The Commodities Feed: OPEC+ surprises with a larger supply increase

Oil prices are under pressure this morning after OPEC+ increased supply by more than expected for August

Energy – OPEC+ goes with a larger supply hike

ICE Brent is trading lower this morning after OPEC+ agreed on a larger-than-expected supply hike of 548k b/d for August, more than the 411k b/d increase seen in the preceding months. This takes total announced OPEC+ supply increases to a little more than 1.9m b/d. And clearly, if OPEC+ were to go with a similar increase for September, it would mean that the group has not only fully restored the intended 2.2m b/d of supply, but also added close to 300k b/d of additional supply. While there was little doubt that OPEC+ had shifted its policy from defending prices to defending market share, this latest boost solidifies this pivot.

Larger supply hikes increase the scale of the surplus in the oil market later in the year. This supports the view that there's further downside for oil prices. We still expect Brent to trade down towards $60/bbl by year-end amid expectations the group will increase supply again in September. A more bearish supply outlook, combined with demand uncertainty, doesn't bode well for prices. The latest supply-increase announcement comes at a time when there's increased uncertainty on the trade front with the Trump administration's deadline for the 90-day pause in reciprocal tariffs ending on 9 July.

Despite the announced supply increase from OPEC+, Saudi Arabia still went ahead and increased its official selling price (OSP) for August crude oil loadings. Its flagship Arab Light into Asia was increased by $1/bbl MoM to $2.20/bbl over the benchmark.

The latest rig data from Baker Hughes shows that drilling activity in the US continues to slow. The US oil rig count fell by 7 over the last week, which is the tenth consecutive week of declines. Over that period, the number of active oil rigs has fallen by 50 to 425. The dramatic drop in drilling activity leaves downside to US oil output through 2026 and will also leave OPEC+ thinking that its move to defend or even gain market share is working.

Author

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com