.4% in 2025. Fiscal credibility affects sovereign spreads, equity valuations, and the cost of attracting the foreign capital that transformation programmes depend on.

### The Saudi Case: Managing the Oil Price–Fiscal Policy Trade-Off

Saudi Arabia's fiscal breakeven is one of the most influential factors in global oil price analysis. Bloomberg Economics estimates it at \$94/bbl; the IMF at ~\$92/bbl. At current Brent levels at \$90/bbl (17<sup>th</sup> April 2026), the Kingdom is operating close to the minimum required to balance its budget. The margin is volatile due to fluctuations in oil price, and the spending commitments that underpin it are not discretionary.

Four factors that help explain why this breakeven remains an important policy consideration for Saudi Arabia are:

Factors	Reason
Vision 2030	<ul style="list-style-type: none"> <li>• The Kingdom's economic transformation programme requires already committed and irreversible sustained capital deployment across tourism, industry, and infrastructure.</li> </ul>
NEOM and giga-projects	<ul style="list-style-type: none"> <li>• Construction-phase spending on NEOM, the Red Sea Project, and Diriyah is ongoing, with sunk costs and contractual obligations that cannot be deferred.</li> </ul>
FIFA World Cup 2034	<ul style="list-style-type: none"> <li>• Infrastructure preparation requires government capital, leading to a fixed spending floor.</li> </ul>
Aramco Dividend Cut	<ul style="list-style-type: none"> <li>• Aramco cut its 2025 dividend by 31% to \$85.4 Bn. This removed \$32 Bn from sovereign budget revenues, widening the deficit and increasing dependence on oil price to bridge the deficit.</li> </ul>

Bloomberg Economics extends the breakeven to \$111/bbl when PIF domestic spending commitments are included, reflecting the full fiscal demand on oil revenues once sovereign wealth fund obligations are counted alongside the central government budget.

This does not imply a single required oil price, but it does suggest that lower prices would require policy adjustment through a mix of OPEC+ production discipline, balance sheet flexibility, and debt issuance. Saudi Arabia therefore retains multiple policy levers, to maintain a price range that supports fiscal continuity and transformation spending.

A holistic analysis of the demand supply equation in the Strait of Hormuz crisis results in clear winners and losers in the short term and long term as follows:

## Exhibit 10: The Winners and Losers from Strait of Hormuz Crisis

### Immediate Winners



**Russia:** Bypasses Hormuz and emerges as the primary alternative supplier to Asia, gaining pricing leverage



**Non-OPEC Producers (US, Brazil, Guyana):** Benefit from higher prices and accelerated demand for non-Gulf supply



**Market Intermediaries:** Elevated volatility drives gains in shipping rates, insurance premiums, and trading margins

### Emerging Winners



**Non-OPEC Supply Base:** Structural demand shift toward diversified, non-chokepoint supply sources



**Alternative Trade Corridors:** Increased investment in pipelines, ports, and non-Hormuz export routes



**Strategic Buyers:** Countries locking in long-term supply agreements during disruption gain future security

### Immediate Losers



**Hormuz-Dependent Exporters (Iraq, Kuwait):** Limited or no bypass capacity, causing forced supply disruption



**Highly Exposed Importers (Japan, South Korea):** High import dependence with concentrated Hormuz exposure



**Partial Losers (Saudi Arabia, UAE):** Retain some export flexibility, but still face volume and routing constraints

### Structural Losers



**OPEC Pricing Power:** Gradual erosion as non-OPEC supply gains share and influence



**Chokepoint-Dependent Systems:** Over-reliance on narrow routes like Hormuz exposed as a systemic vulnerability

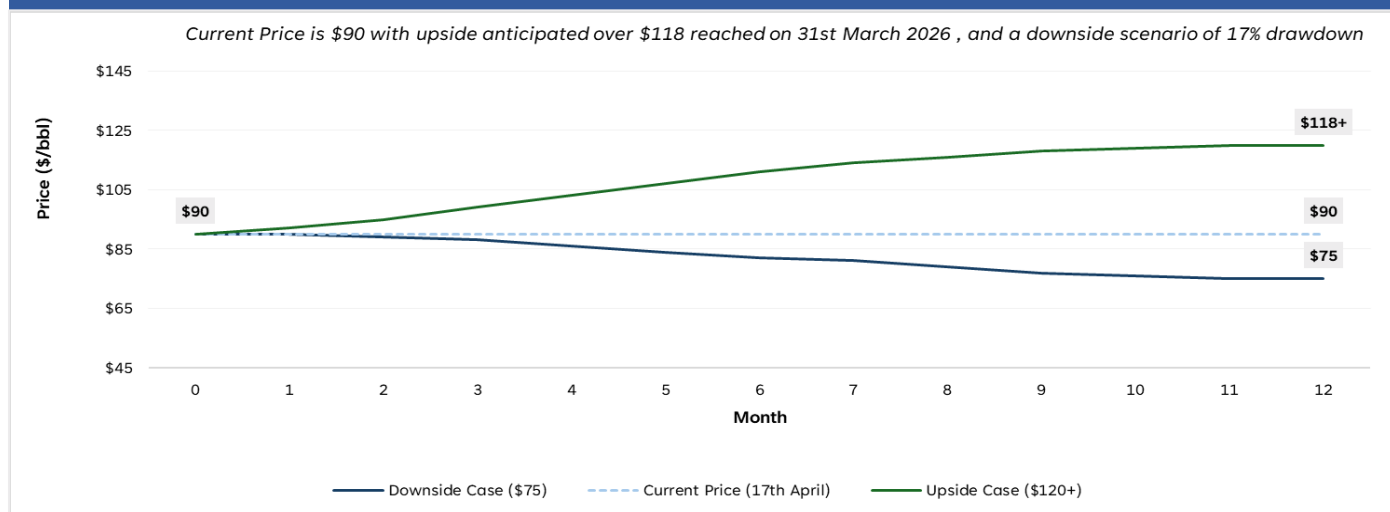


**Late Diversifiers:** Importers and exporters slow to adapt face long-term strategic and pricing disadvantages

## Oil Price Outlook: Where Does Oil Go from Here?

The non-OPEC supply ceiling and the producer fiscal floor together define the boundaries within which oil prices will trade once the immediate crisis resolves. But between those boundaries and for as long as the Strait remains disrupted, the range of outcomes is unusually wide. As of 17<sup>th</sup> April 2026, Brent was trading at ~\$90/bbl, seven weeks into the conflict. Three variables will determine what happens next: the pace and terms of any diplomatic resolution, the durability of Iran's selective blockade strategy, and whether OPEC+ discipline holds as prices remain elevated.

Exhibit 11: Oil Price Outlook



Source: GIA Internal Analysis

Note: Current Price is as of 17<sup>th</sup> April 2026.

- Base case - Partial normalisation (~\$90/bbl):** Diplomatic progress produces a phased resumption of tanker traffic, not a clean reopening, but a managed de-escalation in which insurance premiums remain elevated and geopolitical risk premium persists at a lower level. OPEC+ maintains production discipline and Russia continues as the marginal supplier to Asian markets. Non-OPEC supply growth, which was already substantial before the conflict, begins to reassert itself as the physical shortfall narrows. Prices retrace from crisis highs but stabilise materially above pre-conflict levels, anchored by a fiscal floor that Saudi Arabia has every incentive to defend. This is the most likely outcome if diplomacy makes progress within the next 60-90 days.
- Upside case - Disruption deepens or persists (\$118+/bbl):** The military campaign extends into Q3 2026, bypass capacity is fully exhausted, and International Energy Agency (IEA) reserve releases prove insufficient against the scale of the physical shortfall. The LNG disruption, already a structural problem given the damage to Qatar's export capacity, compounds the oil shock through second-order effects on industrial energy costs, European gas prices, and Asian spot markets. In this scenario, prices move into territory that has no modern precedent. The \$118/bbl

intraday high reached in March would prove to be a way-station, not a peak. The ceiling is genuinely open-ended.

- **Downside case - Geopolitical premium fades (~\$75/bbl):** Hormuz reopens earlier than expected, driven either by a diplomatic breakthrough or by the US military campaign achieving its objectives. Non-OPEC supply fills the gap faster than markets anticipated; OPEC+ discipline frays as higher-price producers accelerate output to capitalise on elevated prices before normalisation. Prices retreat toward the lower bound of producer fiscal break-evens, the range where Saudi Arabia's production cut mechanism is activated and the floor becomes self-reinforcing.

One factor that has prevented the upside case from materializing so far is the IEA's unprecedented release of 400 million barrels from strategic reserves. This intervention has provided a meaningful short-term buffer, effectively bridging the gap between physical disruption and market pricing. But strategic reserves are a finite tool, not a structural solution. The historical pattern from prior reserve releases, including 2022, is that their price-dampening effect lasts 60-90 days before markets resume pricing the underlying physical reality. If the Strait remains constrained beyond that window, the buffer expires and prices will realign with actual supply availability.

## Beyond the Price: Structural Shifts to Monitor

The price range captures the economic dimension of this crisis. What it does not capture is what the crisis is permanently changing - in trade architecture, diplomatic alignment, and the investment case for the region. Four developments sit beneath the headline price and will matter long after the Strait reopens.

### Pakistan as Mediator: The Islamabad Accord

Pakistan has emerged as the principal diplomatic channel between Tehran and Washington. On 6 April, Reuters reported that Iran and the U.S. had received a Pakistan-backed two-stage framework built around an immediate ceasefire followed by a broader settlement. This diplomatic channel then moved into direct engagement, leading to the first direct U.S.-Iran talks in more than a decade, in Islamabad on 11-12 April. These talks ended without a breakthrough, but both sides left room for further engagement. Pakistan is currently preparing to host a second phase of negotiations as of 21 April.

### Iran's Toll Booth: The Selective Blockade in Detail

Iran has not closed the Strait uniformly. It has converted it into a geopolitical toll booth. On 26 March, Iran announced that ships from China, Russia, India, Iraq, and Pakistan would be permitted to transit. Malaysian, Thai, and Philippine vessels subsequently received access following bilateral diplomacy. Iran also established its own alternative shipping channel north of Larak Island - a parallel transit lane it controls and can price. One vessel has already paid \$2 million to use it. Iran's parliament has since formally

legislated the collection of tolls, institutionalizing what began as improvised pressure into a structured revenue mechanism.

The strategic logic is deliberate. By granting passage to allies while blocking Western-aligned operators, Iran imposes costs on adversaries without alienating its most important economic relationships. The countries bearing the full cost are the GCC producers, Saudi Arabia, UAE, Iraq, and Kuwait whose exports are blocked while Iranian crude flows freely to China. Every week this structure holds, Iran accumulates diplomatic credit and increases its leverage in the eventual settlement negotiation without firing another shot. Iran briefly widened access again on 17 April, declaring the Strait open to commercial vessels, but the reopening proved partial and fragile as shipping companies remained cautious and the U.S. blockade stayed in force.

### **Strategic Consequences: Who Won, Who Lost, and What Changed**

The US struck Iran to degrade its nuclear capability. The consequence included handing Russia its best fiscal quarter in four years. That gap between intent and outcome is a defining feature of this crisis. Russian crude bypasses Hormuz entirely via the Indian Ocean - when the Strait closed, Moscow became the primary non-disrupted alternative for Asia's two largest importers simultaneously. The Urals-Brent discount narrowed from \$30/bbl to \$6/bbl in four weeks. Russia did not cause this war. It did not need to. The war caused the conditions Moscow needed.

The countries absorbing the largest economic costs - Japan, South Korea and India, made none of the decisions that triggered the crisis. That asymmetry is already reshaping diplomatic relationships. For the GCC, the investment question is different: the Gulf has spent a decade constructing a narrative of investability - MSCI inclusion, Vision 2030, sovereign wealth fund expansion. That narrative is under stress but not yet broken. In their current defensive posture, GCC states have demonstrated resilience. The risk is a shift to offensive retaliation that fails to achieve a decisive outcome - that is the scenario in which the safe haven tag becomes genuinely difficult to defend.

### **Trade Route Realignment: Some of This Becomes Permanent**

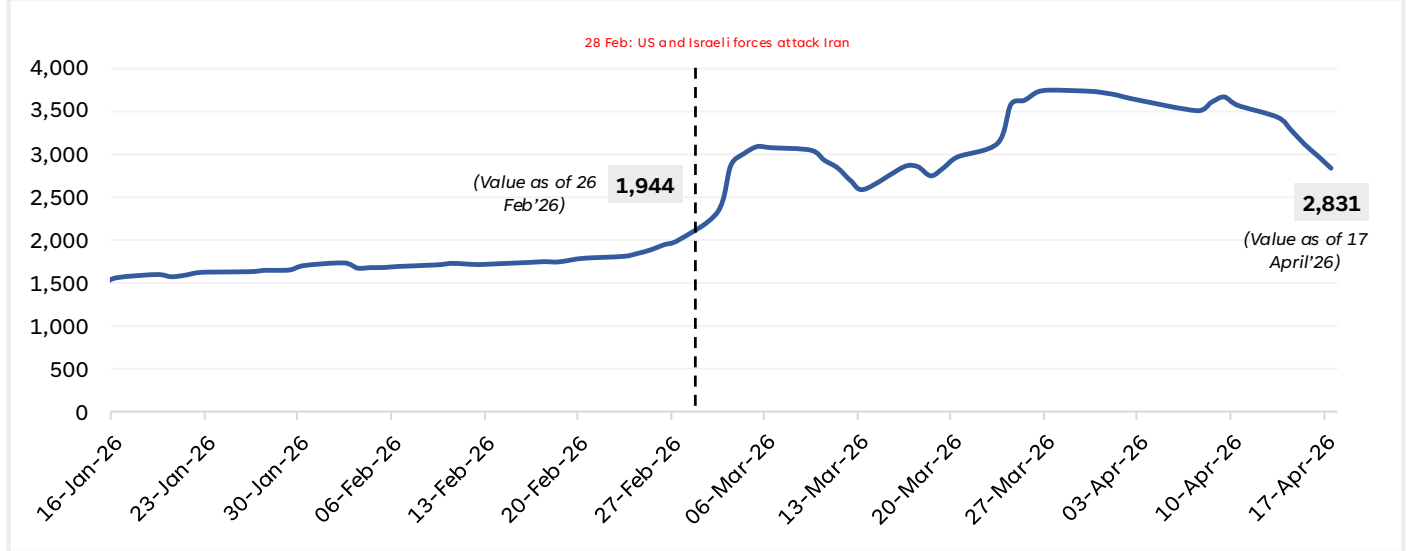
Major carriers rerouted via the Cape of Good Hope within days of the closure, adding 10-14 days to voyage times and driving the Baltic Dirty Tanker Index up 1.5 times since the conflict began. Japan and South Korea are actively exploring Pacific-routed supply of US LNG, Australian gas, Atlantic Basin crude as a structural hedge rather than a temporary response.

Iran's temporary reopening on 17 April did not restore normal traffic, and the U.S. seizure of an Iranian cargo ship on 19 April quickly reversed the limited progress made. By 20 April, only three ships were recorded moving through the Strait in 12 hours, versus a normal pace of 130+ vessels per day, while war-risk insurance had risen to around 3% of vessel value. The longer the Hormuz disruption persists, the more durable these alternative relationships become. Contracts are being renegotiated. Refinery

configurations are being adjusted. Strategic stockpiling plans are being rewritten. None of these changes reverse instantly when the Strait reopens, particularly for large industrial buyers who require multi-year supply certainty.

The investment implications favor non-Hormuz exporters like US LNG producers, Australian natural gas, Atlantic Basin crude producers whose relative competitive position has structurally improved regardless of how the immediate crisis resolves.

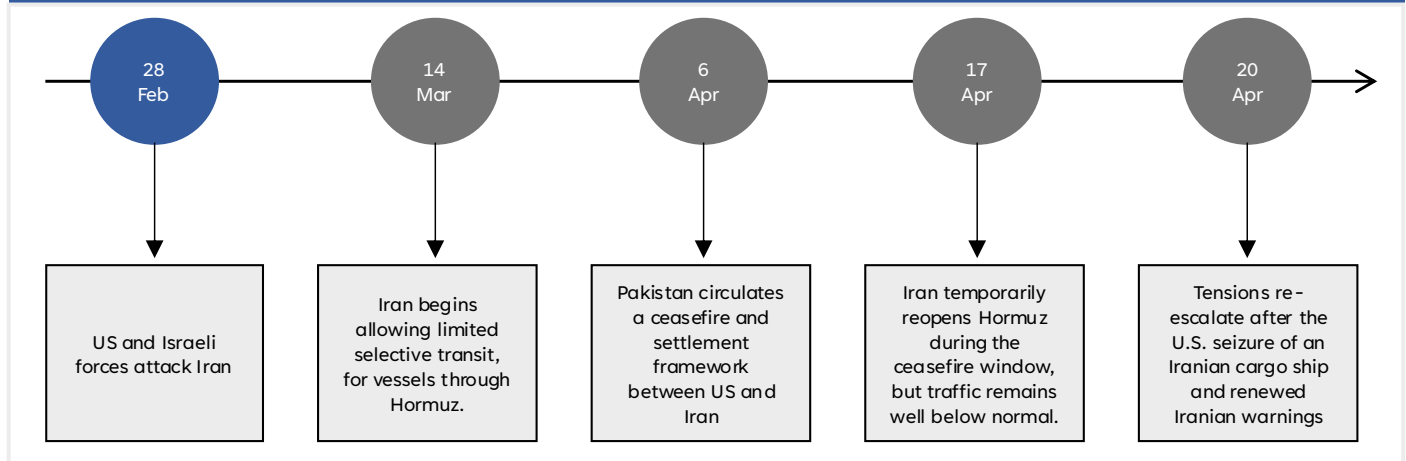
### Exhibit 12: Baltic Dirty Tanker Index



Source: Investing.com

Note: Baltic Dirty Tanker Index shows prevailing market freight rates for transporting crude oil by sea across a basket of major routes and vessel types.

### Exhibit 13: Timeline of Structural Developments



## Conclusion

The 2026 Strait of Hormuz crisis is not a spike. It is a stress test of the global energy system, of the diplomatic architecture that governs it, and of the investment assumptions that underpin capital allocation across energy, infrastructure, and sovereign credit. The fact that prices have not moved in a straight line upward is sometimes cited as evidence that markets have absorbed the shock. They have not.

They have been temporarily buffered by strategic reserve releases and alternative routing. The buffer is finite, and its effectiveness is already declining.

Three conclusions hold regardless of how the immediate situation evolves.

- **The floor is well defined and will be defended.** The median fiscal break-even across major OPEC producers sits at ~\$79/bbl for 2026. Saudi Arabia, the producer with both the strongest incentive and the most effective mechanism to defend prices, cannot sustain its transformation programme or its sovereign bond credibility below \$85/bbl. When fiscal obligations are that rigid, production cuts through OPEC+ are not a preference. They are a requirement.
- **The ceiling has no precedent.** The physical disruption created by a full Hormuz closure is three to five times larger than any prior geopolitical oil shock. Strategic reserves, bypass pipelines, and non-OPEC supply response can slow the price reaction, but they cannot substitute for 20 mb/d of displaced flow. In a sustained disruption scenario, the \$118/bbl high of 31<sup>st</sup> March 2026 is a data point on a range whose upper limit has not yet been tested.
- **The structural consequences outlast the crisis.** Even if the Strait reopens tomorrow, the world that emerges will be different from the one that existed on 27 February 2026. Trade routes are being rewired. Strategic reserve frameworks are being redesigned. Long-term LNG contracts are being repriced. The GCC's investment narrative is under review. And the lesson that geopolitical interventions in energy-producing regions carry costs that fall on countries other than those that make the decisions- a lesson that Japan, South Korea, and India are absorbing in real time- will shape energy security policy and infrastructure investment for years to come.

For investors, the Hormuz crisis confirms a principle that energy markets periodically force the world to relearn: the system is efficient in normal conditions and fragile under stress. Resilience in supply chains, in routing infrastructure, in geopolitical relationships is not priced until it is needed. It is needed now. The next phase of energy competition will be defined not only by who produces supply, but by who can deliver it reliably when the system is under strain.