Oil market seeks direction in uncertain time

After the sudden drop in prices in early April, oil prices have stabilized again. The direction the price takes depends mainly on developments regarding U.S. trade tariffs and surprises in OPEC+ policy. Both factors have recently increased expectations regarding oversupply in the global oil market in 2025 and 2026. Here a distinction can be made between heavy and light oil. The heavy oil market is relatively tight, particularly as a result of global sanctions. For light oil, on the other hand, production has increased briskly, bringing average prices for both types closer together. This distinction is important for U.S. foreign strategy regarding Russia, Venezuela and Iran.

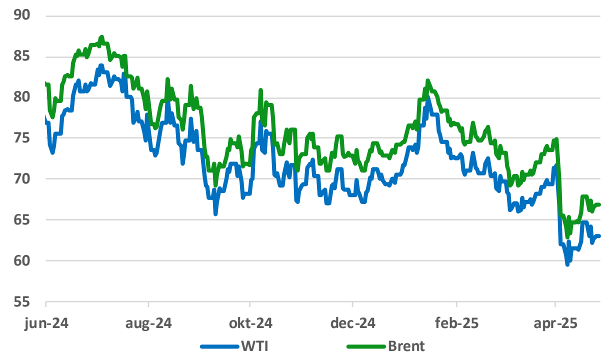
Chinese LNG imports are relatively low in 2025 due to a mild winter and low industrial gas demand, among other factors. Whether this remains the case depends on economic conditions and weather factors this summer. For now, low Chinese demand creates space for Europe in the global LNG market, where gas demand is actually high in the coming period. The summer-winter spread still provides minimal incentive for commercial players to fill gas reserves in Europe.

Trade tariffs and OPEC+ policy

The price of the active monthly Brent contract (June delivery) currently stands at around USD 67/barrel. The oil market dropped far in the first week of April as expectations of future economic growth were revised downward as a result of the Trump administration's high import tariffs. This effect was further amplified when OPEC+ unexpectedly decided a day later to accelerate the winding down of production cuts. Meanwhile, the oil market has recovered somewhat. With this, the price seems to have found the beginnings of a new equilibrium level after the sharp drop in prices in early April.

Oil price finds new (lower) equilibrium

USD/barrel



Source: LSEG Eikon

Despite the high degree of uncertainty, the price is moving within a narrow range. A number of factors may determine the direction the oil price will take. First, the trade war. U.S. trade tariffs have been paused for 90-day periods for most countries. However, China and the U.S. have imposed such high levies toward each other that in practice there is a trade embargo between the two countries. Strong downward pressure on oil prices in this regard could result from further escalation of the trade conflict. It is also unclear whether tariffs will reapply to the other countries after the 90-day pause. On the other hand, both China and the US announced exemptions on certain products, which could possibly lead to de-escalation. This will limit economic damage, which will also reduce the demand for oil.

Another factor is OPEC+ policy. This may start to cause surprises again, as happened with the tripling of the production cuts phaseout in May. This led to an adjustment of market expectations regarding an (even) larger oversupply. This seems to have been caused not least by Trump's desire for a lower oil

For more information on this update, or on PZ Energy Research & Strategy's other services, please contact:

Hans van Cleef - hans.vancleef@publiekezaken.eu / 0031 – 6 30 90 33 76
Bart van der Pas - bart.vanderpas@publiekezaken.eu / 0031 – 6 36 52 95 51
Fabian Steenbergen - fabian.steenbergen@publiekezaken.eu / 0031 – 6 18 55 34 46
Marije Willigenburg - marije.willigenburg@publiekezaken.eu / 0031 – 6 21 91 83 03
Guusje Schreurs - guusje.schreurs@publiekezaken.eu

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