Our View

Worst Energy Crisis in 40 Years

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March 9, 2026

Amid the chaos of the attacks on Iran, the US Secretaries of Energy and the Treasury both assured the public last weekend that energy markets are well-supplied and there is no cause for concern. Those who buy and sell oil—from large traders to major oil firms—have a very different view.

To illustrate this, I compared the change in market assessments last week to the change during the first week of two prior crises—the 1990 Iraq invasion of Kuwait and the 2022 Russian invasion of Ukraine—using my excess returns to storage data (second contract) for Brent, WTI, gasoil, heating oil, and gasoline. The table here and figure on the next page present the results of this comparison.

The changes in the returns to storage data reflect the changes in the slope of the forward price curve. From the table and figure, one can observe that all five markets became much more backwardated in the current disruption than during the prior events.

Market Impact of Three Disruptions – 1990, 2022, and 2026: Change in Excess Returns to Storage for Two Crudes and Three Petroleum Products from One Week before the Disruption to One Week After (Percent at Annual Rates)

	1990	2022	2026
Brent	-18.3	6.6	-38.2
WTI	-14.0	-1.5	-15.3
Gasoil	-16.8	2.3	-44.7
Heating Oil	-15.1	3.8	-17.3
Gasoline	2.2	8.4	-25.1

Source: PKVerleger LLC.

Briefly, returns to storage measure the financial incentive to hold oil by comparing the forward price to the cash price. It pays to store oil or any commodity if, for example, it can be sold in a futures market for delivery in three months at a price that is higher than the current cash prices **if the futures price is sufficiently greater than the current price to cover the cost of storage and the cost of money**, I have computed returns to storage for principal petroleum products weekly since 1986. (You can find a detailed explanation of these returns on our PKVerleger LLC website by clicking this link).

The table and figure here show the change in excess returns to storage from February 27 to March 6 compared to the changes from the week before and the week after the two previous disruptions. Note that the situation today for gasoil and diesel is particularly dire.

This leads me to conclude that those buying and selling oil, that is, the major traders, the major oil companies, smaller oil firms, distributors, and the like, mostly share the same opinion: **this disruption is much more severe than any prior one.**

These views can obviously change quickly if supplies begin moving through the Strait of Hormuz. However, at this juncture, t**he hard data make it clear this is the worst disruption since energy futures markets were created in the mid-1980s, that is, in the last 40 years.**