Our View

The IEA and Analysts Do Not Understand Sterilization

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We suspect that every analyst who follows world oil markets believes "sterilization" is what health care workers do to ensure medical instruments are not contaminated. Thus, it came as no surprise to find this statement on Bloomberg:

> "The surplus is much less than expected," said Tor Svelland, founder of commodity and shipping focused hedge fund Svelland Capital. "Many have been waiting for the sell off and did not see strong demand from India and China."[1]

In noting the "less-than-expected surplus," Svelland missed the fact that an enormous buildup of oil is being stranded at sea due to tightening Western sanctions on key exporters like Russia and Iran. The data indicate that global oil markets are on the verge of a shortage, not a glut, due to this "sterilized" oil. Crude prices, which many thought were headed down, now might rise sharply. Market participants, particularly refiners who held off on crude acquisitions, may rush to buy, turning the recent market softness into a "sharp correction."

International Energy Agency forecasters and many oil market analysts have been making the same mistake regarding oil supply and the direction of prices. On the thinking of analysts, for example, Bloomberg's Javier Blas wrote the following on February 15:

> When the oil trading community descended on London for its annual International Energy Week jamboree last week, the bears outnumbered the bulls, probably by three-to-one. They fought about supply. They argued about demand. But, above all, they clashed to control the market's narrative. Eventually, the bears prevailed—just.[2]

He then added this observation:

> For two years, the bears have had the microphone, shouting the obvious: Oil supply is running well ahead of demand, and thus global inventories are increasing, albeit from a low level. Last year, global stocks increased by about 477 million barrels, equal to 1.3 million barrels a day, thanks to higher production from the likes of the US, Brazil and the OPEC+ cartel, according to the International Energy Agency. The problem isn't annual demand growth, which remains healthy at close to 1 million barrels a day, but too much output.

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[1] Alex Longley, Mia Gindis, and Yongchang Chin, "Oil's Year of the Glut Begins With an Unexpected Price Surge," Bloomberg, January 30, 2026 [https://tinyurl.com/ycp7pybw].

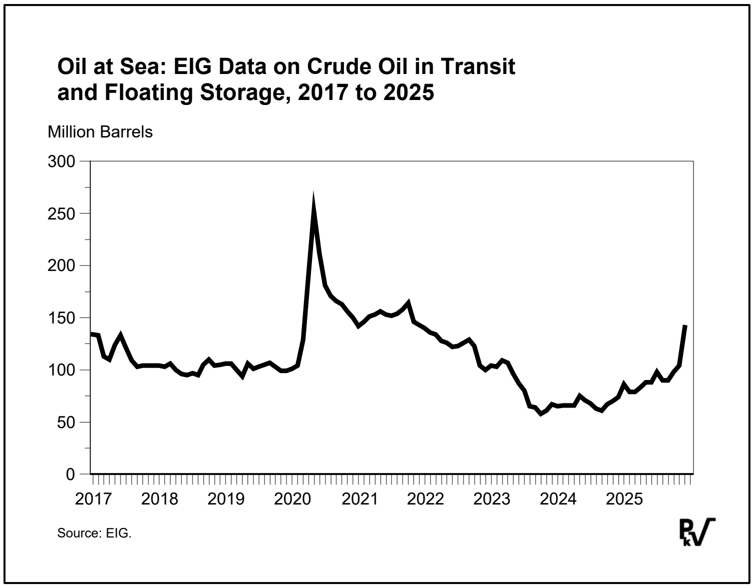
[2] Javier Blas, "The Oil Market Is Trading on Bearish Vibes – for Now," Bloomberg, February 15, 2026 [https://tinyurl.com/ycp7pybw].

Blas then quoted Vitol CEO Russell Hardy, who noted that large volumes of oil could not find buyers. It seems Hardy understands sterilization, even if he is unfamiliar with the term.

For clarity, the International Monetary Fund has defined sterilization, in the context of efforts to stabilize inflation and prevent currency appreciation, as follows:

> To ease the threat of currency appreciation or inflation, central banks often attempt what is known as the "sterilization" of capital flows. In a successful sterilization operation, the domestic component of the monetary base (bank reserves plus currency) is reduced to offset the reserve inflow, at least temporarily. [3]

In the case of developing nations, the IMF author Jang-Yung Lee explained that these nations benefit from rising capital inflows. "Many developing countries have reaped handsome rewards from surging capital inflows in recent years." The inflows contribute to economic growth. However, as Lee explains, "Surging capital inflows can also be something of a double-edged sword, inflicting rather less welcome and destabilizing side effects, including a tendency for the local currency to gain in value, undermining the competitiveness of export industries, and potentially giving rise to inflation.



Sterilization of oil supplies *occurs when the global market experiences a rise in the supply of oil or a product that cannot be sold*. Most of the sterilized oil today is stored on ships at sea. As shown in the figure, the amount of oil at sea, either awaiting a buyer or in transit, has increased by 200 million barrels over the last five months. Much of the increase is ***sterilized*** oil.

According to *The Wall Street Journal,* the IEA reported an increase of 242 million barrels in oil held at sea at the end of December from a year earlier, slightly more than the figure calculated by the Energy Intelligence Group. The increase included 169 million barrels from producers sanctioned by the United States: Iran, Russia, and Venezuela.[4]

Sterilization accounts for the rise in crude oil prices at a time when barrel counters predicted a glut. Blas observed in his op-ed that "while the bears are yelling, 'Don't you see it, there are oil barrels

[3] Jang-Yung Lee, "Sterilizing Capital Inflows," International Monetary Fund, March 1997 [https://tinyurl.com/msaud3bc].

[4] Giulia Petroni, "IEA Lifts Oil Demand Forecast but Warns Supply Surplus Persists," *The Wall Street Journal*, January 21, 2026 [https://tinyurl.com/c2c4asdd].

everywhere?' the bulls are whispering, 'Is an oil surplus that isn't readily available to the wider market really a surplus?' — and those whispers are getting louder."

We will be blunter. To those who write for the IEA and the bears,

It's sterilization, stupid.