



Oil outlook darkens

Market Economics | 10 April 2025

Oil markets are in flux in the wake of US President Donald Trump's whipsaw announcements on tariffs. Prices for Brent and WTI futures have tumbled since the start of April thanks to anxiety that a damaging global trade war will spark a major global slowdown and vastly reduce oil demand growth. Brent prices briefly moved below USD 60/b on April 9, their lowest level since Q1 2021, in response to President Trump announcing more than 100% tariffs on imports from China. Prices have since recovered as the US has delayed tariffs on dozens of countries for 90 days though it has maintained high levies on Chinese goods.

Premiums for downside protection have spiked to their widest levels since the pandemic. Time spreads has also shifted considerably. The 1-6 month spread in Brent futures has fallen from more than a USD 3/b backwardation as the start of April to barely more than USD 1/b now. Both the WTI and Brent curves are still someways from moving into contango but if demand fades substantially this year as a result of the trade dispute then curves are likely to fall out of the backwardation they have held for several years. Prices have recovered and downside premiums have narrowed following the announcement of a 90-day pause on widespread tariffs but the risk of further downside moves is high.

Oil markets crumble following tariffs, OPEC+



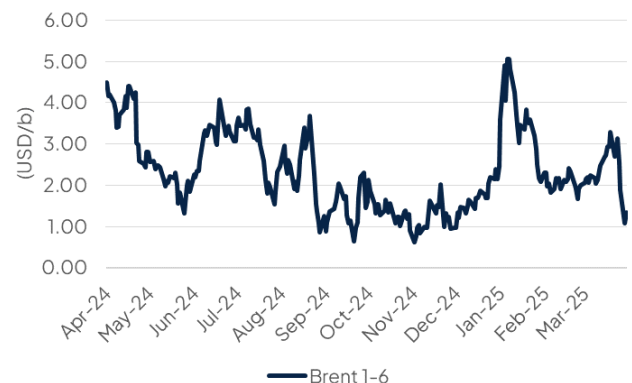
Source: Bloomberg, Emirates NBD Research.

At the same time that the US unveiled a substantial shift in its trading posture relative to the rest of the world, OPEC+ announced on April 3 that it would bring forward some of its planned production increases. In a statement a day after the initial US reciprocal tariff announcement, those OPEC+ countries that are contributing voluntary additional cuts said they will deliver three months' worth of production increases in May to enforce discipline with production targets or in their words providing over-producers 'an opportunity...to accelerate their compensation.'

The double-whammy of demand threats from tariffs and increased supply has opened up the way for considerable downside volatility in oil markets.

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Time spreads collapse



Source: Bloomberg, Emirates NBD Research.

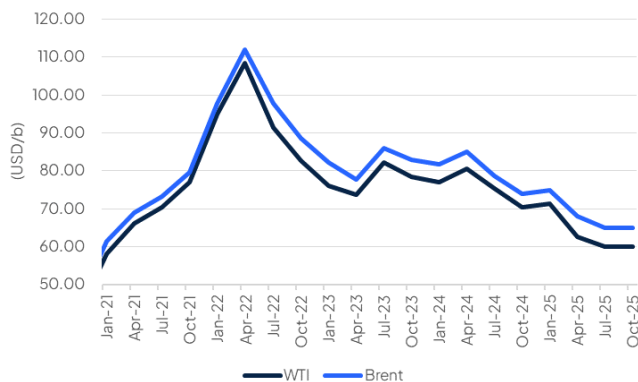
Several OPEC+ national oil companies have also cut official selling prices in the past week which may be an effort to preserve market share and could be an early warning of a price war. OPEC+ cooperation broke down during the early stages of the Covid-19 pandemic as rival producers increased output to maintain market shares, prompting prices to plummet with WTI trading below USD 0/b in April 2020. A market share battle is not our core assumption for oil markets this year but a disorderly breakdown of OPEC+ is a real risk that could open much more downside for prices.

Our forecast for oil prices was that they would slide in 2025 on average relative to 2024 as we expected



modest demand growth to fail to absorb supply additions from OPEC+ as well as producers like the US, Canada and Guyana. There are more meaningful downside risks to demand this year as slowdown or recession fears build and we now expect a steeper trajectory for oil prices on the way down. We are revising our assumption for Brent futures to an average of USD 68/b, down from USD 73/b previously while for WTI we now expect prices at an average of USD 65/b, down from USD 71/b previously.

Emirates NBD Research oil price assumptions



Source: Emirates NBD Research.

The direct effect of tariffs on many of the GCC economies is relatively limited as at 10% the rate is lower compared with the rate threatened and now paused for other US trading partners and overall exposure to the US in terms of export flows is largely dominated by oil and natural gas which are currently exempt from tariffs.

However, our expectation of a lower oil price pathway this year means that fiscal and external positions across the GCC will be weaker. Our revised expectations for fiscal balances will be revised in a follow-up note.

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