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Oil Prices Pushed Down by Trump Tariffs and OPEC Plus Production Expansion

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The crude oil price range has fallen substantially. After standing above $71 per barrel in early April, the front-month futures contract price for the benchmark West Texas Intermediate crude declined fast, slipping below $60/bbl on April 8 for the first time in four years. From the next day to late April, it rebounded slightly, fluctuating in a $60-65/bbl range. The key WTI price later dropped below $60/bbl again, hitting the year-to-date low of $57.13/bbl on May 5. The level was the lowest since February 2021, amidst an oil price recovery from a crash under the COVID-19 pandemic. On the same day, the front-month futures contract price for the other benchmark crude of Brent fell to $60.23/bbl, coming close to slipping below $60/bbl. Although WTI regained the $60/bbl level late last week, these recent price levels are significantly lower than an average $75.75/bbl for 2024 and an average $71.42/bbl for the first quarter of 2025, indicating that the downside pressure on crude oil prices since the first quarter of this year has recently grown even more pronounced.

There are two main factors behind the decline in the crude oil price range. The first and most fundamental factor is the fear of a global economic slowdown due to the impact of the Trump tariffs, which will cause a slump in global oil demand. As I argued in my essay “A Japanese Perspective on the International Energy Landscape (735),” the news of high U.S. reciprocal tariffs announced on April 2 played a role in throwing the world into a torrent of tremors. The U.S. Trump administration released plans to impose a flat 10% additional tariff on all U.S. trading partners and high additional tariffs on partners with which the United States runs large trade deficits. The high additional tariffs based on the United States’ unique assessment include 34% for China, 20% for the European Union, and 24% for Japan. The market interpreted the announcement as indicating that the United States, which had been regarded as a free trade leader, made a historic shift in trade policy by introducing high additional tariffs in pursuit of the MAGA (Make America Great Again) and America First slogans, bringing about a global stock market crash triggered by a New York market plunge. Fears rapidly grew that the Trump tariffs, including earlier-introduced high tariffs on specific products, such as steel and automobiles, would curtail international trade and exacerbate inflation.

As a result, crude oil prices plummeted. The day after the announcement of the reciprocal tariffs, WTI declined by $4.76/bbl from the previous day, slipping below $67/bbl. It continued to fall later and dropped below $60/bbl for the first time in four years to $59.58/bbl on April 8, as mentioned above. However, the enormous impact of reciprocal tariffs led to further developments. The torrent of tremors caused by the Trump tariffs hit the United States with triple declines in the U.S. dollar, stocks, and bonds. The triple declines seemingly represented a U.S. sell-off. The extremely strong market reaction may have forced the Trump administration itself to demonstrate a certain level of consideration for market stability. In fact, on April 9, the administration announced that it would suspend the introduction of high reciprocal tariffs for 90 days for U.S. trading partners that have not taken retaliatory measures against the United States and hold trade negotiations with them during the suspension period. The Trump 2.0 administration has apparently shifted to a phase for the United

States to achieve results at bilateral talks during the suspension period, while maintaining the basics of its tariff policy and emphasizing a certain degree of consideration for market stability.

However, the global economic unrest continued to weigh on the market under Trump's tariff policy. According to the latest edition of the International Monetary Fund's World Economic Outlook (WEO), released in April, the global economic growth rate for 2025 is projected at 2.8%, a sharp downward revision of 0.5 percentage points from the previous WEO in January this year. The global economy has become unpredictable. That's why the WTI price remained in the 60-65/barrel range until late April. Under the new economic situation, where concerns about the future remain, crude oil prices have declined.

Against this backdrop, the fate of the United States' bilateral trade policy talks with its trading partners is attracting global attention. On May 8, the United Kingdom became the first major U.S. trading partner to reach an agreement with the United States on tariff cuts. Even before the agreement, however, many experts pointed out that, as the United Kingdom had a small trade surplus with the United States, their negotiations would be relatively easy. The United States' talks with some other major trading partners, including Japan, may be extremely difficult due to complicated problems such as huge trade deficits. To China, the United States has raised additional tariffs to an abnormally high level of 145% from an initial 34% in a bilateral tit-for-tat trade war. China has pushed its tariffs on the United States to 125%. On May 10, the first ministerial meeting between the United States and China was held in Geneva, Switzerland. It is difficult to predict future developments. The outcome of the serious trade war between the world's first and second largest economies will have a decisive impact on the global economy as a whole, as well as their respective economic conditions. Crude oil prices may have no choice but to be affected by the impact of the U.S.-China trade war.

The second main factor is an oil production expansion by the OPEC-plus group of oil-producing countries. Since its inception, the group has supported oil prices for nearly 10 years. Led by Saudi Arabia, the group has adopted policies to avoid a decline in crude oil prices by enhancing coordinated production cuts as necessary. At an online OPEC-plus meeting on May 3, however, the group announced it would increase production by 411,000 barrels per day from June in a manner to unwind the production cuts. At its meeting in early April, when crude oil prices began to decline, the group came up with a plan to increase production from May. The OPEC-plus group has thus decided to boost production at its two consecutive meetings. Global attention has been focused on what changes have occurred in the oil production policy of the OPEC-plus group, especially Saudi Arabia, which had supported crude oil prices over the long term.

Of course, the oil market reacted to the latest OPEC-plus announcement of an increase in production. On May 5, the first trading day after the announcement, WTI hit the year-to-date low of $57.13/bbl. The market was hit by the double whammy of the Trump tariffs and the OPEC-plus production increase. Why did the OPEC-plus group decide to increase production at a time when oil prices were being pushed down by global economic unrest? There are various speculations. One of the most noteworthy speculations is that the group has dared to tolerate oil price falls to counter the laxity of coordinated production cuts or free riders on the coordinated production cuts. OPEC-plus group countries that comply with the group's coordinated production cuts may lose oil market shares to other group members failing to comply, as well as the United States and other non-OPEC-plus oil-producing countries that freely increase production. In order to overcome such a situation, the OPEC-plus group might have adopted the production expansion as a kind of shock therapy to lower oil prices to restore the discipline of production cuts within the group and curb high-cost oil production by non-OPEC-plus oil-producing countries.

There is no doubt that this policy is painful for its implementers. In 1997, when the world economy was squeezed by the Asian currency crisis, however, OPEC at its meeting in Jakarta decided to significantly increase production, leading crude oil prices to suffer a free fall. This case is seen as indicating OPEC's policy shift, similar to the latest decision of the OPEC-plus group. There are shock therapy cases in the history of the oil market.

The international oil market will continue to be weighed down by the double weight of the Trump tariffs and the OPEC-plus production expansion. Depending on developments regarding the two factors, further downside pressure may come on crude oil prices. Of course, there is also the possibility that the Trump 2.0 administration's maximum pressure on Iran will further destabilize the Middle East, resulting in concerns about oil supply. For the time being, however, downside pressure on crude oil prices will be the main focus. We must pay attention to relevant future developments.

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