U.S. Move on Venezuela

Assessing the Impacts on the O&G Sector and Fiscal Position

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Strategy Report

KEY INVESTMENT HIGHLIGHTS

- Venezuela holds the largest oil reserves but produces under 1 mbpd due to sanctions and nationalisation.
- If engagement with the U.S. proceeds, output could reach ~1.5 mbpd within two years.
- Fifty million barrels ready for sale may pressure prices in the near term.
- U.S. refineries benefit from heavy crude; Canada risks losing market share.
- China's impact should be limited given diversified sourcing and ongoing energy transition.
- Brent is projected at USD55–60 in 2026 amid surplus and OPEC+ caution.
- Malaysia's petroleum revenue may drop RM3–4b, widening the deficit by 0.03–0.15% of GDP.
- Lower oil prices cut fuel subsidies by RM1.0–2.5b, partly offsetting revenue losses.
- Sector stance remains NEUTRAL; prioritize resilient midstream; Dialog Group is the top pick.
- Non-OPEC+ supply could add over 1.2 mbpd while demand grows only ~0.7 mbpd.

BACKGROUND

U.S. made its move against Venezuela.

On 3 January 2026, the U.S. launched an operation that successfully captured Nicolás Maduro, the then-President of Venezuela. This event sent shockwaves around the globe, especially after President Trump announced that the U.S. would "run" Venezuela until a "judicious" transition of power occurred.

The move was monitored for its possibility but still surprising.

The attack on Venezuela, although a concern, caught us by surprise. Recall, that we highlighted of a possible U.S.-Venezuela conflict in our 2026 Outlook and that geopolitical situation will be one of two major headwinds for the market this year. Nevertheless, some of our worries was allayed by the rapidness of the U.S. operations as this would ensure that the conflict may not be prolonged, at least at the kinetic level. Our previous concern was that the U.S. would launch a full-scale invasion rather than the targeted special operation that it did, which experts believe will lead the U.S. to be bogged down given Venezuela's geography.

Further analysis on the possible impact.

We published our initial thoughts on the possible impact of this move to markets and oil prices (here). In this report, we are analysing the possibility and potential timeline of Venezuela ramping up its oil production and the probable impact to Malaysia government's fiscal position. We will also revisit our view on the Oil & Gas sector.

VENEZUELA IN THE OIL & GAS SECTOR

Venezuela, a member OPEC and possesses the largest proven oil reserves in the world.

Venezuela, located in Latin America, is a member of the Organization of the Petroleum Exporting Countries (OPEC) and possesses the largest proven oil reserves in the world, totaling 303b barrels—approximately 17% of the global total, surpassing Saudi Arabia's 267b barrels. Despite having the largest proven oil reserves, Venezuela's current production falls below 1m barrels per day (mbpd), representing less than 1% of the world's oil output. The country consumes about 50% of its oil production domestically, while the other half is exported. Historically, Venezuela's oil production peaked in the late 1990s and early 2000s, reaching a range of 3.0 to 3.5 mbpd, with earlier peaks in the 1970s. However, chronic declines in production began in the early 2000s and worsened significantly after Maduro assumed power. Several key factors contributed to this decline:

Contributor to the fall in production.

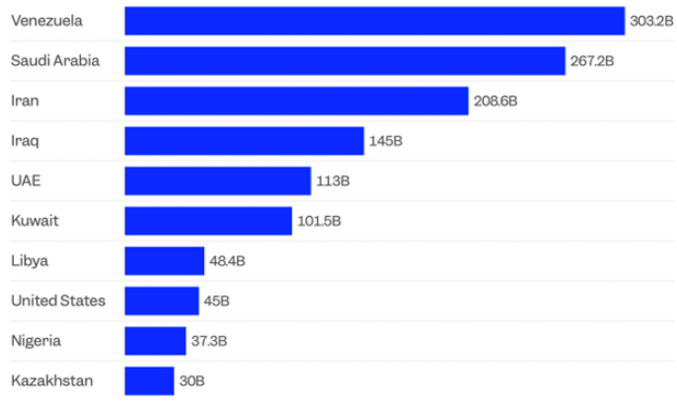
- U.S. Restrictions
  U.S. restrictions on Venezuela began in 2005, when the State Department concluded that the country was not cooperating in anti-drug and counterterrorism efforts. Further sanctions were imposed by President Obama in 2015, targeting officials involved in human rights abuses, corruption, and undermining democracy. The most significant sanctions came in 2017 when President Trump blocked the Venezuelan government and its state-owned oil and gas company, Petroleos de Venezuela, S.A. (PDVSA), from accessing U.S. financial markets. This effectively cut off capital access, deterred potential investors, and forced Venezuela to resort to selling oil through "shadow fleets" to China at steep discounts.

- Nationalization of Oil and Gas Assets
  Starting in 2006, former President Hugo Chávez forced foreign operators into minority positions or outright seized their assets. Exxon Mobil Corporation and ConocoPhillips withdrew entirely from Venezuela in 2007, leaving Chevron Corporation as the only major player, which now accounts for about a quarter of the country's production.

High cost of investment.

Due to these policy missteps and the U.S. restrictions, Venezuela's oil and gas infrastructure has suffered significantly, leading to a long-term decline in asset quality. For instance, Venezuela's oil and gas pipelines are over 50 years old, and it would require more than USD8b to restore production levels to 3.5 mbpd.

Chart 1: Proven crude oil reserves in barrels, 2024



Source: 2025 OPEC Annual Statistical Bulletin

Chart 2: Petroleum and other liquids production 2024 (mbdp)



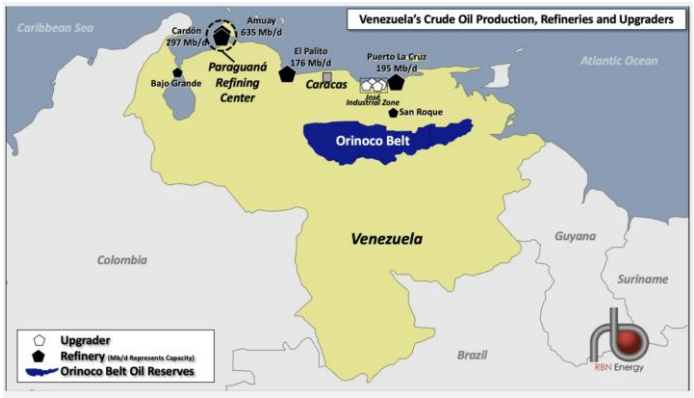
Source: Statistica

Chart 3: Venezuela's historical oil production



Source: BP Statistical Review 2025/NextBarrel

Figure 1: Venezuela's crude oil production, refineries, and upgraders



Source: RBN Energy

Looking ahead, the future of Venezuela's oil industry largely depends on political developments. Following the U.S. military's capture of Nicolás Maduro, President Trump stated that the U.S. would "run" Venezuela and that American oil companies would "invest billions of dollars" to rebuild the country's energy infrastructure. However, to realize Trump's ambitions, cooperation from the Venezuelan government is essential. Currently, the political situation in Venezuela remains fluid; Vice President Delcy Rodríguez, named interim president by Venezuela's high court, has publicly rejected U.S. control, asserting, "We will never again be enslaved... we will never again be a colony of any empire." Should the Venezuelan government refuse U.S. proposals, it is likely that existing restrictions will remain in place, and the impact on global oil supply will be minimal.

Uncertainties on ramping up production.

Conversely, if the Venezuelan government is open to U.S. engagement, this could create an upside risk for global oil supply in the short, medium, and long term, leading to potentially lower crude oil prices. In the short term, there are 50m barrels of oil ready for sale, valued at around USD2.8b at current market prices, as announced by Trump. If political stability is achieved under U.S. guidance, oil production could recover from 0.8 mbpd to approximately 1.5 mbpd within two years, following investments from U.S. companies. This seems attainable since, with the current infrastructure, production capacity can reach about 1.1 to 1.2 mbpd; in 2025, the country managed an average production of 1.1 mbpd. Moreover, with ongoing investments from U.S. companies, many oil analysts predict that production could ramp up to around 2.5 mbpd in the medium term, over the next 5 to 10 years. In the long term, given that Venezuela holds the largest proven oil reserves in the world and Western oil companies are returning, we expect an increase in oil supply from Venezuela.

Possibility for production to recover within 2 years.

Amid the ongoing geopolitical turmoil, the U.S. is positioned to be the biggest beneficiary of Venezuela's oil due to its direct access. Venezuela produces extra-heavy crude, which requires complex processing before it can be refined into products such as gasoline. However, this type of oil can be highly profitable for facilities capable of processing it. U.S. refineries are particularly suited to this oil profile, as nearly 70% operate most efficiently on heavier grades. This explains why 90% of crude oil imports into the U.S. are heavier than the domestically produced shale oil. Additionally, U.S. energy companies could benefit from opportunities to

U.S. to be the biggest beneficiary given refining capabilities.

recover assets or investments lost when Venezuela nationalized its energy sector or defaulted on payments.

Canada could lose out.

Conversely, Canada stands to be the biggest loser if the U.S. gains direct access to Venezuela's oil. This is largely due to the similarities in oil profiles between Venezuela and Canada, both of which produce heavy, high-sulfur grades typically processed by U.S. refineries. Currently, Canada is the largest oil supplier to the U.S., accounting for about 60% of crude oil imports in 2025. Saudi Arabia may also face challenges with this development. As OPEC's largest producer and de facto leader, a significant increase in Venezuelan output, especially with strong U.S. involvement, could weaken Saudi Arabia's ability to manage the market through OPEC.

Impact to China would likely be minimal.

While Venezuela has primarily sold its oil to China, we expect the impact on China to be minimal due to its oil purchase diversification initiative. In recent years, Beijing has focused on enhancing energy security by expanding overseas supply, procuring oil from countries like Russia, Africa, the Middle East, and Brazil. Additionally, China is increasing domestic exploration and accelerating its transition toward renewable energy.

ECONOMICS & POLICY VIEW - IMPLICATION ON MALAYSIA'S FISCAL POSITION

Oversupply would push oil prices lower.

Given Venezuela's limited contribution to global oil supply (producing under 1% of the global oil supply), recent developments are unlikely to trigger a material supply shock, and any near-term price effects are expected to be muted. Oil prices may briefly reflect heightened geopolitical risk, but this effect is expected to be short-lived as market attention returns to core supply-demand fundamentals, which remain largely balanced amid ample global inventories. OPEC+'s decision to pause planned production increases in 1QCY26 reflects a cautious approach aimed at stabilizing prices in the face of demand uncertainties and potential oversupply, particularly from non-OPEC+ producers. Against this backdrop, our baseline Brent price range of USD55–60pb for 2026 remains intact, moderating from the average USD68 in 2025.

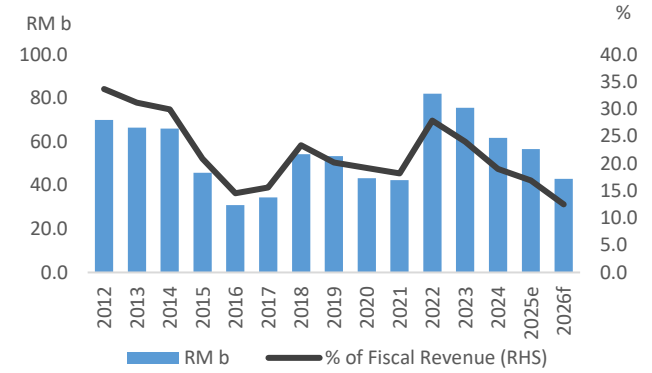
Negative implications on the government's petroleum-related revenue.

Lower crude oil prices because of the oversupply condition in the global oil market could have a significant impact on Malaysia's petroleum revenue. Based on our analysis, the sensitivity of the government's fiscal receipts to oil price movements is not fully proportional (at 0.81). In other words, a -10% fall in oil prices could translate into -8.1% decline in the government's petroleum-related revenue. Therefore, if the crude oil prices were to move towards our forecast range of USD55-60pb (i.e. -USD5 lower than the government's forecast of USD60-65pb), we estimate a potential reduction of -RM3.0b to -RM4.0b in fiscal revenue, as a result potentially widening the fiscal deficit by 0.15% to 0.20% of GDP.

Smaller impact due to savings from lower fuel subsidies.

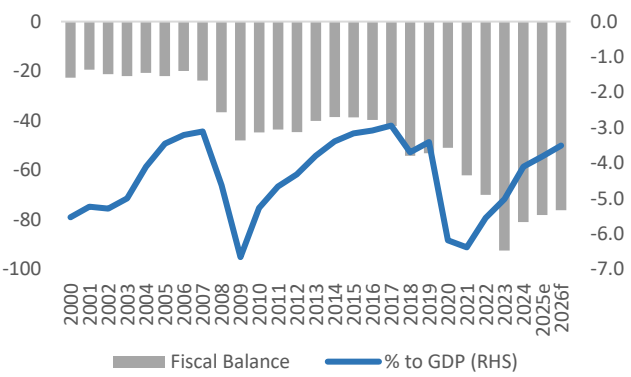
The net impact on the government's fiscal position will be somewhat smaller taking into account lower allocations for fuel subsidies. Following the subsidy rationalisation (involving diesel and RON95) in recent years, estimated annual allocation for fuel subsidy has been reduced to around RM10-12b from RM18-20b previously. If oil prices were to hover around USD55-60pb, the government could save additional RM1.0b to RM2.5b from lower fuel subsidy allocation this year, assuming the -USD5 reduction vis-à-vis the government 2026 oil price projection. On that note, the net impact from -USD5 drop in oil prices in widening of fiscal deficit will be around 0.03% to 0.15% of GDP.

Chart 1: Federal Government's Petroleum Revenue (RM b)



Source: MOF, MBSBR

Chart 2: Government's Fiscal Deficits (% of GDP)



Source: Macrobond, MOF, MBSBR

MARKET STRATEGY

We do not think that this may have any substantial impact to markets given the swiftness of the operation/conflict. Hence, we maintain our 2026 **FBM KLCI target of 1,750**, or PER26 of 15.2x.

May not have a substantial impact to markets.

We believe that the bigger question is on how this U.S. action will impact the geopolitical picture. Venezuela is a partner of BRICs and supplying China part of its oil needs. There are also questions of Venezuela's long-term stability as the U.S. is said to "run the country". We need to monitor the reaction of Venezuelans and how they would react to a U.S. led administration of the country. Also, it is noteworthy to monitor the reactions of other BRICs members especially Russia and China. Meanwhile, we do not discount that this operation may lead to other conflicts in the world starting or reigniting, most notably the prospect of another Iran-Israel conflict to erupt this year. It is understood amongst geopolitical analysts that by the U.S.' securing of Venezuelan oil, it would lower the impact of a possible blockade in the Straits of Hormuz should the conflict reignite.

Bigger questions in on geopolitical picture.

After the move on Venezuela, we have seen President Trump increasing its rhetoric of annexing Greenland, and in conjunction with the protest in Iran, has threaten to intervene. This has led the Iranian Supreme Leader to make counter threats, and we view this as increasing the geopolitical climate in the Middle East. As mentioned, a repeat of Israel-Iran aerial war cannot be totally discounted. These conflicts have so far engendered limited impact on Malaysia's economy and corporate earnings performance, thus exerted limited bearing on the equity market. However, while not foreseen, major escalations that significantly (1) heighten the kinetic intensity, and (2) broaden the geographical theatre of war could substantially magnify the potential economic fallout onto the wider world.

Increased geopolitical risk.

Going forward, we foresee a situation whereby the equity market would remain generally sanguine premised on baseline expectations of (1) continued resilient macro economy and positive corporate earnings performance, and (2) further monetary (liquidity) easing with more interest rate cuts by the US Fed as well as other central banks. Moreover, the prospect of return inflow of foreign funds would generate an additional fillip to the local equity market.

Remain sanguine on the market.

SECTORAL VIEW – OIL & GAS

The potential influx of Venezuelan oil aligns with our current outlook on crude oil prices for 2026. We anticipate that crude oil prices will remain low due to a substantial and growing supply surplus that demand will struggle to absorb fully. We expect Brent crude oil prices to fluctuate between USD55 and USD60 per barrel in 2026. If the U.S. successfully markets 50m barrels of Venezuelan oil in the near term, it could exert significant downward pressure on crude oil prices, pushing them toward the lower end of our forecast.

Anticipate that crude oil prices will remain low due to a substantial and growing supply surplus.

However, our forecast remains unchanged as it will take at least two years for Venezuela to increase its production capacity from the current 0.8 million barrels per day (mbpd) to 1.5 mbpd. Excluding the potential impact of Venezuela's additional oil supply, an increase of 1.2 to 2.4 mbpd in oil supply is anticipated for 2026, primarily from non-OPEC+ countries such as the United States, Brazil, Canada, and Guyana, which are projected to add over 1.2 mbpd to global supply. While the OPEC+ coalition, led by Saudi Arabia and Russia, has decided to maintain output levels unchanged for the first quarter of 2026 due to a looming crisis in Venezuela and tensions between the United Arab Emirates and Saudi Arabia, they reaffirmed their commitment made in late November to pause increases in January, February, and March 2026 due to seasonal factors. However, the possibility that OPEC+ could increase production by up to 1.2 mbpd in 2026 to defend its market share should not be dismissed.

Our forecast remains unchanged as it takes time for production to recover.

In contrast, global oil demand is expected to grow by only 0.7 mbpd in 2026. This slow growth is attributed to a weakening global economy, particularly in major oil-consuming countries like China and India. The International Monetary Fund (IMF) projects global growth in 2026 at 3.1%, one percentage point lower than the forecast for 2025. Growth rates for China and India are also expected to decline, with China's growth decreasing from 4.8% in 2025 to 4.2% in 2026, and India's from 6.6% in 2025 to 6.2% in 2026. Furthermore, ongoing structural factors, such as the electrification of transportation (including the adoption of electric vehicles) and improvements in energy efficiency across global economies, are steadily reducing road fuel demand, which constitutes 50% of crude oil usage.

Demand to grow slower.

As the imbalance between supply and demand widens, factors such as China's oil stockpiling activities, the potential loss of Russian product supplies due to U.S. sanctions and increased geopolitical risks may support oil prices.

On balance, prices may be supported.

We maintain a NEUTRAL stance on the sector, and our TOP PICK is Dialog Group (BUY, target price: RM2.17). Given the expectation of weakening crude oil prices in 2026, we are retaining a NEUTRAL position on the sector. We anticipate limited upside potential due to a forecasted surplus in crude oil, which will likely lead to lower trading prices affecting both upstream and downstream operations. While share prices of upstream players have significantly declined amid uncertainties and structural changes—such as the clean energy transition, crude oil surplus, and the Petronas-Petros overhang—we recommend adopting a wait-and-see approach before considering any purchases on dips.

Maintain NEUTRAL.

Our forecasts are subject to various external risks, including: i) regional and local shifts in demand for crude petroleum and its products; ii) inflationary pressures impacting raw material costs and charter rates; iii) geopolitical tensions in Eastern Europe and East Asia, which could increase volatility in crude oil and natural gas prices; iv) ongoing supply increases from OPEC+;

Downside risk.

and v) developments surrounding the Petronas-Petros overhang. We are also closely monitoring the sector's performance and its reaction to global energy policy changes anticipated in 2026, as these may alter the upstream and midstream landscapes and subsequently influence long-term supply-demand dynamics for crude oil and natural gas.

We suggest focusing on midstream companies like Dialog Group as viable investments, anticipating that the midstream sector will remain resilient, supported by an expected increase in demand for crude oil storage in the near to mid-term.

Recommend focusing on midstream.

We favor Dialog for its strong midstream infrastructure and services, particularly its tank terminals, which provide long-term storage for crude oil, petroleum products, and petrochemicals. Dialog's revenue is primarily generated through take-or-pay agreements or long-term leases, ensuring stable and recurring income regardless of fluctuations in crude oil prices. We also expect Dialog's earnings to normalize in FY26 and beyond, as we believe the impairments recorded in FY25 will be non-recurring. High utilization rates, consistent demand for storage amid geopolitical uncertainties, and phased capacity expansions at the Pengerang Deepwater Terminals are expected to enhance the company's performance. Additionally, the upstream segment is set to contribute positively following the development of the Baram Junior Cluster.

TOP PICK for the sector is Dialog Group (BUY, target price: RM2.17).

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology