Oil & Gas

Energy Research Strategy

Wednesday 28 May 2025

Potentially more OPEC+ surprises in the pipeline

The Brent oil price is currently trading at the upper end of a narrow range. Developments on the economic and geopolitical front are alternating, provoking price movements on both sides. OPEC+ is expected to decide on May 31st to maintain the accelerated phase-out path of voluntary production cuts, after having done the same in May and June. This will keep pressure on oil prices. Punishing OPEC+ members with overproduction and restoring market share (especially Saudi Arabia's) are the reason for this. Recovery of market share will mainly come at the expense of US shale producers. Global oil inventories are growing and while this is partly triggered by the low oil price, it also seems to be a sign of slowing demand growth.

The TTF gas price has stabilised, after hitting a nine-month low early this month. Trump's futile attempts at a peace deal in Ukraine and the maintenance in Norwegian gas infrastructure prompted the largely algorithm-driven price recovery. In the background, there is a continuation of the high European gas demand (due to relatively empty gas reserves), coupled with a tight global LNG market, which justifies a somewhat higher TTF price.

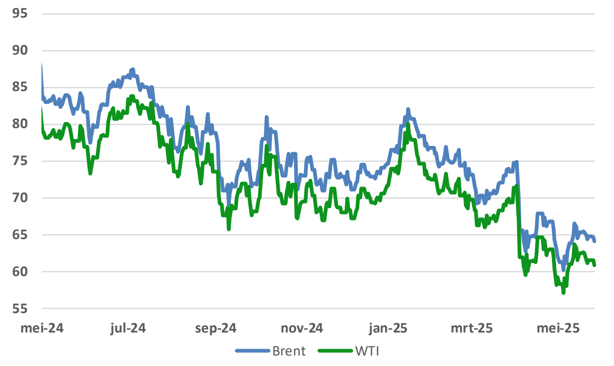
Oil price remains within narrow range

The price of Brent's active monthly contract (July delivery) recovered slightly last month. Whereas a price level below USD 60/barrel was briefly reached in early May, the contract has been trading around USD 65/barrel for several weeks now. Since the beginning of April, Brent oil has been trading between USD 60 and 65/barrel.

The oil price is thus at a relatively low level compared to the past few years and remains within a narrow range. The recent price drop can mostly be attributed to US trade policy and the unexpected increase in production levels by OPEC+. Since then, a series of developments - especially economic and geopolitical - have caused price fluctuations, keeping the price in a narrow range.

Oil price moves around USD 65/barrel again

USD/barrel



Source: LSEG Eikon

On the economic front, we saw a somewhat upward price pressure on oil prices as the US concluded a trade deal with the UK (8th of May) and announced a 90-day pause with China (12th of May). Nevertheless, economic uncertainty still plays a major role, limiting the potential for price recovery. That one swallow does not make a summer was quickly demonstrated with Trump's announcement that the EU would face a 50% import duty starting June 1st. However, this move was quickly postponed again when, after a phone call with Von der Leyen, Trump announced that in the absence of a trade deal, the increase would take effect starting only July 9th.

There were also developments on the geopolitical front in recent months. Hopes for a nuclear deal between the US and Iran initially put downward pressure on oil prices. However, the risk premium soon rebounded when it became clear that the talks were stalled. Additionally, there were reports of possible Israeli plans to strike Iranian nuclear facilities. Simultaneously, the US pressure for a peace deal between Russia and Ukraine also remains volatile and unsuccessful. Although developments in the negotiations with both Russia and Iran are important for oil prices, a strong price movement remains absent due to continued uncertainty.

OPEC+ may decide to accelerate phase-out path again

In 2022, accompanying a production cut totalling 3.66 mb/d distributed among all OPEC members+ from, eight OPEC+ members decided on additional ('voluntary') production cuts at the time. These eight countries are Saudi Arabia, Russia, Iraq, UAE, Kuwait, Oman, Algeria and Kazakhstan. Until the phase-out began in April 2025, those additional production cuts took a total of another 2.2 mb/d off the market.

The voluntary production cut was initially (March 2025) intended to phase out monthly between April 2025 and September 2026. In practice, this meant that an additional 138 thousand barrels of oil per day (kb/d) would enter the market each month. However, OPEC+ explicitly stated that this is a flexible path, where adjustments can be made depending on the market situation.

The group used exactly this argument on 3 April, when it surprised the market by tripling its May unwinding to 411 kb/d, citing the '*continuation of healthy market fundamentals and a positive market outlook*' as the reason for the accelerated unwinding. However, given that Trump had plunged the global economy into a period of chaos and uncertainty a day earlier - with the accompanying downward pressure on oil prices - this could not have been further from the truth.

Country	Production level **March 2025** (before phase-out) in kb/d	Production level **June 2025** (Phase-out accelerated twice) in kb/d	Production level **September 2026** (2.2 mb/d back on the market) in kb/d
Saudi Arabia	8.978	9.367	10.478
Russia	8.978	9.161	9.949
Iraq	4.000	4.086	4.431
UAE	2.912	3.092	3.519
Kuwait	2.413	2.466	2.676
Kazakhstan	1.468	1.500	1.628
Algeria	908	928	1.007
Oman	759	775	841

This was followed on May 3rd by an additional tripling of the original June phase-out, citing '*current healthy market fundamentals, as reflected in the low oil inventories*' as the main reason. It is likely that there will be a 411 kb/d cut in July too, which will become clear at the eight-nation meeting on May 31st (initially set on June 1st).

In practice, the theoretical production increase of 411 kb/d will not fully enter the market as additional barrels. For instance, some countries are already producing above their production limit, which means this production increase will result in fewer additional barrels. Other OPEC+ members are already producing at maximum capacity, so *de facto* no barrels will be added. Additionally, a country has to compensate for previous overruns of production levels in the future, which may further reduce additional production.

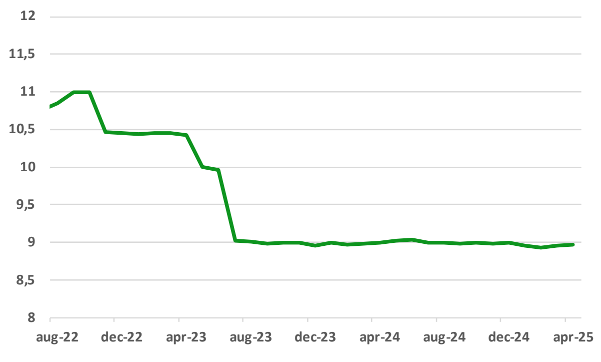
Recovery of market share pushed to the centre stage

Putting further pressure on oil prices was a deliberate action by OPEC+, mainly at the initiative of the *de facto* leader Saudi Arabia. Punishing OPEC+ members Kazakhstan and Iraq plays a crucial role in this, as these countries continuously produce above their OPEC+ quota. In addition, OPEC+'s declining market share plays an important role. Furthermore, the decision cannot be completely separated from President Trump's visit to Saudi Arabia. The US and Saudi Arabia have close trade relations. While US presidents are known to like low oil prices (read petrol prices) to accommodate their constituents, the Saudis want to avoid getting into a trade war.

Due to production cuts, several OPEC+ members have consistently produced below capacity. This is particularly true in the case of Saudi Arabia. With a cap of less than 9 mb/d, production levels have been some 3 mb/d below potential capacity. The relative market share has come under further pressure as oil production in non-OPEC+ members has grown significantly in recent years, especially in the Western Hemisphere (US, Guyana, Brazil and Suriname as of 2028).

Saudi production well below maximum capacity of 12 mb/d

Mb/d



Source: LSEG Eikon

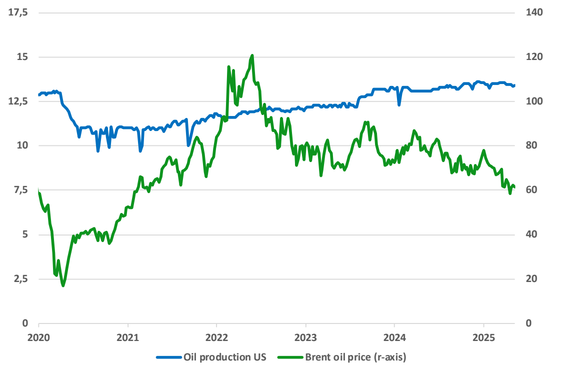
The balancing of supply and demand is the official goal of the policy pursued by OPEC(+). This is important, as relative price stability provides investment security for both producers and consumers. For instance, with more stable prices, oil production expansion plans can be calculated more easily. Additionally, a stable oil price ensures more economic growth in oil-consuming countries over time, which in turn benefits large oil producers.

Furthermore, the market share of OPEC(+) is of great importance. Market share determines the influence that the group of oil-producing countries can have on the global oil market. The decision to phase out production cuts at an accelerated pace in recent months was probably founded on this – yet often seemingly remaining more in the background - goal. The resulting downward price pressure puts higher-cost producers in the hot seat. Because most OPEC+ countries have low cost prices and extraction is (largely) in the hands of state-owned companies, production is more easily maintained or can even be increased. This consolidates market share. In this case, US shale oil producers are the main target, given their relatively high average cost price and the commercial owners who expect short-term returns.

Increasing oil production to put pressure on oil producers elsewhere is a well-known, yet not always successful, tactic of OPEC(+). Between 2014 and 2016, shale oil products were also targeted, but low oil prices actually ended up creating technological breakthroughs. Thus, in time, the increased efficiency led to a higher US market share. However, at this moment shale producers are more vulnerable. Costs have risen (personnel, capital, etc.), while the most easily extractable areas are being depleted. Meanwhile, oil prices were already under pressure at the hands of President Trump.

Peaking US oil production susceptible to price shock this time?

Mb/d USD/barrel



Source: LSEG Eikon

The active monthly contract for WTI is currently still trading at over USD 61/barrel. This is a price level that puts some of the shale oil producers at risk. in the IEA's projections, this has already translated into a reduction of US oil production growth in the rest of this year (-50 kb/d) and next year (-190 kb/d), which is visible in the flattening of US production growth. Should OPEC+ decide to accelerate the unwinding path again in July, the WTI price could come under further pressure, with the associated impact on production from US shale oil producers.

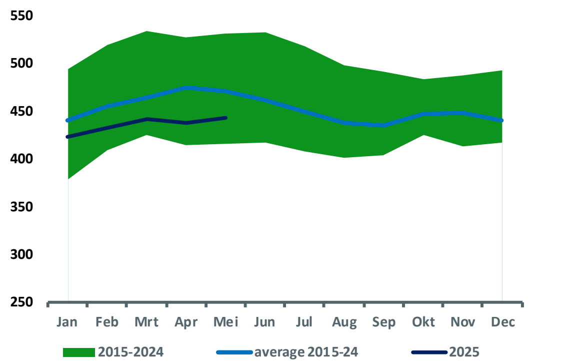
While financial performance for commercial oil companies is of direct interest to their investors, for OPEC+ countries, a low price is also not without risk. These countries often rely heavily on the oil price to make ends meet for their government budgets. For Russia, this is increasingly true, as oil revenues are crucial in the financing of the war in Ukraine.

Global oil stocks still low but have resumed growth

In an explanation for accelerating the winding-down path of production cuts, OPEC+ cited healthy market fundamentals as the reason, specifically pointing to oil stocks as an indicator. This can clearly be seen in the stock level of refined petroleum products in the US.

US crude oil inventories

Millions of barrels

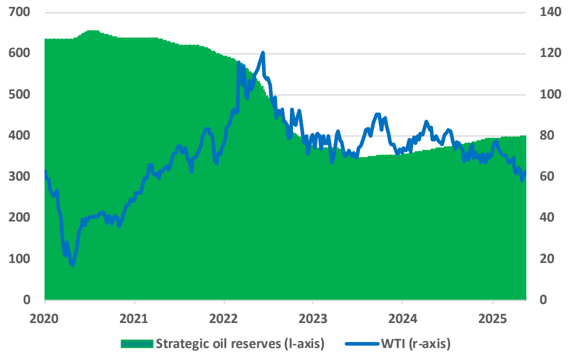


Source: EIA

A similar picture may be observed regarding US strategic crude oil stocks (Strategic Petroleum Reserve, SPR). Indeed, when measured against the long-term average, it becomes clear that these are at a relatively low level. However, merely looking at the current low level gives a distorted view of the situation. The policies of the Biden administration are largely the cause behind the low current stock levels. Pressing fuel prices were a key part of the policy to dampen high prices after Russia's invasion of Ukraine. As a result, record volumes were sold from the SPR in 2022 and early 2023.

US strategic oil stocks and WTI oil price[1]

Millions of barrels
USD/barrel



Source: LSEG Eikon

On the contrary, recently we can see that global oil inventories have risen sharply, putting further pressure on OPEC+'s reasoning. The IEA's latest Oil Market Report shows that global oil inventories rose in March for a second month in a row. This took the total to nearly 7.7 billion barrels. The preliminary data again points to stock growth in April. Although the energy agency stresses that the current level is still below the long-term average, the change in trend is clear. Moreover, the IEA expects the trend will accelerate. A daily increase of 740 thousand barrels is expected this year, where it would average 930 thousand barrels in 2026.

There are a few reasons for the recent rise in global oil stocks. For example, the sharp drop in oil prices over the past few months has made it attractive to replenish stocks. China has a reputation for being opportunistic when it comes to oil reserves, expanding them more quickly when prices are low. Although this did indeed happen in April, we have seen a decline in Chinese reserves over the past four weeks. Reserves currently stand at 946 million barrels. This is more than in 2024, but still below the five-year average.

However, rising stocks are not only rooted in opportunistic buying behaviour of governments. It could also be the harbinger of a changing supply and demand situation in the oil market. Dampened demand for oil - due to Trump's chaotic economic policies - and an accelerated unwinding of OPEC+ production cuts, is disturbing the market. Rising oil stocks are an indicator of this.

A key indicator for this is the level of oil stocks on oil tankers at sea. This has increased by 14% in just a month. Storage at sea is relatively expensive and often takes place when oil producers or refineries cannot immediately find a buyer for their oil (product). This implies a drop in oil demand, and/or an

[1] Optically, the deployment of strategic oil stocks caused the oil price to normalise at the time. However, an earlier analysis by PZ ERS showed that this effect should be put in perspective. However, we have also seen the price correction in the second half of 2022 - occurring at about the same time as the SPR unwinding - in other commodity markets, including the gas market. This makes it plausible that oil prices would also have shown a sharp downward price correction without the release of oil from strategic reserves.

increase in supply. A picture supported by IEA forecasts. For the remainder of 2025, oil demand is expected to grow by 650 kb/d, while supply growth is currently estimated at 1.6 mb/d. Further acceleration of the OPEC+ phase-out path could advance oversupply, as well as further disruptions to the global economy.

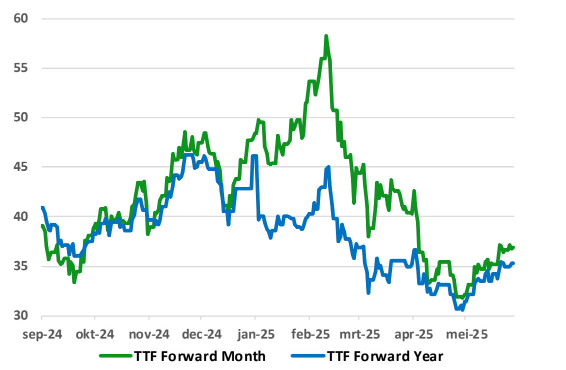
Gas price rebounds after moving towards EUR 30/MWh

The active monthly TTF gas price contract is currently trading at around EUR 37/MWh. The price has recovered over the past month after bottoming out at the end of April. At the time, the price moved towards EUR 31/MWh, the lowest price level since the end of July 2024. Last month's upward price trend is largely due to the reduced supply of pipeline gas from Norway, more on which later. In addition, geopolitics also played a role. The market reacted with disappointment to the phone call between Putin and Trump on May 19th. This did not bring the parties involved closer to the negotiating table, reducing the chances of a ceasefire (or peace agreement).

Market participants then reasoned that this makes it more unlikely that Western sanctions will be lifted in the short term. This makes the return of Russian pipeline gas to Europe (even) more unlikely. The resulting upward price pressure was reinforced by the European Commission's announcement of the REPowerEU *roadmap* on May 6th. Although there are doubts about the feasibility of this plan from a legal and political perspective, the Commission still seems determined to phase out Russian gas by 2027 at the latest (spot deliveries as early as the end of 2025).

TTF and JKM gas prices rise again

EUR/MWh



Source: LSEG Eikon

The above shows that there was cause for price increases last month. However, this was largely driven by headline-based algorithm trading, rather than a fundamental shift. Significant is the phone call between Trump and Putin. While it may have reduced the chances of a peace deal, the likelihood of this was already extremely low in the short term.

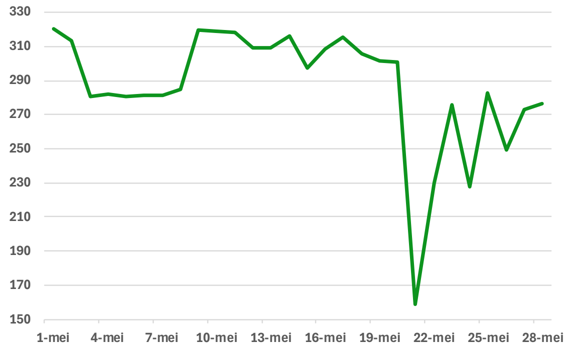
This made an upward price movement plausible regardless and market participants, especially investment funds and speculative investors, seized on the above developments to take positions. This, in turn, is largely related to the fundamental situation in the European gas market. European gas demand is high because storages need to be filled. The vast majority of the gas must then be purchased on a tight and global market, creating upward price pressure. In this light, it is likely that market participants felt that a price towards EUR 30/MWh did not do justice to the situation.

Dip in Norwegian gas exports supports TTF gas price

During the month of May, Norway is planning to undertake a lot of gas infrastructure maintenance. During the peak - which lasts only a few days - Norwegian gas exports to Europe are restricted to almost 200 million cubic metres per day (mcm/day). When Norwegian gas fields and processing plants produce without restrictions, these exports are around 340 mcm/day.

Unexpected Norwegian gas infrastructure maintenance

Mcm/day



Source: Gassco

The spring maintenance period does not come as a surprise to market participants, meaning it is in principle already incorporated into the price. However, we currently see that due to a high degree of uncertainty - especially on the geopolitical front - the market does react to periods of (planned) maintenance, as it makes the market more vulnerable in times of potential additional unexpected supply constraining events. A contributing factor to this is the fact that relatively empty gas reserves in Europe create higher gas demand in spring and summer.

In contrast, an outage or extended maintenance can be more difficult to price in ahead of time and thus logically creates significant upward price pressure. This is currently the case due to the electricity supply outage at Norway's Troll gas field, which is expected to result in some 35 mcm/day less gas coming to Europe until Saturday. Maintenance at the Visund gas field on Tuesday was added to this, lowering production by 5.3 mcm/day indefinitely.

In short

Taiwan replaces nuclear power with natural gas - Taiwan shut down its last operational nuclear power plant on Saturday May 17th. The nuclear plant still accounted for about 3% of its total electricity consumption. To replace this, the country is adding 5 GW of gas power plant capacity. This switch from nuclear to natural gas will sharply increase the country's LNG demand - and CO2 emissions. The decision to switch is noteworthy, as MPs simultaneously passed a law paving the way for a restart of closed reactors. However, this seems to be overdue. It is anticipated that it will take around two to four years to get the just-closed nuclear reactor operational again.

EU oil and gas producers obliged to achieve CO2 storage capacity - The European Commission (EC) has pointed to 44 EU oil and gas producers to achieve a collective target of 50 Mtonnes annual CO2 storage by 2030. The companies are given individual responsibility based on their share of oil and gas production between 2020 and 2023. The obligation comes from a *delegated regulation* that is part of the Net Zero Industry Act. The exact details of the directive are currently unknown. There are indications that possibly certificate trading for CO2 storage will be included. As a result, oil and gas producers covered by this regulation could, for instance, claim (part of) the storage capacity of CCS projects currently under development, such as Porthos in the Netherlands.

CBS figures: Dutch manufacturing turnover grows by almost 3 percent - In the first quarter of 2025, the turnover of Dutch manufacturing grew by 2.9 percent compared to the first quarter of 2024. The largest share of this came from customers abroad, who accounted for a 4.7 per cent growth in turnover. While the overall industry grew, the chemicals and refineries industry shrank by about 1 per cent compared to a year ago. This is in line with the contraction in sales of these industries over the past two years. In addition, 84 companies went bankrupt in the industrial sector in the first quarter of 2025, down from the previous quarter but in line with the average increase in bankruptcies in recent years.

Energy Agenda

Organisation	Date	Event
OPEC+ (JMMC)	28-May-25	Meeting of the Joint Ministerial Monitoring Committe
OPEC+ (V8 countries)	31-May-25	Ministerial Meeting on July production levels
European Commission (EC)	01-Jun-25	Follow up on REPowerEU Roadmap in June
OECD	03-Jun-25	Publication Economic Outlook 2025
OECD	3-jun-25	Minsterial Council Meeting 2025, on June 3 and 4
European Central Bank (ECB)	05-Jun-25	Interest rate meeting Eurozone
International Energy Agency (IEA)	17-Jun-25	Publication Oil Report 2025
European Commission (EC)	Q3-25	CBAM Review Report
Ministry Climate and Green Growth (KGG)	sep-25	Climate and Energy Outlook (KEV) 2025, in week 38
International Energy Agency (IEA)	okt-25	World Energy Outlook 2025
Day ahead markt	1-okt-25	Time unit in day-aheadmarkt from hourly base to 15
United Nations Climate Change Conference	nov-25	Conference of Parties (COP) 30
Ministry Climate and Green Growth (KGG)	Q4-25	Desicion on program nitrogen, energy transition, an

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