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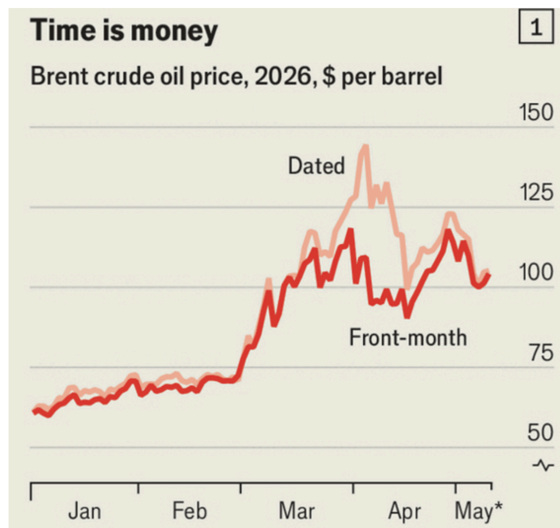

Twelve weeks into the Iran war the mystery is deepening. Every day the Hormuz Strait remains closed, nearly 14m barrels of oil -14% of global output, are lost. At least 2 billion barrels will probably disappear from this year's total even if the strait reopens today. Yet Brent crude at $110 per barrel fetches much less than the $129 it hit in 2022, after Russia invaded Ukraine, and nowhere near the $150-200 analysts predicted if the Iran war dragged on.

One reason is oil traders' perpetual optimism about a diplomatic breakthrough. "Front-month" Brent (the nearest futures contract and global benchmark) locks in a price for oil to be loaded onto tankers in roughly two months' time. Whenever Donald Trump hints at an imminent deal, markets put off pricing in further disruption.

Two forces explain why the panic has faded. First, non-Gulf producers have turbocharged exports. In April Canada shipped 400,000 more barrels per day (b/d) of crude and refined products than a year earlier, matched by Venezuela and Norway which each added 200,000. Brazil added 100,000 b/d, while remarkably, the United States increased its output by 3.8m b/d. And at nearly 9m b/d, its net petroleum exports in those four weeks were the highest ever on record.

Enter the second force: in the same four weeks big oil-buying regions imported 11m b/d less petroleum than a year before. China's purchases alone dropped by 6.6m b/d. The fall in imports is not good news, as some of it reflects demand destruction. However, upon closer look, much of the drop in imports reflects caution not privation. Some buyers, too, may believe the strait will reopen soon and are deferring purchases until prices fall. The surprising result is a mini-glut of crude. That is keeping the Brent price down.

But how long can it last?

Crude once held in underground caverns has moved above ground, covering the shortfall (for now). but countries will be reluctant to draw down all their reserves, China in particular. What's more is that America's exports are now likelier to fall than rise. Motor-fuel stocks are plummeting at record speed and if this continues, even a modest rise in crude prices could push petrol to $5 a gallon -a threshold last breached in 2022, when it hurt both drivers and Joe Biden's approval ratings.

The Trump administration is mulling a ban on refined-product export. The higher the price of oil climbs, the higher the probability of this eventuality. Such a ban would roil energy markets the world over.

Ban or no ban, oil stocks will keep falling everywhere. America and China have bought the world time, but the world still faces a reckoning if the Straits of Hormuz stays shut.

Thanks for reading!

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