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Rapid Drawdown of Global Oil Inventories Amid the Ongoing Strait of Hormuz Crisis

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On May 18, during the G7 Finance Ministers' Meeting held in Paris, Dr. Fatih Birol, Executive Director of the International Energy Agency (IEA), stated in a media interview that, under conditions of a continued blockade of the Strait of Hormuz, commercial oil inventories in the international petroleum market are declining rapidly. He noted that these inventories "would last several weeks, but we should be aware of the fact that they are declining rapidly."

Prior to this statement, the IEA's Monthly Oil Market Report released on May 13 had already indicated that global oil inventories had been falling at a record pace. According to the report, observed global oil inventories have declined sharply by a total of 246 million barrels since the onset of the current conflict. This drawdown has been persistent, with declines of 129 million barrels in March and 117 million barrels in April, representing an unprecedented pace of inventory depletion. The IEA warned that the rapid reduction of oil inventories—serving as a buffer for supply-demand adjustment in the international oil market—could presage further increases in crude oil prices, particularly as large-scale supply disruptions caused by the effective closure of the Strait of Hormuz continue.

Since February 28, when military operations by the United States and Israel against Iran commenced, Iran has responded by moving to blockade the Strait of Hormuz. As a result, the loss of oil and LNG supplies transiting the strait has largely persisted to this day. While some mitigative measures have been undertaken—such as crude exports via pipeline routes bypassing the strait in Saudi Arabia and the UAE, as well as limited tanker transits—these efforts cannot fully compensate for the normal flow of approximately 20 million barrels per day through the Strait of Hormuz, equivalent to about 20% of global oil supply. Consequently, the market continues to face a supply shock of a magnitude unparalleled in the history of international petroleum markets, with no clear resolution in sight.

In response to this substantial supply disruption, crude oil prices have surged. Between March and April, futures prices repeatedly exceeded $100 per barrel and briefly surpassed $120, marking the highest levels observed since the Ukraine crisis. Although prices have continued to fluctuate in response to developments regarding the conflict and the blockade, they have remained elevated, generally stabilizing around the $100 level.

While prices above $100 undoubtedly represent a high level, many market participants and experts have expressed puzzlement that prices have not risen significantly further, given the extraordinary scale of the supply disruption—estimated at a cumulative loss of between 800 million and 1 billion barrels. This raises a fundamental question: why have prices not escalated to even higher levels under such conditions?

The answer is multifaceted. Broadly speaking, it can be attributed to two factors: characteristics of price formation in futures markets and underlying supply-demand dynamics. Regarding the former, since the beginning of the conflict, expectations of a ceasefire and the reopening of the Strait of Hormuz have persisted in futures markets. These expectations have fostered a form of "optimistic sentiment" regarding the future. Although early hopes for a swift resolution proved unfounded, various signals and messages concerning ceasefire negotiations and potential conflict resolution continued to influence market expectations.

For example, on April 7, US President Trump announced a two-week ceasefire, which has largely held since then. Concurrently, discussions between the United States and Iran have taken place, generating further speculation about the possibility of an agreement. In this context, futures markets have incorporated not only the current supply disruptions but also expectations of their eventual resolution. As a result, futures prices—reflecting forward-looking optimism—have tended to remain somewhat subdued relative to physically traded prices.

The second, and arguably more critical, factor relates to physical supply-demand dynamics, particularly the role of inventories. Throughout 2025, global oil inventories had been on an upward trend, reflecting relatively loose market conditions. At the onset of the conflict at the end of February, inventory levels were high. In the face of supply disruptions, the global market has relied heavily on these accumulated inventories to bridge the gap. Various emergency measures have been implemented: the IEA coordinated the largest-ever collective release of petroleum reserves; countries with limited stockpiles, particularly in Asia, have adopted demand-reduction measures; and efforts have been made to maximize alternative export routes bypassing the Strait of Hormuz. However, the most significant mechanism for coping with the supply shock has been the drawdown of inventories.

As previously noted, inventories have been depleted at a record pace. This reflects the extent to which the global oil market has relied on stockpiles to offset supply losses. In this sense, the use of inventories has effectively "bought time," mitigating price spikes despite the magnitude of the supply disruption. It is precisely this buffering function that has prevented prices from rising even more dramatically thus far.

However, inventory drawdowns cannot continue indefinitely. The observed rapid decline in inventory levels serves as a clear signal of tightening supply-demand conditions. While inventories have played a crucial role in stabilizing the market thus far, continued supply disruptions without corresponding improvements will inevitably lead to intensified pressure on prices.

This situation holds important implications for the future trajectory of the Iranian conflict. The outcome of the war remains uncertain. While there is hope for a negotiated settlement, the possibility of renewed military escalation cannot be ruled out. Should military options be pursued, the global oil market would likely experience another severe shock, potentially triggering a sharp surge in oil prices. Even in the absence of military escalation, however, a prolonged blockade of the Strait of Hormuz would exacerbate supply tightness and sustain upward pressure on prices. Given the reduction in overall supply, equilibrium can only be restored through a significant rise in prices, effectively curbing demand. Many experts seemingly share this view. Ultimately, the core issue lies in the massive supply loss resulting from the blockade of the Strait of Hormuz and how it will be resolved.

The IEA's warning regarding the rapid decline in global oil inventories underscores the likelihood of further price increases. The critical determinants of future oil market conditions will be the progress of negotiations toward ending hostilities, the potential reopening of the Strait of Hormuz, and the timeframe required for normalization. These factors will decisively shape the trajectory of international oil markets and crude oil prices in the coming period.

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