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MACROCOSM

Dire Strait

Tuesday, April 7, 2026

Michael Warren

The global energy ecosystem has the resiliency to wait this out – but not forever.

> **Donald J. Trump**
> @realDonaldTrump
>
> A whole civilization will die tonight, never to be brought back again. I don't want that to happen, but it probably will. However, now that we have Complete and Total Regime Change, where different, smarter, and less radicalized minds prevail, maybe something revolutionarily wonderful can happen, WHO KNOWS? We will find out tonight, one of the most important moments in the long and complex history of the World. 47 years of extortion, corruption, and death, will finally end. God Bless the Great People of Iran!
>
> **6.38k** ReTruths **27.6k** Likes Apr 07, 2026, 7:06 AM

It's hard to know what to say here when President Donald J. Trump threatens via social media that a "whole civilization will die tonight, never to be brought back again." Then in the next breath he flatters the Iranian leadership as "different, smarter, and less radicalized minds." *It's both an open door and a gun to the head* – classic Trump.

We continue to be amazed at how little markets, even energy markets, have reacted to over a month now of such messages, and not a few realities. *We have argued that markets being able to look through all this implies a base case that a solution will be imminent and without a great deal of regional destruction* (see "What you're not hearing about what markets are predicting for the Iran crisis" March 23, 2026). *We could just as easily say that markets are too complacent, and if the worst happens, are virtually unprepared.*

Let's review what we actually know.

Disruption of crude and refined products flowing through the Strait of Hormuz is typically cited in the media at 20 million barrels per day, shutting down something like 19% of the world's supply. *This is an exaggeration by a factor of two*.

- Iran still exports about one million barrels per day through the Strait.
- Saudi Arabia increased flows on the East-West pipeline by 5 million barrels sending it through the Suez Canal (or Egypt's Sumed pipeline) to the Mediterranean or the Bab al-Mandab Strait in the Red Sea to points east.
- Dubai added about 800,000 barrels on their Habshan-Fujairah pipeline to the Gulf of Oman.
- Iraq is sending 250,000 barrels north through Turkey.

Update to strategic view

OIL, US MACRO, ASIA MACRO, EUROPE MACRO: Trump is holding a gun to Iran's head, but also holding open a door. Oil prices are high, not as high as they were in 2022 when Russia invaded Ukraine. Then there was the prospect that sanctions would eliminate forever access to the products of the world's second largest petroleum exporter, but sanctions were not enforced against China or India. Today's crisis is a simple chock-point problem, in which the Strait of Hormuz could be reopened instantly with diplomatic solution. This is what markets are expecting, and it's the base case – but if it turns out otherwise, markets are unprepared. About half the volumes normally coming through the Strait have been diverted, so the shortages are not as bad as they seem. Strategic petroleum stockpiles are the highest since the pandemic. China and other Asian nations, most dependent on the Strait, have several months of supply. Refined product markets are the hardest hit, and prices there will recover more slowly when the crisis ends.

[Strategy dashboard]

- *We estimate the flow loss from Iran's obstruction of vessels through the Strait of Hormuz is therefore about half what is commonly reported.*

Right now, there are about one dozen vessels per week leaving the Strait instead of the usual almost 140. Strategic reserves are being released globally, and the US is un-sanctioning Iranian and Russian crude oil and refined products to help mitigate shortages and keep pricing from getting any worse.

- The US stopped sanctioning Russian crude oil and refined exports for 30 days, liberating 100 million barrels of crude oil and refined products.
- The US also permitted Tehran to sell up to 140 million barrels of crude.
- The International Energy Agency announced 426 million barrels will be ready for immediate release in a coordinated global strategic stockpile release. An additional 666 million barrels could be supplied.

The present oil crisis is significantly different than the prior one in March 2022, immediately following Russia's invasion of Ukraine. Then Brent crude prices reached $139 in the dollars of the day, which would be $161 in today's dollars (deflated using CPI ex-energy). So far the peak in Brent in the present crisis has been only $119. Why?

- In 2022, the issue was the risk that a punitive ban and sanctions program against Russian petroleum exports would deprive the world of the output of its second largest producer/exporter (see "A Very European Ban on Russian Oil" April 18, 2022).
- While today there remains the hope – indeed the baseline expectation – that the Strait chokepoint can be quickly re-opened once some kind of deal is worked out with Iran, there was no such hope for a quick reconciliation with Russia. If has been able to conclude its conquest of Ukraine quickly, all the worse – Russia would be in the penalty box forever.
- But even then, though starting from a much higher real spot price than today's, the futures markets predicted that the global oil ecosystem would recover with three years – and indeed it did – when it turned out that Russia would be able to sell to China and India – but only at deep discounts – and the West would fail to enforce sanctions, all as we predicted at the time (please see the chart on the following page, and "The Bull/Bear Case in the Russian Oil Ban" March 16, 2022).
- Today futures markets are saying the same thing, only more so, predicting that prices will fall to $80 and below (all along our predicted range for 2026 – see "2026 Oil Outlook" December 11, 2025).

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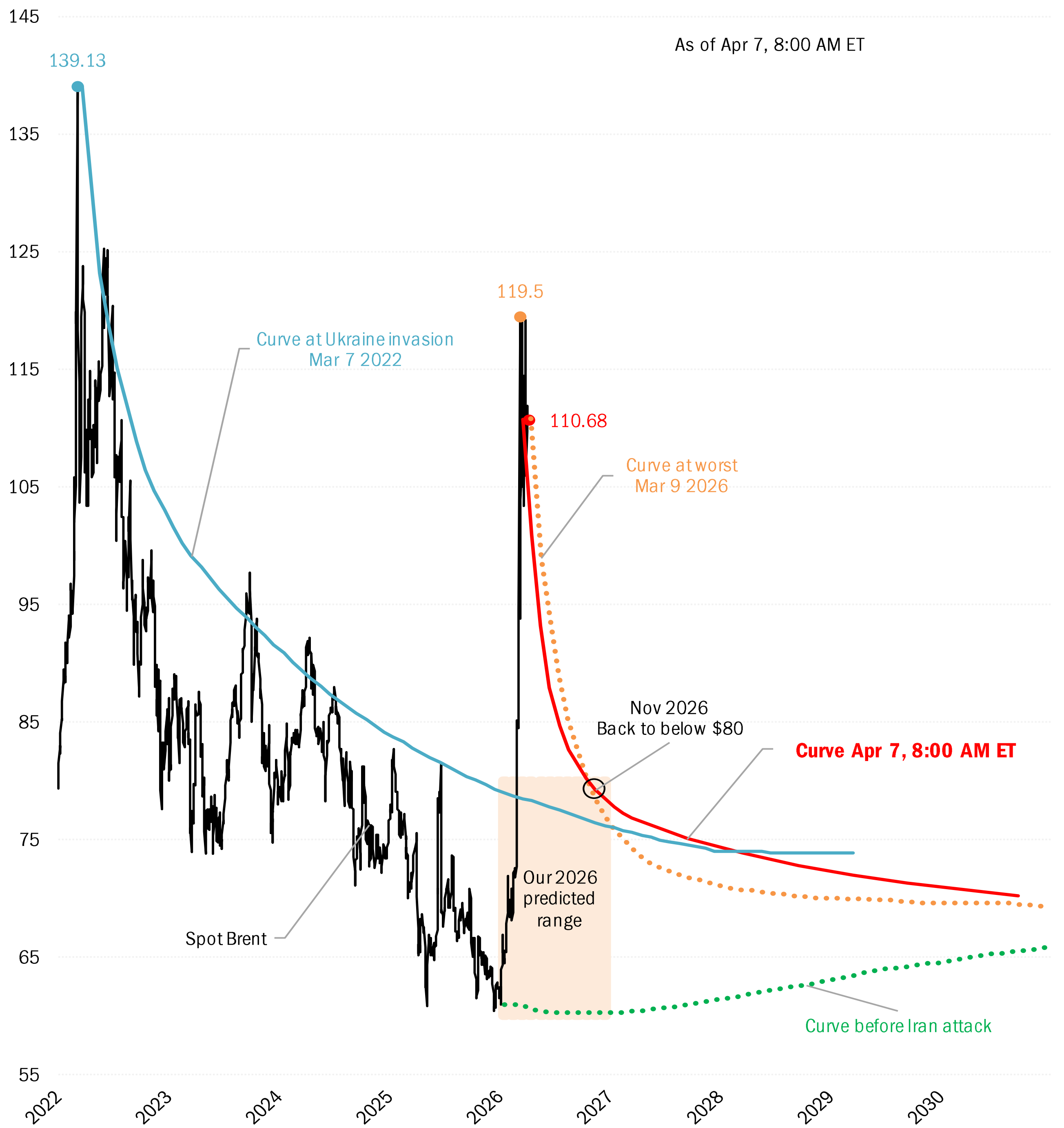
Brent crude futures: spot and long-dated contracts



Source: Bloomberg, TrendMacro calculations

The 2022 crisis was not a matter of chokepoints. Russia had three ports located in three separate bodies of water (Baltic Sea, Pacific Ocean, and Black Sea) to ship its crude oil and refined products on a “dark fleet” of tankers – thereby relieving pressure on the oil complex.

The Iran situation offers a much different geological landscape. There is only one entry and exit point to get crude oil and refined products out of the Persian Gulf – the Strait of Hormuz. There was an immediate workaround in the 2022 crisis that is not available now.

There are several wildcards that will also impact crude oil and product pricing:

- Iran is letting crude oil carriers leave the strait if they pay up to a $2 million toll (known as Aya-toll-ah levies). And some cargo-laden ships are still making a run along the Omani coastline. The toll adds a dollar per barrel on Very Large Crude Oil Carriers, but it is difficult to estimate how many vessels and crude oil volumes are passing daily.
- The US doubled ship insurance to $40 billion last week, but shippers appear more worried about the physical risk of drones and missiles than financial coverage from losses at this time.
- The UK, France and more than three dozen other countries met in the first days of April to discuss opening the Strait. The communique suggested that action would not be taken until bombings stop. In his nation-wide address to Americans last week, Trump indicated that the US military will need another two to three weeks to hit all targets on its critical bombing list.
- Gulf neighbors are urging the US to fully address the Iranian threat no matter how long it takes. The UAE, Saudi, Kuwait, and Bahrain are considering entering kinetic military operations against Iran instead of just playing defense.
- While the Houthis in Yemen have joined the conflict, the Iranian-backed terror group has not attacked shipping in the Red Sea or its Bal al-Mandab chokepoint. The waterway has already seen its transshipments volumes halved since 2024 (see "Oil 2024: Black Swans, but More Demand Growth" January 22, 2024), but it remains the main route for European fuel supplies to get into the Mediterranean Sea after passing through the Suez Canal.

The oft-heard media trope that we are currently experiencing the worst oil supply disruption in history is flatly untrue, as any of us old enough to remember waiting in line at gas stations in the 1970s can testify. Going into the present crisis, global inventories were at the highest level since the pandemic. After one month of closure of the Strait of Hormuz, major global economic zones are still relatively well supplied, albeit at high prices. Smaller Indo-Asian and African countries have been impacted. The Philippines and Australia already announced energy emergencies. Bunker fuel shortages have already hit Singapore.

The impact varies based on a country's proximity to the Strait of Hormuz.

- *Asia is the epicenter for crude oil and refined product disruption*.
- The impact on China is 5.2 million barrels per day of crude oil and refined products coming through the Strait – roughly 25% of total traffic by volume. And remember, China just lost about 400,000

barrels of Venezuelan heavy crude at the beginning of the year (see "Getting Venezuela Back On-Line: Watch out Canada" February 2, 2026). Yet China has about 1.24 billion barrels in crude oil and refined product reserves, which is about four months of back-up.

- Japan, India, and South Korea receive over 2 million barrels per day of crude oil and products from the Strait. All three countries have about three months of strategic back-up.
- Europe only receives about 1.3 million barrels per day through the Strait, and its largest storage hubs could sustain it for months.
- The US imports only 650,000 barrels per day of refinery inputs through the Strait (see "What you're not hearing about how much America needs the Strait of Hormuz" March 31, 2026). California receives more than 300,000 barrels – it will be impacted by fuel shortages this week as the state continues to lose refineries due to its destructive green policies.

The global refined product markets are tighter than crude oil markets. Distillate products currently are trading above $200 per barrel in all three global geographical benchmarks across Northwest Europe, the US, and Middle East. Coupled with the damage to Middle East refinery operations from Iranian drones and missiles, previous closures of European and American refineries have left scant spare global throughput capacity. Green lobbyists promoted renewable diesel and sustainable airline fluid over crude oil processing but have delivered hardly any volumes to replace those of the fossil fuels that were taken offline (see "EV sales are not making up for Refinery Closures" October 21, 2025). Consequently, we expect very elevated refined product prices for at least four months, no matter how quickly a diplomatic solution can be achieved with Iran – jet fuel and diesel will be the most impacted as no heavy crude oil is making it out of the Persian Gulf (which is best suited for distillates production).

Right now, the US is the biggest benefactor in the Iranian War – as a consumer, the US is not dependent on the Strait, and as an exporter, it has desperate customers who are. Although the number of rigs and completion crews currently are still below last year's level, we have ample crude oil and refined products to export to the world.

Russia also appears to have gained some leverage with US sanctions temporarily being taken down, but it is still defending against Ukrainian drone attacks on energy infrastructure.

As with the pandemic in 2020, there are two keys to avoiding a recession from this energy shock. The first is a given – now, as in 2020, we have come into the crisis at a moment of great economic momentum. That gives us strong armor against an economic blow. The second is the great unknown – duration. The 2020 lockdowns were economically deep – a depression, really – but brief. So when the world reopened, the capital stock of the world was entirely intact, and therefore entirely resilient.

In the present crisis, duration is not just measured in the number of days the Strait is closed. As the war drags on, there is increasing risk of desperate measures by Iran and its proxies to inflict punitive damage on the energy infrastructure of its neighbors.

Again, markets expect a speedy solution (again, please see the chart on page 3). Trump's seemingly unhinged tweets are intended to drive that. If that can be achieved, this will all be a global economic blip.

Bottom line

Trump is holding a gun to Iran's head, but also holding open a door. Oil prices are high, not as high as they were in 2022 when Russia invaded Ukraine. Then there was the prospect that sanctions would eliminate forever access to the products of the world's second largest petroleum exporter, but sanctions were not enforced against China or India. Today's crisis is a simple chock-point problem, in which the Strait of Hormuz could be reopened instantly with diplomatic solution. This is what markets are expecting, and it's the base case – but if it turns out otherwise, markets are unprepared. About half the volumes normally coming through the Strait have been diverted, so the shortages are not as bad as they seem. Strategic petroleum stockpiles are the highest since the pandemic. China and other Asian nations, most dependent on the Strait, have several months of supply. Refined product markets are the hardest hit, and prices there will recover more slowly.