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COMMODITIES, FOOD & AGRI ENERGY

OPEC+ continues with supply hikes

Despite expectations of a large surplus in 2026, OPEC+ has continued to ramp up supply, which should put downward pressure on oil prices in the months ahead

OPEC+ surprises with another supply hike

Supply risks in the oil market grew in August due to US secondary tariffs on India for its purchases of Russian crude oil. This development left plenty of uncertainty about what Indian refiners would do with their procurement of Russian oil. India has increased the volume of Russian oil it has bought since the Russia-Ukraine war, buying in the region of 1.6m b/d.

Some Indian refiners paused their purchases of Russian oil following the US's announcement of secondary tariffs on India, and ship tracking data confirms that volumes of Russian seaborne exports have dropped in recent weeks. However, more recently, we have seen Indian buying interest for Russian oil resume again. This is crucial for the market outlook. Obviously, if Indian refiners start to shun Russian oil, and Russia struggles to find alternative buyers, it would likely lead to a reduction in Russian oil supply, leaving the global market more undersupplied than anticipated.

However, the fundamental outlook for oil prices remains firmly bearish. The market is set to move into a large surplus from the fourth quarter of this year and in 2026, which should weigh on prices. We continue to believe that ICE Brent will average US$57/bbl in 2026. Modest demand growth, along with OPEC+ supply hikes, has been key to the expected surplus. OPEC+ has fully unwound 2.2m b/d of supply cuts within a period of six months, bringing this supply onto the market a full 12 months ahead of schedule. Furthermore, OPEC+ has started unwinding its next tranche of 1.65m b/d of supply cuts, with the group set to increase supply in October by 137k b/d. This move by OPEC+ only cements the more bearish outlook we have towards the oil market.

Rangebound European gas

European natural gas prices have been relatively rangebound over the last month, while speculators have been reducing their positioning in TTF. This is despite maintenance in Norway, which has reduced Norwegian gas flows to Europe.

Weaker Asian LNG demand continues to cap prices, with Chinese LNG demand particularly weak, driven by stronger pipeline flows and also weaker domestic demand.

However, we still expect natural gas prices to remain relatively well supported for the remainder of this year. It is looking increasingly unlikely that the EU will hit its 90% storage target, although admittedly, there is more flexibility now when it comes to these storage targets.

Furthermore, European gas prices will need to remain relatively well supported to ensure that we see stronger LNG flows into Europe as we head into the 2025/26 winter.

We expect TTF to remain above EUR30/MWh in the near term, however, prices will come under growing pressure as global LNG supply ramps up. But we will likely have to wait until 2027 before LNG supply additions weigh heavily on prices.

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