

Oil and Gas

Low crude prices tied to oversupply; gas linked to LNG

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This report does not constitute a rating action.



Contacts

Thomas Watters
New York
+1 212 438 7818
thomas.watters
@spglobal.com

Simon Redmond
London
+44 20 7176 3683
simon.redmond
@spglobal.com

Michael Grande
New York
+1 212 438 2242
michael.grande
@spglobal.com

What's changed?

Oil prices trending lower. Crude oil markets look persistently oversupplied in 2025 and 2026. Stocks are building ahead in China and elsewhere.

Liquefied natural gas (LNG) buildout boom. The massive expansion of LNG processing capacity will drive U.S. natural gas prices higher and result in structural inventory deficits.

Refining margins stronger than expected. Some supportive factors, including outages and maintenance in the second half of 2025, may abate during 2026.

What are the key assumptions for 2026?

OPEC+ reacts to an oversupplied market. OPEC unwound some of its production cuts, but likely must reduce supply to prevent oil prices from falling below \$50 per barrel.

Gas appears supported in 2026. The staggering number of LNG facilities being built in the Gulf of Mexico will support U.S. natural gas fundamentals. European prices may rebound, because they are unseasonably weak, and stored gas is below average.

Markets for oilfield services providers remain challenged. Upstream consolidation and a focus on reining in capex will continue to limit top line improvement and growth opportunities.

What are the key risks around the baseline?

OPEC+ doesn't react to oversupplied market. Oil prices could fall to \$50 per barrel or lower if OPEC does not hold back volumes, given anticipated oversupply.

Sanctions on Russian crude and products. Increased effectiveness of U.S. and other sanctions leads to actual or expected market supply disruptions, with spikes or higher prices.

Some U.S. basins are depleting core acreage. Declines in productivity for some players could be compounded by lower prices.

Industry Outlook

Ratings trends and outlook

The ratings outlook distribution for upstream issuers is largely stable. Companies have continued to focus on balance sheets that maintain investment-grade metrics through the cycle, despite a high level of (M&A) in the exploration and production (E&P) sector. The story is similar to last year, with M&A funding relatively balanced between equity and debt. E&P issuers largely remain focused on limiting capital expenditures (capex) to generate cash flow and reward shareholders, refraining from jeopardizing their balance sheets. Positive rating actions have been muted, largely driven by M&A with improved business risks. The oilfield services sector remains under pressure due to a shrinking customer base and focus on limiting capex. Issuers, particularly in the U.S., will have less pricing power and are looking for alternative energy-related growth markets.

Ratings in the global refining sector are generally stable, which we expect to continue in 2026. Refining margins in 2025 have been slightly above midcycle, and solid balance sheets and adequate liquidity have supported overall creditworthiness. Many North American refiners continue to have structural advantages over their European peers, with lower cost feedstocks, higher complexity, and more market optionality for exports. According to S&P Global Energy, the economic outlook will likely weather trade-related uncertainties, and higher than expected demand for gasoline and diesel has boosted the margin outlook from our previous expectations.

Geopolitical factors including new sanctions on Russian oil and the ability to enforce them will likely influence the product market in 2026 and could provide a floor to diesel cracks. S&P Global Energy believes 500,000-700,000 barrels per day of refining capacity must be rationalized by 2030, mainly in Europe due to more competition, carbon costs, and weaker demand.

Main assumptions about 2026 and beyond

1. OPEC+ ultimately supports an oversupplied oil market.

As OPEC+ unwinds production cuts, global markets are oversupplied. Our base case is that recent sanctions on Russian oil production will not have a material impact on supply and that OPEC+ will ultimately need to cut production to support prices while demand continues to weaken.

2. Rising LNG demand and a data center tail wind drive U.S. natural gas prices higher.

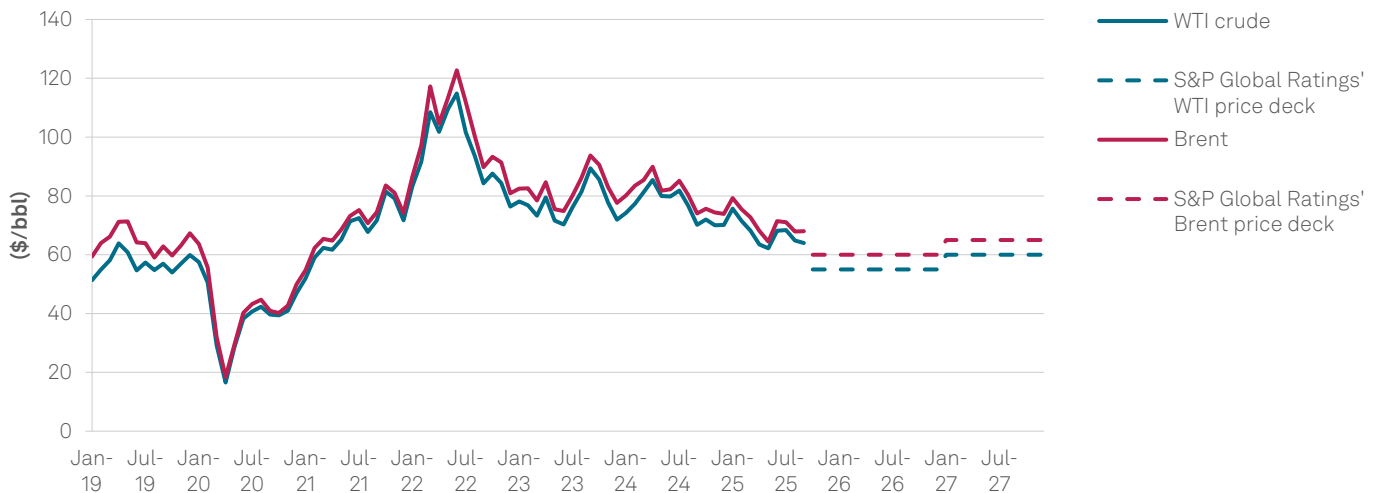
The Henry Hub price will be supported by robust LNG demand and some demand from data centers.

3. Oilfield services will continue to face difficult end markets.

Demand will likely weaken amid lower oil prices and E&P consolidation. With limited growth prospects in the U.S. and declining revenue, providers will look to international expansion or venture into nontraditional energy related markets.

Chart 1

West Texas Intermediate and Brent spot crude prices



Sources: Energy Information Administration, S&P Global Ratings price deck assumptions.
bbl--Barrel. WTI--West Texas Intermediate.

Oil markets likely will remain oversupplied for most of the next year. After two years of demand outstripping supply, the oil markets have moved into oversupply conditions and will likely remain that way through next year. While oil prices have remained volatile to the ever-changing news out of the Middle East, the price of oil has been consistently trending lower. OPEC announced in the spring that it would unwind its 2.2 million b/d of voluntary cuts which have been completed. The V-8 group also began to remove 1.65 million b/d of voluntary cuts. They started this by increasing output by 137 thousand b/d in October through December. However, at its meeting in early November, OPEC+ agreed to pause further increases at least for Jan-March of next year.

This comes as non-OPEC growth alone was sufficient to meet increased demand, which has slowed the last several years largely due to lower Chinese demand given its rapid shift to electric vehicles and conversion of diesel truck engines to compressed natural gas. S&P Global Energy has stated that diesel demand in China peaked in 2023 while gasoline demand peaked last year.

The market believes recent sanctions against Russian oil production by the Trump administration will have little effect on Russian production, highlighted by a subdued oil price reaction. Russia has been very adept at circumventing previous sanctions and attempts to limit its oil production.

Global oil markets will likely be oversupplied by up to 4 million barrels per day into the first quarter of 2026. We believe that OPEC will monitor global demand, oil prices, and the impact of sanctions against Russia before it will consider production cuts.

North American refining will benefit from a confluence of positive factors. Strong distillate cracks, seasonal heating demand, and robust gasoline demand from Europe in some combination will likely boost diesel and gasoline margins in 2026. Furthermore, we expect a slower ramp-up at the Dangote refinery pulling light product into West Africa and a greater incentive for U.S. refineries to produce distillate at the expense of gasoline. We think jet fuel demand could improve as flights resumed from the U.S. government shutdown and expectation for higher demand for domestic and international travel. Globally, we think refineries in the Middle East and Asia will target diesel and petrochemical projects over light product growth,

keeping gasoline inventories tight. Additional OPEC+ supply and higher Canadian production could widen sour crude differentials to the benefit of U.S. Gulf Coast refineries.

While we believe global capacity rationalization will continue, most will come from marginal refineries in Europe during the next few years. The announcement of three refined product pipeline projects to supply the Western U.S. could accelerate rationalization in California, after the announced closure of the Benicia, Calif., refinery (170,000 barrels per day) in the second quarter of 2026.

Longer term, the energy transition remains relevant. However, energy security and affordability have risen in importance. The slower rate of zero-emission vehicle adoption due to cost concerns and the sluggish buildout of charging infrastructure will support refining margins in the coming year. Moreover, zero-emission conversions of medium and heavy duty fleet are slower than in the light duty vehicle market, which could support stronger diesel margins.

U.S. gas markets enter a structural change. Prospects for U.S. natural gas markets are more supportive than for oil markets. We expect a prolonged period of domestic inventory remaining below the five-year average. We are not as sanguine on Alberta Energy Co. (AECO) gas fundamentals as inventories remain near all-time highs and the supply-and-demand story is not as conducive for price increases as in the U.S.

The primary narrative for the Henry Hub is the significant buildout of LNG terminals in the Gulf of Mexico. We project feedgas to increase to almost 31.1 billion cubic feet per day by the end of the decade, 136% higher than in 2024. Further supporting gas fundamentals is the rapid and significant buildout of data centers in the U.S. Ultimately, it is difficult to estimate how much gas feedstock will be sourced to supply data centers given competing power sources and the backlog for gas turbines, but even a nominal 3 billion cubic feet per day provides an additional tailwind.

AECO prices will not increase as much as the Henry Hub will. We see the differential widening between the two benchmarks. AECO will benefit from LNG capacity coming onstream in Canada, but inventories are near capacity and it still lacks export egress capacity. Moreover, Canadian producers can break even at exceptionally low AECO prices (in some cases even negative prices) given the offsetting condensate component.

Oilfield service companies continue to struggle to increase their top lines. OFS companies will continue to face top-line pressure especially in the U.S. as producers look to reduce capex because of lower oil prices. Over the last several years, they have been subject to tight capex budgets as E&P companies in the U.S. and elsewhere to restrain capex and try to improve cash flow to focus on shareholder returns. We expect global capex to decline next year in the mid-single-digit percentages, with North America spending likely higher. While many smaller OFS companies have declared bankruptcy over the years and equipment being mothballed, providers still find it difficult to garner higher prices or volume. Moreover, the upstream E&P sector has consolidated for several years, which we expect will continue. Oil and gas producers have been looking to acquire quality drilling inventory and achieve synergies. However, this is detrimental to services companies as their customer bases shrink and more production is in fewer hands. This typically leads to a more disciplined and rationale approach for the allocation of drilling and development capital.

With limited growth prospects in North America, particularly larger companies with greater scale, scope, and diversity are looking internationally for expansion or considering branching out into other nontraditional energy related revenue streams.

Credit metrics and financial policy

We lowered our price decks for both oil and gas several times in 2025. We have West Texas Intermediate (WTI) crude prices at \$55 and Brent oil at \$60 for 2026, then \$60 and \$65 for the next three years. Our Henry Hub and Canadian AECO natural gas decks increase along with the expected demand pull from LNG and data center buildout. Our Henry Hub price decks for the next four years are at \$4.25, \$4.25, \$4.00 and \$3.75 with AECO at \$2.25, \$2.50, \$2.50 and \$2.25, respectively. Dutch Title Transfer Facility (TTF) assumptions are \$11/mmBTU in 2026, \$9 in 2027 and 2028, and falling to \$8 in 2029. We forecast companies will continue to allocate cash flow toward shareholder rewards rather than debt retirement given the lack of maturities and balance sheet targets that have been met.

The financial policy decisions companies make in lower price environments can inform our ratings. Using balance sheet strength to continue investments when prices and operating cash flow decline can be more credit supportive than cutting capex and increasing debt to sustain shareholder distributions. Balance sheet debt capacity is a limited resource. If ratios decline with weaker cash flow and higher debt in 2026, a company could end 2026 with limited ratings headroom to face another potential year of weaker prices or margins.

We anticipate a global decline of capex in the low-single-digit percent area, driven by lower oil prices. We believe companies will continue to conduct most M&A in a credit-friendly manner, without material additional debt funding.

Key risks or opportunities around the baseline

1. Oil prices could drop materially if OPEC+ doesn't limit supply.

Prices trended lower during 2025, and volumes afloat have increased. A lack of timely and sufficient supply restraint by producers could raise inventories and push down prices.

2. Sanctions targeting Russian exports could bite harder and push up prices.

Russian export volumes have remained material, so a significant decrease could change oil market balances and lift prices as buyers look to secure supply.

3. A focus on drilling core acreage is leading to declining productivity, a double whammy with lower prices.

For tight oil producers, the recent onshore U.S. trend of increasing production with fewer rigs is unlikely to continue indefinitely.

Oil supply dynamics have been the overriding driver for prices in 2025 and into 2026. Despite the economic uncertainties because of U.S. tariffs, from which oil is largely exempted, global demand for crude has continued to rise moderately. S&P Global Energy forecasts incremental higher demand in 2026 of about 1 million barrels per day. Significant volumes have been bought and stored in China, absorbing barrels and preventing an already oversupplied market from getting worse.

Importantly for our price deck and base-case assumptions for rated companies, we assume OPEC+ monitors and reacts by reducing volumes if prices decline meaningfully. A key risk is that this doesn't happen or adjustments to supply come too late. Reported oil storage in December is already trending up, especially oil on water, and look likely to build in the first quarter of 2026. We expect more price downside risks as inventories rise further.

If oil drops and stays below \$50 per barrel, we would expect increasing strain for oil-focused producers. We calibrate investment-grade ratings to hold even if Brent averages \$55 per barrel or WTI averages \$50 for one year. More decisive actions to reduce cash outflow for capex or share

buybacks are likely if prices remain below these levels with no clear path for a rebound. For speculative-grade ratings, liquidity and debt maturity profiles would come into sharp focus. Given the strength of many balance sheets, companies could weather prices below \$50 for under a year. The question would be, in such an environment, how long do they stay there.

As in previous cycles, the impact of sustained low prices is not linear. Operating and financial leverage magnifies the effects on cash flow. Operating costs typically take months to adjust. Capex plans are usually committed for several months, if not quarters or years. Sharp cuts in activity can also reduce the production profile, especially for tight oil and gas, or companies choose to leave reserves untapped in the hope of higher prices. Hedging can provide a temporary benefit and cushion, although in-the-money hedges may be cashed out for liquidity. When prices recover, for how long, and how low prices persist are key uncertainties.

Russian volumes and exports contribute materially to global supply. Crude exports by sea and pipeline averaged about 5 million barrels per day in late 2025, with total production of more than 9 million per day. This is one reason that a complete blockage of Russian hydrocarbons--even if feasible--was discounted in 2022. Consequently, if several packages of sanctions, now including the largest Russian oil companies, Rosneft and Lukoil, start to substantially constrict the export flow, we could expect a significant price reaction.

One view is that the risks of Russian supply disruptions are broadly balanced by the risks of OPEC+ not reacting effectively to anticipated oversupply. That situation would be vulnerable to shocks and changing market assumptions. Conceivably, any substantial loss of Russian volumes might reduce the market oversupply. But the timing and extent to which this might balance the market on an ongoing basis is highly uncertain.

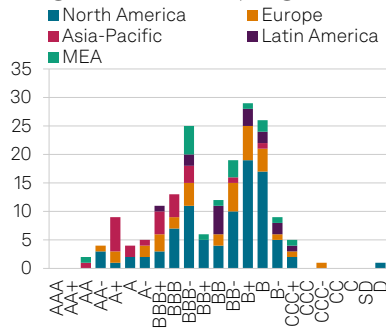
Core inventory depletion is beginning to surface in North America. There has no doubt been a general weakening in productivity and core depletion as producers, especially smaller firms, have focused on core acreage to generate returns. Relatively weak crude oil prices throughout 2026 will likely continue to spur operators to focus on high-grade drilling toward the most productive (and most economic) areas of each play, but this will further accelerate declining productivity. We believe oil plays such as the Bakken and Eagle Ford will exhaust core inventory before more gas plays such as the Haynesville or Marcellus. We believe the high pace of industry M&A has been driven by this concern and difficulty in replacing production organically.

Related Research

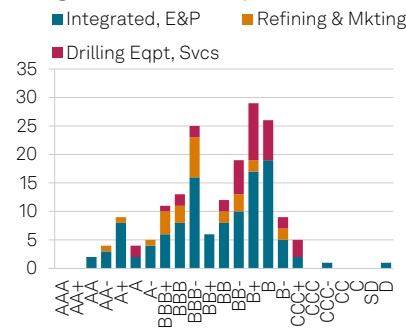
- [Outlook For Deepwater Contract Drillers Remains Constructive Despite Near-Term Choppy Waters](#), Nov. 24, 2025
- [S&P Global Ratings Webinar: Global Outlook For The Oil & Natural Gas Industry](#), Nov. 13, 2025
- [S&P Global Ratings Revises Hydrocarbon Price Deck Assumptions](#), Nov. 10, 2025
- [Carbon Capture and Sequestration \(CCS\) — Navigating Uncertainty and Viability](#), June 19, 2025
- [U.S. Oil And Gas: Oil Price Drops Could Bore Into Producer Spending](#), May 22, 2025

Ratings Trends

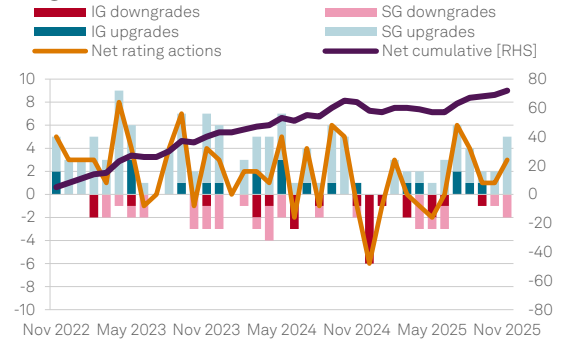
Ratings distribution by region



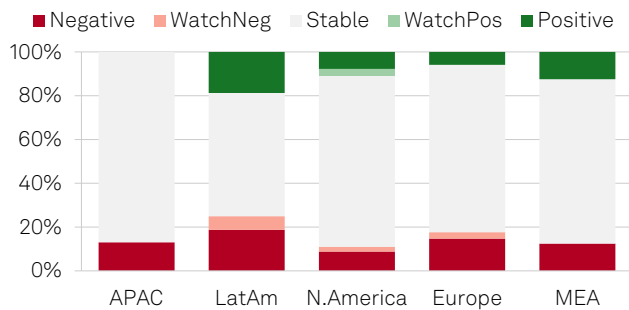
Ratings distribution by subsector



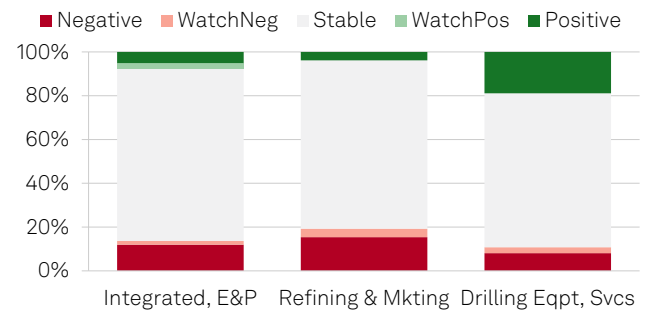
Ratings actions



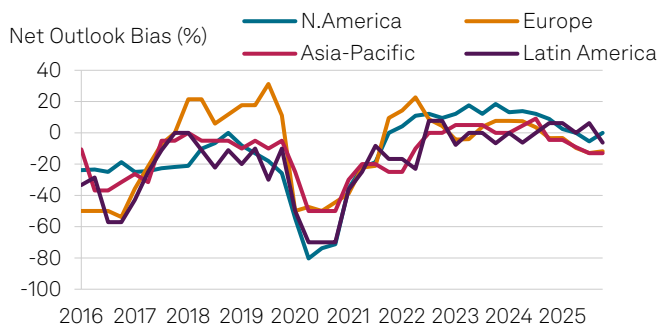
Ratings outlooks by region



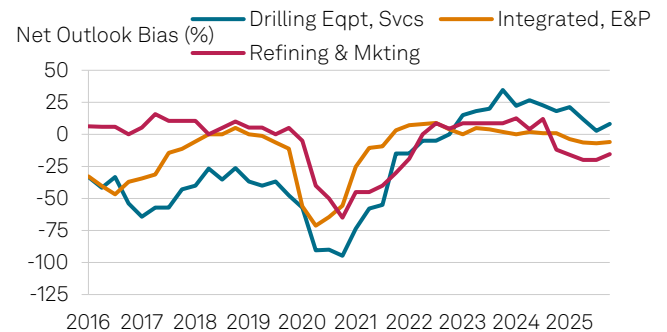
Ratings outlooks by subsector



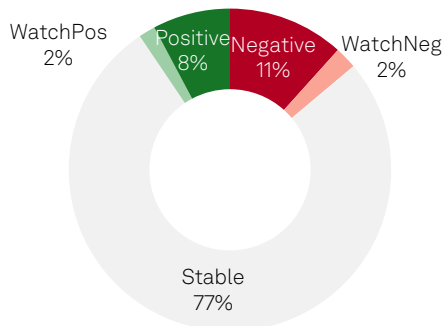
Ratings outlook net bias by region



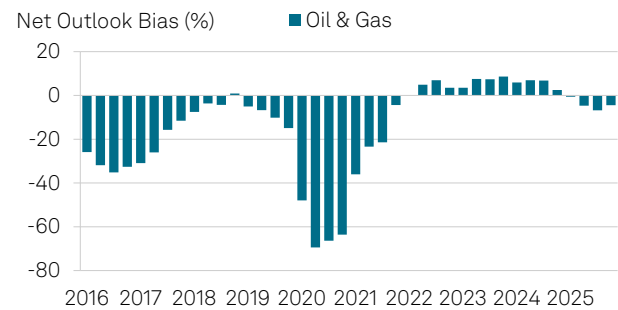
Ratings net outlook bias by subsector



Ratings outlooks



Ratings net outlook bias

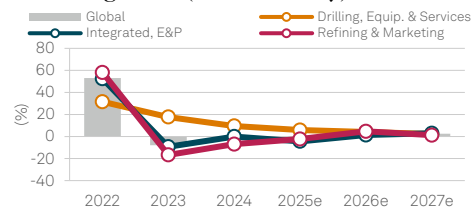


Source: S&P Global Ratings. Ratings data measured at quarter-end, except for ratings actions which are shown monthly.

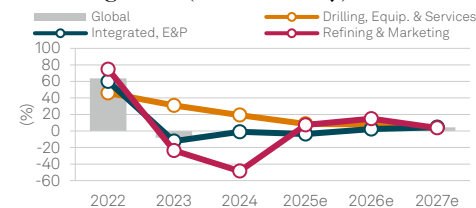
Industry Forecasts (Medians)

		All				Investment Grade				Speculative Grade			
		2024	2025e	2026e	2027e	2024	2025e	2026e	2027e	2024	2025e	2026e	2027e
Revenue growth, local currency (Y/Y%)	Global	-0.2	-2.9	3.3	2.5	-2.0	-4.7	1.1	1.8	3.0	0.6	4.4	3.0
	Drilling, Equip. & Services	9.5	5.8	4.2	2.3	9.1	-1.6	3.8	3.0	10.9	6.6	4.7	2.3
	Integrated, E&P	0.0	-4.4	1.4	2.9	-1.7	-5.7	0.0	2.4	2.9	-2.9	3.0	4.7
	Refining & Marketing	-6.9	-2.3	4.7	1.2	-5.4	-0.2	4.4	1.2	-12.0	-3.2	5.0	-2.3
EBITDA growth, local currency (Y/Y%)	Global	-1.7	-1.3	5.5	4.4	-5.2	-3.1	2.3	4.6	3.0	2.6	7.0	4.1
	Drilling, Equip. & Services	19.2	8.6	7.9	4.1	8.0	-9.1	12.7	5.6	20.3	9.0	6.3	1.9
	Integrated, E&P	-1.0	-3.7	2.3	4.6	-3.0	-3.7	1.6	4.1	2.8	-3.3	3.0	5.6
	Refining & Marketing	-48.5	7.3	14.9	3.8	-43.3	7.3	2.3	3.8	-66.8	14.8	25.7	1.6
EBITDA margin (%)	Global	40.6	39.3	40.8	42.9	22.8	21.5	24.5	25.0	44.6	41.7	45.4	47.2
	Drilling, Equip. & Services	28.5	27.8	28.8	28.7	23.5	20.0	20.7	21.7	30.6	31.4	31.1	31.3
	Integrated, E&P	56.2	54.3	54.4	54.1	49.1	44.8	45.9	47.0	58.4	55.2	57.8	57.2
	Refining & Marketing	4.1	4.4	5.2	6.1	4.8	5.2	5.5	6.1	2.2	2.2	4.7	6.2
Capex growth, local currency (Y/Y%)	Global	6.4	5.0	0.0	0.0	6.9	5.4	0.0	0.0	5.3	8.0	0.0	0.0
	Drilling, Equip. & Services	10.3	19.2	-2.4	0.0	10.3	-8.6	0.0	2.0	12.7	25.0	-3.7	0.0
	Integrated, E&P	6.2	2.0	0.0	0.0	6.9	5.7	0.0	0.0	5.6	-0.3	1.1	0.0
	Refining & Marketing	0.9	10.0	0.0	0.0	7.2	9.9	0.0	0.0	0.0	16.3	0.0	0.0
Debt/EBITDA (x)	Global	1.7	1.7	1.6	1.6	1.2	1.3	1.3	1.2	1.9	1.9	1.8	1.6
	Drilling, Equip. & Services	1.7	2.0	1.7	1.6	1.0	1.2	1.2	1.0	1.9	2.2	1.7	1.6
	Integrated, E&P	1.6	1.7	1.6	1.5	1.3	1.2	1.3	1.1	1.8	1.8	1.8	1.6
	Refining & Marketing	2.5	2.7	2.4	2.2	1.9	2.3	1.9	1.8	3.5	3.2	2.9	2.6
FFO/Debt (%)	Global	41.4	43.2	46.7	50.0	48.7	52.8	55.5	58.5	38.9	40.5	42.0	45.9
	Drilling, Equip. & Services	47.4	35.3	46.4	47.5	82.1	79.3	75.5	89.8	36.3	34.6	41.3	43.3
	Integrated, E&P	48.2	46.9	48.8	52.6	51.3	57.9	60.2	60.7	46.5	43.4	43.5	48.4
	Refining & Marketing	16.6	24.6	28.0	33.6	21.8	29.6	34.5	38.9	8.9	21.8	22.7	27.5
FOCF/Debt (%)	Global	12.7	12.0	15.8	17.6	17.4	18.3	20.3	25.6	9.8	9.6	13.6	15.9
	Drilling, Equip. & Services	15.3	17.2	25.8	30.2	48.2	53.1	31.9	41.1	9.6	10.2	23.2	26.2
	Integrated, E&P	14.8	13.8	15.2	16.9	17.4	19.0	20.3	26.1	12.4	11.3	11.9	15.1
	Refining & Marketing	3.4	4.0	8.3	8.4	10.5	7.9	7.7	8.4	-21.9	2.5	8.8	7.5

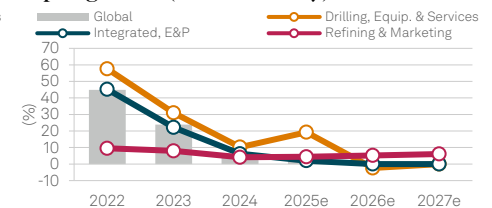
Revenue growth (local currency)



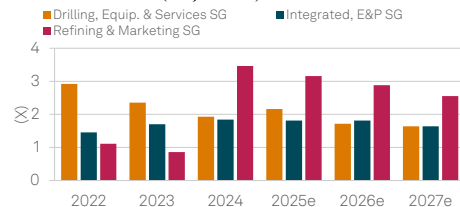
EBITDA growth (local currency)



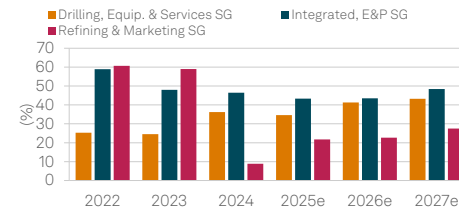
Capex growth (local currency)



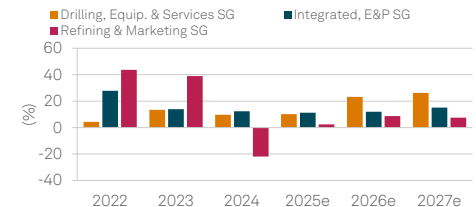
Debt/EBITDA (adjusted)



FFO/Debt



FOCF / Debt



Source: S&P Global Ratings. e--estimate. FFO—Funds from operations. FOCF—Free operating cash flow. Data as of Dec. 31, 2025.

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