RystadEnergy

Condensed version

Oil Market Balances Report

May 2026

Balances improve on strong downward demand revision; prices below $110 for 2Q

Oil Markets Fundamentals

While all eyes are on the Strait of Hormuz, a looming oversupply in 2027 needs to be addressed

> Looking ahead to 2027, Rystad Energy forecasts a significant oversupplied market, with the year average at 5 million bpd. The big questions are how much relief stock refill will provide, and how demand for refined products can return amid renewed energy-security concerns.

Rystad Energy's view of the global crude oil balance has become more even in 2026 in this edition, with a significant downward revision to demand and only slight changes to supply. Overall, 2026 is forecast to see an average oversupply of 600,000 barrels per day (bpd). This represents a 1 million bpd increase compared to last month's view of an undersupply of 585,000 bpd. Global markets are expected to return to oversupply in July 2026, and May and June's balances are expected at 1.9 million bpd, compared to 4.9 million bpd and 2.5 million bpd, respectively, in last month's report.

Demand takes the front seat of the changes this month, as refinery runs were revised down 4.3 million bpd, 4.9 million bpd, and 3.1 million bpd for May, June, and July, respectively. Asia, the Middle East and Russia are driving these reductions, although with different dynamics. For Asia, it is more about crude availability and demand destruction due to elevated prices. For the Middle East and Russia, inability to export refined products are a key factor, as product storage capacities are limited and quickly filling up, driving lower refinery runs.

For supply, total crude oil and condensate for 2026 is now seen at 83.11 million bpd, representing a year-on-year decline of 1.58 million bpd. Middle East countries – Saudi Arabia, Iraq, Kuwait, Qatar, Iran, UAE – are the major contributors to the decline, offsetting growth by Americas. Rystad Energy has lowered the Iranian supply view following the US blockade that has led to an inventory build up, causing supply reductions.

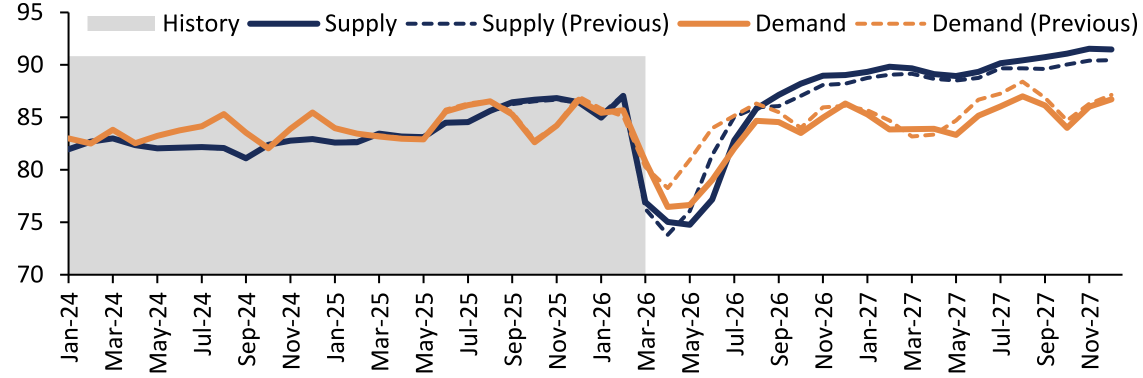
Flows are showing signs of changed trade patterns to connect supply and demand with a blocked Strait of Hormuz. South American producers such as Brazil and Venezuela have increased their exports to India and Singapore. The US posted record-high exports at more than 5 million bpd in April and May, boosted by Strategic Petroleum Reserves (SPRs) releases. Middle East is still reliant on bypass opportunities that cannot replace all the lost volume that usually transit the Strait. In addition, Iran's attack on Saudi Arabia's East-West pipeline offered a stark reminder of a vulnerable system.

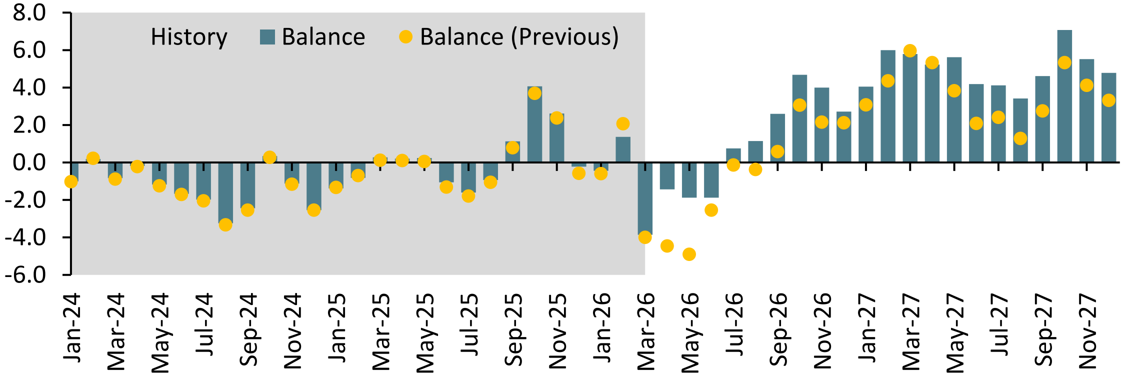
On prices, Rystad Energy has decreased its Brent price forecast for 2Q26 down to $108 and 3Q26 to $109, compared to $116 for both quarters in last month's report. Signals of a potential deal between Iran and US has contributed to this. Still, prices remain elevated due to the extended timeline of disruption.

Looking ahead to 2027, Rystad Energy forecasts a significant oversupplied market, with the year average at 5 million bpd. This is caused by a strong resumption of pre-war supply levels, combined with a somewhat muted demand recovery. The war has breathed life into energy security concerns, and especially Europe has seen a surge in electric vehicle (EV) sales that coincides with elevated fuel prices and news about fuel shortages. Even if prices fall due to the oversupply, uncertainty remains if we will go back to pre-war crude demand levels as countries and consumers re-assess their fossil fuel dependencies.

The oil market continues to monitor any news about a re-opening of the Strait. On 29 May, US Vice President J.D. Vance said that a deal with Iran was close that would include a 60-day ceasefire extension to allow for further talks on Iran's nuclear programme. Still, a return to normal will not be immediate as production takes time to recover, and the fleet to carry the crude oil must reposition to the region. And the above will likely not happen until there are clear indications that the Strait will remain open.

Looking to 2027, stock refill and refined product demand responses will drive crude prices





Rystad Energy's view of the global crude oil shortage has eased in this version of the report versus last month's view. The 2026 balance now stands at an average surplus of 600,000 bpd compared to a shortfall of 585,000 bpd last month. The main driver is a strong downward revision in demand for April through September.

The demand revisions are centered around Asia, Middle East, and Russia. For Asia, elevated crude prices, weak domestic demand caused by price-driven demand destruction, and fuel product export restrictions are collectively pressuring crude throughputs. The continued blockade of the Strait is driving the reduction in the Middle East, as difficulties in getting refined products out remain. For Russia, successful attacks on both refineries and export infrastructure are causing outages and reductions in product exports, leading to inventories filling up.

Looking at supply, Rystad Energy has delayed the recovery of production as Strait remains shut. Supply is expected to resume to pre-war levels in August and September, although reliant on a near-term opening of the Strait with subsequent ramp-up time for fields and the vessel fleet.

The crude oil surplus is therefore expected to return in July, and the market is expected to remain oversupplied through 2027. Some of this is likely to be absorbed through re-filling of both commercial stocks and Strategic Petroleum Reserves (SPRs), but even accounting for this, the market will be oversupplied. This will likely lead to lower crude prices that can translate into lower refined product prices, causing demand to increase. Still, the ongoing transition away from hydrocarbons makes a significant increase in demand for refined petroleum products challenging.

Taking electric vehicles (EVs) as an example, European passenger EV registrations surged sharply in March, rising 75% month-on-month and 39% year-on-year to around 504,000 units. This comes as the war in the Middle East leads to price increases for petroleum fuels, and concerns about potential fuel shortages. For EVs, this has fuelled a sales boost as consumers attempt to insulate their household budgets from high energy costs and governments renew efforts to improve energy security through energy transition.

Source: Rystad Energy research and analysis; Rystad Energy Oil Market Fundamentals

Global crude and condensate supply seen at 74.8 million bpd in May 2026.

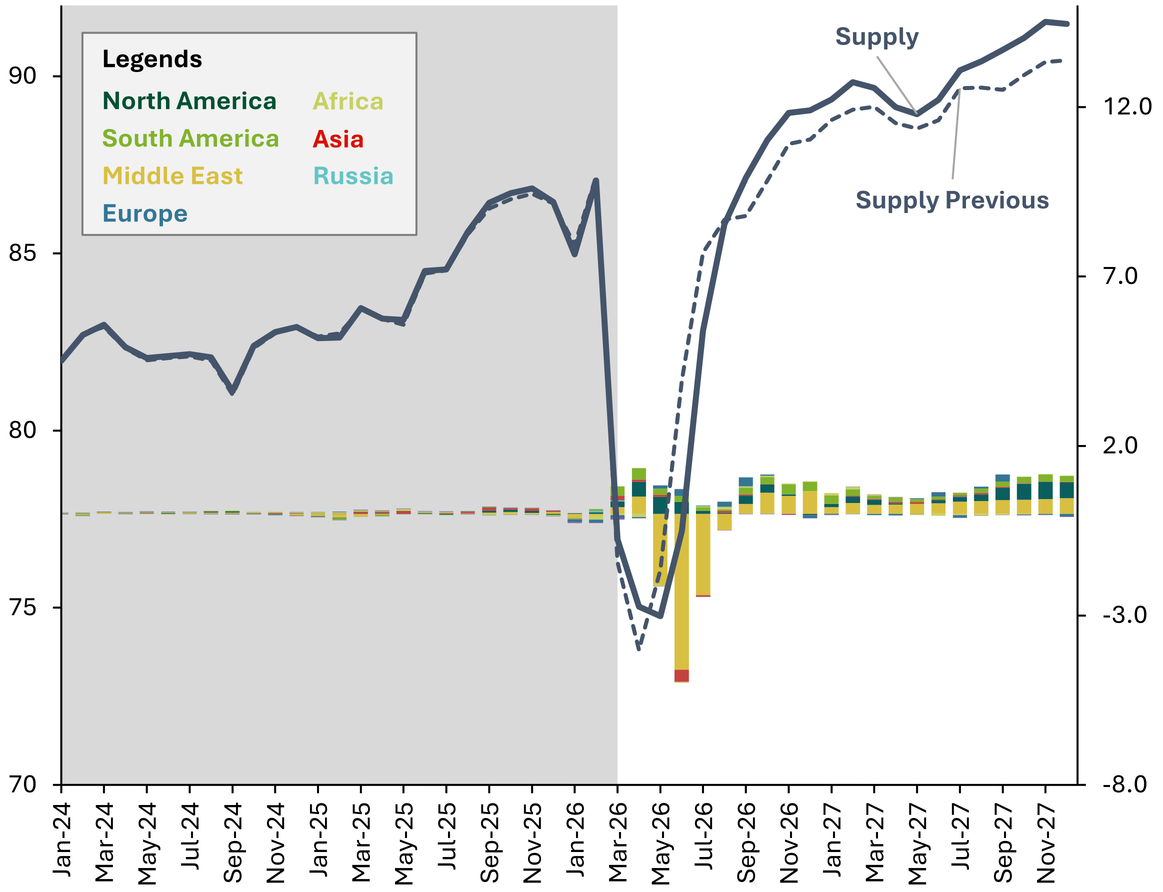
Global crude and condensate supply in May stands at 74.8 million bpd, a month-on-month decline of 270,000 bpd, driven by Iran as US blockade has led to an inventory build up. Thus, Iran has started to cut down on supply. Total crude and condensate supply for 2026 is now seen at 83.1 million bpd, an annual decline of 1.6 million bpd. Middle East – Saudi Arabia, Iraq, Kuwait, Qatar, Iran, UAE – are the biggest drivers, offsetting growth from the Americas. In 2027, crude and condensate output is expected at 90.2 million bpd, as Middle East recovers, along with gains from Americas, marking global year-on-year growth at 7.1 million bpd.

US crude and condensate production is expected at 13.8 million bpd in May, a month-on-month growth of 70,000 bpd. Average US output in 2026 is projected at 13.8 million bpd, an annual increase of 195,000 bpd as higher oil price is expected to boost output in 2H26, with volume reaching 14 million bpd in 4Q26. The Pikka asset in Alaska started producing on 10 May, which is expected to add roughly 80,000 bpd. Looking ahead to 2027, oil production from US is further expected to rise to 14.2 million bpd as output from the Permian is expected to reach 10.5 million bpd, growing by roughly 350,000 bpd, same as country's annual growth in 2027, while growth and declines in the remaining regions offset each other.

Brazil is also driving global supply growth, adding almost 500,000 bpd to previous year's output, with the 2026 total estimated at 4.27 million bpd, driven by offshore deepwater projects such as Buzios, Mero and Bacalhau. Its April monthly production stood at a record 4.3 million bpd. The prolific Buzios field also added FPSO P-79, with a capacity of 180,000 bpd, which started production on 1 May. Brazil remains an anchor of global supply growth as its 2027 production is expected at 4.63 million bpd, an annual growth of 355,000 bpd.

The UAE and Qatar are the only non-OPEC+ countries facing a significant decline due to the war, as their production falls to 2.35 million bpd and 226,000 bpd, respectively. The UAE's 2026 crude and condensate production is expected to be 3.17 million bpd, declining by 275,000 bpd year on year. Qatar's 2026 oil output also falls to 975,000 bpd, decreasing by more than 440,000 bpd. Qatar production is expected to reach 1.4 million bpd in 2027, while the UAE, after exiting OPEC+, is expected to increase its to 4.25 million bpd.

Global crude and condensate supply (LHS), with revisions by continent (RHS)
Million barrels per day



Source: Rystad Energy research and analysis; Rystad Energy Oil Market Fundamentals

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Crude demand downward revision driven by Asia, the Middle East and Russia

Global crude demand has seen further downward revisions for 2026, and Rystad Energy expects global crude demand to average at 82.5 mbpd for 2026. This is almost a 1.5 mbpd revision from last month, which had 2026 demand at 83.9 mbpd.

There are three geographies that are driving the revision, in order of contribution: Asia, the Middle East and Russia.

For Asia, elevated crude prices, weak domestic consumption caused by price-driven demand destruction, and fuel product export restrictions are collectively pressuring crude throughputs. While other Asian countries are facing fuel shortages, China is dealing with a domestic surplus. This buffer comes from both its large crude inventory and demand-side flexibility. This has allowed some shipments of crude bound for China to be re-directed to other Asian countries, which has provided much needed support on the refinery sector.

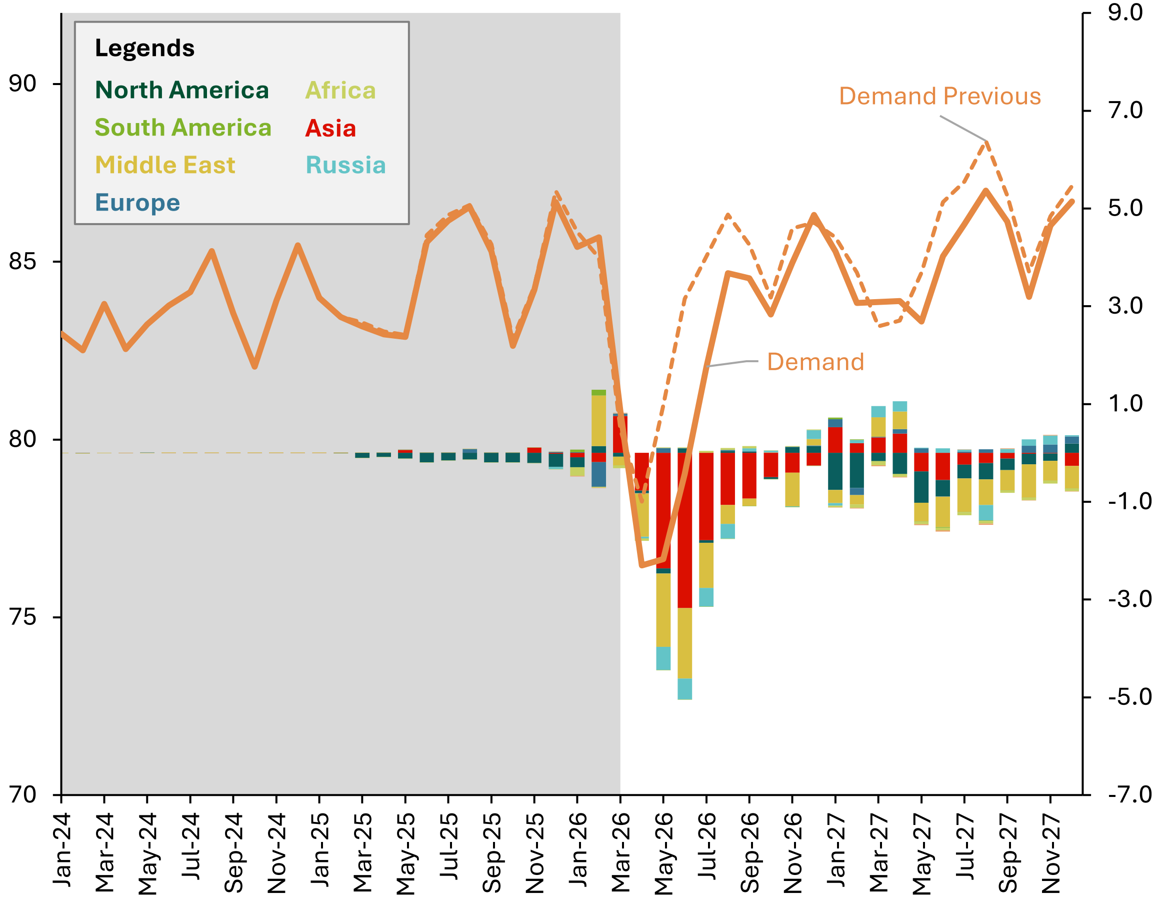
Looking towards the Middle East, the downward revision is driven by the continued closure of the Strait. In addition, the drone hit to Saudi Arabia's East-West pipeline on 8 April underscored the elevated risk profile the kingdom's sole export bypass route faces while the Strait remains effectively closed. The hit cut throughput by around 700,000 bpd, although the facility was restored to full pumping capacity of around 7 million bpd by 12 April in a display of operational resilience.

Russia's 2026 runs have been reduced by 120,000 bpd compared to last month. The reduction is concentrated in the period May through August and is driven by Ukraine's highly successful attacks on Russian oil infrastructure. Drone strikes continue to target export ports to a high degree. In the first half of May, the Black Sea ports of Tuapse and Novorossiysk and the major Baltic export terminal Primorsk were subjected to repeated attacks. Russian seaborne crude and product exports stabilized at around 5.5 million bpd in recent weeks, which is around 500,000 bpd below the peak seen in mid-March before a renewed wave of large-scale drone attacks.

Large Russian refineries also remain under pressure, with recent strikes on Lukoil's Perm refinery and Rosneft's Ryazan potentially creating a need for gasoline imports as early as the second half of May.

Global demand[1] (LHS), with revisions from last month by continent (RHS)

Million barrels per day



1) Includes refinery runs and direct crude burn

Source: Rystad Energy research and analysis; Rystad Energy Oil Market Fundamentals

Changing trade patterns are emerging as the Strait remains shut

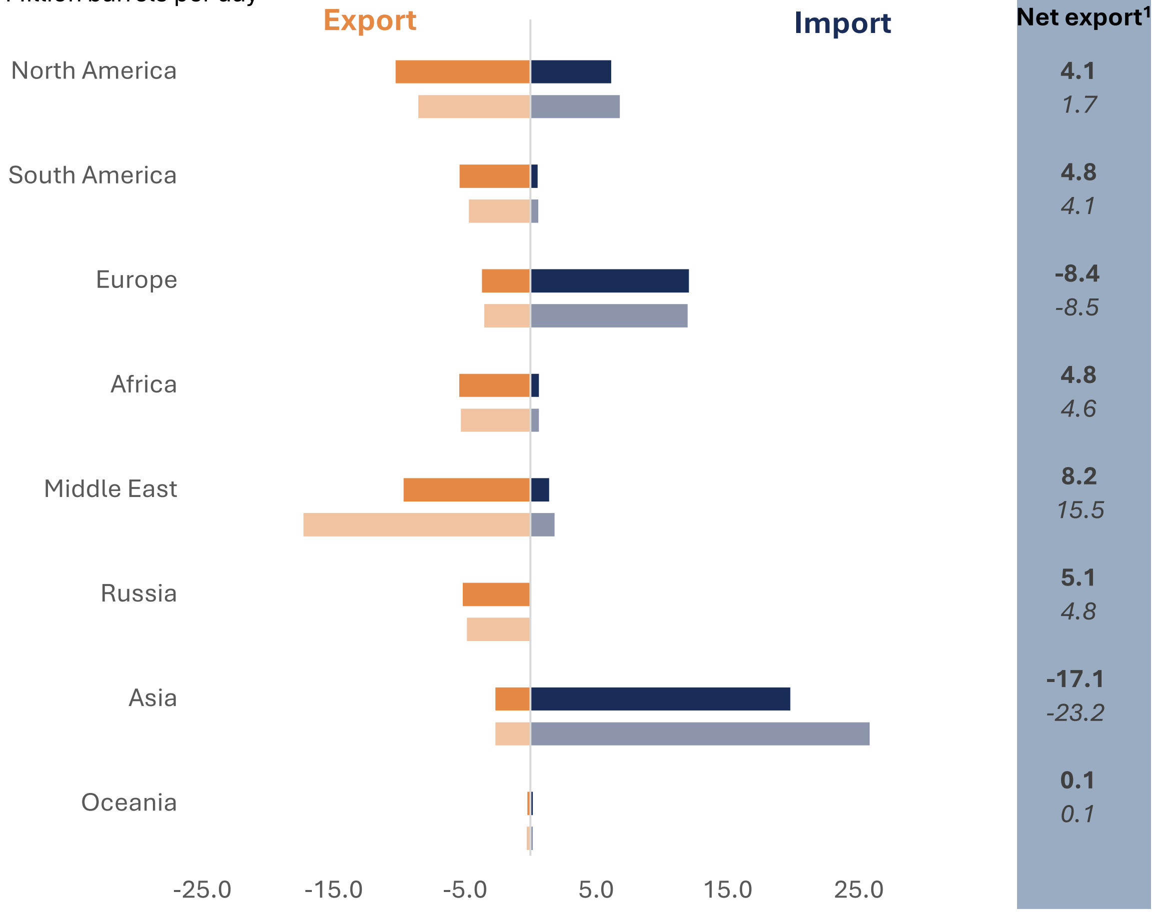
The Middle East saw the sharpest crude trade shift in 2Q26, with exports at 9.6 million bpd versus the average of 17.3 million bpd over the past three quarters, a reduction of 7.7 million bpd. Asia's imports simultaneously fell to 19.8 million bpd from 25.8 million bpd, while regional exports held at 2.7 million bpd. These movements dominated the quarter's balance, compressing the Middle East's outward shipments while easing Asia's intake and reshaping allocations. Other regions posted smaller adjustments relative to recent norms.

The reduced exports out of the Middle East, particularly to Asia, provided opportunities for other regions. North America, with the US in particular, has increased its exports, boosted by SPR releases. US exported more than 5 million bpd in April, up more than 1 million bpd compared to March, with East Asia taking almost 400,000 bpd of these volumes. Japan and South Korea are the region's main importers of US crude.

South American exports jumped 22% to approximately 1 million bpd in March, led by Brazil and Venezuela. For Brazil, flows to India and Singapore rose by 206,000 bpd and 185,000 bpd, respectively, while flows to China saw a drop of 138,000 bpd. This underscores the view that China, through its massive crude storage, has been more shielded from the lack of Middle Eastern volumes compared to other Asian countries.

Europe saw an increase in imports in April to 12.5 million bpd from 11.9 million bpd in March as blockade of the Strait continues to reduce refined product imports from the Middle East. This has contributed to a rise in refinery runs and delayed maintenance, with corresponding gains in imports to support the higher crude runs. Imports from Kazakhstan and Norway were the main contributors, at 500,000 and 400,000, respectively, in April, while Guyana and the US decreased their exports to Europe.

Crude flows, current quarter versus average of last three quarters (Previous)
Million barrels per day



1) Net export = Exports – imports. Current net export in bold, previous in italic; 2) Current quarter compared to average of last three quarters
Source: Rystad Energy research and analysis; Rystad Energy Oil Market Fundamentals

Stocks build in the Middle East and Russia, while Asian importing countries keep drawing

Global crude inventories have shifted in the reported data, moving from a sizeable build in March to a slight draw in April, while the model continues to show consecutive draws. This points to tightening conditions but a mixed picture in observed flows. The resulting divergence has widened the statistical difference between the reported and estimated series, highlighting timing mismatches and availability of reported data.

The global stock change also masks a divergent regional reality. For exporting countries with limited ability to ship their oil, Rystad Energy observes a significant build in stock. Examples include the Middle East, with Iran emerging as a key example following the US blockade on vessels associated with the Iranian petroleum industry. This has caused Iranian stock levels to fill up quickly, and supply shut-ins are imminent if the blockade is not lifted. Another example is Russia, with Ukraine's successful attacks on export terminals limiting crude and products exports, causing crude stocks to rise.

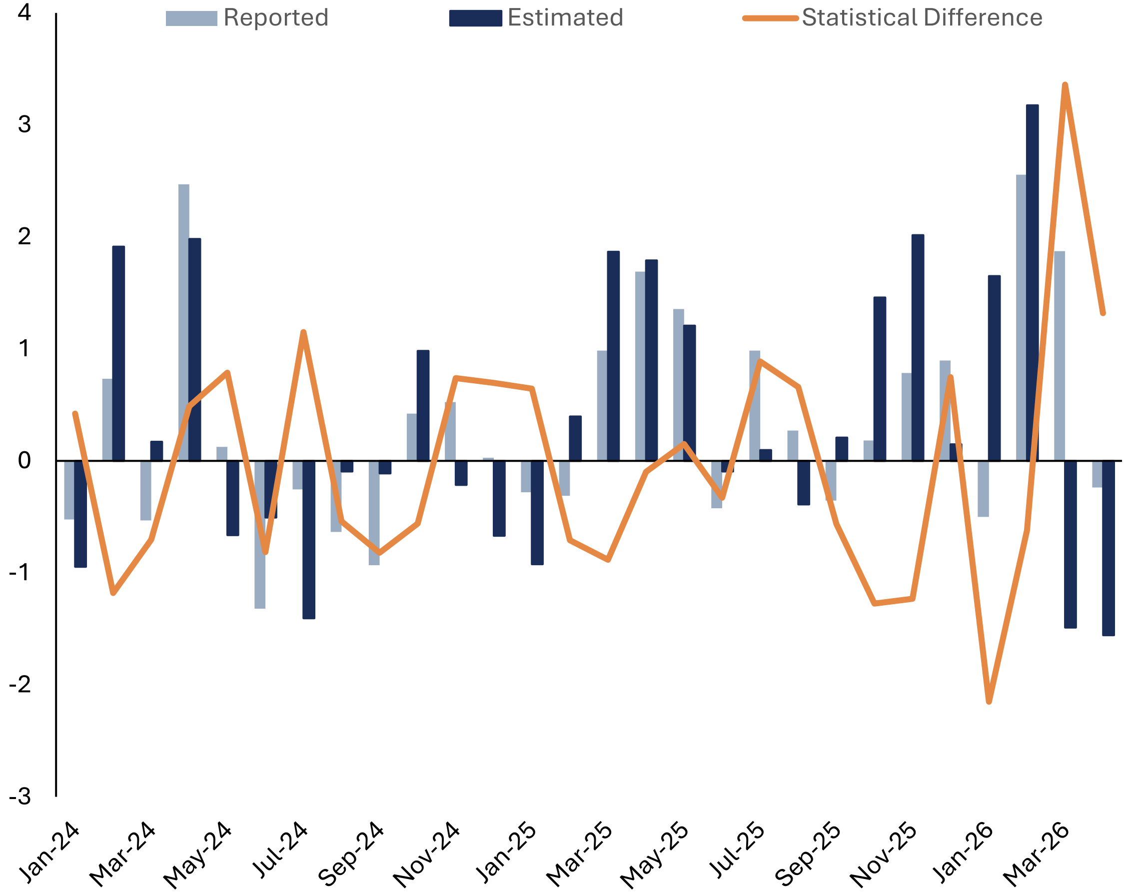
Countries that rely on a steady flow of imports to fuel their refining sector is seen tapping into inventories to sustain runs in the absence of imports. China has emerged relatively insulated from the reduced imports due to large inventories that they could tap into if needed.

The Strategic Petroleum Reserve storages are being drawn down following the IEA's announcement in March of the largest ever oil stock release, at 400 million barrels, amid the disruption the conflict. For countries like Japan, these barrels have in large helped sustain its refinery sector. For the US, these drawdowns have boosted exports to record high levels, surpassing 5 million bpd for April.

Looking ahead, Rystad Energy expects both commercial and SPR inventories to be re-filled when the market environment allows. The first enabler would be the re-opening of the Strait, while the decision will also be influenced by price. If prices fall significantly from current levels due to oversupply as Middle Eastern output ramps up and barrels again flow through the Strait, nations and market players would likely start filling up their inventory.

Commercial stock changes reported vs estimated and difference[1]

Million barrels per day



1) The difference refers to the difference between the reported stock change, and the Rystad Energy estimated change for the markets to balance

Source: Rystad Energy research and analysis; Rystad Energy Oil Market Fundamentals

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