

Crude Compass: Evaporation of Precautionary Demand

Weekly Oil Market Dossier: June 18, 2026

Developments over the past week:

- The US President confirmed that an agreement between the US and Iran had been reached and authorized the withdrawal of US naval blockade measures on Iranian ports in the Strait of Hormuz
- The official signing of the agreement is scheduled for June 19, 2026, in Switzerland.
- The US President commented in France on June 17, 2026 that US strikes would resume if Iran does not honor the agreement

In our opinion:

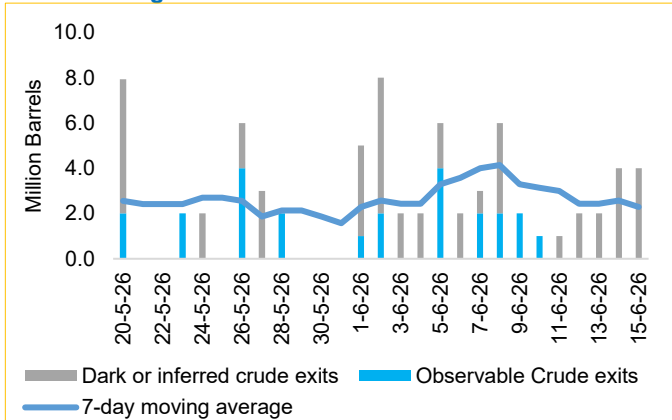
- As we closely track the crude exits through the Strait of Hormuz in Exhibit 1, these are still in the range of 2mbd on a 7-day moving average. However, the dark crude exits have increased to 4mbd as of 14th and 15th June respectively. **The current market prices are reflecting not just crude exits but evaporation of precautionary demand**, explained in edition of [Crude Compass on March 12, 2026](#). We had set the reflection of precautionary demand from USD90/b and upwards and Brent settling at USD87.33/b as of June 12, 2026, ahead of Sunday meeting, justifies our view based on Energy economics.
- This is supported by Exhibit 2, wherein Murban Crude futures chart has moved into contango as of 15th June 2026, as the spread turned negative. The collapse in Murban backwardation indicates that the precautionary demand premium has largely evaporated, with **market participants becoming increasingly comfortable with the availability of near-term crude supplies**.
- **As there has been a draw of about 8mbd from inventories due to 7-11mbd of physical deficit over the previous weeks, the replenishment of these inventories will provide support to Brent prices during FY27.**

We have built the following **scenarios** for Brent price:

- Our base case for Brent remains at USD 89.0/b for FY27, supported by curtailed production levels, critically low inventories, and the likelihood that supply normalization will lag the reopening of shipping routes
- In a **faster-normalization scenario**, where traffic through the **Strait of Hormuz recovers materially ahead of our assumed three-month timeline** following sustained reopening, we estimate **Brent to average approximately USD 82.0/b for FY27**. For context, Brent has averaged at **USD 99.7/b on a FY27 year-to-date basis**.
- [As published on April 23, 2026](#) along with commentary published in Convex Choice, we assigned a 5% probability to our least-likely scenario, which envisaged a prolonged geopolitical standoff delaying the sustained reopening of the Strait of Hormuz until end-July 2026. Under such conditions, continued supply constraints and accelerated inventory drawdowns could have lifted Brent to an average of USD 98.0/bbl in FY27.

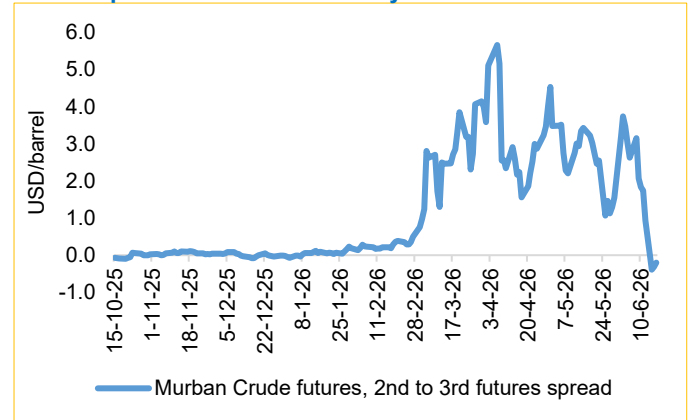
We estimate Brent to average at USD89.0/b in FY27, provided flows through Strait of Hormuz recover over a period of 3 months. In best possible scenario, we expect to average at USD82.0/b for FY27.

Ex:1 Tracking Crude Oil Exits from Strait of Hormuz*



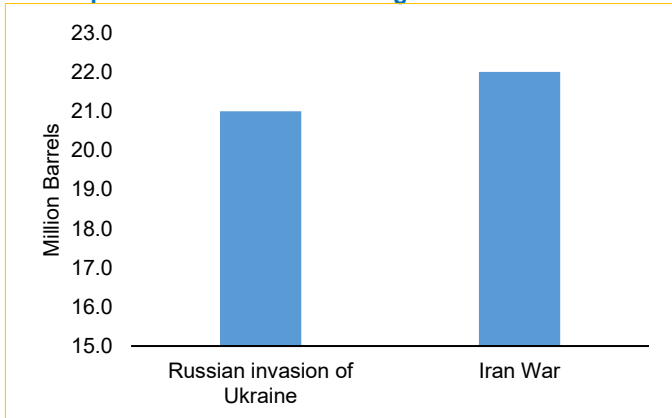
Source: Bloomberg, Choice Institutional Equities
Note*: Crude Compass data published on June 08 refers to tankers while above chart details it to barrels

Ex:2 Evaporation of Precautionary Demand



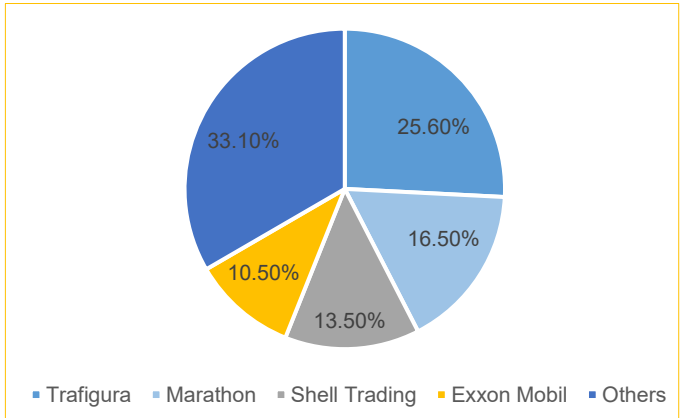
Source: Bloomberg, Choice Institutional Equities

Ex:3 Exports of Oil from US Strategic Petroleum Reserve



Source: Bloomberg, Choice Institutional Equities

Ex:4 US Loans 133 Million Barrels from Reserve



Source: Bloomberg, Choice Institutional Equities

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap
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