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MONDAY MORNING QUARTERBACK

ENERGY MARKETS CEO BRIEFING NOTE

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"Demand Destruction Becomes the Only Force Holding the Oil Markets Together!"

By Sean Evers, Managing Partner, Gulf Intelligence

Prices Must Rise to Break Demand — Not Balance Supply

One month into what is now widely described as the largest oil supply shock in modern history, the global energy system is no longer being stabilized by supply. It is being held together by demand destruction. Prices have surged, growth forecasts are being cut across major economies, and shortages are already emerging across Asia, from Thailand to Pakistan. Yet the most striking feature of this crisis is not what is visible in price charts, but what remains underappreciated: the scale of the imbalance confronting the system.

The disruption through the Strait of Hormuz has removed an estimated 11 million barrels per day of global oil supply, leaving a net shortfall of roughly 9 million barrels per day even after emergency interventions. That gap exceeds the combined consumption of Europe's largest economies and represents a structural break in global energy flows. Strategic stockpile releases and the easing of sanctions on Russian and Iranian barrels have bought time, but they are finite. They cushion the shock; they do not resolve it.

In a normal market, such a deficit would trigger a rapid supply response. But this is not a normal market. Infrastructure has been damaged, logistics are constrained, and geopolitical risks continue to threaten further escalation. There is no immediate supply solution. That leaves price as the only mechanism capable of restoring balance.

But prices are not rising to incentivize production. It is rising to destroy demand. To eliminate a deficit of this magnitude, consumption must fall sharply. That implies extreme price levels—potentially approaching or exceeding $200 per barrel—where airlines cut routes, industry reduces output, and consumers materially change behavior. This is not a rally driven by growth. It is a forced contraction imposed by scarcity.

The Crisis is Already Driving Real-World Demand Collapse

That contraction is no longer theoretical. It is already underway and spreading unevenly across the global economy. Asia, the most exposed region to Middle Eastern supply, is absorbing the initial shock. Countries are hoarding fuel, rationing consumption, and scaling back activity as shortages begin to bite. Industrial output is being curtailed, transport demand is falling, and governments are stepping in to manage energy use.

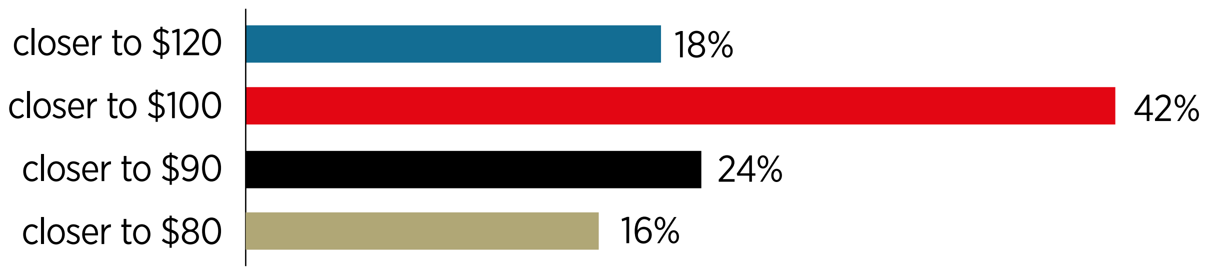
This is how demand destruction unfolds in practice. It begins with scarcity, accelerates through price, and ultimately feeds into broader economic contraction. What starts as a supply disruption becomes a demand shock as economies are forced to adjust to reduced energy availability.

The pressure is now moving west. Europe faces rising competition for cargoes and an increasing risk of diesel shortages in the weeks ahead. As inventories decline and supply chains tighten, the region is entering a phase where both price and availability begin to constrain consumption. Energy-intensive industries, already under strain, are being pushed toward further reductions in output.

Liquefied natural gas markets are even more exposed. Around 20% of global LNG supply typically transits through the Strait of Hormuz, and unlike oil, there are no alternative routes or meaningful stockpiles to absorb the shock. As those flows stall, the consequences cascade through power generation, industrial activity, and heating demand. The rigidity of gas infrastructure means shortages translate quickly into forced demand reduction.

The US remains relatively insulated for now, supported by domestic production and its position as a leading LNG exporter. But this insulation is temporary. Rising fuel prices are already feeding into inflation, tightening financial conditions and eroding purchasing power. Demand destruction in the US tends to arrive

Brent crude oil has averaged at $80 approx in Q1 -- what will it average in Q2?



Have we seen the High on oil prices yet for the Iran conflict?

The oil markets should be more focused on CONFIRMED increased US troop deployment to Middle East, not unconfirmed 15-point peace plan?

Friday March 27th marks end of 4th week of Israel/US attack on Iran -- is the worst of the war conflict energy impact over?

(*nb. Polling conducted with 100+ Energy Market Stakeholders)

later, but when it does, it carries significant macroeconomic consequences.

This is not just an oil story. Petroleum underpins plastics, chemicals, and industrial supply chains. As energy costs rise, the impact spreads across the economy, reducing activity and weakening growth. Demand destruction, in this context, is not simply about consuming less fuel. It is about the broader contraction of economic output.

Even if War Ends, Demand Will Not Fully Recover

Even in a scenario where the conflict de-escalates, the effects on demand are unlikely to reverse quickly. Infrastructure damage, particularly in refining and LNG, introduces a lag between the end of hostilities and the restoration of normal supply. Some facilities may take years to fully recover, extending the period of tightness well beyond the immediate crisis.

At the same time, behavioral shifts are taking hold. Reduced travel, improved efficiency, and substitution toward alternative energy sources are natural responses to sustained high prices and uncertainty. Once embedded, these changes tend to persist. Demand does not simply rebound to prior levels; it settles into a new, lower trajectory.

This creates a self-limiting dynamic. Supply shocks push prices higher. Higher prices force demand lower. That reduction in demand stabilizes the system, but at the cost of economic growth. The adjustment is inherently painful because it relies on contraction rather than expansion to restore balance.

For policymakers, this presents a difficult reality. Strategic reserves and diplomatic efforts can mitigate the shock, but they cannot eliminate it. The market is being rebalanced through consumption, not production.

Conclusion: Markets May Be Underestimating the Risk of Escalation

Looking ahead, the trajectory of the oil market will be determined less by traditional fundamentals and more by geopolitical outcomes. Two broad scenarios frame the outlook.

In the first, the conflict escalates or persists, and disruptions through the Strait of Hormuz remain in place. Under this scenario, the supply deficit becomes entrenched, and demand destruction continues to do the heavy lifting. Prices would likely move higher, potentially toward $200 per barrel, until consumption falls sufficiently to restore balance. The longer this scenario persists, the greater the risk that the shock becomes systemic, feeding through inflation, growth, and financial stability.

In the second scenario, diplomatic efforts succeed in de-escalating the conflict and gradually restoring flows. Even here, the recovery would be uneven. Shipping congestion, infrastructure damage, and the need to rebuild inventories would delay normalization. Prices may ease, but the market would remain structurally tighter than before the war, and the legacy of demand destruction would continue to shape consumption patterns.

What is increasingly striking, however, is that markets may still be pricing in too much confidence that rational actors will ultimately restrain the conflict from spiraling further. Despite the scale of disruption already evident, headline oil benchmarks remain below the levels implied by the physical tightness in products and LNG markets. This suggests an underlying assumption that escalation will be contained and that a negotiated outcome will emerge before the situation deteriorates further.

That assumption may prove optimistic. The conflict has already demonstrated a capacity to disrupt critical infrastructure, constrain global trade flows, and challenge long-standing geopolitical norms around energy security. Each additional week of disruption increases the probability of further escalation, whether through direct damage to energy assets, broader regional involvement, or secondary choke points such as the Red Sea.

If that escalation risk is being underpriced, then the current level of demand destruction may not be sufficient to balance the system. Prices would need to move higher, and the economic adjustment would deepen accordingly.

The reality is that the oil market is no longer being balanced by producers or policymakers. Consumers are balancing it through reduced activity, altered behavior and economic sacrifice. Demand destruction is not a risk on the horizon. It is the force holding the market together today. And if markets are wrong about the limits of escalation, it is a force that will have to do even more of the work in the weeks and months ahead.■

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