OIL ANALYST

Ongoing Disruptions, More Adaptation: Nudging Up Our Price Forecast

- We raise our Brent/WTI price forecasts by $5 to $85/80 for Dec2026 and to $80/75 for 2027, reflecting our new assumption that Mideast shipping disruptions continue into 2027.
- The price upgrade is modest despite the assumption that shipping disruptions continue for two reasons:
  - OECD commercial land inventories—a key price driver—have so far barely drawn since the war began, reflecting a smaller-than-expected deficit amid market adaptation, and the concentration of stocks draws in OECD SPR, on water, and in China.
  - We assume Mideast supply adaptation continues, with production gradually recovering by 2027H2 as (dark) flows edge up further and pipelines come online in late 2027.
- Low visible global oil stocks and OECD SPR levels do not necessarily imply an imminent crude price spike, assuming Middle East supply continues to recover, for three reasons:
  - **History.** When visible global stocks hit their all time low in November 2024 (in a sample starting in 2017), Brent was $76. Today, OECD commercial stocks measured in days of demand—a better price predictor—remain 16% above their 2003 average (the all time low).
  - **Not running out.** We estimate that global landed oil stocks have declined from 9.1 billion barrels before the war to 8.6 billion barrels today, still well above minimum operational storage level estimates.
  - **China.** Price-sensitive Chinese crude imports are likely to moderate price upside.
- Risks to our price forecast remain significantly tilted to the upside on net, especially near-term.
  - **Price upside scenario**: Brent might exceed $120/bbl if 2027 average Gulf output remains 4mb/d below pre-war levels, versus 0.5mb/d below in our base case. Intensified Hormuz and Red Sea shipping attacks are the most likely trigger of price upside.
  - **Price downside scenario:** Brent might decline into the $60s in 2027 if 2027 average Gulf output rises 1mb/d above pre-war levels.

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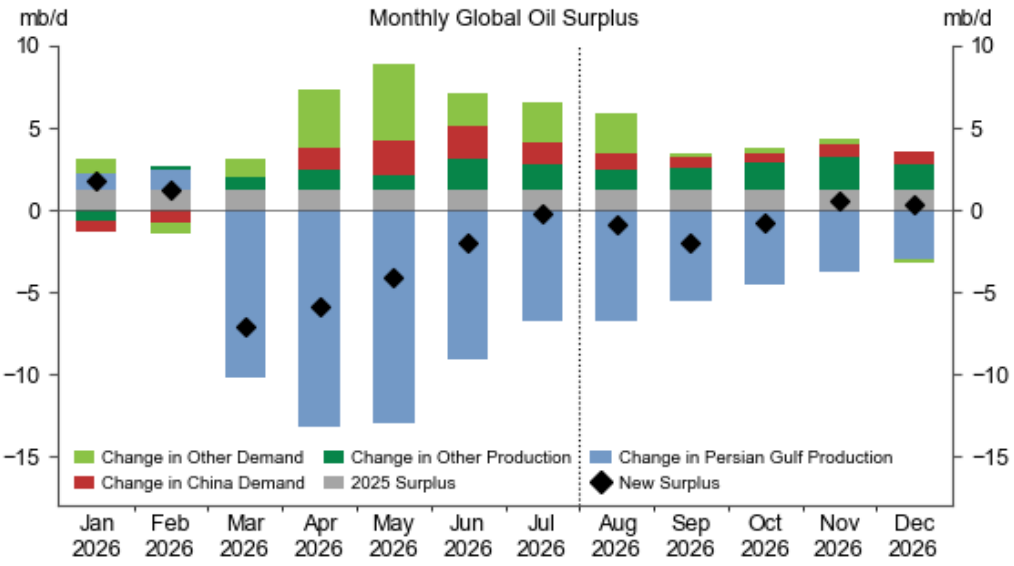
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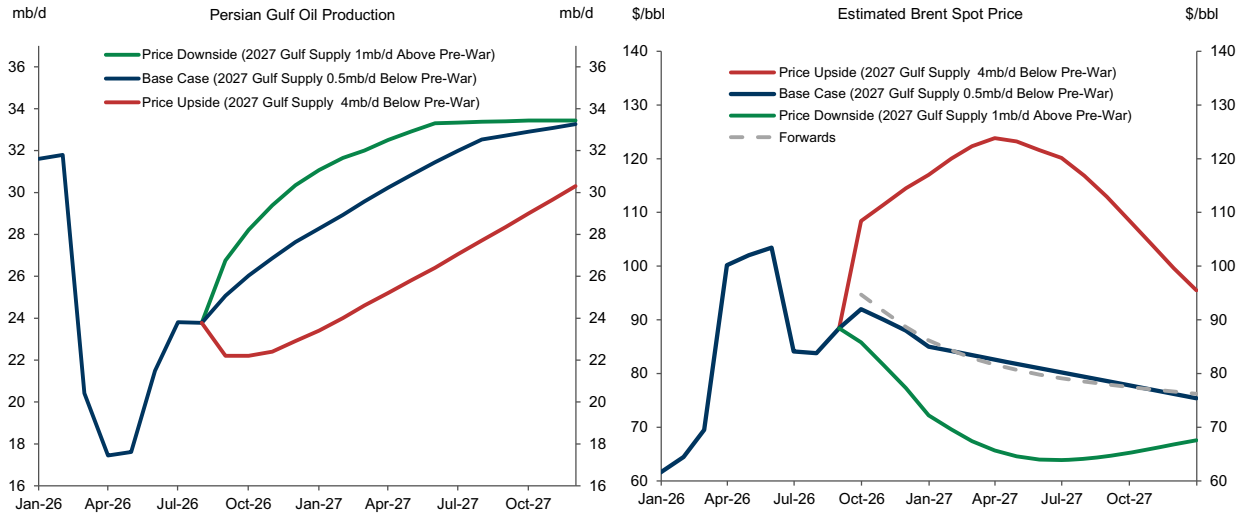
- We still recommend hedging geopolitical risk through deferred Mar27-Dec27 European diesel timespreads, which would rise over 100% if persistent Russia or Mideast refinery outages keep the nearby 9-month spread near current levels.

We Estimate That the Global Market Deficit Narrowed From About 7mb/d in March 2026 to 1mb/d in 2026Q3 as Gulf Output Partially Recovered, Demand Remained Soft, and ex-Gulf Production Grew



Source: Goldman Sachs Global Investment Research

Downside Risk to Gulf Supply Means Significant Net Upside Risk to Our $80 Brent 2027 Average Forecast



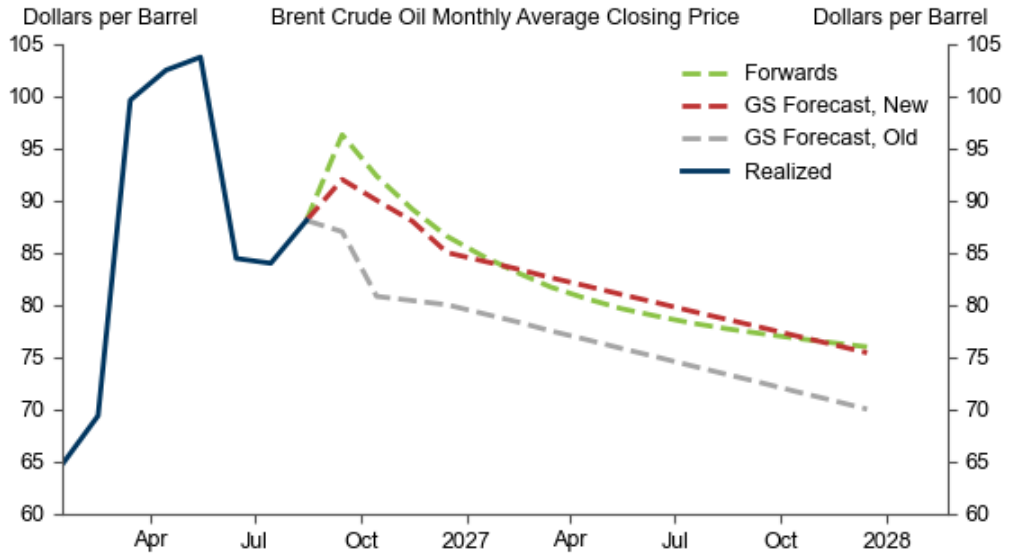
Source: Goldman Sachs Global Investment Research

Ongoing Disruptions, More Adaptation: Nudging Up Our Price Forecast

We raise our Brent/WTI price forecasts by $5 to $85/80 for Dec2026 and to $80/75 for 2027 (Exhibit 1), now assuming that Mideast shipping disruptions continue into 2027.

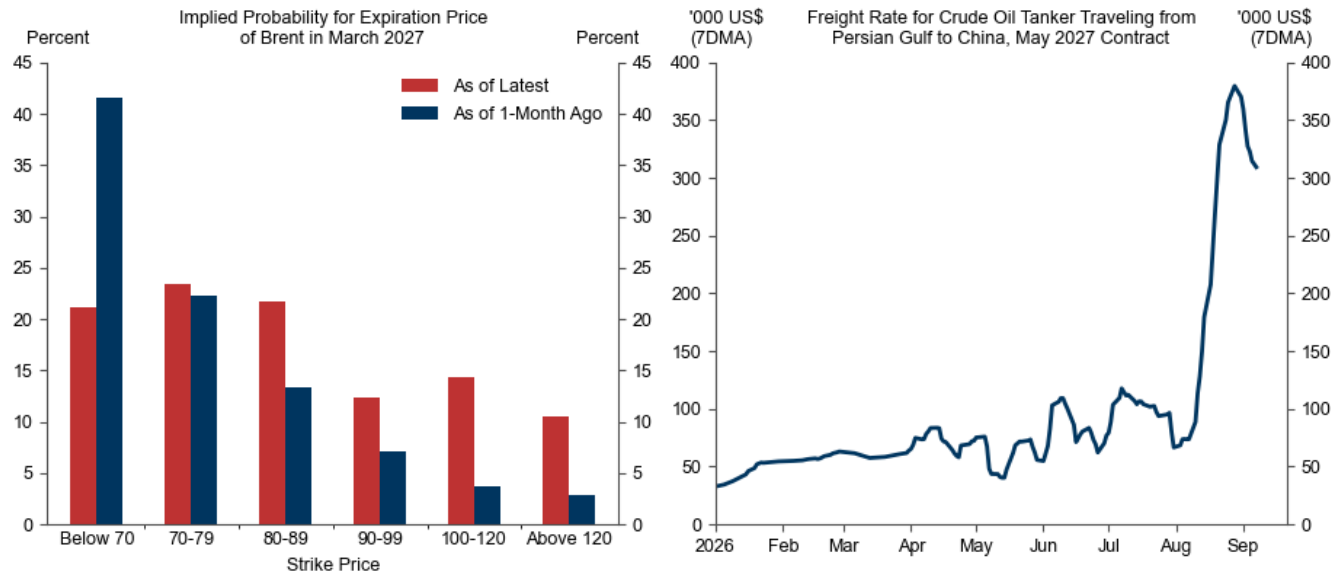
Markets are increasingly pricing a prolonged Mideast conflict. Brent spot futures have risen to $97, and the options-implied probability of Brent above $100 in March 2027 has risen from around 6% a month ago to about 25% now (Exhibit 2, left). 2027Q2 Persian Gulf-to-China crude tanker rates now price shipping disruptions lasting into then (Exhibit 2, right).

Exhibit 1: We Upgrade Our Brent/WTI Forecasts by $5 to $85/80 for Dec2026 and to $80/75 for 2027 as We Now Assume a Prolonged Mideast Conflict



Source: ICE, Goldman Sachs Global Investment Research

Exhibit 2: Oil and Shipping Markets Increasingly Price a Prolonged Conflict



Source: ICE, Refinitiv Eikon, Goldman Sachs Global Investment Research

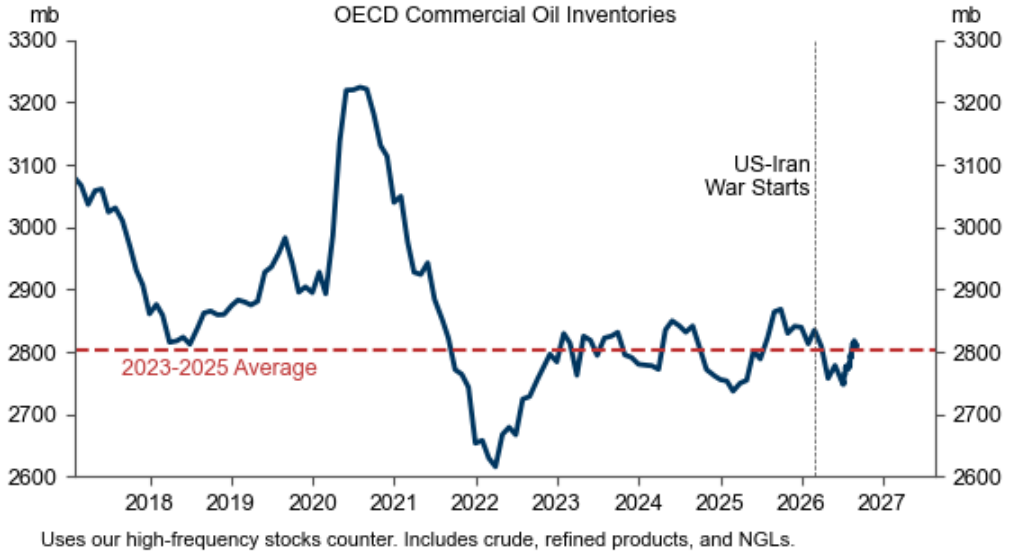
Modest Price Upgrade Despite Assumption Shipping Disruptions Continue

The price upgrade is modest despite our new assumption that shipping disruptions continue because OECD commercial oil inventories have so far barely drawn since the war began, and because we assume Mideast supply adaptation continues.

Reason 1: Resilient OECD Commercial Stocks

OECD commercial land inventories—a key predictor of crude prices—have barely drawn so far since the war began (Exhibit 3), leaving our end-August OECD commercial oil stocks counter 119mb above our July balance estimate. The limited OECD commercial draw reflects a smaller-than-expected deficit amid market adaptation, and an unusually large concentration of global draws in OECD SPR, on water, and in China.

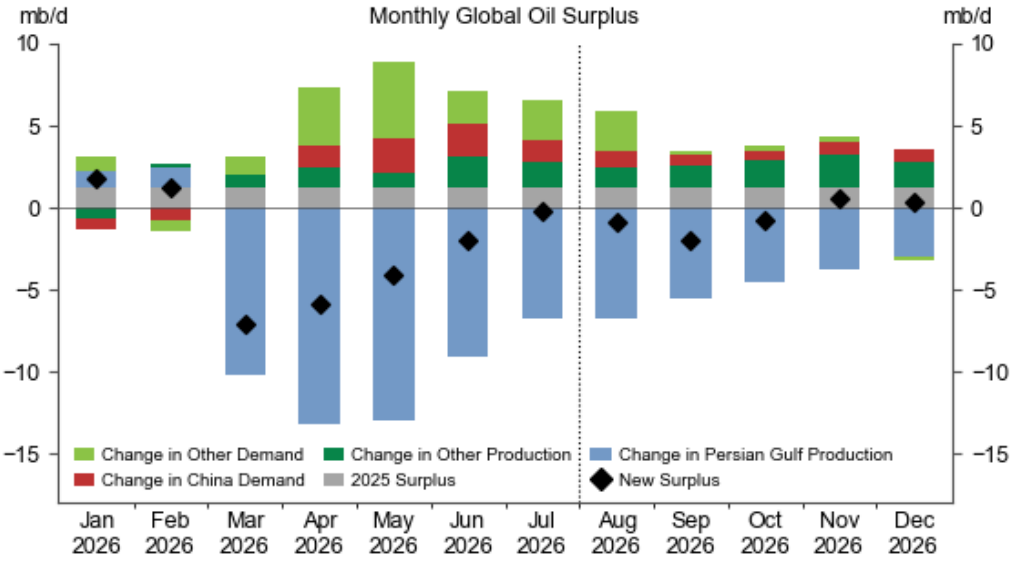
Exhibit 3: OECD Commercial Inventories—a Key Predictor of Prices—Have Barely Drawn Since the War Began



Source: IEA, Kpler, DOE, Euroilstocks, ARA PJK, Haver, Refinitiv Eikon, Goldman Sachs Global Investment Research

Deficit narrows. We estimate that the global oil market deficit has narrowed from about 7mb/d in March 2026 to 1mb/d in 2026Q3, as Gulf output partially recovered on higher pipeline use and dark flows, Asia demand remained weak, and ex Gulf output grew (Exhibit 4). Our 2026Q3 1mb/d deficit is 5.4mb/d smaller than the 6.4mb/d Q3 drop in Persian Gulf output vs. its 2025 average, reflecting a 1) 1.2mb/d surplus in 2025, 2) 2.7mb/d weaker demand (vs. 2025), and 3) 1.4mb/d stronger ex Gulf production (vs. 2025). The Americas drive the strength in ex Gulf liquids production with 2026Q3 combined output from the US, Canada, Brazil, Venezuela, Argentina, and Guyana on track to be 2.3mb/d above its 2025 average with the largest contributions from the US (1mb/d) and Brazil (0.7mb/d).

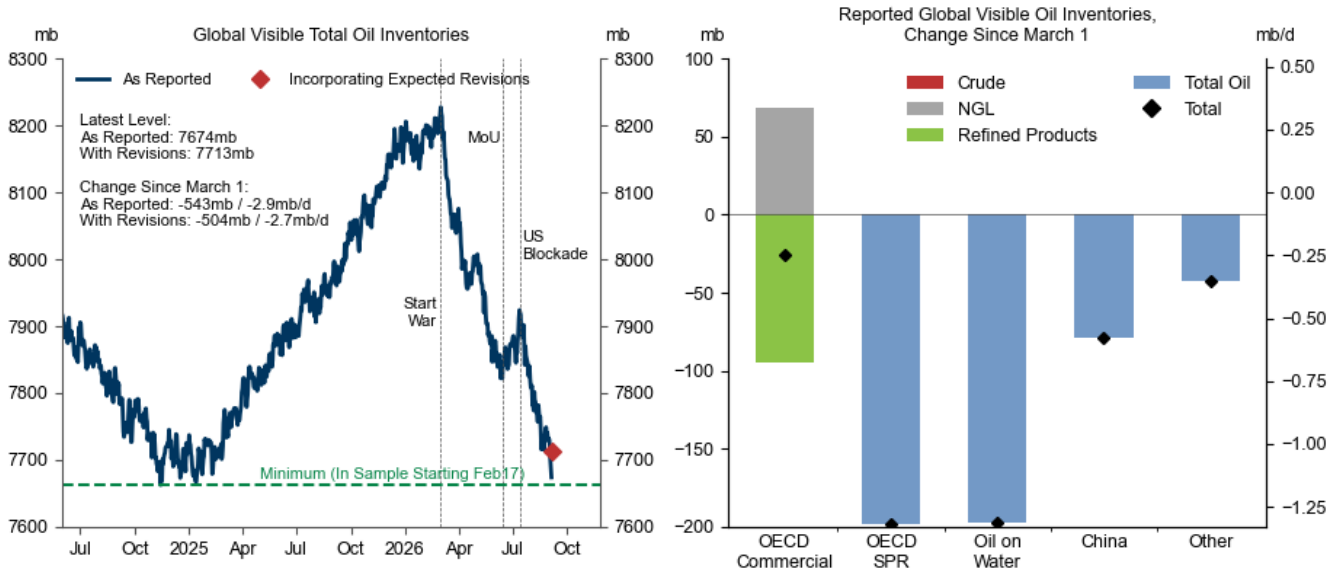
Exhibit 4: We Estimate That the Global Market Deficit Narrowed From About 7mb/d in March 2026 to 1mb/d in 2026Q3 as Gulf Output Partially Recovered, Demand Remained Weak, and ex-Gulf Output Grew



Source: Goldman Sachs Global Investment Research

Concentrated draws. Global visible oil stocks have declined by 543mb since the war began, or 504mb (2.7mb/d) after adjusting for likely upward revisions (Exhibit 5, left panel, red diamond) as dark-crossing ships eventually turn on their transponders. Of that 543mb draw, only 26mb has come from OECD commercial storage—the most price-relevant category for near-term Brent—while nearly 200mb each has come from OECD SPR and on oil on water, and 80mb from China.

Exhibit 5: An Unusually Large Share of the Global Oil Stock Draws Since March Has Occurred in OECD SPR, on Water, and China



Source: IEA, Kpler, DOE, Euroilstocks, ARA PJK, PAJ, Haver, Goldman Sachs Global Investment Research

Because our OECD commercial stocks counter remains resilient, our $79 Brent fair value estimate (Exhibit 12, right panel) is still $18 below market pricing, which embeds a risk

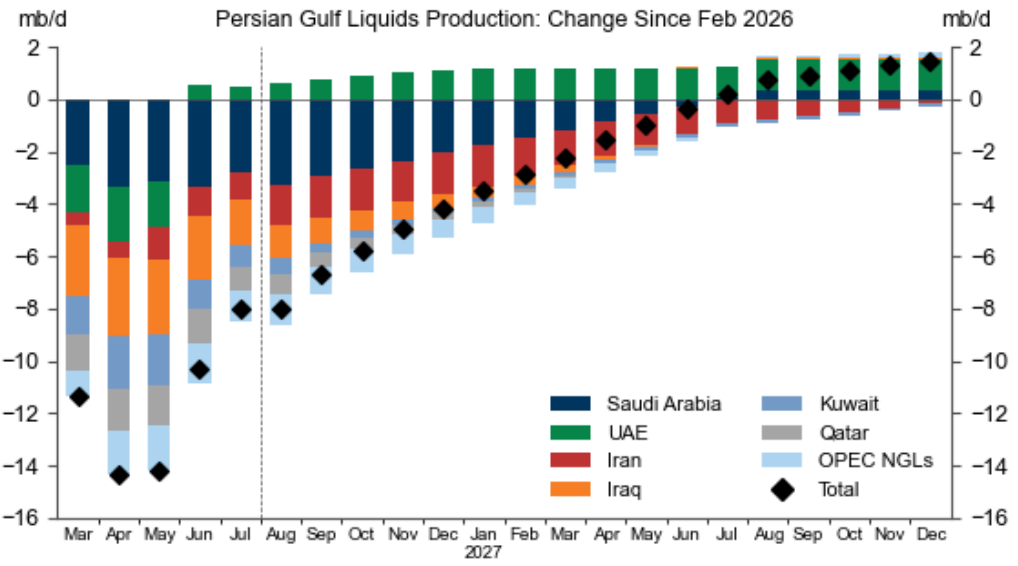
premium for future draws and high disruption risk.

Reason 2: We Assume Mideast Supply Recovery Continues

We assume Mideast supply adaptation continues, with output recovering as dark flows rise, new pipeline capacity comes online in late 2027, and the UAE and Saudi Arabia eventually deploy some spare capacity.

Gulf liquids output has already improved from 14.3mb/d below Feb26 levels in April to 8.0mb/d below in July. We assume output gradually returns to pre-war levels by 2027H2, then overshoots as the UAE, now outside OPEC, and Saudi Arabia use some spare capacity to help rebuild inventories (Exhibit 6).

Exhibit 6: We Assume Mideast Supply Adaptation Continues with Production Gradually Recovering



We define Persian Gulf production as the sum of crude from Iran, Iraq, Saudi Arabia and Kuwait, total liquids from UAE and Qatar, and OPEC natural gas liquids.

Source: OPEC Secondary Sources, Goldman Sachs Global Investment Research

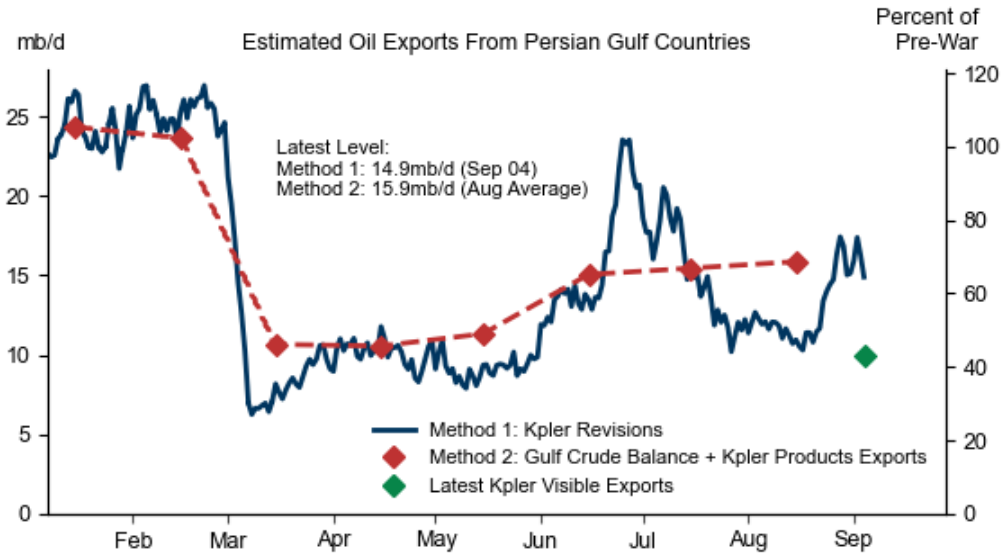
We view gradual further increases in Gulf Exports as a reasonable base case for two reasons.

First, exports have already trended higher, suggesting producers and specialized shippers are adapting to a risky shipping environment, including with rising dark flows (Exhibit 7), given strong economic and national incentives.

Second, additional resources—especially pipelines, tanker fleet expansion, and potentially additional ship protection—could support further export gains. We estimate 3.8mb/d of new effective pipeline capacity addition by end-2027, driven by the UAE's West–East pipeline expansion (+1.8mb/d) and Saudi Arabia's Yanbu port expansion (+2.0mb/d) (Exhibit 8).

To be clear, the intensity and geographical breadth of tanker attacks—a highly uncertain variable—will remain a key driver of whether Gulf oil exports recover and how quickly.

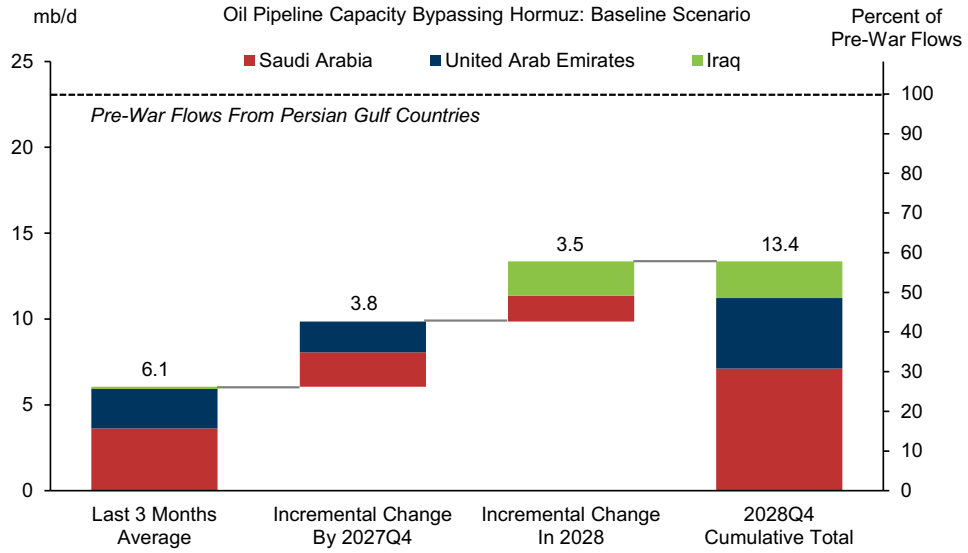
Exhibit 7: Estimated Gulf Oil Exports—Including Predicted Upward Revisions from Dark Flows—Have Recovered to About 2/3 of Pre-War Levels



Oil includes crude, refined products, and LPG. For Kpler flows as currently reported and assuming no revisions, Persian Gulf exports are defined as the sum of flows through the Strait of Hormuz, Yanbu, Fujairah, Gulf of Oman, and Botas Ceyhan. For revisions, crude balance, and Kpler products exports, Persian Gulf exports are defined as the sum of exports from Saudi Arabia, UAE, Iran, Iraq, Qatar, and Kuwait.

Source: OPEC Secondary Sources, IEA, Kpler, PetroLogistics, Goldman Sachs Global Investment Research

Exhibit 8: We Estimate Pipeline Capacity Bypassing Hormuz Will Grow by 3.8mb/d in 2027



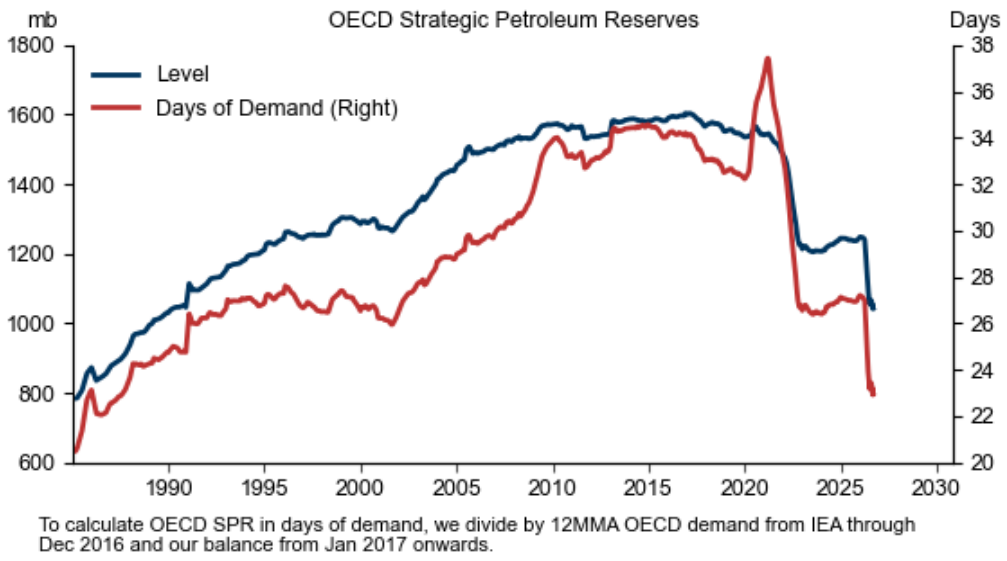
We measure current effective pipeline capacity (latest 14 day average) as the sum of flows from the ports of Yanbu (via East–West pipeline), Fujairah (via ADCOP pipeline), and Botas Ceyhan (via Kirkuk–Ceyhan pipeline). We assume 100% of oil currently being exported from Botas Ceyhan is Iraqi. The seven considered Persian Gulf countries are Saudi Arabia, Kuwait, Iraq, Qatar, Bahrain, the UAE, and Iran. The 3.8mb/d capacity addition by end-2027 is from construction of the new West–East pipeline in the UAE (+1.8mb/d) and expansion of Yanbu port in Saudi Arabia (+2.0mb/d). The 3.5mb/d capacity addition by end-2028 is from expansion of the East–West pipeline in Saudi Arabia (+1.5mb/d), construction of the Kirkuk–Baniyas pipeline in Iraq (+0.7mb/d), and construction of the Basra–Haditha pipeline in Iraq and extensions to Baniyas and Ceyhan (+1.3mb/d).

Source: Goldman Sachs Global Investment Research

Low Global and SPR Oil Stocks Don't Imply Crude Prices Have to Jump Imminently

Visible global oil stocks (Exhibit 10, left) and OECD SPR levels (Exhibit 9) are low by historical standards. Even so, they do not necessarily imply a crude price spike if Middle East supply continues to recover, for three reasons: history, our view that we aren't running out of oil in the near-term, and China's price-sensitive imports.

Exhibit 9: OECD SPR Inventories Have Fallen to Low Levels



Source: IEA, Kpler, Goldman Sachs Global Investment Research

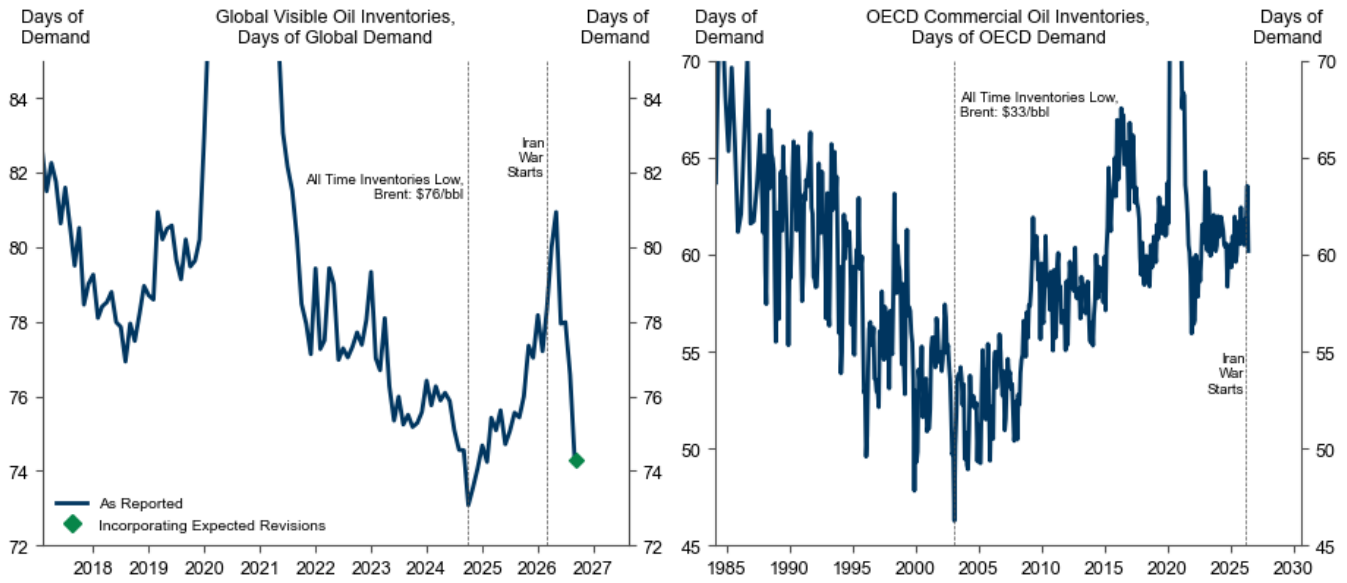
Reason 1: History

The historical relationship between prices and global visible oil stocks is weak. In fact, when visible global stocks hit their all time low in November 2024 (in a sample starting in February 2017), Brent was $76 (Exhibit 10, left).[1] The latest OECD commercial stocks measured in days of demand—which predict oil prices better than global stocks—remain 16% above their 2003 average all-time low. In 2003, Brent front-to-back 1M/36M timespreads traded around a relatively high but not extreme 20% (and Brent spot prices around $30 (Exhibit 10, right)).[2]

[1] To be clear, late 2024 was a different environment from today with high OPEC spare capacity and limited supply disruptions.

[2] OECD commercial landed stocks were structurally lower before the US shale boom. The structural increase in OECD commercial stocks can be explained by a shift from storage on water (given long-haul voyages from the Middle East) to landed crude storage in the US (and short-haul voyages).

Exhibit 10: When Visible Global Stocks Reached Their All Time Low in November 2024 (in a Sample Starting in 2017), Brent was $76; Today, OECD Commercial Stocks as Days of Demand Remain 16% Above the 2003 Average



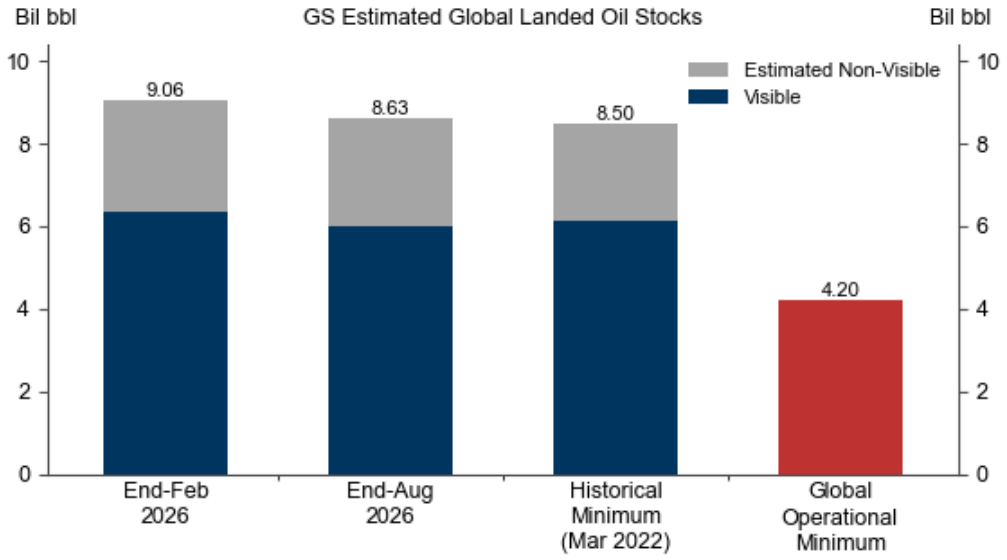
We estimate days of global demand by dividing the GS global visible stocks counter by GS balances world oil demand. We estimate days of OECD demand by dividing OECD commercial stocks from the IEA by OECD oil demand.

Source: IEA, Kpler, DOE, Euroilstocks, ARA PJK, PAJ, Haver, Goldman Sachs Global Investment Research

Reason 2: Not Running Out

We estimate that global landed oil stocks have declined from 9.06 billion barrels before the war to 8.69 billion barrels today, still well above the estimated minimum operational landed storage level of 4.20 billion barrels (Exhibit 11). We use the upper bound of the 30-40 days of global demand range for the operational minimum storage estimate because the global oil operational minimum exceeds the sum of country-product operational minima, given regional/product mismatches and potential export restrictions,

Exhibit 11: We Estimate That Global Landed Oil Stocks Have Declined From 9.1 Billion Barrels Before the War to 8.6 Billion Barrels Now, Which Remains Well Above the Minimum Operational Landed Storage Level Estimated at 4.2 Billion Barrels



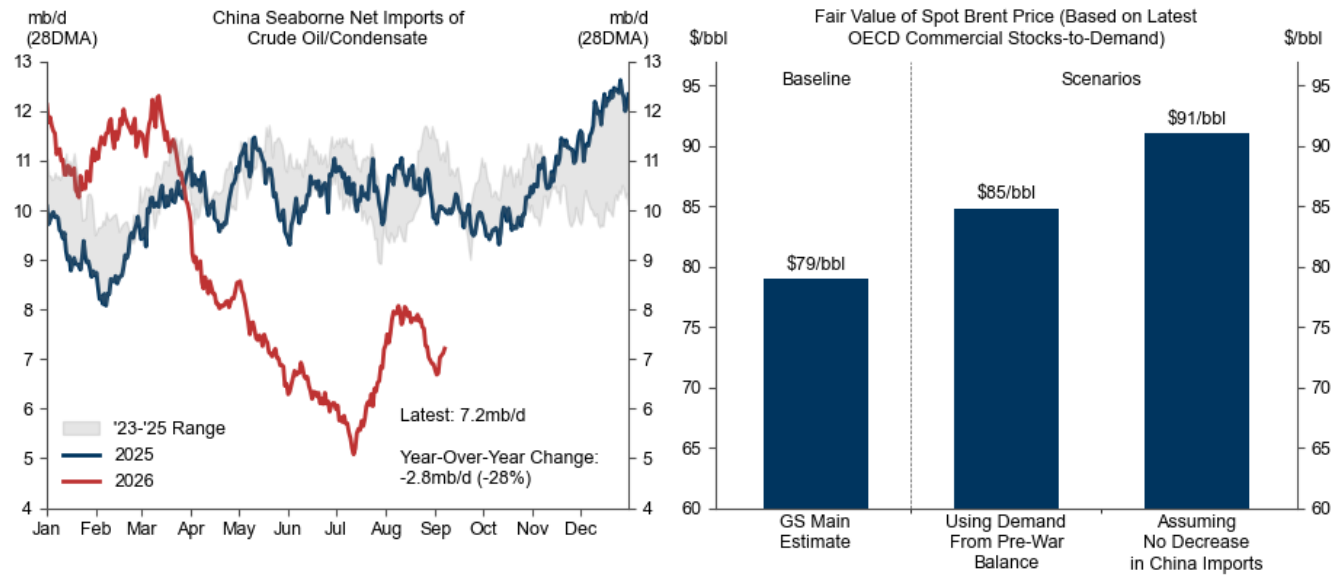
We have earlier estimated the operational minimum level for global landed storage at 30-40 days of demand (see "Oil Analyst: Running Out of Oil? A Large But Still Mostly Local Products Risk", Yulia Grigsby and team, May 4, 2026). We use the upper bound of this estimate and 2025 average global demand to estimate an operational minimum of global stocks in mb.

Source: Goldman Sachs Global Investment Research

Reason 3: China Crude Imports Will Likely Remain Price-Sensitive

Price-sensitive Chinese crude net imports, still down about 30% year-over-year, will likely moderate price upside in an escalation scenario and cushion price downside in a de-escalation scenario (Exhibit 12, left). We estimate Brent fair value would be $10-15 higher if China had kept its imports stable in March-August 2026, triggering more significant OECD commercial draws (Exhibit 12, right).

Exhibit 12: Chinese Crude Net Imports Remain Down About 30% Year-Over-Year; We Estimate Brent Fair Value Would Be $10-15 Higher if China Had Kept Imports Stable in March-August 2026



Current GS estimate of fair value of Brent 36M is $76/bbl. Latest predicted Brent 1M/36M timespreads are 4% (using latest balance demand) and 12% (using pre-war balance demand).

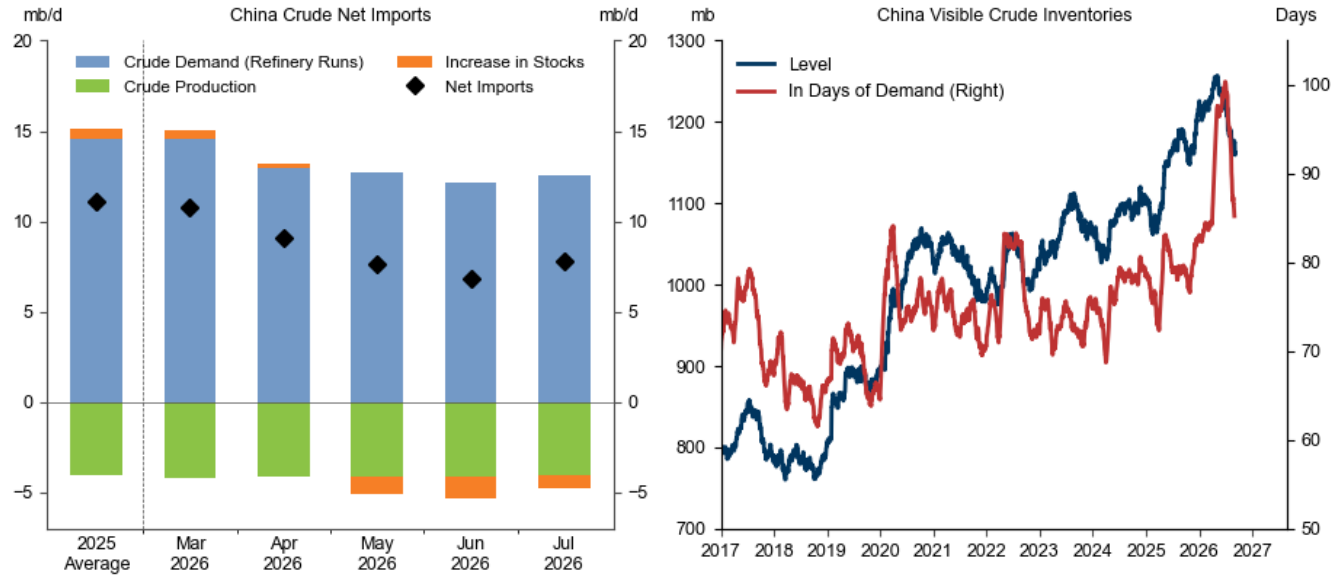
Source: Kpler, ICE, Goldman Sachs Global Investment Research

We expect China's crude imports to stay low if prices remain high because the two drivers—lower crude demand and crude draws—look largely sustainable in coming quarters. The 3.3mb/d drop in July 2026 net imports versus the 2025 average reflects a 2mb/d decline in refinery runs and a 1.3mb/d swing from stockpiling in 2025 to draws since May (Exhibit 13, left).

China crude demand should remain price-sensitive because investment in electric personal cars, electric taxis, electric trucks, public transportation, and coal-based petrochemical plants has increased flexibility to switch away from oil without much pressure on economic activity.

China crude stock changes should also remain price-sensitive because China visible crude stocks remain high—above 1.1 billion barrels—and even higher when invisible stocks are included (Exhibit 13, right).

Exhibit 13: Weaker Price-Sensitive Crude Demand Is the Main Driver of the Drop in China Crude Imports While Chinese Crude Stocks Remain Relatively High



RHS: To calculate China visible crude inventories in days of demand, we divide by refinery runs (equal to demand for crude) from China National Bureau of Statistics. We nowcast the missing August 2026 refinery runs data point by taking the July 2026 data point and applying the month-over-month percent change in the analogous Kpler data series.

Source: Kpler, China National Bureau of Statistics, PetroLogistics, IEA, Goldman Sachs Global Investment Research

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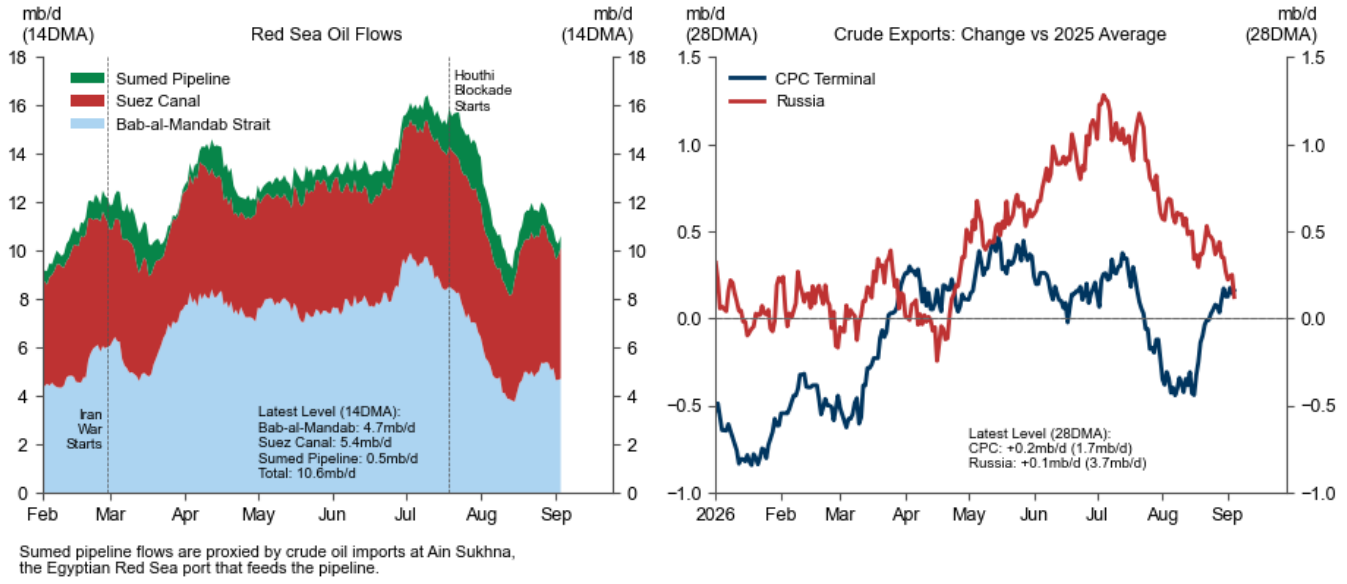
Net Upside Price Risks and Recommendations

Risks to our price forecast remain significantly tilted to the upside on net, especially near-term.

Key upside price risks include more intense and geographically broader shipping disruptions, and damage to crude production or export Infrastructure, which could weaken output in the Mideast or elsewhere for longer. We see the risk of larger or more persistent supply disruptions as especially high in and around Hormuz, the Red Sea and the Black Sea (Exhibit 14).

The main downside price risks are a faster Mideast output recovery and stickier demand losses. Our base case assumes 0.7mb/d of demand scarring in 2027, or 12% of the 6mb/d 2026Q2 loss versus a no war scenario.

Exhibit 14: Oil Flows via the Red Sea and From Russia Have Recently Fallen as Supply Disruptions Broaden



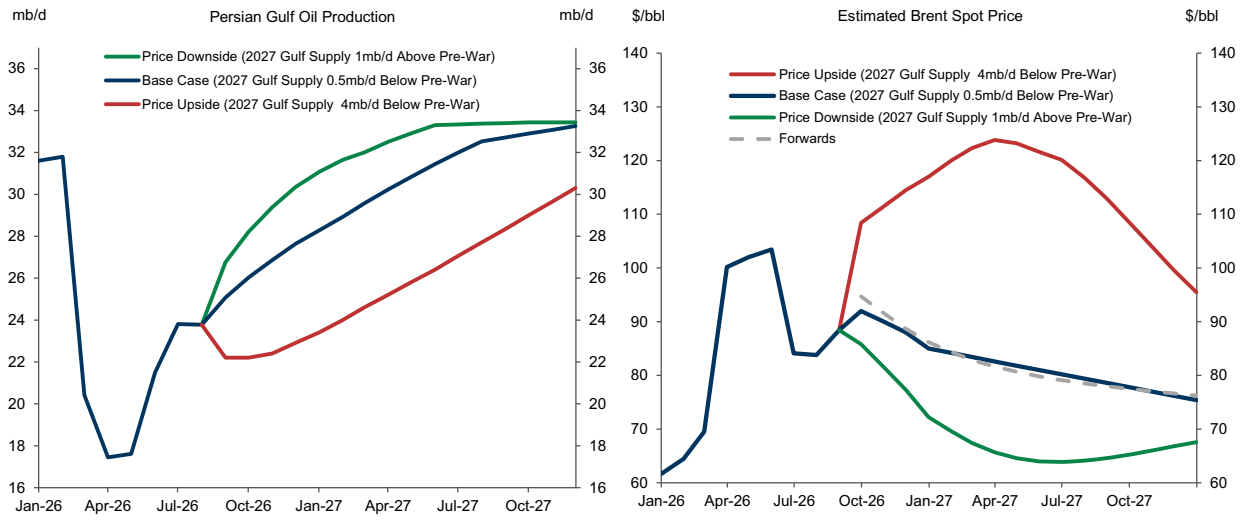
Source: Kpler, Goldman Sachs Global Investment Research

We illustrate the significant net upside price risks with two Gulf output and Brent scenarios (Exhibit 15):

- **Price upside scenario:** Brent might exceed $120/bbl if 2027 average Gulf output remains 4mb/d below pre-war levels, versus 0.5mb/d below in our base case. We view more intense shipping attacks in Hormuz and the Red Sea as the most likely driver of this lower-output, higher-price scenario.
- **Price downside scenario:** Brent might decline into the $60s in 2027 if 2027 average Gulf output rises 1mb/d above pre-war levels.

We still recommend hedging geopolitical risk through deferred Mar27-Dec27 European diesel timespreads, which would rise over 100% if persistent Russia or Mideast refinery outages keep the nearby 9-month spread near current levels.

Exhibit 15: Downside Risk to Gulf Supply Means Net Upside Risk to Our $80 Brent 2027 Average Forecast



Source: Goldman Sachs Global Investment Research