بنك الإمارات دبي الوطني
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Oil markets to extend slump in 2026 on oversupply

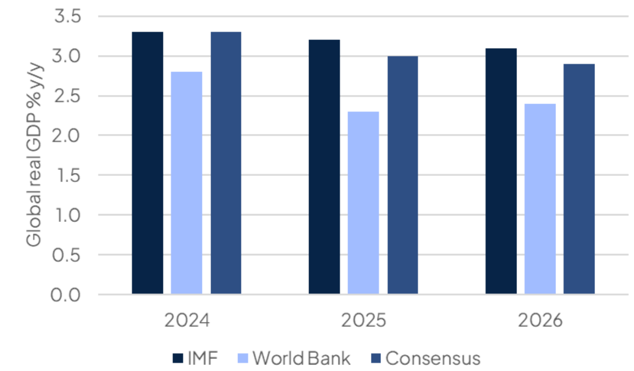
15 December 2025 – Commodities

- Oil demand growth is set to slow in line with moderate global economic activity in 2026.
- OPEC+ has unwound substantial production restraint and along with supply increases from non-OPEC+ producers, supply will overwhelm demand in 2026.
- Global inventories are forecast to build at a faster pace than during the Covid-19 pandemic, helping the market to absorb exogenous shocks.
- Prices will decline for a fourth year in a row with Brent at an average of USD 60/b and WTI at USD 55/b.

Global demand growth to slow in 2026

Oil markets enter 2026 with at best a modest outlook. The sharp recovery in oil demand prompted by the resurgence of activity post Covid is now well in the base and the drivers of oil demand in 2026 will be linked to near-term economic conditions. Projections from the IMF, World Bank and consensus among major forecasters is for global economic growth to remain positive but essentially be steady in 2026.

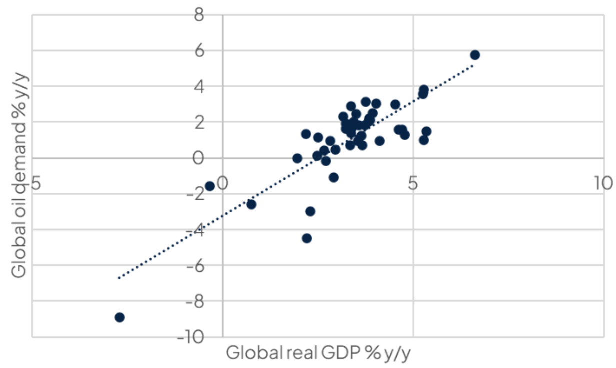
Slowing outlook for global growth



Source: Bloomberg, IMF, World Bank, Emirates NBD Research.

Oil demand growth is highly correlated to global economic activity and the lack of acceleration in headline GDP means that it would be highly unusual for oil demand to be faster in 2026 than in 2025. Sentiment about oil demand will also be highly dependent on the US and China sticking to their trade truce and a more stable global policy environment, something we are not confident will emerge in 2026.

Strong link between global growth and oil demand

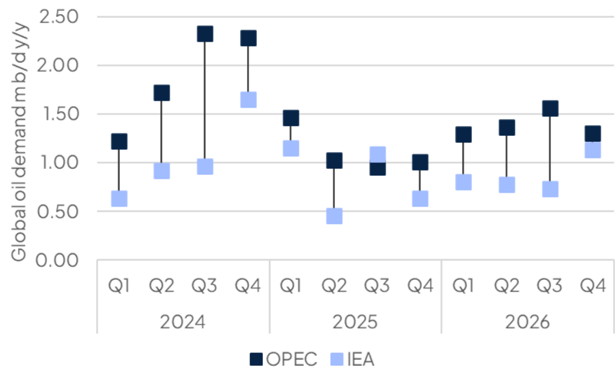


Source: Energy Institute, IMF, Emirates NBD Research.

OPEC and IEA still split on demand

Projections for global oil demand remain widely different between OPEC and the IEA. In their latest monthly forecasts, OPEC projects an acceleration in global oil demand in 2026 to 1.4m b/d with growth from both emerging market and developed economies while the IEA projects demand growth at a much slower pace of 860k b/d with OECD demand in outright decline and emerging market growth modest.

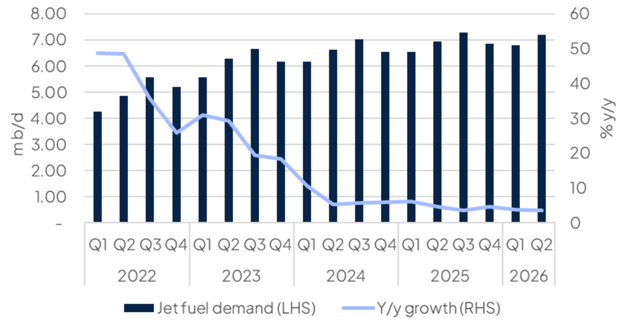
Major gap between key forecasters on demand



Source: OPEC, IEA, Emirates NBD Research. Note: December oil market reports.

Among more visible demand indicators, there will be a notable cooling in global jet fuel demand. The incremental growth in jet fuel demand had helped to push oil consumption higher in the last few years but now that growth is largely in the base. Based on planned flight schedules for 2026, global jet fuel demand will slow to growth of less than 4% y/y in H1 next year, down from an average of more than 12% annually from 2023-25.

Jet fuel demand growth to ease



Source: Bloomberg, Emirates NBD Research.

Petrochemical demand remains a long-term bright spot for oil consumption but there too consumption is linked to economic output and demand for feedstock products as a share of total oil demand remains far below transport fuels.

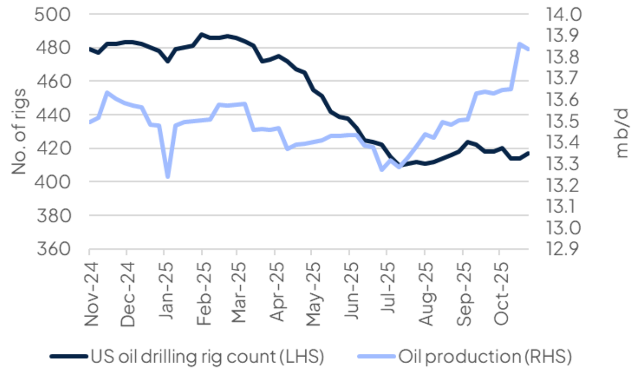
Supply growth from OPEC+ and other producers

If there are major questions on the outlook for demand in 2026, the supply picture looks much clearer. Global oil supply will record a strong year of growth as output increases from non-OPEC+ producers as well as from OPEC+ as the exporters' alliance unwinds nearly all its production restraint.

Among producers outside of OPEC+, the key contribution to supply in 2026 will come from the US, Canada, Brazil, Colombia and Guyana where total supply will increase by more than 800k b/d. This is a notable slowdown from estimates for 2025 but is still nearly as large on its own as the expected incremental increase in global demand from the IEA. The US government's Energy Information Administration has a positive outlook for supply in 2026, expecting the US to end the year at around 13.5m b/d, down from 13.6 projected for the end of 2025 but at a much higher plateau than previously expected.

Output from the US has been able to stay high even as the drilling rig count has fallen off sharply in 2025 as exploration and production firms extend lateral drilling length: according to estimates from the API, mid-way through 2025 more than 50% of wells in the productive Midland basin in Texas have laterals of more than 10,500 ft, up from only 8% at that length in 2018.

US oil output high despite lower rig count

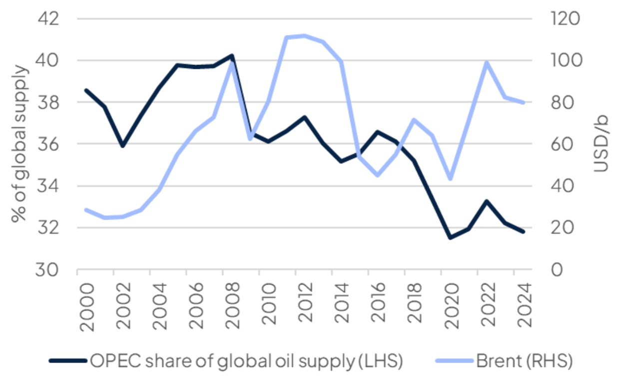


Source: Baker Hughes, EIA, Emirates NBD Research.

Even amid the resilience of production in markets like the US, Canada and Brazil and an uncertain outlook for demand, OPEC+ switched strategies in 2025 to target market share rather than prices. From April until December this year, OPEC+ has agreed to add about 2.9m b/d of production. Output targets for December 2025 have been carried forward into at least Q1 2026, pushing OPEC+ production almost 3m b/d higher y/y.

OPEC+ has shifted strategy to focus on volume rather than prices, having lost substantial market share over the last two decades. Among the OPEC members, their share of total oil supply fell to 32% in 2024, down from closer to 40% in the early 2000s. Production restraint to support prices was allowing competitors to take market share away from OPEC+ without prices managing to hold to the elevated levels needed by some OPEC+ members to maintain fiscal and external balances.

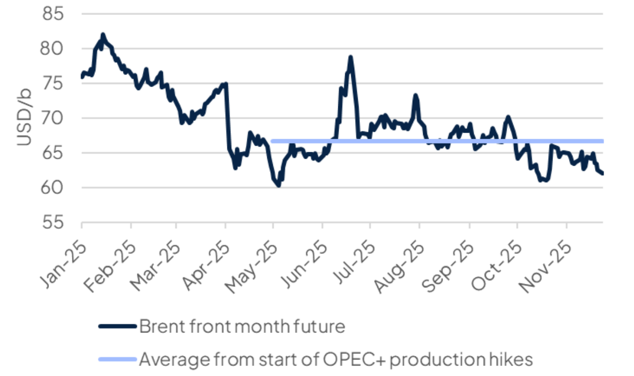
OPEC+ looking to recapture market share



Source: IEA, Emirates NBD Research.

While OPEC+ did bring its production increases to a halt for Q1 2026, we think that it is more likely than not that they will continue to raise output in 2026, particularly as price reaction in 2025 has been relatively modest to the higher output targets.

Oil prices have held to narrow range

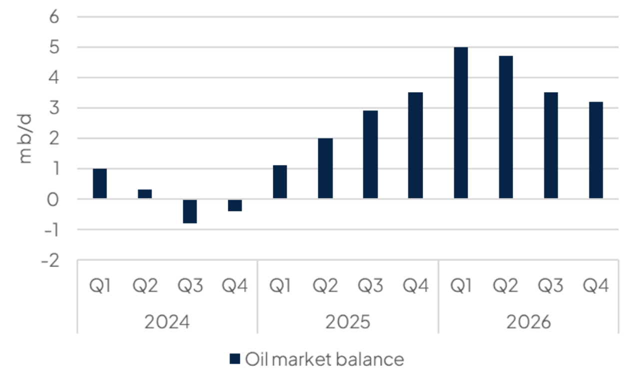


Source: Bloomberg, Emirates NBD Research.

Oil market balances to hit large surplus

With oil markets set for moderate demand growth and a surge in supply, balances will shift into a considerable surplus in 2026. Using the IEA's demand projections, oil market balances will run a surplus of 4m b/d in 2026 on average, wider than the average level endured during 2020 in the peak of the Covid-19 pandemic.

Inventories set to build in 2026



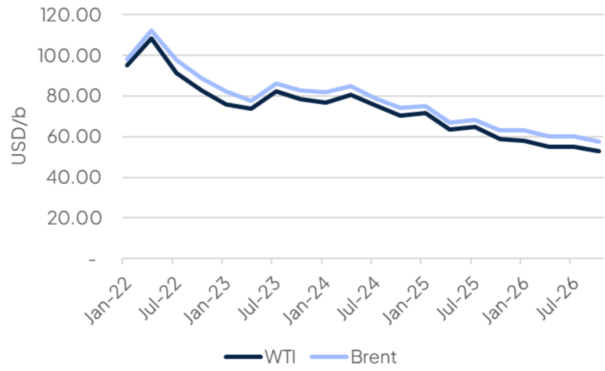
Source: IEA, Emirates NBD Research

But this projection for a major over-supply in markets is not new. Since OPEC+ changed its stance and began to rapidly unwind production restraint, the expectation from most market observers was that there would be a substantial build in stockpiles. Yet prices have been relatively stable with Brent futures trading either side of an anchor around USD 65/b, moving higher during periods of heightened geopolitical anxiety and lower when trade war fears move up the news flow. With trade tensions now embedded in the overall outlook for the global economy next year, geopolitical tensions in the Middle East moderating, and diplomacy continuing around resolving the Russia-Ukraine war, markets will need to focus on the fundamental outlook for 2026 as headline-driven upwards spikes on prices are likely to abate.

Oil prices to drop for a fourth year in a row

Oil prices will decline in 2026 with Brent recording an average of USD 60/b, down from closer to USD 68/b in 2025. For WTI we expect an average of USD 55/b in 2026, down from USD 65/b this year. That would represent the fourth year in a row of oil price declines with 2022 marking the most recent peak in prices.

Oil to extend decline in 2026



Source: Bloomberg, Emirates NBD Research.

Risks to the outlook are tilted to the downside. A deal that brings an end to the Russia-Ukraine war and sees Russia more able to freely export crude would add to global supplies in 2026 while an escalation of trade tensions between the US and China would worsen demand expectations. Upside risks are likely to be harder to predict—a new geopolitical event outside the Middle East for instance—though even so, markets have grown increasingly resilient to absorbing shocks.

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