Daily: US-Venezuela deal: Big reserves, but no quick barrels

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US President Donald Trump late last Friday announced a deal with Venezuela, giving US companies a major role in developing 17 of the country's oil fields containing more than 65 billion barrels of proven reserves. Venezuela's interim President Delcy Rodríguez later said the 25-year agreement targets production of more than 1.5 million barrels per day and would require more than USD 100 billion of private-sector investment. Facing political criticism, she also said it would preserve Venezuela's ownership and sovereignty over its natural resources. Trump later indicated that future Venezuelan output would be used to replenish the US Strategic Petroleum Reserve, now at a 44-year low. The practical mechanism for doing so is not yet clear, given differences in crude quality and storage requirements.

The US-Venezuela agreement comes against a backdrop of elevated oil prices and continued disruption around the Strait of Hormuz. Brent crude prices rose more than 2% on Monday after US forces struck two Iranian launchers on Larak Island. Iran's Revolutionary Guards retaliated with an attack targeting US forces in Jordan.

The US-Venezuela agreement is strategically significant, in our view. But it is also unlikely to materially alter the oil-market outlook in the near term, for several reasons:

Hormuz disruption remains the dominant driver. Despite the headlines around Venezuelan reserves, oil prices continue to respond primarily to developments in the Gulf, given the risks to supply and shipping through the Strait of Hormuz. Roughly one-fifth of global oil trade passed through the strait prior to the conflict, making any threat to those flows immediately relevant for prices. The US Treasury's new economic sanctions campaign, which has already targeted one bank and is expected to expand in the coming weeks, could further raise tensions. There is also a risk that stronger US economic pressure could prompt renewed Iranian retaliation against energy infrastructure and shipping in the Gulf.

Venezuelan production gains will take years. Even under optimistic assumptions, Venezuela faces substantial operational challenges. The country currently produces roughly 1.12 million barrels per day despite holding the world's largest proven reserves, reflecting years of underinvestment, sanctions, infrastructure deterioration, and power shortages. Oil output has risen by only around 100,000-200,000 barrels per day since the start of the year, underscoring the difficulty of rebuilding capacity from a low base. A material increase would require large-scale investment, technical expertise, new transport infrastructure, and a stable operating environment. Taken together, these constraints suggest that the agreement will not materially affect the balance between crude oil supply and demand in 2026.

The deal's legal and political durability is uncertain. No formal agreement, decree, or contract has yet been published, and questions remain over how the arrangement fits within Venezuelan law and how future governments in either country might view it. The deal could potentially be structured to avoid US congressional approval, which may become important if Democrats regain either chamber in the midterm elections in November. Regardless, legal challenges cannot be ruled out, and international energy companies will need confidence that the framework can survive political changes in both countries before committing significant capital. We think the level of private investment will be closely linked to the stability of the resulting legal and political framework. One key near-term barometer to watch will be how much investment this draws versus competing opportunities elsewhere in the Americas with lower political and execution risks.

So, while the US-Venezuela announcement reinforces the longer-term potential of the country's energy sector, we anticipate little immediate impact on crude oil or US gasoline prices. The key price drivers remain the US-Iran conflict, shipping levels through the Strait of Hormuz, and the broader trajectory of global energy demand. We forecast the Brent crude price at around USD 85 per barrel in December 2026, with upside risks to this view in the near term if the US-Iran conflict were to re-escalate. We continue to see value in broad commodity exposure as both a potential source of returns and a portfolio diversifier during periods of geopolitical stress and inflation uncertainty.

Within US equities, we maintain a Neutral view on the energy sector. After strong year-to-date performance linked to rising crude prices and strong refining margins, we expect the sector to perform more in line with the broader market. Within the sector, we favor selective exposure to oilfield services, which should benefit from rising international spending over the next several years.

Source: https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-310826.html