Our View

Global Oil Inventories Are Greatly Influenced by Price Volatility

Senior executives from the Abu Dhabi National Oil Company (ADNOC) and Saudi Aramco have chastised the world over the last month regarding low crude oil inventories. For example, ADNOC CEO Sultan Al Jaber told conference attendees in late October that "the world has eroded its supply buffers by draining nearly 1 billion oil barrels from global inventories since the US-Israeli war on Iran disrupted shipping through the Strait of Hormuz."[1] Aramco CEO Amin Nasser, speaking at EIG's Energy Intelligence Forum, also commented on the low stocks, noting that "replenishing inventories while meeting demand could take up to two years" and declaring that the current supply resilience cushion "is scarily thin."[2]

Both are correct. World crude stocks are much lower thanks to the drawdown caused by the US-Israeli war with Iran. However, market participants may ignore their calls to replenish stocks for this simple reason: **neither CEO has ever had to meet a margin call**.

In contrast, Eric Slifka, CEO of Global Partners LP, has faced numerous margin calls. Global owns product terminals along the US East Coast. Slifka called us late one night in March 2022 to discuss the diesel market, especially the backwardation at that time. As we talked, he joked that Global was busy sponging the last drops of diesel from its tanks, implying his firm was maintaining minimal operating inventories.

His strategy was smart. In March 2022, excess returns to storage for distillate were around –40%, meaning a firm buying a barrel at spot market prices and storing it would lose 40% of its value.

The Importance of Margin Deposits to Hedging Inventories

Firms such as Global regularly hedge incremental inventories. These companies have one key reason for keeping stocks low: margins. Firms borrowing money to build petroleum product or crude oil inventories often must hedge their stocks to protect against unfavorable price movements. They accomplish this by selling futures, and those sales require them to post significant cash (margin) with banks or brokers.

Global outlined its approach to the futures market in its November 2026 10Q report. In it, the company explained how its inventory management is tied to market conditions:

> In markets where future prices are higher than current prices, referred to as contango, we may use our storage capacity to improve our margins by storing products we have purchased at lower prices in the current market for delivery to

[1] "World's energy supply buffers have been eroded, ADNOC CEO says," Reuters, November 2, 2026 [https://tinyurl.com/ycyxw4a3].

[2] Jill Junnola, "Aramco's Nasser Says Saudi Capacity Intact, Stocks Hitting 'Stress Level,'" Energy Intelligence, October 5, 2026 [https://tinyurl.com/4u2duhzu].

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> customers at higher prices in the future. In markets where future prices are lower than current prices, referred to as backwardation, inventories can depreciate in value **and hedging costs** are more expensive. **For this reason, in these backwardated markets, we attempt to reduce our inventories in order to minimize these effects** [emphasis ours].[3]

Global also noted that "volatility in petroleum markets may impact our results" and offered this observation:

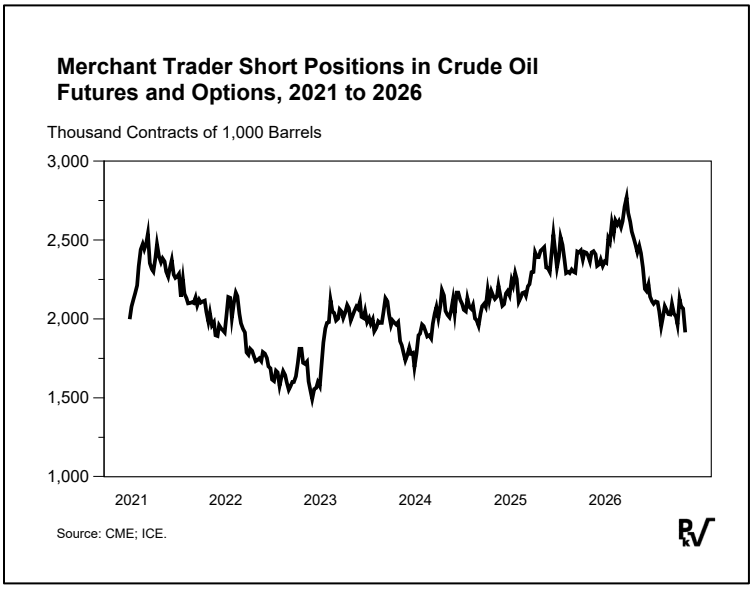
> Higher prices for the products we sell may (1) diminish our access to trade credit support and/or cause it to become more expensive and (2) decrease the amount of borrowings available for working capital under our credit agreement as a result of total available commitments, borrowing base limitations and advance rates thereunder.

Credit and market conditions affect all companies' operations. Increased market volatility will likely reduce how much oil firms can add to inventories, especially in backwardated markets.

ADNOC and Aramco do not face these constraints. Their executives do not understand that margin requirements rise and fall with implied volatility in markets. Volatility caused by the Iran war boosted margins, which led, as the data show, to inventory reductions.

Conditions today are particularly tight. According to the brokerage firm Tradier, the initial margin for one contract of 1,000 barrels of diesel fuel is $14,715.[4] Thus, Global would need to post $14 million to hedge 100,000 barrels of diesel or $140 million to hedge 1 million barrels. For the latter, it would also have to put up another $1 million for every dollar-per-barrel increase in diesel prices.

These sums are significantly higher than the costs incurred when oil price volatility is lower. While we could not find historical data on distillate margin requirements, a good friend who traded oil products for four decades told us, "Years ago they [initial margins] ran in the $2-$3,000 range for contracts that were not in the spot month."



The decline in merchant short positions in crude oil on the CME and ICE provides evidence of efforts to cut stocks. The figure here shows the drop on the exchanges from January 2026 to the first week of November. One can observe that firms and

[3] Global Partners, SEC Filings Details, 10Q, November 6, 2026 [https://tinyurl.com/2hk2y4ey], p. 38.

[4] "Margins," Tradier, retrieved November 8, 2026 [https://tinyurl.com/5djbhc5r].

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traders initially boosted their short positions during the first weeks of hostilities to lock in the higher prices.

This short open interest peaked in mid-March. Since then, it has dropped by almost 850,000 contracts, or 850 million barrels. The decline reflects Al Jaber's comment, quoted above, that "the world has eroded its supply buffers by draining nearly 1 billion oil barrels from global inventories."

Companies will likely refrain from replenishing stocks as long as hedging costs remain high, and those costs will stay high as long as crude prices are volatile.

In short, high price volatility will frustrate ADNOC and Aramco's call for rebuilding crude oil stocks. Volatility will likely remain high until the Middle East hostilities end, which may be months or even years.

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