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MACROCOSM

2026 Oil Outlook

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Sentiment is about as washed out as it gets. Wall Street sees a crash, we see a bottom.

The International Energy Agency has been calling all year for a massive four million barrel per day oversupply scenario that will wreak havoc in the crude oil market. They forecast 2026 incremental growth at only 700,000 barrels. Wall Street seems to agree to a certain extent. Goldman Sachs suggests that oil markets will be oversupplied by 2 million barrels next year, half the IEA scare-headline, but still massive. JP Morgan projects West Texas Intermediate will average $53 in 2026, not an especially heroic call with it at $58.77 as of this writing. But they also say Brent could decline to the $30s by 2027, and from here that's pretty much cutting the price in half.

As 2025 comes to a close, we are happy with our forecast for Brent to trade in a $60-$80 range, made when Donald Trump was elected president (see "Oil Under Trump: War and Peace, but Mostly Deregulation" November 20, 2024"). Nailed it – there were only five trading days when Brent closed outside that range. But we are ending the year at the bottom of the range, so our call for energy stocks to outperform the broad market was a big miss – with the very notable exception of refining stocks (see "EV Sales Aren't Making Up for Refinery Closures" October 21, 2025).

Now looking ahead, sentiment is so bad we don't rule out we'll see more days in the 50's for Brent next year. But that will be transient sentiment speaking, not durable reality. Our incremental demand forecast at 1.2 million barrels per day is nearly double that of the IEA, and we think supply is overstated. So we think prices will surprise on the upside, and we are going to maintain our forecast range of $60 to $80. In such an environment energy stocks should make up the ground they lost this year.

- First, the world has entered a multi-polar configuration requiring increased regional stockpiles as sanctions and geopolitical tensions divide formerly global markets. For example, Saudi Arabia has been exporting more oil to its storage sites all over the world. In November, Saudi Aramco signed a contract to locate more oil at Okinawa's storage facilities, despite a decline in oil processing on the island. In Egypt, Saudi Aramco is using the Suez-Mediterranean pipeline to store more oil for its European customers. While storage isn't consumption, loading storage

Update to strategic view

OIL: Our call as the year began for Brent to trade in a range between $60 and $80 was almost perfect. The problem is it fell to the bottom of the range and has been languishing. So we were wrong to expect that energy stocks would outperform the broader market, with the notable exception of refiners. Now sentiment for oil is probably at unsustainably pessimistic levels, with unrealistic expectations both for slow demand growth and for excessive supply growth. The abandonment worldwide of dreams for a battery-electric fleet, the rolling back of US fuel efficiency requirements and diesel appetite from hyperscaler datacenters will surely cause demand to surprise on the upside. Outside the Americas, there is little feasible opportunity for supply growth other than the spare capacity in a few OPEC nations who have little incentive to see lower prices. We reiterate our forecast for a $60 to $80 trading range, which from here, is tantamount to calling the bottom.

[Strategy dashboard]

facilities is hard to distinguish from incremental demand – it is surely the expected demand of the future, and the extent to which it is forward-deployed is a token of expected structural fragmentation.

- Under President Trump, the US Strategic Petroleum Reserve is starting to be refilled. Since he took office 17 million barrels have been deposited, lifting the reserve to 412 million out of 839 million of total stockpiles. It is a far cry from the 638 million in the SPR out of 1.1 *billion* barrels total at the end his first term. So there's plenty of room overhead. And in the meantime, it is already headed in the right direction after President Joseph Biden drained it to keep gasoline prices low prior to the 2022 mid-term elections (see "It's Official: OPEC Wants $100 Oil" September 30, 2022).
- Second, the massive and rapid rollout of datacenters will rely more on renewables in the first few years due to their massive Biden-era government-subsidized buildout (see "Build It and They Will Come – If You Can Power It" November 14, 2025). But diesel generators will be needed to backup datacenter energy demand due to wind and solar's intermittency. A Tier II 4000 KWh diesel generator will consume about 300 gallons of diesel fuel an hour, and a hyperscale datacenter would require about 200 diesel generators. The projected 35 GW of datacenter demand could require enough diesel fuel to double total US distillate demand if they all came online at the same time and backup power generation depended on diesel as the fuel of choice. Energy Secretary Chris Wright has indicated that President Trump will review current regulations that effectively limit diesel use in generators due to pollutants. Natural gas is the ultimate solution – cheaper and cleaner (see "Video: TrendMacro conversation with Mark P. Mills about reality-checking AI, energy and economics" November 12, 2025). But pipelines will have to be built, and the crazy-quilt of federal, state and local permitting opens the door to obstruction by climate groups. In the meantime, diesel is the go-to answer.
- While Environmental Protection Agency rules currently limit diesel generator use, the Energy Reliability Council of Texas is leading the way with requirements that datacenters use generators when the electric grid is facing brownouts or blackouts. Moreover, diesel generators can legally store large volumes of fuel on site. Ultimately datacenters are a natural gas story. But in the near-term, they are a diesel story.
- Third, as we expected (see "Deregulate, Sanction and Tariff, Baby, Deregulate, Sanction and Tariff!" March 26, 2025), last week President Trump significantly rolled back corporate average fuel economy standards that effectively required automakers to sell battery-electric vehicles. Earlier, Congress voided CAFE penalties that some manufacturers paid to EV companies (such as Tesla) and eliminated the $7,500 tax subsidy for battery-only vehicles with the One Big Beautiful Bill as of October. The impact on US gasoline demand should be robust for years to come (see "Electric Vehicles Still Run on Oil" August 28, 2025).
- Europe is poised to remove its ban on international combustion engine vehicles and has cut subsidies on EV purchases. This will reduce the number of electric vehicle models to compete in the

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market going forward. While hybrids have been around for 25 years now, and will continue to be, a significant reduction of battery-only powertrains will have a positive impact on EU gasoline demand.

While demand looks to be robust in 2026 and beyond, the supply situation is not as loose as it seems Wall Street fears.

- We are approaching the 10th anniversary of the original 2016 OPEC+ production cut agreement (see "On OPEC's Production Target" September 29, 2016). The table below compares quotas and actual production from OPEC members and OPEC+ participants from inception in 2016 to today. The chart doesn't show OPEC members that have since left the group (Qatar and Angola) or were not part of the original OPEC+ quota agreement (Iran, Libya, Nigeria, Venezuela, Congo, Equatorial Guinea). Surprisingly, all non-OPEC members – which have suffered the greatest decline in production over the last nine years – remain in the group. That group has lost 1.9 million barrels per day in quota versus 2016 (out of 2.6 millions for the entire cartel) , with Russia experiencing almost a million barrels decline – and on top of that, it is underproducing its quota by 190,000 barrels. Kazakhstan has consistently produced above-quota despite recent difficulties

OPEC+ plus quotas and production (thousand barrels per day)

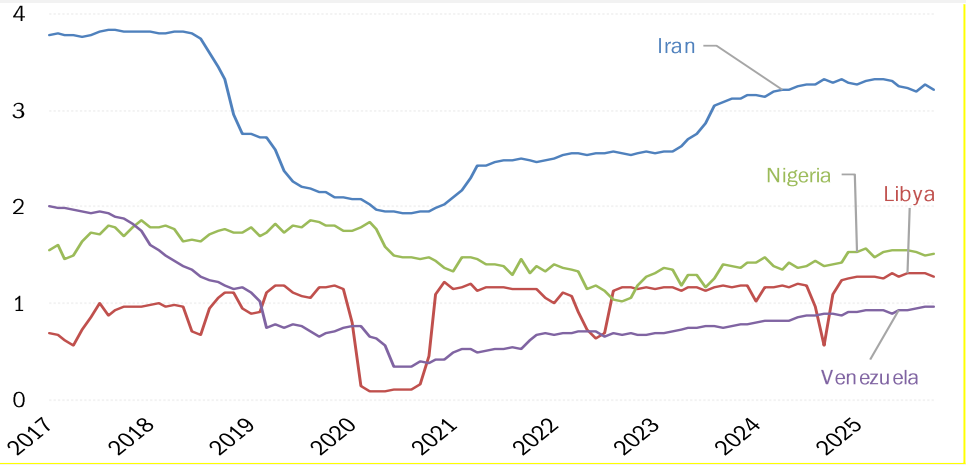
	2016 quota	2025 quota	Quota change	2025 production	Production vs. quota
OPEC members					
Algeria	+1,089	+971	-118	+956	-15
Gabon	+202	+177	-25	+226	+49
Iraq	+4,561	+4,273	-288	+4,098	-175
Kuwait	+2,838	+2,580	-258	+2,552	-28
Saudi Arabia	+10,544	+10,103	-441	+10,003	-100
UAE	+3,013	+3,411	+398	+3,361	-50
			Subtotal		Subtotal
			-732		-319
OPEC+ participants					
Azerbaijan	+759	+554	-205	+461	-93
Bahrain	+213	+158	-55	+182	+24
Brunei	+125	+79	-46	+87	+8
Kazakhstan	+1,389	+1,589	+200	+1,707	+118
Malaysia	+626	+459	-167	+346	-113
Mexico	+2,108	+1,653	-455	+1,449	-204
Oman	+1,012	+811	-201	+797	-14
Russia	+10,512	+9,574	-938	+9,384	-190
Sudan	+97	+58	-39	+19	-39
South Sudan	+125	+100	-25	+136	+36
			Subtotal		Subtotal
			-1,931		-467
			Total		Total
			-2,663		-786

Source: OPEC, TrendMacro calculations

getting crude oil through the Caspian Pipeline Consortium to the Russian port of Novorossiysk on the Black Sea. Azerbaijan, Mexico, and Malaysia, however, cannot meet their quotas, which will probably be tightened in 2027 when an OPEC-led study will try to establish new production quotas based on actual productive capacity.

- The bottom line is that non-OPEC members of OPEC+ will find it difficult to add 500,000 barrels per day in incremental production. We think that remaining original OPEC members will be able to increase their production to match or exceed quotas. Saudi Arabia, the UAE and Iraq have significant spare capacity, but *all* OPEC members are more concerned about prices rather than market share within the group (see "Market Share for Cannibals" June 8, 2015 and "Just What We Didn't Need: An Oil Price War" March 8, 2020).
- Iran, Libya and Venezuela are sizeable OPEC producers that have not consistently participated in the OPEC+ production quotas since their 2016 inception. Their production matters (please see the chart below).

Oil production (million barrels per day)



Source: OPEC, TrendMacro calculations

- Iran's production declined by almost 2 million barrels per day after Trump reimposed snap-back sanctions in 2018 and pulled the US out of the Joint Comprehensive Plan of Action orchestrated by Obama's Iranian Nuclear Deal (see "Iran Deal: More Fire, More Fury, Pure Trump" May 9, 2018). Biden, who subsequently didn't enforce sanctions on Iran, saw production rise by almost 1.4 million barrels during his presidency. In Trump's second term, sanctions were added in February and May, but production has not significantly fallen. Now November's newest US State Department action targets forty individuals, entities and vessels in Iran's global energy exports. Seaborne export volumes could be reduced by a million barrels going forward.
- Libya claims it could push crude oil production to 1.6 million barrels per day next year and higher thereafter. Currently, production is at 1.3 million barrels – the highest since the Arab Spring knocked

Muammar Gaddafi out of power. The country has experienced constant internal strife, and while it has restored production several times in the past, the situation does not support a significant increase in productive capacity.

- Venezuela – also under sanctions – saw production rise more than 300,000 barrels per day under the Biden administration when sanctions were not enforced. Currently, production is slightly under 1 million barrels versus 2 million at the start of the OPEC+ quota agreement. The current situation is volatile to say the least. But we must point out that before Hugo Chavez became president in 1999, Venezuela produced about 3 million barrels. That's a high-water mark that could be reattained theoretically, but it would take a decade of concerted effort after two decades of complete mismanagement and decay.
- It is doubtful that any of these countries will increase production over the next two years. If fact, the odds point to a decline.

The winner of a decade of OPEC+ production cuts has undoubtedly been the United States, where production increased from 8.8 to 13.8 million barrels per day.

- Crude oil production in the Americas has been surging due to technological advancements tapping into offshore and shale, and re-exploring onshore fields. Most of this growth occurred while the industry was consolidating, as wildcatters sold assets to the major oil companies. Increased US production alone has covered for OPEC+'s decline over the past decade with barrels left over to meet rising incremental demand.
- While we have doubts about Brazil's projection to increase production to 7 million barrels per day by 2029, the country has added 1.5 million barrels since the OPEC+ quota agreement. Brazil amended its 2022 decision to raise local content requirements when President Lula took office, and recently allowed a more flexible regulatory regime that should help boost production going forward.
- Canadian production has increased from 3.8 million barrels per day in 2016 to an estimated 4.7 million barrels in 2025 (not including condensates, natural gas liquids, and pentane plus). There are uncertainties concerning renegotiation of the US-Canada-Mexico trade agreement next year, and limited export capacity beyond the United States. There have been hyped-up stories in the media about new prime minister Mark Carney liberalizing oil production in Alberta and transport by a new pipeline to British Columbia from which it could be shipped to Asia. We'll believe it when we see it. Just yesterday parliament voted down approval for the pipeline.
- Argentina is experiencing a shale revolution in its Vaca Muerta play and has seen production rise from half a million in 2016 to over 800,000 barrels per day in 2025. There are ample oil reserves in the ground to push production to 1.3 million barrels as long as pipelines to the Vaca Muerta are built as planned.
- The current star of the region is Guyana, which had no production at all when the original OPEC+ agreement was signed in 2016.

Located next to Venezuela, it is expected to reach 900,000 barrels per day by the end of the year on its way to 1.3 million barrels by 2027.

- The biggest difference between 2016 and 2025 in the Americas is that most incremental production will be from major international oil companies, not wildcatters seeking to amp up production to get bought by majors. The majors will keep a close eye on crude oil prices to regulate production.

The Americas' liquid supply increase over the decade not only covered for the 7 million barrels per day of incremental global demand (96.96 to 104.1 million barrels), but also partially offset the 2.6 million barrels decline of OPEC+ production. And global liquids inventories are basically where they were when OPEC+ started back in 2016. An increase in global natural gas liquids production closed the gap fully.

Does that mean that the OPEC+ expanded cartel was all for naught? No. Remember that Saudi cobbled together non-OPEC crude oil producing partners to curtail production after prices fell from $67.77 in 2015 to $27.88 in 2016. Crude oil prices had been above $100 from 2011 to 2014, after the world exited the Great Recession. While not taking a victory lap, OPEC+ pushed crude oil prices above $50 in 2017. Crude oil prices briefly traded above $100 – well above – right after Russia invaded Ukraine in 2022. Brent is averaging slightly less than $70 in 2025 – lower than the $71 mark after exiting the pandemic in 2021. But output – for now – is stable with plenty of spare capacity to increase supply. Going forward, OPEC+ will need to stay vigilant and adjust production as American technology goes global and taps into more Vaca Muertas around the world.

Bottom line

Our call as the year began for Brent to trade in a range between $60 and $80 was almost perfect. The problem is it fell to the bottom of the range and has been languishing. So we were wrong to expect that energy stocks would outperform the broader market, with the notable exception of refiners. Now sentiment for oil is probably at unsustainably pessimistic levels, with unrealistic expectations both for slow demand growth and for excessive supply growth. The abandonment worldwide of dreams for a battery-electric fleet, the rolling back of US fuel efficiency requirements and diesel appetite from hyperscaler datacenters will surely cause demand to surprise on the upside. Outside the Americas, there is little feasible opportunity for supply growth other than the spare capacity in a few OPEC nations who have little incentive to see lower prices. We reiterate our forecast for a $60 to $80 trading range, which from here, is tantamount to calling the bottom.