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ENERGY MARKETS CEO BRIEFING NOTE

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"Energy Nationalism to Continue Fragmenting Markets into 2026"

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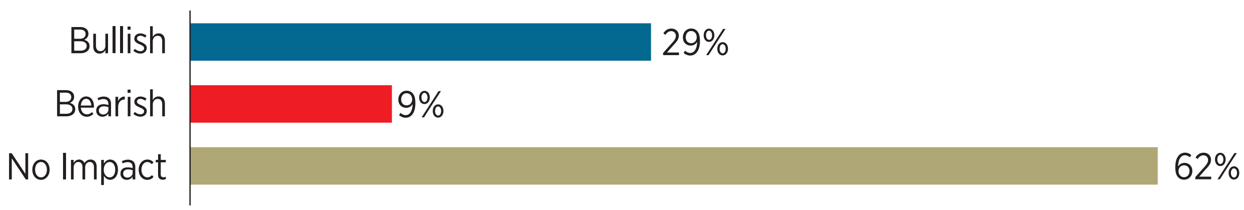
Oil Demand has a Hole in the Barrel

Energy markets are entering a turbulent period where traditional supply-demand signals no longer tell the full story. For decades, the industry relied on "total liquids" demand figures to guide strategy, assuming that crude oil would move broadly in step with GDP growth. That relationship has fractured. Up to 50% of demand growth now comes from natural gas liquids and biofuels, making crude-on-crude balances the only reliable indicator. This divergence matters because crude oil, not liquids broadly, remains the anchor of pricing power and OPEC+ strategy.

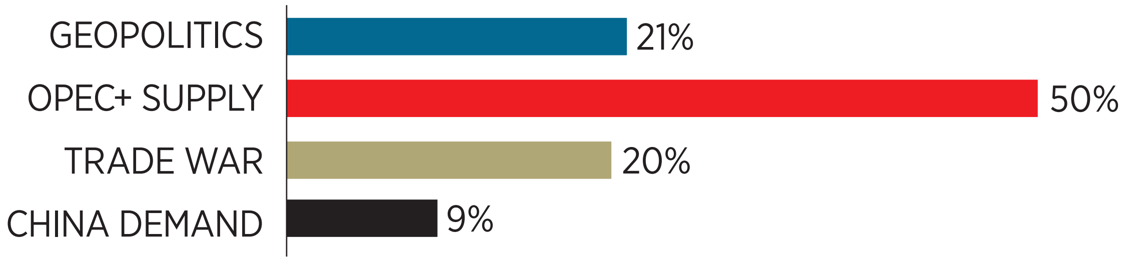
The most decisive swing factor is no longer OPEC output or U.S. shale, but China's stockpiling habits. In 2025, China absorbed more than half a million barrels per day into storage — volumes greater than total global demand growth. Yet this pace is unsustainable. As tanks fill, any slowdown in Chinese buying will push excess crude into Atlantic Basin inventories, where benchmarks like Brent are set. This shift could depress prices far more rapidly than markets anticipate.

Meanwhile, OPEC+ is cautiously increasing production in smaller increments, but even modest additions risk tipping the balance into visible oversupply if Chinese demand eases. At the same time, U.S.

How will warmer relations between China & India impact Oil prices?



What will be biggest driver of oil prices through to end of the year?



*(*nb. Polling conducted with 100+ Energy Market Stakeholders)*

shale is facing a reckoning. Rig counts are down 25%, breakevens hover around $60, and efficiency gains are plateauing. Should prices slip toward $55, American output will plateau or decline by 2026, reducing the market's most flexible source of supply. What's at stake is the return of price formation power to a handful of players, with China's storage strategy and OPEC's restraint dictating global balances.

New Growth Engines and Shifting Demand Frontiers

If China's transportation fuel appetite has peaked, the world must look elsewhere for growth. Gasoline and diesel in the world's second-largest economy are flat to contracting, while incremental demand now stems from petrochemicals such as naphtha and LPG. This is a profound structural change. Refineries once built to serve booming mobility markets must now pivot toward supplying feedstocks for plastics and chemicals, altering both margins and trade flows.

India, however, is stepping into the spotlight. Long dismissed as "high growth on a low base," India is now posting consumption levels that rival mature economies. Its two-wheeler fleet, rapid urbanization, and industrial expansion are driving oil demand, while its metals appetite — in copper, for example — is already as significant as the United States. Over time, India is poised to become the world's demand anchor, replacing China as the marginal driver of growth.

Yet this demand story is clouded by the uneven progress of electrification. In the West, the electric vehicle revolution is stalling. Subsidies are being reduced, charging infrastructure remains patchy, and consumers are pivoting back toward hybrids. Europe's initial over-exuberance has faded, while U.S. adoption depends heavily on federal incentives. China remains the outlier, where scale and industrial policy underpin EV penetration, but even there hybrids blur the impact on gasoline demand. For oil producers, the lesson is clear: peak demand will be delayed, and gasoline consumption may prove more resilient than the consensus suggests.

Meanwhile, global refining capacity is undergoing its own upheaval. Older plants, particularly in Europe, cannot afford the compliance costs of producing lower-sulfur, lower-carbon fuels. Rationalization and closures will accelerate, even as new Middle Eastern mega-refineries, with capacities approaching 400,000 barrels per day, cement their competitive advantage. Integration with trading arms and logistics flexibility allows these refineries to capture margins that older Western plants cannot. The refining map of the world is shifting decisively eastward.

Geopolitics, Fragmentation, and the New Rules of Energy Security

Beyond fundamentals, energy markets are being reshaped by a storm of political and geopolitical forces. Tariffs are perhaps the most immediate disruptor. U.S. trade barriers have jumped from 2.3% to 16% in a single year. Until now, companies absorbed most of the cost, but from late 2025 nearly two-thirds will fall on consumers. Since U.S. households account for 40% of GDP growth, this shift could undermine oil demand far more than current forecasts acknowledge. Global ripple effects will follow, with energy trade caught in the crossfire.

Energy nationalism is also fragmenting markets. Countries are prioritizing self-sufficiency and price insulation over global efficiency, eroding the fungibility that once allowed commodity markets to adapt smoothly to shocks. This trend increases costs, raises volatility, and undermines trust in traditional supply chains. It also fuels the rise of parallel systems such as the "shadow fleet" of aging tankers, which now accounts for up to 20% of crude transport. Unless directly targeted by Western enforcement, this fleet will continue to facilitate sanctioned exports from Russia and Iran, embedding a gray market that is increasingly difficult to regulate.

Sanctions themselves are losing bite. Unless enforced against key buyers like China and India, they remain symbolic. Russia and Iran continue to move barrels through alternative trade corridors, often at discounts, but without being meaningfully constrained. The resilience of these flows exposes the limits of Western leverage and highlights the shift in energy geopolitics toward multipolarity.

Meanwhile, fiscal pressures are mounting on producers. Many need oil above $90 per barrel to balance budgets, particularly those funding ambitious diversification projects. With prices drifting toward $55–60, deficits loom. Some producers can cut spending, but others face destabilization. These fiscal strains could fracture OPEC+ unity and test the group's ability to manage markets collectively.

In the background, artificial intelligence is quietly transforming the industry. From optimizing refinery operations to processing seismic data and embedding benchmarks into AI platforms like Co-Pilot and Alibaba Cloud, the technology is reshaping workflows. Firms that embrace AI integration will capture efficiency gains and decision-making speed; those that lag risk losing competitive ground.

What's at Stake

The global energy market is no longer a simple equation of OPEC supply versus OECD demand. It is a patchwork of diverging forces: China stockpiling oil while its transport demand plateaus; India rising as a new consumer giant; the U.S. shale sector vulnerable at $55 oil; and refiners in Europe shutting down while Middle Eastern giants expand. Add tariffs, shadow fleets, sanctions loopholes, and energy nationalism, and the system becomes less efficient, less predictable, and more volatile.

What's at stake is nothing less than the credibility of global price formation and the resilience of supply chains. Policymakers, producers, and traders must adapt to a fragmented, multipolar market where benchmarks are set as much by Chinese inventory builds and Indian consumption as by OPEC decisions. For investors, the challenge is to navigate this complexity: betting on renewables without underestimating oil's staying power; investing in AI and logistics to capture margins; and hedging against geopolitical shocks that can redraw flows overnight.

As 2026 approaches, oversupply colliding with weakening demand will not only test the resilience of markets but also the adaptability of institutions. Energy nationalism is no passing trend. It is embedding itself into the architecture of global trade, ensuring that fragmentation — and the volatility that comes with it — will define the energy system for years to come. ■

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