

What happens if oil prices hit \$200 a barrel soon?

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I missed [an article in the FT on Friday](#), and although it is now a day or two old, I think it is worth noting. Its suggestion was:

The oil market is four weeks away from a “tipping point” that will drive prices significantly higher, traders have warned, as the blockade in the Strait of Hormuz reduces global stockpiles below critical levels.

The comment came in the light of growing awareness that the Strait of Hormuz could remain closed for many more months, and this will have a major oil market impact.

As the FT added:

Traders and analysts warned that global stocks of crude, gasoline, diesel and jet fuel will hit critically low levels by the end of May, at which point prices will escalate rapidly.

They noted this:

Frederic Lasserre, head of research at Gunvor, one of the world’s largest oil traders ... said “The tipping point is clearly June. This is the point at which something has to give.”

They then noted:

Amrita Sen, founder of consultancy Energy Aspects, said that if the war continues until the end of June all stocks would be exhausted.

At that point, he added that oil prices would become completely unpredictable, but \$200 a barrel was possible. It has not been above \$140 before now. It hit \$126 last week but then fell back.

I have kept talking about a coming recession or depression. This is why. Oil at this price will cause that.

There will also be substantial inflation if this happens. Most empirical estimates from

the likes of the IMF, OECD and central banks) suggest that a \$ 10-per-barrel increase in oil prices might raise headline inflation by roughly 0.2 to 0.4 percentage points over the following 6 to 12 months in an economy like that of the UK. Call it 0.3% on average, and reckon the price might go from \$60 to \$200 a barrel in six months, and the result is an increase in the inflation rate of more than 3 per cent, although the extrapolation might not hold (and could be worse) over such large price changes.

Will the Bank of England increase interest rates to maybe 7 per cent as a result? Don't rule it out.

And what would that mean if mortgage rates went up by the same amount? The key point here is that mortgage costs are non-linear with respect to interest rates. A 3% rise does not mean a 3% increase in payments. It is much larger. On a fairly typical £250,000 mortgage of 25 years at a current rate of 5.75%, a new rate of 8.75% would change the cost from maybe £1,580 per month to around £1,970 per month, which is an increase of about £390 per month, or an increase of roughly a 25% rise in monthly payments.

Now I know many people are on fixed-term mortgages, but the impact of such a change at the same time as rising inflation, absolute shortages of oil and food, recession, declining employment as businesses fail, and more, could be cataclysmic.

I offer warnings for a reason. It is to say that action is needed by the government now, including a clear direction to the Bank of England that it will not be required to respond to this inflation, and must not do so.

We are heading for economic disaster as a result of Trump and Netanyahu. Nothing a UK institution does should make this worse than it will be. The fact that the Bank of England has the capacity to do so worries me.

We are in the lull before the storm right now. It will break soon.