Investec Treasury
Commodities

Oil Hedging Considerations for 2026

9th January 2026

Testing Lower

2025 was a soft year for oil markets, punctuated by rallies on geopolitical risks, mainly stemming from the Iran-Israel conflict. Many analysts warned of the risks of oversupply from growing US and South American output versus weak Chinese demand growth. Speculators positioned themselves accordingly.

Remarkably, against this largely bearish backdrop, OPEC+ members were able to accelerate their unwind of additional voluntary cuts without unnerving markets. This was helped by one of the enduring paradoxes of 2025: the front end of the curve remaining in backwardation (downward sloping) indicting tightness, while analysts counting overall barrels, found the market to be well-supplied. The answer appeared to be a combination of sanctions and storage. Unwanted sanctioned barrels in the market tended to find their way into storage in China which has been busy building up its strategic reserves, while benchmarks such as Brent and WTI reference more sought after barrels that are not subject to sanctions, experienced tightness that manifested itself in downward sloping forward curves.

In practice though, it was mainly Saudi Arabia that was unwinding cuts as a number of other members had never complied enthusiastically with them in the first place and so had nothing to unwind. Towards the end of 2025 though, the UAE, Kazakhstan and Iraq, increased output further and the oversupply in the market became more board based, pushing Brent to the low 60s $/b with dips even lower..

At the start of 2026, the market is confronted with an even more complex and entangled set of geopolitical risks. Will it be oversupply risks or geopolitical risks that prevail in influencing markets this year?

Brent Front Contract

ource: Investec, Bloomberg

Global Oil Demand

Electrification of road transport is slowing down? Not in China.

Much of the history of growth in the oil industry since the internal combustion engine was first invested, has been driven by road transport demand growth. Currently, this sector accounts for around half of all oil demand. As overall oil demand in Europe and the US plateaued and decoupled from economic growth, other regions have picked up the baton of driving oil demand over the last 10 years or so. China has been a particularly important element of this growth and road transport has been a major component of that, especially as industrial demand for oil in China has been replaced by other fuels. Electric Vehicles present a major threat to Chinese oil demand as half of new cars sold in China are now full EVs or hybrid.

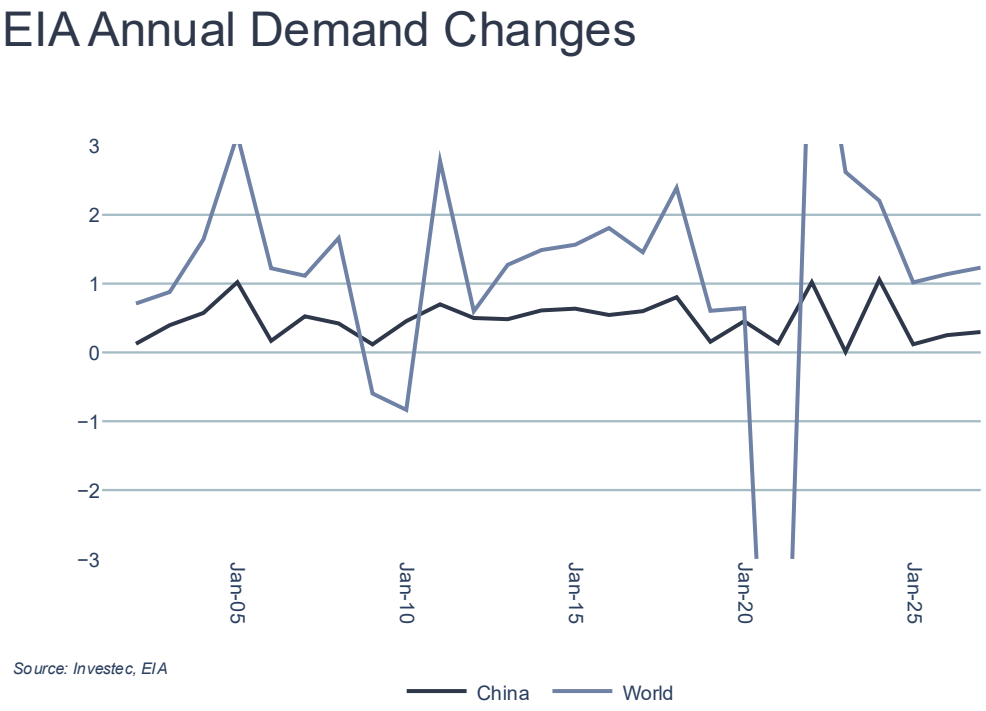
As of June 2025, there were over 300 million cars on the road in China and around 7% were full EVs, 3% were hybrid[1]. Whereas EVs have historically been more expensive to buy than ICE based vehicles, Chinese EVs are increasingly cost competitive with ICE vehicles up-front, without taking into account lower running costs. While the EU and USA have introduced various measures to try and protect their domestic production (of EV and ICE cars) from cheap Chinese EVs, they are being embraced elsewhere in the world. The top export destinations for Chinese EVs in late 2025 were reported to be Mexico, Indonesia and Thailand[2]. In view of their batteries, EV's are a good fit for counties with high levels of intermittent renewable generation, especially those with reasonably consistent day lengths throughout the year that benefit from solar generation. The combination of falling upfront costs and the ability to integrate EVs into the power generation infrastructure, can increase their competitive advantages over ICEs as well as increasing energy security. This could be a powerful trend that may continue to challenge oil demand assumptions in the years ahead.

[1] Source: https://carnewschina.com/2025/07/21/report-china-ev-market-situation-in-first-half-of-2025/
[2] Source: https://www.carscoops.com/2025/12/chinese-ev-exports-nearly-doubled-in-november/

Chinese demand continues to show signs of peeking

In its first monthly report of 2025, The International Energy Agency (IEA) forecast that Chinese oil consumption would grow from an average of 16.6 mb/d in 2024, to an average of 16.8 mb/d in 2024 – an increase of 400 kb/d. In its final report of 2025, that forecast increase was pared back to an increase of only 100 kb/d. As we start 2026, the IEA's outlook on Chinese demand is for a further 200 kb/d on average this year, above the average for 2025.The US Energy Information Administration (EIA) has a similar view.

Before the gyrations around covid, China had typically been adding 500 kb/d of demand each year, which was a very significant contribution to overall demand growth – it seems those days are over.

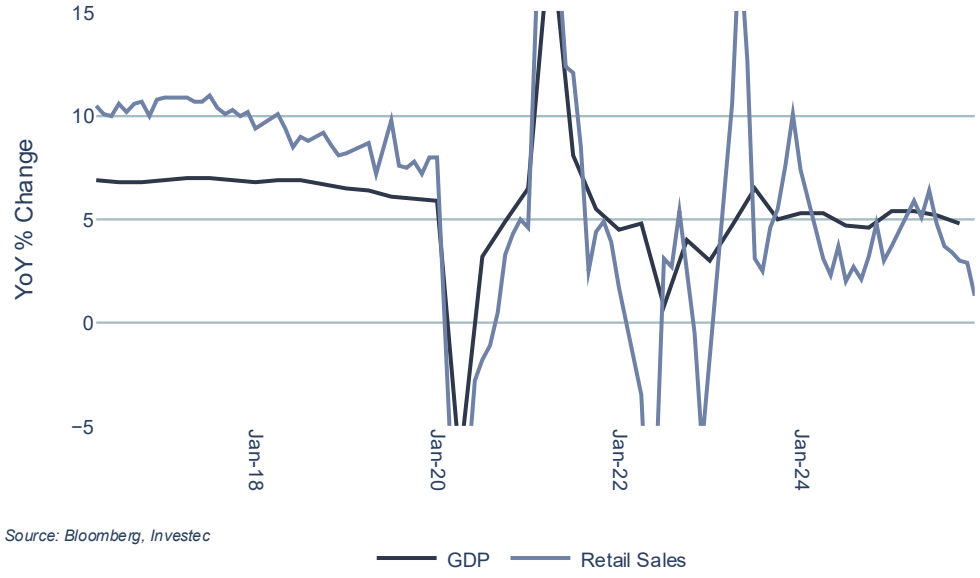


Source: Investec, EIA

A moderating domestic economy continues to limit demand

Oil demand growth in China is not just being inhibited by a trend towards the electrification of road transport. While GDP growth looks to be stabilising at 5%, retail sales growth has slumped pointing to a weak domestic economy and a continued reliance on exports to fuel growth. As industry has moved away from oil as a source of energy, oil demand growth is increasingly linked to the domestic economy, which is a headwind for oil demand in China.

China GDP and Retail Sales



Source: Bloomberg, Investec

This weakness is underlined by the property market, residential and commercial, which is continuing to struggle.

China Property Sales

Source: Bloomberg, Investec

Demand growth to weaken in the Middle East in the years ahead?

While the Middle East is of course viewed mainly as an oil producing region, it is a disproportionately large consumer of oil, accounting for almost 10% of world demand. Saudi Arbia, for example, consumes oil equivalent to around a third of its own production. Its per capita consumption is very high as it has strong electricity demand for desalination to produce fresh water (there are no permanent rivers in Saudi Arabia) and for air conditioning. Because of the availability of domestic oil, it is still the main source of electricity generation. This is changing, however, as there is now significant investment in solar, batteries and gas generation. Reducing oil demand for power generation can make more oil to available to international markets than would otherwise have been the case. Given that OPEC+ targets are based on production rather than exports, there is a clear incentive for member countries to use less oil domestically so that they can increase export revenues without breaching production limits.

Other Countries to pick up the slack?

With no demand growth expected in North America and Europe in 2026 and only a little in China and the Middle East, most growth is expected to come from non-OECD Asia excluding China.

Global Oil Demand in 2026

Out of the EIA, IEA and OPEC, OPEC has the most bullish demand forecast and also has a much stronger view on demand on 2025 demand and hence sees the market being tight . The IEA and EIA are in fairly close agreement in 2025 as a baseline for demand, but the EIA is a little more optimistic on growth in 2026.

World demand forecasts

Global demand forecasts (mb/d)

Commodity	2025	2026	Change
EIA[3]	104.0	105.2	+1.2
OPEC[4]	105.1	106.5	+1.4
IEA[5]	103.9	104.8	+0.9
Average	103.2	104.5	+1.3

[3] EIA Short Term Energy Outlook: https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf
[4] OPEC Oil Market Monthly Report: https://momr.opec.org/pdf-download/
[5] EIA Monthly Oil Market Report: https://www.iea.org/reports/oil-market-report-december-2025

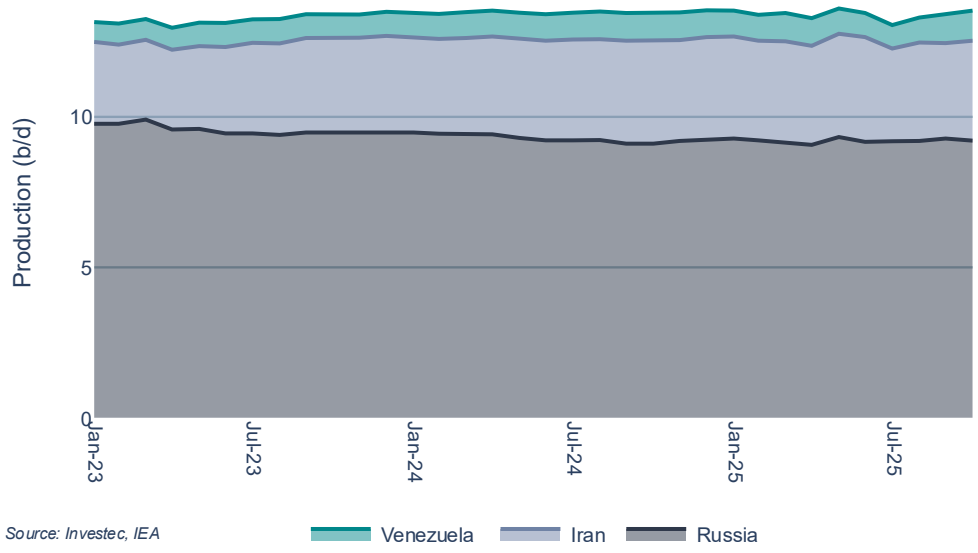
Global Oil Supply

Geopolitical tensions were a major preoccupation for oil markets in 2025 and these themes continue this year. In June, for a while, it looked as if the US might become actively embroiled in the Israel-Iran conflict which sent Brent over 80 $/b as the market worried about the possibility of disruption to shipping out of the Arbian Gulf through the strait of Hormuz. In the end, US involvement was limited to bombing Iranian nuclear installations and the conflict fizzled out soon after. Currently, the market is watching developments in Venezuela closely, but this is a relatively small producer, it has nothing like the same potential impact on oil markets as disruption in the Middle East.

Sanctioned Oil

Output from Russia, Venezuela and Iran amounts to over 10% of world supply, but is subject to a range of sanctions. Some of this is used domestically in the producing countries, but a significant amount finds its way onto world markets. Russia has a bona fide route to market subject to a price cap.

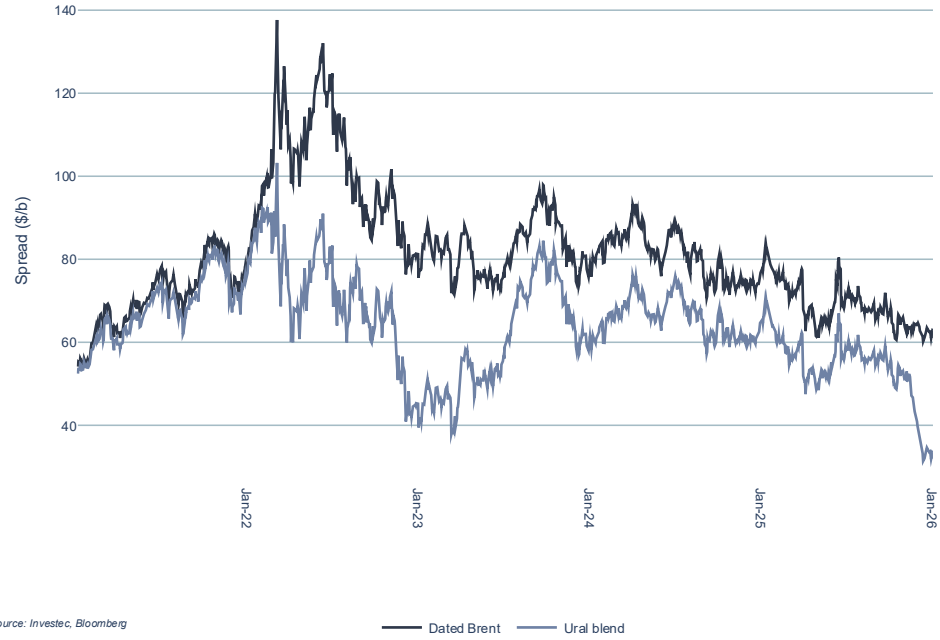
Sanctioned Production



Source: Investec, IEA

Iran and Venezuela rely on an elaborate system of *shadow* vessels. Russia has also built up a significant shadow fleet to avoid being limited by the price cap. None of this has had much impact on output from these producers over the last few years, but it has had an impact on the prices they have been able to sell at, particularly since the US has clamped down on buyers.

Russian Urals versus Brent



Source: Investec, Bloomberg

In October, the US announced sanctions targeting oil companies Lukoil and Rosneft amid Trump's frustration with President Putin over his failure to make progress on ending the war in Ukraine: "Given President Putin's refusal to end this senseless war, Treasury is sanctioning Russia's two largest oil companies that fund the Kremlin's war machine" Treasury Secretary Scott Bessent said in a statement. This increased the difficulty for refiners in buying oil from these producers. The US is also increasingly taking steps against the shadow fleet of vessels transporting Russian, Iranian and Venezuelan oil, most dramatically, with the recent seizure of a tanker near Iceland in spite of it apparently being escorted by Russian naval assets.

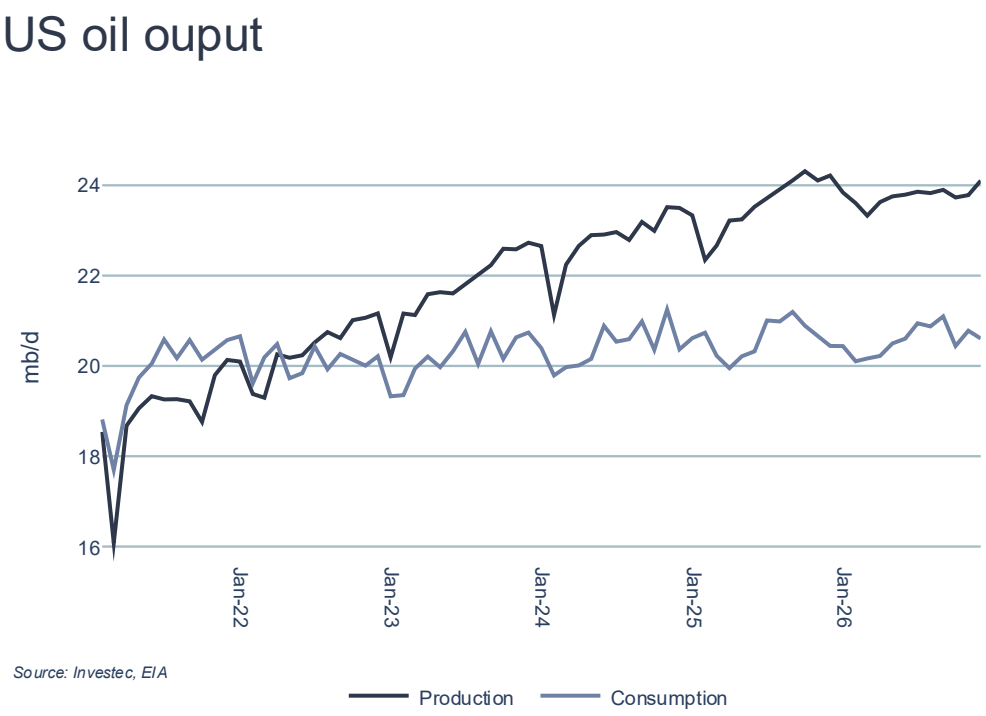
This week, Trump has called for military spending to be increased to be increased by around 50% in 2027 to $1.5 trillion. He has also proposed that US defence companies should be prevented from paying dividends and buying back shares, to ensure that all of their earnings are reinvested in increasing US military capabilities. This could point to an even more interventionist approach going forwards which might involve a greater focus on shadow fleet vessels which could be disruptive for oil markets.

Geopolitical risk

2025 featured the classic geo-political risk for oil markets – a conflict in the Middle East that threatened the flow of oil out of the Arabian Gulf via the Straight of Hormuz. While that risk has substantially dissipated, potential sources of instability remain. Iran is experiencing rising protests against its rulers (which Trump has said will be protected by the US), Saudi Arabia has carried out airstrikes in Yemen against a movement backed by fellow OPEC member the UAE, tensions between the new Syrian government and Kurdish forces are rising and the situation in Gaza is far from resolved. The war in Ukraine drags on into its fourth year and Ukraine has become increasingly adept at striking Russian oil infrastructure, increasingly including shipping. Most recently, the US intervention in Venezuela has raised the prospect of a more active approach by the US more generally, especially targeting the shipping of sanctioned crude.

US Supply

Just as China is slowing down as a key driver of demand growth, the US slowing down as a driver of supply growth.



The EIA expects only very small increase in US output next year of 160 kb/d

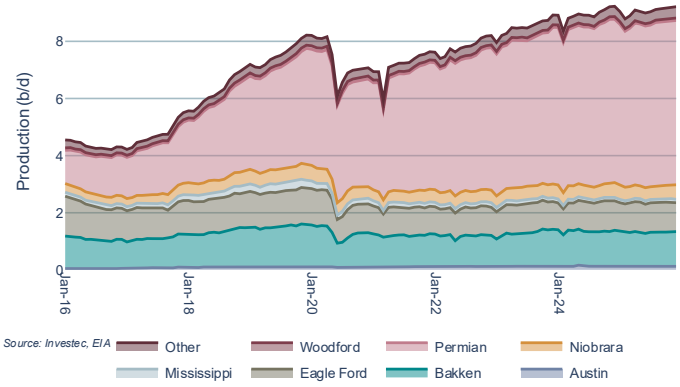
Year	Average Output[6]	Change
2022	20.39	+1.37
2023	21.98	+1.59
2024	22.84	+0.87
2025	23.60	+0.76
2026	23.77	+0.16

The IEA has similarly modest expectations.

[6] IEA data browser: https://www.eia.gov/outlooks/steo/data/browser/#/?v=7&f=A&s=0&ctype=linechart&maptype=0

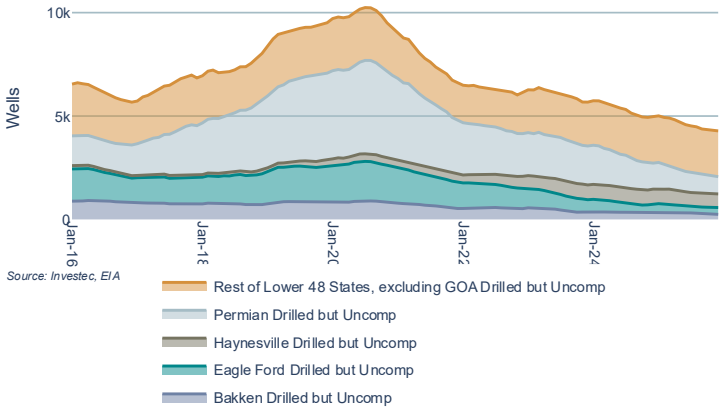
The chart below shows that even in the Permian, the most prolific shale producing regions of the US with the most productive wells, production growth has stalled. Shale well output tends to decline by more than half in the first year of operation, meaning that constant drilling of new wells is needed to maintain output.

US Tight Oil Production By Region



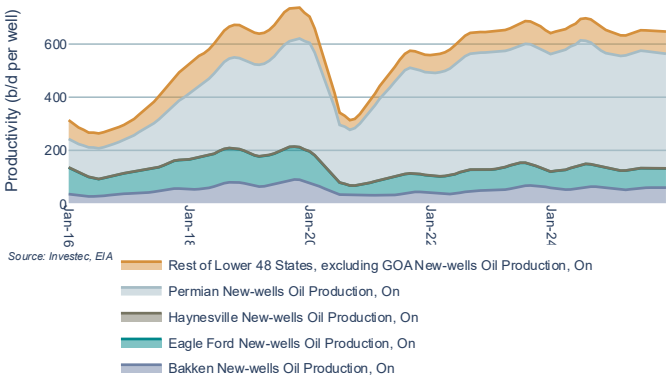
Also, the number of wells that have been drilled, but not yet put into production, has continued to decline.

Drilled but uncompleted Wells

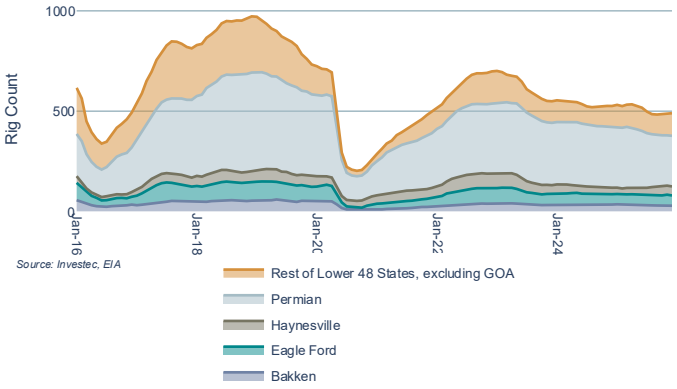


This could suggest that high production per well in the Permian is being, to some extent, maintained by picking the better wells from those already drilled to put into production, but this cannot go on forever and the number of uncompleted wells is in the Permian is dwindling.

Productivity of new wells



Shale Drilling Activity by Region



US output in the Gulf of Mexico output is not expected to increase materially this year.

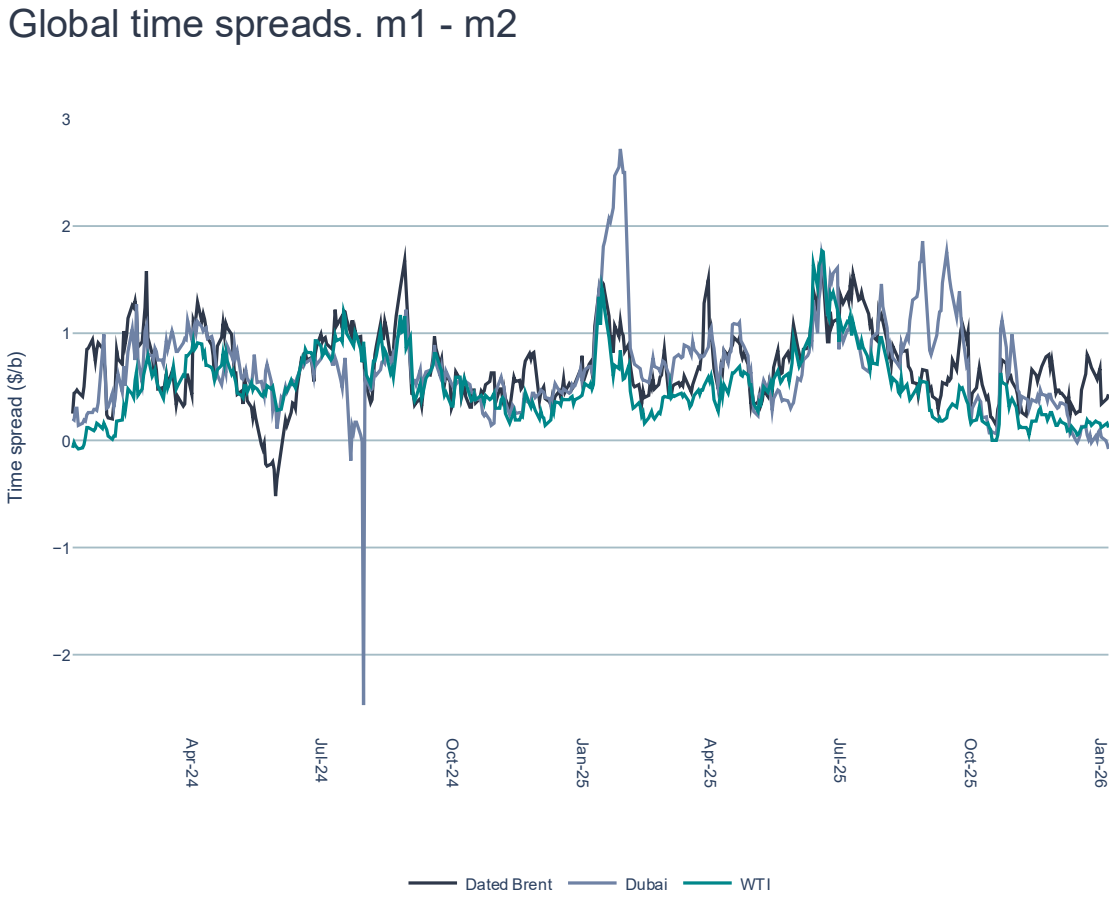
Latin American Supply

Central and South America is emerging as a key area of oil supply growth. The IEA estimates that non-OECD, non-OPEC member country growth in the Americas (such as Argentina, Brazil, Guyana) is set to grow by 400 kb/d in 2026 to reach 7.4 mb/d.

One country that is unlikely to increase output significantly this year is Venezuela. The IEA reported that Venezuela produced 860 kb/d in November, accounting for around 0.8% of world demand. In 2015, production was as high as 2.5mb/d or 2.7% of demand at that time. The precipitous decline in output, was due to years of under investment as a result of economic crisis and sanctions that increased following the 2018 presidential elections. While Venezuela does have the potential to increase production in the future, that will be a long-term project requiring sustained and significant investment that will take time to bear fruits.

OPEC+ Supply

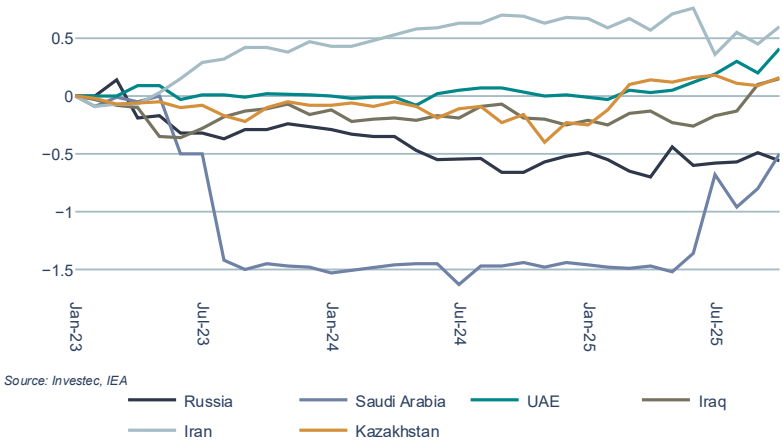
Throughout 2025, OPEC+ policy has been to take advantage of demand for its barrels to unwind additional voluntary cuts which Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman, signed up to in 2023 in two packages of 2.2 and 1.65 mb/d. Though prices softened throughout much of last year, OPEC+ press releases form monthly meetings, continued to talk about “healthy market fundamentals” and so the unwind of the 2.2 mb/d tranche of cuts was accelerated and completed. This is likely to have been because the forward curve continued to be backwardated – forward prices below spot prices – which indicates markets are tight and is favourable for OPEC+ producers that sell at spot prices. Towards the end of the year spreads weakened, especially for Dubai crude and OPEC+ halted unwinds of the second tranche of cuts, at least until the end of March 26.



Source: Investec, Bloomberg

Notwithstanding the commitments made by those eight participants in additional cuts, the chart below shows that not only did the UAE, Iran and Kazakhstan, not actually put through much in the way of cuts in 2023 as required by their commitments, but are now producing more than they did before those additional cuts came into force. There is a compensation mechanism which is designed to address historic over-production, by under producing in the future, but this is not being enforced. Russian output did decline since 2023, but has been offset by increases from Iran which is an OPEC member, but is exempt from production limits. The only significant signatory to the additional cuts that has stuck to their commitments, is Saudi Arabia.

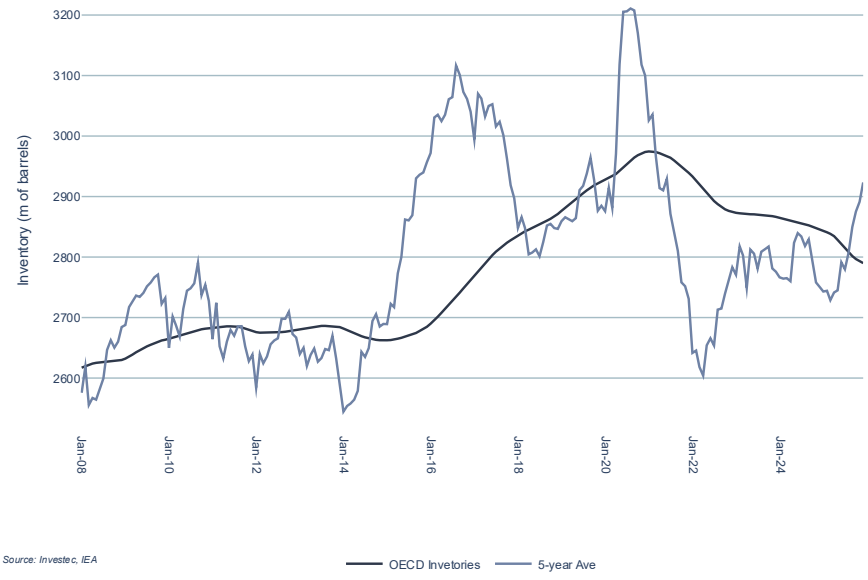
OPEC+ member production changes



Inventories and Reserve Balances

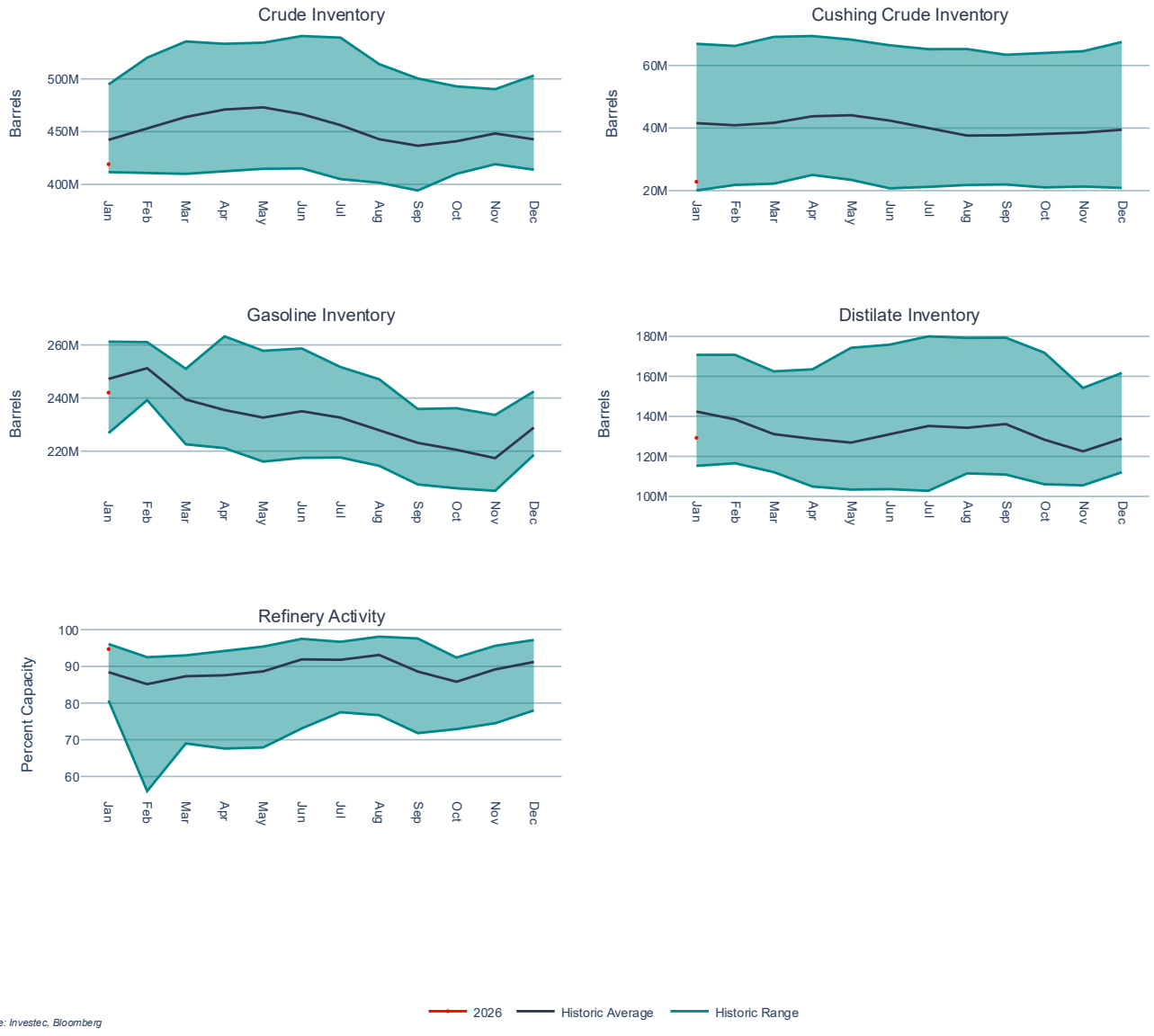
Oil markets have been concerned about over-supply for much of this year – the glut was always just around the corner in forecasts, but EIA data shows that OECD balances have been building throughout the year and have now passed through the 5-year average – a metric that is known to interest OPEC. Inventories are not on the scale

OECD Commercial Inventories



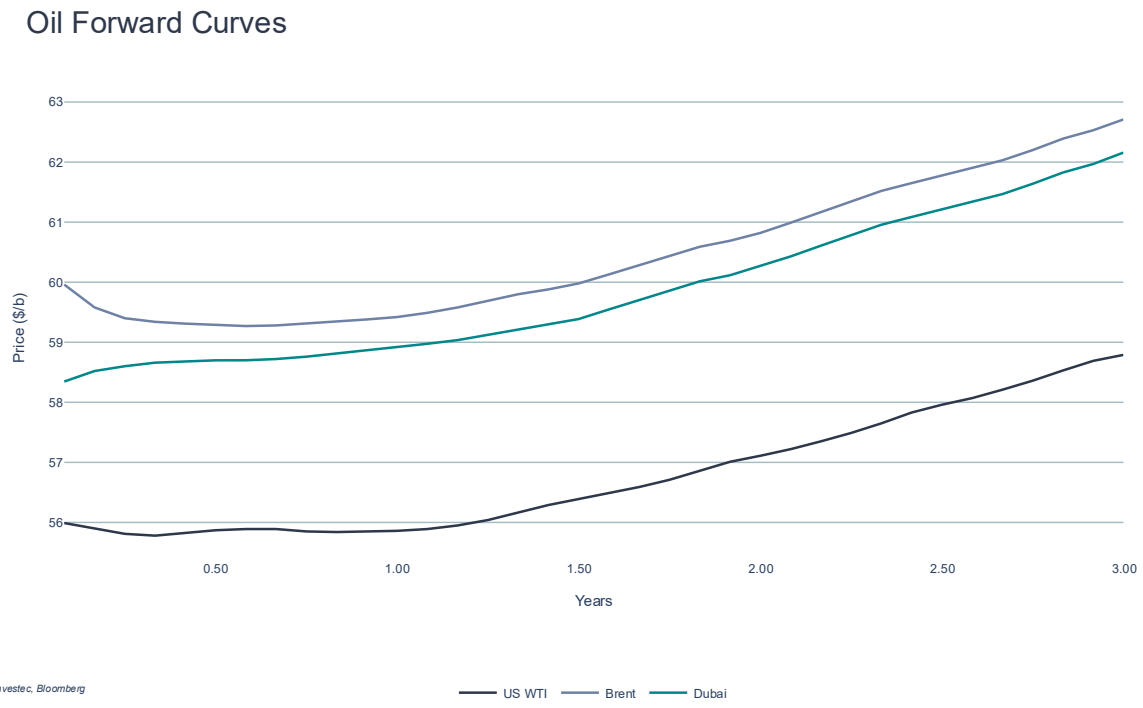
Focusing on US inventories, the picture is tight for the start of the year. The red dots in the charts below indicate current balances and show that they are bellow seasonal norms.

US Inventory and Refinery Activity Data



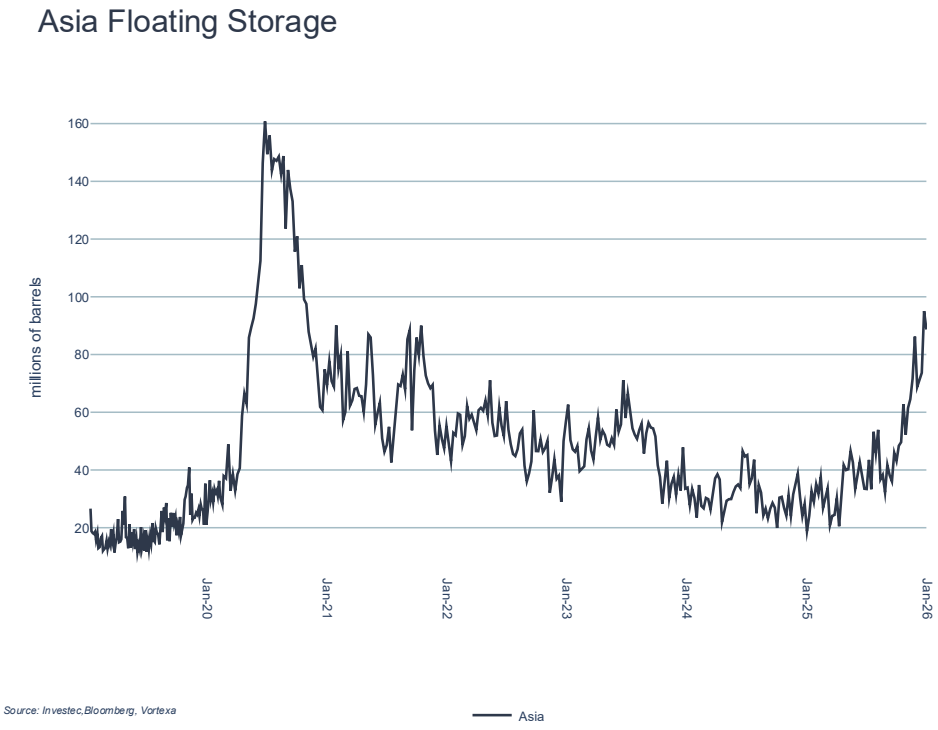
ource: Investec, Bloomberg

This is consistent with the downward sloping (backwardated) nature of the front end of the US WTI futures curves. From the middle of 2026 onwards, the curve is upward slopping to price in the cost of storing excess crude. It is a similar story for Brent, but the Dubai crude curve is upward sloping even on short dates, pointing to a well-supplied Asian market, as this is a major outlet for Middle Eastern crude.



ource: Investec, Bloomberg

The notion that Asian markets are well supplied is reenforced by high levels of floating storage in Asia….



Source: Investec,Bloomberg, Vortexa

…and a weakening the prices at which Saudi Arabia is able to sell its crude as spreads to benchmarks

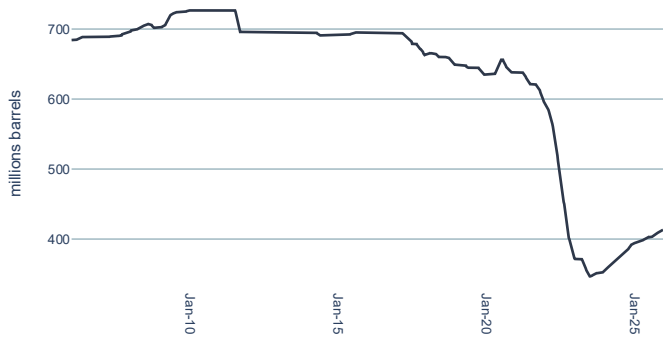
Saudi Offical Selling Prices (OSPs)

Source: Investec, Bloomberg

US Reserve Activity

There has been some restocking of the US strategic reserve, but it is still a very long way off making up for the release of reserves after the Ukraine war started. This means there is limited scope for reserve releases in the future, but also a potential bid in the market if prices fall further.

US Strategic Petroleum Reserve

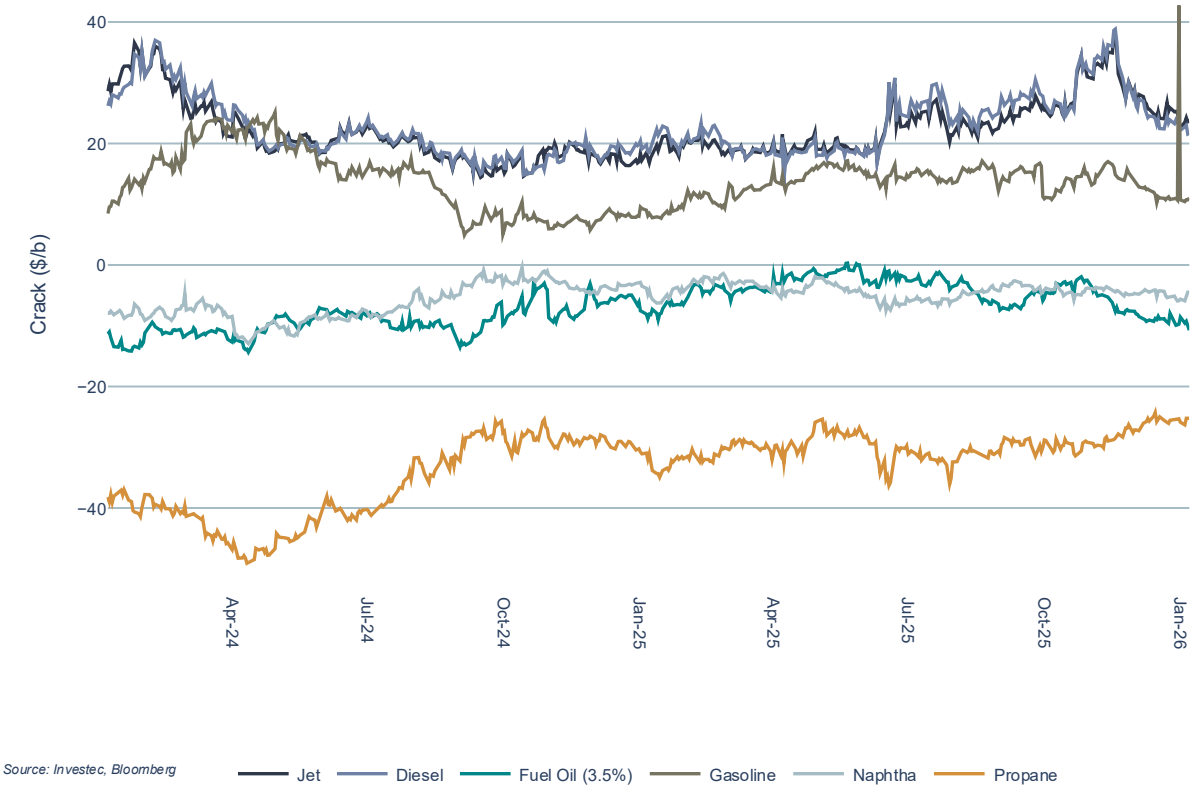


Source: Investec, EIA

Oil and Refined Products

Just like in 2024, crack spreads were again influenced by geopolitics and in particular by increasing efforts in late 2025 to rein in sanctioned crude. US pressure on India, hitherto a major buyer of sanctioned crude, to find alternative sources, sanctioning of vessels and refineries and the confiscation of vessels, have hampered supplies of cheap crude to refineries in Asia and Russian refined products to consumers. This has led to significant spikes in middle distillate crack spreads, that peaked in the Autumn.

European Crack Spreads



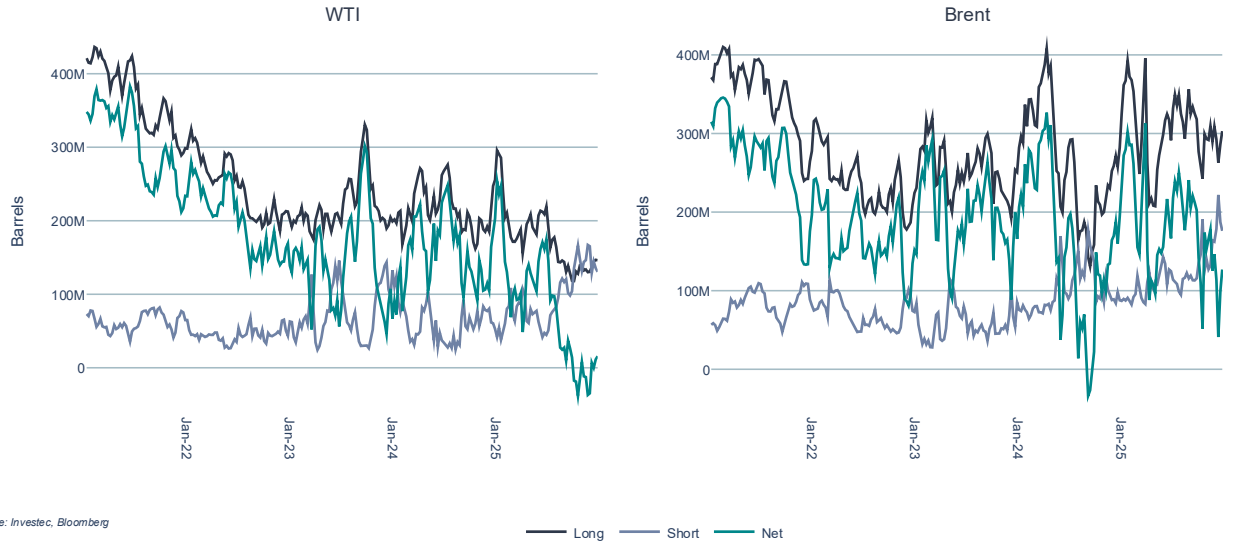
Source: Investec, Bloomberg

If there is an increased focus on cutting off sanctioned crude and disrupting the shadow fleet of tankers this year, further spikes in crack spreads, especially for middle distillates, are a possibility.

The Market

For some while, there has been a view amongst market participants, that the oil market is oversupplied. This is perhaps most clearly seen in the extent of speculative short positions on US WTI crude futures, which have an historically unusual net short position. Positioning on Brent futures is also relatively bearish.

Managed Money Positioning



ource: Investec, Bloomberg

Oil is often correlated with equities because an economic environment that is positive for equities tends also to be good for oil. During 2025 however, oil fell while equities rallied. In the case of the S&P 500, this could be explained away by the AI sector stocks that have driven index performance, not being correlated with the demand trends typically drive oil. Still, while the correlation between oil and equities does very over time, oil tends to be strongly correlated with equities during sell-offs. Consequently, one of the key risk for oil in 2026, is the possibility of a correction in tech stocks which could lead to a broader sell-off in equities.

Brent and S&P 500 scaled to the same volatility

Source: Investec, Bloomberg

The most interesting technical development for Brent was arguably the breaking of the 70 $/b support level which has been in place ever since prices recovered from the covid pandemic. Brent tested 60 $/b early in 2025 before rallying during the Iran-Israel conflict and fund support at 65 $/b into the Autumn. However, latter in the year Brent softened and has again been testing the 60 $/b area.

Brent Front Contract

ource: Investec, Bloomberg

The low of 2025 was 58.40 $/b set in the Spring. Brent came close to these levels again in December, but these have only been dips. Brent largely remained above 60, though it is teetering on the brink again currently. A more sustained break below 60 $/b, could lead to a test on the 58 $/b area, opening the way to a move down to the mid 50s – a level not seen since the summer of 2021.

On the upside, the next resistance levels are the 60, 100 and 200-day moving averages at 62.80, 64.40 and 65.90 $/b .65$/b which was a key support level in Q3-25 when Brent was trading above it and forms a resistance now Brent is below it.

Summary

The global economy has remained surprisingly resilient in view of the headwinds of tariffs and other uncertainties, but oil demand growth does not look to be particularly strong. It is not growing at all in developed markets, the pace of Chinese demand growth has slowed and other emerging economies are not providing sufficient growth to make up for that.

On the supply side, output from many OPEC+ members has been increasing at the very time they need to be demonstrating discipline. A growing oversupply is becoming more apparent in the shape of forward curves, floating storage in Asia and falling selling prices for Saudi crude. If OPEC+ production is reined in, it is more likely to be because of members like Russia are struggling to maintain output rather than through a deliberate effort to cut output. Indeed, when prices are softening the tendency of OPEC+ members is to maintain revenues by producing more.

While there is a lot of media focus on Venezuela at the moment, the direct impact is limited by the modest size of Venezuelan output and the fact that it is subject to sanctions. For benchmarks like Brent the impact will vary from bearish if the US is able to direct Venezuelan crude into US refineries, to positive if supplies are curtailed or shipped to China. Brent rallied last night when Energy Secretary Chris Wright surprised markets by saying that some Venezuelan oil would be shipped to China.

The Venezuela situation is part of a wider geopolitical puzzle that is too complex to cover here. What is clear is that there is an increasing US willingness to target sanctioned crude, including seizing vessels. The scope for confrontation at sea between, between the US and Russia especially, is increasing and Ukraine is also attacking Russian tankers. These are grounds for geopolitical risk premium in prices.

One lesson from 2025 though, is that risk premiums cannot last long without actual supply disruptions. Fundamentals always act as a restoring force to markets. As inventories build up or are depleted, the market is ultimately forced into line.

If the market is left to its own devices, the emerging surplus could persist until prices fall to a level that disincentivise production. The market has already been dipping under 60 $/b which could open the way to a test on the mid-50s $/b. This process might be accelerated were there to be a correction in equity markets.

Were the US to mount a campaign to disrupt the shadow fleet vessels, genuine shortfalls may emerge and leading to upward pressure on prices.

Appendix A – Reporting Schedules and Key Dates

IEA Oil Market Report

Publication dates in 2026 are as follows:

- Wednesday 21 January
- Thursday 12 February
- Thursday 12 March
- Tuesday 14 April – *Supply/demand forecasts will be extended to 2027*
- Wednesday 13 May
- Wednesday 17 June
- Friday 10 July
- Wednesday 12 August
- Friday 11 September
- Wednesday 14 October
- Friday 13 November
- Friday 11 December

The report is published at 09:00 London time

OPEC 2026 Meetings

7th June and late November / early December (not yet announced)

US Inventory Numbers

15:30 each London time Wednesday
(Except in weeks with a US public holidays when the release is at 4:00pm on Thursday)

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