The Hormuz Odyssey: a new base case

Twists and turns but no quick resolution(?)

RaboResearch
Global Economics & Markets
knowledge.rabobank.com

Michael Every
Global Strategist

Summary

- Hormuz is a polytropic crisis with many-twisted outcomes and tweets – but the fundamentals at play are still clear.
- On balance, we assume an Iran deal won't stick --yet-- and risks are of further war and/or a longer blockade before resolution.
- The new geopolitical base case is therefore no normalisation in Hormuz for up to three months; and the tail risk is US economic statecraft responses with global consequences.

Tell me, Hormuz, tell me of the narrow throat of the Persian Gulf, where tankers once slid like silver fish through warm blue water, carrying one-fifth of the world's oil and a river of liquefied gas.

Tell me how, in the spring of 2026, the ancient passage turned polytropos --many-turning, many-twisted-- when war broke over Iran and the Strait became a new, unfinished epic.

Figure 1: Tell me, Hormuz...

Source: Getty Images

A many-twisting strait

We are approaching the date by which the geopolitical base case used for our macroeconomic and market forecasts had assumed the reopening of Hormuz (based on a 'disputed' US victory over Iran). However, the key strait is still closed and as such a new base case is required.

At time of writing, President Trump claims a deal with Iran has been "largely negotiated," and "proceeding nicely," as reports are that "95%" of it has been agreed. However, nothing has been signed and the final 5% is likely the hardest part to achieve.

While we could see a short-term *political* resolution to part of this crisis, that does not mean a *physical* resolution of the Hormuz closure: even in a best-case scenario it would take significantly longer. Moreover, we believe any US-Iran Hormuz deal struck is unlikely to stick given the underlying differences between the two sides over the nuclear issue – there, they are more likely to strike each other again unless/until other parties are involved in a broader agreement.

As such, the new base case is that, on balance, Hormuz will not return to normal operation for up to three months (before ending in a 'disputed' US victory) - with supply-side damage.

We will now explain the scenario(s) behind that revised, more bearish geopolitical call.

Polymetis polymetric

In Greek, Odysseus is praised as being *polymetis* - "the clever schemer," highlighting his intelligence, cunning, and strategic wit. We need to see that work in this crisis and the various schemes beyond headlines.

When asking *who* closed Hormuz, the reply is, "Nobody." Iran claims the strait is still open to those who cooperate with it: few ships are. The US claimed it had provided a workable route through Hormuz for those who want it: there were again few takers. Some point at the insurance industry as the core of the problem: it points back at the US and Iran. As such, we will need a full cessation to fighting *and the threat of further war* for Hormuz to fully normalise to pre-war levels.

That is hard to achieve when US-Iranian negotiations, via Pakistan, see both sides contradict each other, and sometimes *themselves*. That was obvious in the latest round of confounding news-flow over the last few days.

Scylla and Charybdis

First reports were that the deal might be a huge US concession to reopen Hormuz (or a TACO). One report had the US handing over $25bn to Iran, effectively crowning it and Hezbollah de facto war-winners, *retreating from its Middle East bases,* and forcing Israel to sign up to a ceasefire with Tehran and Hezbollah. Chatter was of the region, from Pakistan to Turkey, then flipping to the Iranian camp out of necessity – a risk long flagged as the geopolitical downside to the US being seen to lose this war, with major geostrategic, economic, and market impact.

Yet those claims were contradicted by claims Iran had agreed to give up its highly enriched uranium (HEU), which argued for what we had expected to see in our last geopolitical base case scenario: a 'disputed' US win that delivered the HEU at least. That news was then denied by Iran.

It's clearer now that the latest US proposal is comprised of three key elements, a few fudges, and an expansive post-deal vision, which we will now summarise:

1. A 60-day ceasefire extension – *very likely to proceed*

That the last ceasefire is set to expire with no deal, *yet no more war* is an important signal the US doesn't want to fight: even its latest attacks on Iran were declared as "defensive." Talk about Iran's missiles and proxies has also been dropped. *However, Iran is emboldened by that US restraint*. While it's suffering in economic terms, and a longer Hormuz closure will cause structural damage to its energy industry due to oil well shut-ins, the regime appears secure, which is its first and foremost concern, and hardliners reportedly sees themselves as winning vs. the US.

2. 'Oil for oil' – *could happen, but not the game changer you think by itself*

The US will remove sanctions on Iranian oil and its blockade if Iran removes the mines it placed and its blockade of Hormuz over the next 30 days. It's again notable the US is putting this before the nuclear issue, and there are signs of a potential compromise here: Iran is insisting on control of Hormuz while accepting the US won't recognise it; while the US opposes Iranian tolls, it is reportedly not opposed to an 'environmental tax'; and the US might allow Qatar to 'lend' Iran $12bn as a work-around of Iran's insistence on the up-front release of parts of its frozen assets as quid pro quo.

However, in *political* terms, an oil-for-oil deal gains Iran vital FX *but loosens its chokehold on the world economy, which is its best leverage*. Once the 1,550 ships trapped behind Hormuz exit with a huge one-off supply of energy, it would find itself in a far weaker bargaining position.

Moreover, in *physical* terms, demining Hormuz could take longer than 30 days even if Iran has a better idea of where it has laid them, before drift, than the US does. Some estimates are it could take six weeks, which would already mean mid-July as an opening date.

3. Nuclear next – *highly unlikely for now(?)*

The US then wants an Iranian pledge not to build a nuclear weapon, easy for Tehran to say, and is offering sanctions relief and the return of frozen assets proportionate to it handing over HEU: "No (nuclear) dust, no dollars." *That's where the real problem lies* - Iran has shown no sign of complying with this core demand. It had been suggested a third party (i.e., Russia or China) could take its HEU, but Trump has reiterated it can only be handed to the US directly or destroyed in Iran under US supervision. **If we get compromise here, the crisis could resolve quickly as a 'disputed' US win. Without it, there could be only a narrow window in which Hormuz is partly operational before the US strikes Iran again, re-closing it to normal traffic.**

4. Regional realignment – *extremely unlikely for now*

The US is insisting an Iran deal also sees Saudi Arabia, Qatar, Pakistan, Turkey, Egypt, and Jordan join the Abraham Accords and normalise relations with Israel. (The latter two now have a 'cold peace' and under-the-table security links.) That puts those countries in a dilemma: reject the deal and risk economic damage from a new phase of war; accept it and face massive domestic political damage. *Between the two options, the former could be the more acceptable risk* - notably, Saudi Arabia has already said no, insisting on a path to a Palestinian state first. Meanwhile, were the GCC to instead to offer to pay Iran's tolls/taxes to get their energy out, the logical US response would again be to attack Iran again, closing Hormuz to all sides.

Relatedly, Iran told the US it wants an end to Israel's attacks on Hezbollah in Lebanon as part of a deal: yet the opposite is happening. A major new Israeli attack just began in response to repeated FPV drones hits on the IDF, underlining that a wider peace deal is hard to achieve – though there is a long regional tradition of landing heavy blows just before ceasefires begin.

Overall, the geopolitical earthquake the US wants in the region arguably can't happen without a comprehensive US victory over Iran first (and likely without outside support from Russia and China, which we will return to shortly).

Telem(achus) what happens next!

Overall, we assume Iran won't --or due to its fragmented, hardline leadership, can't-- yet make a deal the US will accept and can sell to *its* hardliners. For now, the US may or may not be negotiating with the people it needs to, and even if it is it's unclear that they can then enforce any deal on all other factions.

Given our matching assumption of a US unwillingness to retreat from the region, we believe that after more talks --and, at best, a start to demining Hormuz-- the risk is still more war, which will impact on insurance and shipping. Trump's *polymetis* or *polytropos* tweets may end up with more bombing if not *poly-troop-os* boots on the ground. Of course, that brings risks of more damage to regional oil and energy infrastructure.

Yet even another 1-2 weeks of US and Israeli bombing of key infrastructure is unlikely to change Iran's core position or prevent it using drones and mines to disrupt ships in Hormuz. Iran might close the Bab-el-Mandeb via the Houthis, cutting global oil flows further, or, in the worst-case, Russia or China could arm it - which Trump has stated Beijing will not do. In that case, the US would have to escalate militarily vs. Iran *and* use economic statecraft measures against Iran-backers.

As such, the logical US option will then continue to be blockading Iranian oil exports, adding attacks on land routes being used as a substitute, and threatening wider secondary sanctions on others. This would try to achieve either: (1) Iran then submitting under deeper military and economic pressure; and/or (2) other parties stepping up under related economic pressure to *make* Iran submit – *which we see as key.*

Sirens

The first option seems unlikely to work *quickly* given the Iranian regime doesn't care about economic matters when weighed against military and ideological outcomes.

It would take perhaps months for the Iranian population to rise up again, for example, if they do at all, given they just suffered up to 30,000 casualties, are stuck with an unprecedented internet blackout, and foreign mercenaries are reportedly intimidating any opposition.

The second option can mean US allies helping to physically reopen Hormuz, shortening its closure timeline at the risk of more energy supply-side damage if Iran is capable of retaliation - and/or a wider conflict if it's backed by others. Notably, on May 19 it was reported NATO members are considering playing a role in reopening the strait if it is still closed by July – which is months away, and would still require further preparation, and likely *fighting*, to achieve its key goals.

The second option can also mean deeper global economic downturn risks persuading China to lean on Tehran more. In the longer term, Beijing can't put wax in its ears to block the cries of those worried about a long Hormuz closure: the sirens are too loud. Crucially, while China has huge energy reserves, the countries it exports to do not.

Xi and Trump seemed to broadly agree over Iran when they recently met – though what that means in practice is unclear. The US is now postponing planned arms sales to Taiwan which might hint at a potential trade-off. Xi also told Putin that this war needs to end as soon as possible; that's as Russia steps up its missile and --Iran-designed-- drone attacks on Ukraine in another war now in its fifth year. The EU may also be prepared to talk to Putin too, via either Draghi or Merkel. ***It seems geopolitical winds are filling the sails of ships of state - but with an unclear final destination, an uncertain speed of travel, and over treacherous waters.***

Ithaca and buts – same outcome

In short, this crisis has a very wide range of potential outcomes across more than one geography, but just one central binary: open or closed, and when?

The key point is that except for a surprise US retreat with huge geostrategic consequences, or an equally surprising, unified Iranian surrender regarding uranium, ***the binary Hormuz outcome is effectively the same regardless of what now happens.***

Whether the US keeps talking to no effect; strikes an Iran deal which then goes nowhere regarding HEU; fights and blockades Iran; stops talking and waits until NATO joins the fight to open Hormuz in July at the earliest; and/or waits for China and Russia to help create a larger peace deal under rising global economic pressure, ***the world's key energy strait will likely remain out of normal operation for up to three months ahead*** before we see a crisis resolution.

The only way that does not happen is if the US or Iran blinks now regarding uranium, the latter under outside pressure from more than one party and tied to events in more than one geography. To be clear, *this is where we ultimately see this crisis ending* – just not as quickly as markets are hoping in regards to recent 'deal' headlines.

Achilles' heel

Of course, an extended Hormuz closure would continue the drawn-out energy Odyssey for the global economy.

Despite the buffer provided by a --finite-- draw-down of oil inventories until now, a looming energy crunch in diesel, bunker fuel, and jet fuel (for logistics and industry), naphtha (for plastics), bitumen (for construction), fertiliser (for agriculture), sulphuric acid (for industrial metals), and helium (for high tech) remain Achilles' heels. (See here for more work on this topic: based on this latest geopolitical scenario, we will now revise all our forecasts, to be communicated in our upcoming Monthly Outlook. We can hope for the upside, of course, but need to recognise the very real geopolitical-geoeconomic risks ahead.)

It is also important to recall that through this, *in relative terms,* the US emerges as a geostrategic polycrisis (*polymetic*?) winner.

Turning off the tapestry to suitor some needs?

We would also point out that with an extended Hormuz closure the fat tail risks are that the US would have to respond with extremely aggressive economic statecraft to ensure it and key allies do not face the full force of the global energy crisis.

As we argued in OPEC > NOPEC > Pecking O, following the UAE's exit from OPEC(+), a key part of that could be the potential emergence of de facto Balkanised global energy markets behind defence umbrella, clearing FX, and swapline 'stacks': but that is a further Odyssey.

"***Then would they all have sprung up and rushed to the hollow ships, had not a man, wise in the wisdom of old, stayed them…***" **– The Odyssey, Book 24**

RaboResearch
Global Economics & Markets
mr.rabobank.com

Global Head

Jan Lambregts
+44 20 7664 9669
Jan.Lambregts@Rabobank.com

Macro Strategy

Global

Michael Every
Senior Macro Strategist
Michael.Every@Rabobank.com

Europe

Elwin de Groot
Head Macro Strategy
Eurozone, ECB
+31 30 712 1322
Elwin.de.Groot@Rabobank.com

Bas van Geffen
Senior Macro Strategist
ECB, Eurozone
+31 30 712 1046
Bas.van.Geffen@Rabobank.com

Stefan Koopman
Senior Macro Strategist
UK, Eurozone
+31 30 712 1328
Stefan.Koopman@Rabobank.com

Maartje Wijffelaars
Senior Economist
Italy, Spain, Eurozone
+31 88 721 8329
Maartje.Wijffelaars@Rabobank.nl

Leander Kalff
Macro Strategist
+31 88 723 8742
Leander.Kalff@Rabobank.nl

Americas

Philip Marey
Senior Macro Strategist
United States, Fed
+31 30 712 1437
Philip.Marey@Rabobank.com

Christian Lawrence
Head of Cross-Asset Strategy
Canada, Mexico
+1 212 808 6923
Christian.Lawrence@Rabobank.com

Mauricio Une
Senior Macro Strategist
Brazil, Chile, Peru
+55 11 5503 7347
Mauricio.Une@Rabobank.com

Renan Alves
Macro Strategist
Brazil
+55 11 5503 7288
Renan.Alves@Rabobank.com

Molly Schwartz
Cross-Asset Strategist
+1 516 640 7372
Molly.Schwartz@Rabobank.com

Asia, Australia & New Zealand

Teeuwe Mevissen
Senior Macro Strategist
China
+31 30 712 1509
Teeuwe.Mevissen@Rabobank.com

Benjamin Picton
Senior Macro Strategist
Australia, New Zealand
+61 2 8115 3123
Benjamin.Picton@Rabobank.com

FX Strategy

Jane Foley
Head FX Strategy
G10 FX
+44 20 7809 4776
Jane.Foley@Rabobank.com

Fixed Income Strategy

Matt Cairns
Head Fixed Income Strategy
Covered Bonds, SSAs
+44 20 7664 9502
Matt.Cairns@Rabobank.com

Bas van Zanden
Senior Analyst
Pension funds, Regulation
+31 30 712 1869
Bas.van.Zanden@Rabobank.com

Cas Bonsema
Senior Analyst
Financials
+31 6 127 66 642
Cas.Bonsema@Rabobank.com

Maartje Schriever
Analyst
ABS
+31 6 251 43 873
Maartje.Schriever@Rabobank.com

Lyn Graham-Taylor
Senior Rates Strategist
+44 20 7664 9732
Lyn.Graham-Taylor@Rabobank.com

Agri Commodity Markets

Carlos Mera
Head of ACMR
+44 20 7809 4365
Carlos.Mera@Rabobank.com

Charles Hart
Senior Commodity Analyst
+44 20 7809 4245
Charles.Hart@Rabobank.com

Oran van Dort
Commodity Analyst
+31 6 423 80 964
Oran.van.Dort@Rabobank.com

Andrick Payen
RaboResearch Analyst
+1 212 808 6808
Andrick.Payen@Rabobank.com

Energy Markets

Joe DeLaura
Senior Energy Strategist
+1 929 697 5584
Joe.DeLaura@Rabobank.com

Florence Schmit
Senior Energy Strategist
+44 20 7809 3832
Florence.Schmit@Rabobank.com

Client coverage

Wholesale Corporate Clients

Martijn Sorber	Global Head	+31 30 712 3578	Martijn.Sorber@Rabobank.com
Hans Deusing	Europe	+31 30 216 9045	Hans.Deusing@Rabobank.com
Neil Williamson	North America	+1 212 808 6966	Neil.Williamson@Rabobank.com
Adam Vanderstelt	Australia, New Zealand	+61 2 8115 3102	Adam.Vanderstelt@rabobank.com
Ethan Sheng	Asia	+852 2103 2688	Ethan.Sheng@Rabobank.com
Ricardo Rosa	Brazil	+55 11 5503 7150	Ricardo.Rosa@Rabobank.com

Financial Institutions

Short-term Interest Rates

Marcel de Bever	Global Head	+31 30 216 9740	Marcel.de.Bever@Rabobank.com

Bonds & Interest Rate Derivatives

Henk Rozendaal	Global Head Fixed Income	+31 30 216 9423	Henk.Rozendaal@Rabobank.com

Solutions

Sjoerd van Peer	Global Head	+31 30 216 9072	Sjoerd.van.Peer@Rabobank.com

Relationship Management

Rogier Everwijn	Global Head	+31 30 712 2440	Rogier.Everwijn@Rabobank.com
Rob Eilering	Banks	+31 30 712 2162	Rob.Eilering@Rabobank.com
Petra Schuchard	Insurers		Petra.Schuchard@Rabobank.com
Frank Dekkers	Asset Managers		Frank.Dekkers@Rabobank.com
Javier Alvarez de Eerens	MDB	+31 30 712 1015	Javier.Alvarez@Rabobank.com
Christel Kleinhaarhuis	Fintech		Christel.Klein.Haarhuis@Rabobank.com

Capital Markets

Laura Bijl	Global Head	+31 88 726 3254	Laura.Bijl@Rabobank.com
Christopher Hartofilis	Capital Markets USA	+1 212 808 6890	Christopher.Hartofilis@Rabobank.com
Joicy Dinh	Capital Markets Asia	+852 2103 2613	Joicy.Dinh@Rabobank.com
Adriana Gouveia	Capital Markets Brazil	+55 11 5503 7305	Adriana.Gouveia@rabobank.com
Willem Kröner	Global Head ECM	+31 30 712 4783	Willem.Kroner@Rabobank.com
Harman Dhami	DCM Syndicate	+44 20 7664 9738	Harman.Dhami@Rabobank.com
Crispijn Kooijmans	DCM FIs & SSAs	+31 30 216 9028	Crispijn.Kooijmans@Rabobank.com
Bjorn Alink	DCM Securitisation & Covered Bonds	+31 30 216 9393	Bjorn.Alink@Rabobank.com
Othmar ter Waarbeek	DCM Corporate Bonds	+31 30 216 9022	Othmar.ter.Waarbeek@Rabobank.com
Joris Reijnders	DCM Corporate Loans	+31 30 216 9510	Joris.Reijnders@Rabobank.com
Brian Percival	DCM Leveraged Finance	+44 20 7809 3156	Brian.Percival@Rabobank.com

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