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Monthly Analysis

With Peace in the Middle East Are We Heading Towards Oil and Gas Glut?



Introduction

The prospect of lasting peace in the Middle East has profound implications not only for regional stability but also for global energy markets. For decades, geopolitical tensions, conflicts, and security concerns have contributed to risk premiums in oil and gas prices, often creating uncertainty over supply routes and production levels. A more peaceful and cooperative regional environment could significantly alter these dynamics, potentially reshaping the balance between energy supply and demand on a global scale.

As major oil and gas producers, Middle Eastern countries hold a central position in international energy markets. Reduced political instability could encourage higher levels of investment, accelerate the development of new production capacity, and facilitate the export of hydrocarbons through safer and more efficient trade corridors. At the same time, several countries in the region are pursuing ambitious plans to expand their energy sectors, both to maximize revenues and to support economic diversification strategies. These developments raise important questions about whether global markets can absorb the additional supply.

Against this backdrop, concerns are emerging about the possibility of an oil and gas glut. If peace enables a substantial increase in production while global demand growth slows due to energy efficiency improvements, renewable energy deployment, and decarbonization policies, markets could face prolonged oversupply conditions. Such a scenario would have significant consequences for energy prices, producer revenues, investment decisions, and the broader transition toward a low-carbon economy. Understanding these potential outcomes is essential for policymakers, investors, and energy stakeholders worldwide.

Middle East Possesses Some of the World's Largest Oil and Gas Reserves

A sustained period of peace in the Middle East has the potential to transform the global energy landscape. Historically, political instability, regional conflicts, and security concerns have limited production growth, disrupted energy exports, and contributed to higher oil and gas prices through increased market uncertainty. This became most evident in the recent Gulf crisis following the USA-Israel unilateral attack on Iran on February 28 and the hostilities that followed. Greater regional stability could remove many of these obstacles, enabling producers to expand operations, improve efficiency, and attract new investment. Such developments could lead to a substantial increase in global energy supplies, raising questions about the risk of excess production. [\(1\)](#)

The Middle East remains home to some of the world’s largest oil and natural gas reserves, as shown in Table A, many of which have yet to be fully developed. In a more peaceful environment, major producers such as Saudi Arabia, Iraq, the United Arab Emirates, Qatar, and possibly Iran could accelerate plans to increase output and strengthen their market share. Improved diplomatic relations, enhanced infrastructure connectivity, and the removal of political constraints could facilitate greater exports to international markets. Collectively, these factors could add significant volumes of hydrocarbons to global supply chains.

On the demand side, however, the long-term outlook for fossil fuels is less certain than in previous decades. Although developing economies continue to require growing amounts of energy, many mature markets are experiencing slower demand growth due to technological advancements and climate-related policies. The increasing adoption of electric vehicles, improvements in energy efficiency, and the rapid expansion of renewable energy generation are gradually reducing dependence on conventional fuels. If these trends continue, global consumption may not rise quickly enough to absorb a major increase in oil and gas production.

Table A: Oil and Gas Reserves in the Middle East, 2020

| 2020 | Oil reserves (thousand million barrels) | Gas reserves (tcm) |
|---------------------------------|--|---------------------------|
| Bahrain | - | 0,1 |
| Iran | 157,8 | 32,1 |
| Iraq | 145 | 3,5 |
| Israel | - | 0,6 |
| Kuwait | 101,5 | 1,7 |
| Oman | 5,4 | 0,7 |
| Qatar | 25,2 | 24,7 |
| Saudi Arabia | 297,5 | 6 |
| Syria | 2,5 | 0,3 |
| United Arab Emirates | 97,8 | 5,9 |
| Yemen | 3 | 0,3 |
| Other Middle East | 0,2 | - |
| Total Middle East | 835,9 | 75,8 |
| Total World | 1732,4 | 188,1 |
| of which Middle East (%) | 48% | 40% |

Source: BP Statistical Review of World Energy 2021 (2)

An extended period of oversupply would create both opportunities and challenges across the global economy. Energy-importing countries would likely benefit from lower fuel costs, reduced inflationary pressures, and improved trade balances. In contrast, countries whose public finances rely heavily on hydrocarbon exports could experience declining revenues and increased fiscal strain. Lower prices may also discourage investment in new upstream projects, potentially affecting future production capacity and

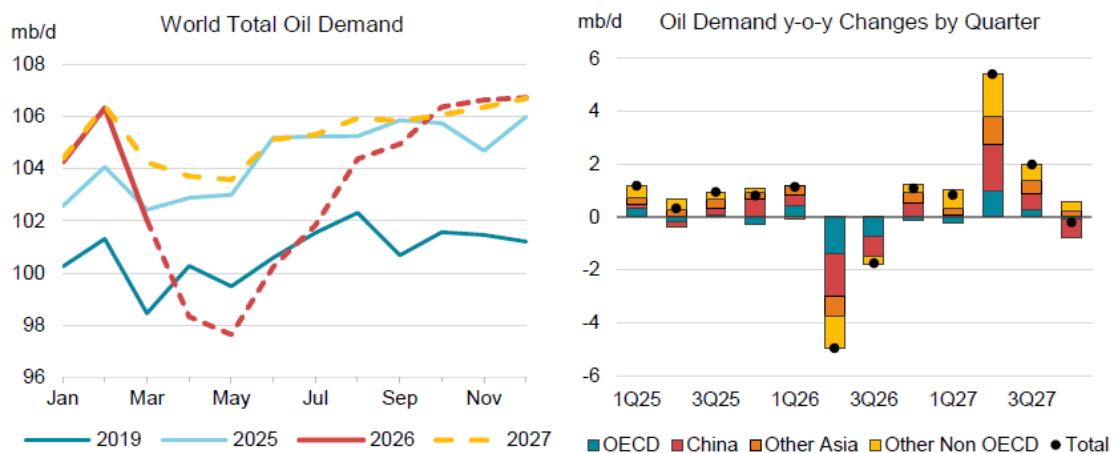
altering long-term market dynamics.

Even so, the emergence of an oil and gas glut is still possible. Major producers, particularly within OPEC+, retain significant influence over supply levels and can adjust output to stabilize markets when necessary. In addition, future demand patterns remain uncertain and could be shaped by stronger economic growth, technological developments, or a slower-than-expected transition toward cleaner energy sources. As a result, while peace in the Middle East may increase the potential for excess supply, the ultimate direction of global energy markets will depend on a complex combination of economic, political, and technological factors.

The Global Oil and Gas Demand and Supply Balance

Based on data provided by the latest IEA’s Oil Market Report (3), global **oil demand** moved sharply lower in April and May, with the considerable impacts of the Iran war emerging in official statistics. Preliminary IEA data suggest that Q2 2026 deliveries are set to plummet by 5 mb/d, or 4.8% y-o-y, in the face of higher fuel prices and disruptions to product availability. This will be the first global quarterly fall since 2020 and far behind the expectations set out in last month’s IEA Oil Market Report. Average 2026 demand is now forecast to decline by 1.1 mb/d, with pronounced weakness extending into Q3 2026. Globally, this represents a downgrade of 700 kb/d compared with IEA’s May Report, which had assumed a recovery beginning from June.

Figure 1: Global Total Oil Demand (LHS) and Oil Demand y-o-y Changes by Quarter (RHS)



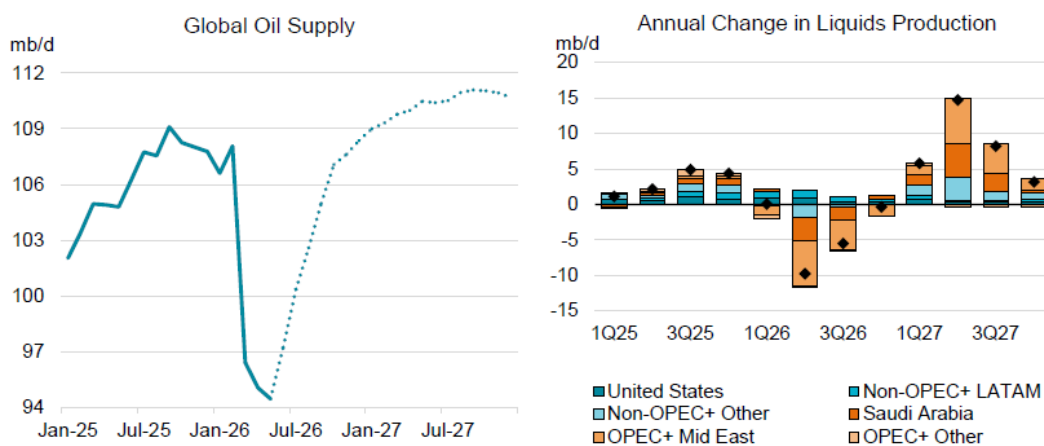
Source: IEA Oil Market Report (June 2026)

Following the June interim deal between the United States and Iran to extend the ceasefire and restore flows through the Strait of Hormuz, IEA balances assume improving conditions through the second half of the year. IEA now sees an average fall of 1.7 mb/d y-o-y in Q3 2026 and a return to expansion of 1.1 mb/d in Q4 2026.

Global oil demand is set to rise by 6.1 mb/d from April through August as summer travel demand picks up seasonally and better product availability allows consumers to procure deferred purchases, such as heating oil.

In terms of **oil supply**, the interim US-Iran agreement, signed on June 6, to reopen the Strait of Hormuz is expected to enable a gradual resumption of exports, signalling a normalisation of supply flows after four months of severe disruption. In spite of this positive development, global supply is on track to fall by 3.9 mb/d y-o-y to 102.4 mb/d in 2026, according to the IEA. As Middle East barrels continue to fully return, output is projected to rebound by 8 mb/d to 110.3 mb/d in 2027.

Figure 2: Global Oil Supply (LHS) and Annual Change in Liquids Production (RHS)



Source: IEA Oil Market Report (June 2026)

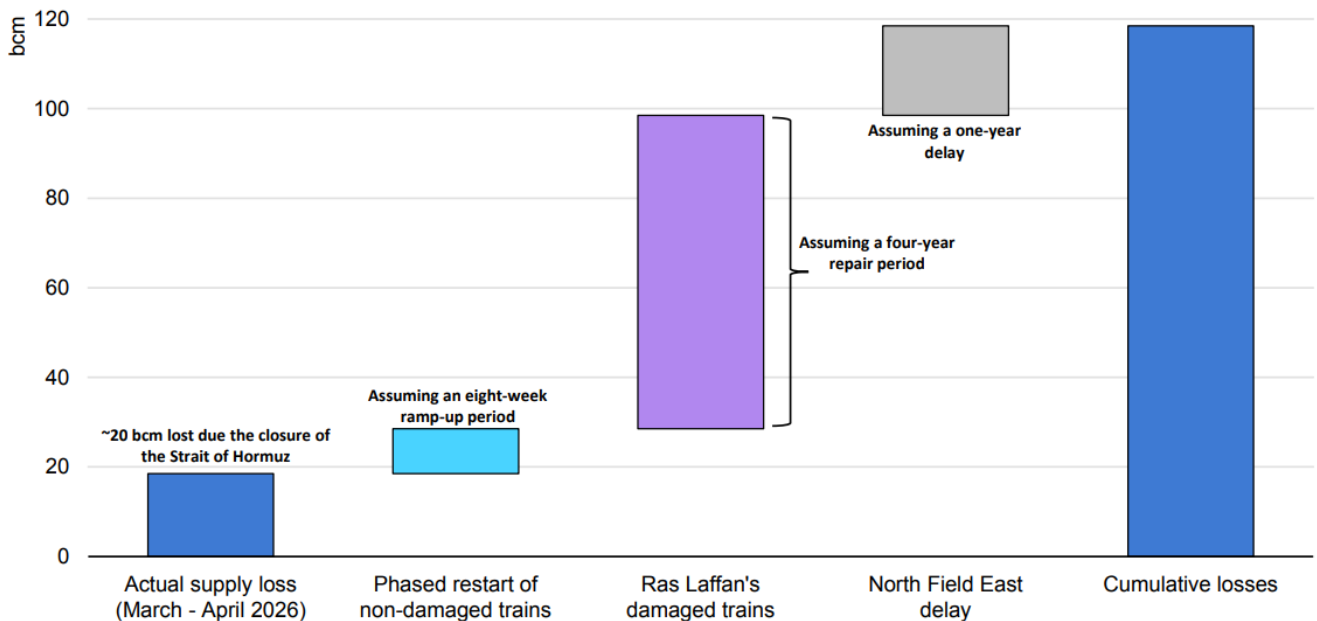
According to the latest IEA Gas Market Report (4), the global **gas demand** is expected to increase by nearly 2% in 2026 amid improving LNG supply availability and demand largely driven by Asian markets. Considering the market uncertainty caused by the closure of the Strait of Hormuz, the latest edition of IEA’s Quarterly Gas Report does not include a short-term forecast, but provides a thorough review of the short-term implications of the conflict. The duration of the closure of the Strait of Hormuz is a key uncertainty that will affect global gas demand in 2026 and lead to a downward revision of IEA’s previous forecasts.

The Middle East crisis represents a major **supply** shock to global gas and LNG markets. Global LNG production fell by 8% (or 4 bcm) y-o-y in March. Loadings from Qatar and the United Arab Emirates dropped by 9.5 bcm compared with last year. This steep decline was partly offset by higher LNG output from new projects in North America and Africa. Importantly, global LNG deliveries fell less steeply than loadings, declining by just 2% (or 1 bcm) y-o-y in March, since the full impact of the disruption takes time to materialise due to shipping time. LNG deliveries fell by 10% y-o-y (or more than 3 bcm) in the first 20 days of April.

The duration of the effective closure of the Strait of Hormuz is a key uncertainty that will affect global gas demand in 2026. Each month without LNG cargoes transiting the strait results in around 10 bcm of LNG supply loss, leading to a downward revision of demand prospects in key importing regions. The LNG supply losses from Qatar and the United Arab Emirates are expected to total around 20 bcm for the March-April period. Furthermore, the restart and ramp-up of LNG liquefaction plants could take several weeks, resulting in output being around 10 bcm lower than under regular operations. In addition to the disruption of LNG flows via the Strait of Hormuz, the damage caused to Qatar’s LNG liquefaction infrastructure has reduced the outlook for global LNG supply growth over the medium term and is expected to delay the effect of the unfolding LNG wave by at least two years.

The Middle East conflict has already caused the loss of around 120 bcm of cumulative LNG supply for the period 2026-2030 when considering the combined effect of the near-term supply disruptions and the medium-term implications for supply. The losses resulting from the Middle East conflict account for around 15% of the expected global LNG supply over the 2026-2030 period and, as such, will ultimately be offset by the start-up of new liquefaction facilities through the medium term. The impact on growth is largely concentrated through 2026-2027 and, as such, delays the market easing effects of the LNG wave by at least two years. The shortfall in global gas demand was covered by increased production from major suppliers, including the United States, Qatar, Norway, and other key gas-producing countries.

Figure 3: The Cumulative Impact of the Middle East Conflict on Global LNG Supply, 2026-2030



Source: IEA Gas Market Report (Q2 2026)

Discussion

The prospect of lasting peace in the Middle East represents a significant turning point for global energy markets. Reduced geopolitical tensions could facilitate greater investment, expand production capacity, and improve the reliability of oil and gas exports from one of the world's most important energy-producing regions. Combined with ongoing supply growth from other major producers, particularly in North America, these developments could substantially increase the volume of hydrocarbons available to international markets over the coming years.

At the same time, the demand outlook for fossil fuels is becoming increasingly uncertain. While energy consumption is expected to continue rising in many emerging economies in the foreseeable future (5), the pace of growth is likely to be moderated by energy efficiency improvements, electrification, and the accelerating deployment of renewable energy technologies. If supply expands more rapidly than demand, global markets could experience periods of excess production, leading to lower prices and heightened competition among energy exporters. Such conditions would create both opportunities for importing countries and challenges for economies heavily dependent on hydrocarbon revenues. (6)

Nevertheless, the emergence of a sustained oil and gas glut is not inevitable. Market outcomes will depend on a range of factors, including producer strategies, OPEC+ production policies, the speed of the global energy transition, and broader economic growth trends. Peace in the Middle East may remove a major source of uncertainty and unlock additional supply, but the ultimate balance between production and consumption will continue to be shaped by complex economic, technological, and geopolitical forces. The coming years will therefore determine whether greater stability leads to a prolonged period of oversupply or to a more balanced and resilient global energy market.

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