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Higher OPEC+ supply and geopolitics dominate oil market

Oil prices are firmer this morning despite OPEC+ agreeing to another large supply hike

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Energy – OPEC+ supply increase in line with our expectations

OPEC+ agreed to another large supply hike over the weekend, increasing it by 411k b/d effective July. The increase is similar to those in May and June. By the end of July, the group will have brought back more than 60% of the 2.2m b/d worth of planned supply increases.

The latest increase is in line with our expectations. We're also assuming that OPEC+ will continue with these large supply hikes. This would mean that the full 2.2m b/d of supply will be brought back by the end of the third quarter of this year, 12 months ahead of schedule. This is the key assumption behind our price forecast for ICE Brent to average US$59/bbl in the fourth quarter. Despite the large increase, oil prices rallied this morning. This could be because there had been suggestions that the group may go for an even larger supply increase.

Rising tensions between Russia and Ukraine added further support to the market this morning. Ukraine carried out large-scale drone attacks on several Russian airfields, which comes ahead of peace talks between Russia and Ukraine this week. In addition, some US senators are pushing for harder sanctions against Russia, with a proposal to impose 500% tariffs on imports from countries that buy Russian oil. Republican Senator Lindsey Graham and Democratic Senator Richard Blumenthal hope to have sanctions in place by the time of the G-7 summit in mid-June. While President Trump appears to be increasingly frustrated with President Putin, he's so far been reluctant to impose additional sanctions. Actions that successfully target Russian oil flows will change the outlook for the oil market drastically.

Lower oil prices continue to weigh on US drilling activity. The latest Baker Hughes data shows that the US oil rig count fell by 4 to 461, the fifth consecutive week of declines. Given our view for oil prices to move lower towards the end of this year, we would expect to see additional slowing in drilling activity, calling into question forecasts for growth in US oil supply next year.

The latest positioning data shows that speculators reduced their net long in ICE Brent by 4,379 lots to 158,950 lots as of last Tuesday. It shows that speculators are quite split, with the gross long position increasing by 12,543 lots over the week and the gross short increasing by 16,922 lots.

Metals – Trump to double tariffs on steel and aluminium

Trump said he would increase tariffs on steel and aluminium to 50% from 25%, effective 4 June. He made the announcement as he visited a US Steel Corp. plant on Friday. Later on, Trump said he would raise aluminium rates in a Truth Social post.

The US imports significant volumes of aluminium and steel from Canada. It imports roughly half of its aluminium needs from abroad, with Canada the biggest supplier, accounting for 58% of imports, followed by 6% from the United Arab Emirates, US government figures show. The US also relies on Mexico and Canada for around 90% of its aluminium scrap imports. Around 23% of steel imports into the US arrive from Canada, followed by Brazil at 16%, Mexico at 12% and South Korea at 10%.

Trump said the tariffs are aimed at bolstering domestic production and bringing jobs back to the US. However, in 2024, the output of the US steel industry was 1% lower than in 2017, before the introduction of the first round of Trump tariffs; the aluminium industry produced almost 10% less. For aluminium, rising energy costs have played a major role in the decline of the US smelting industry over the years. Canada's aluminium industry, on the other hand, benefits from cheap hydropower to power its smelters.

Emirates Global Aluminium's planned aluminium smelter in the US, announced last month, could help reduce the US's reliance on imported aluminium and increase domestic aluminium production. The plant will be the first new primary aluminium smelter built in the US in over 40 years. It's expected to have a 600,000 metric tonnes per year capacity, nearly doubling US primary aluminium output. Construction is expected to start by late 2026 and be completed by the end of the decade, with first production anticipated by 2030. Its final go-ahead is contingent on securing a long-term power supply.

Agriculture– Ukraine's grain planting season nears end

The latest data from Ukraine's Agriculture Ministry shows that Ukrainian spring grain planting stood at 5.5m hectares as of 30 May, in line with the previous year. This was 97% of the projected area. This includes corn plantings of 3.9m hectares, up 1.2% year-on-year, while soybean sown area increased by 15% YoY to 2.2m hectares. In contrast, wheat plantings stood at 217.1k hectares, down 14% YoY.

Recent data from France's Agriculture Ministry shows that 70% of the soft wheat crop is rated in good-to-excellent condition as of 26 May, following dryness in growing regions. This compares to 71% over the previous week and 61% for the same period last year. Meanwhile, corn plantings stood at 97% complete, above the 95% reported a week ago and 84% reported a year ago.

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