

Policy Note



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The Strait of Hormuz is the most important geopolitical chokepoint for the global economy, and its closure in March-April was largely unanticipated by both the White House and global markets.

President Trump's repeated and nearly daily focus on reopening Hormuz over the last 40 days speaks to its importance: promises of US Gov't shipping insurance, pledges of US Navy escorts, appeals to allies (Europe), adversaries (China), misleading claims of advanced peace negotiations, sequential deadline demands (48 hours, 5 days, 10 days, 48 hours again), and existential threats to civilian infrastructure and "a whole civilization."

Prior to yesterday's ceasefire, the dislocations in global energy markets had become untenable: extreme curve backwardation across the entire energy complex, the atypical WTI premium to Brent, divergence between financial and physical markets, refined product pricing (i.e., jet fuel, diesel) outpacing crude, gaps between grades of crude (light sweet, medium sour) and creeping contagion across countries from East to West of Suez. Unresolved, the global economy was heading toward higher systemic risk within weeks.

On Tuesday, April 7, President Trump made what was likely a tactical retreat to mitigate further regional damage and escalation. After 5pm, less than three hours before his cataclysmic 8pm ET deadline, President Trump called Pakistan's Army Chief, General Asim Munir, and Israel's Prime Minister, Benjamin Netanyahu, to accept Iran's 10 point proposal as a "workable basis of negotiation" to facilitate a ceasefire and reopening of Hormuz.

However, with negotiations scheduled to begin in Islamabad on Friday, April 10, most core tenets of Iran's proposal offer an unstable foundation for agreement and a sustainable ceasefire, including: IRGC control of Hormuz, US reparation payments to Iran, US lifting of all Iranian sanctions, withdrawal of US troops from the Middle East region and "acceptance of Iran's nuclear enrichment rights".

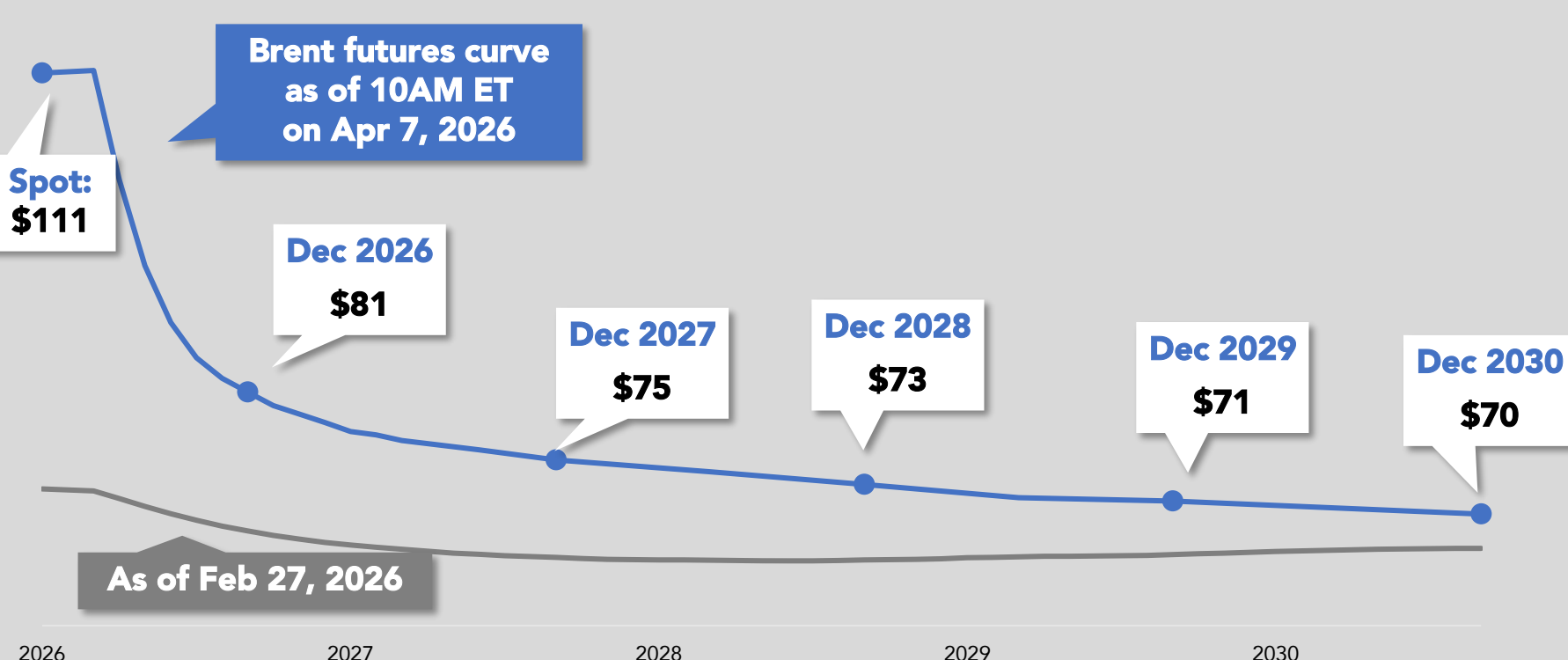
The expected reopening of Hormuz is based on distinct perceptions of reality that vary between the US, Iran and global markets. First and foremost, Iran's control of Hormuz remains critical to its deterrence strategy and is not a lever they will give up lightly. Iran's use of asymmetric power (i.e., drones, missiles) has facilitated such control, even as the country has been militarily dominated. The ceasefire itself is fragile and ripe with uncertainty. The pace of resumption in shipping traffic is likely to disappoint market expectations. The risk rally in markets may prove premature. And the risk of US military intervention at Hormuz and the Iranian coast (i.e., boots on the ground) over the next few weeks should not be ruled out.

In almost any scenario, the return of pre-crisis (Feb 27), frictionless transit through the Strait of Hormuz remains a distant prospect. Though the ceasefire is a welcome pause, reopening Hormuz will be slow and fraught with risk. Just as global energy market dislocations had become untenable, so may Iranian control of Hormuz. A ceasefire built on an unstable foundation and lack of trust will be difficult to hold.

Oil Term Structure Inverts To Deep Backwardation

Over the last 20 years, the Brent futures curve has traded in extreme backwardation on less than 5% of trading days. In a normal contango market (~95% of trading days), futures prices for later delivery are higher than spot, reflecting storage costs and the time value of money. Since the war began, the term structure of global oil markets inverted toward extreme backwardation, signaling near term scarcity and risk premia for physical barrels.

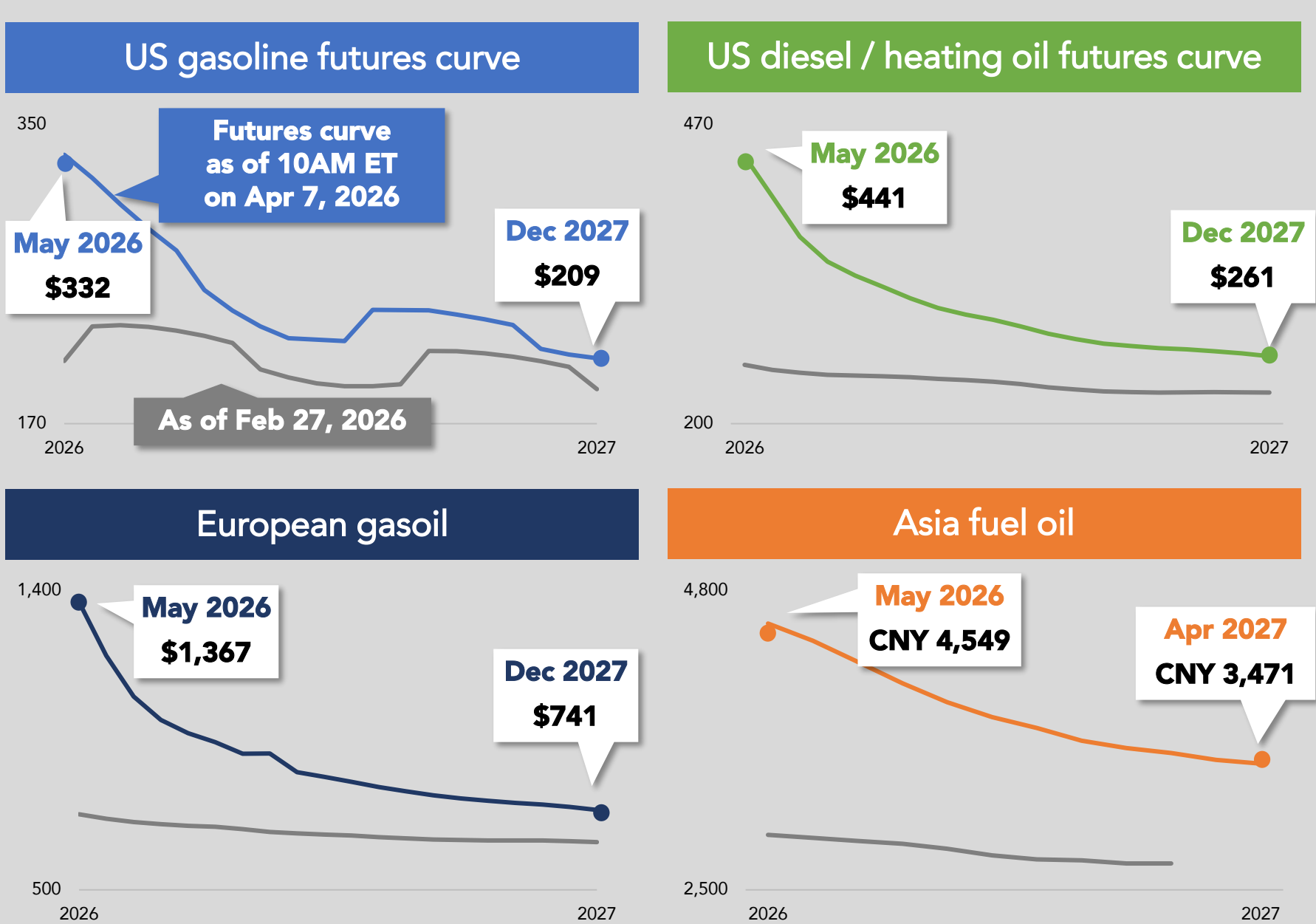
Brent futures curve (Feb 27 vs. today)



Source: (1) Bloomberg. Data as of April 7, 2026 at 10AM ET.

Extreme Backwardation Across Global Energy Complex

As this extreme backwardation extended across the energy complex to refined products closer to the consumer, systemic damage to the global economy was rising rapidly. By April 7th, signals of untenable shortages in end-markets had become more apparent.

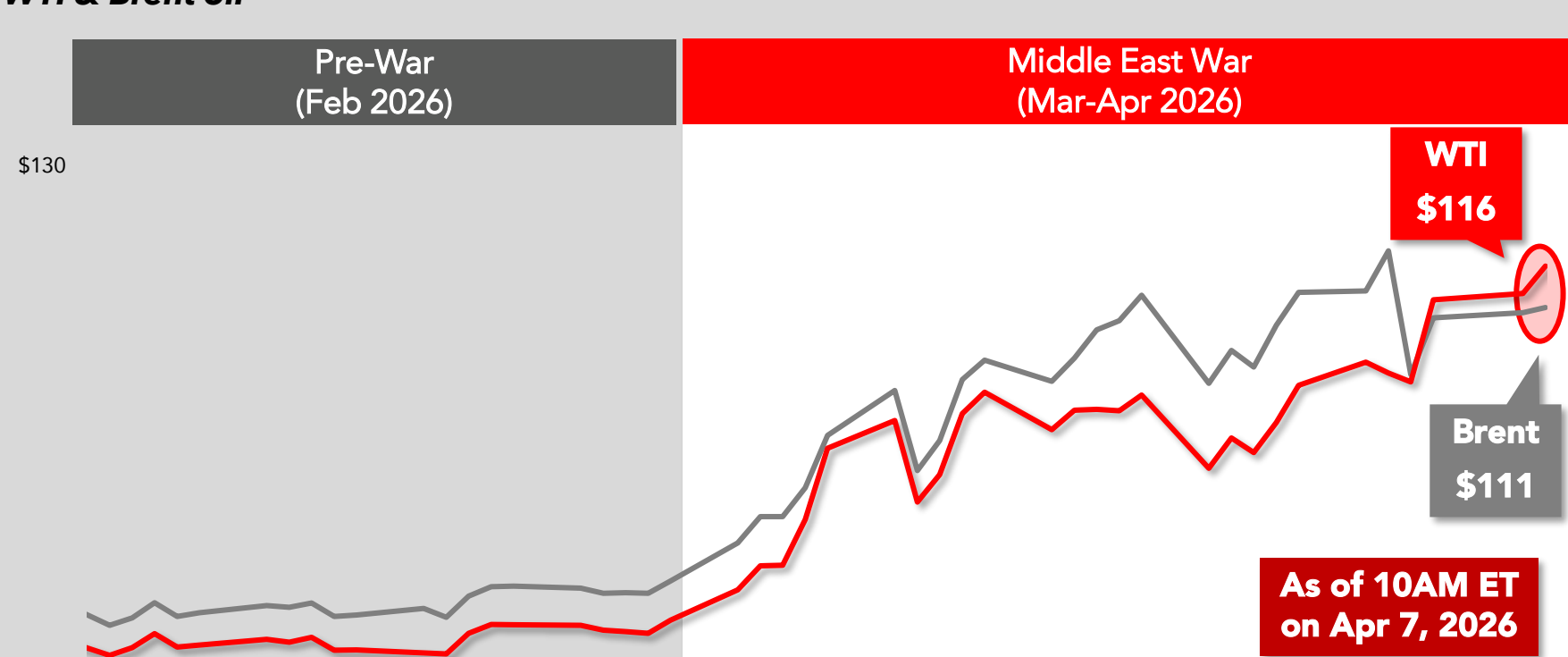


Source: (1-4) Bloomberg. Data as of April 7, 2026 at 10AM ET. US Gasoline is NY Harbor RBOB. US diesel / heating oil is NY Harbor ULSD 62 Grade. European gasoil is low sulphur gasoil futures. Asia fuel oil is Shanghai futures exchange fuel oil.

WTI Trading Above Brent

Since 2011, "landlocked" WTI has been trading at a discount to Brent more than 90% of the time. The lower price incentivizes global buyers to pay for shipping, insurance, terminal and other fees critical to transportation. Following unexpected Strait of Hormuz closure in March, the WTI-Brent pricing dynamic inverted, with WTI trading at a premium to Brent due to sharply higher global demand for Atlantic ocean barrels.

WTI & Brent oil

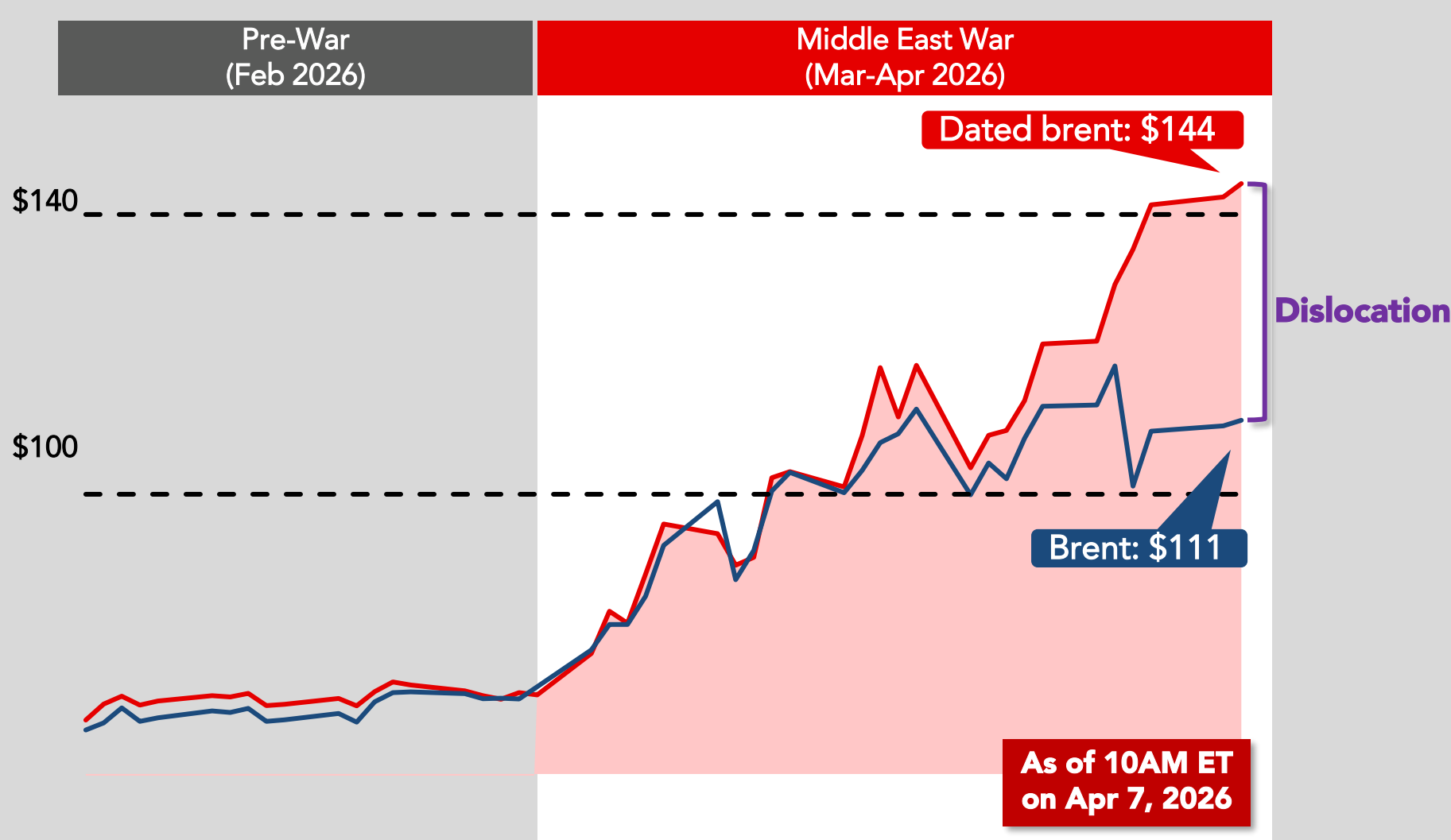


Source: (1) Bloomberg. Data as of April 7, 2026 at 10AM ET.

The Divergence Between Financial & Physical Brent

The world's most important benchmark for real-world, physical oil barrels (Dated Brent) surged to a record \$144.42 on Tuesday April 7th, its highest level since Platts S&P Global started publishing the measure in 1987.

Dated Brent & Brent Oil Prices

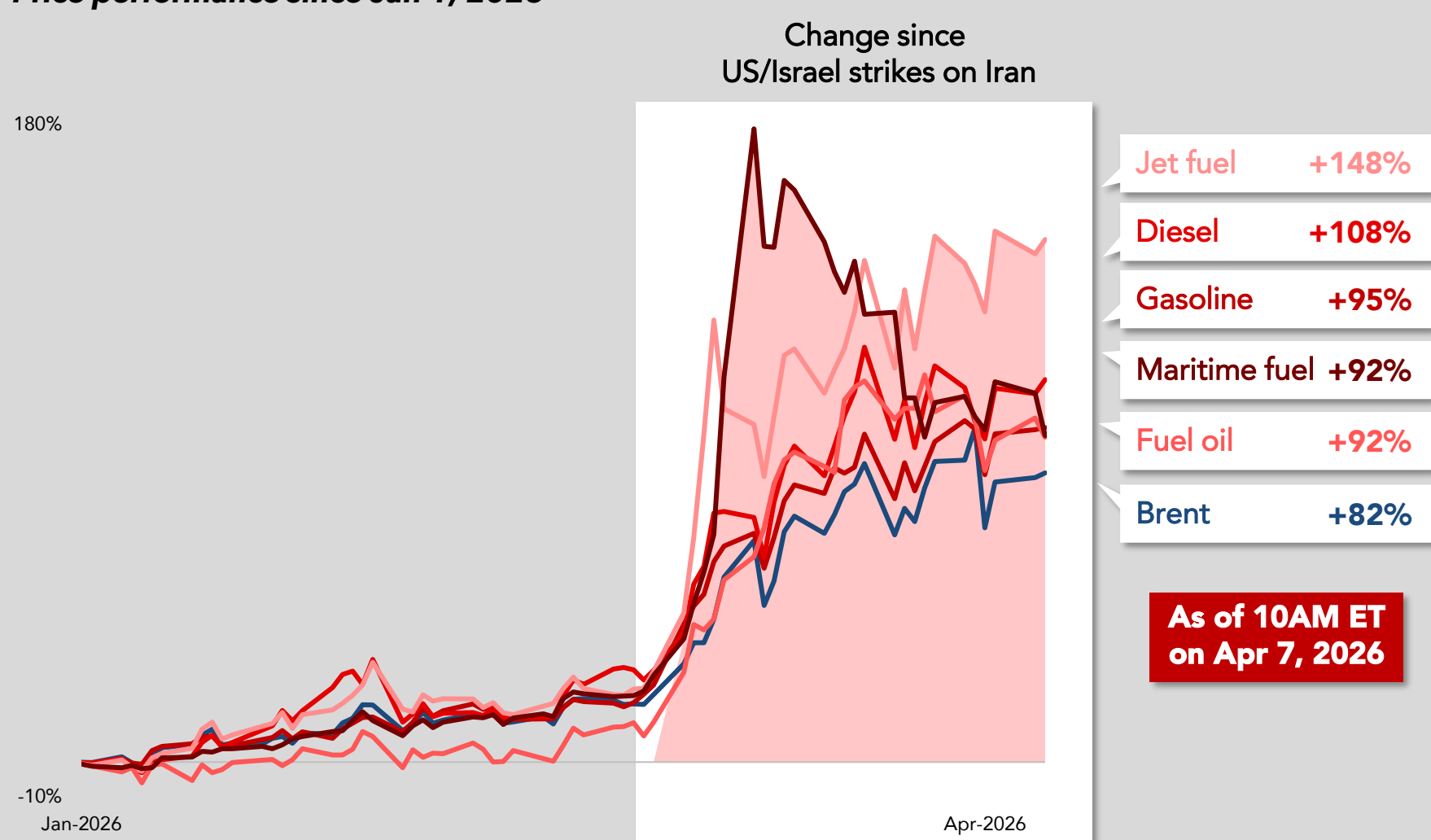


Source: (1) Bloomberg. Data as of April 7, 2026 at 10AM ET. EIA.

Refined Products Outrunning Crude

Structurally, refined petroleum products are outrunning crude oil prices in the current crisis because the specific crude grades that feed the refinery configurations serving Asian and European markets are stranded behind the Hormuz closure crisis. Even as Hormuz slowly reopens, refined product pricing will significantly lag crude normalization as the multiple physical layers of friction (repairs, restarts, supply chains) will take time to resolve. For this reason, refined product margins are a more accurate real-time gauge of physical product normalization.

Price performance since Jan 1, 2026

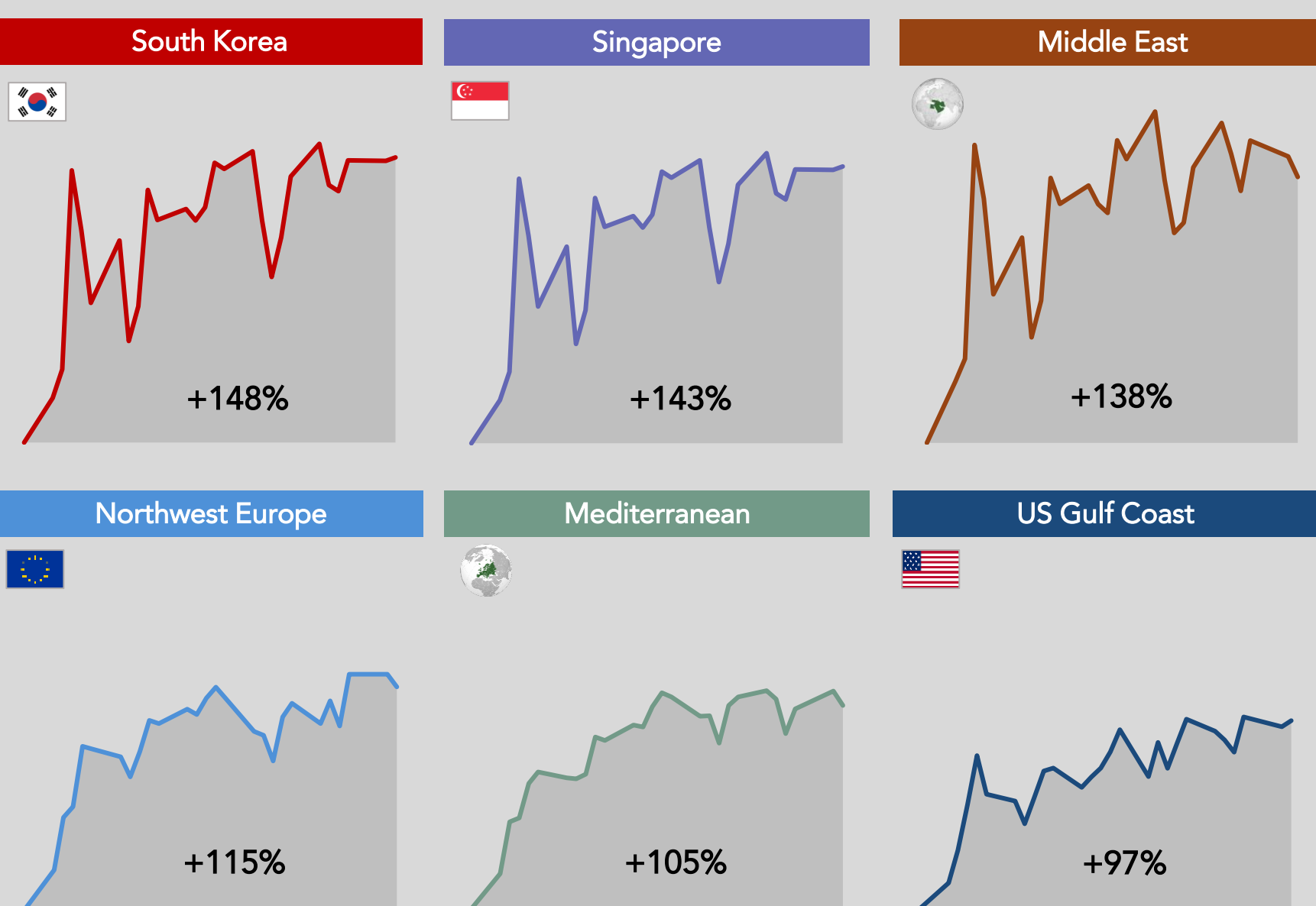


Source: (1) Bloomberg. Data as of April 7, 2026 at 10AM ET.

Divergences East & West of Suez

In the early weeks of the crisis, the surge in pricing of refined products surged across countries most exposed East of Suez. As the duration of the Hormuz friction extends, markets West of Suez will be increasingly impacted.

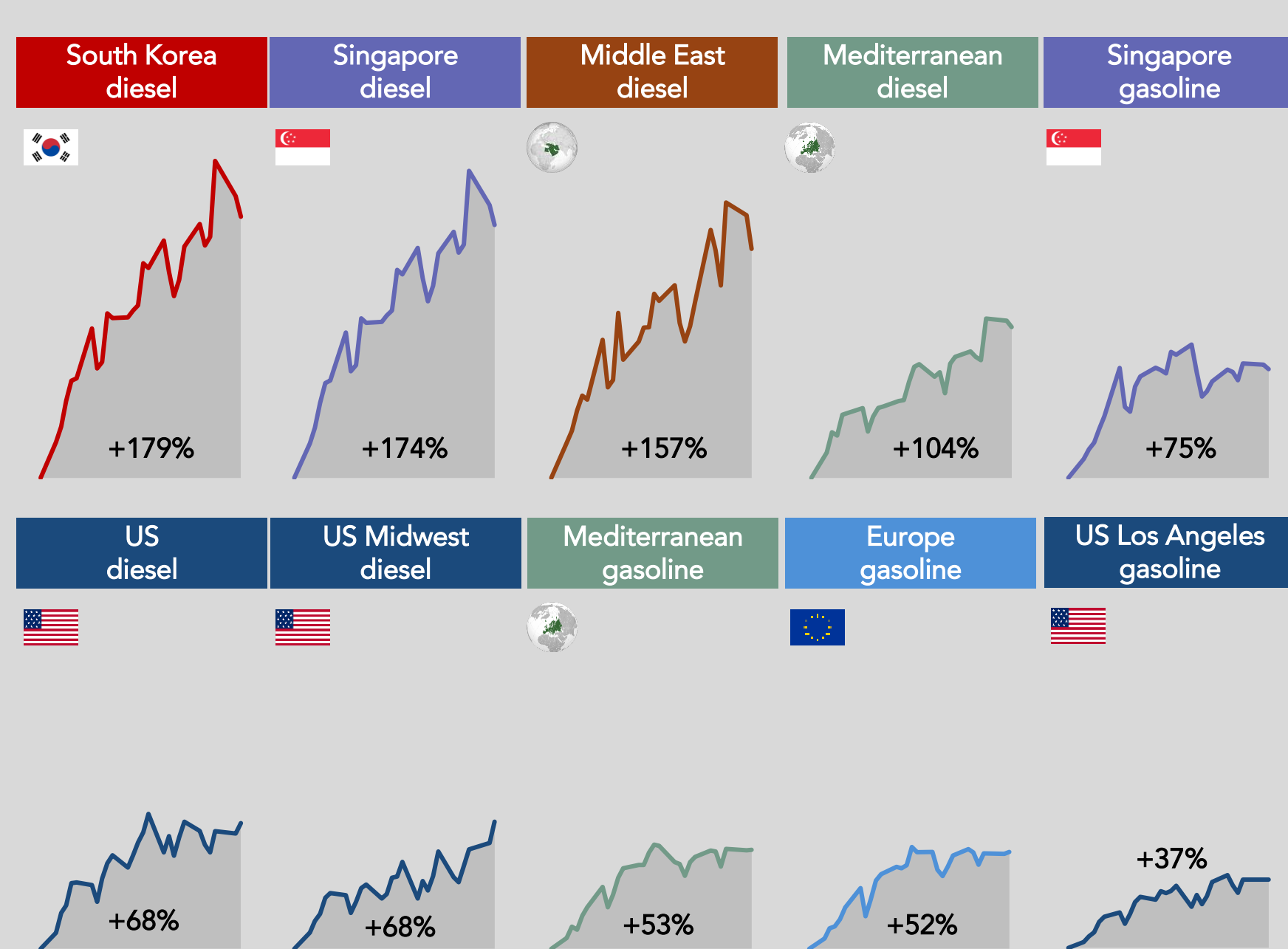
Jet fuel price performance (March-April 2026)



Source: (1-6) Bloomberg. Data is since February 27, 2026 and as of April 7, 2026. Middle East (Fujairah), South Korea, & Singapore jet fuel are FOB cargoes. Mediterranean is FOB cargoes fair value balance of month. NWE is CIF cargoes. US Gulf Coast is 54 Colonial Pasadena MOC.

Automobile Gas & Diesel Prices

Automobile gas & diesel price performance (March-April 2026)



Source: (1-10) Bloomberg. Data since February 27, 2026 and as of April 7, 2026. South Korea, Singapore and Middle East (Fujairah) diesel are 10 ppm gasoil FOB cargoes. Mediterranean diesel is 0.1% gasoil CIF cargoes. Singapore gasoline is 92 RON FOB cargoes. US diesel is NY Harbor ULSD. Mediterranean gasoline is 95 RON FOB cargoes. NWE gasoline is Eurobob non-oxy FOB barges. US Midwest diesel is Group 3 Magellan ULSD MOC. US LA gasoline is CARBOB Kinder Morgan.

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"Macro stability isn't everything, but without it, you have nothing."