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MONDAY MORNING QUARTERBACK ENERGY MARKETS CEO BRIEFING NOTE

*“Mid-Year Oil Market Report Card:
Stable First Half, Volatile Outlook Ahead...”*

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Mid-Year Oil Market Report Card: Stable First Half, Volatile Outlook Ahead...

By Sean Evers, Managing Partner, Gulf Intelligence

The global oil market stands at a complex crossroads. While current prices appear deceptively stable, multiple underlying factors—ranging from OPEC policy to geopolitical tensions and economic uncertainties—signal volatility ahead. Navigating this delicate balance requires understanding these critical dynamics to anticipate market movements into late 2025 and beyond. With OPEC+ cautiously managing output quotas, geopolitical tensions remaining unresolved, and ongoing tariff-related uncertainties disrupting global trade, oil markets are poised for significant turbulence. Stakeholders must carefully monitor evolving political landscapes, economic indicators, and inventory forecasts to mitigate risks and identify opportunities.

The resilience of key economies, particularly China and the United States, combined with Europe's steadfast pursuit of energy independence, further complicates forecasting. Effective strategy in this uncertain environment will demand agility, robust analysis, and clear foresight. Moreover, technological advancements and a growing emphasis on sustainability and renewable energy sources add additional complexity, reshaping market dynamics and investor expectations. Industry participants must also grapple with environmental, social, and governance (ESG) factors that increasingly influence capital allocation decisions, making future market predictions even more challenging.

OPEC's Pragmatic Dance: Adjusting to Realities

OPEC+, historically a significant influence on global oil prices, currently finds itself in an intricate dance of quota adjustments that increasingly reflect existing production realities rather than strategic supply additions. Most member states are producing at near maximum capacity, making genuine additional barrels scarce. Saudi Arabia remains uniquely capable of substantial production hikes, but the broader organization's announcements have become more accounting measures than genuine changes in supply.

Saudi Arabia's pivotal role cannot be overstated. As global demand fluctuates, particularly if inventory levels begin rising

sharply in late 2025, the Kingdom's decisions on incremental production will decisively impact market stability. Saudi policy, strategically aligned to balance global markets, remains sensitive to internal OPEC dynamics, geopolitical considerations, and external pressures, notably from the United States.

Yet, compliance within OPEC+ remains patchy, notably with producers like Kazakhstan and Iraq regularly exceeding quotas due to international contractual obligations. OPEC's future policy adjustments will likely be pragmatic—aligning quotas more realistically with actual output to maintain cartel unity and market stability, rather than enforcing stricter compliance. The cartel's ability to adapt quickly and cohesively in response to shifting market dynamics will be crucial to preventing severe market disruptions and maintaining credibility among global stakeholders.

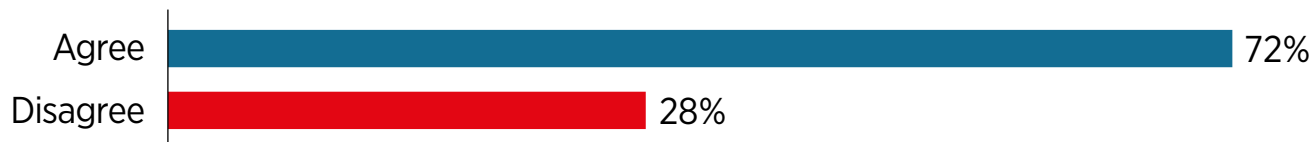
Geopolitics: A Persistent and Volatile Influence

Geopolitical factors continue to inject significant volatility into oil markets. The unresolved Ukraine-Russia conflict and stalled U.S.-Iran nuclear negotiations consistently elevate risk premiums. Any sudden escalation or new sanctions can swiftly alter market sentiment, impacting prices.

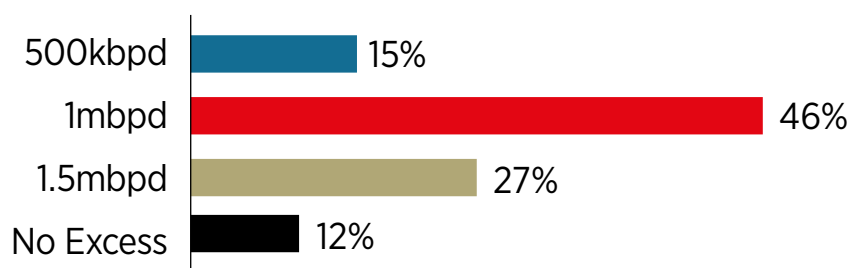
Europe's steadfast commitment to phasing out Russian energy by 2027 adds another layer of complexity. While the continent diversifies its energy sources, particularly through increased reliance on LNG, Russian hydrocarbons are progressively rerouted to Asia. This shift creates logistical challenges, increases transport costs, and indirectly sustains higher global prices due to added complexities in supply chains.

Shipping disruptions, notably from rerouting around conflict zones like the Red Sea and strategic waterways affected by geopolitical tensions, compound these pressures. Such reroutes significantly increase operational costs, which trickle down to higher global market costs and subtly inflate end-user prices, indirectly influencing broader market sentiment. Additionally,

OPEC+ is likely to continue with reversing the rest of the 2.2mbpd cuts through Q3?



How much will oil supply exceed demand in H2, 2025?



Musk Blasts Trump Tax Bill as Budget-Busting 'Abomination' -- should Oil Markets 'Boo' or 'Cheer' Elon?



(*nb. Polling conducted with 100+ Energy Market Stakeholders June 2-4)

the rise of “dark fleets” and sanctions evasion tactics further complicate enforcement efforts and elevate risk, exacerbating market uncertainty.

Economic Storm Clouds: Tariffs, Inflation, and Demand Risks

Economic policies, particularly U.S.-led tariff strategies, pose considerable threats to global oil demand forecasts. The Trump administration’s “tariff whiplash,” characterized by unpredictable and abrupt trade policy reversals, severely impacts global manufacturing sentiment. The resultant economic fragmentation, driven by persistent protectionism, limits global trade efficiency and dampens oil demand growth prospects.

Inflationary pressures in key economies, especially the U.S. and China, further complicate the demand outlook. Persistent high inflation reduces consumer purchasing power, curtails broader economic activities, and ultimately weakens energy demand. This dynamic, compounded by uncertainties around U.S. fiscal policy—including escalating deficits driven by controversial budget bills—adds another layer of volatility. Increasing sovereign debt and higher interest rates could heighten bond market uncertainty, indirectly depressing long-term oil demand through reduced economic confidence.

Internal political divisions within the U.S., particularly among Republicans in the Senate over tariffs and budgetary decisions, create further uncertainty. This political fragmentation undermines policy predictability, complicating forecasting and investment decisions in energy markets.

Simultaneously, despite robust refinery margins temporarily buoying demand, a significant downside risk looms as forecasts indicate substantial global inventory builds entering late 2025. Potential inventory surpluses exceeding one million barrels per day in Q4 2025 and early 2026 threaten downward price pressure. Producers and market analysts remain alert to this risk, acknowledging that a substantial inventory build could trigger OPEC+ corrective actions.

The demand picture in Asia, notably China, remains critical yet uncertain. China’s economic recovery appears fragile amid persistent U.S.-China trade tensions and manufacturing volatility. While short-term manufacturing rebounds may occur, the long-term outlook remains cautious, restrained by trade disputes and internal economic challenges, underscoring significant risks to sustained global oil demand recovery.

Charting a Course Through Complexity

The confluence of pragmatic OPEC policy adjustments, persistent geopolitical instability, and economic uncertainty underpins the delicate balance currently characterizing the global oil market. Each of these factors individually presents significant challenges; together, they create an intricate web of interdependencies.

Market participants face an environment where stability remains superficial, resting precariously on short-term balances of supply and seasonal demand. Geopolitical tensions, particularly in Eastern Europe and the Middle East, continue to add substantial volatility. The risks posed by trade policy uncertainties and inflationary pressures further complicate forward planning, necessitating cautious, adaptive strategies.

Looking ahead, vigilance is essential. The fourth quarter of 2025 may serve as a critical juncture, with inventory levels potentially tipping market dynamics into oversupply territory, significantly pressuring prices downward. OPEC’s response will be pivotal, underscored by Saudi Arabia’s influential decisions and OPEC+’s collective pragmatism in quota management.

Ultimately, navigating these turbulent waters demands careful attention to geopolitical developments, clarity on OPEC strategies, and strategic insight into global economic policy directions. While immediate market stability may hold, forward-looking vigilance remains crucial, as deeper market shifts are undoubtedly looming. Stakeholders should prepare for volatility, emphasizing flexibility and resilience in planning as the oil market approaches this critical period of uncertainty and transition. ■



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