Daily Dose of Macro & Markets 24th July 2025: "OIL: The Saudi Surge"

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:

> "…OPEC's strategy is increasingly driven by geopolitics, rather than balancing global supply & demand (i.e. the usual considerations). That's creating a de facto price war with high cost producers (most importantly US shale), as well as non-compliant OPEC+ members."

Source: Commodity Fundamentals Report, 8th May 2025: "OIL: How Low Does It Go? a.k.a Politics, Price Wars, & The (Coming) Supply Response"

Oil price action has been bearish this past month. In late June, oil topped on the Israel-Iran flare up (and failed to break meaningfully above its downtrend). This month it's traded in a range (between its 50 & 200 day moving averages) while earlier this week, it broke below its 50 day moving average (Chart 1).

Chart 1: WTI oil price futures candlestick, with 50 & 200 day trend lines (US$/barrel)

Source: Longview Economics, Macrobond

As we noted yesterday, the oil price should trend down, at least until weak prices generate a supply response (and the market starts to rebalance). That response is beginning to emerge in the US shale industry, but it's early days (see HERE). OPEC+ supply is also a critical piece of the 'rebalancing' calculation.

In that respect, this month's IEA report was interesting, highlighting **the ongoing build-up of global excess supply**.

In particular, the expected increase in global supply (in 2025) was again revised higher, with supply now forecast to increase by 2.1 mbpd in 2025 (up from 1.8 mbpd in June). In the past 12 months, OPEC+ has, of course, been the main reason for the rapid growth in supply (accounting for 1.9 of the 2.9 mbpd supply increase this past year, i.e. from June 2024 to end May 2025). Much of it reflects strong Saudi production (with Saudi supply increasing from 9.1 mbpd to 9.8 mbpd over that time).

In contrast, global oil demand growth (for 2025) was trimmed to just 700k bpd (down from 720k in June). It's now forecast to grow at its slowest pace since the GFC (excluding COVID). With that, the uptrend in global oil inventory was ongoing in May (i.e. in crude, NGLs, & feedstocks), see HERE for the IEA's July report.

The 'Saudi Supply Surge' theme is therefore alive & well, and continues to be driven primarily by geopolitical factors (rather than an OPEC+ desire to balance the market), as the quote above suggests. In that context, the chart below is interesting and an important piece of the oil price calculation. That is, while OPEC is starting to 'normalise' its spare capacity levels, it's early days and plenty more remains.

Chart 2: OPEC Members' Surplus Crude Oil Production Capacity (mbpd)