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OPEC+ move to defend market share

The shift in OPEC+ policy suggests that oil prices will come under pressure towards the end of the year. Meanwhile, European gas prices are expected to remain well supported to bring in enough LNG

The large increases from OPEC+ will push the global oil market into a large surplus from 4Q25

OPEC+ goes with another large supply hike

Despite OPEC+ originally announcing three larger-than-expected supply hikes this year (the latest being a 411k b/d increase for July), which have essentially cemented the shift in the group's output policy, oil prices have held up relatively well. This is due to a flare-up in geopolitical risks, while the oil market remains tight, particularly in the spot physical market. This is reflected in the backwardation at the front end of both the Brent and WTI forward curves.

We continue to believe that OPEC+ will unwind its additional voluntary supply cuts at a quicker pace. In our balance sheet, we assume that by the end of the third quarter, the group will have restored the full 2.2m b/d of supply, which would be 12 months ahead of schedule. Although in reality, the supply increase will be smaller, given that some members are already producing above their production targets.

The big unknown is whether OPEC+, and specifically Saudi Arabia, will be content after this supply is restored. Or will the group also start bringing back the 1.65m b/d tranche of voluntary

cuts, which are currently scheduled to remain in place until the end of 2026? We are currently not assuming this supply will be brought back.

The large increases from OPEC+ will push the global oil market into a large surplus from the fourth quarter of this year onwards, which is why we see Brent trading lower towards the end of this year. We are currently forecasting ICE Brent to average $59/bbl in 4Q25, unchanged from last month.

However, at these price levels, we will see a pullback in activity from the US oil industry. This is something we are already seeing, with the number of active US rigs having fallen by 33 over the last six weeks to 442 – the lowest level since October 2021. The reduction in drilling activity suggests potential downside risks for US crude oil production. The Energy Information Administration (EIA) recently forecast that US crude oil output will fall by 50k b/d YoY in 2026, the first annual decline since 2021, when Covid-19 hit production. We believe there is still room for further revisions lower in US output. This should provide a floor for Brent in the mid-$50s through 2026. Demand will also be important in determining how strong that floor is.

The key upside risk to our view is around Russian oil supply. For now, it appears as though the US administration is not keen to tighten sanctions against Russia. However, frustrations may grow if a peace deal between Russia and Ukraine remains elusive, which could eventually see sanctions targeting Russian energy flows. US senators are trying to push through a bill to impose strict sanctions on Russian energy. Any effective sanctions on Russian oil would dramatically change the outlook for the oil market, with Russia exporting more than 7m b/d of crude oil and refined products.

The US oil rig count has fallen to its lowest level since October 2021

Source: Baker Hughes, ING Research

Norwegian outages prop up the European gas market

European natural gas prices have been well supported over the last month as concerns grow over supply disruptions from Norway due to unplanned outages, along with scheduled maintenance. This saw Norwegian gas flows to Europe come under pressure in May and early June.

Meanwhile, EU gas storage continues to tick higher, but at 51% full, it is still lower than the 72% seen at the same stage last year and also below the five-year average of 62%. We believe it will be a challenge for the EU to hit its 90% storage target. While the region is working towards lowering its storage targets, it is not confirmed yet. Under proposals, the target will be reduced to 83% and under a scenario of unfavourable market conditions, this target could be lowered to as low as 75%. In addition, rather than meeting the target by 1 November, it can be met anytime between 1 October and 1 December.

The EU has relied more heavily on LNG so far this year, making up for Russian pipeline supply losses. EU LNG send-outs in May hit record levels, after very strong send-outs in March and April as well. Europe will need to continue to pull in large amounts of LNG to get near its storage targets, and in order to do that, prices will need to stay at elevated levels. The issue is that JKM is currently trading at a premium to TTF, which could in fact lead to a fall in LNG flows into Europe.

We continue to hold onto our view that TTF will average EUR38/MWh over the second half of 2025. For 2026, we expect prices to average EUR33/MWh as the global LNG market becomes better supplied.

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