

Chevron CEO: Oil Market Running on Borrowed Time as Safety Cushions Shrink



Mike Wirth, CEO of Chevron Corp., speaks during the Bloomberg Energy Security Executive Briefing in Houston on June 12. (F. Carter Smith/Bloomberg)



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The global oil market has avoided the catastrophic supply crunch many feared when the Iran war broke out, but it's far from balanced.

The market is being subsidized by emergency measures that, by definition, are only temporary solutions, experts said at Bloomberg's Energy Security Executive Briefing in Houston on June 12.

Beneath surprisingly calm crude prices is a market increasingly dependent on shrinking inventories, weaker Chinese demand, deferred maintenance and military-dependent shipping flows, said Mike Wirth, chairman and CEO of Chevron Corp. (NYSE: CVX).

These temporary fixes have bought time but not solved the underlying problem.

"The reality is inventories are a lot lower today, other than China where there still are very healthy inventories," Wirth said. "We've moved from comfortable inventories under normal times to what would be soon to be uncomfortable."

"I think that's the real question: How much longer can these measures kind of ameliorate the risk?" he asked. "At some point, they may not be able to."

Wirth said the oil market may be able to hold on through Labor Day or late summer but cautioned that the situation cannot continue indefinitely.

"The market may be able to hold things together out into that timeframe, but not forever," he said.

'Pulling groceries out of the pantry'

Dan Pickering, chief investment officer at Pickering Energy Partners, said the oil market is surviving by spending its insurance.

“I’m going to draw down on inventories. I’m going to draw down on [strategic petroleum reserves]. China said, ‘We’re not going to keep importing, we’ll draw down our inventories,’” Pickering said.

“We’re pulling groceries out of the pantry, but we’re not putting any back in,” he added.

Rebecca Babin, senior equity trader for CIBC Private Wealth, said the market’s resilience has obscured the fact that inventories continue to be drawn down. Rather than solving the supply disruption, traders have repeatedly adjusted expectations as new barrels emerge and demand softens, pushing the expected inventory crunch further into the future.

Even if the Middle East conflict ended today, it will take time to rebuild inventories and normalize markets.

“The longer this goes on, I actually think it’s more bullish for the curve in the long end,” Babin said.

After months of failed ceasefires, deal rumors and renewed fighting, traders have grown fatigued by the headlines, Babin said. Markets that once swung sharply on diplomatic developments now react more to physical indicators like shipping volumes and inventory stocks.

The repeated ability of the system to absorb disruptions has led some investors to wonder whether the market was overinsured to begin with, Babin said.

Pickering pushed back on that idea: “Insurance is always too expensive until your house burns down,” he said.



U.S. Energy Secretary Chris Wright speaks at Rice University's Baker Institute for Public Policy on June 11. (Jennifer Martinez/Hart Energy)

Chris Wright: U.S. military is actively restoring Gulf energy flows

U.S. Energy Secretary Chris Wright said the military is helping escort tankers and cargoes through the Persian Gulf.

"We have a military effort that we've not talked a lot about," said Wright, who previously served as chairman and CEO of oilfield services firm [Liberty Energy](#) (NYSE: LBRT), which he founded.

Wright said roughly half of the disrupted oil and refined-products flows have been restored through the Strait of Hormuz, totaling about 7 MMboe/d.

Wirth offered a more cautious assessment, saying Chevron's view is that flows through the Strait of Hormuz are "probably not quite that much." Babin

noted that traders had largely been pricing in volumes closer to 3 MMboe/d to 4 MMboe/d.

Wright vowed that President Donald Trump will “finish the job” in Iran to prevent the regime from continuing to develop its nuclear enrichment program. And the administration intends to fully restore traffic through the Strait of Hormuz “with or without Iran.”

U.S. producers are also playing an increasingly important role in stabilizing global energy markets, Wright said. Higher domestic production, increased refinery throughput and rising exports have helped prevent a more severe supply crunch.

An export ban on U.S. oil and gas products appears to be off the table. Wright repeatedly ruled out the possibility, arguing that restricting exports would undermine the administration’s goal of establishing the U.S. as a reliable global energy supplier.

More U.S. barrels should flow to allies around the world “so they don’t have to depend on unstable, hostile suppliers.”

“No export bans,” he said.