



Oil prices under pressure

Summary

- Oil prices averaged \$75pb in Q1-25, down from an average of \$80pb in 2024. Prices declined sharply in April, with Brent briefly below \$60pb, due to the sharp rise in US tariff rates and the OPEC+ decision to increase production by more than planned (Figure 1).
- Prices have bounced back a bit in May, with Brent at around \$65pb, due to de-escalation between the US and China on tariffs and increased awareness that low oil prices pose a challenge to US shale output.
- We have revised our forecast for Brent crude to \$67pb on average for the year, with Brent prices fluctuating around \$63-\$65pb in the remainder of 2025, as US tariff policy stabilises somewhat, US shale production plateaus and OPEC+ production growth slows later in the year.
- The balance of risks remains to the downside for oil prices given the uncertain demand outlook and what seems like ample global supply this year. Meanwhile, the risk from geopolitical developments, such as US-Iran talks, remains double-edged.
- We expect Saudi crude production to average 9.4mbpd in 2025, up from 9mbpd in 2024—growth of just over 4 percent. Higher volumes will offset part, but not all, of lower prices.
- For 2026, we assume an average Brent crude price of \$65pb. Global fundamentals may improve if US policymaking settles down, the US Fed finds room for more rate cuts and China continues with stimulus. But, with oil inventories likely to build during 2025, further oil production growth and structurally slowing Chinese demand, the oil market may lack an upward catalyst.

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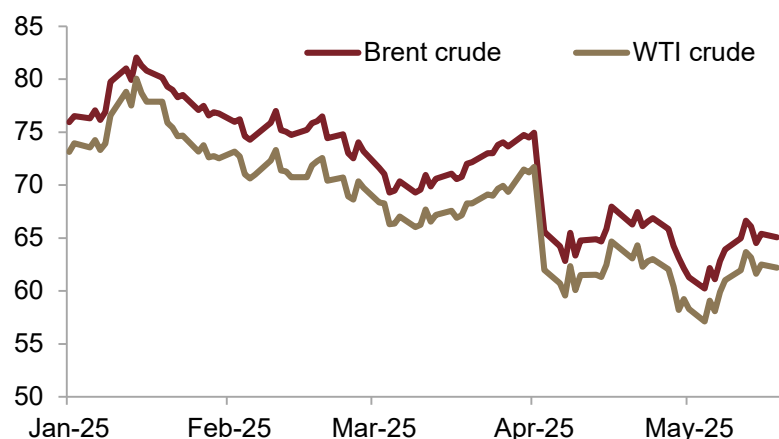
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Figure 1: Tariffs and OPEC+ unwind hit oil prices





Oil prices have fallen due to higher US tariffs and stronger OPEC+ production.

De-escalation between the US and China supported oil in May.

We expect Brent to fluctuate around \$63-65pb.

The demand outlook weakened in the wake of Liberation Day.

Overview

Oil prices averaged \$75pb in Q1-25, down from an average of \$80pb in 2024 as forecasts for supply growth to outstrip demand growth weighed on prices. This was in line with our forecast going into 2025.

The outlook changed in April as higher US tariffs weakened the outlook for oil demand and OPEC+ announced bigger increases in oil supply. These twin developments worsened forecasts for global oil balances and sent prices down.

Prices have bounced back a bit in May, with Brent at around \$65pb, due to de-escalation between the US and China on tariffs. Increased market awareness that US shale output may be flat at best with prices at their current levels also supported prices.

Looking to the rest of 2025 the oil market is subject to further volatility in response to US tariff policy and OPEC+ production plans. We have revised our forecast for Brent crude to \$67pb on average for the year, with Brent prices fluctuating around \$63-\$65pb in the remainder of 2025, as US tariff policy stabilises somewhat, US shale production plateaus and OPEC+ production growth slows later in the year (Figure 2).

The balance of risks remains to the downside for oil prices given the uncertain demand outlook and what seems like ample global supply this year. Meanwhile, the risk from geopolitical developments, such as US-Iran talks, remains double-edged.

Demand

Oil demand was robust in Q1-25. However, the tariff tsunami in April and the uncertainty about how US trade policy will evolve dented near-term global growth prospects and contributed to a \$10/b decline in oil prices.

US tariff policy has been volatile and it remains uncertain where US tariff rates will eventually settle. On April 2nd the US imposed a 10 percent base rate on almost all countries and additional reciprocal tariffs on top of that which varied by country. On April 9th the US administration granted a 90-day pause on the reciprocal tariffs while maintaining the universal 10 percent base tariff. At the same time US tariffs on China increased further and triggered retaliation from China, with rates reaching levels that threatened the viability of US-China bilateral trade.

Figure 2: Annual average Brent crude price (\$pb)

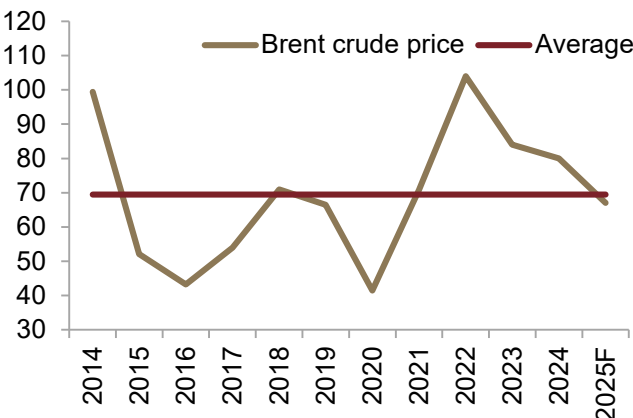
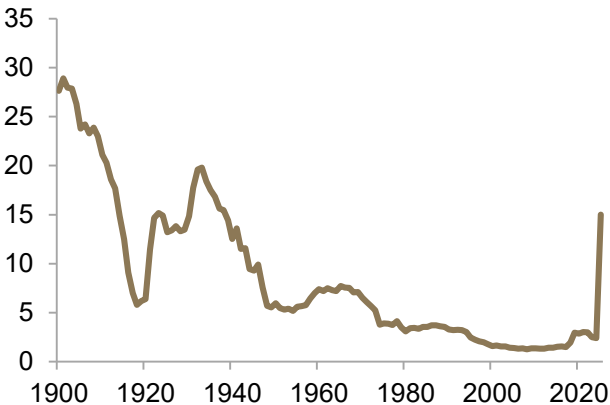


Figure 3: US effective tariff rate (percent)



2025 figure is estimate based on tariff situation since May 12



Oil markets remain subject to volatility around US tariff policy.

The next key deadlines for US tariff policy are July 8th and August 12th.

Ultimately, the effective US tariff rate will be higher than it was before Liberation Day.

We expect oil demand growth of around 0.8mbpd.

The tariff impact will take time to show up in hard economic data.

The latest twist is the significant de-escalation between the US and China on May 12th with agreement for a sharp tariff reduction for 90 days. US tariffs on Chinese imports will fall from 145 percent to 30 percent and Chinese tariffs on US goods will fall from 125 percent to 10 percent. China also ended other measures such as bans on exports of critical minerals.

It remains to be seen what happens in early July when the 90-day pause ends on reciprocal tariffs for rest of the world (excluding China). There seems a good chance that some trade deals get announced, such as the US-UK trade deal, and for other countries the 90-day pause gets rolled over. Then there is the question of whether US-China de-escalation proves durable beyond mid-August.

When the dust settles, the effective US tariff rate will be higher than it was before Liberation Day (Figure 3). As things stand, the US effective tariff rate has risen to around 15 percent, the highest since the 1930s and sharply up from 2.4 percent in 2024. This shift and the intervening uncertainty will likely dent global growth this year and weigh on oil demand growth as well.

At the start of 2025, we assumed global oil demand growth at around 1mbpd. Liberation Day may have put around half of that at risk. Now, assuming some trade deals emerge and stimulus measures help to offset some of the tariff impact (for example in China), we expect 0.8mbpd of oil demand growth in 2025. This compares with average annual demand growth of 1mbpd on average in 2014-2024 (including covid) (Figure 4).

The impact from higher US tariff will become clearer in the coming months as more hard data is released. So far the picture has been mixed.

The PMIs across most major developed markets fell in April. In general, total orders and new orders for manufactured exports contracted and sentiment about future output deteriorated. PMI data for China also weakened in April. This is consistent with the challenges that higher tariffs and uncertainty present for businesses.

At the same time, export data for China in April was stronger than expected, while Vietnam posted stellar April export data. The numbers for the US labor market have also arguably been better than many would have expected.

Figure 4: Annual global oil demand growth (mbpd)

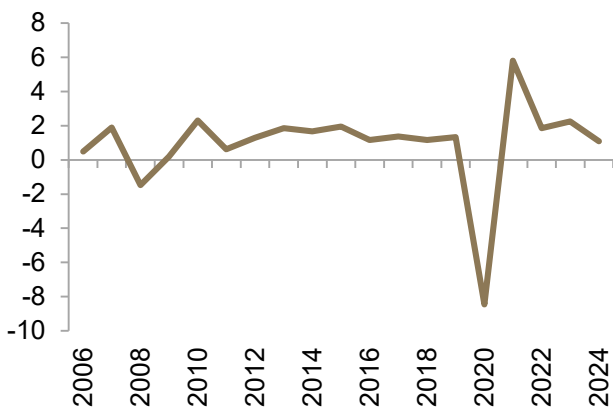
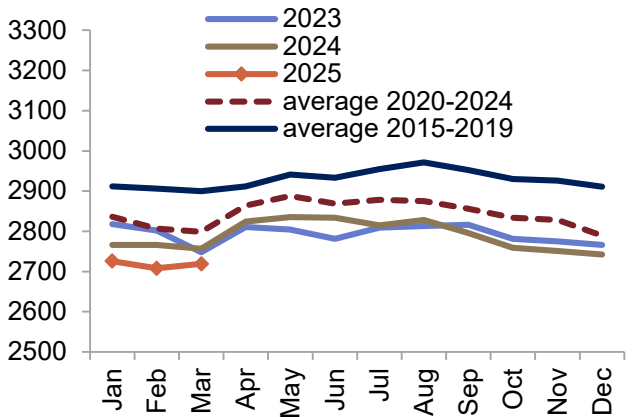


Figure 5: OECD oil inventories (mb)





Restocking of oil inventories will be a source of demand in the near term.

One near-term support to demand will come from restocking of oil inventories while oil prices are low. IEA data for March show global inventories well below their historical five-year range. OECD inventories are below the 2020-2024 five year average, including relatively low figures for US inventories (Figure 5). China's recent increase in crude imports suggests that it is rebuilding its inventory levels.

While much uncertainty prevails, below we consider the oil demand picture in some of the key markets.

US petroleum consumption was strong in Q1-25, but will soften later in the year.

US consumption of petroleum products was up year-on-year in Q1-25 (at 20.38mbpd), with increases across most products including motor gasoline which is the largest component (at 8.68mbpd). Colder weather than the previous winter supported demand growth. With economic growth slowing, liquids consumption will slacken during the year, although lower gasoline prices help cushion demand in the summer months.

The US accounts for close to 45 percent of total OECD oil demand. Oil demand from the rest of the OECD in aggregate edged up in Q1-25 according to the Energy Information Administration (EIA), but is likely to decline for the year as a whole.

The main source of demand growth will remain emerging Asia, notably India.

The main source of oil demand growth in recent years has been from non-OECD Asia. **India** looks like the main single source of demand growth this year. India's economy slowed a touch in 2024 and may slow further in 2025, but with real GDP growth at around 6 percent this would still push up the country's oil demand—perhaps by around 0.2mbpd.

In January-February India's oil product demand was up by 1.4 percent and crude imports surged to 5.4mbpd in March (Figure 6). Q1-25 PMI readings pointed to further decent expansion. The manufacturing PMI rose to 58.2 in April (above 50 indicates expansion). A government tax relief package should support household spending and demand for transportation fuels.

China's oil demand growth will be pressured by weaker economic growth and further adoption of EVs.

In **China** oil demand growth will be pressured by weaker economic growth and further adoption of EVs and LNG trucking. However, restocking of inventories and economic stimulus are supporting oil demand in the near term.

Monetary and fiscal stimulus and policy efforts to support the property sector boosted China's Q4-24 GDP to 5.4 percent. Q1-25 GDP also grew by 5.4 percent according to official data. Industrial production and exports were strong in March as activity accelerated ahead of tariff changes in April.

But government stimulus and restocking of inventories will cushion demand to some extent.

However, the April official manufacturing PMI survey fell to a 16-month low of 49.0 from 50.5 in March. The Caixin manufacturing PMI also declined, to 50.4 from 51.2. The official services and construction PMIs also declined month-on-month in April.

Higher US tariffs, even at the reduced rates on May 12th, are negative for Chinese exports—exports to the US are around 3 percent of China's GDP—and manufacturing. China will try to reroute exports to other markets and policymakers are adding to stimulus to try and offset some of the impact by boosting domestic demand.

China's oil product demand was up by 1.4 percent year-on-year in January-February averaging 17.5mbpd. Crude oil imports were



The Middle East will also contribute to additional demand for oil products.

Production increases from OPEC+ have contributed to weaker prices.

subdued in January-February, but surged in March to the highest level since August 2023, according to Chinese customs data, and seem to have continued at high levels in April with China keen to take advantage of lower oil prices to refill stockpiles of crude (Figure 7). Further stockpiling may support crude imports in coming months, but in H2-25 it is unlikely China would need to keep importing at elevated levels.

In the **Middle East** oil product demand grew by 1.5 percent in Q1-25, according to the EIA. The Gulf has driven growth in oil demand in recent times linked to robust economic growth including demand from travel and tourism, logistics and petrochemical expansions. The fall in the oil price will transmit via public spending and liquidity to weaker economic growth in the Gulf with knock-on effects for oil demand. However, lower oil prices should help support demand to some extent in the Levant and North Africa.

Supply

Alongside the uncertainty over demand, the prospect of increasing OPEC+ and non-OPEC supply has placed downward pressure on oil prices, especially after OPEC+ increased its production targets for May and June.

In April OPEC+ started to unwind production cuts which were implemented in three tranches since October 2022. Those cuts amounted to 5.86mbpd. The plan at the start of 2025 was to add back 2.5mbpd gradually from April 2025 until September 2026, although the net increase in supply was intended to be smaller for the first year given the plan for compensation cuts by countries who had previously overproduced.

However, hot on the heels of Liberation Day, OPEC+ announced that it would increase output in May more sharply than planned—by 411,000bpd rather than 135,000bpd. Then on May 4th OPEC+ announced that it will also increase output in June by more than planned—by another 411,000bpd. This means that in June output will reach the level initially planned for October (Figure 8).

It is worth noting that actual production increases in May and June will be smaller than this both because some countries are already producing above their targets and because some members have agreed in principle to compensate for previous overproduction. Nonetheless, this change in policy represents a loosening of supply and could well be repeated beyond June.

Figure 6: India crude oil imports (mbpd)

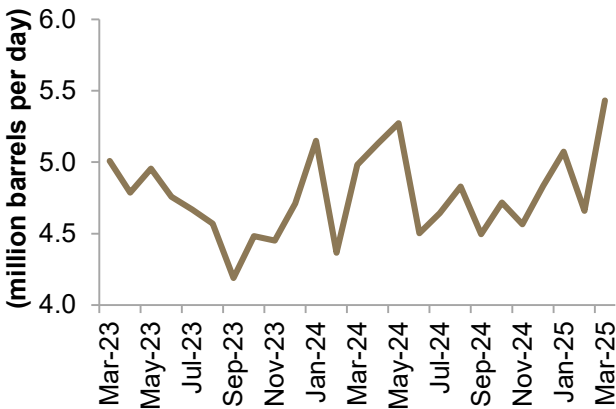
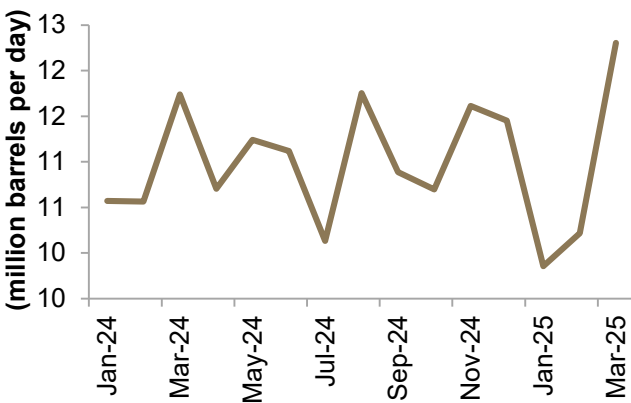


Figure 7: China crude oil imports (mbpd)





Lack of compliance with output targets drove the decision to accelerate output...

...especially given that OPEC has been losing global market share.

With prices falling anyway, OPEC judged it a good opportunity to reclaim some market share from higher-cost producers.

OPEC+ may scale back production increases later in the year, especially if stocks start to build significantly.

Indeed, lack of compliance with targets became an increasing concern during the second half of 2024 and is one of the causes of the OPEC+ loosening. While some OPEC+ members, notably Kazakhstan and Iraq, have produced more than their targets, other countries are complying and therefore carrying more of the burden. Kazakhstan, for example, produced a record 1.85mbpd in March versus its OPEC+ target of 1.43mbpd, following the start-up of the Tengiz oilfield expansion project operated by Chevron.

An updated compensation plan was published in April, but it is not clear all countries can stick to these plans. Kazakhstan has spoken of pursuing its national interests and the difficulty of restraining production when it involves international oil companies. Iraq's compliance has improved in recent months, but the compensation plan for Iraq is demanding, especially when Iraq's budget will be feeling the strain from lower oil prices.

The looser production strategy comes after OPEC has been losing global market share in recent years. In 2024 OPEC output was less than 27mbpd, down from 30mbpd a decade ago and a peak of 34mbpd in 2016. Saudi output in 2024 was the lowest annual average since 2010. At the same time, US crude and condensate production has gone from 9mbpd in 2014 to 13.3mbpd currently (Figure 9).

Therefore, in addition to trying to enforce stronger discipline within the group, OPEC sees this as a good opportunity to place pressure on higher cost oil producers, including US shale, and win back some market share.

While it was not a key driver of bigger output increases, this policy has the added benefit of bolstering good relations with the US given president Trump's stated desire for lower oil prices to bring down inflation in the US and force a diplomatic solution to the Russia-Ukraine war.

How OPEC+ policy evolves during the year will depend on internal compliance issues and the broader developments in the oil market. OPEC+ is likely to scale back production increases later in the year as global inventories start to build. If OPEC+ continues to accelerate production at the same rate as May-June, production in October 2025 would exceed the previous plan for October 2026 (in the absence of compensation cuts) (Figure 10). This could lead to substantial oversupply, taking into account expected gains in non-OPEC+ oil production.

Figure 8: OPEC+ Group of 8 Production Plans (mbpd)

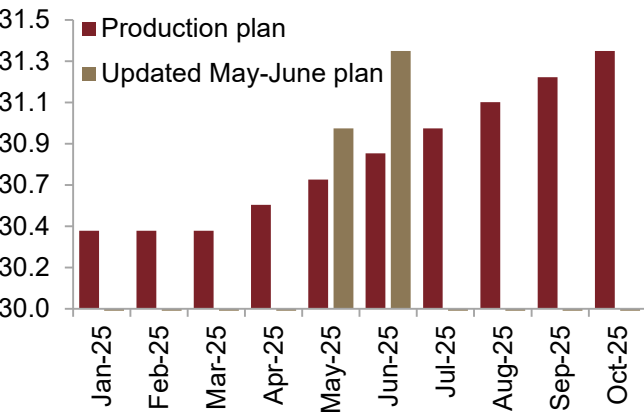
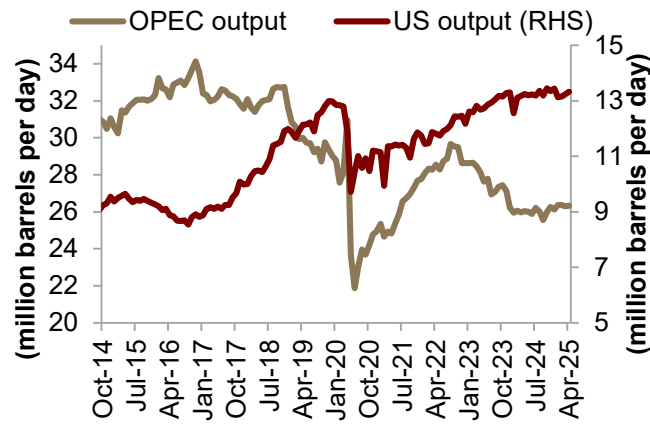


Figure 9: OPEC and US crude production (mbpd)





Non-OPEC+ oil supply will increase significantly in 2025, although lower prices will limit US shale output.

US shale companies are scaling back investment spending in response to weaker prices.

Outside the US, oil production gains are expected in Canada and Latin America.

Overall, global supply looks ample to meet demand.

What about the outlook for non-OPEC+ oil supply? At the start of the year, market expectations were for non-OPEC+ output to grow by at least 1.1mbpd. Lower oil prices will lead to smaller supply additions, especially when it comes to US shale which also faces higher input costs due to tariffs on material inputs. Nonetheless, non-OPEC+ oil supply may increase by around 0.8-1mbpd, enough to cover expected global demand growth.

Total US crude and condensate production including shale has been broadly flat so far this year. While most had expected some growth in shale oil this year on average (OPEC expected US shale output to increase by 0.22mbpd, for example), the decline in prices casts doubt on this now. On average, US shale producers need WTI to be around \$60-65pb to drill a new well profitably, according to the Dallas Fed survey mentioned earlier (Figure 11). WTI has averaged \$61pb since Liberation Day.

A number of US oil companies in recent weeks have announced subdued or lower capital spending plans for this year and have highlighted risks to their input costs from tariffs. Baker Hughes and other oilfield services companies expect a high single-digit decline in global upstream spending, including a steeper decline in spending by tight oil companies in the US. The number of active drilling rigs has declined so far in 2025 and the number of frac crews at wells has fallen to a four-year low, as reported by Bloomberg.

We expect US shale output to be flat in 2025 (Box 1). Total US production is still likely to increase due to additions from the US Gulf of Mexico, where several offshore projects are ramping up or starting production. These projects are less price sensitive as they are long-cycle investments, rather than the shorter-cycle investments characteristic of shale production. Outside of the US, the main agencies expect oil production gains in Canada, Argentina, Brazil and Guyana.

In conclusion, additions from non-OPEC+ and OPEC+ should meet demand growth comfortably and allow for some inventory growth during the year. But the lower oil price will help even up the imbalance to some extent, supporting demand and reducing the incentive to supply, especially in the US shale patch.

Geopolitics remains a key source of uncertainty notably US sanctions policy which could impact oil supply from Iran, Venezuela and Russia. Iran is probably the most important of the three for the oil market.

Figure 10: OPEC8 production scenarios (mbpd)

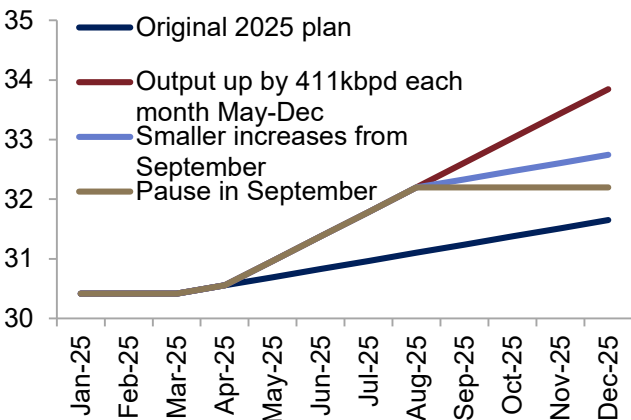
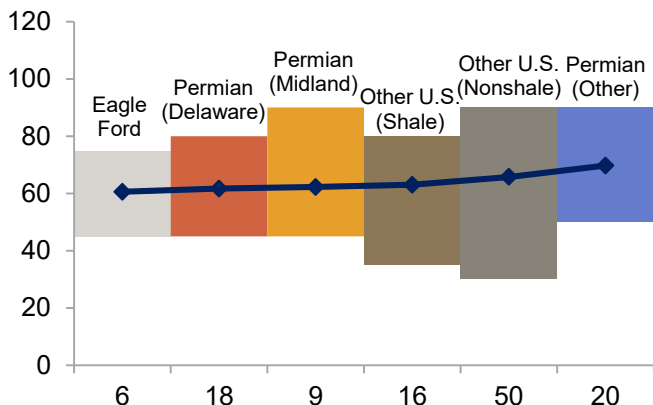


Figure 11: WTI oil price to profitably drill a new well (\$pb)





Meanwhile, geopolitical risks are double edged.

The path of US tariff policy and OPEC+ production plans are the key drivers for oil in the near term.

We assume that Brent crude averages \$67pb for 2025.

We see Saudi crude production averaging 9.4mbpd in 2025, up from 9mbpd in 2024.

Iran and the US started talks in April regarding Iran’s nuclear programme. Both sides seem to want a deal and president Trump has suggested a deal is close. At the same time, there seems to be disagreement over Iran’s enrichment programme. Iran will want to retain its enrichment programme to some degree. Messages from the Trump administration have been mixed on the issue, but most recently have hardened towards not wanting Iran to retain any enrichment capacity. This would likely be a dealbreaker, but it could just be a negotiating tactic.

If negotiations break down then US enforcement of sanctions on Iran would tighten, leading to lower Iranian oil exports. In the first Trump administration US sanctions virtually stopped the flow of Iranian crude exports from a peak of 2.5mbpd in April 2018. Sanctions are unlikely to be as effective this time around given Iran has created sophisticated financial and logistical workarounds, but they could still dent Iranian supply (exports were 1.6mbpd in March), especially at a time when the global supply of oil is fairly comfortable (Figure 13).

On the other hand, if there is a breakthrough in talks then Iranian oil supply could increase from current levels. Hence the risk is double-edged. If US-Iran negotiations lead to some kind of nuclear agreement then that is bearish for oil prices, but if negotiations fail and US sanctions tighten then that would be supportive for oil prices.

Outlook

The near-term oil price outlook will be governed by the evolution of US tariff policy, with the implications this carries for demand, and OPEC+ production plans.

We assume that Brent crude averages \$67pb for 2025 (the average price YTD is \$72pb), with volatility around \$65pb for the remainder of the year. With OPEC+ increasing production, we see Saudi crude production averaging 9.4mbpd in 2025, up from 9mbpd in 2024 (Figures 14 and 15). Higher volumes will offset part, but not all, of lower prices. We assume OPEC+ returns to more limited production increases later in the year. If OPEC+ continues with accelerated output gains throughout the year then more price weakness could be in the offing as global balances loosen.

For 2026, we assume an average Brent crude price of \$65pb. Global fundamentals may improve if US policymaking settles down, the US Fed finds room for more rate cuts and China continues with stimulus. But, with oil inventories likely to build during 2025, some additional

Figure 12: US tight oil production

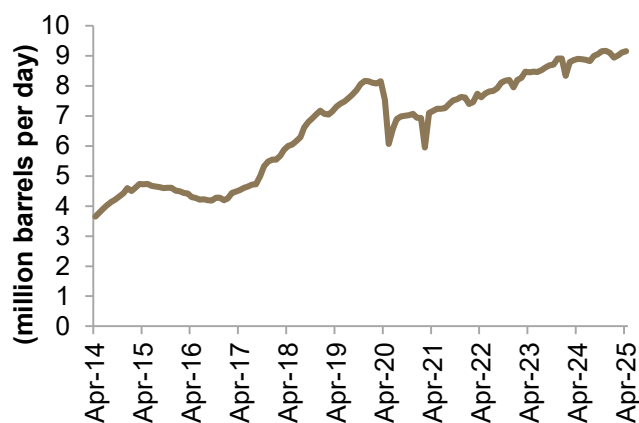
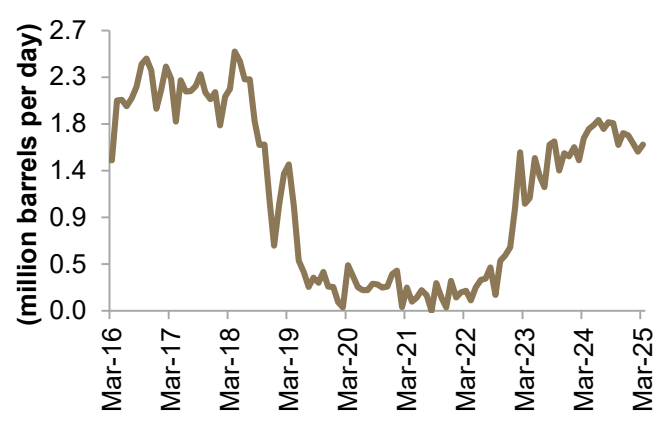


Figure 13: Iran crude exports





Box 1: Is US shale peaking?

Surging shale output has dominated the oil market over the last decade—it may be approaching its peak.

US total liquids production is the biggest contributor to non-OPEC+ supply, at close to 23mbpd—of this 13.3mbpd is crude and condensate and the remainder other liquids. Other major producers include Canada (6.3mbpd), China (5.4mbpd), Brazil (4mbpd), Norway and Qatar (both close to 2mbpd) and a whole host of countries at 1mbpd or less. The US has been the main growth market in recent times, while emerging growth markets include Brazil and Guyana.

US crude and condensate output has grown to 13.3mbpd from 9mbpd in 2014, according to the EIA. The driver of this has been the expansion of shale oil (also known as tight oil) which averaged 8.9mbpd in 2024, reaching a peak of 9.1mbpd, almost double the end-2014 production of 4.6mbpd (Figure 12).

The best acreage, including in the prolific Permian basin (5.6mbpd), is seemingly already exploited. Some of the main shale formations seem to have peaked already. The shale revolution has been characterized by innovation and further productivity gains from new drilling techniques may yield gains, for example from the use of Artificial Intelligence to fine-tune fracking. At the same time shale formations have heavy decline rates. The battle between geology and innovation is becoming more challenging and, as things stand, it seems that shale production will peak before 2030.

In fact shale production may flatline, or even decline, in 2025 at current price levels, with WTI hovering just above \$60pb. If price levels stagnate around \$60pb then the shale peak may be closer than previously thought.

OPEC+ supply and structurally slowing Chinese demand, the oil market may lack an upward catalyst.

Over the medium term, two key factors to watch will be the evolution of US shale production and the path of Chinese oil demand. We suspect shale production will peak and start to decline in the coming years. This is supportive for oil prices and also for OPEC market share. At the same time, Chinese oil demand could also peak, providing a headwind for prices. The speed and extent to which

For 2026, we assume an average Brent crude price of \$65pb.

Figure 14: Updated Saudi crude output targets for May-June (mbpd)

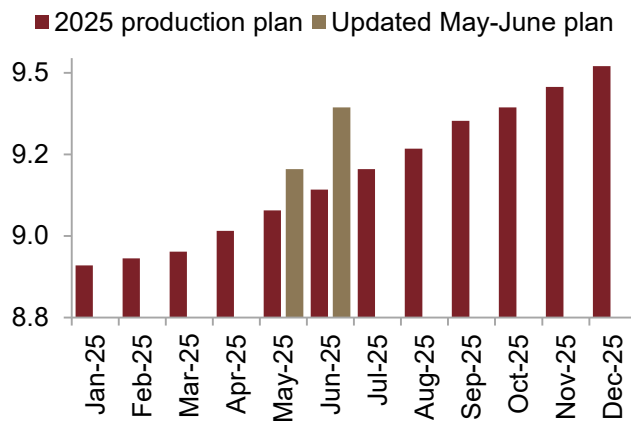
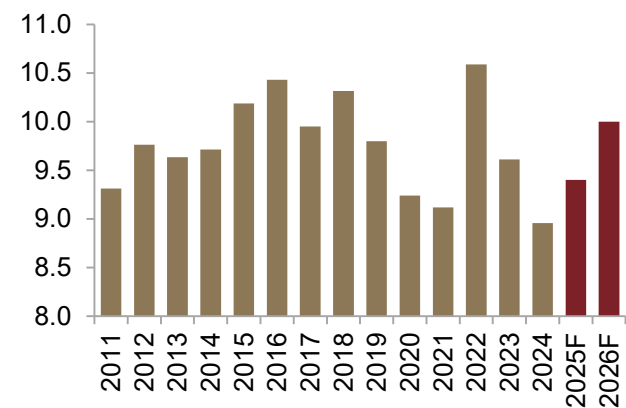


Figure 15: Saudi crude oil production annual average (mbpd)





these two developments take place will be important for determining the overall impact on oil prices.

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