Hormuz closure: When will physical shortages kick in?

The global economy is heavily reliant on the Strait of Hormuz for the supply of many essential commodities. Since its closure, prices have done most of the work rationing reduced supply. But outright physical shortages are appearing, and there is potential for more severe scarcity in crude oil and refined products in June if the strait remains closed.

Key Takeaways

- Supply shortages due to the Iran war are beginning to appear and look likely to worsen in the coming months. The drawdown in oil inventories could reach operational stress levels as soon as June.
- Strategic petroleum reserve releases, easing sanctions on Russian and Iranian supply, and reductions in Chinese imports have offset the impact so far, but this has its limits.
- Physical oil shortages may see prices rise non-linearly to curb demand. Even post-conflict, the need to replenish inventories will keep oil prices elevated into next year.
- Meanwhile, the implications from the fertiliser disruption are much more severe than those experienced as a result of the Ukraine war, with yields to be impacted into next year. A sharp rise in food inflation is likely.
- The supply shock will accelerate the trend towards self-sufficiency and resilience. This could benefit less geopolitically exposed fossil fuel producers as well as green energy producers.
- And more broadly, a world of more frequent supply shocks means persistent pressure on inflation and bond term premia.

In for a crude awakening?

Putting a timeframe on when acute physical shortages of oil, gas, and other commodities will really start to bite due to the closure of the Strait of Hormuz has proved challenging.

A combination of strategic petroleum reserve releases, high private inventories, eased sanctions on Russian and Iranian floating storage, reductions in Chinese imports, and a degree of price-mediated demand destruction, have all played a role in mitigating the loss of oil and gas supply.

However, the pain threshold may be rapidly approaching.

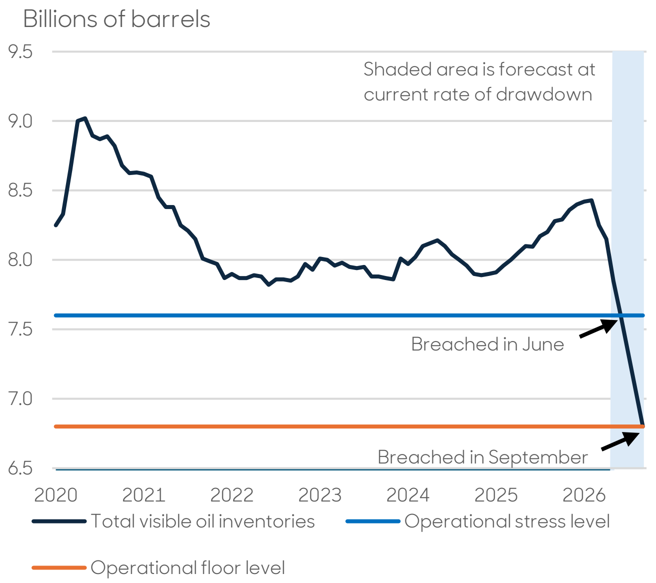
For example, oil inventories cannot be completely drawn down without pushing the global system into operational crisis. Pipelines and storage tanks must maintain minimum flow levels to ensure adequate pressure within systems. The salt caverns housing the US strategic petroleum reserve (SPR) risk collapse below certain internal pressures.

Another concern is that dwindling global storage may stoke public fear of shortages, leading to panic buying and even potential social unrest.

The operational stress level – when the global oil system will begin to face significant physical strain – may be breached in June.

And the operational floor level – when pipelines will be unable to maintain enough pressure to transport oil, supplies to refineries will not be sufficient to ensure proper function, and refined products will require more widespread rationing – could be breached in September (see Figure 1).

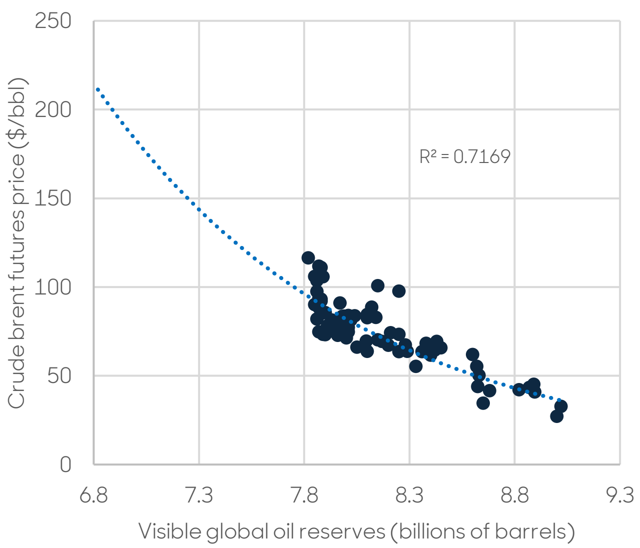
Figure 1: Operational difficulties in further drawing down global oil reserves may be imminent



Source: Aberdeen, JP Morgan, May 2026

A shift from price rationing to quantity rationing may see prices rise non-linearly (see Figure 2). This potential non-linear price response is why our downside "Stagflation" scenario is conditioned on a very high oil price peak of $180 per barrel.

Figure 2: The relationship between global oil reserves and oil prices may be non-linear



Source: Aberdeen, JP Morgan, FactSet, May 2026

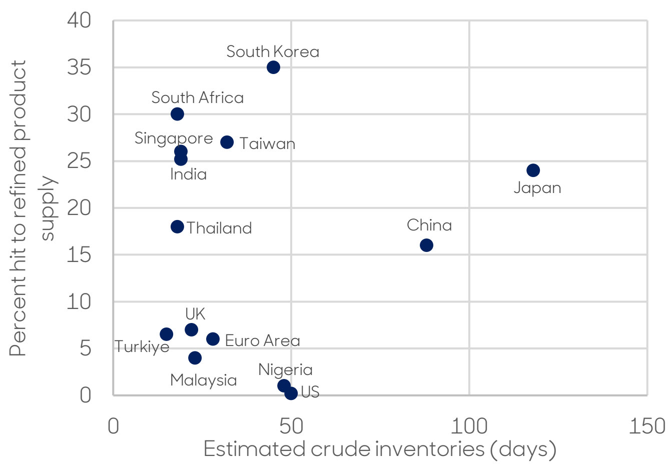
Shortages are already developing in some areas, with Asia hit hardest

Although widespread physical shortages may still be several weeks off, a degree of supply shortage has been materialising across sectors and economies since the early stages of the conflict.

These have been most severe for refined petroleum products, particularly for Asian economies (see Figure 4, overleaf).

The likes of Taiwan, Singapore, and India, alongside the UK and European economies, also have limited crude oil reserves (see Figure 3). Alongside the US, which has substantial domestic crude supply, Asian economies with large reserves, such as Japan and China, will be able to mitigate most of the shock.

Figure 3: South Asian economies and South Africa most exposed, with low inventories and high reliance on the Gulf



Source: Aberdeen, Goldman Sachs, May 2026

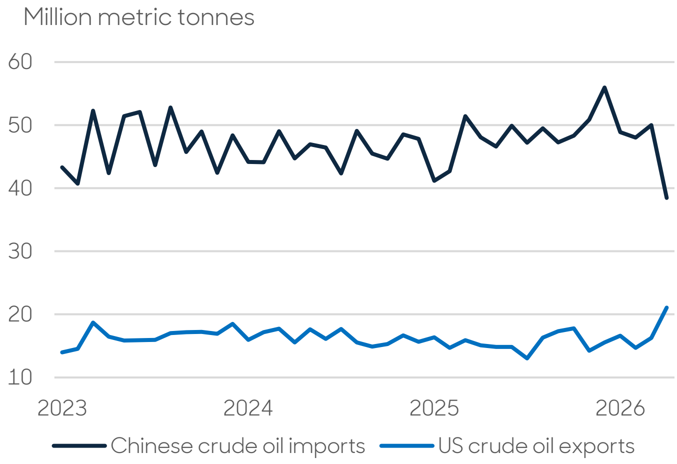
Indeed, the sharp pick-up in US exports as they release reserves and drop in Chinese imports as they stop adding to reserves, has been an important factor constraining global crude prices for now (see Figure 5).

Figure 4: Supplies for fuel oil and naphtha have seen the greatest disruption due to the Iran war.

Percent decline in local product supply from disruption to Gulf exports (After imports and exports adjustment, but before domestic storage use							
	Gasoline	Diesel/Gasoil	Jet Fuel	Fuel Oil	Naphtha	LPG	Average
US	0	0	0	23	0	0	**0**
UK	0	1	41	2	0	0	**7**
Germany, France, Italy, Spain	2	4	21	10	3	1	**6**
Turkiye	10	4	10	12	16	2	**7**
China	7	18	8	63	14	19	**16**
India	11	15	16	35	44	55	**26**
Japan	13	20	46	50	43	7	**24**
South Korea	38	44	66	63	29	9	**35**
Singapore	35	49	25	18	71	62	**26**
Malaysia	2	8	0	0	0	12	**4**
Thailand	9	13	17	54	57	8	**18**
Taiwan	17	51	41	63	15	24	**27**
South Africa	18	36	26	52	15	34	**30**
Nigeria	0	6	0	0	0	0	**1**
Average	**4**	**10**	**14**	**31**	**22**	**17**	

Source: Aberdeen, Goldman Sachs, May 2026

Figure 5: Chinese imports of crude oil have dropped 20% compared to the same time last year



Source: Aberdeen, Haver, CNBC, May 2026

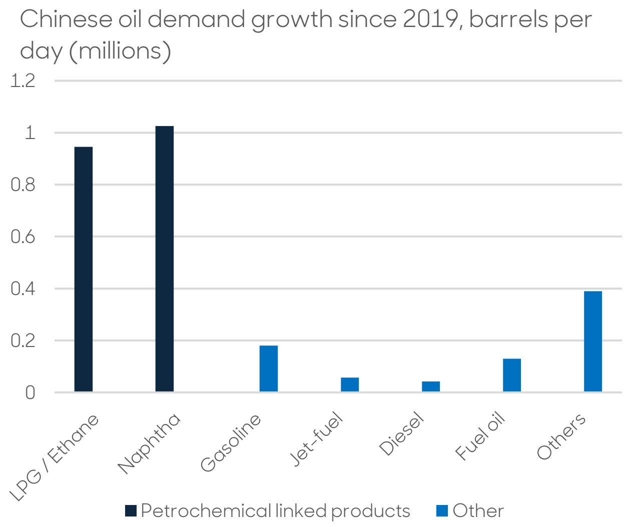
Many naphtha refiners declared force majeure early on

Supply shortages in the petrochemicals industry began within days of the war starting, due to disruption of naphtha (a downstream distillate of crude, and petrochemical feedstock) from the Gulf.

More than 60% of Asia's seaborne naphtha imports came through the Strait of Hormuz. Early March saw *force majeure* declarations in Indonesia, South Korea, and Singapore. And Japan is also facing constraints, with one survey finding that 44% of local firms have been affected by naphtha shortages.

China is relatively less exposed to the lack of petrochemical feedstock. This is despite the fact they have driven most of the growth in Chinese oil demand in recent years (see Figure 6). This is because many Chinese producers can make chemicals and liquid fuels from coal instead. This is proving to be a windfall for producers who are both shielded from higher input costs and benefiting from higher prices for their products.

Figure 6: Petrochemicals drove most of the growth in Chinese oil demand prior to the conflict



Source: Aberdeen, Bloomberg News, May 2026

Medical supplies are also affected by the supply dislocation, as they rely on petrochemicals for feedstock and packaging, while transportation costs have also increased. Medicines UK, which represents manufacturers that supply most NHS drugs, have warned that medication shortages may be seen in the UK in the coming weeks. Indeed, prices of generic drugs have already risen 20-30% due to the impact of higher production and transport costs.

Jet fuel supplies are up in the air

Supply constraints for jet fuel may begin to bite in the run up to the north hemisphere summer. Europe is especially exposed, having lost around 500,000 barrels of supply that previously came from Middle East and Asian refiners.

Admittedly, European airlines have found some relief from European refineries switching to jet fuel production, as well as increasing imports from the US and Nigeria. But, if the strait does not reopen soon, the risk of US export controls being put in place may rise, impacting European supply. And of course, the switch to jet fuel from refineries implies that production of other refined products must be curtailed.

European jet fuel supplies could reach the International Energy Agency's (IEA) critical 23-days of demand threshold by early June, at which point physical supply shortages would emerge. Lufthansa has already cancelled 20,000 flights. Many airlines in Asia are taking similar steps in cancelling short-haul flights and in imposing fuel surcharges to ticket prices.

Significant disruption to food availability is on the table

The fertiliser industry is also experiencing widespread disruption. Bangladesh has been forced to close five of the country's six urea factories due to gas supply disruptions. These factories produced 37% of Bangladesh's urea supply, the rest of which was sourced from Gulf states and has also been disrupted. In a sign that this supply-shock is not contained to Asia, a survey of US farmers found that 70% of farmers will not be able to afford their full fertiliser needs for this year.

Notably, after 90 days since the closure of the Strait of Hormuz, we are surpassing the 90-day threshold that the Food and Agriculture Organisation (FAO) states will affect the next planting season across the world.

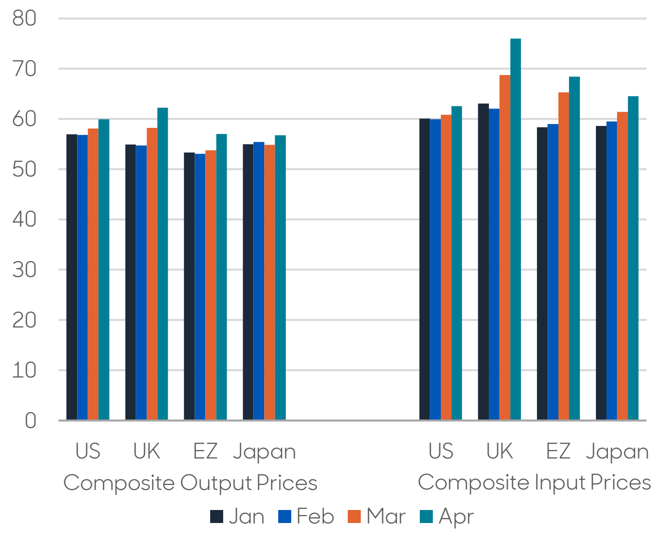
Unlike after the disruption to wheat supplies due to the outbreak of war in Ukraine – a shortfall which could be replaced in the next planting season by other producers – there is no near-term supply response available. And the infrastructure needed to replace the fertiliser inputs from the Gulf would take years to build out.

We are seeing the impact in the data already

The consequences of these supply shocks are already materialising in survey, activity and inflation data.

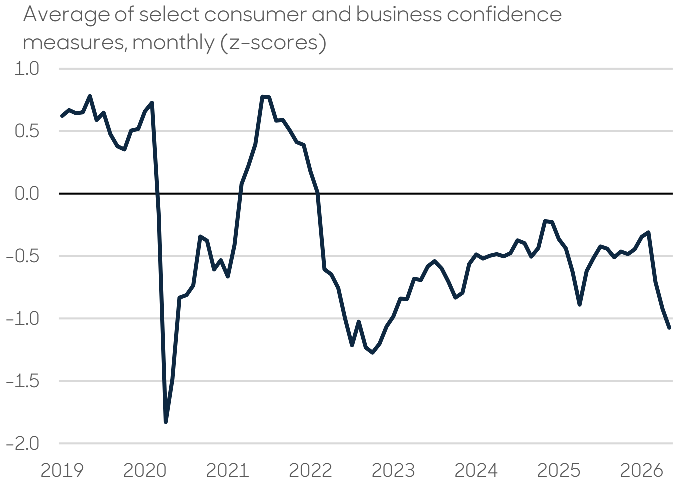
The Global Composite PMI reading shows input prices inflation accelerating to a 41-month high in April and output prices rising at their fastest pace since October 2022 (see Figure 7). Surveys of both business and consumer sentiment are also reflecting the uncertainty and disruption (see Figure 8). While inflation surprises to the upside are already appearing, the effects have not yet triggered widespread price increases for non-energy related items, which will be the primary waymark for central bank intervention.

Figure 7: Input and output prices have risen sharply



Source: Aberdeen, Haver, May 2026

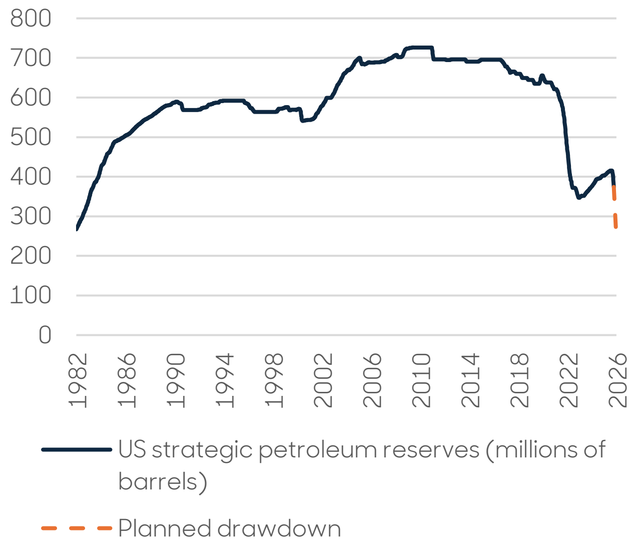
Figure 8: We are already seeing a sharp drop in both consumer and business confidence



Note: Surveys used = US consumer confidence, UK consumer confidence, EZ consumer confidence, Japan consumer confidence, US small business optimism, EZ industrial confidence, University of Michigan consumer sentiment, and EZ ZEW economic sentiment

Source: Aberdeen, Haver, May 2026

Figure 9: US strategic reserves were already low prior to the latest release



Source: Aberdeen, US Energy Information Administration, May 2026

Oil higher for longer amid stockpile rebuilding?

Beyond immediate supply shortages, there is an underappreciated risk to elevated oil prices over the longer-term.

Admittedly, developments such as the UAE exiting OPEC to increase oil production point to increased supply as-and-when the strait reopens. The breakeven oil price pre-war was as low as $65 per barrel.

But strategic reserves that are currently being drawn down will need to be replaced. This will see demand remain elevated long after the strait reopens.

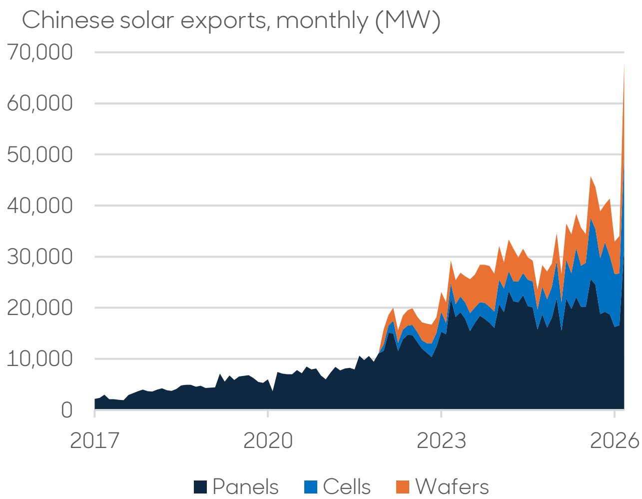
Indeed, the US already had plans prior to the war to increase crude stockpiles, having not replenished them from their drawdown after Russia's full-scale invasion of Ukraine (see Figure 9).

A wider range of countries could reevaluate their current reserve policies more generally.

In particular, those, such as India and countries in South-East Asia, who have been most exposed due to their relatively low inventory levels could look to increase reserves beyond what has been used over the past few months.

This will also drive the continued diversification of energy sources to improve resilience. Chinese solar exports almost doubled in March and are significantly above previous highs (see Figure 10).

Figure 10: A substantial increase in exports of solar equipment



Source: Aberdeen, Ember, May 2026

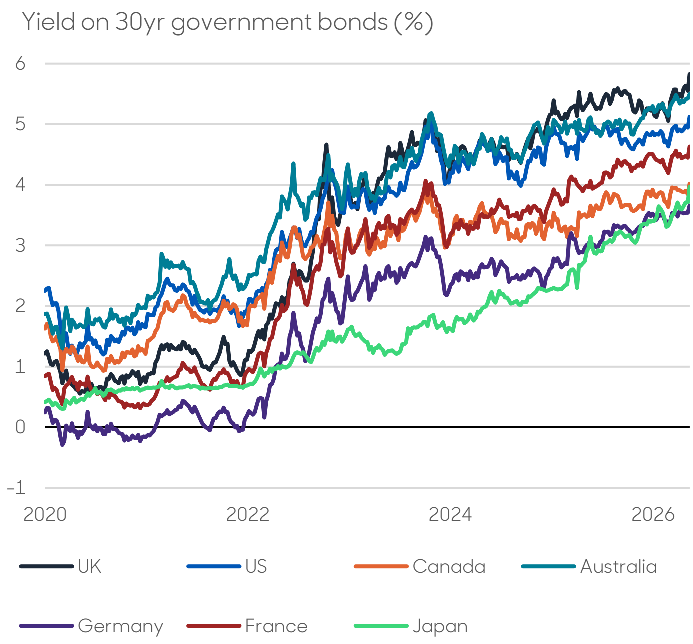
Fear drives bond market sell-off

In response to this supply shock and the subsequent surge in commodity prices, many governments are responding with expansionary fiscal policies including subsidies and tax cuts on certain products.

Coming after substantial fiscal stimulus in handling both the Covid pandemic and the energy shock from the war in Ukraine, this heightens fears over the size and sustainability of government balance sheets and continuously expanding deficits.

Combined with more persistently volatile inflation, this has led to a repricing in long-term government bonds (see Figure 11). We have written previously about our view that the aforementioned factors will drive term-premia higher.

Figure 11: Long-term bond yields have spiked to multi-year highs



Source: Aberdeen, FactSet, May 2026

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AA-080626-208962-65