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## International Crude Oil Markets Remain Calm

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Although negotiations between the United States and Iran are ongoing over freedom of navigation through the Strait of Hormuz and Iran's nuclear development program, as of the time of writing (May 26), no agreement is yet in sight. As a result, the Strait of Hormuz—one of the world's most important oil transportation routes—has effectively remained blocked, causing an unprecedented supply disruption equivalent to roughly 20% of global oil consumption<sup>1</sup>. Against this backdrop, international benchmark crude prices such as WTI and Brent crude were trading in the range of \$90–100 per barrel as of mid-May. While these levels are, naturally, substantially higher than those seen before the crisis, they still remain below the historical peak of the mid-\$140-per-barrel range. Thus, despite the continuation of supply disruption on an unprecedented scale, it can be said that international crude oil markets have remained relatively calm. Some observers even argue that the market is currently underestimating the severity of the crisis.

Several factors can be identified behind the gap between the actual scale of the supply disruption and the relative calm seen in international crude oil markets. One major factor is the supply-demand conditions in the global oil market at the time the Strait of Hormuz crisis erupted. Prior to the disruption, in the fourth quarter of 2025, the global oil market was already experiencing a supply surplus of 2.6 million barrels per day. In addition, in the supply-demand outlook published by our institute last December, global oil supply in 2026 was projected to exceed demand by approximately 2.3 million barrels per day for the year as a whole, largely due to increased production from non-OPEC countries such as the United States. Reflecting these market fundamentals, the International Energy Agency reported that global oil inventories at the onset of the crisis (at the end of February this year) stood at more than 8 billion barrels, an exceptionally high level even by historical standards. Since the international oil market had already been characterized by supply substantially exceeding demand, the impact of the current supply disruption appears to have been absorbed to some extent by the broader market surplus.

Another factor that can be pointed to is the existence of strategic petroleum reserves in major countries. In international oil markets, supply disruptions caused by geopolitical factors have

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<sup>1</sup> Part of this shortfall has been offset by increased exports through the Red Sea and from the UAE's Port of Fujairah, but these additional export volumes still fall short of the normal level of traffic through the Strait of Hormuz.

occurred repeatedly in the past. However, the effective closure of the Strait of Hormuz this time represents a supply disruption on a completely different scale from previous episodes. As a result, market participants had naturally assumed that governments would respond by releasing oil from their reserves. Consequently, the market did not react excessively to the disruption itself, and crude oil prices can be seen as having been formed at levels that already incorporate the supply-relief effects of potential stockpile releases.

A third factor is the issue of so-called “normalcy bias.” This refers to the psychological tendency, even when faced with an unprecedented event such as the effective closure of the Strait of Hormuz, to interpret the situation within the bounds of what they consider understandable and therefore assume that such an abnormal situation will be resolved relatively quickly. In fact, even for WTI crude oil futures, prices for December delivery this year rose only slightly immediately after the outbreak of the crisis and have remained broadly stable in the \$70-per-barrel range since mid-March. This suggests that many participants in the futures market regard the current supply disruption as merely a temporary shock factor and expect the situation to be resolved by the end of this year.

From a somewhat different perspective than the three factors discussed above, a fourth factor that can be pointed out is the possibility that benchmark crude prices such as WTI and Brent futures may not, in the first place, accurately reflect actual supply-demand conditions. At present, the benchmark prices used in international oil markets—whether for WTI or Brent crude—are front-month futures prices for delivery one month ahead. These futures contracts are traded not only by commercial participants such as physical oil users, but also by non-commercial players, including financial institutions and institutional investors. By contrast, spot transaction prices, which are traded primarily among commercial participants with actual physical demand, have increasingly been observed trading at levels that differ substantially from these futures prices<sup>2</sup>.

Several factors may explain the divergence between futures market prices and spot prices<sup>3</sup>, but one major explanation is the problem of “flood of information.” Futures prices are, by nature, prices for the future, and their levels are therefore heavily influenced by market participants’ expectations. Normally, participants in futures markets forecast future prices by taking into account a wide range of factors, including supply-demand outlooks and geopolitical risks. At present, however, a vast amount of often conflicting information is circulating daily regarding U.S.-Iran negotiations and developments surrounding the Strait of Hormuz. Moreover, many participants in the futures market are not necessarily commercial players directly involved in the

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<sup>2</sup> On April 7, 2026, even for the same Brent crude benchmark, the physical spot price (Dated Brent) reached a record high of \$144.42 per barrel, whereas the one-month futures price in the futures market remained at only \$109.27 per barrel, resulting in a substantial price gap of approximately \$35 between the two.

<sup>3</sup> For example, the aforementioned “normalcy bias” may be one contributing factor. It is also possible that spot prices have risen excessively due to factors such as panic-driven demand.

physical crude oil business, meaning that in reality, they have limited time and capacity to individually assess and verify each piece of information. As a result, it may have become difficult for the market to form expectations based on sufficiently accurate and comprehensive information, creating a situation in which futures prices do not necessarily reflect the actual state of supply and demand.

If the effective closure of the Strait of Hormuz continues, then at least the first three factors discussed above may gradually lose their mitigating effects over time, raising the possibility that prices could climb even further from current levels. It is therefore strongly hoped that the current situation will be resolved while crude oil markets are still maintaining their relative calm.

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