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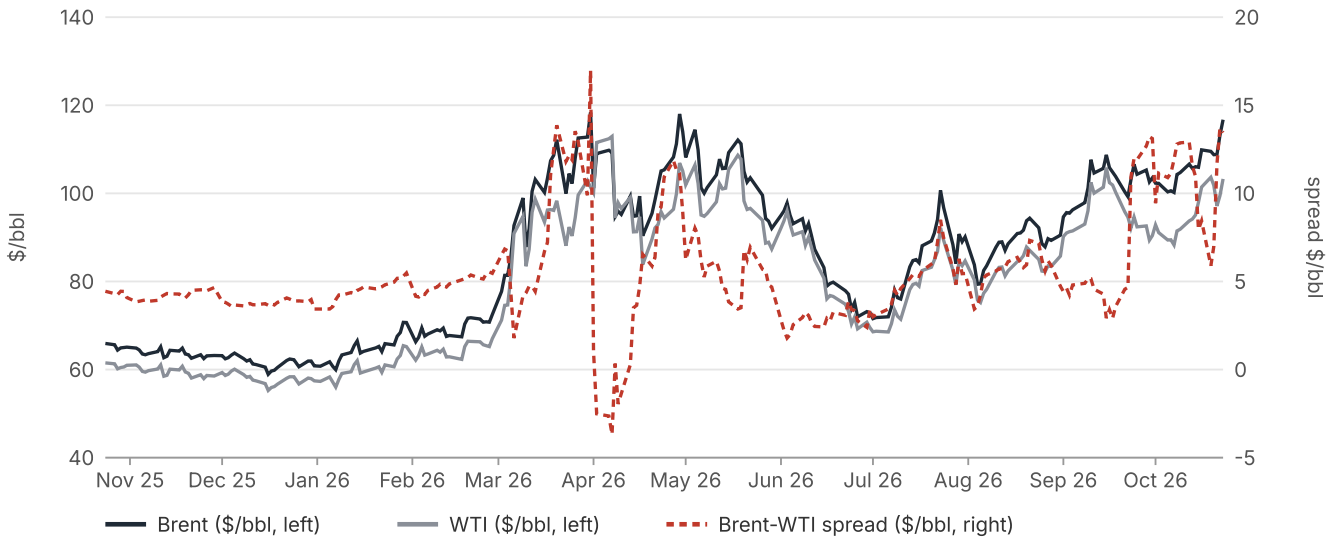
Ground-war escalation could turn shipping disruption into lasting capacity loss

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Key takeaways

- The core distinction is between temporary transit disruption, sustained export impairment and physical destruction of energy assets; the last category matters most because damaged infrastructure is costly and slow to restore, while the IEA says Gulf recovery remains fragile after renewed attacks.[1,2]
- Hormuz remains the central constraint: EIA shows oil flows through the strait fell from 21.6 mb/d in 4Q25 to 4.9 mb/d in 2Q26, including crude and condensate down from 15.9 mb/d to 3.7 mb/d. That demonstrates how effective throughput can collapse even without a permanent closure.[3]
- Bypass routes and inventories cushion shocks but do not eliminate them. Saudi and UAE systems offer meaningful rerouting capacity, yet EIA still estimates only about 2.6 mb/d of currently available spare bypass capacity, versus normal Hormuz oil transit of roughly 21 mb/d.[4,5,6,3]
- The market is more vulnerable if escalation shifts from transit risk to asset damage. EIA estimated regional shut-ins reached 7.5 mb/d in March 2026 and 9.1 mb/d in April when Hormuz traffic remained limited, while OECD gasoil stocks fell to 565 mb in July, 5% below pre-conflict levels.[7,8]
- OPEC+ retains nominal spare capacity on paper, including Saudi Arabia at 12.11 mb/d sustainable capacity versus 8.3 mb/d September output, but extra barrels only matter if they can be produced, exported, insured and shipped through secure routes. Deliverable spare supply is therefore tighter than headline capacity suggests.[9,10,4]

Figure 1: Brent premium reflects disruption, but not necessarily irreversibility



Source: ICE Brent and NYMEX WTI front-month futures via Yahoo Finance; GoldSquawk calculations, as of 23 October 2026.

Why a ground campaign matters more than headline risk

- A short maritime scare can add a sharp but reversible premium, whereas a ground campaign raises the odds of contested logistics corridors, repeat attacks on repair crews and slower restoration of pumping stations, terminals, storage and processing assets. OPEC warned in October that restoring damaged energy assets is costly and takes a long time, while the IEA said renewed attacks leave the recovery fragile.[1,2]
- The analytical question is not simply whether prices jump, but how many barrels are at risk, for how long, whether they can be rerouted, whether inventories can absorb the gap and whether OPEC+ can offset it in deliverable form. That is the essence of the ground-war premium.[3]
- Geographic reach matters as much as the initial battlefield. A wider ground campaign could pull in Red Sea and Bab el-Mandeb routes, Saudi East-West and Yanbu flows, Fujairah infrastructure and Iraqi southern exports; EIA already notes attacks through Bab el-Mandeb reduced Yanbu departures, showing the main Hormuz bypass is not immune.[11]
- The current Brent-WTI spread of 13.45 $/bbl, near the upper end of its 12-month range of -3.68 to +16.97 $/bbl, is consistent with an international disruption premium. But spreads alone cannot distinguish between temporary shipping friction and more lasting export capacity loss. [chart]

Hormuz dependence remains the hard constraint

- Hormuz handled more than one-quarter of global seaborne oil trade and about one-fifth of global oil and petroleum product consumption in 2024 and 1Q25, with around one-fifth of global LNG trade also transiting the strait in 2024. This leaves the system highly exposed to any renewed degradation in throughput.[4]
- EIA's 2026 security data show how severe that degradation can be: total oil flows through Hormuz fell from 21.6 mb/d in 4Q25 to 14.9 mb/d in 1Q26 and 4.9 mb/d in 2Q26. Crude and condensate fell from 15.9 mb/d to 10.9 mb/d and then 3.7 mb/d, while petroleum products dropped from 5.7 mb/d to 4.0 mb/d and then 1.1 mb/d.[3]
- Bypass capacity is meaningful but insufficient. Saudi's East-West pipeline can move 5 million b/d, with temporary expansion to 7 million b/d, while the UAE's Abu Dhabi Crude Oil Pipeline to Fujairah has 1.8 million b/d maximum capacity. Yet EIA estimates only about 2.6 mb/d of currently available Saudi/UAE spare bypass capacity, and around 4.7 mb/d of total bypass line capacity.[5,6,4]
- That leaves a crucial asymmetry: spare capacity inside the Gulf is not the same thing as deliverable supply. In a Hormuz-linked escalation, extra production is only useful if bypass routes, loadings, tanker availability and insurance remain functional.[9,4,12]

Figure 2: WTI remains elevated, highlighting sensitivity to disruption risk



Source: NYMEX WTI crude futures daily closes via Yahoo Finance; GoldSquawk calculations, as of 23 October 2026.

What changes across the three escalation paths

- In a limited ground incursion, the main mechanism is a temporary risk premium plus logistics friction: higher war-risk insurance, slower tanker turnarounds, sporadic missile or drone risk and temporary reductions in Hormuz transit. This is the most reversible case, with mitigation from Saudi and UAE bypass routes, Gulf of Oman ship-to-ship transfers, inventories and potentially selective OPEC+ increments if logistics allow.[12,9,7]
- In a prolonged campaign targeting strategic infrastructure, the mechanism shifts from transit risk to capacity impairment. EIA's closest precedent is the 7.5 mb/d of regional crude shut in during March 2026 and 9.1 mb/d in April when traffic remained limited; if export terminals, pipelines, storage, power systems or loading jetties are repeatedly hit, similar shut-in magnitudes could last longer because repairs require secure access.[7,1]
- In a wider regional conflict, the issue becomes system-wide supply-chain functionality across crude, products, LNG, freight and insurance. Bypass routes become less effective because Fujairah can be vulnerable, Yanbu depends on Bab el-Mandeb security, Iraqi alternatives are limited and Iran's Jask bypass line, though nominally 1.0 mb/d, was transporting only 300 kb/d as of mid-2024.[11]
- Inventories soften the initial blow but do not solve prolonged impairment. U.S. commercial crude stocks were 412.5 million barrels and the SPR 282.7 million barrels in the latest reported week, but the SPR had already fallen from 298.7 million barrels on 7 August to 282.7 million barrels on 16 October 2026, while OECD gasoil stocks were 565 mb in July, 5% below pre-conflict levels. Product tightness is therefore a key transmission channel.[13,14,8]

Scenarios

- **Limited ground incursion:** A contained operation without durable destruction of major export infrastructure would likely add mainly shipping friction and a temporary risk premium. Hormuz transits could fall materially from normal levels, but bypass routes, inventories and adaptive logistics would make the shock more reversible than in a capacity-loss scenario.[3,9,12,7]
- **Prolonged infrastructure campaign:** Repeated attacks on terminals, pipelines, storage, pumping stations, refineries or power systems would shift the market from transit disruption to sustained export impairment and upstream shut-ins. This is the scenario most likely to be underestimated if traders extrapolate from earlier, more reversible disruptions.[1,7,8]

- **Wider regional conflict:** A multi-state conflict spanning Hormuz, the Red Sea and Gulf export infrastructure would create a systemic supply-chain shock across crude, products, LNG, freight and insurance. In that setting, bypass capacity, inventories and headline OPEC+ spare capacity become materially less effective than normal market metrics imply.[4,11,15,10]

Levels to watch

- WTI close 103.27 $/bbl (23 Oct 2026)
- WTI 50-day moving average 92.93 $/bbl
- WTI 200-day moving average 85.29 $/bbl
- WTI 52-week high 112.95 $/bbl
- Brent-WTI spread 13.45 $/bbl

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Glossary

Hormuz: The Strait of Hormuz, the key Gulf oil chokepoint through which more than one-quarter of global seaborne oil trade moved in 2024 and 1Q25. [10]

Bypass capacity: Export capacity that avoids Hormuz, mainly Saudi Arabia's East-West pipeline and the UAE's Abu Dhabi Crude Oil Pipeline to Fujairah. [15][8]

Shut-in production: Oil output that cannot be produced or exported because transport, storage, loading or security constraints force wells or fields to reduce output. [1][13]

SPR: The U.S. Strategic Petroleum Reserve, part of total U.S. crude stocks alongside commercial inventories. [16][3]

War-risk insurance: Additional insurance cost for vessels operating in conflict zones; EIA linked it to the surge in Middle East tanker rates during March 2026. [6]

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