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COMMODITIES, FOOD & AGRI ENERGY

Oil prices hold firm despite Persian Gulf supply growing

Oil prices remain firm despite rising supply from the Persian Gulf. We expect oil prices to trade lower into year-end. More positive signs of a potential US-Iran deal would give us more confidence in this view. Meanwhile, European gas looks vulnerable heading deeper into the heating season



Oil prices are holding firm despite Persian Gulf supply increasing

Persian Gulf oil flows pick-up

There are few signs of de-escalation in the Middle East. If anything, it appears as though the conflict is broadening, with the Houthis in Yemen increasingly targeting Saudi Arabia. Despite little improvement in the geopolitical environment, oil flows from the Persian Gulf have been trending higher with supply from the region returning to 70-75% of pre-war levels, although there are some estimates suggesting we could be back to as high as 80-90% of pre-war flows.

The fact that oil prices are well-supported despite the improvement in flows from the region appears to reflect concerns over how sustainable this supply is, particularly when considering the geopolitical backdrop. The market continues to price in a large risk premium in the absence of a deal between the US and Iran. And to see this risk premium erode, the market may need

the comfort of a deal. Failing that, time may be enough for oil prices to trend lower, assuming supplies from the region continue to hold up. For now, we are holding onto our 4Q26 Brent forecast of $80/bbl and FY27 forecast of $71/bbl. However, given the high level of uncertainty, this is a low-conviction call, specifically for 4Q26.

As oil flows from the Persian Gulf have picked up, another bottleneck has become increasingly noticeable in the oil market. There is significant tightness in the tanker market, which has seen tanker freight rates surge to record levels. Oil flows from the Persian Gulf have become increasingly inefficient due to the challenging environment, which has absorbed more of the global tanker fleet. And the only way this starts to normalise is if the way oil flows from the region also starts to normalise.

The other pain point for the oil market remains diesel, which will be a concern as we head further into the Northern Hemisphere winter. Disruptions from the Persian Gulf and Russia have tightened the market, while the risk of export restrictions from the US has kept the market nervous. The risk of US export restrictions appears to have subsided, with Europe set to release diesel from strategic reserves. Furthermore, expensive freight suggests that refined product prices are likely to remain elevated.

Natural gas vulnerable heading into heating season

European natural gas prices have traded at their highest level since December 2022, with supply concerns growing as the region heads into the heating season. Unfortunately for the natural gas market, we have not seen a similar recovery in LNG flows from the Persian Gulf as we have with oil. Therefore, LNG flows from the region remain down about 80% year-on-year. The market is increasingly accepting that Persian Gulf LNG could remain largely absent from global markets for much of the Northern Hemisphere winter. This means Asia and Europe will continue competing for spot cargoes throughout the winter, keeping prices well supported and leaving the market vulnerable to further spikes.

European gas storage remains a concern, at just under 75% full, well below the five-year average of 89%. Low storage has seen the German government instruct state-owned SEFE to buy and store an additional 8TWh of natural gas by 15 December. The prospect of essentially forced buying provides further support to the market.

With little sign of an imminent recovery in Persian Gulf LNG supply, weather will be crucial this winter, and there is growing expectation that Europe will experience a winter of milder temperatures due to El Niño, which would provide some relief to the market. However, it is not a strong relationship, and El Niño does not guarantee milder temperatures. The North Asia winter will also be important for the LNG market, as El Niño can also typically mean milder temperatures in this region.

We now expect TTF to average EUR73/MWh over the 26/27 winter, up from a previous forecast

of EUR65/MWh. The market will likely be very volatile over this period, given the lower starting point for gas storage. Prices are then expected to sell off aggressively from 2Q27 as Persian Gulf supply normalises, and we see a further ramp-up in US LNG export capacity.

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