World absorbs oil supply loss, but depleted stocks bring risks

Fears over gasoline and jet fuel supplies proved overblown

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ANALYSIS

Tehran's throttling of the Strait of Hormuz in response to U.S. and Israeli attacks launched on Feb. 28 fed fears of a global energy crunch. KIM SOO-HYEON/REUTERS

The world has absorbed with surprising ease the loss of over a billion barrels of oil supply since the Iran war began, but, with long-term peace elusive and buffer reserves now drained, it still faces the looming risk of future price spikes.

Tehran's throttling of the Strait of Hormuz in response to the U.S. and Israeli attacks launched on Feb. 28 fed fears of a catastrophic global energy crunch. The ensuing four-month conflict did, indeed, create the biggest energy disruption in history, according to the International Energy Agency. At its worst, the headline supply loss was 14 million barrels a day.

But worries that Asia and Europe would run out of gasoline, diesel or jet fuel never materialized. And after peaking around US$126 a barrel in April – still some US$20 below the 2008 record – benchmark Brent oil prices are now lower than they were when the conflict began.

"This suggests traders viewed the disruption as serious but manageable, reflecting confidence in today's more resilient energy and economic systems," said John Baffes, senior economist at the World Bank.

Since the oil crisis of the 1970s, World Bank data show that oil intensity – a measure of the role oil plays in economic activity – has fallen by more than half in most advanced economies and roughly 20 per cent in emerging and developing countries.

Beyond that shift, however, three specific factors have been responsible for forestalling the worst-case scenario during the Gulf crisis. Saudi Arabia and the UAE found alternative routes to export. Asia, led by China, curtailed buying. And countries around the world likely pulled around one billion barrels of oil from their reserves, including via an IEA-led record stocks release.

When the war broke out China had nearly 1.4 billion barrels of oil stored, according to the U.S. Energy Information Administration. That was more than the 1.2 billion barrels held by all of the 32 members of the IEA combined, including the United States' 413 million barrels.

China's rapid electric-vehicle adoption in recent years along with flexibility in oil and petrochemicals output also helped, said Ilia Bouchouev of the Oxford Institute for Energy Studies.

"They are managing the market a lot better than [the Organization of the Petroleum Exporting Countries] used to," said Mr. Bouchouev, a former head of derivatives trading at Koch Global Partners.

The adjustments by China, the world's biggest oil importer, helped ease global demand pressure. And the IEA's scheme to release 400 million barrels of reserves provided further breathing room at a time when U.S. President Donald Trump was repeatedly stating an end to the war was imminent.

"Traders always took the view this can't go on much longer," said Neil Atkinson, a former IEA official.

Washington's narrative management, that more supply was coming, also made hedge funds reluctant to hold long positions that bet on prices rising, Société Générale analysts noted. With the signing last month of a preliminary agreement to end the war, there has been a rapid swing back towards business as usual.

"The market seems to have decided that this peace deal is for real," Mr. Atkinson said.

In reality, however, little is as it was before the war.

Even as Saudi Arabia, Kuwait, Qatar, Iraq and Bahrain resume production and exports, it will be years in some cases before they fully repair the damage to their energy infrastructure caused by Iranian attacks. While prices may reflect expectations of a rapid return to prewar supply levels, data on tanker traffic through the Strait of Hormuz tell a different, more pessimistic story. And with the clock ticking on the 60-day ceasefire between Washington and Tehran, progress toward a final agreement to end the war has been achingly slow, with key questions – including the fate of Iran's nuclear program – still unresolved.

Meanwhile, there's the mammoth task of rebuilding global oil inventories.

The global economy weathered the shock by drawing down stocks at a record pace, according to IEA data, draining the very buffers designed to protect it from supply crises. "It doesn't mean we can't operate without one, it just means that forward prices could be more prone to spikes," Mr. Bouchouev said.

That kind of volatility is costly.

Every US$5 increase in oil prices adds roughly US$190-billion in annual costs to the global economy, according to Reuters calculations based on oil demand of 104 million barrels a day.

Replenishing oil stocks, never cheap, has likely been made more expensive by the war.

Before the conflict, the European Central Bank had estimated 2027-28 oil prices at US$63 to US$64 a barrel. That's now risen to an average of US$65 to US$75, according to an ECB report published in June.

At current Brent prices, it would likely cost more than US$70-billion to replace reserves drawn down to mitigate Iran war supply loss.

REUTERS

S&P 500, Nasdaq close sharply higher as Broadcom rallies

The S&P 500 and Nasdaq ended sharply higher on Monday, with Broadcom Inc. and other chip stocks rallying as investors bought shares in companies related to artificial intelligence that are expected to drive a strong second-quarter earnings season. Weakness in the materials and energy sectors, however, led to a lower close for the TSX.

Broadcom jumped 3.7 per cent after the chipmaker and Apple Inc. agreed to extend a deal through 2031 to develop and supply a range of custom chips. The Philadelphia SE Semiconductor index gained 2.2 per cent after two straight sessions of losses.

"This is a market that's leaving a lot of people out. If you're not in certain tech names, if you're not in semiconductors, then you're basically missing the entire rally," said Jake Dollarhide, chief executive officer of Longbow Asset Management in Tulsa, Okla. "I think it's a very tenuous rally. There is a risk, particularly if the Fed continues to see higher interest rates for longer."

Taking advantage of massive investor demand for AI-related chip stocks, South Korea's SK Hynix Inc. was set to debut on the Nasdaq later this week. Microsoft Corp. shares fell almost 1 per cent after the tech heavyweight said it was cutting roughly 4,800 jobs.

The S&P 500 climbed 0.72 per cent to end the session at 7,537.43 points. The Nasdaq gained 1.12 per cent to 26,121.16 points, while the Dow Jones Industrial Average rose 0.29 per cent to 53,055.91 points.

The Toronto Stock Exchange's S&P/TSX Composite index fell 0.18 per cent to 35,212.32 points.

The TSX materials sector fell 2.2 per cent as bullion prices retreated.

Canada's energy index dipped 1.2 per cent, tracking a fall in crude prices earlier in the day, after OPEC+ agreed to further raise output targets from August even as exports through the Strait of Hormuz continued to recover, increasing prospects of elevated global supplies.

REUTERS, GLOBE STAFF

Why markets have a funny way of defying predictions

JONATHAN R. PINSLER

OPINION

CFA, senior portfolio manager at TD Wealth Private Investment Advice

One thing this year reminded me of is how quickly markets can humble even the smartest people.

When the conflict with Iran escalated and the Strait of Hormuz all but closed, the consensus was almost immediate: oil was going to US$200 a barrel. Frankly, it wasn't an unreasonable conclusion. Roughly 20 per cent of the world's oil normally moves through that waterway. The 1973 oil embargo involved a much smaller disruption and still sent prices soaring. History seemed to point in one direction.

Instead, benchmark Brent crude briefly approached US$120 before gradually falling back toward the low US$70s as negotiations progressed and shipping resumed.

So what changed?

China did.

While most investors were focused on supply, China quietly reduced its crude imports from roughly 11 million barrels a day to about 7.8 million. That decline may have absorbed most of the disruption in global oil trade. It wasn't the variable anyone was talking about, but it may have ended up being the one that mattered.

Markets have a funny way of doing that.

I've learned over the years that the factor everyone is debating is often not the factor that ultimately drives prices. Sometimes it's demand instead of supply. Sometimes it's currencies instead of fundamentals. Sometimes it's something nobody had on their radar.

Gold offered another reminder. You would normally expect geopolitical tension to push gold sharply higher. Instead, the U.S. dollar strengthened as investors rushed toward safety, real yields moved higher, and gold sold off from its highs. The headlines were the same, but the market's reaction was completely different.

This all leads me to the Gestalt theory: you can't understand the whole picture by examining each individual piece in isolation. Energy markets work the same way. Every variable matters, but they don't matter equally, and they certainly don't move independently.

One development genuinely caught me by surprise this year. Helium and sulphur, commodities most people rarely think about, became an issue for semiconductor manufacturing because they're byproducts of natural gas processing.

When Iranian strikes disrupted Qatar's Ras Laffan complex, helium supplies tightened almost overnight and prices jumped. It was a good reminder that today's AI economy depends on supply chains that few of us ever think about until something breaks.

For Canada, I think this creates an opportunity.

Reliable energy has become a strategic asset, not just an economic one. Between our LNG export capacity, expanding infrastructure, abundant natural resources, and political stability, I believe Canada is in a stronger position than many appreciate. Countries are no longer just looking for the lowest-cost supplier. Increasingly, they're looking for the most dependable one.

The analysts who predicted US$200 oil weren't reckless. They were working with the information available at the time. Markets simply introduced a variable that almost nobody anticipated.

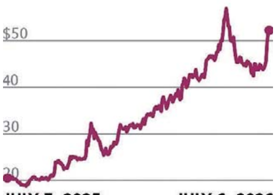
That's investing.

You do the work. You build a thesis. And then you stay humble enough to accept that the world is always more complicated than your model.

That's not a reason to stop making forecasts. It's a reminder not to become too attached to them and when it comes to portfolio management, make allocations that are appropriate.

EYE ON EQUITIES DAVID LEEDER

PAST YEAR



JULY 7, 2025 JULY 6, 2026

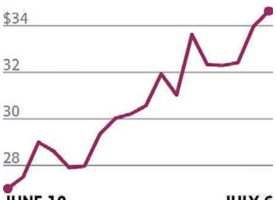
SOURCE: BARCHART

AECON GROUP (ARE-TSX)
CLOSE $52.18, UP 67¢

Desjardins Securities analyst Benoit Poirier thinks **Aecon Group Inc.'s** joint venture with Técnicas Reunidas getting awarded a multi-billion dollar contract for the Greenlight Electricity Centre (GLEC) is "a positive, reflecting both ARE's growing exposure to data centre–related infrastructure and its unique positioning to deliver this kind of large-scale power project."

Target: Maintaining his "hold" rating, Mr. Poirier raised his 12-month target to $61 from $55. Consensus is $54.10.

PAST YEAR



JUNE 10 JULY 6

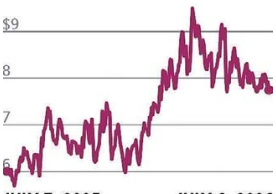
SOURCE: BARCHART

APOTEX HEALTH (APTX-TSX)
CLOSE $34.62, UP 67¢

Seeing it as "well-stocked, well-positioned," Desjardins Securities analyst Gary Ho initiated coverage of **Apotex Health Corp.** with a "buy" rating, calling it "Canada's" generic champion." "The Canadian market is attractive and cash-generative, with the TPF providing pricing stability, although better growth increasingly lies in complex generics, injectables and biosimilars," he added.

Target: Mr. Ho set a target of $40, falling 67 cents under the consensus.

PAST YEAR



JULY 7, 2025 JULY 6, 2026

SOURCE: BARCHART

GREENFIRE RESOURCES (GFR-TSX)
CLOSE $7.74, DOWN 17¢

While seeing **Greenfire Resources Ltd.** "poised for growth," RBC's Head of Global Energy Research Greg Pardy initiated coverage with a "sector perform" recommendation based on its relative valuation and implied return to target versus its peers. ""Greenfire experienced several operational setbacks in past years under its former leadership team but now appears poised for substantial upstream growth," he added.

Target: His $10 target tops the consensus of $9.75.

PAST YEAR

MARCH 11 JULY 6

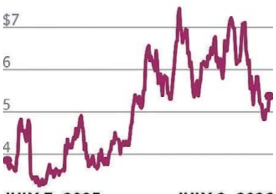
SOURCE: BARCHART

VITAL INFR. PROP. TR. (VITL.UN-TSX)
CLOSE $5.63, DOWN 4¢

After hosting Toronto-based **Vital Infrastructure Property Trust** for discussions focused on its capital allocation priorities, ATB Cormark's Sairam Srinivas raised his rating to "outperform" from "sector perform" previously. "We believe VITL with its global experience and liquidity is uniquely positioned to execute its U.S. expansion strategy," he said.

Target: Mr. Srinivas's increased his target to $7 from $6.25, exceeding the $6.22 consensus.

PAST YEAR



JULY 7, 2025 JULY 2, 2026

SOURCE: BARCHART

MINING AMERICAS (MAI-TSXV)
CLOSE $5.37, UP 34¢

National Bank Financial analyst Rabi Nizami thinks **Mining Americas Inc.** is "emerging from an organizational and financial restructuring with an improved capital structure and multi-year growth roadmap." "The start of construction at Copperstone [in Arizona] marks an important milestone which puts the company back in position to execute and demonstrate its mine-building capabilities," he said.

Target: The analyst has an "outperform" rating and $9.50 target, matching the consensus.