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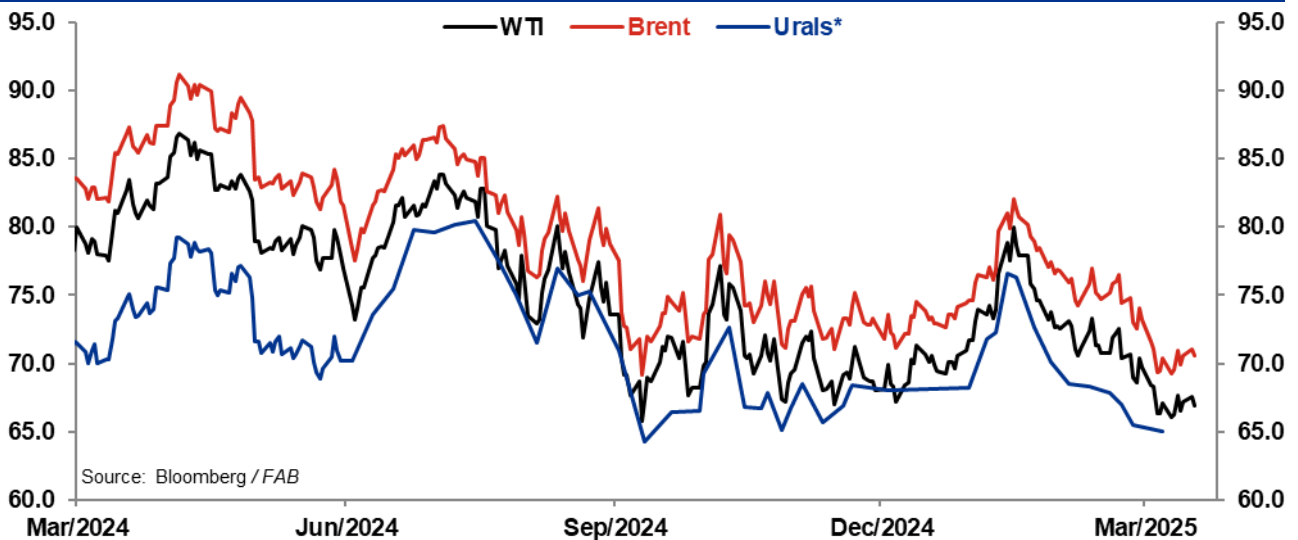
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Oil Market Update – Q1 2025

Crude prices had a relatively firm start in January (following the imposition of tighter US sanctions on Russian-controlled tankers) but have since slipped sharply lower again. This sell-off has been driven by growing concerns over the impact President Trump’s trade tariff actions may have on global economic growth this year, combined with the impending potential increase of OPEC+ output and lingering uncertainty over demand from the world’s largest oil importer, China. In this note, we discuss these headwinds as well as some more supportive factors in the market such as jet fuel consumption and geopolitical risks.

Oil Price Performance in US\$ - March 2024 to March 2025



Source: Bloomberg / FAB

Note: *Urals prices refer to Bloomberg's estimated fair value of front month Urals crude oil contracts

Tariff Tremors

The Trump administration’s aggressive trade policies are raising concerns that it will lead to higher inflation and slower economic growth in the US should these tariffs become more permanent. It doesn’t help, that the implementation of these penalties has also been followed by sporadic changes to their conditions, some of which occur in just 24 hours. The Chief Strategist at Franklin Templeton recently highlighted the economic impact this lack of clarity by the White House is having, suggesting that, *"Nearly everyone in the economy is struggling to comprehend wild swings in Washington policies, and their implications for everyday decisions. The constant flip-flopping over tariffs is paralyzing industries from healthcare and retailing to agriculture, mining, energy. Automakers, for example, are unable to plan while there is a threat of 25% tariffs on components made in Canada or Mexico. No reasonable auto executive can make such investments if the expected returns can be wiped out at the stroke of a pen."*

Meanwhile JP Morgan's Chief Economist has [warned](#) that he sees a 40% chance of a US recession this year, adding that there was a growing risk of lasting damage to the US as an investment destination if the administration undermines trust in governance. The US oil industry is also becoming more concerned, especially as fears of a US slowdown has been putting downward pressure on crude prices, with WTI recently down almost 15% from its mid-January peak. This concern has been publically expressed by the leaders of several high profile shale firms in recent weeks, including Harold Hamm, the CEO of Continental Resources, who was reportedly also a major donor to the Trump campaign in 2024. At an energy conference in Houston earlier this month, Hamm warned that the drop in WTI combined with the rising cost of inputs such as steel piping, risked putting a number of domestic shale producers in a very difficult financial position. *"There are a lot of fields that are getting to the point that's real tough to keep that cost of supply down,"* Hamm stated, whilst also challenging a claim made by the US Energy Secretary that domestic oil companies could increase production even if prices fell to US\$50 a barrel. *"When you get down to that \$50 oil that you talked about, then you're below the point where you're going to 'drill, baby, drill,'"* Hamm was quoted as saying by 'Bloomberg'.

However, listening to recent statements made by senior administration officials, the White House is clearly happy to withstand the current turbulence generated by tariffs and appears to believe that things will improve markedly by 2026. This was highlighted in comments made by the US Commerce Secretary just two weeks ago, when he [claimed](#) that the benefits of this economic strategy would be revealed further down the line, even if it triggered a recession in the short-term.

China & India

China remains a key driver of overall crude demand, but its continued sluggish post-COVID economic recovery combined with rising EV and LNG adoption in its domestic transportation sector, has led to a decline in oil imports over the past 12 months. According to official data, China imported an average of 10.42 mio bpd during the first two months of this year which is 3.40% lower than the same period in 2024, and significantly down from its record high of 11.30 mio bpd in 2023. Of course, that's not to say that China's economy will not stage somewhat of a rebound this year, especially with further government stimulus measures likely to be implemented in the months ahead. In this regard, it's worth noting that domestic consumption, fixed investment and industrial production data for the first two months of 2025 came in above most analysts' expectations, although admittedly US tariffs and China's ongoing property sector slowdown will likely remain a drag.

Conversely, India's oil demand growth overtook China's last year and is expected to do so again in 2025, due to ongoing urbanization, industrialization and a burgeoning middle class. The IEA sees India's oil demand growth averaging 1.20 mio bpd this year driven by the aforementioned factors, as well as the expansion of its domestic refining capacity and petrochemical facilities. In terms of the latter, India is [reportedly](#) set to invest up to US\$87 bio into its petrochemical sector over the next 10 years, as local demand for everything from plastics to fertilizers continues to rise.

OPEC/NOPEC

At their most recent meeting, signatories to the OPEC+ output accord agreed to proceed with a *"gradual and flexible"* return of their 2.20 mio bpd of voluntary output cuts over an 18-month period from April 2025 to September 2026, albeit initially by an average of 138,000 bpd. However, the group also said in a [press statement](#) that they would remain *"adaptable"* to evolving market conditions. Another issue to watch going forward will be the actions taken by Kazakhstan and Iraq which have both promised to frontload their compensation plans to make up for previously overproduced volumes. According to Reuters [estimates](#), Kazakhstan pumped 1.86 mio bpd of crude during the first half of March, significantly above its OPEC+ allocation of 1.468 mio bpd.

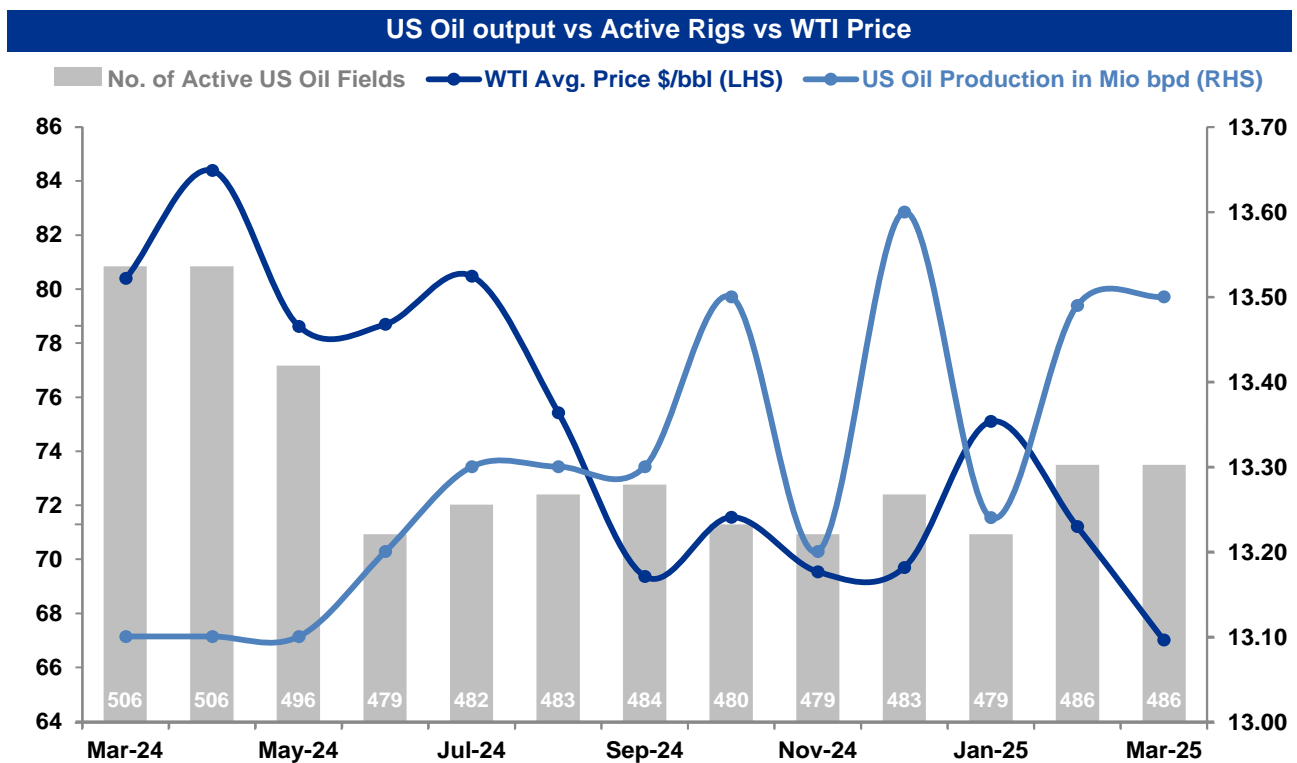
Meanwhile, non-OPEC production is expected to rise by 1.40 mio barrels this year according to recent estimates published by Wood Mackenzie, compared to the energy analytics provider's projected global demand growth of 1.10 mio bpd. However OPEC remains more optimistic on the latter point, with its [latest](#) 'Oil Market Report' anticipating world oil demand growth of 1.40 mio bpd in 2025.

Global Inventories

OECD commercial crude and refined product inventories were estimated at 2,737 million barrels at the end of January 2025, which is roughly 5% below the ten-year seasonal average. In the US specifically, crude oil stocks (excluding the SPR) stood at 437 million barrels on the 14th of March 2025 which is 5% below the five-year average for this time of year, while US fuel and propane/propylene inventories were down by 6% and 12% respectively.

US Production

Overall US output has averaged 13.48 mio bpd during the first 2.5 months of this year and the EIA currently expects this figure to rise to 13.61 mio bpd for the whole of 2025. However, the number of active oil fields currently sits around 486, which is 20 rigs below March 2024's figure and more than 70% below the peak achieved back in 2014. As we have written previously, we believe that the sharp rise in US production over the past few years was driven by new technology and improved efficiency rather than investing in and developing new fields. Therefore, we don't see further such gains in the years ahead and continue to suggest that US production is peaking.



Source: US DOE/ Baker Hughes/FAB

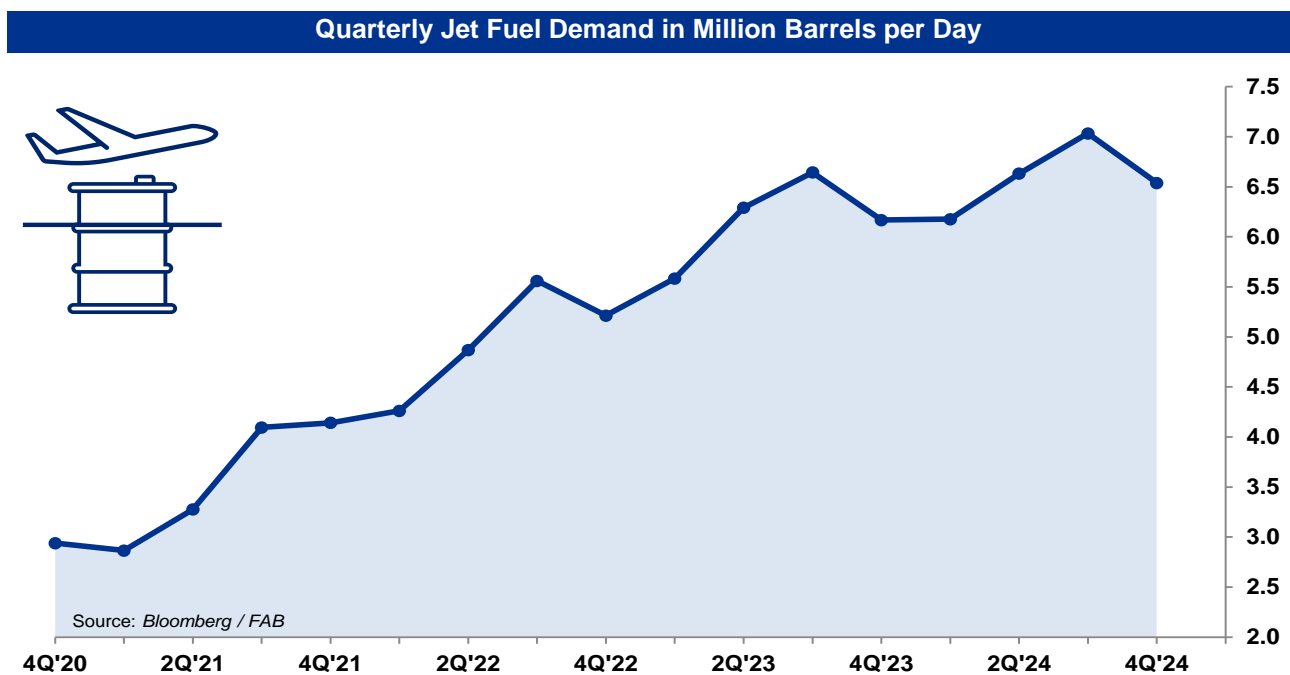
North American shale companies focus on generating positive cash flows and attractive returns for their shareholders has been the most important financial driver behind their decision not to channel funds into opening new fields since 2020, although there is also a geological reason. This latter issue was highlighted by Adam Rozenchwajg, one of the managing partners at the respected natural resources research house Goehring and Rozenchwajg, who [believes](#) that the key US shale basins have entered what he describes as the “*depletion paradox*,” whereby increased drilling activity cannot overcome the natural decline in productivity of aging oil fields.

The view outlined above is similar to that of Wil VanLoh, the CEO of Quantum Energy Partners (a Texas-based private equity firm) who [claimed](#) back in September last year that “*the US shale revolution has run its course*,” while adding that “*clearly the investors have put oil and gas companies on a very short leash. They’ve required a massive amount of the cash flow every year to get returned to shareholders.*” Therefore, although the White House may be working to lift as many regulatory restraints as possible, in an attempt to encourage US-based firms to pump out more crude oil, its actual impact is likely to be far more limited.

Air Travel

According to a recent IATA report, demand for commercial air travel continues to rise with total demand in January 2025 (measured in revenue passenger km) up by 10% y/y, while the load factor was 82.10% an all-time high for that month. *“We’ve seen a notable acceleration in demand this January, with a particularly strong performance by carriers based in the Asia-Pacific region. The record high load factors that accompany this strong demand are yet another reminder of the persistent supply chain issues in the aerospace sector,”* IATA’s Director-General stated. The agency also sees passenger numbers reaching 5.20 billion this year, a 6.70% y/y rise and the first time ever that the 5 billion mark will be breached.

The sharp post-COVID rebound in air travel has obviously seen a similar recovery in the demand for conventional Jet/Kerosene despite better aircraft fuel efficiency. It also remains unchallenged by the push towards the use of sustainable aviation fuel over the past few years, with SAF only expected to account for just 0.70% of total jet fuel production in 2025. Considering the current bullish demand outlook for air traffic, S&P Global [predicts](#) that jet crack spreads are likely set to hold up this year and outperform other fuel products.



Geopolitical Risks

Regional geopolitical risks continue to fester, especially after the recent collapse of the ceasefire in Gaza. However, in our mind the largest potential risk to oil market stability this year is what happens with **Iran**; an issue that we feel is still significantly underpriced. It’s patently obvious that Prime Minister Netanyahu’s ability to remain in office is now heavily reliant on keeping the far-right members of his cabinet on-side until the next general election which is scheduled to take place in 2026. With this in mind, Israel’s National Security Minister, Itamar Ben Gvir, [stated](#) back in October last year that the government has *“a historic obligation to remove the Iranian threat to destroy Israel.”*

This belief has probably gained traction with both doves and hawks in Israel’s security establishment in recent months, especially after the sudden fall of Bashar al Assad’s regime in Syria and the release two IAEA reports, which warned that Iran’s stock of uranium enriched to near weapons grade has grown sharply since December last year. *“The significantly increased production and accumulation of highly enriched uranium by Iran, the only non-nuclear weapon state to produce such nuclear material is of serious concern,”* the authors [wrote](#), adding that Tehran’s inventory of uranium refined to up to 60% purity had grown by 92.50 kg in the past quarter to total 274.80 kg. This level of supply would be enough to quickly manufacture up to six nuclear weapons if enriched to 90% purity.

Then last month, a Washington Post [article](#) claimed, that Netanyahu and President Trump have already discussed a range of ways the US could support Israel in a potential attack on Iran's nuclear facilities. This report came out not long after a Wall Street Journal piece revealed that US intelligence agencies had warned both the Biden and Trump administrations that Jerusalem was increasingly likely to attempt to strike targets which are key to Iran's nuclear program this year. Israel has also [reportedly](#) received a shipment of US manufactured MK-84 (bunker busting) bombs after President Trump lifted a Biden-era freeze on the supply of these weapons and which would certainly be needed to attack facilities like Iran's underground fuel enrichment plant in Natanz and a similar site in Fordow.

Admittedly, Donald Trump has indicated several times since returning to the White House that he would prefer to sign a new more comprehensive nuclear deal with Iran than go to war. Most recently he sent a personal letter to Ayatollah Khamenei proposing direct negotiations on the subject of Tehran's nuclear program. However, it's believed that this letter also warned the Iranians that they only had two months in which to consider his offer, a time limit which is difficult to see Iran's leaders acquiescing to. In any case, early signs have already shown that both the Supreme Leader and other hardliners within the Iranian regime are currently against any reopening of negotiations on this subject. The Ayatollah himself was quoted as saying publicly earlier this month that Trump's offer for talks was *"a deception aimed at misleading public opinion. When we know they won't honor it, what's the point of negotiating? Therefore, the invitation to negotiate is a deception of public opinion."*

Other issues to keep an eye on, includes the resumption of fighting between Hamas and the IDF in **Gaza**, which in turn has triggered fresh rocket and missile fire against Israel by militants in both Yemen and Lebanon, again raising the risk of a wider conflict. Meanwhile, the US administration continues to push for a ceasefire in **Ukraine**, although we still don't foresee any significant near-term rise in Russian crude oil supplies hitting the market even if a peace deal can be achieved this year. Elsewhere, a recent [suspicious](#) explosion and fire at a section of the Trans-Niger oil pipeline in West Africa has reignited concerns over the potential resurgence of security challenges to **Nigeria's** crude exports. This pipeline carries up to 450,000 bpd which is roughly 15% of the country's overall export capacity. And finally, despite numerous attempts to end a two-year long dispute over pricing and revenue sharing, the resumption of oil exports from Iraq's **Kurdistan** region remains on hold. However, an Iraqi government spokesperson [suggested](#) last week that the main obstacles to an agreement had now been resolved and that the export of up to 400,000 bpd from this region *"may restart"* soon.

Conclusion & Forecast

As outlined above, there are numerous factors to consider when assessing the outlook for oil prices this year and several of these could have a significant impact on the crude market. Such as, the Trump administration's unprecedented and assertive trade policies, OPEC+ actions and geopolitical fissures. These *'known unknowns'* have thus made price forecasting somewhat more challenging, but we have decided to retain our original prediction for Brent to average US\$75.00 this year, at least until there is more clarity on some of these key issues. (At the time of writing Brent has averaged US\$75.05 year-to-date).

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