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The Carlyle Compass

By Jeff Currie
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*Welcome back to **The Carlyle Compass**, your weekly newsletter that brings together the latest research and market insights from our global team. This week's edition features guest author Jeff Currie, Chief Strategy Officer of Energy Pathways at Carlyle. Received this email as a forward? [Subscribe here](#).*

You Can't Keep the Bear and Have Your Bull Too

If Trump 1.0 was all about the S&P, then Trump 2.0 is all about oil, the US dollar, and 10-year Treasury yields. While the administration's push for lower oil prices aligns with a desire for lower inflation, and thus lower yields, it is not consistent with a weaker dollar, nor is it consistent with broader ambitions for US energy dominance. The latter is critical to trade negotiations, given energy is now the United States' largest export, yet lower

oil prices—which at one point declined 26% from January highs—are already diminishing that dominance. While two-thirds of this decline can be attributed to OPEC+ unexpectedly reversing a large part of their voluntary production cuts, the remaining third was the result of demand concerns rooted in the trade war. Even as the administration pivots by reducing tariffs, demand concerns persist.

Despite the administration's push to keep oil near \$55 per barrel amidst the ongoing trade war and core-OPEC surprising the market a second time this past week, oil has nonetheless been extremely resilient around \$60 per barrel. Several forces are driving this strength: low inventories, renewed sanctions on Russia, heightened geopolitical risks, and most importantly, increasing evidence that US shale production—the foundation of US energy dominance—is showing signs of a slowdown.

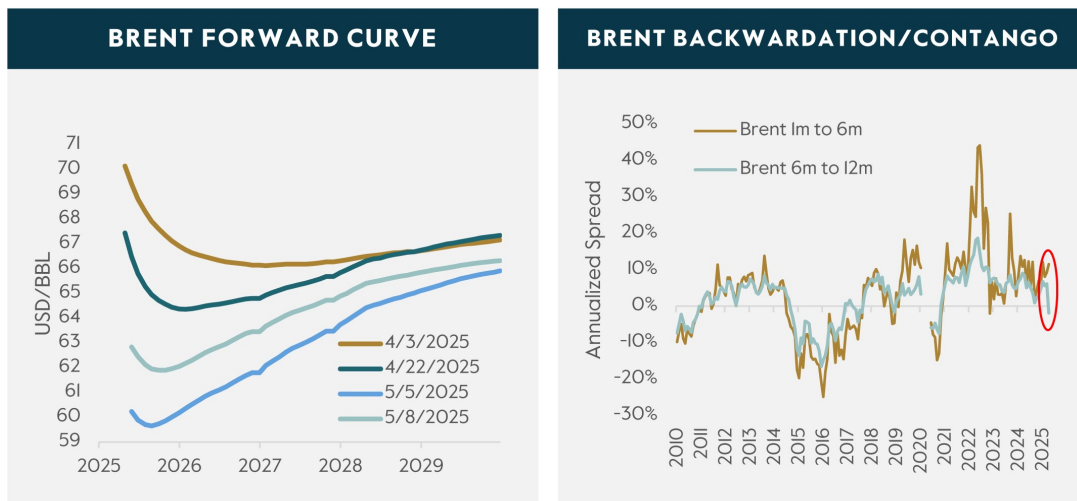
Combined, these factors have more than offset a market pulled lower by shorts expecting a trade war-induced demand shock that has yet to materialize. It is still far too early to say oil demand will not be materially weakened by the trade war, particularly as the physical impact of evolving trade policy is just now being felt in global supply chains, with peak impact expected in the coming months. Even should the administration completely pivot in the coming weeks, there would still be some residual damage to demand. However, if we use 2018 as a guide, we believe the current weakness in survey data probably overstates the ultimate impact on demand, as the system will find ways to adjust and compensate for these frictions.

Don't Join the Bear Party Before It Begins

This near-term strength in oil fundamentals—despite forward demand worries and expected increases in OPEC+ supplies later this year—has created an unprecedented shape in the oil forward price curve: a smile-like pattern that is highly unstable (Figure 1).

Tight inventories, which continued to decline last week, are reflected in the downward slope at the front part of the curve, where spot prices trade at a premium over near-term forward prices—a structure known as backwardation—and are projected through this October, reflecting a prompt premium for delivery. Usually, the first 3–6 months of this trend are driven by physical barrels, followed by the financial supply and demand for paper barrels. This is currently where the curve begins to slope upward (i.e. contango) to reflect large, expected surpluses, reflecting an inventory build as higher deferred prices are required to incentivize storage.

Figure 1: The Brent Curve Has an Unusual “Smile”



Source: Carlyle Analysis; Goldman Sachs Global Investment Research, Bloomberg, October 2024. There is no guarantee any trends will continue.

While not our base case, a scenario where current tightness gives way to substantial weakness at year-end is possible. However, this term structure is not sustainable. Unlike equities, which are anticipatory assets, commodities are spot assets that must clear current supply and demand. If markets were certain that a huge surplus was coming at the end of this year, it would simply sell forward until prices were sufficiently below the cost of production across the curve, which we believe would be around \$55 per barrel. These ‘perfect expectations’ in the market would kill off the investment today such that the surplus would unlikely ever occur, reinforcing present tightness.

In commodity markets, timing is everything. As the saying goes: don’t join the party until it has already started—and by current measures, it hasn’t.

Because of the on-and-off trade war, this dynamic is not only apparent in oil, but across assets where both the bear and the bull are trying to be priced into markets at the same time. This coexistence is not going to persist. As the administration continues to pivot, this puts more weight on the bullish side of the dynamic. Importantly, the shift is more sustainable in that it is supported by physical data and pricing, unlike the bearish dynamic that is rooted in expectations and survey data.

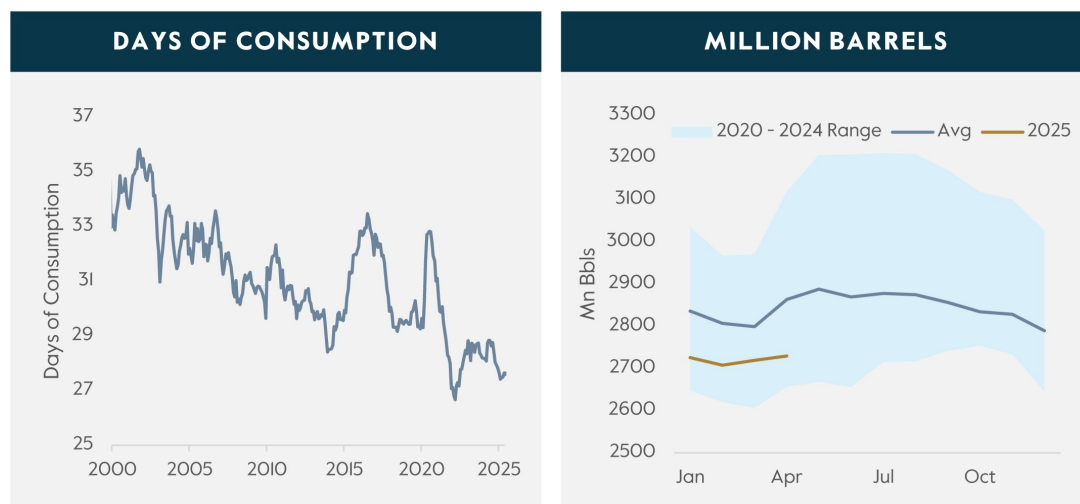
Underinvestment in Supply Is Gaining Momentum

Low inventory (Figure 2) and other bullish factors like sanctions will likely lessen the medium-term weakness that the market is trying to price into the

curve. Even if prices were to dip below \$50 per barrel, such a move would likely be temporary. The damage it would do to supply growth, particularly for US shale and other non-OPEC producers, would only reinforce the bullish backdrop from underinvestment that is setting up for 2026.

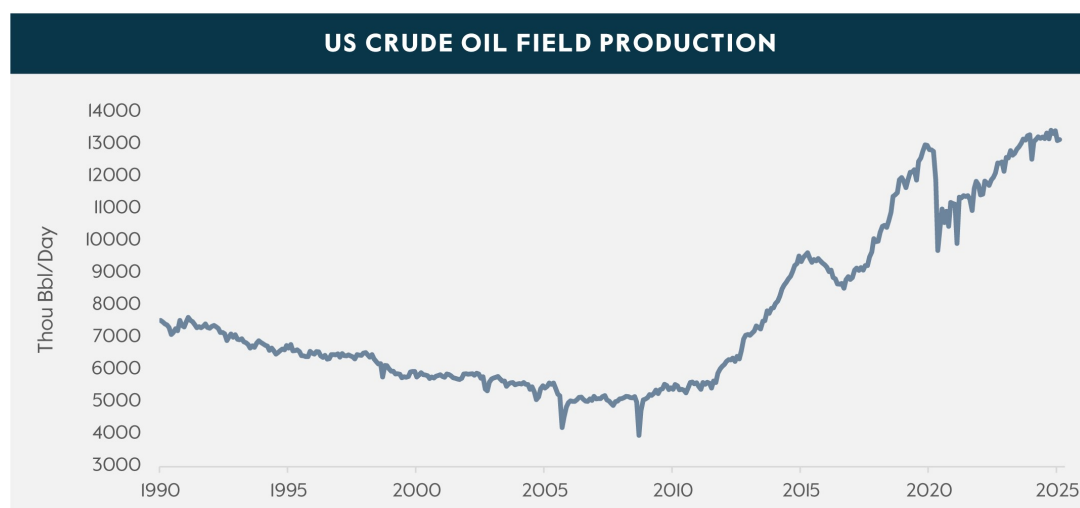
While core OPEC’s stated reason for aggressive supply increases was to send monthly “shots across the bow” to perennial over-producers like Kazakhstan and Iraq until compliance is achieved, the main benefit of rapidly reversing voluntary production cuts just as a trade war rages is to spark a sharp reduction in investment—a strategy that appears to be working (see [Diamondback announcement](#)). US oil production has already plateaued, and lower prices are only going to make production fall further (Figure 3).

Figure 2: Oil Commercial Petroleum Inventories Remain Tight



Source: Carlyle Analysis; Goldman Sachs Global Investment Research, Bloomberg, October 2024. There is no guarantee any trends will continue.

Figure 3: US Oil Production Has Levelled Off



Source: Carlyle Analysis; EIA May 2025. There is no guarantee any trends will continue.

Upside Risks in Oil and Commodities Continue to Build into 2026

Looking beyond this Spring and into next year, the structural bull market in commodities—driven by years of underinvestment, often described as the “Revenge of the Old Economy”—is beginning to take clearer shape regardless of the administration’s desires for lower oil prices. But more importantly to the United States, the potential loss of US shale supplies not only creates inflationary pressures from higher oil prices that will exacerbate expected supply chain issues from the trade war but also jeopardizes US energy dominance.

Oil and liquefied natural gas exports are the US’s biggest asset in the trade war. With the United States accounting for 20% of global oil production—nearly the same volume as Russia and Saudi Arabia combined—losing that energy dominance would harm the country’s negotiating position in trade deals. As we argued in [*The New Joule Order*](#), US energy dominance in the form of US oil and gas exports is critical to the current push behind the trade war and many of the current administration’s policies.

Watch Out for the Revenge of the Old “Political” Economy

One of the biggest economic and geopolitical shifts this century has been the shale revolution, which made the United States a net petroleum exporter. This development reduced the country’s reliance on foreign oil, resulting in decreased interest in protecting global sea lanes—the very arteries of traditional energy trade.

While the economic incentives to protect global trade routes have declined for the United States, the financial and military costs have not. It is important to emphasize that energy independence is a critical component of the administration’s efforts to dismantle the old-world order, particularly as energy dependence in the form of oil was critical to that old structure.

As the United States redefines its global role, it needs to maintain its position of energy dominance to avoid being dependent upon global sea lanes and supply chains. A reversion to energy dependence—particularly in the absence of non-fossil fuel domestic sources like nuclear and renewables—could introduce significant vulnerabilities.

By aiming to keep oil prices below \$60 per barrel, the United States is not

only undermining its position of energy dominance and independence, but its ability to smoothly reshape the old-world order or political economy in a safe manner. Is the revenge of the old economy going to become the revenge of the old “political” economy? It is a risk, but not a sustainable one for the United States, which is why we believe it is time to move into energy at today’s levels.

JEFF CURRIE

Chief Strategy Officer of Energy Pathways

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