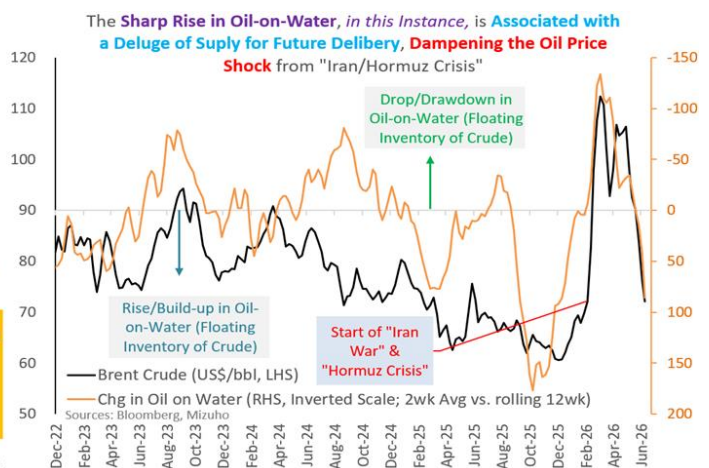
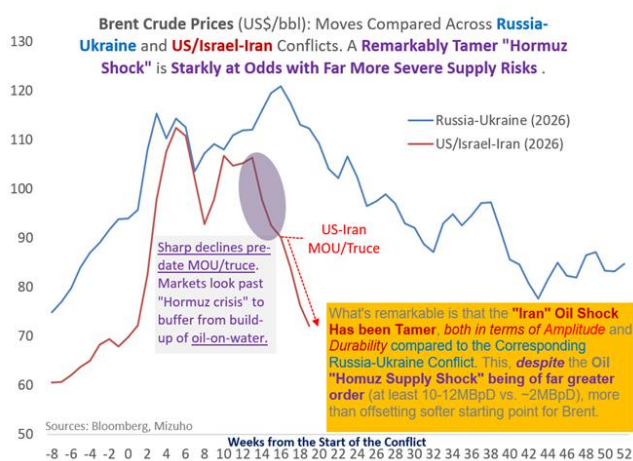


Why Oil Relief is Exaggerated

“Nothing is so aggravating than calmness.” – Oscar Wilde

In a Nutshell:

- **Oil's decline on US-Iran truce – and the attendant relief – is understandable** but *nevertheless* appears to be **exaggerated and accelerated vis-a vis a much milder shock from Russia-Ukraine**.
- Probably owing to the **benefit of “oil over troubled waters”** – from *less impeded (than feared) flow of crude through the blockade* as well as *floating oil inventories*.
- The latter, **oil-on-water**, is arguably to be credited for **overwhelmingly suppressing oil prices**, by *insulating against supply shocks* and *heightening sensitivity to geo-political de-escalation*.
- The *flip side* to the exceptional **dampening effects of oil-on-water** is that this is **mostly exhausted** and **susceptible to reversal** amid *depletion of oil-on-water*.
- Whereas *significantly higher* and *stickier shipping premium* suggest that the **sharp drop in on-screen crude prices masks materially higher all-in cost of delivered oil**.
- Consequently, **relief in (UST) yields and FX (especially AXJ) alike, from softer oil is turning out far shallower**
 - UST Yields: *Stubbornly elevated 10Y UST yields convey latent policy as well as cost shock risks.*
 - AXJ** (IDR-INR-PHP): *Corresponding AXJ** relief is negligible as wider policy and geo-political risks dominate.*
- All said, **calmed spot oil understates** lingering *latent, lingering* and *knock-on, threats from oil shocks*. And as such will be consistent with **more aggravated FX and rates risk premium**.



Oil Over Troubled Waters

- The *fragile, but effectively functioning, US-Iran (60-day) truce* (overcoming earlier interruptions from skirmishes) is **welcome relief** that **underpins further softening in crude prices***.
- Nonetheless, the **pullback in oil prices – and the implied attendant relief – appears to be too much too soon**. Especially **compared to the Russia-Ukraine conflict**, which effectively had a far smaller order of oil supply shock.

- In fact, **current oil dynamic** has the *appearances of a throwback to a market that was bathing in an oil glut, and not one that frets a fragile truce* – with attendant risks of upending unimpeded flow of oil (and other critical upstream inputs).
- The nagging suspicion from which is that (quite literally!) **oil over troubled waters** – both *flowing* and *floating* – might have **unduly accelerated and exaggerated** the **descent in Oil**.

* At the time of writing (7th July 2026), Brent crude is flagging at just above \$70, flirting with a reversion to “pre-Iran” sub-\$70 levels while WTI is at \$68 is begging a test below \$65.

Oil Shock: Dampened by Passage

- To be sure, **continued, albeit highly-limited, passage of crude** that was able to circumnavigate the *Hormuz blockade* (pre-truce) **helped cap prices, inducing some degree of pullback**.
- This **oil shock-dampening** was **further accentuated by suspended Russian** (and later, *Iranian*) **sanctions**, which propped up expectations of buffer/offsets.
- The tell being, *oil prices came off a boil well before any truce deal or OPEC+ response, with only brief forays to \$120 in March and April before durably easing below \$100 in May*.

Buoyant Relief from Oil-on-Water

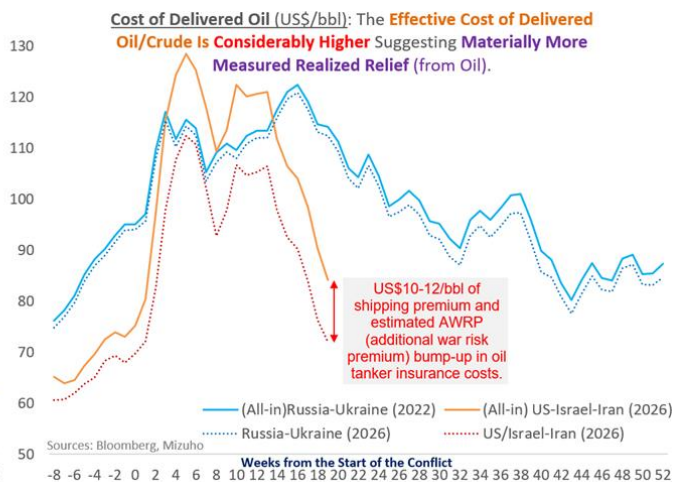
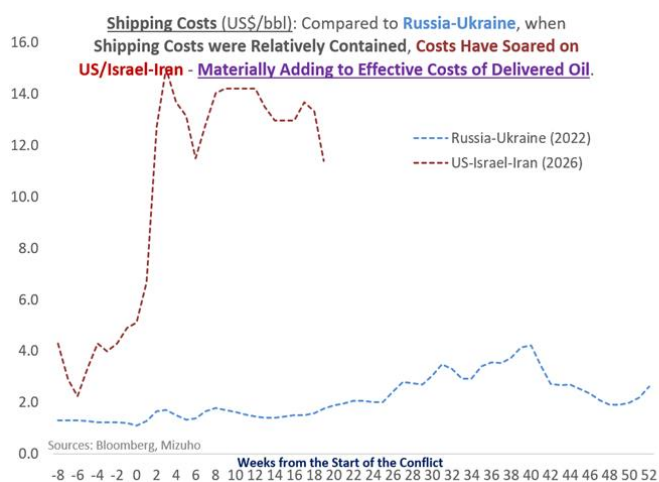
- But arguably, it is the **deluge of oil-on-water inventory, presumably primed for delivery**, that has **overwhelmingly suppressed the oil price shock** – in defiance of the severity of the “Iran-Hormuz crisis”.
- Specifically, the **unprecedented pace of build-up in oil-on-water inventories**, with *Iran alone reportedly accounting for some 55-65MB*.
- Which predominantly explains not just **accentuated insulation from, but active reversal of, oil (price) shocks**. Notably, from asymmetric oil (price) sensitivity.
- Bloated oil-on-water went beyond merely dampening oil shocks to **heightening oil’s downside sensitivity to any signs of de-escalation of “Iran-Hormuz crisis”**.

High Watermark for Relief

- But the flip side to this is that (currently **bearish**) **oil prices have fully – perhaps excessively- baked in buoyant hopes of “delivery-ready” oil-on-water** that have been depressing oil prices.
- In which case, the **relief from oil** may be **nearing the high watermark** as **low-hanging boost from sharp declines in oil prices may be mostly exhausted**.

Diminishing Oil(-on-Water) Dampener?

- Especially insofar that the **build-up of the oil-on-water during the “Iran-Hormuz” crisis was exaggerated by stranded vessels** loaded with (and subsequently loading up on) oil.
- Whereas **oil-on-water is more likely than not to deplete** in coming weeks *as resumption of crude deliveries is met by inherited shipping backlog* that impose binding constraint.



- Consequently, **oil-on-water** looks set to be materially **diminished as an oil (shock) dampener** – *both* from *supply* and (oil's price) *sensitivity dynamics*.

Shipping Snag

- **In contrast to accelerated and accentuated collapse in oil prices** from a surge in “oil-on-water”, the corresponding **shipping costs remain exceptionally elevated** (*despite peaking*).
- In fact, **shipping capacity** being **the inelastic bottleneck** suggests that **shipping costs may even perversely rise with a jump in demand to re-stock on cheaper oil**.
- Notably, **shipping costs shocks** resulting from the “Iran-Hormuz crisis” has exceeded that of the Russia-Ukraine conflict – by an order of 6-7 (times).
- Which means that the **shipping cost snag** – which **may more realistically reflect residual risks than overly optimistic oil markets** – will **dampen the instantaneous and arguably overstated relief from oil(-on-water)**.

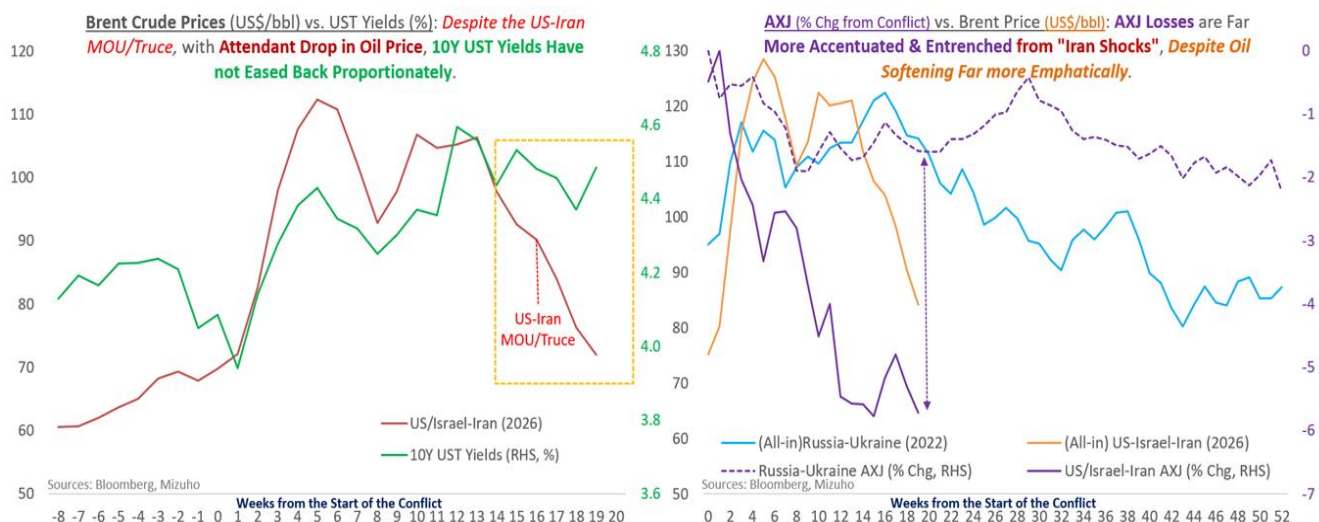
Unmasks Higher “All-In” Oil

- Effectively then, the **exaggerated declines in on-screen crude price quotes** end up inadvertently **masking materially higher “all-in, delivered oil”**.
- Which is one **key reason why relief in (UST) yields** and **FX** (especially **AXJ**) alike, **from softer oil** has turned out **far shallower than is otherwise suggested by quoted** (on-screen) **crude prices**.
 - **UST Yields**: In fact, **10Y UST yields have remained stubbornly elevated and stickier**, partly **conveying latent policy risks as well as upside supply shocks** (from energy- and wider cost-push complex).
 - **AXJ** (IDR-INR-PHP)**: **Corresponding AXJ** relief is negligible**, suggesting that the **headline relief from softer oil is offset by wider, and possibly more dominant, policy and geo-political risks**.

**Despite this measure of using equally-weighted INR-IDR-PHP, which ought to be most sensitive to relief from softer oil) drag, with no perceptible relief.

Understated Risks & Misunderstood

- All said, *of headline relief from oil notwithstanding*, there is **significant degree of uncertainty** that remains **unmitigated**.
- Specifically, **lingering uncertainties** about the **durability of Middle East truce** and (significantly **more uneven**) **distribution of oil deliveries cast a pall on oil price stability** and wider **energy security**.
- Which inevitably means that the current **spot oil understates** lingering **latent, lingering** and **knock-on, threats from oil shocks**.
- All of which point to **more pronounced risk premium** – across rates and FX, *scaled for energy-import dependencies and external cost shock vulnerabilities* – **for the same “on-screen” price of oil**.



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