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Crude Realities: Power, Liquidity, and the Myth of an Oil Glut

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Crude Realities: Power, Liquidity, and the Myth of an Oil Glut

For over a year, analysts and investors have repeated the same refrain: Oil markets are heading for a glut, prices will collapse, and hydrocarbons are entering their twilight. This has become an article of faith in energy circles — echoed in forecasts, repeated in boardrooms, and woven into policy speeches. Yet as 2025 draws to a close, reality refuses to cooperate. Oil prices remain stable, inventories are tight, and geopolitics is exerting more pressure on supply than at any point in the past decade. The so-called glut has failed to materialize — not because markets are irrational, but because the prevailing narrative rests on shallow assumptions, analytical complacency, and a fundamental misreading of how energy systems actually work.

At the core of this flawed consensus are three claims: Slowing global growth will suppress demand, electric vehicles will erode oil's centrality, and surging supply — from U.S. shale to new non-OPEC producers — will flood the market. All collapse under scrutiny.

Take demand. China's economy may be expanding more slowly than a decade ago, but Beijing continues to import and stockpile oil at a breathtaking pace. Since March, Chinese crude imports have consistently exceeded domestic refining needs, with much of the surplus flowing into strategic reserves. This is not a sign of weakness but a deliberate policy to insulate China from future supply shocks and wield energy as a strategic asset. Analysts fixated on GDP growth curves miss this geopolitical dimension entirely: Consumption is not simply about present output — it is also about future leverage and security.

On the supply side, the narrative is equally detached from reality. Russia, still the world's second-largest oil producer, is pumping about 300,000 barrels per day less than a year ago, with output at its lowest since the pandemic. Western sanctions, logistical bottlenecks, and refinery outages are compounding the squeeze. India now sources up to 40% of its oil from Russia; should U.S. pressure curb these flows, the resulting shortage of medium-sour crude would ripple through refining systems, tightening diesel and jet fuel markets and driving up costs. Meanwhile, production growth from Canada, Brazil, and the North Sea has repeatedly fallen short of expectations. Properly accounted for, the market heading into winter is up to one million barrels per day tighter than headline balances suggest.



Even the U.S. shale sector — long seen as a limitless safety valve — is entering a new era of constraint. A decade of drilling has exhausted much of the most productive acreage, forcing companies into more speculative and expensive plays. Enverus Intelligence Research projects that the marginal cost of U.S. supply could soar from about \$70 today to as high as \$95 per barrel by the mid-2030s. This shift would redraw the global cost curve and diminish North America's role in meeting demand. A region that supplied more than 100% of incremental global oil growth over the past decade will contribute less than half in the next. The geopolitical consequences are profound.

The shift is already visible. Major shale producers are cutting capital spending, rig counts are plateauing, and executives openly warn that U.S. production may have peaked. Consolidation has transformed what was once an entrepreneurial frontier into a sector dominated by a few corporate giants. Innovation and risk-taking — the qualities that powered the shale revolution — are fading, replaced by shareholder returns and caution. And with prices hovering near breakeven, many firms see little incentive to accelerate drilling, further constraining supply.

Product markets reveal similar tightness. Russian diesel exports have fallen by about half a million barrels per day in the past six months, leaving global middle-distillate balances precarious. European and U.S. refinery outages, reduced Chinese product exports, and setbacks at Nigeria's Dangote refinery have compounded the pressure. Refining margins remain high, diesel and jet cracks elevated, and backwardation steep — hardly the hallmarks of a market awash in excess supply.

The interplay between oil, gas, and power further complicates the picture. Europe's power grid remains deeply vulnerable to fluctuations in renewable output. Prolonged low-wind periods force gas-fired plants to ramp up, tightening gas balances and pushing up power prices. Storage capacity and interconnectors cannot fully absorb these shocks, so price spikes cascade quickly through day-ahead and intraday markets. Energy systems are deeply interconnected, and stress in one segment amplifies tightness across the board.

The Oxford Institute for Energy Studies underscored this point earlier this year, noting that floating storage remains below 2022 levels and OECD inventories are under their five-year average. Fuel export data suggests consumption is stronger than expected. Far from indicating oversupply, these signals point to a market tighter than many analysts — and investors — care to admit.



Why, then, does the “glut” narrative persist? Part of the answer lies in the erosion of serious energy market expertise across the financial sector. Over the past decade, banks and consultancies have hollowed out their commodity research capacity, leaving the field dominated by analysts lacking historical grounding or real-world experience. They treat supply and demand as simple arithmetic, ignoring how stable fundamentals can conceal deeper vulnerabilities. They fail to grasp how geopolitical shocks, logistical chokepoints, and shifts in refining capacity cascade into structural change. Outside a handful of specialist trading houses, few institutions still possess the depth of knowledge to parse these complexities — and it shows in the forecasts they produce.

This erosion is not merely academic. It shapes investment flows, policy decisions, and corporate strategies. Investors lulled by oversupply narratives risk missing real price drivers. Policymakers basing strategies on flawed assumptions may underestimate inflationary risks or misjudge the pace of the energy transition. And market participants who mistake complexity for clarity may find themselves dangerously exposed when sanctions, trade shifts, or geopolitical shocks suddenly reshape balances.

OPEC+, for its part, is showing cautious discipline. For the second consecutive month, the group has agreed to restore just 137,000 barrels per day of previously curtailed supply — a slower pace than earlier this year. This measured approach underscores its intent to balance discipline with flexibility, ensuring that any return of production does not undermine price stability.

History offers a warning. Commodity markets have often appeared stable on the surface even as structural pressures mounted beneath. The oil shocks of the 1970s, the price collapse of the late 1980s, and the supply crunches of the early 2000s all defied mainstream expectations until they were already underway. Today’s market, with thin buffers, shifting cost structures, and weaponized energy flows, resembles those turbulent eras far more than the placid oversupply scenarios forecasters envision.

As winter approaches, risks are skewed heavily to the upside. A cold snap in Europe, new sanctions on Russian exports, or even a modest disruption in Middle Eastern shipping lanes could trigger rapid price spikes in crude and refined products. Gas and power markets remain underpriced relative to volatility, leaving traders exposed. And with China stockpiling crude, OPEC+ cautious on output, and U.S. shale entering a higher-cost era, the downside to oil prices is far more limited than consensus suggests.



The notion of a looming oil glut is not just wrong — it is dangerously misleading. It reflects a failure to grasp how geopolitics, physical constraints, and structural shifts interact to shape energy markets. It substitutes simplistic arithmetic for strategic analysis. And it risks lulling policymakers and investors into complacency just as the global oil system enters one of its most fragile and geopolitically charged periods in decades. Narratives do not move molecules. And in a world still powered by oil — and still defined by the politics of energy — misunderstanding that reality is more than a forecasting error. It is a strategic mistake.

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