Daily Dose of Macro & Markets 2nd September 2025: "OIL Pain Trade: Higher Before Lower"

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 and Thursday morning (early London time).

Key Quote: "Bearishness Abounds – WSJ Survey"

"banks, analysts, and market participants expect oil supply to outstrip demand over the next six months, putting additional downward pressure on prices. This would make U.S. shale producers even more cautious with spending and budgets because a dip below $60 per barrel is threatening breakevens for drilling new wells…

…The U.S. Energy Information Administration (EIA) is even more bearish than major banks in oil price projections."

Source: WSJ article, published 28th August 2025, available HERE

OIL Pain Trade: Higher Before Lower

Technically, oil prices remain in a downtrend. Since September 2023, they have made lower highs and lower lows (FIG 2), as deteriorating supply & demand 'fundamentals' have driven **a build-up of global excess supply**.

Last month's IEA report added to that backdrop. Once again, their forecast for this year's **global demand** growth was revised down, to 680k bpd (from 700k in July, and from 720k in June). That's the smallest growth rate in demand since the pandemic. In contrast, this year's expected increase in **global supply** was revised up to 2.5 mbpd (from 2.1m in July, and 1.8m in June). In other words, both supply and demand keep **tilting in favour of the bears**.

If those latest IEA supply and demand forecasts are correct, then global supply this year (105.5 mbpd) will overwhelm demand (104.4 mbpd), i.e. **with excess supply of 1.0 mbpd** (a significant move up global stock levels). Global oil inventories are already trending up. On the latest data (June), they rose for a fifth consecutive month, to a 46 month high of 7.84 billion barrels.

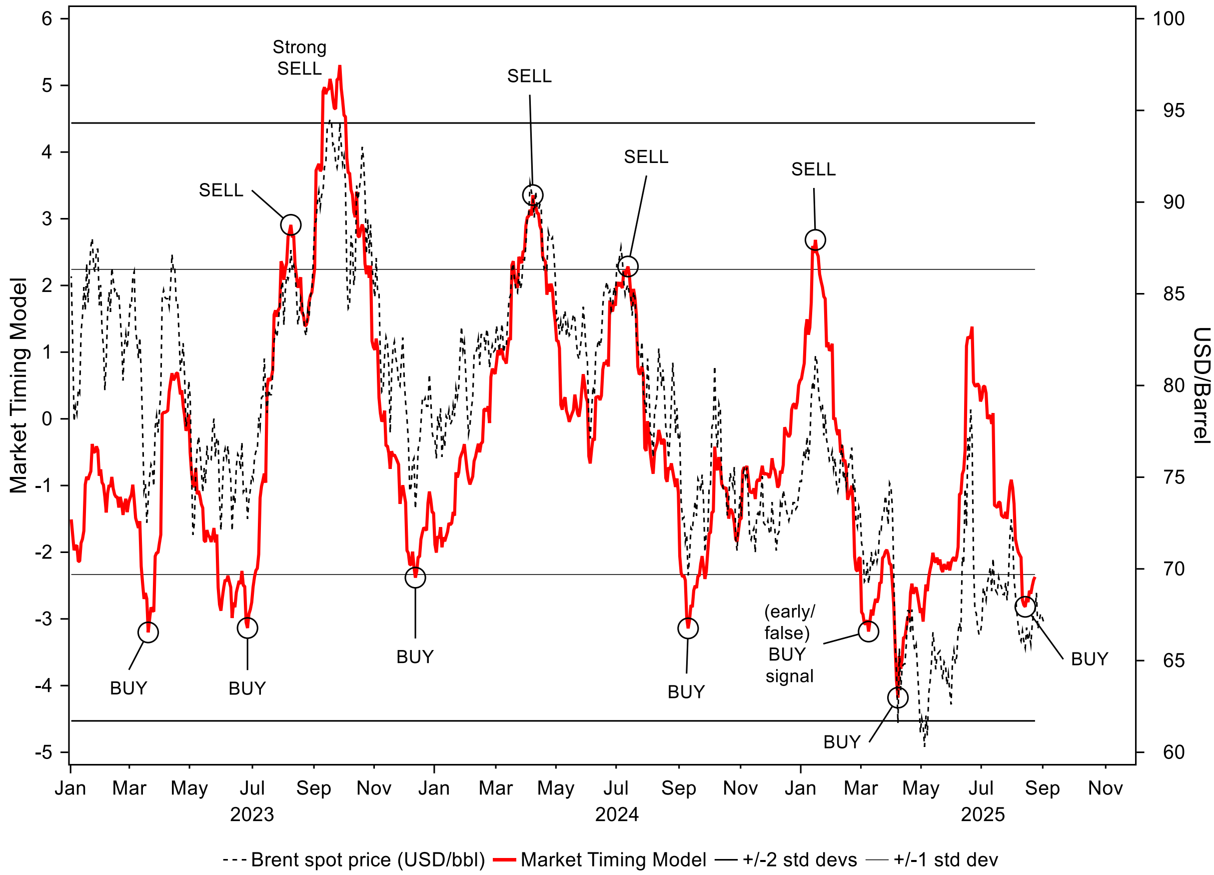
An adjustment is therefore needed to bring the market back into balance. The usual mechanism for that is one we've highlighted in prior research: (i) weaker oil prices, with marked contango in the oil curve (FIG 3); and (ii) a supply response to that price weakness, as high cost producers cut back (see HERE for detail).

That expectation, though, is now the consensus one, as highlighted in last week's WSJ survey (see quote above).

Markets, of course, don't move in straight lines. Or, as the saying goes, "markets do the most obvious thing in the least obvious way". Of note, in that respect, our oil market timing model is back at low levels – and now generating a contrarian BUY signal (FIG 1). This indicator blends a number of sentiment, positioning, and technical inputs. It's designed to lean against the dominant position in portfolios, and has been useful in picking the key turning points in the oil market in recent years.

In other words, while a downward price adjustment is eventually necessary for this market to rebalance, the near term risk is that the bearish consensus is wrong footed, with bears squeezed out before prices break down. **The pain trade is higher**.

FIG 1: Brent oil market timing model vs. Brent oil price (US$/barrel)

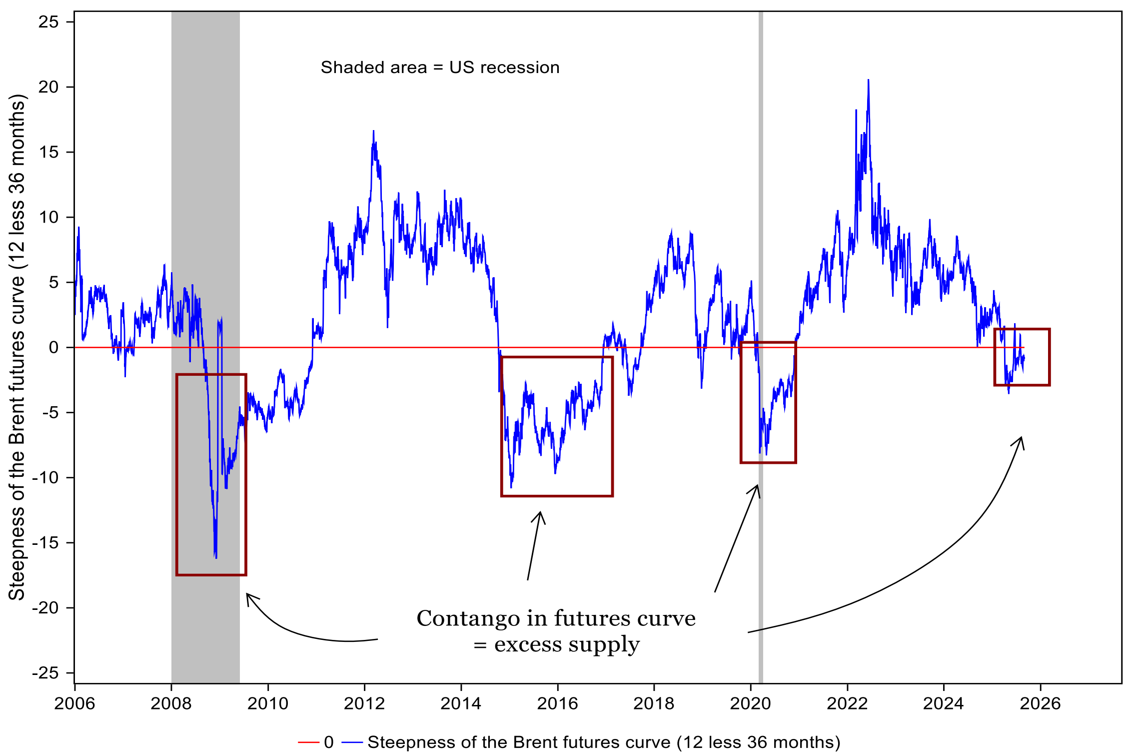


Source: Longview Economics, Macrobond

FIG 2: Brent oil price futures, with 50 & 200 day moving averages (US$/barrel)

Source: Longview Economics, Macrobond

FIG 3: Steepness of the Brent futures curve (12 month less 36 month, US$/barrel)



Source: Longview Economics, Macrobond