

No Runaway Oil Prices, but Buffers Are Depleting

No runaway oil prices, but buffers are depleting

Despite the shipping disruption in the Straits of Hormuz, oil prices have not reached predicted extremes. Global oil supply disruptions have recurred frequently over the past 25 years, providing a strong impetus for countries to strengthen energy security through strategic buffer-building and greater diversification of energy sources.

Several "shock absorbers" that have dampened the impact, including demand adjustments, increased production outside the Gulf, and strategic inventory drawdowns.

Increased production from non-Gulf producers: A critical factor in stabilising the market has been stronger-than-expected output from non-Gulf regions.

Strategic and commercial inventory drawdowns: Between March and May 2026, some of the production deficit was absorbed by releasing global stockpiles, particularly from China's commercial reserves and government emergency reserves, which helped limit price volatility.

Demand compression and energy diversification: Higher prices have led to "demand compression," especially in Asia. Many economies have cushioned the shock by switching to a more diversified energy mix that includes coal and renewables where feasible, reducing their overall reliance on crude oil.

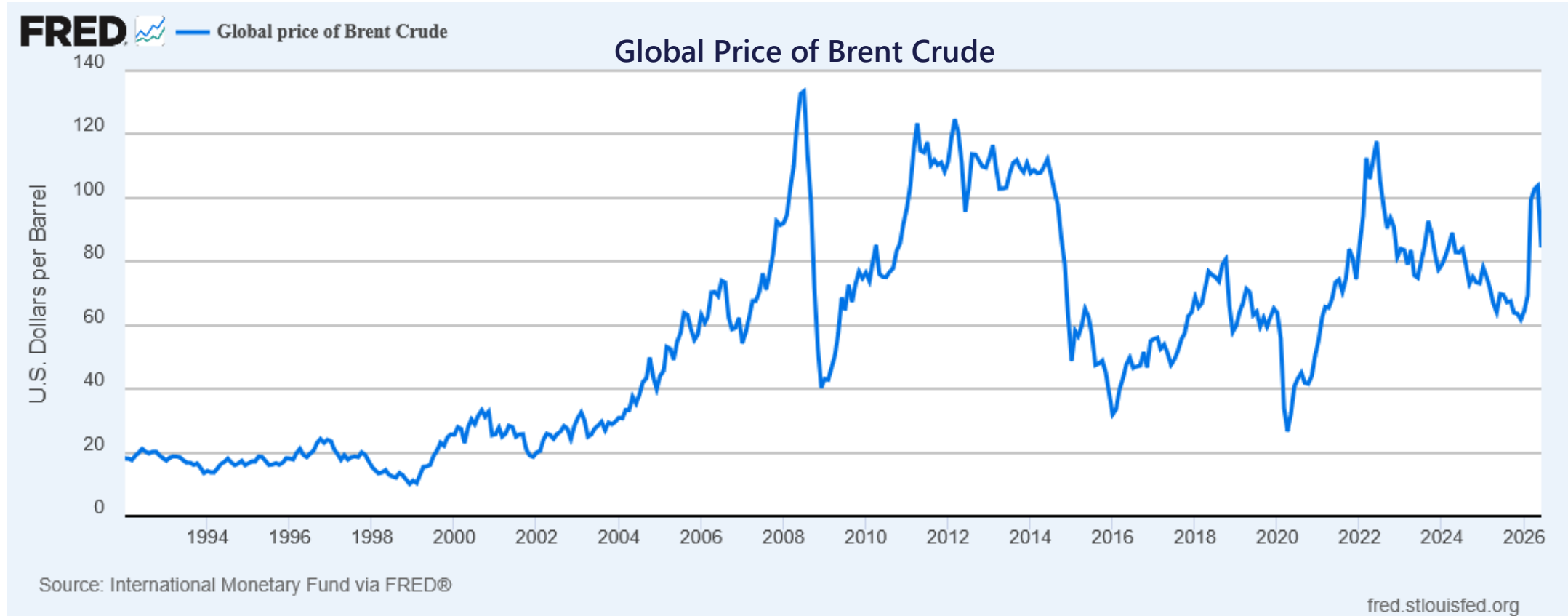
Long-Term reduction in energy intensity: Lower energy intensity, requiring less energy to produce each unit of GDP, has reduced the sensitivity of global economic activity to oil price fluctuations compared to previous decades.

Critical infrastructure bypassing the Strait of Hormuz: Saudi Arabia's East-West pipeline to the Red Sea is operating at a full capacity of 4.7 million barrels per day, while the UAE uses the Habshan–Fujairah Pipeline to export directly to the Gulf of Oman.

Malaysia inflation: Higher input costs do not necessarily translate into persistently higher consumer prices. While the Producer Price Index (PPI) showed a sharp increase to 7.8% in May 2026 due to higher crude input costs, this does not necessarily translate to equivalent consumer price hikes.

Risk of depleted strategic buffers: A significant emerging risk is that these market buffers are running low. The U.S. Strategic Petroleum Reserve (SPR) has fallen to roughly 316.5 million barrels, its lowest level since 1983, leaving the market with much less flexibility to handle future supply disruptions.

Global oil crises have occurred more frequently in recent decades



Global oil supply disruptions have recurred frequently over the past 25 years, providing a strong impetus for countries to strengthen energy security through strategic buffer-building and greater diversification of energy sources.

Shock absorbers have helped dampened oil price pressures

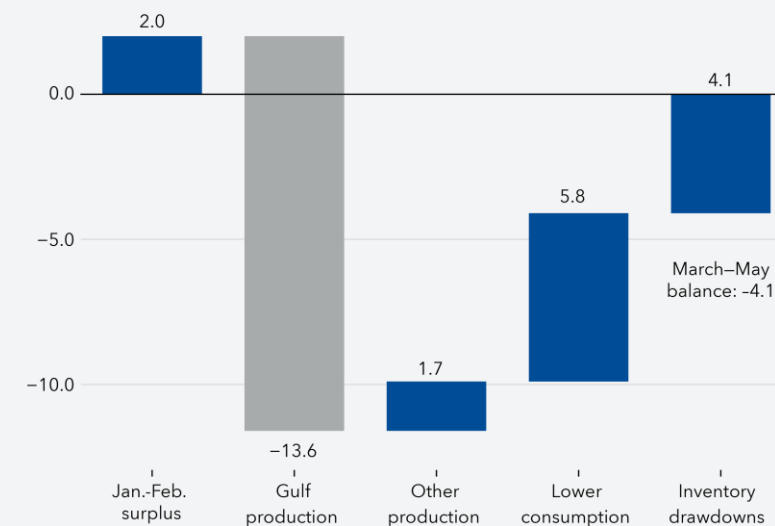
According to the IMF, the impact of conflict in the Middle East on oil prices has been dampened by:

- **Demand adjustment and energy substitution:** Higher oil prices dampened energy demand, particularly in Asia, as consumers and industries reduced consumption and increasingly substituted towards alternative energy sources such as coal and renewables. Although transport fuel demand remained relatively resilient due to price caps, subsidies, and tax rebates, these measures came at a fiscal cost.
- **Increased oil production outside the Gulf:** Stronger-than-expected production growth from non-Gulf producers helped offset supply disruptions. Output increased by almost 2 million barrels per day above 2025 levels, led by the United States and supported by higher production from Venezuela, Guyana, and Russia.
- **Strategic and commercial inventory drawdowns:** The remaining supply shortfall was largely absorbed through the release of commercial and strategic oil inventories. Drawdowns from global stockpiles, including China's commercial reserves and strategic petroleum reserves, helped stabilise markets and mitigate the immediate impact of the supply disruption.

Global oil markets were in surplus in the months before the war

More production, less demand, and inventory drawdowns helped absorb shock

Millions of barrels per day, March-May vs. January-February



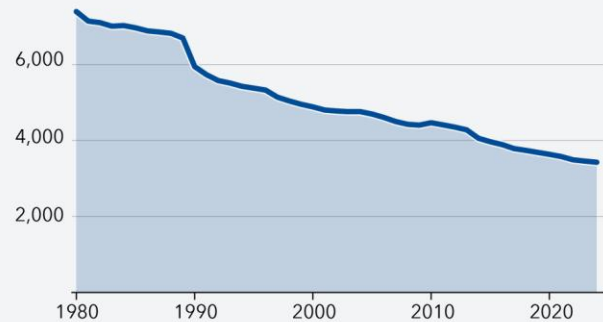
Source: IEA, and IMF staff calculations.

IMF

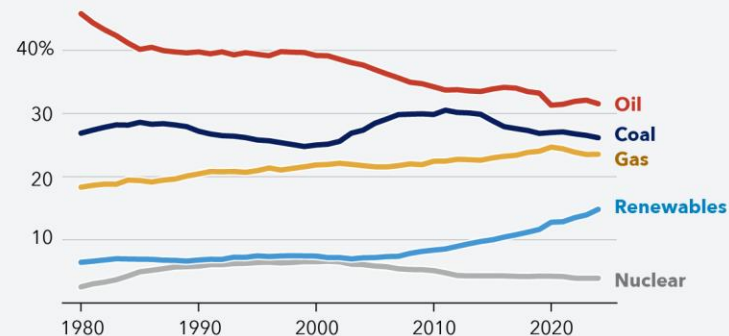
Structure of energy reliance and intensity has changed over the decades

Global energy intensity and energy mix

Total energy consumption per unit of GDP



Energy consumption by source



Sources: Energy Information Administration; Energy Institute; IMF. Note: Energy intensity is British thermal units per unit of GDP. Renewables includes hydropower, wind, solar, biofuels, geothermal, biomass, and waste energy.

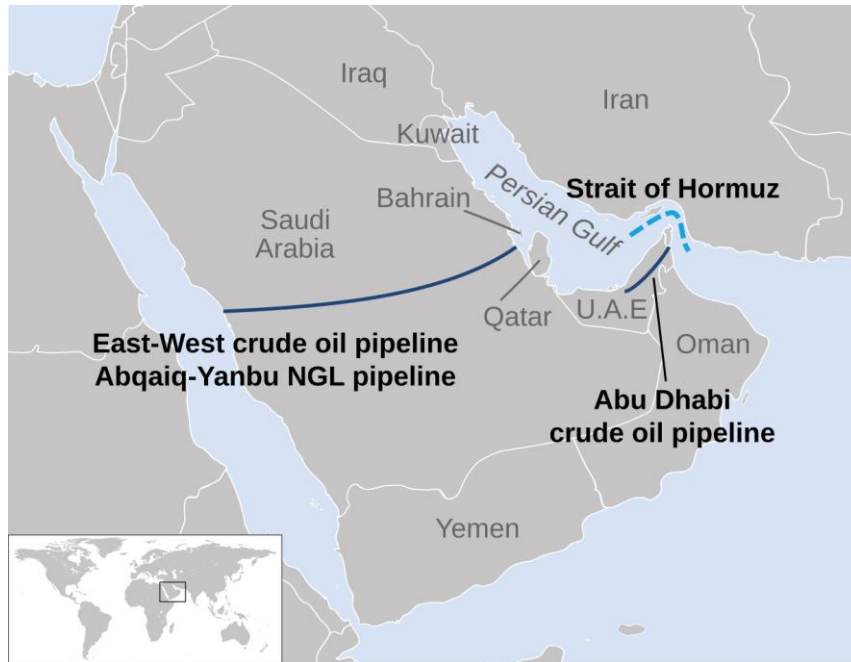
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Conflict should spur further transition to renewable energy

- **Lower energy intensity has reduced the sensitivity of GDP to oil price shocks.** Over time, economies have become more efficient in their use of energy, requiring less energy to produce each unit of output.
- During the recent conflict, higher oil prices led to some demand compression, but economic activity proved relatively resilient because production is less energy-intensive than in previous decades.
- **A more diversified energy mix has cushioned the shock.** The IMF [1] notes that some economies responded to higher oil prices by switching toward alternative energy sources, including coal and renewables where feasible. This diversification reduced reliance on crude oil and helped moderate the overall macroeconomic impact of supply disruptions.

[1] <https://www.imf.org/en/blogs/articles/2026/07/15/the-oil-market-absorbed-the-war-shock-but-buffers-are-running-low>

The East–West Pipeline helps mitigate disruptions to Saudi oil exports.



Source: U.S. Energy Information Administration

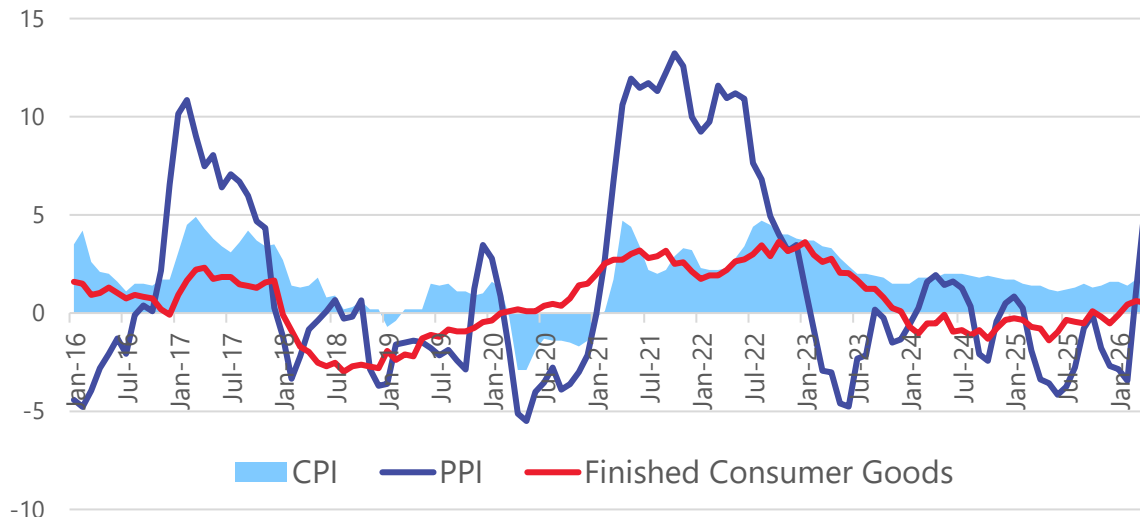
Cross-country pipelines offer limited but important relief

- According to the UNCTAD, in non-disrupted operating conditions, the baseline daily flow through the Strait of Hormuz consists of **14 million barrels of crude oil and condensate, 6 million barrels of refined petroleum products, and 10 billion cubic feet (Bcf) of liquefied natural gas (LNG)**. Together, these figures make up the total ~20 million barrels per day (bpd) of liquid petroleum and ~20% of global seaborne energy.
- **Alternative pipelines bypassing Hormuz:** Saudi Arabia's East-West pipeline to the Port of Yanbu on the Red Sea is reportedly operating at full capacity with daily loadings around 4.7 million bpd compared to normal operating levels of under 1 million bpd. [1]
- UAE's pipeline to the Port of Fujairah in the Gulf of Oman has capacity of 1.5 million bpd. The Habshan–Fujairah Pipeline allows the UAE to export crude directly to the Gulf of Oman, bypassing the volatile Strait of Hormuz.

[1] <https://www.bairdmaritime.com/shipping/ports/saudi-crude-exports-via-yanbu-port-approach-full-capacity>

Malaysia: Elevated producer costs do not always translate into persistently higher consumer prices

Producer Price, Consumer Price and Finished Consumer Goods Price Indices (YoY %)

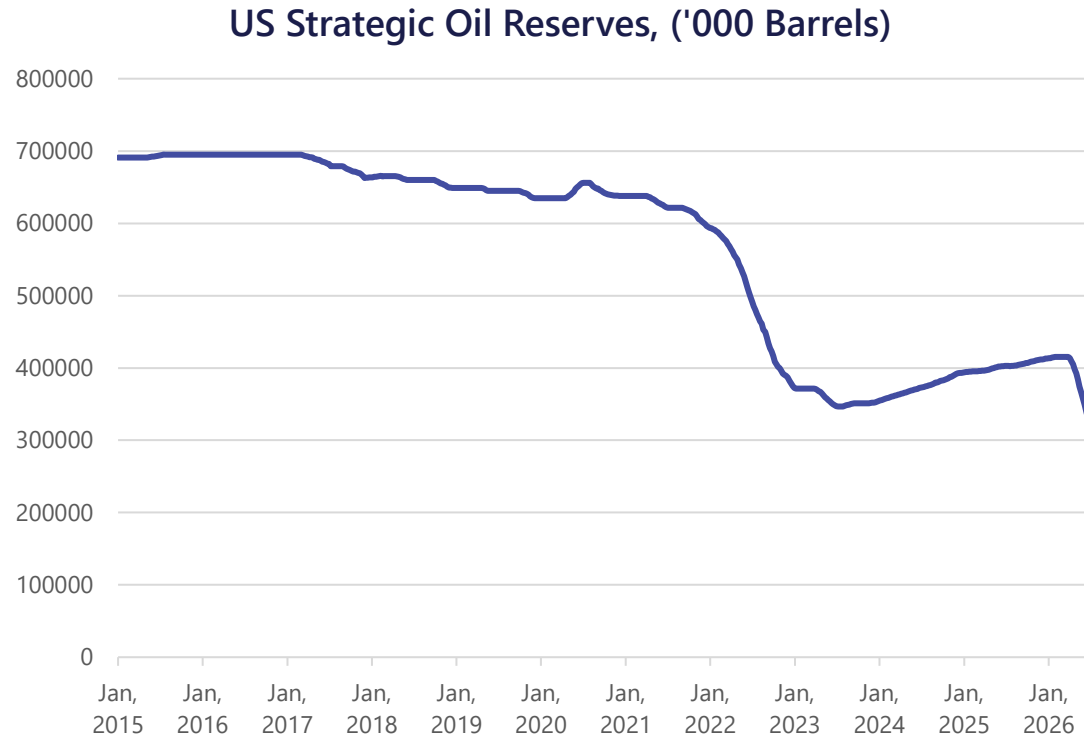


Source: DOSM, Producer Price Index, Consumer Price Index, May 2026

Finished goods prices typically rise less than crude input costs

- The **headline producer price index (PPI)** is typically sensitive as it incorporates costs of crude input that goes into production. PPI in May accelerated to **7.8% YoY**, up from 5.4% YoY in April.
- PPI better reflects the transitory effects of energy price shocks, whereas headline inflation is typically dampened by incomplete cost pass-through and policy interventions.
- As production progresses through the value chain, cost increases tend to become more moderate at successive stages of processing. Producers often try to absorb a portion of the higher input costs at the upstream stages first to maintain market competitiveness, protect market share, and sustain demand, thereby limiting the pass-through of cost pressures to downstream producers and final consumers.

Inventory drawdowns warrant close monitoring



Source: U.S. Energy Information Administration

Flare up in conflict put buffers to test

- Between **March and May 2026**, an estimated **4 million bpd oil market deficit**, resulting from disruptions affecting around **14 million bpd of global oil supply**, was largely absorbed through the release of commercial inventories and strategic petroleum reserves. Significant drawdowns from China's commercial stockpiles and government emergency reserves played a key role in cushioning the supply shock, thereby limiting price volatility and supporting market stability. [1]
- For the **U.S.**, the Strategic Petroleum Reserve (SPR) has fallen to around **316.5 million barrels**, the lowest level since 1983. Although the U.S. Department of Energy states this remains well above the technical minimum operating level (around 70 million barrels), the reserve has less flexibility than in previous crises and replenishment is expected to take some years.

[1] <https://www.imf.org/en/blogs/articles/2026/07/15/the-oil-market-absorbed-the-war-shock-but-buffers-are-running-low>



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