Group Economics – Energy Research – Oil Market Monitor | 15 April 2025

Tariffs and OPEC+ shake up

- **Brent crude has reached lowest level in three years at $63 per barrel, affected by U.S. tariffs threats and OPEC+ revive production**
- **New US tariffs and threats against oil from Venezuela, Iran, and Russia have reshuffled supply chains and increased volatility**
- **OPEC+ unexpectedly decided to raise output, impacting market dynamics and causing a shift toward bearish trader positions**
- **Low prices and tariff-induced higher costs will hinder U.S. oil production growth and investment**
- **The outlook remains clouded by deep uncertainty concerning the final scope, timing, and levels of any additional US tariffs**
- **We retain our view for a market surplus due to increased OPEC+ supply and weak demand**
- **We expect Brent prices to hover around 65 $/b in Q2 and end the year at 58 $/b**

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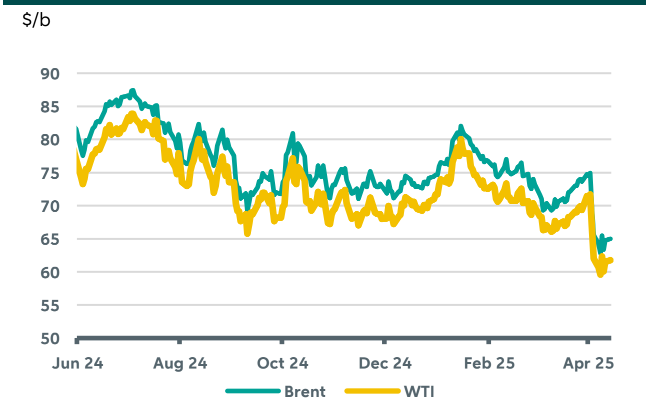
Introduction

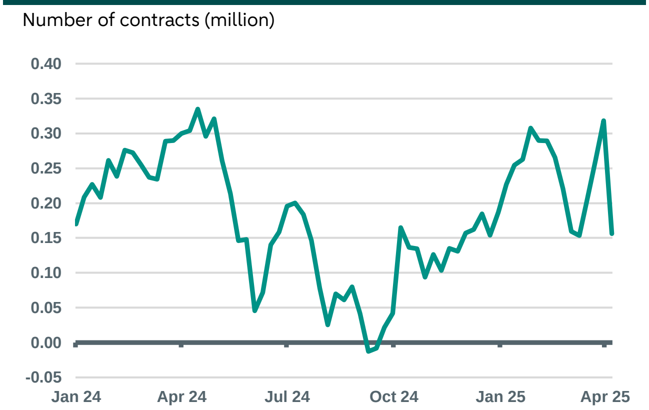
Oil markets have seen multiple developments that drove prices up and down last month. Currently, Brent is trading at levels last seen in 2021 hovering below 65 $/b just after a temporary recovery in March. The US administration has played a key role in dictating the fluctuation in oil prices. Global economic growth and hence oil demand expectations have been reduced due to the tariff anouncements. In addition, we have seen expectations of a rerouting energy flows using a combination of tariffs, sanction threats targeting the output from Venezuela, Iran and Russia, together with demands to Saudi Arabia to reduce prices. Meanwhile, the surprise decision of OPEC+ to revive halted production risks deepening the expected market glut. Brent was trading at 64.7 $/b at the time of writing.

Oil prices hit levels last seen in 2021



Source: Bloomberg, ABN AMRO Group Economics

Net long contracts swung down



Source: ICE, ABN AMRO Group Economics

Oil market developments

In March, OPEC+ decided to start reviving long halted production gradually at the beginning of April according to the plan communicated in June last year. The decision came despite the widely-held expectation (for instance of both the IEA and EIA) of a supply glut in the market in 2025 on the back of slower demand growth and higher output from non-OPEC suppliers such as the US, Brazil, Canada and Guyana. However, the impact of the OPEC decision on prices was partly offset by the rise uncertainty of supply coming from Venezuela, Iran, and Russia following executive orders and threats by President Trump.

More precisely, President Trump adopted a new plan aimed at chocking off the trade of Venezuelan oil, amounting to 880,000 barrels a day in 2024, by threatening to impose additional tariffs on countries buying it. Additionally, the US threatened to impose similar "secondary tariffs" on countries buying Russian oil if a ceasefire agreement with Ukraine is not reached. Similarly with Iran, Trump threatened "secondary tariffs" and raised the threats to bomb the country if Tehran does not sign a deal that renounces nuclear weapons. In that regard, The US penalized a small Chinese refinery and a terminal operator for allegedly buying Iranian oil. Furthermore, disruptions to global flows were feared after the US started a renewed offensive against the Iran-backed Houthi group in Yemen. These developments increased supply uncertainty and had a temporary upward pressure on prices in March.

However, oil prices witnessed a freefall early April following two major shocks. The first shock was the announcement of reciprocal tariffs by the US administration that exceeded all expectations, with minimal 10% blanket tariff on all countries and higher rates for specific nations. These tariffs deepened the concerns on global growth outlook worsening further oil demand figures and widening the anticipated surplus in the market. Although Trump subsequently announced a 90 days postponement of these tariffs (except for China), uncertainty still dominates the markets. You can read more about the potential macro impacts of the tariffs in our most recent notes here and here.

The second shocks hitting the oil market was the OPEC+ decision on April 3 to increase output in May by 400,000 barrels a day. Almost three times higher than signaled in its production resumption plan. The move was interpreted in part as answering President Trump's demands for higher output and lower oil prices. At the same time, it was considered as a way to discipline long non-compliant countries like Iraq and Kazakhstan, which have been failing to fully observe their limits or compensate for their overproduction. A decision on June's output is due on May 5 meeting between countries engaged in voluntary supply cuts, just before the ordinary ministerial meeting on May 28.

Accordingly, Brent oil prices fell to a three-year low, hitting 63 $/B. While the move was initially sparked by the US tariff policy, it was compounded by OPEC+'s decision. These developments had a dramatic shift in positioning with traders net positions swung to the short side after being dominated by long position since September 2024.

US policy impacts on oil markets

Part of the US tariffs were imposed on oil imports from Canada and Mexico. These restrictions would lead to higher feedstock costs for domestic refiners and reshuffle oil supply chains. In the same direction, the threats of secondary tariffs on countries buying Russian oil were effective in diverting imports by Indian refiners away from Russian oil, where both China and India have been the main buyers benefiting from large discounts on Russian oil since the start of the war in Ukraine.

President Trump has also been pushing Saudi Arabia, his main ally in the OPEC+ alliance, for lower oil prices. The latest move by the cartel was effective in bringing prices to new lows (below 65 $/b), even though most OPEC members require much higher prices to balance their budgets. For example, Saudi Arabia relies heavily on oil proceeds to finance its 2025 budget with almost 62% of government revenue budgeted to come from oil. It requires a price of 91 $/b to breakeven, according to the IMF. As a result, the kingdom has recalibrated its expenditures for many of its ambitious projects.

Internally, Trump has launched a series of policy measures aiming to boost demand and produce more oil and gas, part of his campaign to increase American energy dominance. He started by declaring national energy emergency which helped in using new legal tools for expediting energy infrastructure projects. He also commanded a revision of regulations burdening the industry. As a result, many measures are intended to be removed or altered by the EPA, such as limits on methane pollution and many other changes with an aim to boost oil demand and the encouragement of the development of more oil and gas development in Alaska. Trump also proposed cutting taxes on oil companies in an aim to boost production.

However, such changes need time with a lengthy rulemaking process associated with some uncertainty. Furthermore, current low-price levels reduce profit margins, and in consequence, the incentives for new investments especially for US companies which have high marginal production costs. These costs are further amplified by the new tariffs which drive up the price of drilling equipment in the US. For example, the newly 25% imposed tariffs on steel raised pipe costs by almost 30%. Accordingly, the combination low prices and higher costs would work in odd to ramp up US production.

From the demand side, the unexpected scope and levels of the new reciprocal US tariffs, along with the ongoing trade war between China and the US have worsened the prospects of global growth even further. China - the world's biggest net importer - has been especially hit with high tariff rates which amounted to 145% after several rounds of retaliation between the two countries. In the most recent development, Trump announced a pause on the announced reciprocal tariffs for 90 days, except for China, which gave some relief to the market. Accordingly, except for China, the pause is expected to induce a front-loading positive effect on growth in the second quarter of 2025. Meanwhile, we will review our growth outlook for China following the publication of the Q1-2025 figures on April 16th, and will published revised forecasts in our April Global Monthly (see more here).

Outlook

We think that the prospects of a market surplus in 2025 are strengthened further especially if OPEC+ continues with its supply increases combined with the lackluster global demand, while low price levels and higher costs limit the supply growth form non-OPEC+ countries. However, the outlook remains clouded by deep uncertainty concerning the final scope and timing and levels of any additional US tariffs, especially those related to geopolitical outcomes, such as those associated to an Iranian nuclear deal or Russia agreeing to a ceasefire. In the short term, we think the front-loading impact following the 90 days pause on the tariffs will help to put a bottom under prices. However, this will likely prove a temporary reprieve, and we expect prices to see a decrease in the second half of 2025 driven mainly by the slowdown in demand growth. Accordingly, we revise our outlook for Brent slightly downward, where we expect Brent to average 65 $/b (was 68 $/b) in Q2 and end the year around 58$/b (was 60 $/b). Below is a summary of our Brent outlook for coming quarters.

	Q2-25	Q3-25	Q4-25	Q1-26
Brent outlook ($/b)	65	63	60	58