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Oversupply Perception Exerts Downside Pressure on Oil Prices

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Crude oil prices are gradually falling. On August 19, the closing price of the front-month futures contract on the benchmark West Texas Intermediate crude fell by $1.07 per barrel from the previous day to $62.35/bbl, the lowest since May 30. The front-month futures contract on another benchmark crude oil, the Brent, also dropped by $0.81/bbl to $65.79/bbl.

In the past two months, the WTI restored its stability after shooting up temporarily on the mid-June Iran crisis. When concerns about oil supply disruptions in the Middle East grew due to the tense Iranian situation, including Israel’s attacks on Iranian nuclear facilities on June 12 and subsequent U.S. airstrikes on the Iranian facilities, the WTI temporarily shot up over $77/bbl. However, the rise ended as Iran's restrained retaliatory attacks and an Iran-Israel ceasefire led market players to speculate that no problem would arise regarding oil supply from the Middle East, as the Iran crisis was prevented from deteriorating. From late June to late July, the WTI basically mostly remained in a $65-70/bbl range.

Since early August, however, crude oil prices have gradually declined. The WTI stood at around $70/bbl on July 30, slipped below $65/bbl on August 6, and fell further to $62.35/bbl on August 19, as mentioned above. Of course, even the overall downward trend since late June included occasional rises. A major factor behind the occasional rises was the potential enhancement of Western sanctions regarding Russian crude oil. In a bid to put pressure on Russia for a ceasefire and peace with Ukraine, U.S. President Donald Trump has indicated potential secondary tariffs on China, India, and other countries that buy Russian oil. If the secondary tariffs are implemented to reduce Russian oil exports, with other conditions remaining unchanged, global oil supply will decrease, leading to an increase in oil prices. With this possibility in mind, the crude oil market has seen occasional price increases. In general, however, the impact of this issue has been limited so far, allowing the WTI to creep down from levels close to $70/bbl.

Since early 2025, crude oil prices have basically followed a downtrend while repeating large fluctuations due to various factors. The WTI has lowered its fluctuation range from around $80/bbl in early January to the current range below $65/bbl. A particularly remarkable downside pressure on crude oil prices came between early April and early May. Following a sharp fall in early April, the WTI slipped below $60 repeatedly during the period. For major factors or the background behind the fall, see “A Japanese Perspective on the International Energy Landscape (740).” They included concerns about a global economic slowdown under the Trump tariffs and a continuous production increase by the OPEC-plus group of oil-producing countries.

In particular, U.S. President Trump’s announcement of plans to introduce high reciprocal tariffs in April was a grave development that rattled the world. The reciprocal tariff policy was taken as a trade policy reversal by the United States, which had been seen as the free trade leader, leading to concerns that global oil demand would slacken due to a slowdown in the global economy, including the United States. The concerns caused the rapid decline in crude oil prices. Furthermore, oil market players believed that the OPEC-plus group was tolerating oil price falls through some group members' production increases to unwind voluntary cuts in a reversal from its policy of supporting oil prices in response to the easing of the oil supply-demand balance and price drops. These factors were behind the oil price weakness between early April and early May.

What are the characteristics of the current oil price weakness? What are common to and differences between the April-May weakness and the current one? I think that while the impact of the Trump tariffs and the OPEC-plus production increase still exist as background factors behind the current weakness, the perception of potential oversupply in the future international oil market based on these factors is spreading and penetrating.

According to the International Energy Agency's monthly Oil Market Report released on August 15, global oil demand is projected to increase from 103.1 million barrels per day in 2024 to 103.7 million bpd in 2025 and 104.4 million bpd in 2026 amid moderate global economic growth. Demand is thus expected to continue a moderate increase, driven by Asia among regions outside the Organization for Economic Cooperation and Development. An annual oil demand increase in Asia is predicted at 0.4 million bpd for 2025 and at 0.6 million bpd for 2026, accounting for most of global demand growth.

However, the IEA report projects global oil supply to expand faster than demand. Oil production in non-OPEC-plus oil-producing countries that do not participate in the OPEC-plus coordinated production cuts is predicted to increase by as much as 1.4 million bpd from 53.1 million bpd in 2024 to 54.5 million bpd in 2025 and further to 55.5 million bpd in 2026, driven by increased production in North America, including the United States and Canada. Production by the OPEC-plus group, which has served as an oil supply and demand adjuster, is forecast to expand from 41.6 million bpd in 2024 to 42.7 million bpd in 2025 and to 43.4 million bpd in 2026 under the assumption that the group will maintain the current production policy beyond September 2025. Global oil production is thus projected to increase from 103.0 million bpd in 2024 to 105.5 million bpd in 2025 and to 107.4 million bpd in 2026. Compared to the global oil demand forecast as mentioned above, the international oil market is predicted to see 1.8 million bpd in oversupply in 2025 and 3.0 million bpd in 2026 after 0.1 million bpd in overdemand in 2024.

As for the international oil market in 2026, there are various uncertainties, indicating that it may not be necessary to stick too much to the above figures. The OPEC-plus group may change its policy significantly, depending on future market fundamentals. For the second half of 2025, however, it may be safer to say that various conditions have already begun to be priced into the market. The above-mentioned supply-demand analysis indicates that the international oil market is estimated to have posted 1.0 million bpd in oversupply in the first quarter of 2025 and 1.4 million bpd in the second quarter after an overdemand in the fourth quarter of 2024, and to expand the oversupply to 1.6 million bpd in the third quarter of 2025 and to 3.1 million bpd in the fourth. The oil oversupply is thus expected to increase significantly in the next two quarters. In response to the oversupply in the first half of this year, global oil inventories have increased substantially. If an oversupply continues towards the end of the year, inventories will increase further. An oversupply will become more remarkable in the international oil market.

This oil supply-demand outlook and the subsequent oversupply perception seem to be spreading among oil market participants. I believe that the spread is currently exerting downside pressure on oil prices. The outlook takes into account the impact of the Trump tariffs, the OPEC-plus group's future policy, U.S. shale oil production, and other factors. Since each factor has uncertainties, however, an actual supply-demand balance is difficult to forecast. In addition, there may be geopolitical risks. Oil prices may fluctuate depending on the aforementioned move to tighten Western sanctions against Russia and how the situation in the Middle East will develop. For the time being, however, the spread of oversupply perception is likely to remain an important factor in the international oil market and should be watched closely.

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