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ENERGY MARKETS OUTLOOK

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Gulf Oil Flows Enter a New Era of Disruption, Diversification and Energy Security

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Gulf oil markets are undergoing a structural transformation as prolonged disruptions to the Strait of Hormuz reshape global trade flows, shipping economics and energy security strategies. While crude exports have partially recovered, elevated transportation costs, infrastructure vulnerabilities and changing buyer behavior are challenging traditional supplier relationships and accelerating investment in alternative routes, strategic reserves and international partnerships.

Gulf Oil Flows Remain Vulnerable

Crude exports through the Strait of Hormuz averaged approximately 8.6 million barrels per day in September, representing 54% of pre-war levels of nearly 16 million barrels per day. This recovery depends heavily on US military protection, Gulf national oil companies absorbing transportation risks and expanded ship-to-ship transfers.

Alternative export infrastructure, including Saudi Arabia's East-West pipeline and the UAE's Fujairah route, has helped sustain supplies. However, attacks on export terminals, maritime congestion and persistent security threats continue to undermine operational reliability.

Freight Cost Challenges

Disruptions have fundamentally altered tanker economics, with some high-risk crude shipments generating freight earnings approaching $1 million daily. Extended shipping routes and ship-to-ship transfers can add approximately one month to delivery schedules, increasing costs for Asian importers.

Congestion around Fujairah and Sohar has pushed additional transfer operations toward India and Sri Lanka. These arrangements provide temporary relief but remain financially and operationally unsustainable without improved maritime security.

Asian Buyers' Supply Diversification

Asian consumers are increasingly prioritizing strategic reserves, alternative suppliers and greater energy flexibility. China retains approximately 1.1 billion barrels of reserves, enabling it to reduce imports during periods of elevated prices.

Japan faces historically low inventories, while South Korea has increased purchases from the United States and UAE. India is considering additional strategic storage capacity as governments seek to reduce dependence on vulnerable supply routes.

Gulf Producers Prioritize Market Share

Gulf producers are offering competitive pricing and absorbing additional shipping risks to retain Asian customers. Saudi Arabia and Iraq have introduced substantial discounts, although sustained price reductions could undermine government revenues. Longer-term strategies increasingly emphasize expanded pipeline capacity, overseas storage partnerships and investments in customer-market infrastructure.

Regional Cooperation and Diplomacy Remain Essential

Potential energy corridors through Syria could diversify Iraqi exports toward the Mediterranean, although financing, infrastructure limitations and security risks remain significant obstacles. Ultimately, Gulf energy resilience will depend on diversified infrastructure, strategic international partnerships and sustained investment in operational independence. However, diplomatic resolution remains essential to restoring reliable energy flows and reducing the escalating costs of regional insecurity.



TOP 5 TAKEAWAYS

1. Security Cooperation to Stabilize Gulf Oil Flows
Further recovery in Gulf crude exports will depend on sustained US naval protection and progress toward an agreement with Iran, as renewed security disruptions could reverse recent gains and undermine shipping reliability.

2. Atlantic Supplies to Diversify Asian Crude Imports
Persistently high tanker rates and extended delivery times could encourage Asian refiners to increase Atlantic Basin purchases, reducing dependence on Gulf supplies and gradually reshaping established crude trading relationships over time.

3. Strategic Storage to Strengthen Asian Supply Security
Asian importers are expected to explore additional strategic reserves, diversify crude suppliers and pursue storage partnerships, although elevated prices and market backwardation could delay significant inventory replenishment beyond the fourth quarter.

4. Flexible Pricing to Defend Gulf Market Share
Gulf suppliers could increasingly combine selective crude discounts with overseas storage partnerships and refinery investments to defend Asian market share, while balancing competitive pricing against domestic revenue requirements and rising transportation costs.

5. Infrastructure Resilience to Strengthen Gulf Energy Security
National oil companies are likely to prioritize expanded bypass pipelines, infrastructure protection and additional tanker capacity, while persistent security risks could constrain investment in emerging cross-border energy corridors and reinforce the importance of diplomacy. ■

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