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WEEKEND READING
ENERGY MARKETS BRIEFING NOTE

"Oil Prices Defy Gravity as Structural Supports Outweigh Surplus Fears"

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"Oil Prices Defy Gravity as Structural Supports Outweigh Surplus Fears"

By Sean Evers, Managing Partner, Gulf Intelligence

The oil market in late 2025 has confounded many of its critics. For months, analysts and agencies projected that a wave of new supply from OPEC+ and slowing global demand would drive prices lower. At the September APEC conference in Singapore, forecasts of a $10 decline for Brent in the fourth quarter made headlines. Yet Brent has stubbornly clung to the mid-$60s, with WTI only marginally below. Instead of succumbing to the weight of oversupply, the market has proven resilient.

The persistence of prices above expectations is not accidental. It reflects a convergence of structural supports: China's relentless stock-building, the weaker U.S. dollar, limited OPEC+ spare capacity, and a geopolitical risk premium that quietly refuses to vanish. Overlaying these factors is a global economy that, despite tariffs, weak jobs data, and political uncertainty, continues to expand. The result is a market that is not soaring, but not collapsing either—a market that, in many ways, is stronger than it looks.

China's Invisible Demand

Perhaps the single biggest factor underpinning oil prices this year has been China's buying for inventories. Beijing has added roughly half a million barrels per day into storage through the first nine months of 2025. This pace, equivalent to a new mid-sized consuming nation, has mopped up what would otherwise appear as surplus barrels on the market.

China's motivation is clear: energy security. With relations with Washington tense and the global order fragmenting, Beijing is determined to insulate itself from external shocks. Stockpiling diesel, crude, and strategic petroleum reserves gives it insurance against supply disruptions and geopolitical flare-ups. Military demand also plays a role, with increased naval activity in disputed Asian waters raising questions about how much of the refined product buildup is for civilian versus strategic use.

Importantly, this demand is price-sensitive but not cyclical. At $65–68 Brent, China is happy to buy aggressively. Only if prices rise above $70 would it slow. With storage capacity still only ~60% full, Beijing has ample room to continue filling tanks. For the rest of the world, this creates a unique buffer: every surplus barrel risks ending up in Chinese inventories rather than on the open market, muting downward pressure on prices.

The Weakening Dollar

Another powerful tailwind is the decline of the U.S. dollar. Down roughly 10% this year, the dollar's slide mirrors the fall in oil prices—suggesting that in real terms, crude has not fallen at all. For consumers outside the U.S., weaker dollars mean cheaper oil imports, sustaining demand.

Rate cuts by the Federal Reserve and other G7 central banks are driving this trend. Analysts note that the Fed is cutting not because the economy is strong, but because fiscal dominance demands it: Washington must reduce interest costs on a $37 trillion debt load. Whatever the rationale, looser policy ensures more liquidity in global markets. Oil, like equities and gold, stands to benefit.

The interplay between monetary policy and commodity prices is subtle but decisive. If everything else—stocks, bonds, cryptocurrencies—has rallied on easier money, it is only a matter of time before oil fully "joins the party." The dollar's weakness is the transmission channel ensuring that outcome.

Shrinking OPEC+ Spare Capacity

A third source of resilience lies in the shrinking spare capacity of OPEC+. For years, official estimates suggested 5–6 million barrels per day could be brought online quickly if needed. But closer scrutiny by traders and analysts now places effective spare closer to 3–4 million—and concentrated almost entirely in Saudi Arabia and the UAE.

Outside the Gulf, spare is more theoretical than real. Venezuela has resources but lacks infrastructure. Libya's production is hostage to politics. Iran's additional barrels are bound up in sanctions. Iraq faces chronic bottlenecks and fragile logistics through Basra. In practice, the cartel's ability to flood the market has diminished.

This matters profoundly for price stability. When spare capacity is thin, markets cannot easily absorb shocks. Even if OPEC+ keeps adding modest increments, the cushion against disruptions is smaller than it appears. That reality creates a floor under prices: traders know that a supply disruption cannot be quickly offset.

OPEC+ is meeting in Vienna this week to decide how to measure members' maximum production capacity -- How much idle spare capacity remains within OPEC+ 22 countries:

The value of US Dollar and Brent crude oil have both declined 10+% approx in 2025 year to date -- will this correlation continue through Q4?

(nb. Polling conducted with 100 Energy Market Stakeholders Sept. 18-19)

Geopolitical Risks Still Bubbling

While the market has grown numb to headlines, geopolitical risks still quietly prop up oil. This year saw two extraordinary thresholds crossed: Israel's first open war with Iran, and its unprecedented strike on Qatari soil. Either event might once have sent Brent up $20. Instead, prices barely moved.

Yet dismissing these risks is unwise. Attacks on Russian refineries by Ukraine have tightened diesel markets. Houthis continue to menace shipping in the Red Sea. The Straits of Hormuz remain a latent chokepoint. Insurance premiums for tankers have surged, even if not reflected in futures prices. In short, geopolitical turbulence is embedded in the structure of the market: it sustains backwardation and prevents front-month prices from collapsing.

Markets may not price in "war premiums" the way they once did, but risk remains a critical support. Without it, oil might be in the low-50s today.

The Global Economy Still Growing

Finally, the macro backdrop—while uneven—remains one of growth. Yes, tariffs are biting, U.S. jobs data are weakening, and Europe is struggling. But trade flows have proven more resilient than expected. Merchandise trade volumes are stable. Asian demand, led by India and China, continues to grow.

Even in the U.S., gasoline demand in mid-summer posted year-on-year growth. Globally, oil demand is still set to rise in 2025, albeit by less than a million barrels per day. That slower pace is enough, when combined with China's stockpiling and limited OPEC spare, to keep the market balanced.

Crucially, the oil industry itself is recalibrating. International oil companies, pressured by investors, are returning to long-cycle projects in deepwater Brazil, Guyana, and Africa. But these fields take a decade or more to develop. In the interim, supply growth is limited—another factor supporting current price levels.

A Market Stronger Than It Looks

Taken together, these forces explain why oil is holding steady in the mid-$60s despite forecasts of surplus. The market is not booming, but neither is it breaking. Instead, it is quietly absorbing bearish supply and demand headlines through a set of structural supports:

- #China buying for inventories at price-sensitive levels
- A weak #dollar lowering import costs and redirecting liquidity into commodities
- #OPEC+ spare capacity smaller and more concentrated than many realize
- Persistent #geopolitical risks in oil supply centers from the Middle East to Russia
- A global economy still growing, however unevenly

In that sense, the oil market of late 2025 is a paradox. It looks fragile on paper, with surplus barrels looming. But in practice, it is resilient—propped up by forces that are not easily reversed. Unless China suddenly stops stockpiling, or OPEC magically produces millions more barrels, prices are unlikely to collapse.

For traders, investors, and policymakers, the lesson is clear: oil prices will remain above expectations. The mid-$60s are not a ceiling but a floor. And in a world where risks outnumber certainties, that floor looks remarkably solid. ■

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