Our View

Energy Markets Are Entering a New Normal

Philip Verleger
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Energy markets are entering a "new normal." The prolonged closure of the Strait of Hormuz has forced buyers to seek alternative sources for oil and natural gas. Diesel supplies have also been cut. China has seized the opportunity to boost exports of electric cars and heavy-duty trucks. Oil firms have increased exploration and production in areas outside the Persian Gulf. Many of these supply and demand changes will be permanent. For example, Asian firms that had planned to use natural gas to generate electricity have turned to renewables and sold their gas turbines to US data centers. In the future, the global need for oil and gas will be less than projected.

As a consequence, the strait's reopening and the repair of Russian oil facilities will lead to much lower oil and gas prices. Vulnerable buyers such as large refining companies understand this and are already limiting forward purchases.

Recently, Saudi Aramco CEO Amin Nasser told Bloomberg that oil demand would surge when the strait reopened, asserting that "even if shipping resumes immediately, rebuilding the depleted inventories could take around 18 months, based on additional supply of 2.1 million barrels a day."[1]

Nasser is wrong. Inventories will not be rebuilt at current prices. Given the changes that have occurred in oil markets, they may never be rebuilt.

In July, Shell projected a 65% increase in global LNG demand by 2050, with the primary source of the increased use coming from Asian countries seeking lower-emission alternatives for power generation. However, these plans seemed blocked by the difficulty in obtaining natural-gas generating turbines. Asian power companies confront long delivery delays caused by the surging demand for such equipment from data-center builders. Further, the LNG price increases brought on by the Strait of Hormuz closure prompted several Asian buyers to abandon natural gas for Chinese-made "green-powered" generating equipment. Some Asian firms even profited by selling their turbine order contracts to US companies.

Shell's forecast is wrong. The increased availability of low-cost renewable generating equipment from China, the greater financing provided by the Chinese for purchasing such equipment, and the high-priced long-term contracts demanded by marketers will suppress LNG sales.

These are two of the many consequences of the Hormuz shutdown, a disruption worsened recently by Ukraine's efforts to cripple the Russian oil industry. The resulting boost to natural gas and key

[1] "Aramco says US-Iran war has cost the global market 2.6 billion barrels of oil," Reuters on BNN Bloomberg, August 4, 2026 [https://tinyurl.com/2p9n82m4].

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petroleum product prices has hastened efforts to cut oil and gas use and stimulated the expansion of alternative energy sources.

Crude oil and petroleum product exporters face a diminishing market. OPEC, in its June 2026 long-term forecast of global oil demand, predicted a surge in non-OECD demand, expecting consumption in those countries to rise from 59 million barrels per day to 66 million barrels per day in 2030 and 73 million barrels per day in 2035.[2] The authors of OPEC's 2025 forecast noted the reasons behind this expectation:

> For decades, the major driver of global oil demand growth has been non-OECD regions, predominantly Asian countries. Total non-OECD oil demand rose from 40.6 mb/d in 2010 to 59.2 mb/d in 2025, representing growth of nearly 19 mb/d. Around 70% of this growth materialized in Asian developing countries, led by China. Other regions, such as the Middle East, Africa and Latin America, also contributed to this growth but to a much lesser extent.[3]

India, other Asian countries, China, Latin American nations, and African countries were projected to account for 80% or roughly 6 million barrels per day of the increase from 2025 to 2030 and much of the increase in the following two decades. A substantial portion of that supply would have come from Arab Gulf nations.

Today, the chance of this increase occurring is close to zero. EIG's Zhang and Craft noted that the Mideast crisis has prompted a surge in electric vehicle adoption across the world:

> In markets both hard-hit by higher fuel prices and with access to cheap Chinese EVs that are increasingly cost-competitive with internal combustion engine (ICE) vehicles, the growth in EV sales has been remarkable. The Mideast conflict is "a wake-up call" for consumers realizing "you cannot rely on the ICE car," Stella Li, a senior executive with BYD, the Chinese firm leading the world in EV sales, told an interviewer earlier this month.[4]

Chinese EV exports to Africa increased by 131% in the first half of 2026 compared to 2025, 43% to Asian nations, 73% to non-Asian nations, and 72% to Latin America. They added that falling EV demand within China, tied to the slowing market situation there, has led to increased exports elsewhere.

Rapid electrification will cut oil use for road transportation. OPEC's 2026 forecast expected this use to rise from 47 to 52 million barrels per day between 2025 and 2035, with more than 100% of the increase coming from non-OECD nations. The organization also projected OECD consumption to decline by almost 2 million barrels per day. Today, the June 2026 forecast seems terribly outdated. Global motor fuel use may actually decrease by 2035 as inexpensive Chinese EVs capture much of the non-OECD market.

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[2] "World Oil Outlook 2050," OPEC, June 2026 [https://tinyurl.com/4bwxmawz].

[3] "World Oil Outlook 2050," OPEC, July 2025 [https://tinyurl.com/mkcakuwk], p. 123.

[4] Yinxing Zhang and Lauren Craft, "Global EV Appetite Jumps in Wake of Mideast Crisis," Energy Intelligence, July 29, 2026 [https://tinyurl.com/yk7z3hun].

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China is also pushing to replace its diesel-powered trucks with EVs. According to Reuters, electric trucks will account for 40% of sales and 20% of the nation's fleet by 2030.[5] Almost one-third of new trucks sold in 2025 were electric models, according to the report.

Diesel consumption in China was over 4 million barrels per day in 2025. Use could drop by more than one million barrels per day with the switch to EV trucks. According to the Associated Press, one organization suggests the substitution has already achieved that goal.[6]

Oil sales to non-OECD nations will also be slowed by the conflict's economic impacts. Sluggish growth will reduce oil use, just as LNG demand was reduced, particularly in Asia.

In the new normal, the nations bordering the Persian Gulf will be marginalized as demand for their critical hydrocarbon exports diminishes. Global adjustment to the changed circumstances will be rapid, unlike what happened after the 1973 embargo. The marginalization of the Middle East will be hastened by the availability of alternative energy, primarily renewables; economic slowdowns in the areas most dependent on Middle Eastern hydrocarbons; increased oil and gas supplies from non-Middle Eastern sources; and competition from data centers for the critical machinery needed to boost LNG demand.

Under the "new normal," prices will likely be substantially lower when unfettered shipping through the Strait of Hormuz resumes. The downward pressure will intensify when sanctions are removed from Russia when the war with Ukraine ends.

Middle Eastern exporters will discover that buyers, burned by the Hormuz closure, will be willing to pay more to other, more secure suppliers. Producers in Iran, Kuwait, Oman, Qatar, and Saudi Arabia may have to offer price discounts to offset the greater insecurity associated with ships transiting the strait.

The energy companies now enjoying extraordinary profits today will encounter difficulties as falling prices erase profits from recent investments. Chevron, for example, may find that the opening of Venezuela has become a curse rather than a benefit. Shell's investors may end up losing if the company's aggressive investments in LNG force it to cut or eliminate dividends.

These consequences are well-understood across much of the oil industry. Many of the firms most at risk, such as independent refiners and oil traders, are already protecting themselves by cutting back on oil purchases. Their conservatism limits backwardation.

However, some fail to understand the risk. Ziad Al-Murshed, Saudi Aramco's Executive Vice President and Chief Financial Officer, illustrated this blindness to reality last week when he told a

[5] Colleen Howe and Sam Li, "China sets sights on heavy truck electrification in blow to diesel demand," Reuters, June 15, 2026 [https://tinyurl.com/54n8wtvs].

[6] Aniruddha Ghosal, "China's diesel trucks are shifting to electric. That could change global LNG and diesel demand," Associated Press, November 19, 2025 [https://tinyurl.com/zdae893s].

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Bloomberg reporter that "demand is likely to rise because of the 'urgent need' to replenish inventories drawn down due to supply disruptions through the Strait of Hormuz." [7]

Al-Murshed's blindness was shared by Aramco's CEO Amin Nasser, who stated, as noted above, that "even if shipping resumes immediately, rebuilding the depleted inventories could take around 18 months, based on additional supply of 2.1 million barrels a day." [8]

The Aramco executives have not yet recognized the new normal. They will.

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[7] "Aramco stands to benefit from post-war surge in oil demand, CFO says," *Arab News*, August 5, 2026 [https://tinyurl.com/3aufara9].

[8] *"Aramco says US-Iran war has cost the global market 2.6 billion barrels of oil" [*https://tinyurl.com/2p9n82m4*].*

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