Goldman Sachs Exchanges

Why Oil Prices Are Surging Despite Recovering Supply

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Allison Nathan: Oil flows from the Middle East have rebounded sharply, but prices remain high and rising. So what's keeping the market on edge? I'm Allison Nathan, and this is Goldman Sachs Exchanges. Joining me is Daan Struyven, co-head of Global Commodities Research and head of Oil Research at Goldman Sachs.

Daan, thanks for joining us again. You've been on this show a lot, but look, oil has been very topical, so thanks for joining us again.

Daan Struyven: Thanks.

Allison Nathan: As I mentioned at the start, crude oil flows from the Middle East have substantially rebounded. If I'm not mistaken, they are at or at least close to 2025 averages at this point.

But I'm looking at my screen, oil prices have surged in recent days, again, deep into triple digits. So, what's driving that price move?

Daan Struyven: So, Brent crude oil prices have risen sharply to now around $112, per barrel because growing tensions in the Middle East and growing downside risks to supply are leading buyers to bid up barrels, both in the physical market and also on the financial side. Physical buyers such as refiners are seeing growing downside risks to supply because of an intensification of shipping attacks in the Middle East and because of some strikes on infrastructure by the Houthis.

And because inventories are low, refiners, physical buyers are trying to get their hands on barrels while they're available because they see a high probability of a sharp drop in supply. And on the financial side, because bonds and equity prices are unusually sensitive to oil prices, there's also a significant bid from investors to hedge their portfolios against energy price upside.

Allison Nathan: Interesting. So, in some ways, what we're seeing here is precautionary buying by the consumers of crude oil, which makes me think that on the other side of it, that could have price implications. When you think about price risk from here, given these very high levels today, and that they're now technically building inventory what are you expecting and where are the risks skewed?

Daan Struyven: So, following the sharp rise in prices, we see the risk to market prices as increasingly symmetrical. Although the risks to our base case price forecast, which sees Brent at the end of this year at $90 and in 2027 annual average at $80, the risks to our forecasts are clearly skewed to the upside.

The key upside risks are an intensification of shipping attacks that could lead to a sharp draw in exports.

Second, damage to oil infrastructure or perhaps a stickier risk premium. Now, there's also significant downside risks, especially a potential drop in the risk premium that we estimate at roughly $27 per barrel for Brent at the moment.

But for the risk premium to come off quickly, you would probably need to see a diplomatic solution that market participants see as sustainable. Now, if we don't get significant escalation after the midterms, I think it's reasonable to assume that the risk premium does moderate somewhat.

Allison Nathan: Right. And again, just to be perfectly clear, you said the risk premium is $27 per barrel, so it's a lot of what we have seen in terms of the rise in prices. So, if we did see things improving on the war front, a lot of that could come out.

Daan Struyven: That's right. We think the oil market was balanced last month with oil output equaling demand. And our fair value estimate of Brent, which is $85 per barrel, does take into account the inventory levels. And we do think that essentially all of the increase in prices over the last few weeks is driven by an increase in the risk premium rather than an increase in the fair value of Brent. But it's understandable given the growing downside risk to supply.

Allison Nathan: Right. But it's a different story on the refined product side. We are seeing more physical tightness there. Tell me about that and what are the implications for product prices that we all consume?

Daan Struyven: Yes. So we do estimate that while crude oil exports out of the Persian Gulf are at 110% of 2025

average levels over the last couple of weeks, for refined oil products such as diesel, it's only 40% of 2025 average levels. That's in part because of damage to refineries in the Middle East, and also because it's harder to organize these ship-to-ship transfers for refined products than for crude because the products are more inflammable.

We do think that some of the strength in refined oil product prices, such as diesel, is not related to the Middle East. You had some significant structural tightness as a result of underinvestment before the war started, and Russian refineries have significantly curtailed their output of diesel because of the drone attack from Ukraine.

And so even if you were to see a resolution in the Middle East and a significant moderation in crude prices, we would expect in such a scenario to see diesel prices still well above their historical averages.

Allison Nathan: And what about gasoline prices, though very much in focus here in the US as we look at very high prices at the pump, and we are heading into midterm elections. What's the outlook there?

Daan Struyven: So the double negative supply shock from Russia and the Middle East was initially mostly a diesel shock because the Middle East and Russia specialize in refining diesel, and they produce heavy barrels that are diesel rich. But the tightness in diesel markets is now causing tightness in gasoline markets because when refiners look at the very high diesel margins, they are deciding to switch their output away from gasoline to the higher margin products such as diesel and jet.

And as a result, the gasoline market is tightening very quickly, and there's more room for price upside on the gasoline side, given the lower starting point for prices and the switching behavior by refiners.

Allison Nathan: More room for upside, Daan, that's not good news. But, okay, thanks very much for that. The other area that we are seeing substantial price increases is in freight rates in parts of the energy complex. Why is that happening? Talk us through it.

Daan Struyven: So the global average crude freight rate has surged by $20 per barrel over the last year, with about three-quarters of that increase related to the costs from reorganizing the supply chain to get crude out of the Middle East, both because of a risk premium to compensate the shippers for the higher risk of strikes, but also because we're tying up a lot of tankers in an inefficient way via the ship-to-ship transfers and because the Iranian tankers are also tied up because of the US blockade.

The remaining one quarter of the $20 year-over-year price increase reflects higher marine fuel costs. The implications are twofold. It means greater differences in crude prices across regions. In places like the Americas, US, Canada, where crude producers are close to refiners, it means cheaper crude prices.

In places like Asia, where the refiners are very far away from their crude producers, for instance, the Middle East, they have to pay up the high freight rates, and it's putting upward pressure on crude prices and ultimately product prices. And the second implication is that ultimately these high freight costs have to be paid mostly by the consumers.

And so it's another reason why product prices at the pump, especially in places like Asia are very elevated.

Allison Nathan: Right. And that's not impacting though freight broadly because it's a very different type of tanker that ships oil, correct?

Daan Struyven: That's right. So, the tightness in crude oil tankers is creating some tightness into refined product tankers because you can shift a tanker from a product tanker to a crude tanker. But there are no significant spillovers to broader cargo freight rates for other goods outside of the oil sector.

Allison Nathan: Let's talk for a moment about European natural gas, because LNG, liquefied natural gas, is also being impacted by the war in the Middle East. If the shipments of LNG remain depressed, as I think they are today, but please give us the lay of the land there, and we have a cold winter in Europe, what are the implications for European energy prices this winter?

Daan Struyven: A significant upside to energy prices. And while we characterize the risk to market prices for crude as fairly symmetrical, we do see net upside risks to European natural gas prices. Basically, three reasons. Inventories are very low. It's much harder to store natural gas than it is to store crude.

Second, to your point, estimated exports of LNG from the Middle East are only at around one-third of 2025 average levels. And in addition to middle supply, the second big swing factor is weather. And so, if we were to see a significant improvement in LNG exports from Qatar, TTF

European natural gas prices could decline from roughly €90 at the moment to €70.

However, if exports stay at currently low levels, we would see TTF prices in triple digit territory with a potential 70% increase to a €150 per megawatt hour. If you both get stagnation, low flows from the Middle East and a one standard deviation colder than average winter.

Moreover, this would also spill over into power prices. And so we see significant upside risks to European energy prices

Allison Nathan: Just for a little bit more perspective, how does that scenario compare to what we saw in the European energy crisis post the invasion of Ukraine?

Daan Struyven: So while the size of the shock is roughly comparable, the loss of Russian supply is roughly equal to the loss of Middle East supply today. We would not expect European natural gas prices to rise above €300 per megawatt-hour, which was the peak in 2022 for a few reasons.

We have lost about 20% of European natural gas demand. And on the supply side, supply outside of the Middle East, including in the US, has risen significantly. So net upside, but not quite the extreme upside from 2022.

Allison Nathan: Okay, understood. And beyond energy, there are other commodity markets in focus that are tightening. Your focused in particular on copper. What's going on there and why do you see more tightness ahead?

Daan Struyven: So copper prices are up 35% year over year. We see another 10% of upside by the end of next year to $15,600. Essentially because the US and China, and this is a broader theme across commodity markets, are competing for a limited amount of metal.

The US is importing and stockpiling a lot of copper because of an expectation that there could be US import tariffs on copper, and so traders want to be ahead of the potential tariff, get the tariff, get the metal in now. And on the Chinese side, there is a big increase in demand for refined copper because of weakness in terms of recycling supply, the supply of recycled scrap copper.

So, if the two superpowers are pulling on the metal, inventories outside of the US are low. And as those two forces continue to play out, we would expect further tightening and further price upside

Allison Nathan: And remind us, Daan, what industries consume copper? Who will be feeling the most pain from this upside?

Daan Struyven: Data centers and tech companies, defense companies, electrical equipment companies, car producers, and also producers of solar panels. So, it's a fairly widely used commodity, especially for everything related to power, which is precisely a sector where we're seeing a lot of tightness because of the data center power demand.

Allison Nathan: Right. So more reason for some cost inflation there. The other commodity I wanted to ask you about Daan to close out is gold. Generally, we see downward pressure on gold when interest rates are elevated. We know that we have been in a higher rate

environment in the recent period, but you're still pretty bullish on gold.

So, talk us through why you think gold has some resilience here.

Daan Struyven: I think the structural bull factor for the gold outlook has not changed. If you, for instance, look at the last three months, central banks have been buying at a pace that's 5X the pre-2022 average when Russia's reserves got frozen. Now, on the cyclical side, the increase in rates does pose a challenge to investor gold demand and to gold prices.

But in the base case of our economists, the Fed is done hiking after a last hike in December. And because some of the rate hikes are priced in we do see a significant upside to gold prices in our base case because of central bank buying and an improvement in the rates environment.

Allison Nathan: Thanks again for joining us, Daan. Appreciate it.

Daan Struyven: Thank you, Allison.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Thursday, October 22nd, 2026. If you enjoyed the show, we hope you'll subscribe to Apple Podcasts, Spotify, or wherever you get your podcasts, and leave us a rating and comment. I'm Allison Nathan. Thanks for listening.

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