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US-Israeli; Iran war: a turning point for oil markets

In just five months, expectations for the oil market have shifted from a surplus to a near term deficit. Prior to the Middle East war, the oil market was expected to move into a surplus with forecasts ranging between 2.3–3.8 million barrels per day (mb/d) in 2026 as OPEC¹ began gradually unwinding voluntary cuts, while non-OPEC supply was on the rise, led by the United States, Canada, Brazil and Guyana. Supply was therefore expected to outpace demand, placing downward pressure on prices, with consensus forecasts averaging between \$55/bbl and \$65/bbl over the short term.

The effective closure of the Strait of Hormuz by Iran, in retaliation to the US-Israeli strikes that began on 28 February 2026, disrupted one of the world's most critical oil transit routes. Prior to the war, approximately 21–24 mb/d of oil and petroleum products moved through or around the Strait, equivalent to around 20% of global petroleum-liquids consumption.

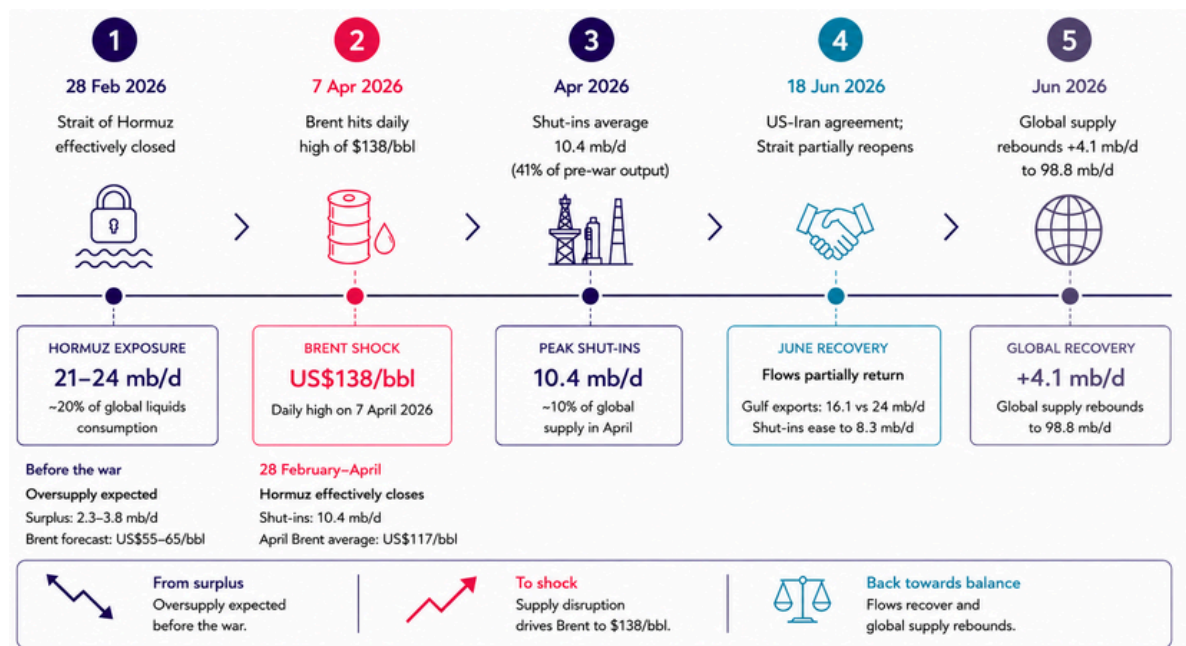
The closure contributed to significant Middle East production shut-ins, as limited export capacity, storage constraints and reduced refinery throughput forced producers to curtail output. According to the Energy Information Administration (EIA)² crude production shut-ins averaged 10.4 mb/d in April, equivalent to approximately 41% of the affected countries combined pre-war production of 25.2 mb/d and around 10% of global oil supply. Alternative export routes through Saudi Arabia and the UAE provided only partial mitigation, while strategic-reserve releases helped cushion, but could not fully offset, the loss of supply.

This supply disruption drove a sharp increase in Brent crude prices, which reached a daily high of \$138/bbl on 7 April 2026 and averaged \$117/bbl in April. Prices have since moderated but remain elevated above our long-term assumption of \$75/bbl as oil flows through the Strait have partially recovered [Figure 1].

¹ OPEC's (Organization of the Petroleum Exporting Countries) mission is to coordinate its member countries' petroleum policies to help balance global oil supply and demand and support market stability

² Energy Information Administration an independent statistical and analytical agency within the US Department of Energy

Figure 1: The 2026 oil market shock in 5 moves: from surplus to shock and backtowards balance



Source: Perpetua Research

The market shifted again following the 18 June 2026 agreement between the United States and Iran and the partial reopening of the Strait. Gulf oil exports, including volumes transported through alternative routes, recovered to 16.1 mb/d, although this remained below the pre-war average of approximately 24 mb/d. Consequently, Middle East production shut-ins declined to around 8.3 mb/d in June, while global oil supply rebounded to 98.8 mb/d. Nevertheless, renewed hostilities continue to create uncertainty around the pace and sustainability of the recovery.

The longer-term question is therefore whether the war *has structurally tightened the oil market or merely interrupted an underlying move towards oversupply*.

Oil shocks through history: common patterns

Historically, oil prices have tended to rise during periods of heightened geopolitical tension, particularly when such events remove material volumes from the market and spare capacity is limited. The duration of these cycles has typically depended on whether the disruption led to a sustained physical loss of supply. This pattern is evident in major oil shocks such as:

- the 1973–74 embargo
- the 1979 Iranian Revolution
- the 1980–1988 Iran–Iraq War
- the 1990 Gulf War.

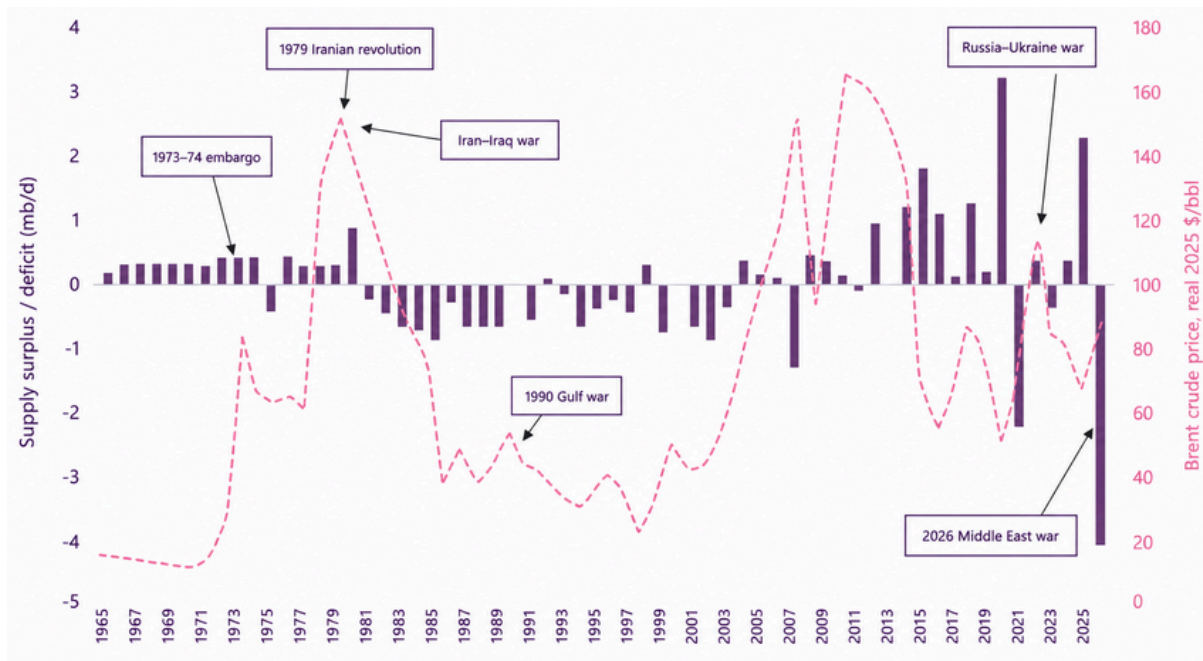
In the past oil shocks, have generated two additional forms of demand:

1. Governments rebuilding strategic reserves
2. Precautionary inventory accumulation by governments and commercial participants who had become concerned about future supply security.

This demand typically emerged gradually, after prices had moderated and physical supply had normalised.

A key lesson from the 1979 Iranian Revolution is that prolonged production losses and sustained higher prices can weaken demand and encourage additional supply, ultimately creating the surplus that contributed to the 1986 oil-price collapse [Figure 2]. More recently, the high-price environment following the 2011 Libyan disruption helped accelerate US shale growth, which, together with weaker demand and OPEC's decision to defend market share, contributed to the 2014 oil-price collapse.

Figure 2: Global oil market balance and Brent crude price, historical and 2026 forecast



Source: Energy Institute Statistical Review of World Energy for historical global oil supply and demand; EIA Short-Term Energy Outlook for 2026 forecast data; FRED/St. Louis Fed and EIA for Brent crude price history; author calculations for market balance and real price adjustment.

Although oil prices are likely to remain elevated over the short term until flows through the Strait of Hormuz normalise, we may see history repeat itself over the medium term. The International Energy Agency (IEA) (an intergovernmental organisation established in 1974 to promote energy security), indicated its medium-term outlook points to slower demand growth alongside rising global production capacity through 2030, which could return the market to surplus.

What is different today is that, following years of underinvestment, project start-ups are expected to slow from 2027, constraining supply growth and supporting longer-term oil prices. Even if new projects are initiated, their long development timelines mean that much of this production is unlikely to come on stream before 2030. As a result, we expect oil prices to gradually normalise towards our long-term assumption of \$75/bbl.

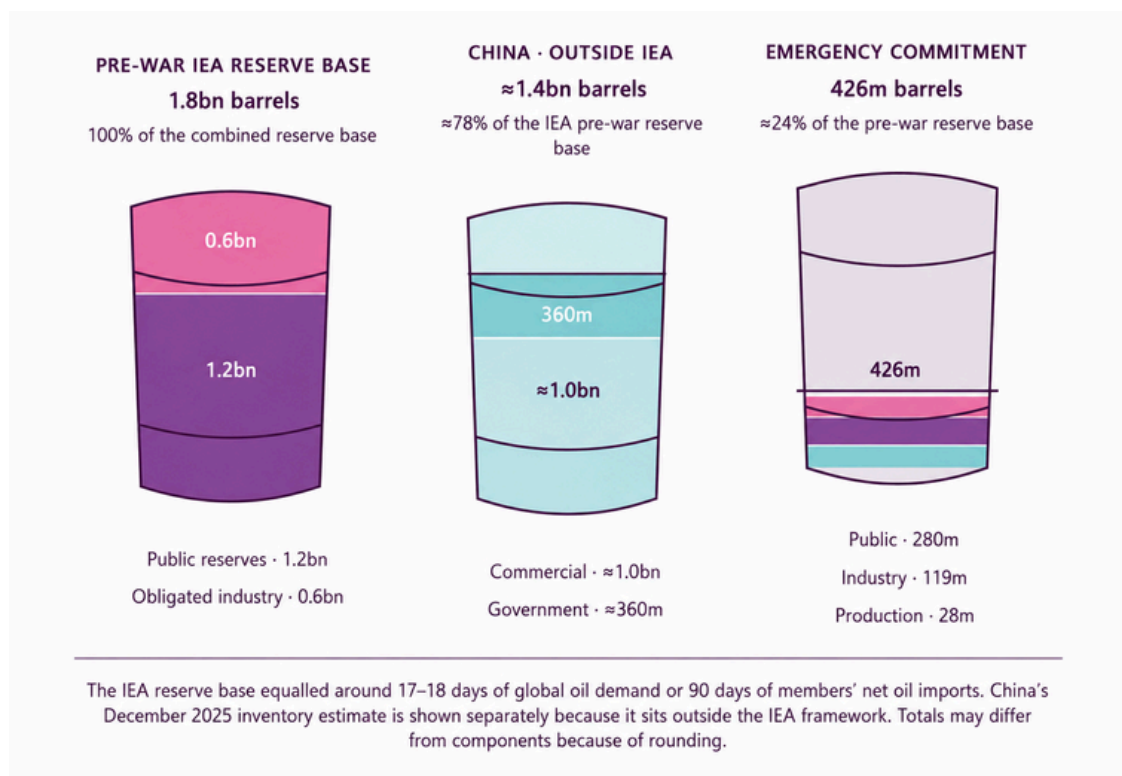
The case for higher strategic reserves

Prior to the war, IEA members held approximately 1.8 billion barrels of combined public and obligated industry reserves, equivalent to around 17–18 days of global oil demand or 90 days of IEA members' net oil imports. This includes the US making up 413 million barrels, while Japan held around 263 million barrels in government-controlled inventories.

Prior to the war, IEA members held 1.8 billion barrels of emergency reserves, equivalent to around 17–18 days of global oil demand or 90 days of members’ net oil imports, while China held an estimated 1.4 billion barrels outside the IEA framework.

The disruption to flows through the Strait of Hormuz subsequently triggered the largest coordinated emergency response in IEA history, with member countries committing a record 426 million barrels.

“The disruption to oil flows through the Strait of Hormuz triggered the largest emergency release of oil reserves in IEA history.”



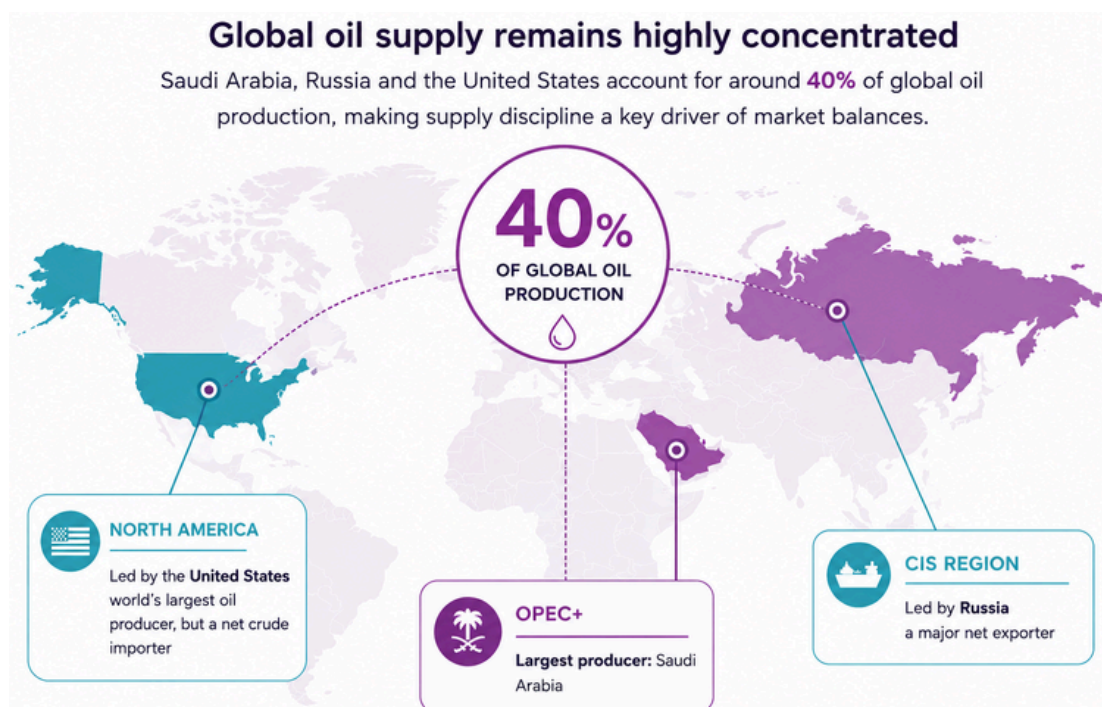
Approximately 70% has been used so far, reducing total IEA oil reserves to c.900 million barrels. The US, Japan and China have been material contributors to the releases, with the US Strategic Petroleum Reserve falling to its lowest level since 1983, at just above 300 million barrels.

In the post-war environment, we expect a restocking cycle that not only returns reserves to pre-war levels but potentially exceeds them, reflecting a structural shift towards higher reserves as countries increasingly prioritise energy security. This is particularly relevant for countries with high import dependence or significant exposure to Middle Eastern supply risks and may create additional oil demand over the short to medium term.

Implications for future supply discipline

Figure 3: Supply concentration among the Big Three (Saudi Arabia, Russia, USA)

The oil market remains highly concentrated, with Saudi Arabia, Russia and the United States accounting for approximately 40% of global crude production. However, supply has diversified beyond traditional OPEC producers and is increasingly shaped by both OPEC+ policy and non-OPEC+ growth, particularly US shale and rising production from Brazil, Canada, Guyana and Argentina, supported by oil majors and independent producers [Figure 3].



Source: Perpetua internal research. Supply is no longer purely cartel-driven; it is shaped by OPEC+ coordination, major non-OPEC producers and capital discipline across the industry.

In recent years, we have seen a preference for value over volume from the industry, reflecting a more sustainable approach to managing market balances following the period of overinvestment during 2011–2015. During this period, high oil prices encouraged oil majors and shale producers to invest aggressively, which led to the collapse in oil prices to \$35/bbl in 2015. The low oil price translated into declining revenues, deteriorating margins, and poor returns, leading to a pullback in capex.

The pullback in capex was further reinforced by the drive for green power following the introduction of the 2015 Paris Climate Agreement. Despite a recovery in oil prices in 2017 and 2018, capital investment never returned to historic levels. Instead, this discipline was maintained through the COVID oil price collapse and the Russia–Ukraine war.

To mitigate past irrationality, investors have placed pressure on oil majors to prioritise higher returns to shareholders through dividends and share buybacks, debt repayment, lower levels of reinvestment, and higher hurdle rates on future projects. This shift in capital allocation has led to significant underinvestment in future oil supply [Figure 4].

Figure 4: Reserve replacement is falling

Reserve replacement has deteriorated sharply According to Rystad, the industry is replacing a much smaller share of the oil it consumes each year.		
2006	2010	2025
150% reserve replacement ratio	100% replacement broadly matched consumption	25%–30% of annual oil consumption replaced

Source: Perpetua internal research. Lower reserve replacement reinforces the case that underinvestment may constrain future supply growth.

Following the Middle East war, the UAE stated that it would leave OPEC. This raises questions about what this means for future supply discipline, given that the UAE is the third-largest OPEC producer after Saudi Arabia and Iraq, accounting for roughly 4% of global oil supply on a total-liquids basis and around 5%–6% of global crude production.

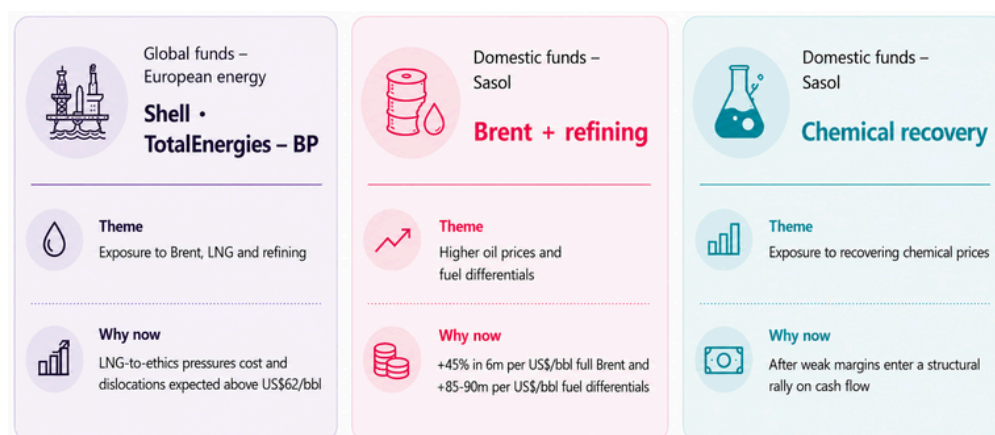
The UAE is also one of the world's lowest-cost producers, with a fiscal breakeven of around \$50/bbl. It has roughly 1.4–2.0 mb/d of additional oil production capacity, making it one of the few producers with meaningful spare capacity. Previously, OPEC+ had allowed a 300 kb/d phased increase in its production baseline, giving it scope to increase volumes even at lower prices.

Following its exit, the UAE stated that it would continue to act responsibly, bringing additional production to market in a gradual and measured manner, aligned with demand and market conditions. What remains unclear is whether the UAE will adopt a conservative or more aggressive approach as a standalone producer over the medium to long term. We will continue to monitor this alongside broader supply developments.

Our portfolios are positioned to benefit from a normal oil price of \$75

We are positioned to benefit across our funds, premised on our medium to long-term outlook for oil prices to normalise towards \$75/bbl, supported by underinvestment in supply and continued capital discipline [Figure 5].

Figure 5: Positioned for the cycle



Source: IEA, EIA, Energy Institute, Rystad Energy and company disclosures

In the global funds, we have maintained exposure to the lowest-cost European oil and gas companies, with production costs of around \$30–\$40/bbl. Through the cycle, these businesses have continued to pay dividends and repurchase shares at oil prices above \$60/bbl, supporting attractive double-digit distribution yields.

In the domestic funds, we have exposure to Sasol, which offers exposure to three potentially reinforcing earnings drivers: higher oil prices, elevated refining margins and recovering chemical prices. We believe the combined earnings, cash flow and balance-sheet improvements are not yet fully reflected in market expectations. A key risk to the investment thesis is the environmental impact of fossil fuels and Sasol's ability to execute on its decarbonisation plan. We manage this risk through capped exposure and active engagement on the credibility and delivery of its emissions-reduction targets [Figure 6].

Figure 6: Sasol, three potential earnings tailwinds

1. Higher oil prices	2. Stronger refining margins	3. Chemicals recovery
+R7.1bn EBIT	+R8.15bn EBIT	Potential cash-flow uplift
Estimated impact of a US\$10/bbl increase in the annual average Brent crude price, before hedging.	Estimated impact of a US\$10/bbl improvement in Sasol's annual average fuel-price differential.	A recovery in chemical prices could reverse a material recent drag on margins and cash flow.
Equivalent to approximately 14% of FY25 Group EBITDA.	The US 3-2-1 crack spread has recently been approximately US\$70/bbl , versus a 2018-2025 average of around US\$23/bbl .	Chemical-price recovery would add a third earnings lever alongside oil prices and refining margins.

Source: Perpetua internal research

We acknowledge that, over the short term, the geopolitical disruption has rapidly shifted the market from surplus to deficit and exposed the inherent fragility of global oil supply, stemming from the concentration of production and reliance on critical transit routes such as the Strait of Hormuz. This has highlighted the strategic need for higher oil reserves, in addition to the restocking of depleted reserves.

We remain cognisant of risks around supply discipline, particularly from rising US production; the potential recovery in Venezuelan output; and the UAE's planned capacity growth. However, we have reduced this risk by investing in the lowest-cost producers, which can sustain dividends at oil prices of around \$50/bbl. We also continue to monitor the pace of the energy transition and associated demand substitution—including electric-vehicle adoption; LNG-powered trucking; improvements in fuel efficiency; greater use of biofuels and the electrification of transport and industrial processes - which remain key risks to longer-term oil fundamentals.

What is clear is that the oil market has become increasingly volatile and vulnerable to supply disruptions. Nevertheless, underinvestment, capital discipline and the need to rebuild strategic reserves should continue to support longer-term fundamentals, despite the ongoing periods of oversupply.