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MONDAY MORNING  
QUARTERBACK  
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*“Navigating Uncharted Waters:  
OPEC’s Gamble Amid Global  
Oil Market Uncertainty”*

## MONDAY MORNING QUARTERBACK ENERGY MARKETS CEO BRIEFING NOTE – May 12<sup>th</sup>

# Navigating Uncharted Waters: OPEC's Gamble Amid Global Oil Market Uncertainty

By Sean Evers, Managing Partner, Gulf Intelligence

### OPEC's Strategic Gamble and Market Realities

The global oil markets are currently witnessing an unprecedented strategic pivot from OPEC Plus, with profound implications for producers, consumers, and global economic stability. OPEC Plus, led notably by Saudi Arabia, has undertaken an aggressive supply increase strategy that defies traditional logic amid weakening global demand. This move represents not merely a tactical adjustment but a fundamental reconsideration of OPEC's historic market role and pricing strategy. Historically, OPEC prioritized supply management to maximize price stability; today, however, it appears poised to shift toward a more production-centric model, reflecting geopolitical alignments, particularly with the United States, which favors moderate oil pricing around \$55 per barrel.

This shift raises questions about OPEC's strategic calculus. Is this primarily a geopolitical maneuver intended to strengthen ties with powerful external partners like the U.S., or a defensive response to internal compliance issues that have long plagued the group? Persistent quota violations among member states such as Iraq and Kazakhstan have clearly undermined market credibility, prompting Saudi-led interventions to restore internal discipline. By aggressively increasing quotas, Saudi Arabia attempts a complex balancing act—enforcing discipline within OPEC while simultaneously aligning with external geopolitical objectives. Yet, these moves risk undermining OPEC's market influence if global demand continues its subdued trajectory.

Additionally, OPEC's rationale for this policy—low global inventory levels—appears questionable. OECD inventories, though slightly below the five-year average, hardly justify significant supply boosts. Instead, this narrative might obscure deeper strategic concerns, such as positioning for longer-term demand stagnation and potential market

share battles. This strategic gamble comes at a cost, potentially leading markets toward structural contango, a clear signal of anticipated oversupply and diminishing forward demand confidence. The shift from backwardation toward contango is a stark warning that current supply strategies might not only depress prices further but also reduce OPEC's future maneuverability in stabilizing markets.

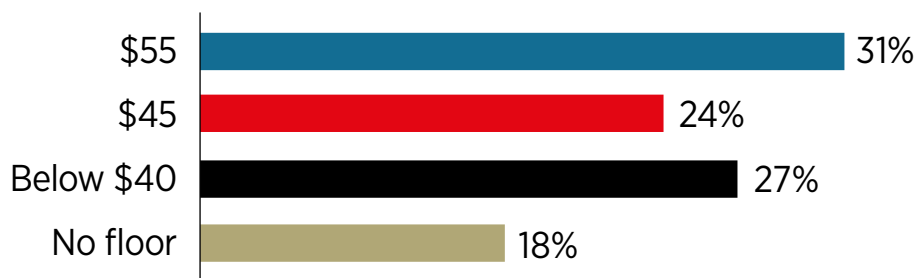
### Economic Headwinds, Shale Challenges, and Demand Dynamics

Global economic uncertainty, compounded by persistent trade tensions and macroeconomic sluggishness, further complicates the oil market's outlook. The U.S.-China trade war remains unresolved, creating significant disruptions across supply chains and investor sentiment. Reduced shipping traffic, notably a significant 60% drop in U.S. West Coast ports traffic from China, underscores these disruptions. Such economic uncertainty significantly depresses long-term demand forecasts, particularly in major economies such as China, the United States, and Europe, where manufacturing sectors are showing troubling signs of contraction. The resulting bearish sentiment exerts consistent downward pressure on oil prices, amplifying market volatility.

In the United States, sustained low West Texas Intermediate (WTI) prices have begun to severely strain shale production economics. Rig counts have declined, and fracking activities have slowed, signaling potential production stagnation or even declines. U.S. shale producers face increasing economic pressures, with break-even points challenging current market prices. If these conditions persist, shale oil's contribution to global supply growth could significantly diminish, inadvertently offering price support by reducing future supply increments.

Meanwhile, efficiency gains in energy use globally continue to suppress long-term oil demand growth. Improvements in energy efficiency,

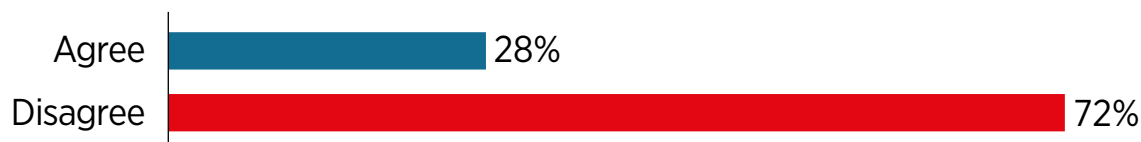
What oil price floor would trigger OPEC+ to reverse its planned output increases?



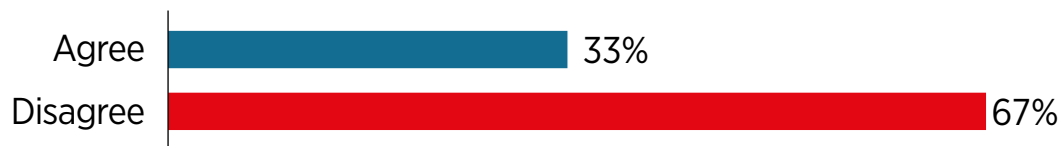
OPEC+ will continue with accelerated oil supply increases through Q3 until all 2.2mbpd cuts are reversed?



Trump's visit to the Middle East later this month will result in concrete steps towards achieving an Iran nuclear deal?



The BEARISH worst of year is over for oil markets as OPEC+ supply priced in, Trump Tariff bark ending in a whimper and conflicts in Europe and MidEast rage on?



The most likely outcome of China-US Trade Talks is for things to simply return to the way they were before April 2<sup>nd</sup>?



(\*nb. Polling conducted with 100+ Energy Market Stakeholders May 5-9)

combined with technological advancements, result in reduced oil intensity per GDP unit. This long-term structural shift means global economies can maintain productivity growth with lower incremental oil demand, fundamentally altering traditional demand forecasts and challenging producer strategies reliant on sustained growth in petroleum product consumption.

Refining margins, although briefly benefiting from cheaper crude inputs, remain vulnerable amid weak product demand outlooks, particularly for critical products such as diesel. The uncertain global economic outlook and growing refining capacities in Asia, especially in China and India, threaten refining profitability. These factors contribute to cautious sentiment within the refining industry, potentially leading to restrained procurement strategies and intensified volatility in refined product markets.

#### Geopolitical Risks, Market Adaptations, and Future Prospects

While geopolitical risks traditionally bolster oil prices through supply disruption fears, today's markets have adapted to persistent geopolitical tensions, significantly muting their bullish impact. Ongoing conflicts in the Middle East, coupled with new flashpoints such as India-Pakistan tensions, typically generate market anxiety. Yet, markets have grown increasingly desensitized, absorbing these risks without significant premiums in pricing structures. This adaptation reflects a deeper underlying bearish sentiment driven by economic fundamentals rather than geopolitical fears.

Sanctioned oil shipments from Russia, Iran, and Venezuela continue robustly despite international enforcement efforts. Dark fleet practices persist, employing creative logistical adaptations to bypass sanctions, particularly to Asian markets. This continued flow of sanctioned oil complicates global pricing transparency and highlights significant enforcement challenges. Russia, in particular, has demonstrated remarkable resilience, redirecting European-bound oil exports to Asian markets, notably China, maintaining market liquidity and indirectly suppressing price recovery attempts.

China's aggressive strategic stockpiling of discounted sanctioned oil further demonstrates the complex interplay between geopolitical strategies and market dynamics. Leveraging low oil prices and geopolitical flexibility, China continues to bolster its strategic reserves significantly. While beneficial for China's energy security, this practice

underscores weak domestic consumption patterns and broader macroeconomic challenges within the country. Additionally, India's strategic reduction of Russian imports due to U.S. shipping sanctions, contrasted with continued aggressive procurement from Iran and the Middle East, highlights shifting dynamics in global oil flows and market adaptation strategies.

The weakening U.S. dollar, driven by potential Federal Reserve easing amid economic uncertainty, provides an indirect counterbalance to bearish oil demand dynamics. A weaker dollar improves oil affordability for non-dollar consumers, supporting prices marginally despite broader market headwinds. This currency dynamic introduces additional complexity into forecasting, potentially softening bearish price trajectories over the medium term.

Emerging economies benefit significantly from lower oil prices, offering critical economic relief amidst broader vulnerabilities. However, sustained lower prices exacerbate challenges for producer economies heavily reliant on oil revenues, intensifying global economic disparities. These contrasting effects highlight the nuanced implications of current market dynamics, suggesting that OPEC's strategic shifts could inadvertently amplify global economic inequalities.

Ultimately, global oil market sentiment remains dominated by short-term tactical considerations, "buy-the-dip" mentalities, and heightened volatility driven by headline-driven trading. This environment complicates long-term strategic planning for producers, refiners, and investors alike, underscoring profound uncertainty that may persist into the foreseeable future.

#### Conclusion:

OPEC's bold strategic gamble to increase production amid uncertain demand and complex geopolitical factors represents a profound recalibration of its historical role. While attempting to navigate internal discipline issues and external geopolitical pressures, the organization risks sustained market oversupply and structural price weakness. The broader global economic uncertainty, challenges in U.S. shale production, evolving demand dynamics, and adaptations to persistent geopolitical risks further complicate the outlook. Stakeholders must brace for continued volatility, strategic unpredictability, and market adaptation as they navigate these uncharted waters in the global oil market. ■



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