

Outlook for International Oil Market in 2026

- Over supply and geopolitical risks -

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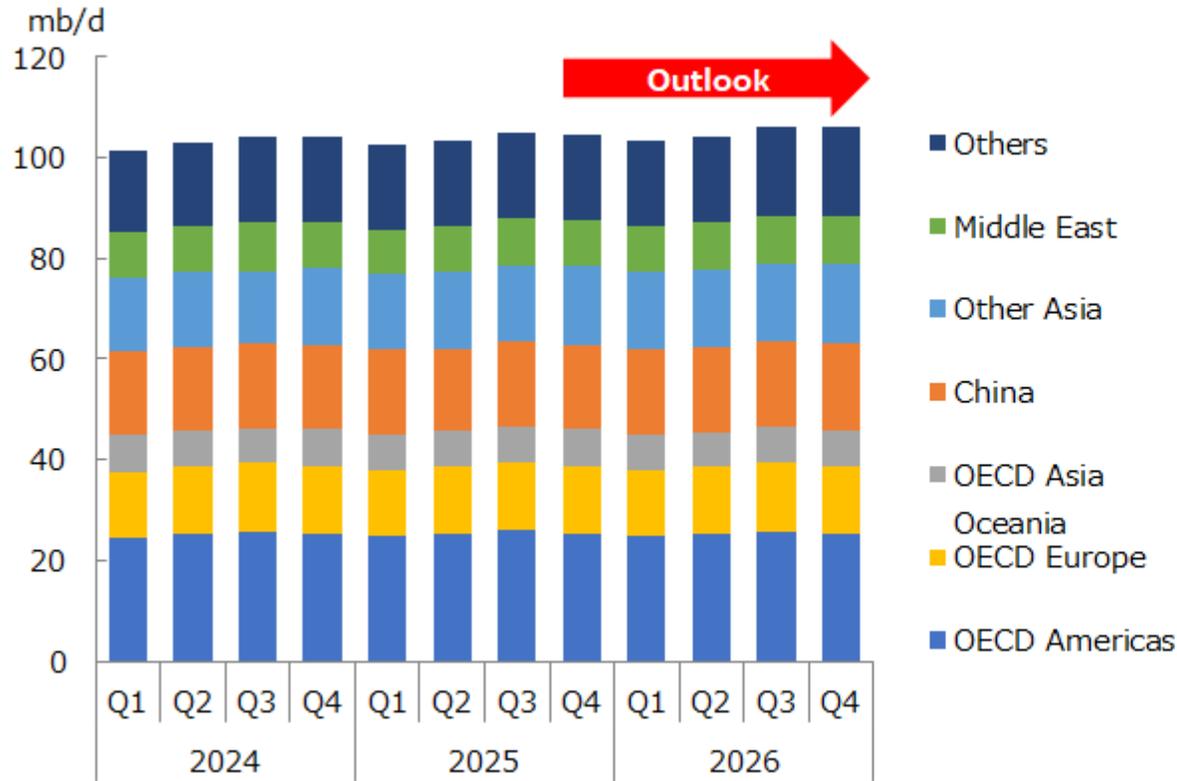
Oil, Coal, and Mineral Resources Group

Energy Security Unit

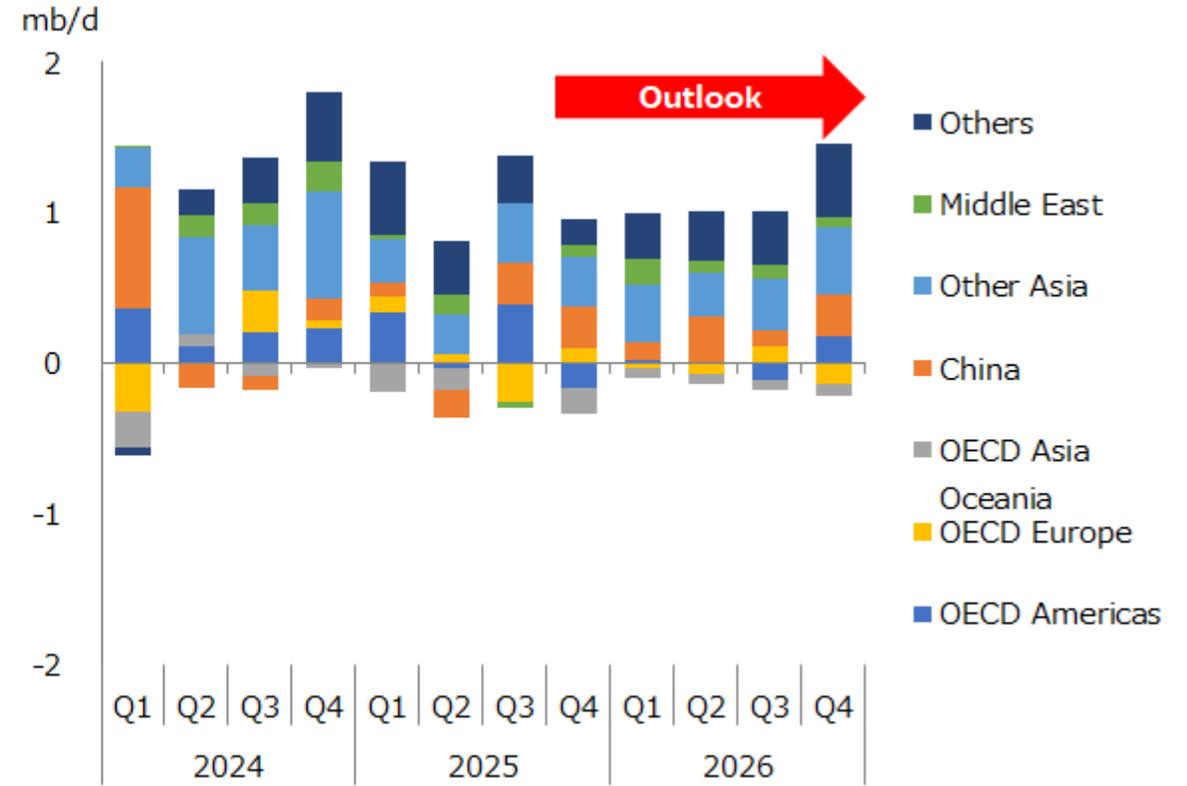
The Institute of Energy Economics, Japan

Oil demand

Demand



Changes (y/y)

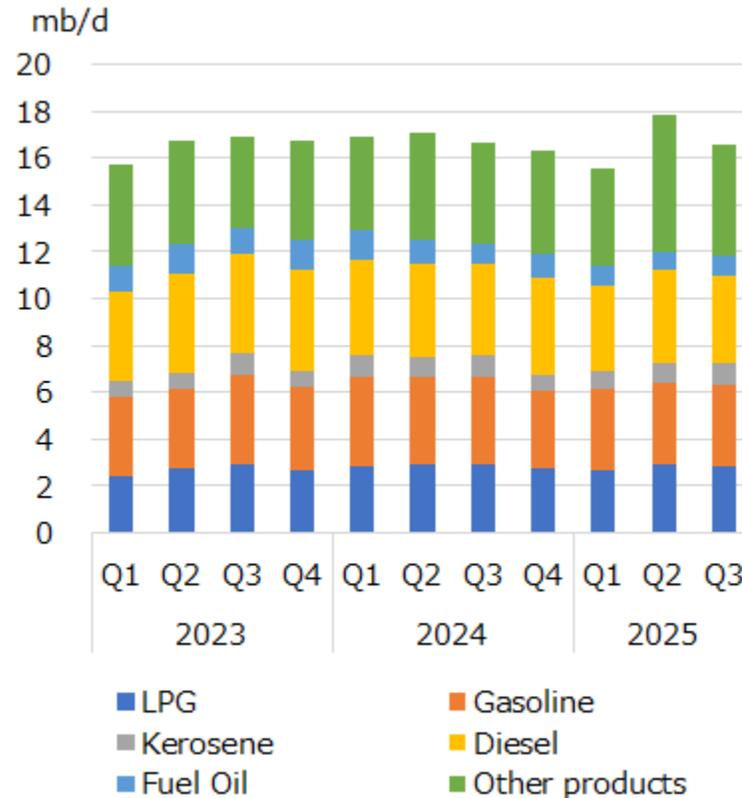


Sources: IEA, IEEJ

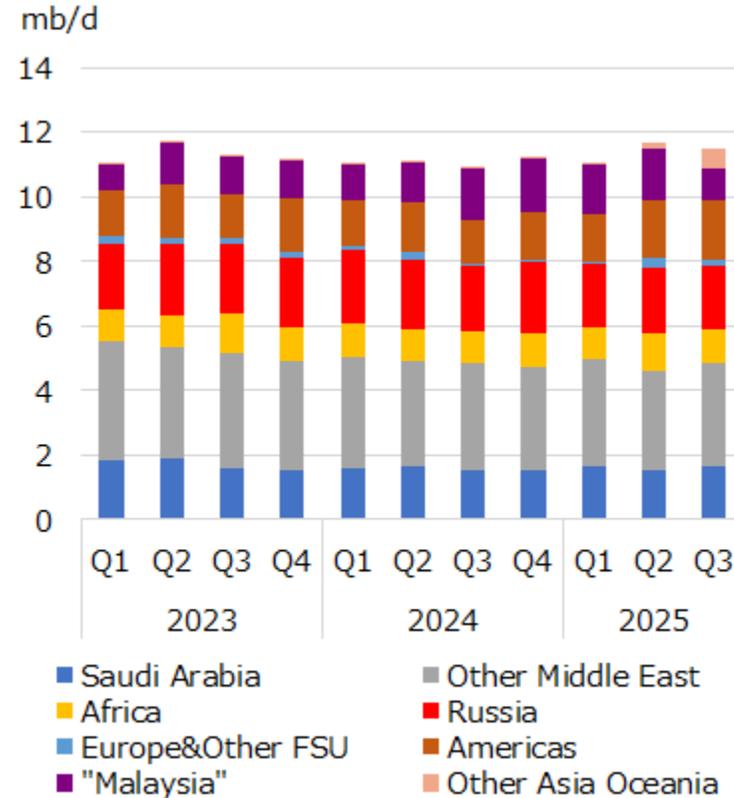
- Demand in 3Q 2025 increased by 1.1 mb/d (1.0%) y/y to 105.1 mb/d. With 0.83 mb/d growth in 2025, the demand increase is likely to slow down.
- Demand in 2026 will increase by 0.96 mb/d (0.9%) to 104.9 mb/d. China remains the major uncertainty for oil demand.

China

Demand



Import



GDP growth and stock price

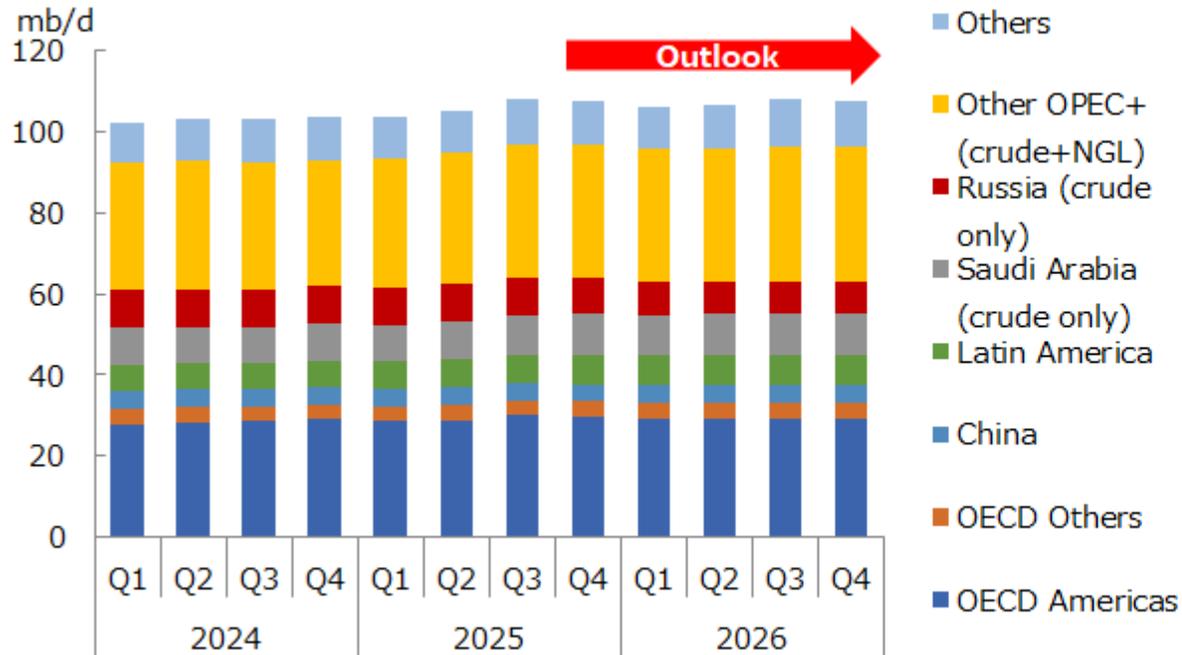


Sources: IEA, APEC, JLC

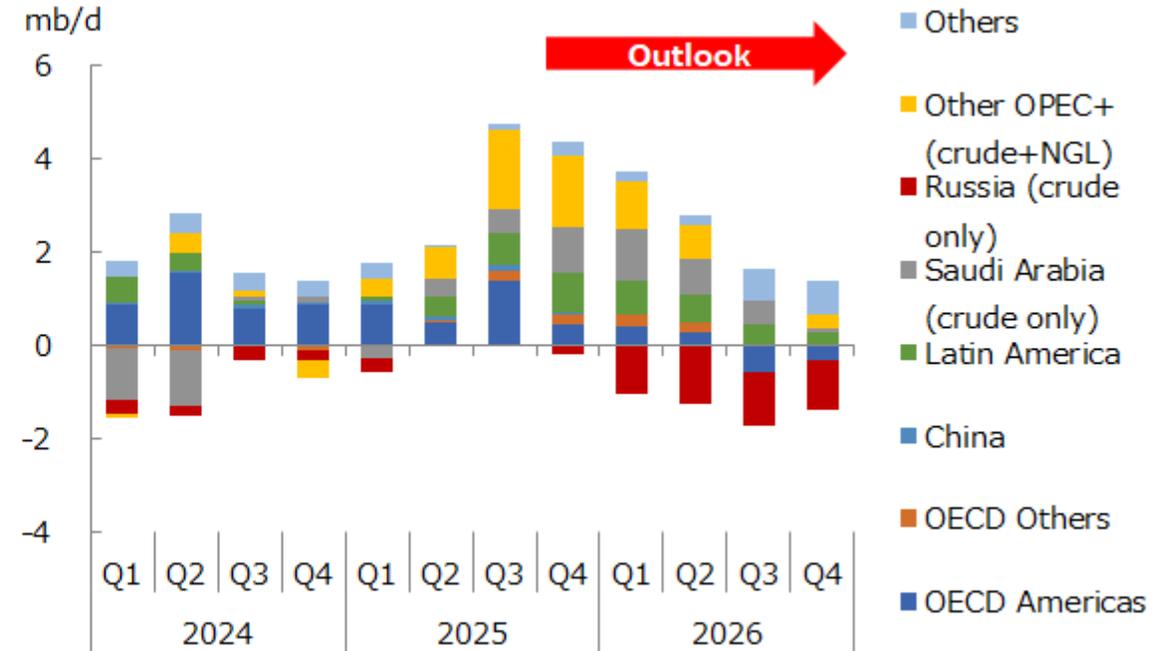
- Demand in 3Q 2025 increased by 0.28 mb/d (1.7%) to 17.09 mb/d. Steady growth, especially for petrochemicals
- Import from "Malaysia" is decreasing due to the US sanction. Russian share will be declined.
- Resurgence of the trade friction with the US could affect the oil demand in China

Oil supply

Production



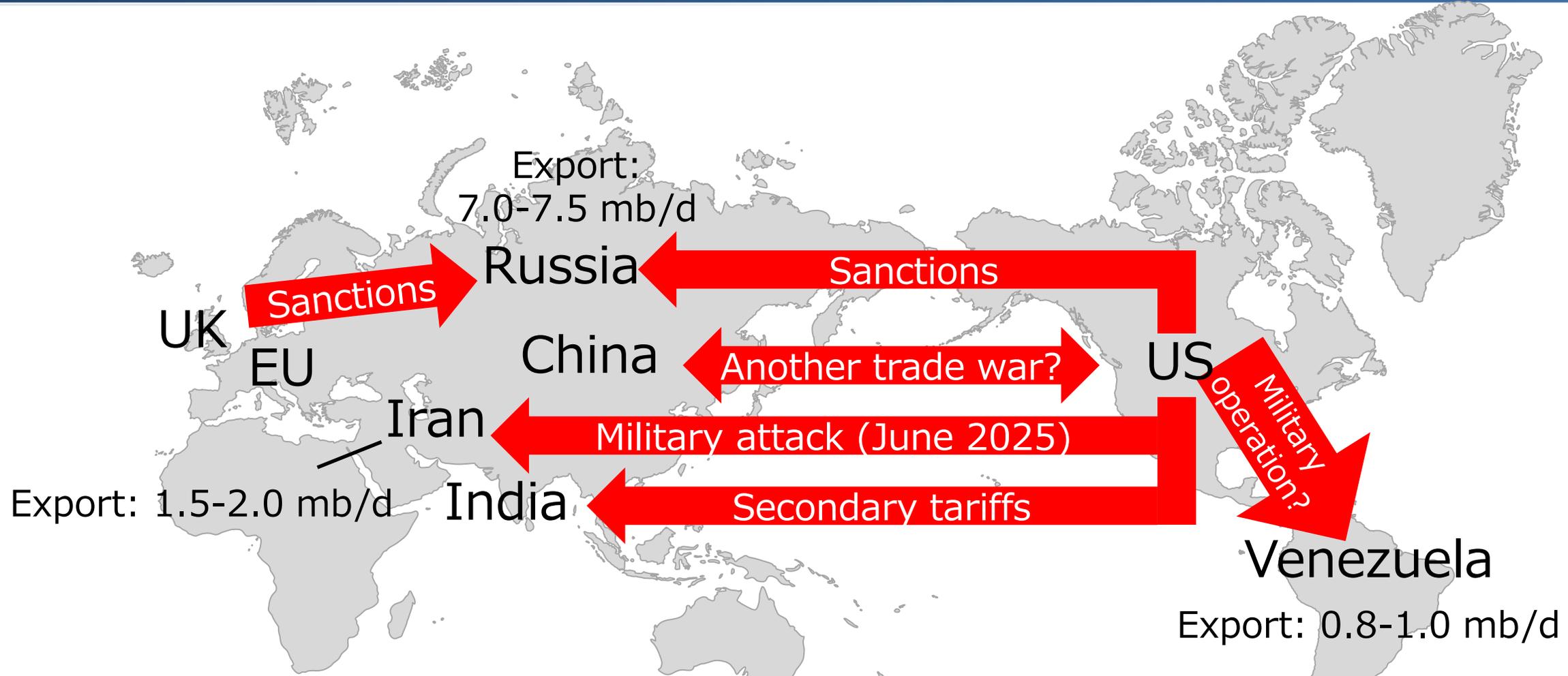
Changes (y/y)



Sources: IEA, IEEJ

- Production in 3Q 2025 increased by 4.7 mb/d (4.6%) to 108.1 mb/d. Significant increase led by both OPEC+ and non-OPEC+, especially in the Americas.
- Production in 2026 will increase by 1.0 mb/d (1.0%) to 107.2 mb/d. Production growth will continue even with the assumption that Russian production will decrease.
- Upstream oil & gas investment estimated at \$570 billion in 2025. European oil majors are rolling back decarbonization targets and increasing upstream investment.

Geopolitical risks and oil market



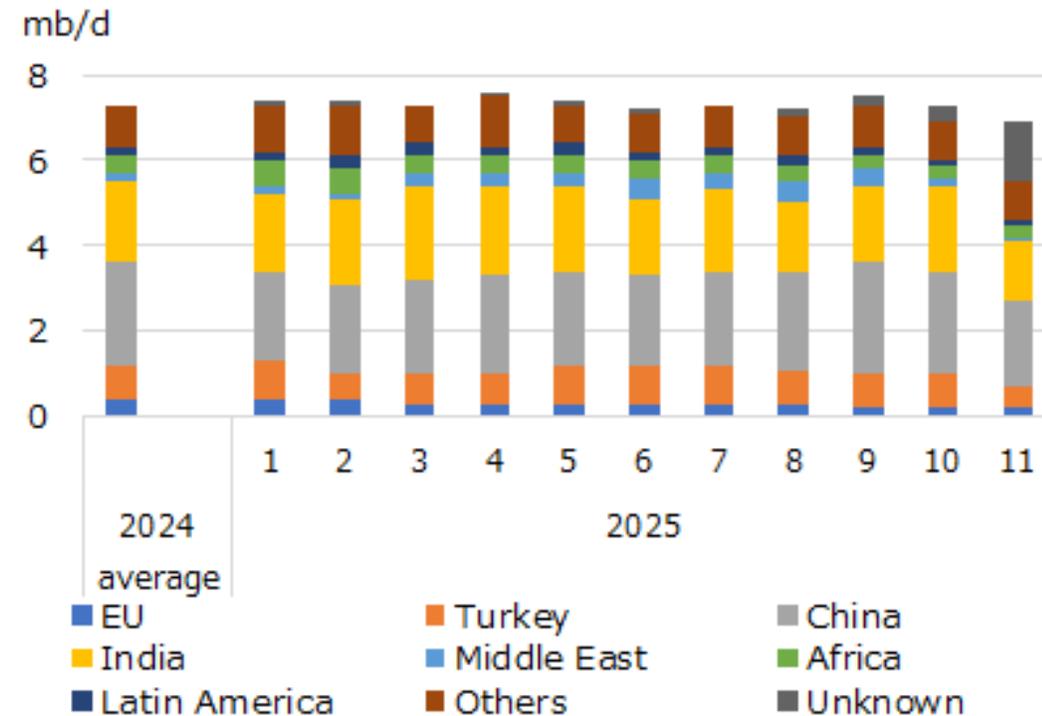
- Western sanctions and military operations would lead to higher prices.
- Resurgence of the US-China conflict would lead to lower prices.
- Major uncertainty in Russia with tighter sanctions and ceasefire negotiations with Ukraine.

Tighter sanctions on Russia

Oil related sanctions in 2025

US	<ul style="list-style-type: none"> Added to the sanctions list <ul style="list-style-type: none"> ➤ Gazprom Neft, Surgtneftegaz, Rosneft, Lukoil ➤ 183 tankers Secondary tariffs <ul style="list-style-type: none"> ➤ India (25%)
UK	<ul style="list-style-type: none"> Added to the sanctions list <ul style="list-style-type: none"> ➤ Rosneft, Lukoil ➤ Refinery in India and China, three ports in China ➤ 321 tankers Ban on imports of Russian crude based products
EU	<ul style="list-style-type: none"> Added to the sanctions list <ul style="list-style-type: none"> ➤ Two refineries and one trade in China ➤ 380 tankers Ban on imports of Russian crude based products
G7·EU	<ul style="list-style-type: none"> Lower price cap on Russian crude

Russian oil exports

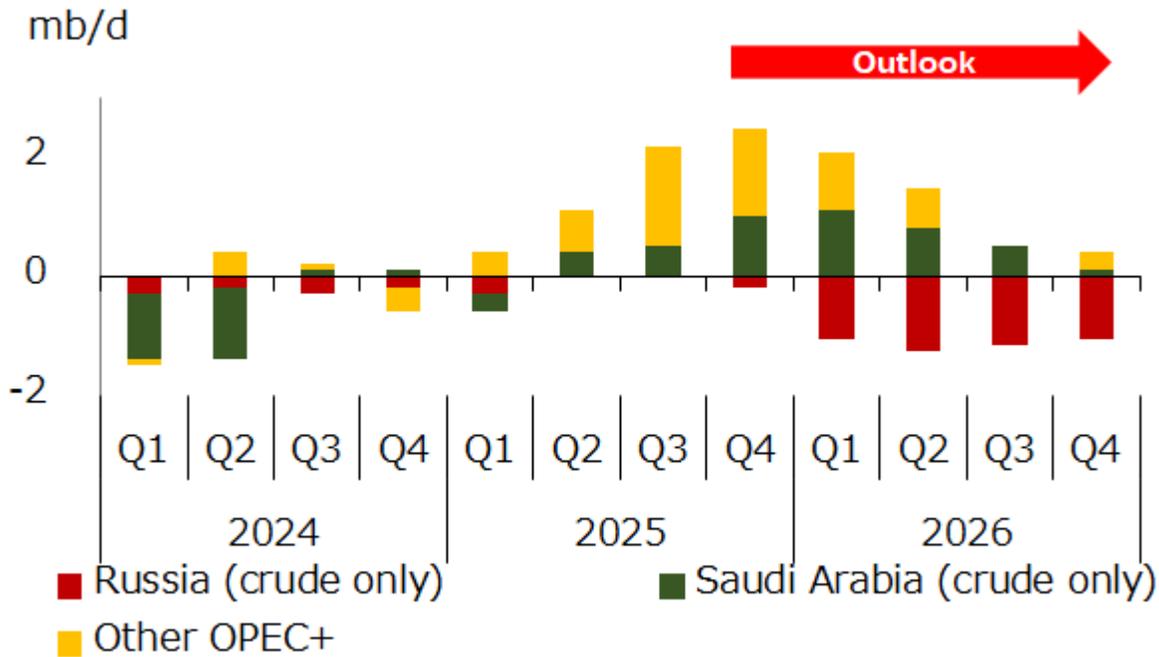


Sources: JOGMEC, IEA

- The US, UK, and EU tightened sanctions in October 2025. A few refineries in India reportedly halted importing Russian crude. China and Turkey also decreased imports from Russia.
- Export in November 2025 decreased by 0.42 mb/d m/m. A further 0.5-1.0 mb/d decrease is assumed in 2026.
- Yet, a ceasefire with Ukraine could result in easing sanctions and export recovery.

OPEC+ production increase

Production changes (y/y)



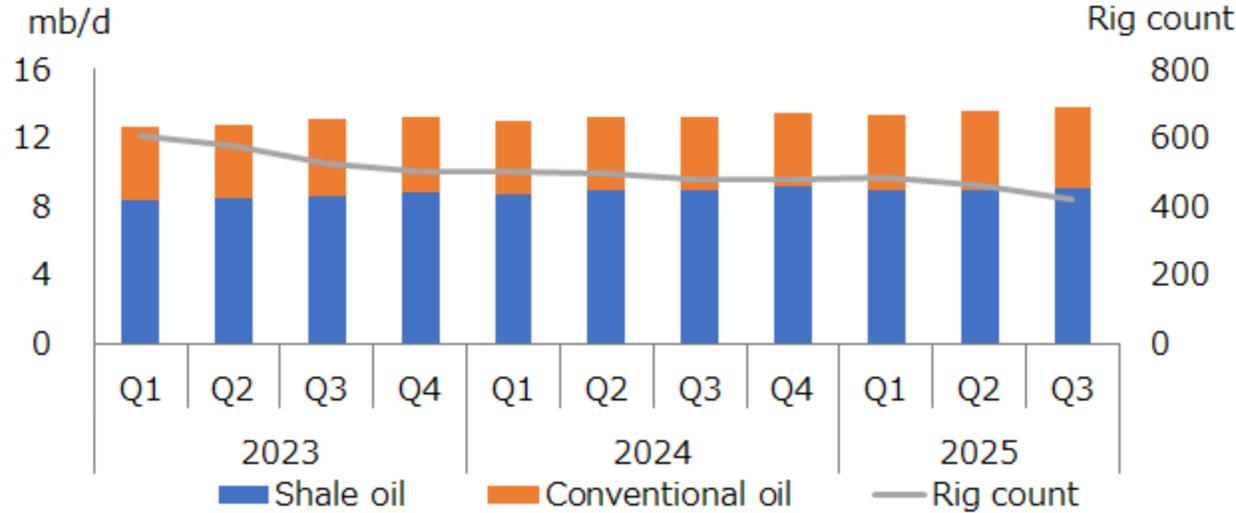
Production cut schemes

Production cut (mb/d)	by	Started in	(To be) Terminated in
2.0	All members (except Iran, Venezuela, Libya)	November 2022	December 2026
1.65	8 countries incl. Saudi Arabia and Russia	April 2023	December 2026
2.2		January 2024	September 2025

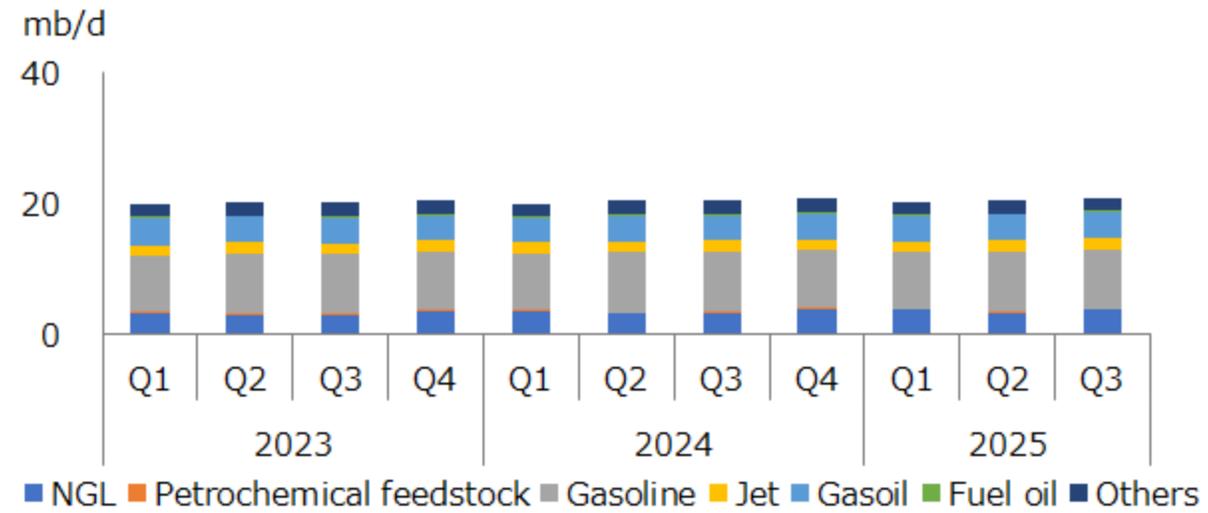
Sources: OPEC, IEA, IEEJ

- Shifted to production increase in April 2025. With lower inventory levels and minor production increase potential in non-OPEC+ producers, Saudi Arabia apparently deemed a limited price drop even if OPEC+ produces more crude.
- But, lower price and Russia's request, production increase pauses in 1Q 2026.
- Failing to return to production increase in 2Q 2026 could lead to lower production compliance rate of OPEC+.

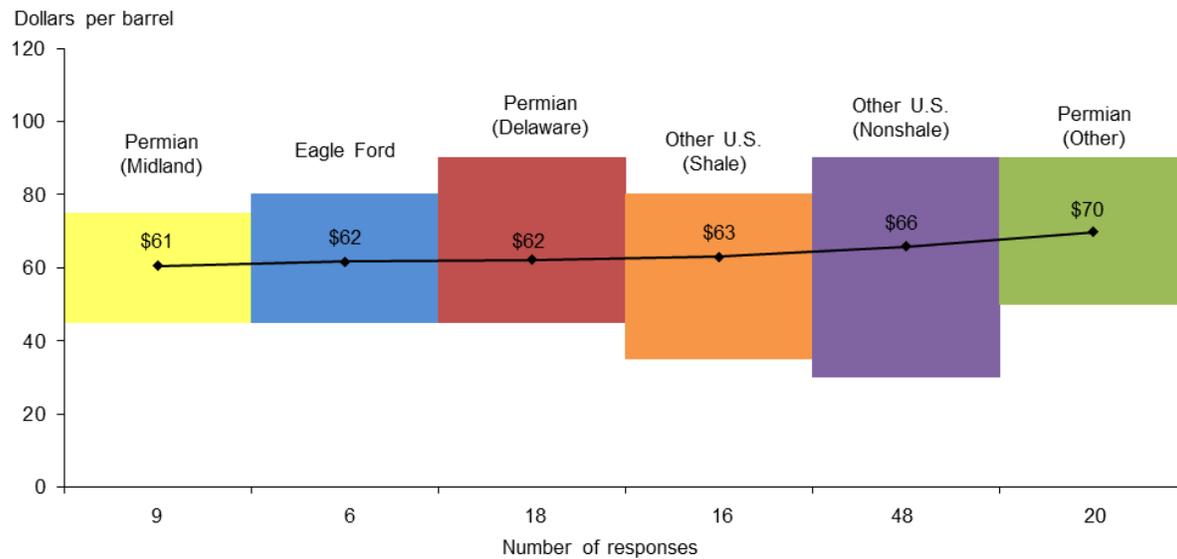
Crude production



Demand



Production cost

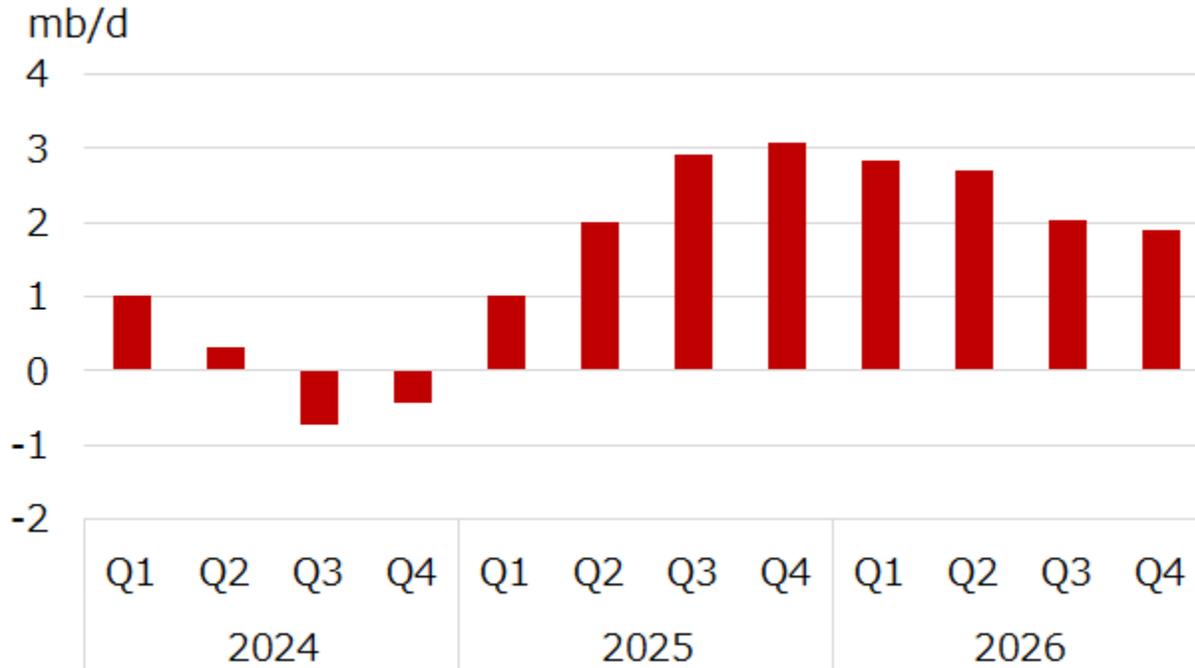


Sources: EIA, Federal Reserve Bank of Dallas

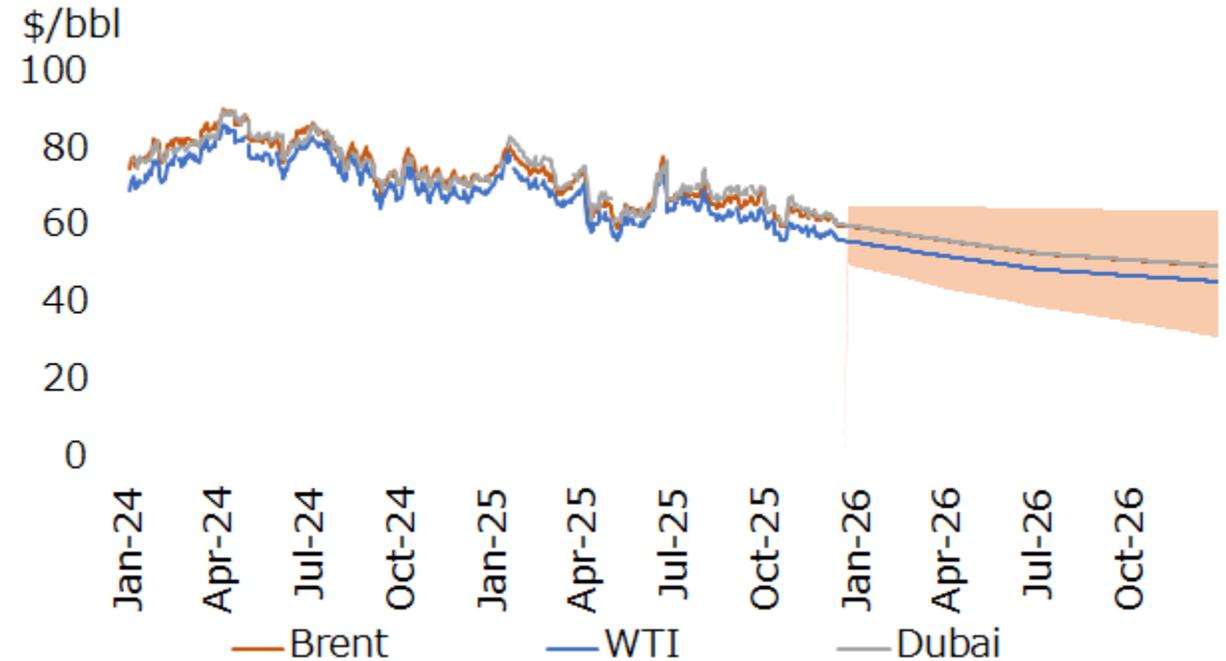
- Crude production in 3Q 2025 increased by 0.41 mb/d (4.0%) to 13.78 mb/d.
- But, lower WTI price will hold down production growth. The 2026 production is assumed to be 13.5 mb/d, the same as the 2025 level.
- Solid demand in 3Q 2025 at 20.93 mb/d, 0.29 mb/d (1.4%) increase y/y.

2026 demand and price outlook

Crude balance



Prices



Source: IEA, CME, ICE, IEEJ

- Even with lower Russian exports, crude will be over supplied by 2.3 mb/d in 2026.
- Downward pressure on crude price with over supply - Brent price will center around \$55/bbl.
- Major uncertainties in geopolitical risks, Chinese demand, and OPEC+ production policy. +\$10/bbl from \$55/bbl possible with lower-than-expected Russian exports, supply disruption in Iran or Venezuela. And -\$10/bbl possible with a Ukraine ceasefire, resurgence of the US-China conflict, and OPEC+ returning to production increase in 2Q 2026 onwards.

Summary

- World oil demand will increase modestly, while oil supply will continue to expand faster, which leads to an oversupplied market in 2026.
- Oversupply tends to exert downward pressure on crude prices. Brent price will center around \$55/bbl in 2026. Macro economy, OPEC+ production policy, and geopolitical risks could swing prices significantly.
- In particular, with tighter sanctions and ceasefire negotiations, Russian supply could raise or lower crude prices. While a 0.5-1.0 mb/d export decrease from the November 2025 level is assumed in 2026, more export could be reality if a ceasefire agreement is reached.
- The average Brent price in 2026 could surge by \$10/bbl with lower-than-expected Russian exports, supply disruption in Iran or Venezuela, or could plunge \$10/bbl with a Ukraine ceasefire, resurgence of the US-China conflict, and OPEC+ returning to production increase in 2Q 2026 onwards.