

Wednesday 7 January 2026

Heavy oil, light market reaction

- **Geopolitics:** the shifting role of the US on the world stage is increasing uncertainty in energy markets, although markets currently assign a low probability to direct supply disruptions.
- **Oil production in Venezuela:** poor infrastructure and an unstable investment climate make a short-term increase in production unlikely.
- **Heavy oil:** Venezuelan oil is costly to produce and process, but it is well suited to US refineries, making it economically and strategically attractive.
- **Natural gas production in Venezuela:** Subsurface gas potential is substantial, but large-scale development is unlikely as a result of US interference.
- **TTF:** The front-month contract has been trading below EUR 30/MWh for several weeks, despite the need to phase out dependence on Russian LNG in 2026.

Geopolitical impact of US action in Venezuela

The US military operation on Venezuelan territory and the arrest of Nicolás Maduro have already triggered widespread speculation about potential geopolitical repercussions in other regions. In particular, there is discussion that this action effectively creates a *blank cheque* for countries such as Russia and China to intervene legitimately (including militarily) within their respective spheres of influence. In Russia's case, this already concerns Ukraine, but it is an open secret that Putin seeks greater control over countries from the former Soviet bloc. For China, this has already manifested itself in the tightening of control over Hong Kong, while the threat towards Taiwan has also been significantly escalated in recent months.

In this context, it is important to distinguish between a long-term trend — namely the shift in US focus towards its own region — and short-term developments across different theatres. Although Trump has indeed placed greater emphasis on developments in countries neighbouring the US, as he indicated during his election campaign, his administration remains actively involved in other conflicts and tensions worldwide. The US continues to play a key role in arming Ukraine and enforcing sanctions against Russia. In addition, it has supplied large quantities of defensive weapons to Japan and Taiwan, and Trump supported Israel during last summer's attack on Iran.

In that sense, the US, as a (military) superpower, cannot be compared to other countries. Consequently, developments involving Russia/Ukraine and China/Taiwan are fundamentally different from those in Venezuela. It is also important to recognise that the Venezuelan regime has not (yet) been overthrown. While Maduro has now been taken to the US, his regime remains in power and retains the support of the military. It is therefore still too early to draw firm conclusions from the recent developments.

Changing trend and market impact

That said, it is clear that the role and strategic focus of the US are changing. The US presence in the Middle East has been significantly scaled back, ties with certain controversial world leaders have been strengthened over the past year, while relations with traditional allies have been allowed to loosen somewhat. The growing realisation that a *different wind is blowing* in Washington — and one that can shift direction abruptly — has materially increased global uncertainty about what can be expected from the US, thereby reducing predictability for markets.

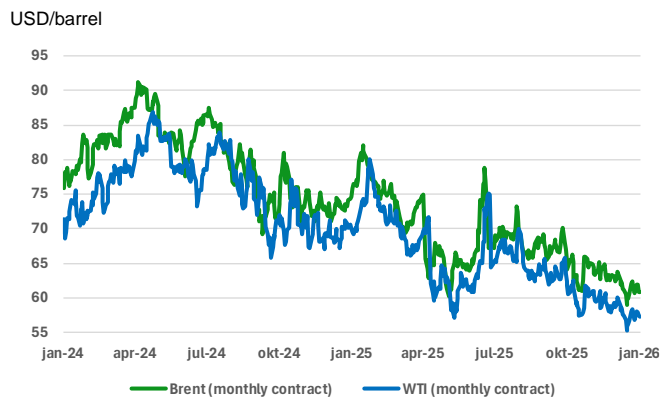
Against this backdrop, it is all the more striking that financial markets have been pricing in so little risk premium for quite some time. Both oil prices and TTF gas prices have continued to decline in recent months. In the case of oil, the dominant factor is oversupply, which means that potential production disruptions have had little impact on prices. For gas, it is a combination of unexpectedly weak demand and market expectations of higher supply later in the year that is keeping prices subdued. Risks related to possible outages or other forms of disruption are still being assessed as low.

That said, markets are often opportunistic and sentiment-driven. US oil companies have seen their share prices rise sharply in recent days, as investors anticipate that these firms could benefit from a potential wave of investment in the Venezuelan oil sector. However, while tens of billions of dollars would be required, it will take many years before any returns can reasonably be expected. In short, investors will need considerable patience — if returns materialise at all, and provided there is no third round of nationalisation or another development that prevents investments from translating into meaningful production growth.

The poor state of the Venezuelan oil industry

In social terms, the situation has remained relatively calm following the military operation, and direct damage to energy infrastructure has been limited. The impact of recent developments on the Brent price has so far been modest. After an initial, slight decline, oil prices are trading largely sideways.

Oil price moving sideways



Source: LSEG Eikon

The sideways price action is not surprising given Venezuela's relatively limited oil output, currently below 1 million barrels per day (mb/d). Initial optimism was driven by the prospect of a potential lifting of the naval blockade and an easing of sanctions on the Venezuelan oil sector, combined with expectations of increased (Western) investment. According to some market participants, current production could ramp up relatively quickly. Figures being mentioned range from around 2.5 mb/d — comparable to output at the time Maduro took office in 2013 — to as much as 4 mb/d, the peak level reached in the 1970s.

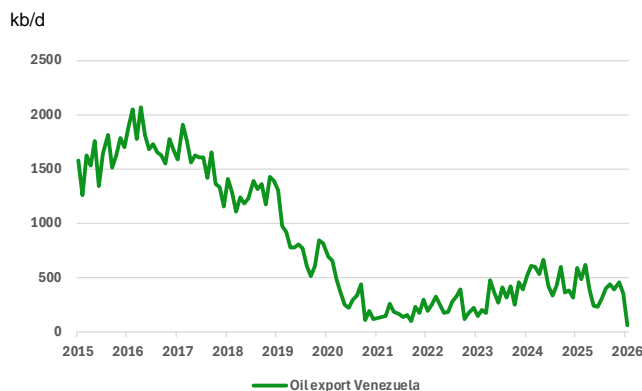
Crude oil production in Venezuela



Source: LSEG Eikon

The reality, however, is that Venezuela's oil sector has been hollowed out over many years by a structural lack of investment, sanctions, corruption, large-scale layoffs and nationalisations. Western oil companies are therefore expected to remain cautious as long as uncertainty persists regarding political stability and the strength of Venezuela's legal and financial institutions. At the time of writing, it remains unclear how the political situation will evolve. Moreover, production and export infrastructure is in poor condition, meaning that any recovery will be both capital-intensive and time-consuming.

Venezuelan crude oil exports



Source: LSEG Eikon

For the time being, there are significant obstacles to a meaningful recovery of the Venezuelan oil sector. This is compounded by the fact that current oil prices are relatively low, making international oil majors even more reluctant to commit to high-risk investment decisions. Moreover, Venezuelan crude is characterised by high viscosity, which makes both production and processing costly. Extra-heavy crudes such as those found in Venezuela often need to be heated or blended with lighter crude to enable transportation, while large volumes of chemicals are required to extract the oil in the first place. The refining process is also more energy-intensive and therefore more expensive. That said, this last point is less of an issue for US refineries (see next chapter).

While a near-term recovery appears unlikely, it is more plausible that private oil companies will be willing to invest in Venezuela over the longer term — provided that conditions and market fundamentals become sufficiently attractive. Interestingly, the very high viscosity of Venezuelan crude also plays a role here. Although this characteristic increases costs, under current market conditions it is precisely this feature that makes Venezuelan oil strategically valuable for the US.

Quality of Venezuelan oil suitable for American refineries

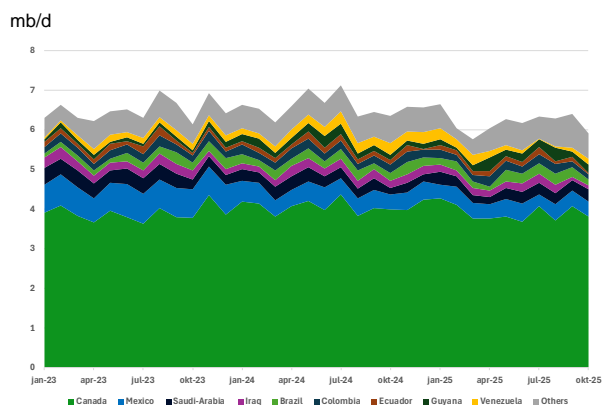
Media coverage frequently highlights the scale of Venezuela's proven oil reserves, which at over 300 billion barrels are widely regarded as the largest in the world. What is often underemphasised, however, is the type of crude that makes up these reserves. A substantial share of the reserves in the Orinoco Belt, located in Venezuela's interior, consists of extra-heavy and sulphur-rich (sour) crude. This distinction is crucial when assessing the implications for the global oil market, both from a supply-and-demand perspective and in geopolitical terms.

Crude oil can be classified according to viscosity (light versus heavy) and sulphur content (sweet versus sour). Light crude is easier to produce and refine and yields a relatively higher share of high-value products such as jet fuel, naphtha and gasoline blendstocks. Heavy crude, by contrast, contains a larger proportion of diesel, fuel oil and bitumen, making processing more complex and energy-intensive. Crude with a high sulphur content also requires additional desulphurisation steps, further increasing refining costs.

Historically, the US was a major buyer of Venezuelan heavy, sour crude, particularly Merey crude. Thanks to favourable geography, refineries along the US Gulf Coast have been specifically configured to process this type of oil. A stable supply of heavy crude is therefore important for the profitability of these refineries.

At present, the US imports the majority of its heavy crude from Canada, which accounts for approximately 63% of total US crude oil imports. Taken together, countries in North and South America represent as much as 84% of US crude imports.

US crude oil imports by country



Source: EIA

Although producing, transporting and processing Venezuelan crude is costly, the current US import mix nevertheless makes this oil potentially attractive. A large-scale supplier of heavy crude with a favourable geographic location could help diversify the US import portfolio. In this context, Venezuelan oil could partly replace imports from more distant regions such as the Middle East — including Saudi Arabia and Iraq — which entail higher transportation costs.

Another potential development is a reduction in US import dependence on Canada. The US Gulf Coast can be supplied more cost-effectively from Venezuela than from Canada (Alberta). Conversely, the potential inflow of additional Venezuelan crude poses a risk to Canadian exports, which are heavily reliant on the US market. Plans to connect Alberta's oil fields to the west coast of British Columbia may therefore gain momentum, allowing Canada to access Asian markets.

At present, China is the primary buyer of Venezuelan crude. Once this oil becomes legally available on the global market, it is plausible that refineries along the US Gulf Coast would become the main export destination. An increase in Venezuelan oil exports to the US would therefore come at the expense of China.

Venezuelan crude accounts for approximately 4% of China's total crude oil imports. The large volumes of crude currently stored in tankers at sea suggest that Chinese refineries are unlikely to face shortages in the short term. Over the longer term, Chinese refiners may absorb the volumes freed up from Canadian exports. Since the US blockade of Venezuela, Chinese imports of Canadian crude have already increased by roughly 200 kb/d.

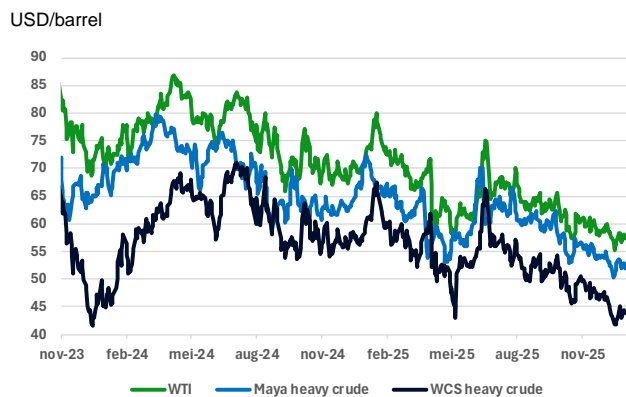
Potential market impact varies by type of oil

Over the longer term, an increase in investment in Venezuelan oil production could help alleviate tightness in the heavy crude market. At present there is a relatively ample supply of light crude, whereas heavy crude remains comparatively scarce. As a result, the pricing premium between light and heavy grades is narrow, making investment in heavy crude production — including in Venezuela — relatively more attractive to oil companies despite the low Brent price environment.

The imbalance in the oil market is largely a consequence of the strong growth in US shale production, which mainly yields light crude. Because many refineries are still optimised for heavy, sour crude, a structural mismatch has emerged in the US between supply and demand. This effect is compounded by rising production from deep-water basins in countries such as Guyana and Brazil — and in the future, Suriname — which also primarily produce light crude.

Geopolitics also plays an important role. A substantial portion of globally sanctioned crude is heavy — originating from countries such as Venezuela (Meruy), Russia (Urals) and Iran (Iran Heavy). An easing or lifting of sanctions on Venezuelan oil, combined with increased investment, could over time lead to a larger supply of heavy crude. Given the scale and complexity of the investments required, however, this effect is unlikely to be seen in the near term. One plausible scenario envisages output rising to around 2.5 mb/d by 2035 — roughly 1.5 mb/d above current levels.

Relative scarcity in the heavy oil market



Source: LSEG Eikon

Recent developments in Venezuela have so far had only a limited impact on the oil market in the short term. Although a potential easing of sanctions could lead to higher exports, and political or social unrest could put further pressure on production, the *absolute market impact remains constrained for now*. Brent crude prices have shown only modest movements following these events, as ample global supply continues to offset isolated disruptions.

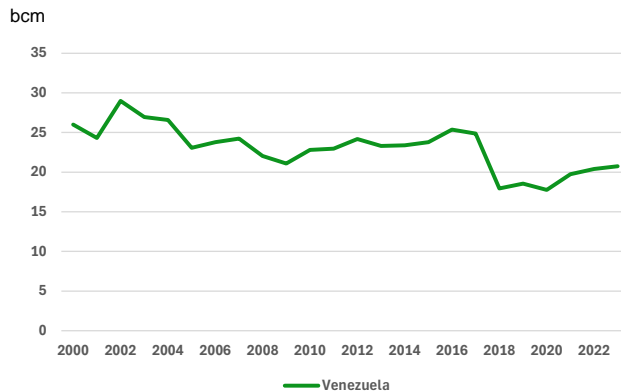
Over the longer term, a structural increase in Venezuelan production and export volumes **could** have meaningful implications for the oil market — particularly by exerting downward pressure on the price of heavy crude. However, this remains highly dependent on political stability and sustained investment over the coming years

Venezuela also has great potential for natural gas

In terms of natural gas, Venezuela is the third-largest producer in South America. With production of around 20 bcm per year, only Brazil and Trinidad & Tobago extract more gas — 24 bcm and 27 bcm respectively. Nevertheless, on a global scale these production levels are modest. Moreover, it takes investment — and therefore time — to be able to export national production in the form of LNG. As a

result, there has been no immediate price impact on the Henry Hub and TTF markets following last weekend's US military intervention.

Gas production in Venezuela



Source: IEA

In terms of reserves, Venezuela has a rich endowment not only in oil but also in natural gas. Gas reserves are estimated at over 5,500 bcm, nearly twenty times the EU's annual gas consumption. In short, the potential is enormous. The question, however, is whether recent developments will lead to more of this potential reaching the market over time.

The (European) TTF market is currently in backwardation, meaning that the price for future gas delivery is lower than the price for delivery now. Large-scale investments in LNG production and export in recent years have already increased supply, and this is expected to grow further in the coming years. This makes new investments in production expansions less attractive at present.

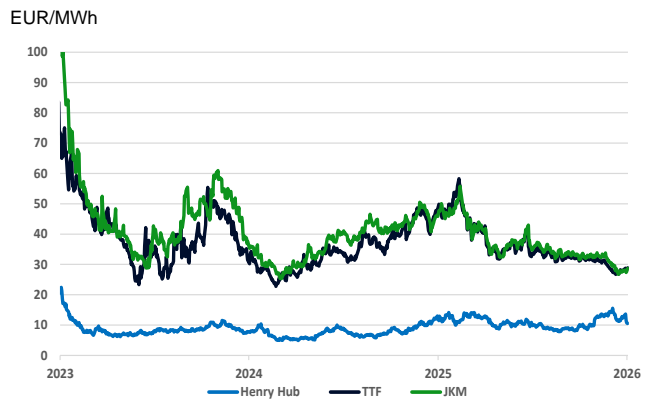
Moreover, a large portion of Venezuela's gas reserves is produced as associated gas from oil operations. Currently, around 10 bcm per year is even flared as a by-product. This illustrates that the infrastructure and operational capacity needed to bring gas to market in Venezuela are insufficient. As a result, it seems unlikely that this situation will change in the near term, even under US involvement.

TTF still below EUR 30/MWh

The active front-month TTF contract is currently trading at around EUR 28/MWh. On Monday 5 January, the contract price fell by just over 4%. Developments in the situation around Venezuela appear to have little to do with this movement. Revised weather forecasts in Europe are more to blame. Where temperatures in large parts of Europe are still below the long-term average, the likelihood has increased that they will rise next week. As a result, expected (temperature-related) gas demand is falling.

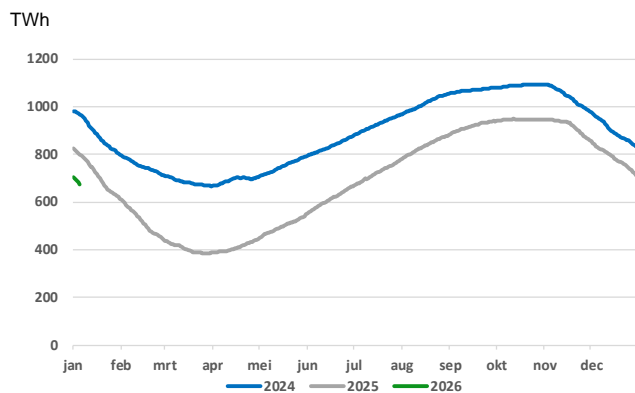
The relatively sharp price drop last Monday highlights once again that weather remains a key factor in the gas markets. At the same time, recent price developments on the TTF market over the past few years suggest that the market is increasingly gaining confidence in a healthier supply-demand balance. The chart below illustrates that the price of the front-month contract has generally stabilised each year since the energy crisis. In 2025, the price trend was largely downward, even though the challenge of filling gas inventories on time was greater than in previous years.

2025 was a relatively quiet year for TTF



At the same time, the question arises of how much further downside potential exists at the current level of the front-month contract. Since the energy crisis, TTF front-month prices have not remained below EUR 30/MWh for any prolonged period. In this sense, the market is entering uncharted territory. Another new development is that Russian LNG deliveries will be phased out next year, meaning that the EU will, on balance, need to source a larger volume of LNG from elsewhere.

European gas reserves



Looking further ahead, market expectations for the expansion of LNG production and exports are substantial. TTF contracts for delivery in 2027 and 2028 are trading at around EUR 25/MWh and EUR 24/MWh respectively. While it is certain that more LNG will become available over the coming years, the equally uncertain evolution of global gas demand will be at least as important for price formation.

In brief

OPEC+ keeps production levels stable, situation in Venezuela remains unmentioned –
 In an online meeting on Sunday 4 January, the V8 members of OPEC+ reconfirmed that the phasing out of production restrictions will be paused in Q1 2026. This decision had already been announced in an earlier meeting on 2 November and confirmed again in early December. The situation surrounding Venezuela, which is an OPEC member but not part of the V8 group, was not discussed during the online meeting.

In terms of phasing out production restrictions, OPEC+ is almost halfway there on paper. After three rounds of production restrictions, OPEC+ still held approximately 5.85 mv/d of the market at the beginning of 2025. In March 2025, the first announcement was made regarding an early start to the phase-out. Currently, less than 3 mv/d remains.

Saudi Aramco lowers official selling price (OSP) for February deliveries – The price of Arab Light crude for customers in Europe has been reduced by USD 0.40/barrel compared to January deliveries and is now USD 0.35/barrel cheaper than Brent. Exports to Asia and the US have also been reduced in price. The price reduction is in line with the general price trend on the oil market and therefore does not reflect a change in Saudi policy.

Energy agenda

Organisation	Date	Event
OPEC	15-1-2026	Publication <i>Oil Market Report</i> January
US Supreme Court	21-1-2026	Follow-up lawsuit Fed Gov. Lisa Cook
International Energy Agency (IEA)	21-1-2026	Publication <i>Oil Market Report</i> January
International Energy Agency (IEA)	23-1-2026	Publication Gas Market Report - Q1 2026
Federal Reserve (FED)	28-1-2026	Interest rate meeting US
OPEC+ (V8 landen)	1-2-2026	V8-meeting
European Central Bank (ECB)	5-2-2026	Follow-up lawsuit against Fed Gov. Lisa Cook
International Energy Agency (IEA)	12-2-2026	Publication <i>Oil Market Report</i> February
OPEC	12-2-2026	Publication <i>Oil Market Report</i> February
International Energy Agency (IEA)	19-2-2026	IEA Ministerial Meeting
Federal Reserve (FED)	18-3-2026	Interest rate meeting US
European Central Bank (ECB)	19-3-2026	Interest rate meeting Eurozone
Federal Reserve (FED)	15-5-2026	End of term for Fed-chair Powell
OPEC+	7-6-2026	Vienna-meeting on i.e. production quota

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