

The Coming Battle for Barrels

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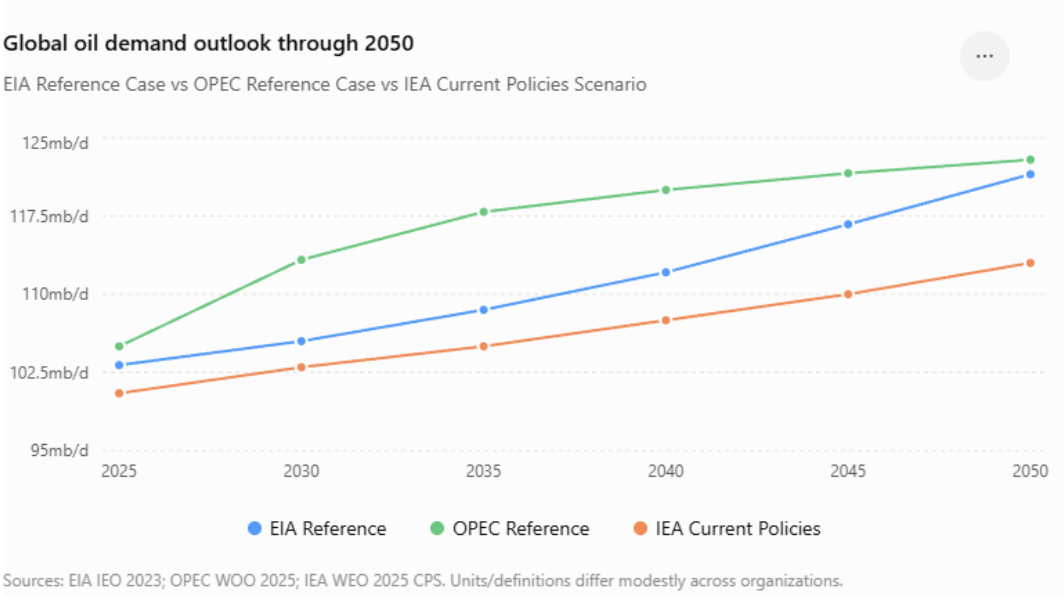
Summary

While the world focuses on artificial, Invico Credit Partners ("ICP") is far more focused on reality. Energy drives civilizations, and cheap energy has sponsored global growth for some time. To us, this is coming to an end. While all eyes are on Iran and the Strait of Hormuz, a bigger and more lasting threat is building: U.S. oil production growth is rolling over. Tight oil (shale) pushed off the day of reckoning but didn't eliminate it. With shale growth fading, oil prices are poised for a step change higher. Supply, not peak demand, is about to become the story. This has far-reaching implications and affects everything from consumer spending to interest rates.

Delusion of Peak Demand has Ended

ICP has never believed in peak oil demand, even at the height of the ESG and EV boom, and has been clear in its view: oil isn't a transition fuel. It's a foundation fuel. It's in the medicine we take, the clothes we wear, the food we grow and the fuel that moves every plane, ship and truck. Even the International Energy Agency ("IEA") in Paris now has a base case that sees oil demand growing to 113 Mbbl/d by 2050 and no ultimate plateau.

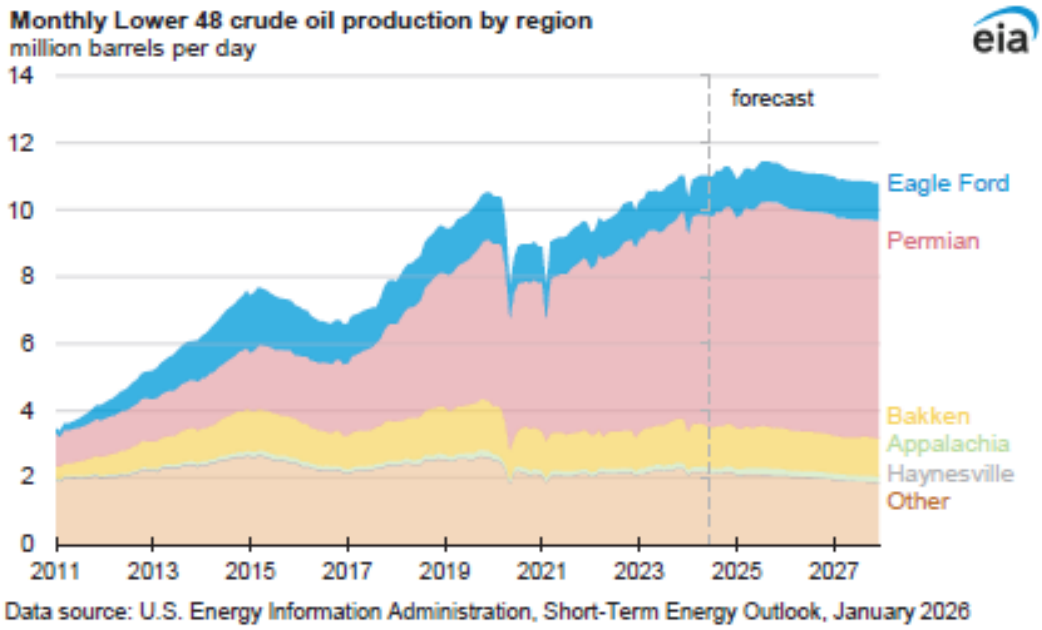
So far, their demand forecasts have been far too low and probably are again. The IEA revised its long-term oil demand outlook upward in its World Energy Outlook 2025 ("WEO 2025"), raising its 2050 Stated Policies estimate by roughly 4 Mbbl/d from WEO 2024. The Organization of the Petroleum Exporting Countries ("OPEC") projects oil demand to grow to 114 Mbbl/d by 2030, which seems more probable.



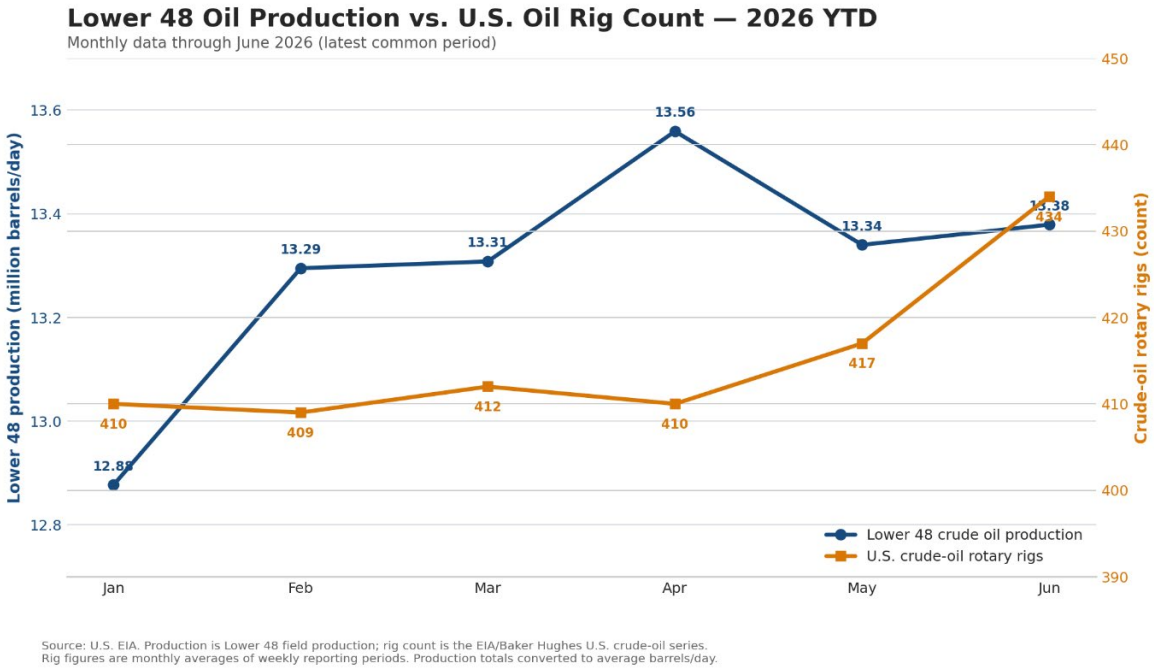
The Iranian situation has only made things worse. With crude and refined product inventories drawn down, the demand needed to rebuild them will be substantial. This will soon run into the realities of supply, which the market simply refuses to acknowledge. While some form of settlement or cessation of hostilities in the Middle East will provide front-end relief, we do not believe a return to $65 oil is in the cards. Get used to a far higher oil price going forward. Is there any wonder we are taking over Venezuela?

Limitations of Shale

As a high-yield bond and loan investor, ICP has had a front-row seat to the U.S. tight oil (shale) industry, from its infancy through its rapid growth to its maturity today. While production has been impressive, shale basins are not infinite. The irony is that for decades, shale was avoided (due to gamma radiation logging); however, with the advent of horizontal drilling and multi-stage fracking to create permeability, it became more economical to drill very long laterals. These basins still follow a version of the Hubbert Curve, meaning production stops growing when about one-half of the recoverable resource is depleted. This has already happened in the Eagle Ford and Bakken basins, leaving US oil production growth entirely dependent upon the Permian. The mighty Permian appears to be next to roll over, with just four counties (Lea, Eddy, Martin, and Midland) accounting for all U.S. production growth. While we don't expect production to collapse, stalling growth undermines the narrative of U.S. shale as the source of the world's marginal barrel.



The chart above uses data from the U.S. Energy Information Administration's "Short-Term Energy Outlook", published earlier this year when oil prices and rig counts were lower. Since then, rising prices have pushed rig counts higher, but the production response has been muted, underscoring the limits of future Permian growth.



Source: U.S. EIA. Production is Lower 48 field production; rig count is the EIA/Baker Hughes U.S. crude-oil series. Rig figures are monthly averages of weekly reporting periods. Production totals converted to average barrels/day.

Upstream underinvestment in oil has been widely discussed in recent years. The IEA's 2025 report, "The Implications of Oil and Gas Field Decline Rates," shows that declines at existing fields are accelerating, with nearly 90% of annual upstream investment now needed just to keep production stable. As unconventional tight oil accounts for a much larger share of overall production, declines are accelerating. Over 90% of capital spending today (and growing) does nothing but offset losses at existing fields, contributing nothing to growing demand. OPEC's excellent "World Oil Outlook 2050," published in July 2025, shows a base-case oil demand of 123 Mbbl/d by 2050. While OPEC could be accused of talking their book, this demand level includes a forecast of significant demand destruction from the Organization for Economic Co-operation and Development ("OECD"), which may now be overstated.

There is one more dynamic on the supply side that is not being discussed. While the exact number remains unknown, it is estimated that around 9 to 10 Mbbl/d of oil production has been shut-in throughout the Middle East. Legacy reservoirs are fickle, and restarting production is never seamless. The longer these wells remain shut in, the more likely it is that a certain percentage will never return to production. Without sustained investment, the legacy carbonate reservoirs in Iraq and Iran would likely be hit hardest. ICP believes at least 1 Mbbl/d of production will be lost forever, but the longer this drags on, the more likely that number is to increase.

Demand

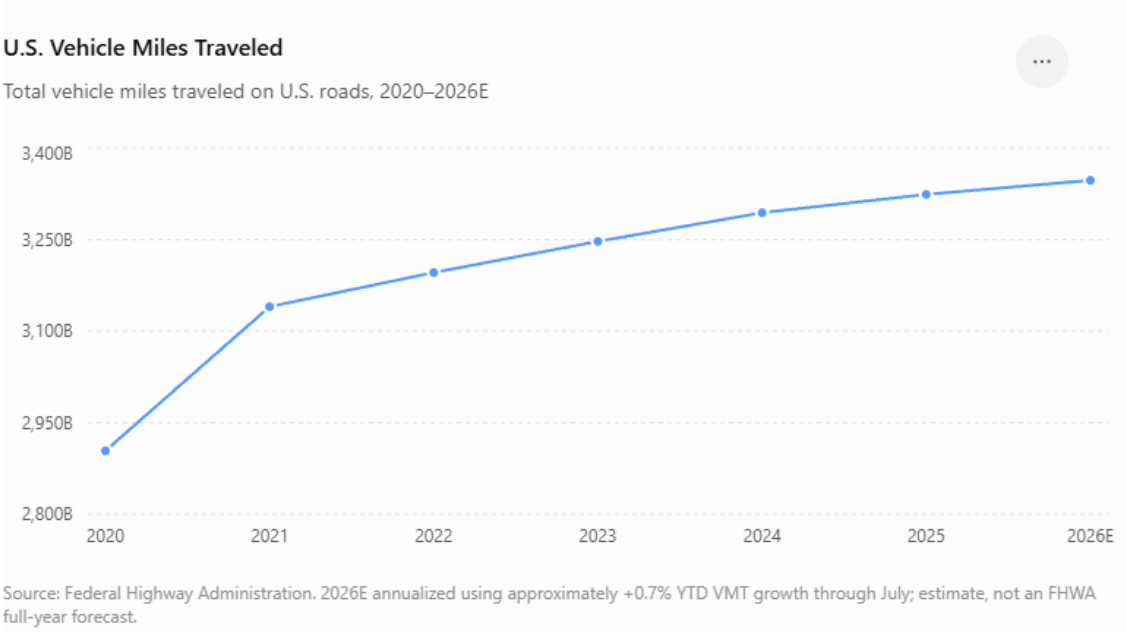
Perhaps the only reason oil is not $200 today is a substantial collapse in oil demand. The first part relates to damaged refineries, while the second relates to China, which we touch on later. Refinery runs in the Middle East are about 2.5 Mbbl/d lower than before the war, and Russia appears to be off by about 1 Mbbl/d.[1] But there is a substantial difference between a temporary drop in crude demand caused by damaged refineries and true demand destruction. Oil demand is ultimately driven by demand for refined products, and while U.S. refineries are geared toward gasoline, the rest of the world runs on diesel.

As everyone knows today, we are in the middle of a diesel supply crisis, with prices everywhere (U.S. included) reaching record levels. That is not consistent with a true collapse in demand. No comprehensive global indexes track diesel demand, but the U.S. has several that are particularly good. One of our favorites is the Freight Transportation Services Index, which measures month-to-month changes in the output and volume of services provided by the transportation sector, covering trucking, rail, and air freight. As can be seen below, this has been relatively steady over the past few years.



Gasoline demand is driven largely by the U.S., and it has proven highly inelastic: despite higher prices, Americans are on pace to drive a record number of miles again in 2026.

[1] Source: Kpler.



Then there's jet fuel. Year-over-year comparisons show jet fuel demand growth remains intact despite disruptions in the Middle East and the war in Ukraine.

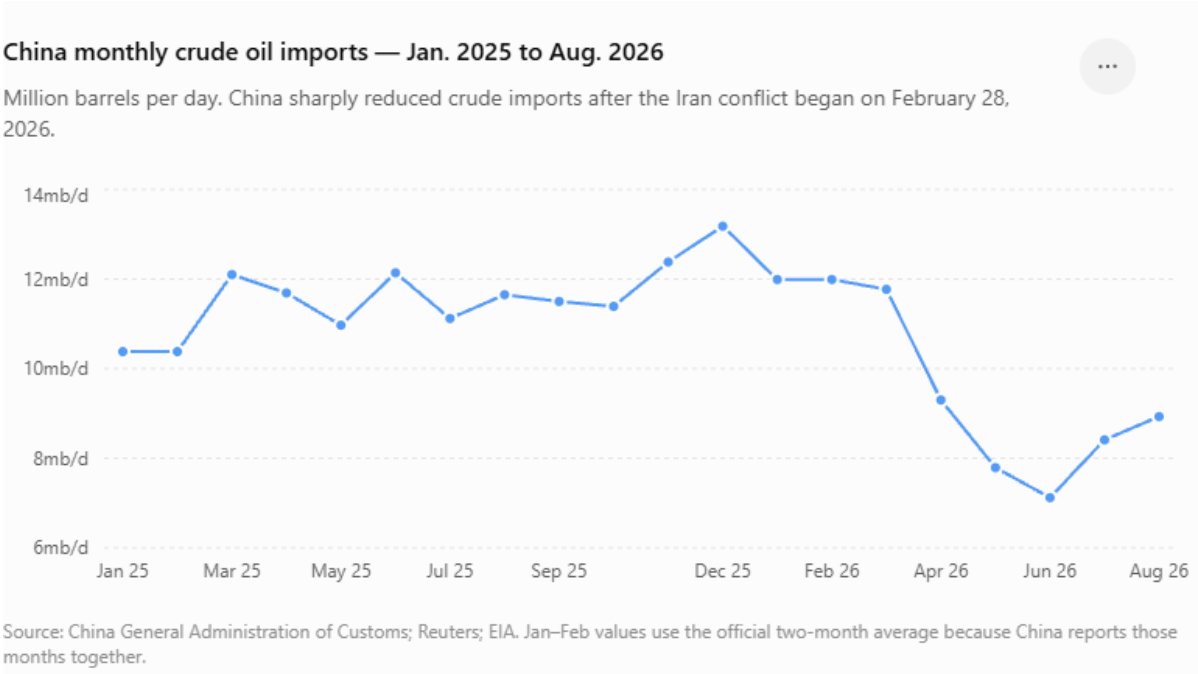
Global Indicator	2025	2026E	YoY Change
Passenger air traffic (RPKs) Revenue passenger kilometers	9.52 trillion	9.72 trillion	+2.1% ▲
Airline passengers Total passengers carried	4.97 billion	5.09 billion	+2.4% ▲
Passenger capacity (ASKs) Available seat kilometers	—	—	+1.6% ▲
Passenger load factor RPKs as a percentage of ASKs	83.5%	84.0%	+0.5 pts ▲
Jet-fuel demand Million barrels per day (MMb/d)	~7.75 MMb/d	~7.8 MMb/d	~+0.5% ▲
Annual jet-fuel consumption Billion barrels per year	~2.83 billion	~2.85 billion	~+0.5% ▲

Key takeaway: Global aviation activity remains resilient in 2026, with passenger traffic expected to grow approximately 2.1% and passenger volumes approximately 2.4%. Jet-fuel demand is holding near 7.8 million barrels per day, representing approximately 2.85 billion barrels of annual consumption.

Notes: 2026E = estimate/forecast. RPK = revenue passenger kilometer. ASK = available seat kilometer. MMb/d = million barrels per day.
Sources: IATA Global Outlook for Air Transport (June 2026); industry estimates.
As of mid-2026

If final demand for products continues to grow while global refinery throughput is down by about 3.5 Mbbl/d, the balance equation is that product inventories (which are relatively opaque) are being drawn down aggressively and are likely to reach crisis levels in many parts of the globe. This is consistent with recent price action.

Before leaving the demand side, we must understand one other major factor, China. Before the war, China imported about 12 Mbbl/d of oil, but as prices rose and the war dragged on, it stepped away from the market. At the trough, it is estimated they were importing between 6 and 8 Mbbl/d, depending on whether you use seaborne or customs data.[2] **China's pullback along with refinery damage represent a temporary demand drop of almost 10 Mbbl/d, which created the illusion that the oil market is well supplied**. To put this into perspective, 2020 (Covid) saw demand collapse by roughly 8% or 8 Mbbl/d when the bulk of the world was completely closed in, so the demand response in 2026 has been unprecedented. But China cannot step away indefinitely, and rumors now suggest they are back in the market. Whether this activity is causal or coincidental to the recent spike in oil is irrelevant.



Implications

The picture that emerges is clear: future crude demand will be stronger than consensus forecasts suggest. Product and strategic inventories both need to be rebuilt, which represents excess demand above the steady state of oil demand, which was about 105 MMbbl/d prior to the Iranian conflict. This is set against a supply curve that is now running into the reality of shale growth limitations and permanent impairment in the Middle East. Forgive us if we're not buying the consensus view that oil will slide back to $65, as if this were all just a bad dream.

[2] Source: Kpler.

About the Author



Timothy J. Gramatovich serves as Principal of Invico Credit Partners and brings more than 40 years of experience in the leveraged finance and high yield markets.

He was the Co-Founder and former Chief Investment Officer of Peritus Asset Management, where he spent 23 years developing investment strategies, leading portfolio construction, and making investment decisions across high yield bonds and leveraged loans. During his tenure at Peritus, Mr. Gramatovich launched and managed several cash flow CDOs and was instrumental in the creation of the first actively managed high yield bond ETF, which grew to more than $1.2 billion in assets within its first three years. He also oversaw bespoke high yield credit portfolios for both individual and institutional clients.

Prior to founding Peritus, Mr. Gramatovich served as a Portfolio Manager at Travelers Asset Management in Los Angeles, managing high yield portfolios for high-net-worth and institutional investors. Earlier in his career, he was a Senior Vice President at Aegis Asset Management Inc., where he established the firm's buy-side high yield investment platform.

Throughout his career, Mr. Gramatovich has acted as a qualified expert on financing and valuation matters for the U.S. Trustee in the Federal Bankruptcy Courts of Los Angeles County. He began his career at Drexel Burnham Lambert in 1986, supporting the development and marketing of high yield corporate cash management products.

Mr. Gramatovich is a CFA Charterholder and a graduate of the New York Institute of Finance.

About Invico Credit Partners

Invico Credit Partners ("ICP") is a U.S.-based credit research firm providing specialized market insight and underwriting support across the institutional leveraged loan market. Guided by a disciplined and active investment process, ICP focuses on identifying persistent inefficiencies in corporate credit markets while supporting family offices, multi-family offices, and other institutional investors through bespoke investment structures and portfolio solutions.