

Daily Dose of Macro & Markets 23rd July 2025: “OIL: From Geopolitics to Supply Glut”

The ‘Daily Dose of Macro & Markets’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

Key Quote:

“The oil price outlook is bearish from a ‘fundamental’ perspective. In particular, current OPEC policy will result in excess supply, pushing global oil inventories higher and likely generating further oil price weakness (as well as contango in the futures curve)....

...As always in commodity markets, weak prices then generate supply responses (which bring supply/demand back into balance). That should eventually come from US shale, which is highly price sensitive. There’s currently little evidence, though, that oil prices have been low enough to generate that response...”

Source: Monthly Global Asset Allocation, 3rd June 2025: “OIL: Keep Low Weightings in Strategic Portfolio”, available [HERE](#)

Last month the geopolitical risk premium from the Iran-Israeli war was swiftly ‘priced out’ of markets*. With that, the oil price has reverted to being primarily driven by its supply & demand ‘fundamentals’.

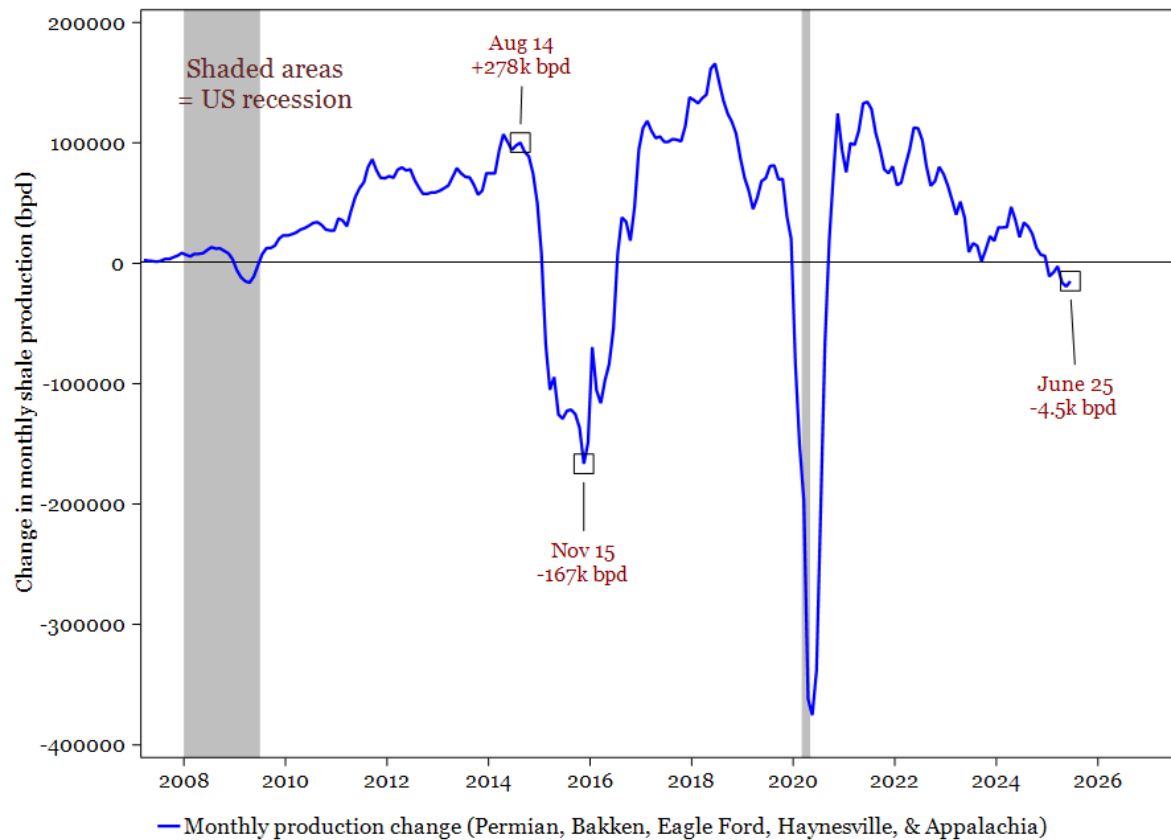
In that respect, global oil inventories should continue to trend up in coming quarters. That reflects: (i) a ‘soft patch’ in the US economy; and (ii) strong OPEC supply, as voluntary production cuts are reversed (see tomorrow’s missive for detail on OPEC/global supply & demand).

An uptrend in global oil inventory almost always results in a downtrend in global oil prices (see [HERE](#)). Typically, that price weakness continues until there’s a supply response (usually as key, high cost producers retrench and reduce their output). At that point markets begin to price in the ‘rebalancing’ of supply and demand in the physical oil market (& make a major low).

That response is *starting* to emerge in the US shale industry. This year the WTI oil price has averaged ~\$67/barrel. That’s only \$2 above the average breakeven production cost for shale drillers (according to the latest quarterly Kansas Energy Report, updated this month – see [HERE](#)). About half of US drillers are therefore underwater, and their overall production has been falling (every month this year – see Chart 1). The size of the decline, though, is still modest.

Lower oil prices and a more meaningful supply response are likely in coming quarters. For now, therefore, we continue to favour low oil weightings in our strategic portfolio (see [HERE](#) for detail).

Chart 1: Monthly change in US shale production (bpd)



Source: Longview Economics, Macrobond

*Once it became clear that (i) Iran's response to Israeli strikes was modest; and (ii) that the strait of Hormuz would stay open. NB a similar playbook has occurred around other flare-ups in the Middle East (e.g. April 2024).