

Energy

July 8, 2026

Global Commodities Research

Brent and the Strait of Hormuz

Commodity Strategy

Brent Fell to \$71 With the Strait Still Half Shut: Buy Q4, Sell 2027

Our call: 4Q26 \$76, 2027 \$67. Brent settled at \$71.57 on 1 July, 21% below its 11 June close and 40% below its 31 March peak, while Gulf crude exports were still about 6 mb/d short of a year earlier. It was a flush, not a reopening: stranded tankers, emergency stocks and departing funds hit the front of the curve in the same fortnight. We take the EIA's July balance, assume Gulf output recovers more slowly than the EIA does, and price the gap at \$4.5/bbl per mb/d. Our base case is \$77.6 for 3Q26, \$75.9 for 4Q26 and \$67.6 for 2027; the probability-weighted forecasts are \$76.2, \$76.1 and \$66.6. The futures strip prices \$74.1, \$73.7 and \$72.0.

Buy Q4, sell 2027. The curve is too flat. Dec-26 trades only \$2.55 over Dec-27, close to its pre-war \$2.42, although the EIA estimates world stocks fell 606 mb between March and June. Long Dec-26 / short Dec-27 gains in all three of our scenarios, if only just in the bear case (Exhibit 2). For the tail, a Dec-26 \$80/\$95 call spread costs about \$2.95 on our model.

What would change the call. July Gulf crude exports of 12.5 mb/d or more, or over 90 Strait transits a day for ten days, would mean the faster recovery the EIA assumes is under way (page 7).

Key Points

Half open is not open

The ships are moving, slowly. S&P Global counted 53 transits on 1 July and 43 on 2 July, against 120-138 a day before the war. Gulf crude exports averaged about 10.1 mb/d in June against 16.5 mb/d a year earlier (Kpler, Vortexa). Iran still claims control: the Revolutionary Guards declared the Strait closed on 20 June, its military ordered tankers onto approved routes on 2 July, and three ships were attacked near the Strait on 7 July.

Three of the four sources of oil were one-offs

Stranded crude, state stocks and lost demand. About 99 mb of crude sat on 247 vessels inside the Gulf on 2 June (Energy Aspects), and about 20 mb left in 24 hours on 24 June. The US SPR has released 89.8 mb since 27 February and holds 325.7 mb, the least since May 1983. Demand fell about 5 mb/d y/y in Q2 (IEA). Only the recovery in Gulf output lasts.

Products stayed tight

Refiners still need the crude. The NYMEX diesel crack is \$64.51 against \$39.70 before the war and a 2025 average of \$28.54; the gasoline crack is \$49.90 against \$14.79. US gasoline stocks are 39.2 mb below late February, with refineries running at 96.6% of capacity.

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Brent (\$/bbl)	3Q26E	4Q26E	2027E
K2 base (50%)	77.6	75.9	67.6
K2 bull (25%)	84.4	93.9	75.2
K2 bear (25%)	65.0	58.8	55.8
Probability-weighted	76.2	76.1	66.6
Futures strip, 7-Jul	74.1	73.7	72.0
Bank median	75.0	75.0	72.5
EIA (July STE0)	74.0	70.0	64.8

Source: K2 Capital, Yahoo Finance (NYMEX Brent futures), EIA, bank notes as reported.

Quarterly and annual averages. Strip: front-month equivalent contracts at the 7-Jul-26 close. See Exhibits 2 and 3.

Market snapshot	27-Feb-26	7-Jul-26
Brent front-month (\$)	72.48	74.16
Brent spot, physical (\$)	71.32	71.78
Dec-26 less Dec-27 (\$)	2.42	2.55
Diesel crack (\$/bbl)	39.70	64.51
US SPR (mb)	415.4	325.7*

*Week ending 26-Jun-26. Physical: EIA Brent spot. Diesel crack: NYMEX ULSD less Brent front-month.

Strategy	Verdict
Long Dec-26 / short Dec-27 Brent	Implement
Buy Dec-26 \$80/\$95 call spread	Implement
Long Dec-26 outright	Use selectively
Short 2027 strip	Use selectively
Sell the glut: short Dec-26 Brent	Avoid
Long ULSD crack	Avoid

See Exhibit 14 for the evidence behind each verdict.

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How Brent got to \$71

The deal moved the price before the oil. Brent lost \$18.81 (21%) between 11 June and 1 July. The steps followed headlines more than cargoes: -\$4.16 on 15 June when the US said the Strait would be toll-free, -\$4.21 on 16 June on reports that Iran could sell oil at once, -\$3.34 on 24 June when about 20 mb left the Gulf in a day, and -\$3.27 on 26 June as Ras Tanura resumed loading (Exhibit 7).

The physical market turned first. Brent spot traded \$28.94 over the front-month future on 7 April and has been below it since 18 June; the discount was \$2.38 on 7 July (Exhibit 1). The front-month's premium to Dec-26 shrank from \$38.73 on 31 March to its first discount on 26 June, and has since swung around zero (+0.24 on 7 July). Funds left with it: ICE Brent managed-money net length fell from about 424,000 lots on 7 April to about 55,000 on 30 June (Exhibit 9).

Why \$71 is not a floor

The gap was filled with one-offs. Energy Aspects counted about 99 mb of crude on 247 stranded vessels on 2 June; their departure in late June moved oil from storage to market without adding supply. The US SPR released 8.4 mb a week in May and June and holds 89.8 mb less than on 27 February (Exhibit 8). HSBC expects the "mini-glut" to fade as IEA releases end in July; the IEA's head warned in May of a "red zone" in July and August.

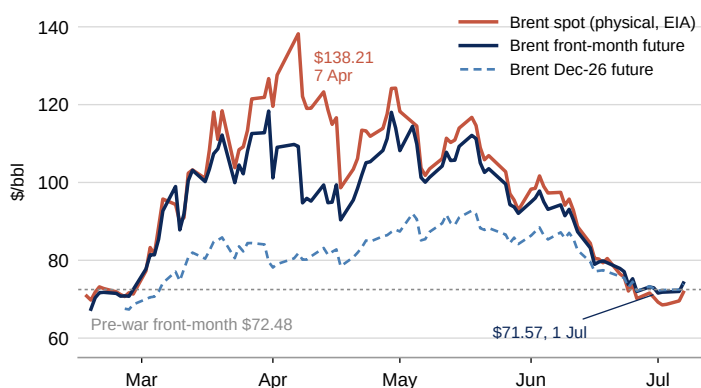
The agencies' own balances do not support \$70. The EIA's July outlook, completed on 1 July, has world stocks drawing 2.2 mb/d in 3Q26 before building 2.7 mb/d in 4Q26, yet prices Brent at \$74.0 and \$70.0. It assumes fast repair: Gulf output, 11.9 mb/d below February in June, is only 3.0 mb/d below in 4Q26 (Exhibit 5). ADNOC's chief executive said in May that 80% of pre-war flows would take four months or more after the war ends; the IEA said on 17 June that a full return is unlikely before early 2027. The EIA's forecast also predates Iran's 2 July route order and the 7 July attacks.

Products are still short. US gasoline stocks are 39.2 mb below late February, Singapore product stocks were near a 13-year low in mid-June, and the NYMEX gasoline crack reached a 2026 high of \$55.43 on 29 June.

2027 is a different market

Once the Gulf is back, the problem flips. The EIA has stocks building 5.0 mb/d in 2027 and the IEA sees a surplus of about 5 mb/d. The UAE left OPEC on 1 May and is free of quotas, and Saudi Arabia cut its August Arab Light price to Asia by \$11, the largest cut in Reuters data back to 2003. The 2027 strip is \$72.0, between the EIA (\$64.8) and the bank median (\$72.5); we are at \$67.6.

Exhibit 1 - Physical Brent Fell Below Paper



Source: EIA (Brent spot), Yahoo Finance (NYMEX Brent futures), K2 Capital. Daily, to 7-Jul-26.

Exhibit 2 - Scenarios vs Futures and Consensus

\$/bbl	Prob.	3Q26E	4Q26E	2027E	4Q26 less 2027
Base	50%	77.6	75.9	67.6	8.2
Bull	25%	84.4	93.9	75.2	18.6
Bear	25%	65.0	58.8	55.8	3.0
Prob.-weighted		76.2	76.1	66.6	9.5
Futures strip, 7-Jul		74.1	73.7	72.0	1.7
Bank median		75.0	75.0	72.5	2.5
EIA July STEO (spot)		74.0	70.0	64.8	5.2
K2 weighted vs strip		+2.8%	+3.2%	(7.6%)	

Strips are front-month equivalents: 3Q26 Sep-Nov-26, 4Q26 Dec-26 to Feb-27, 2027 Mar-27 to Feb-28 (Oct-26, Nov-26 and Feb-28 interpolated). Bank median: Exhibit 6. 4Q26 less 2027 is our proxy for Dec-26 less Dec-27, which traded at \$2.55.

Source: K2 Capital, EIA, Yahoo Finance, bank notes as reported.

Exhibit 3 - From Balance to Price: K2 Scenarios Built on the EIA

mb/d unless stated	Base (50%)			Bull (25%)			Bear (25%)		
	3Q26E	4Q26E	2027E	3Q26E	4Q26E	2027E	3Q26E	4Q26E	2027E
EIA stock draw (+) / build (-)	2.21	(2.74)	(5.02)	2.21	(2.74)	(5.02)	2.21	(2.74)	(5.02)
EIA Gulf output loss vs Feb-26	8.29	3.01	0.69	8.29	3.01	0.69	8.29	3.01	0.69
Gulf recovery vs EIA (+ = slower)	1.00	1.50	0.50	3.00	8.00	2.50	(1.50)	(1.50)	(0.50)
OPEC+ and Saudi market-share push	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.50)	(0.50)
Demand response	0.00	0.00	0.00	(0.50)	(2.50)	(1.00)	(0.30)	(0.30)	(0.30)
Restocking of the 2H26 gap in 2027	0.00	0.00	0.32	0.00	0.00	1.01	0.00	0.00	(0.52)
Change vs EIA	1.00	1.50	0.82	2.50	5.50	2.51	(1.80)	(2.30)	(1.82)
K2 stock draw (+) / build (-)	3.21	(1.24)	(4.20)	4.71	2.76	(2.51)	0.41	(5.04)	(6.84)
K2 Gulf output loss vs Feb-26	9.29	4.51	1.19	11.29	11.01	3.19	6.79	1.51	0.19
EIA Brent spot (\$/bbl)	74.00	70.00	64.83	74.00	70.00	64.83	74.00	70.00	64.83
Price change at \$4.5 per mb/d	4.50	6.75	3.67	11.25	24.75	11.29	(8.10)	(10.35)	(8.18)
Less spot premium to futures (2025 average)	(0.88)	(0.88)	(0.88)	(0.88)	(0.88)	(0.88)	(0.88)	(0.88)	(0.88)
K2 Brent, front-month futures (\$/bbl)	77.62	75.87	67.62	84.37	93.87	75.24	65.02	58.77	55.78
Futures strip, 7-Jul-26 (\$/bbl)	74.08	73.73	72.05	74.08	73.73	72.05	74.08	73.73	72.05
K2 vs strip	+4.8%	+2.9%	(6.1%)	+13.9%	+27.3%	+4.4%	(12.2%)	(20.3%)	(22.6%)

Positive = stock draw. Gulf output: EIA OPEC total plus UAE, Qatar and Bahrain, against February 2026; it includes non-Gulf OPEC members, whose output rose 0.35 mb/d from February to June, so it slightly understates the Gulf's loss. Restocking: half of the cumulative July-December 2026 stock gap against the EIA (230 mb base, 736 mb bull, -377 mb bear) is rebuilt, or worked off, in 2027. Price = EIA Brent spot + \$4.5 x change vs EIA (Exhibit 4), less \$0.88, the average premium of Brent spot over the front-month future in 2025.

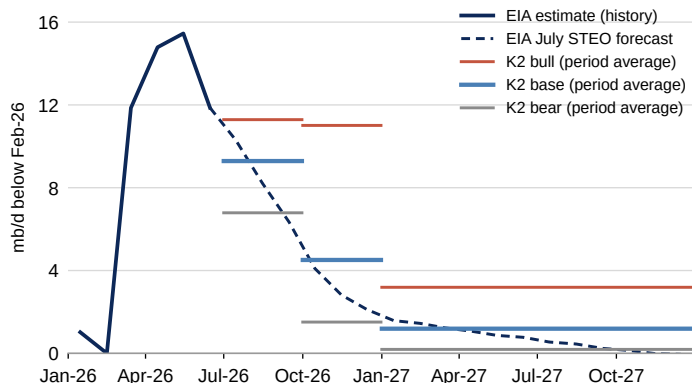
Source: EIA Short-Term Energy Outlook, July 2026 (completed 1 July, released 7 July), Yahoo Finance, K2 Capital estimates.

Exhibit 4 - The EIA's Balance and the Price of a Stock Draw

EIA Short-Term Energy Outlook, July 2026 (mb/d unless stated)						
	2025	1Q26	2Q26	3Q26E	4Q26E	2027E
World supply	106.10	104.01	95.28	101.31	107.14	109.83
World demand	104.00	102.87	100.36	103.53	104.40	104.81
Stock draw (+) / build (-)	(2.10)	(1.15)	5.08	2.21	(2.74)	(5.02)
Gulf output loss vs Feb-26	-	4.29	14.03	8.29	3.01	0.69
OECD commercial stocks, end of period (mb)	2,829	2,798	2,603	2,557	2,604	3,021
Brent, July STEO (\$/bbl)	69.1	80.2	103.3	74.0	70.0	64.8
Brent, June STEO (\$/bbl)	69.1	80.2	109.8	101.0	89.0	79.5
Revision (\$/bbl)	0.0	0.0	(6.5)	(27.0)	(19.0)	(14.7)
Brent Sensitivity to the Stock Draw						
						\$/bbl per mb/d
Regression of quarterly Brent on the stock draw, 1Q22-2Q26 (R^2 0.33, n = 18)						4.29
EIA's own revision for 3Q26: Brent change / draw change, June to July STEO						5.02
EIA's own revision for 4Q26: Brent change / draw change, June to July STEO						3.95
Line through the 2025, 1Q26 and 2Q26 averages						4.38
K2 rule: mean of the four, rounded to the nearest \$0.5						4.50

Source: EIA Short-Term Energy Outlook, June and July 2026; K2 Capital calculations. Quarterly and annual figures average the EIA's monthly values, so they can differ slightly from the EIA's published quarters (e.g. June STEO 3Q26: \$101.12). 2Q26 is partly estimated by the EIA. Brent is the EIA's spot series.

Exhibit 5 - The EIA Assumes a Fast Repair



Gulf output: EIA OPEC total plus UAE, Qatar and Bahrain, against February 2026; it includes non-Gulf OPEC members, whose output rose 0.35 mb/d from February to June, so it slightly understates the Gulf's loss. K2 lines are period averages.

Source: EIA Short-Term Energy Outlook, July 2026; K2 Capital estimates.

Exhibit 6 - Banks Cut, but Not to the Curve

Forecaster	Date	3Q26	4Q26	2026	2027
Goldman Sachs	16-Jun	-	80	85	75
Morgan Stanley	29-Jun	75	75	-	75 / 70*
Citi	15-Jun	75	70	81	65
JPMorgan	24-Jun	86	80	85	-
Bank of America	17-Jun	-	-	82	70
Barclays	26-Jun	-	-	96	85
UBS**	2-Jul	80	80	-	75
HSBC	1-Jul	-	-	80	65
Societe Generale	7-Jul	-	75	-	73
Reuters poll (31 analysts)	30-Jun	-	-	84.5	-
Median (excluding UBS)		75.0	75.0	84.5	72.5
K2 probability-weighted	8-Jul	76.2	76.1	-	66.6

\$/bbl. Dates are publication dates in 2026. *Morgan Stanley 2027: 1H \$75, 2H \$70 (median uses \$72.5); its forecasts are for Dated Brent. **UBS gives end-period targets, not averages, so it is excluded from the medians. Reuters poll: 30 June, 31 analysts.

Source: Bank notes as reported by Reuters (via BOE Report, Zawya, Kitco, The Star) and gCaptain; K2 Capital.

Exhibit 7 - From Deal to Doubt: 11 June to 7 July

Date	Event	Brent (\$)	Change (\$)
11-Jun-26	US calls off planned strikes; Iran declares a "complete closure"	90.38	(2.72)
12-Jun-26	Iran confirms a memorandum exists; US officials talk of a weekend signing	87.33	(3.05)
15-Jun-26	US says the Strait will be toll-free; Citi cuts its 4Q26 forecast to \$70	83.17	(4.16)
16-Jun-26	Report that the US would let Iran sell oil at once; Goldman cuts 4Q26 to \$80	78.96	(4.21)
17-Jun-26	14-point MOU signed: 60 days of toll-free passage and talks; IEA sees no full return before early 2027	79.55	0.59
18-Jun-26	US lifts its blockade of Iranian ports; Brent spot falls below the front-month future	79.85	0.30
22-Jun-26	Revolutionary Guards' closure call (20 Jun) halves transits; US issues a licence for Iranian oil sales	77.90	(1.95)
24-Jun-26	About 20 mb leaves the Gulf in 24 hours as stranded tankers sail	73.74	(3.34)
26-Jun-26	Ras Tanura resumes loading; a tanker is hit off Oman; front-month falls below Dec-26	71.99	(3.27)
1-Jul-26	Indirect US-Iran talks in Doha; settlement low for the move	71.57	(1.35)
2-Jul-26	Iran orders tankers onto approved routes; 43 transits; intraday low \$70.14	71.80	0.23
6-Jul-26	OPEC+ adds 188 kb/d for August (5 Jul); Saudi cuts August Arab Light to Asia by \$11	71.99	0.19
7-Jul-26	Three ships attacked near the Strait; EIA July outlook cuts its 2026 Brent forecast to \$82	74.16	2.17

NYMEX Brent front-month settlement (tracks ICE Brent). August expired on 30 June, so the 1 July change is against it (Reuters: -\$1.38 for September). No settlement on 19 June or 3 July.

Source: Yahoo Finance, EIA, Reuters, AP, S&P Global, The National, gCaptain, US Treasury, K2 Capital.

Exhibit 8 - US Stocks: The SPR Did the Work

mb unless stated	27-Feb	27-Mar	5-Jun	26-Jun	Change
Commercial crude	439.3	461.6	426.5	408.4	(30.9)
Strategic Petroleum Reserve	415.4	415.1	349.2	325.7	(89.8)
Crude including SPR	854.7	876.7	775.7	734.0	(120.7)
Gasoline	253.1	240.9	215.1	214.0	(39.2)
Distillate	120.8	117.8	102.1	108.6	(12.2)
Refinery utilisation (%)	89.2	92.1	95.3	96.6	7.4
Crude exports (mb/d)	4.00	3.52	4.84	4.01	0.01

Weeks ending on dates shown. Lowest since: crude incl. SPR, May 1984; SPR, May 1983.

Source: EIA Weekly Petroleum Status Report (latest released 1 July), K2 Capital.

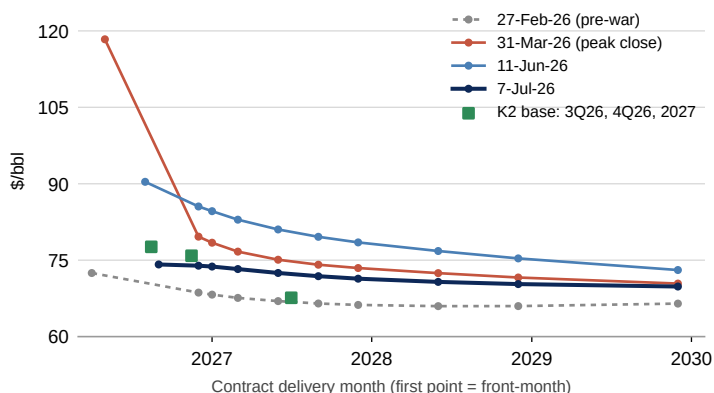
Exhibit 9 - Funds Have Already Left

k = thousand lots	War high	Latest
ICE Brent money managers, net long (k)	424.3 (7-Apr)	55*
NYMEX WTI money managers, net long (k)	96.4 (17-Mar)	81.3
NYMEX WTI open interest (k)	2,081.6 (17-Mar)	1,914.4
OVX, WTI implied volatility (%)	120.9 (11-Mar)	47.6
OVX low since mid-January (%)		40.3 (6-Jul)

Latest: 30-Jun for positioning, 7-Jul for OVX. *About 55,000 lots (about 90,000 on 23 June), as reported from ICE data. ING described speculative gross shorts in ICE Brent as near record highs on 30 June.

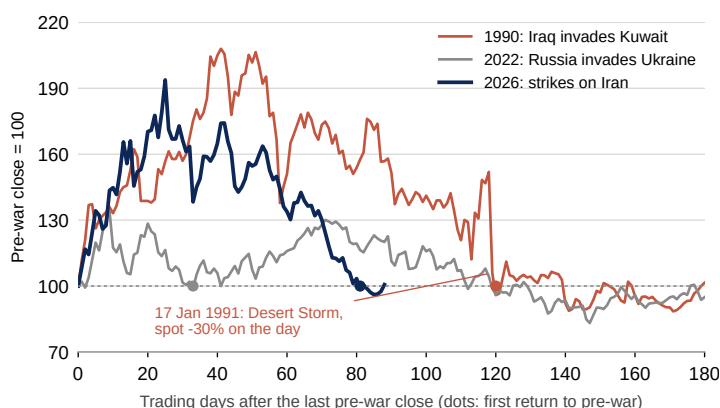
Source: Saxo, engine.online, CFTC, CBOE via Yahoo Finance, K2 Capital.

Exhibit 10 - The Front Fell to Meet the Back



Source: Yahoo Finance (NYMEX Brent futures), K2 Capital. Squares: K2 base-case period averages.

Exhibit 12 - Analogues: Pre-War Was Not the Low



Source: EIA (Brent spot), K2 Capital.

Exhibit 11 - Physical and Paper Indicators

\$/bbl	27-Feb	31-Mar	11-Jun	1-Jul	7-Jul
Brent front-month	72.48	118.35	90.38	71.57	74.16
Brent spot (physical)	71.32	126.69	92.84	69.24	71.78
Spot less front-month	(1.16)	8.34	2.46	(2.33)	(2.38)
Front-month less Dec-26	3.84	38.73	4.84	(0.59)	0.24
Dec-26 less Dec-27	2.42	6.16	7.05	1.93	2.55
Brent less WTI	5.46	16.97	2.67	2.99	3.72
Diesel crack (NYMEX)	39.70	56.51	57.17	63.58	64.51
Gasoline crack (NYMEX)	14.79	20.77	39.88	52.13	49.90
OVX (WTI implied vol, %)	64.7	89.4	56.3	40.8	47.6

Physical: EIA Brent spot. Cracks: NYMEX ULSD and RBOB less Brent front-month. Negative values in brackets.

Source: EIA, Yahoo Finance, CBOE, K2 Capital.

Exhibit 13 - Analogue Statistics

Brent spot	1990	2022	2026
Last pre-war close	1-Aug-90	23-Feb-22	27-Feb-26
Pre-war price (\$)	19.93	99.29	71.32
Peak (\$)	41.45	133.18	138.21
Gain to peak	+108%	+34%	+94%
Trading days to peak	41	9	25
First close at or below pre-war	18-Jan-91	11-Apr-22	26-Jun-26
Calendar days to get there	170	47	119
Next 20 trading days	(3.9%)	+10.4%	n.a.
Next 60 trading days	+5.9%	+16.4%	n.a.
High in those 60 days	+16.0%	+31.9%	n.a.
Low in those 60 days	(7.7%)	0.0%	n.a.

In 1990 the replacement oil came from producers outside the war zone; in 2026 most spare capacity sits behind the Strait. The average 60-day move (+11.1%) applied to 2026's pre-war price gives \$79.27.

Source: EIA, K2 Capital.

Exhibit 14 - Strategy Scorecard

Strategy	Evidence	Verdict
Long Dec-26 / short Dec-27 at \$2.55	Spread back near pre-war (\$2.42) after a 606 mb world stock draw; gains in base (+\$5.70), bull (+\$16.08) and bear (+\$0.44)	Implement
Buy Dec-26 \$80/\$95 call spread, about \$2.95	Pays \$10.92 net if the Strait re-closes; expected value +\$0.52; OVX at 40.3 on 6 Jul, lowest since January	Implement
Long Dec-26 outright at \$73.92	Expected value +\$2.17, but the bear-case loss (\$15.15) is about eight times the base-case gain	Use selectively
Short 2027 strip at \$72.05	Expected value +\$5.48; loses \$3.19 in the bull case, so better as the short leg of the spread	Use selectively
Sell the glut: short Dec-26 at \$73.92	Expected value -\$2.17; fund net length already cut to about 55k lots, gross shorts near record (ING); bull-case loss \$19.95	Avoid
Long diesel crack at \$64.51	2.3x its 2025 average; restarting Gulf refineries are the risk, and the crack is \$16.85 below its March high	Avoid

Verdicts: Implement (we expect the strategy to add value after costs), Use selectively (beneficial in defined circumstances only), Avoid (we do not expect it to add value after costs). Gains are scenario prices less entry in \$/bbl; expected values weight base 50%, bull 25%, bear 25%. Option premium: Black-76 model value, not a quote.

Source: K2 Capital.

Forecast Calculation and Key Risks

Brent Crude Oil (front-month ICE Brent)

Method

We start from the EIA's July Short-Term Energy Outlook (completed 1 July, released 7 July), the latest full agency balance before our cutoff. We change only the supply and demand lines we disagree with and convert each 1 mb/d of extra quarterly stock draw into \$4.50/bbl, the mean of four estimates between \$3.95 and \$5.02, rounded to the nearest \$0.5 (Exhibit 4). Half of any stock gap against the EIA built up in July-December 2026 is rebuilt, or worked off, in 2027. Our forecasts are front-month futures averages, so we deduct \$0.88, the average premium of Brent spot over the future in 2025, from the EIA's spot path.

Base Case (50%): \$77.6 in 3Q26, \$75.9 in 4Q26, \$67.6 in 2027

The Strait stays contested but open. Gulf output averages 9.3 mb/d below February in 3Q26 and 4.5 mb/d in 4Q26 (EIA: 8.3 and 3.0), and 1.2 mb/d in 2027 (EIA: 0.7). Ships, not wells, set the pace: inbound tankers outnumbered outbound two to one in early July (UBS), war-risk cover still cost about 2% of hull value on 25 June, roughly 20 times the pre-war rate, and Kuwait and southern Iraq must restart fields shut since March. World stocks draw 3.2 mb/d in 3Q26 and build only 1.2 mb/d in 4Q26. In 2027 the EIA's 5.0 mb/d build, less our slower recovery and restocking, still leaves a 4.2 mb/d surplus.

Bull Case (25%): \$84.4, \$93.9, \$75.2

The memorandum's 60-day talks window ends on 16 August without a deal and Iran reimposes the closure it declared on 11 and 20 June. Gulf output returns to about 11 mb/d below February in 4Q26, partly offset by 2.5 mb/d of demand destruction (Q2 saw about 5 mb/d). With the US SPR at its lowest since 1983 and IEA stocks already drawn, there is little left to release. World stocks draw 4.7 mb/d in 3Q26 and 2.8 mb/d in 4Q26. A linear rule probably understates a spike from depleted stocks: physical Brent hit \$138.21 on 7 April.

Bear Case (25%): \$65.0, \$58.8, \$55.8

Gulf exports largely normalise by the end of September, faster than the EIA assumes, and Saudi Arabia and the UAE compete for market share: the \$11 August price cut to Asia and the UAE's exit from OPEC point that way. Demand recovers slowly; China's May crude imports, at 7.79 mb/d, were the lowest since October 2017. World stocks build 5.0 mb/d in 4Q26 and 6.8 mb/d in 2027.

Cross-Checks

(1) Analogues: after Brent spot first fell back to its pre-war price, it was 5.9% higher 60 trading days later in 1991 and 16.4% higher in 2022 (Exhibit 13). The average applied to 2026's pre-war spot price gives \$79.27 for late September, against our 3Q26 base of \$78.5 on the same spot basis. (2) Consensus: the median 4Q26 forecast of five banks is \$75.0, against our base of \$75.9. (3) The curve: the strip prices 2027 only \$1.68 below 4Q26, less than in any of our scenarios (\$3.0 to \$18.6).

Risks

Upside risks to our forecasts: a collapse of the talks before 16 August; more attacks on tankers or Gulf infrastructure; an earlier start to refilling the US SPR; hurricanes that shut US Gulf Coast output or refining. Downside risks: a final US-Iran agreement that ends Iran's control of the routes; a faster return of tankers and insurance; a price war between Saudi Arabia and the UAE; weaker Chinese demand; recession in the US or Europe.

Trade Ideas

T1. Long Dec-26 / short Dec-27 Brent at \$2.55: Implement. Target \$6.50, stop \$0.50 (reward to risk 1.9x). The spread is back near its pre-war \$2.42, although world stocks are about 606 mb lower; it peaked at \$12.80 on 18 May. Our scenarios put 4Q26 less 2027 at \$8.2 (base), \$18.6 (bull) and \$3.0 (bear), against \$2.55 today: the position gains in all three, with an expected gain of \$6.98/bbl.

T2. Buy the Dec-26 \$80/\$95 call spread for about \$2.95: Implement. Black-76 at 40% implied volatility (OVX, a 30-day WTI measure, was 47.6 on 7 July; we haircut for the longer tenor), expiry 27 October. The structure pays \$10.92 net in the bull case and loses the premium otherwise, an expected gain of \$0.52. It hedges the scenario that hurts a short-2027 book most.

T3. Long Dec-26 outright at \$73.92: Use selectively. Gains \$1.95 in the base case and \$19.95 in the bull case, but loses \$15.15 in the bear case. Target \$80, stop \$67 (reward to risk 0.9x). We prefer the spread.

T4. Short the 2027 strip at \$72.05: Use selectively. Gains \$4.42 in the base case and \$16.27 in the bear case; loses \$3.19 in the bull case. Best held as the short leg of T1.

T5. Sell the glut, short Dec-26: Avoid. Expected value -\$2.17, with a \$19.95 loss if the Strait re-closes. The crowd is already there: managed-money net length of about 55,000 lots is an eighth of its April level, and ING put gross shorts near record highs.

T6. Long the diesel crack at \$64.51: Avoid. Products are tight, but the crack is already 2.3x its 2025 average. Its risk is the Gulf's export refineries restarting, which our base case assumes.

What Would Make Us Wrong?

We would revisit our forecasts and trades if any of the following occur:

- 1. Gulf exports beat the EIA's path.** If Kpler or Vortexa put July Gulf crude exports at 12.5 mb/d or more (June: about 10.1 mb/d), the recovery is at least as fast as the EIA assumes and our 4Q26 premium to the strip is wrong.
- 2. Traffic normalises.** If Strait transits exceed 90 a day for ten consecutive days (1-2 July: 43-53; before the war: 120-138), the Strait is no longer half shut.
- 3. The front returns to contango.** If front-month Brent trades below Dec-26 on 31 August (7 July: \$0.24 above; 1 July: \$0.59 below), the glut is not a flush.
- 4. US stocks build.** If US commercial crude stocks rise in four consecutive weekly EIA reports in July and August while the SPR is still releasing, the Atlantic Basin is oversupplied and our 3Q26 draw is wrong.
- 5. 2027 tightens.** If OPEC+ announces output cuts for 2027, or the EIA's August outlook turns 2027 from a stock build to a draw, the short 2027 leg is wrong.

Signposts

8 Jul: EIA weekly petroleum report (week to 3 July). Around 10 Jul: IEA Oil Market Report. Mid-July: OPEC Monthly Oil Market Report. 31 Jul: Sep-26 Brent futures expire; the IEA's collective release is due to wind down by the end of July. Early August: OPEC+ meeting on September targets. Around 11 Aug: EIA August outlook. 16 Aug: the memorandum's 60-day talks window ends. Weekly: Strait transit counts (Kpler, Windward), US stocks (Wednesdays) and positioning (Fridays). 27 Oct: Dec-26 Brent options expire.

Exhibit 15 - What Each Scenario Looks Like in the Data

Indicator	Latest	Bull (25%)	Base (50%)	Bear (25%)
Strait transits (ships a day)	43-53 (1-2 Jul)	Below 30	30-90	Above 90 for ten days
Gulf crude exports (mb/d)	About 10.1 (June)	Below 9	9-12.5	12.5 or more in July
Front-month less Dec-26 (\$/bbl)	+0.24 (7 Jul)	Above +5	0 to +5	Below 0 at end-August
Brent spot less front-month (\$/bbl)	-2.38 (7 Jul)	Above +3	-1 to +3	Below -1
US commercial crude stocks	10 weekly draws to 26 Jun	Draws resume	Small draws	Four straight builds
US-Iran talks	Indirect, Doha	Collapse by 16 Aug	Extended	Final deal; routes open
Saudi Arab Light to Asia (\$/bbl)	-1.50 (August)	Above +5	0 to +5	Cut further

K2 thresholds for tracking the scenarios; a scenario is confirmed when most of its column holds for a month. On 7 July two readings sat in the bear column (the spot discount and the Saudi price cut): the flush shows in physical prices, and our base case needs both back in range by the end of August. Transits: S&P Global, Windward and Kpler counts.

Source: K2 Capital, S&P Global, Kpler, Vortexa, EIA, Yahoo Finance, Saudi Aramco as reported.

Important Disclosures

Analyst Certification

The research analysts of K2 Capital Limited responsible for this report certify that (1) the views expressed in this report accurately reflect their personal views about the subject commodity and related instruments, and (2) no part of their compensation was, is or will be directly or indirectly related to the specific forecasts, trade ideas or views expressed in this report.

Forecast and Verdict Definitions

Forecasts: quarterly and annual averages of the front-month ICE Brent futures price, in US dollars per barrel. **Base, bull and bear cases** are scenarios with the stated probabilities; the probability-weighted forecast is their weighted average. **Strategy verdicts:** Implement (we expect the strategy to add value after costs), Use selectively (beneficial in defined circumstances only), Avoid (we do not expect it to add value after costs). Entry levels are 7 July 2026 settlements; option premiums are model values, not quotes. This is K2 Capital's first published Brent forecast.

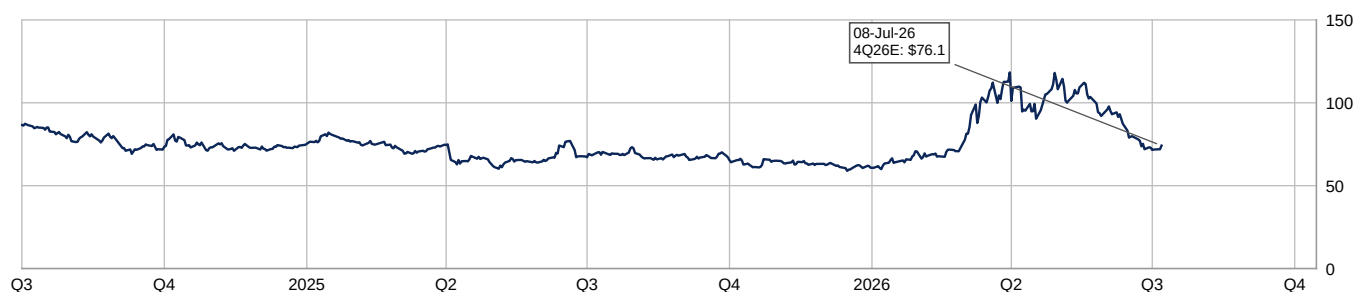
Forecast and Trade History

Date	Forecast or trade	Level at publication (\$)	K2 view (\$)
08-Jul-26	Brent 3Q26E average, probability-weighted (initiation)	74.16	76.2
08-Jul-26	Brent 4Q26E average, probability-weighted (initiation)	74.16	76.1
08-Jul-26	Brent 2027E average, probability-weighted (initiation)	74.16	66.6
08-Jul-26	Long Dec-26 / short Dec-27 Brent (Implement)	2.55	Target 6.50
08-Jul-26	Buy Dec-26 \$80/\$95 call spread (Implement)	2.95	Max value 15.00

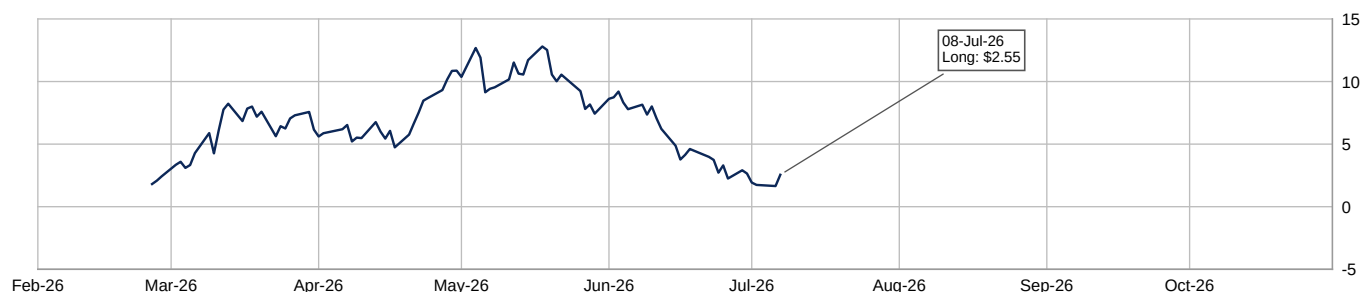
Positions and Conflicts

K2 Capital Limited, its principals and employees may hold positions in, and may trade, Brent and other oil futures, options and related instruments discussed in this report, including positions inconsistent with its views.

Brent Forecast History for: ICE Brent Crude Oil (front-month) as of 08-Jul-26



Created by: K2 Capital

Trade History for: Brent Dec-26 / Dec-27 Spread as of 08-Jul-26


Created by: K2 Capital

Sources and Methodology

Prices are as of the close on 7 July 2026; no later data is used. Futures prices for Brent (NYMEX Brent futures, which track ICE Brent), WTI, ULSD and RBOB, and the CBOE OVX, are from Yahoo Finance. Brent and WTI spot prices, weekly US inventories, refinery runs and trade (to the week ending 26 June, released 1 July) and the Short-Term Energy Outlook for June and July 2026 (July completed 1 July, released 7 July) are from the EIA. Other sources: the IEA Oil Market Report (17 June) and collective action releases; OPEC and OPEC+ statements; Reuters reports carried by BOE Report, gCaptain, Zawya, The Star and Kitco; AP; S&P Global Commodities at Sea; Windward; Kpler and Vortexa as reported; Energy Aspects; Saxo, ING and engine.online for positioning; The National, Insurance Business and the US Treasury for the Strait, insurance and licence history; and bank research as reported. Front-month equivalent strips average the contracts that are front-month during each period; Oct-26, Nov-26 and Feb-28 are interpolated. Gulf output is the EIA's OPEC total plus the UAE, Qatar and Bahrain; it includes non-Gulf OPEC members. Scenario prices add \$4.5/bbl per mb/d of stock-draw change to the EIA's Brent spot path and deduct the 2025 average spot premium over futures (\$0.88) (Exhibits 3 and 4). Option values use Black-76 with 40% volatility and a 4% rate. Analogues use EIA Brent spot from the last close before each shock. Estimates are K2 Capital's and are subject to change without notice.

General

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