Commodities Strategy

Downgrading Brent crude oil forecast further to the USD 60 to 65 / bbl price range

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- Two key risks against Brent crude oil have deteriorated further. First is the further global growth slowdown due to the chaotic rollout of punitive reciprocal tariffs by the Trump Administration on Liberation Day. Second is the larger than expected return of production volume from OPEC+.
- As a result, we downgrade our Brent crude oil price forecast further and now make a USD 5 / bbl cut to our Brent crude oil forecast to USD 65 / bbl for 2Q25 and 3Q25 and thereafter USD 60 / bbl for 4Q25 and 1Q26. Prevailing front month futures is USD 64 / bbl.

In our previous Quarterly Global Report 2Q25 dated 07 Mar 25, we lowered our forecast in Brent crude oil by USD 5 / bbl to USD 70 / bbl for 2Q25 and 3Q25 and thereafter USD 65 / bbl for 4Q25 and 1Q26, warning that Brent crude oil price is "Pulling back to USD 70 / bbl amidst uncertain global demand and OPEC re-supply risks". A month had past and the two key risks that we had specifically warned had indeed materialized and were much worse off.

Chart 1: Reciprocal Tariffs trigger heavy sell-off in Brent crude oil below key USD 70 / bbl support

Source: Bloomberg, UOB Global Economics & Markets Research

Global growth outlook deteriorates after Liberation Day

First key risk is that of "uncertain global demand". Unfortunately, fast moving events of the past week left no uncertainty about the upcoming drop in global energy demand. There was no place to hide and Brent crude oil in the end was caught up in the intense sell-off in risky asset prices over the past week. This comes after investors digested the negative global growth implications of the wide ranging punitive reciprocal tariffs from Liberation Day and China's corresponding retaliatory tariffs, Brent crude oil was indeed sold off in double quick time below the critical USD 70 / bbl level. Once the key support at USD 70 / bbl gave way, front month Brent crude oil futures was sold off to below USD 64 / bbl at the moment of writing.

The precise damage to global energy demand from the unfortunate tariff escalation remains to be seen. At UOB, our Macroeconomics team had already downgraded US GDP growth this year to just 1.0% from 1.8% previously. The team is also in the process of making various downgrades of between 0.4% to 1.0% magnitude to the GDP growth estimates of various Asian and ASEAN countries. For more details, kindly refer to Macro Note: "US: "Liberation Day" tariffs very broad-based & material" dated 03 Apr 25.

OPEC+ returning production

The second key risk is that of "OPEC production re-supply". To be fair, this return in OPEC+ production from previous supply cuts have been well telegraphed in advance. Market was expecting that from the start of April 25, OPEC+ will start returning about 130k bpd of production curtailed from the previous 2 mio supply cut. However, on 3 Apr, OPEC+ surprised by returning as much as 411k bpd of production cuts, effectively restoring as much as triple the amount of curtailed supply. This large amount of returning production surprised the energy market and coupled with the tariff escalation contributed to the intense sell-off in Brent crude oil below USD 70 / bbl.

The OPEC+ rationale to suddenly resume such elevated levels of production left many questions unanswered. The official statement noted in a surreal way that energy market outlook "remains positive" and energy market fundamentals "remain healthy". Some unconfirmed market commentaries suggest that OPEC+ is starting to have difficulty enforcing compliance in its various production quotas for some "troublesome" members and now had to resort to resuming the curtailed supply altogether. Other unconfirmed market commentaries suggest that OPEC+ has capitulated to President Trump's long running demands for pumping more oil to keep oil prices down and allowing the US to restock its Strategic Petroleum Reserves (SPR) at more "affordable" levels. This is a charge that OPEC+ has repeatedly denied.

Chart 2: US needs to replenish its Strategic Petroleum Reserves (SPR)

Source: Bloomberg, UOB Global Economics & Markets Research

We downgrade Brent crude oil further to the USD 60 to 65 / bbl price range

Overall, in view of the weaker global energy demand from the damage to global economic growth as a result of the punitive set of Reciprocal Tariffs as well as the higher-than-expected production boost in OPEC+ production resupply, we downgrade our negative outlook for Brent crude oil further. As a result, we now make a further USD 5 / bbl cut to our Brent crude oil forecast to USD 65 / bbl for 2Q25 and 3Q25 and thereafter USD 60 / bbl for 4Q25 and 1Q26. Prevailing front month futures is USD 64 / bbl.

Key risk to our negative Brent forecast is the persistent lack of geopolitical risk premium

As we have mentioned previously, the main risk to our negative Brent crude oil forecast comes from the on-going set of global geopolitical risks. At current price level of around USD 65 / bbl and with a fairly flat futures curve and a mild backwardation, there is little geopolitical risk premium priced in current Brent crude oil price. Any renewed deterioration in Middle East geopolitics or renewed dramatic escalation in war between Ukraine and Russia risks could reignite this geopolitical risk premium.

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