What’s Hot: Oil could maintain short-term resilience

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Key Takeaways

- Brent crude has shifted to a $60–$70/bbl range due to faster-than-expected OPEC+ production normalization.
- The Group of Eight is unwinding voluntary cuts, with effective output increases below headline figures.
- Saudi Arabia is driving hikes to capitalise on summer demand and pressure quota violators.
- Despite supply growth, prices remain resilient amid Iran sanctions risk, Russian disruptions, and Canadian wildfires.
- Short-term support is likely, but Brent may dip below $60/bbl by Q4 if output hikes persist.

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Recent Price Shifts

After trading within a range of $70–$80 per barrel (bbl) between August 2024 and April 2025, Brent crude oil has shifted to a lower band of $60–$70/bbl since "Liberation Day." There have been similar shifts in WTI crude oil trading ranges. This decline has not only been driven by fears of trade wars, but also by a notable change in behaviour from the Organization of the Petroleum Exporting Countries plus allies (OPEC+), which seems to be normalising production faster than originally expected. Although no formal announcement has been made, the group’s actions mark a clear departure from its previous restraint strategies.

OPEC+ Cuts: The Three-Tier Structure

Before delving into the policy shift, it's important to review the current production restraint framework:

1. Group-Wide Cut (2.0 million barrels per day or mb/d):
Announced in October 2022, this applies to all 22 OPEC+ members and is scheduled to remain in place through the end of 2026.

2. Voluntary Cut (1.65 mb/d):
Introduced in April 2023 by a subset of eight countries—Saudi Arabia, Iraq, Kuwait, Kazakhstan, Oman, Algeria, Russia, and the United Arab Emirates (UAE)—also running through the end of 2026.

3. Additional Voluntary Cut (2.2 mb/d):
Initiated in November 2023, this additional cut is borne again by the same "Group of Eight." It was initially planned to be gradually unwound at a pace of approximately 138 thousand barrels per day (kb/d) between April 2025 and September 2026.

Production Hikes and Market Response

Currently, OPEC+ is unwinding the third layer of cuts. Over the past three months, the Group of Eight has announced production increases larger than those projected in December 2024. Specifically, hikes of 411 kb/d have been scheduled for May, June, and July 2025. Reports suggest that Saudi Arabia is advocating for even more aggressive increases, aiming to capitalise on high summer energy demand—particularly for air conditioning in the Northern Hemisphere.

Markets actually reacted with relief when the July hike of 411 kb/d was announced on May 31, 2025, as there had been concerns it might be even higher. Nonetheless, it's unclear whether future hikes will remain at this level, especially given Saudi Arabia's influential role.

It's important to note that the actual monthly increase may be closer to two-thirds of the announced 411 kb/d, as many members had already been exceeding their quotas. Hence, the effective base wasn't a true 2.2 mb/d cut to begin with.

Why the Sudden Shift?

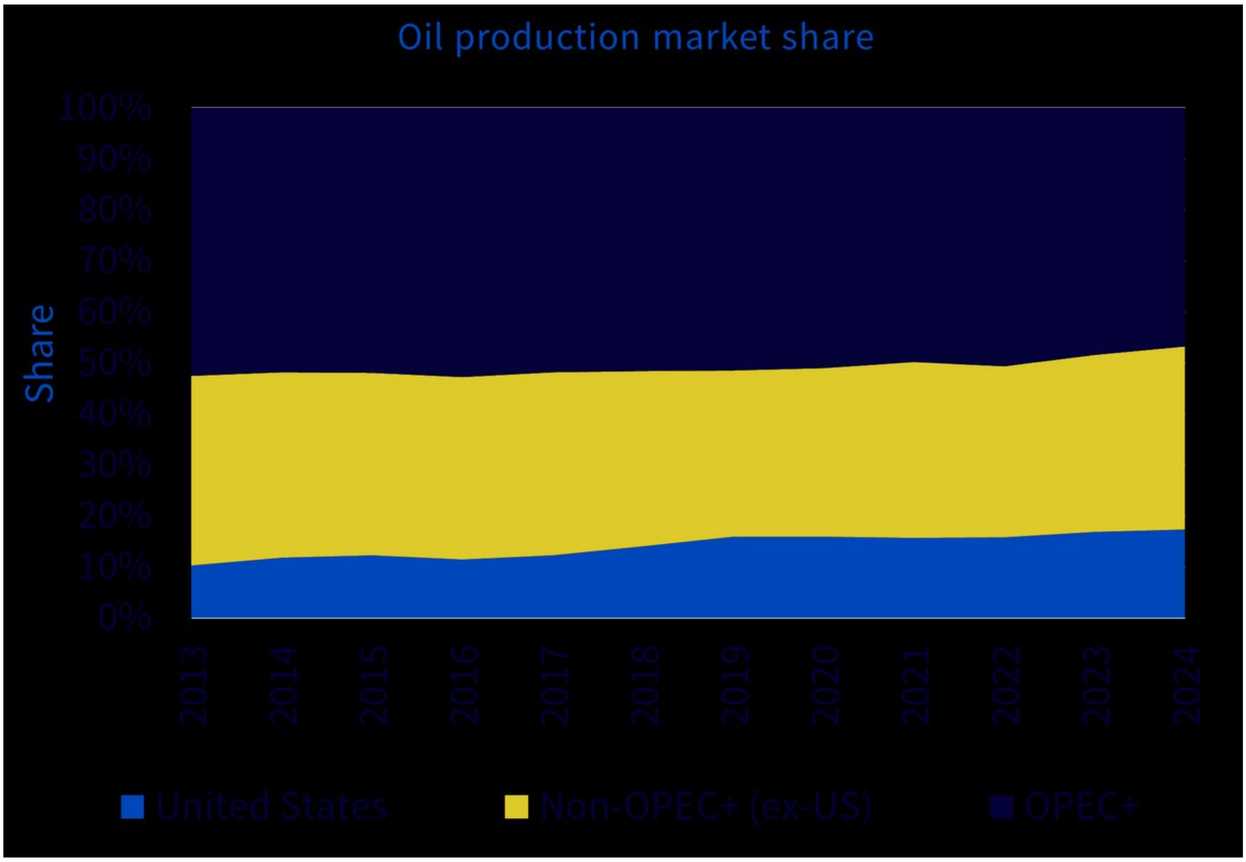
OPEC+ has long defended its production restraint strategy. So, what's behind the abrupt change? We identify three key drivers:

1. Geopolitical Strategy
The group may be responding to U.S. President Donald Trump's appeals for more oil supply to help offset inflationary pressures from tariffs. In return, OPEC+ nations, particularly Saudi Arabia and the UAE, might be seeking favorable outcomes in trade or bilateral agreements. Notably, Trump's recent Middle East visit yielded arms and manufacturing deals with major OPEC members.

2. Quota Enforcement
Saudi Arabia and other key members appear frustrated with non-compliant producers like Kazakhstan and Iraq. By increasing supply—and allowing prices to fall—Saudi Arabia can use its spare capacity to pressure these nations into compliance. The kingdom prioritizes total oil revenue, which can be preserved by boosting volumes even at lower prices.

3. Market Share Rebalancing
Over the past five years, production restraint has resulted in OPEC+ losing market share to non-OPEC producers, including the United States, Brazil, and Guyana. The U.S. now produces around 13 mb/d,

compared to Saudi Arabia's 9 mb/d and Russia's 8 mb/d. Recent declines in oil prices have already led the U.S. Energy Information Administration (EIA) to revise its production growth forecasts downward.



Source: WisdomTree, Energy Information Administration. **Historical performance is not an indication of future performance and any investments may go down in value.**

Resilient Prices Despite Supply Increases

Despite expectations for further OPEC+ barrels hitting the market, oil prices have shown resilience, hovering around $65/bbl in recent weeks after briefly falling near $60/bbl.

Factors Supporting Prices:

Iran Sanctions Risk:
A confidential International Atomic Energy Agency (IAEA)1 report from late May 2025 reveals Iran has significantly expanded its stockpile of uranium enriched to 60%, now totalling 408.6 kg—a nearly 50% rise since February. This quantity could yield 9–10 nuclear weapons if further enriched. In an unusual move, Israeli Prime Minister Benjamin Netanyahu issued a Shabbat statement on May 31, 2025, urging immediate global action. These developments suggest that U.S. sanctions on Iran may intensify in the near term, tightening supply.

Stalemate in Russia-Ukraine Conflict:
No progress has been made in peace talks, implying that sanctions on Russian oil will persist.

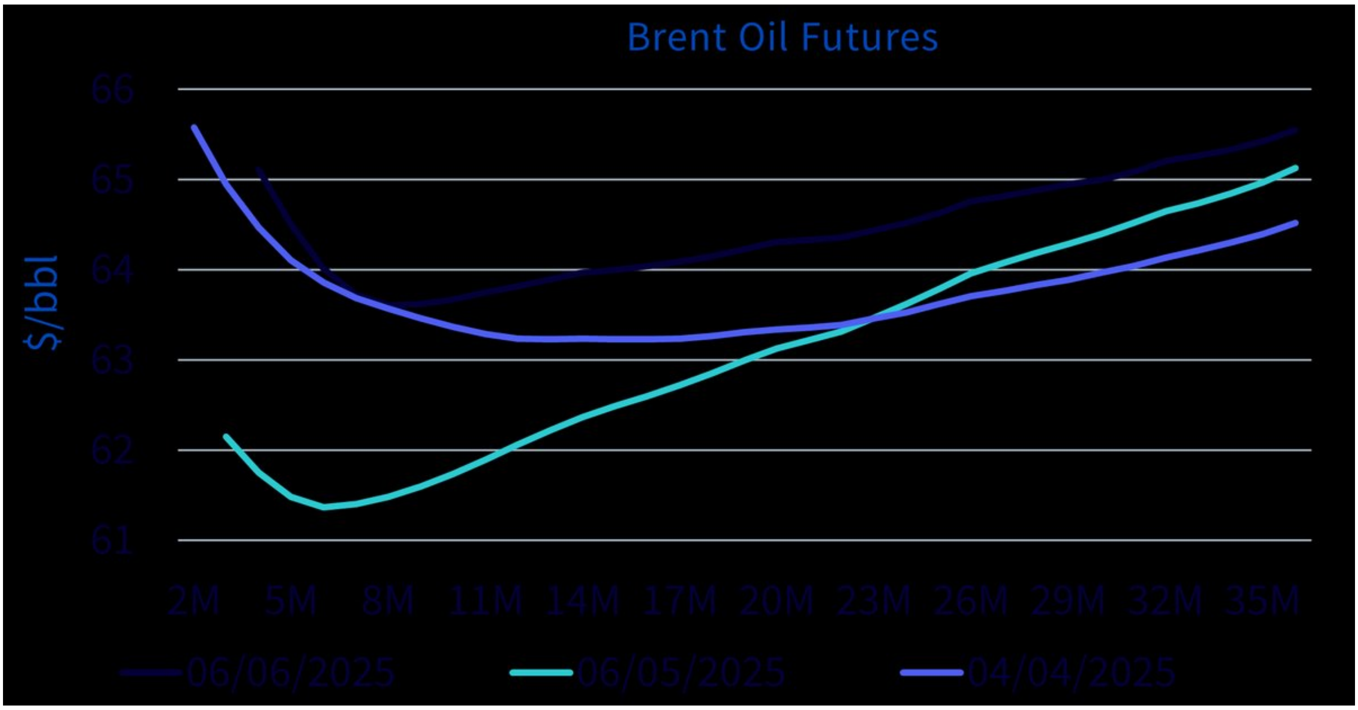
Canadian Wildfires:
Wildfires have shut down approximately 350 kb/d of Canadian heavy crude production (from a total of ~5.1 mb/d). Since U.S. refineries depend heavily on this type of crude, refinery throughput may decline, offsetting recent excess refined product output.

Market Dynamics and Outlook

Currently, strong seasonal demand and Iranian geopolitical risks have preserved backwardation in the Brent and West Texas Intermediate (WTI) futures curves. Some of the backwardation that had been lost over the prior month has been regained (see chart for Brent futures curve).

However, once seasonal demand wanes and if Iran negotiations de-escalate, oil prices could come under renewed pressure. We expect Brent crude to remain within the $60–$70 per barrel range in the short term—lower than the $70–$80 range seen in 2024.

Looking ahead to Q4 2025, we see a real risk of Brent falling below $60/bbl if the Group of Eight maintain the current pace of 411 kb/d monthly increases. Should the pace of unwinding accelerate, that downside risk could materialize even sooner.



Source: WisdomTree, Bloomberg. 06/06/2025, 06/05/2025, 04/04/2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

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https://www.politico.com/news/2025/05/31/iran-nuclear-weapons-un-report-00378773?utm_source=chatgpt.com

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