With low positioning of financial investors owing to their view of a strongly oversupplied market, CIO believes oil prices have room to recover from current levels. (UBS)

Oil prices have room to recover

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Oil prices edged down on Friday, as demand concerns and a stronger US dollar weighed on investor sentiment.

The latest data from the Energy Information Administration (EIA) showed US crude inventories rose by a greater-than-expected 2.1 million barrels last week, while gasoline stocks fell by 4.4 million barrels to the lowest since November 2022. Earlier, the International Energy Agency said global oil supply will exceed demand in 2025 even if OPEC+ cuts remain in place.

Our view: We continue to believe that oil market participants are pricing in an overly pessimistic outlook for 2025.

Despite the re-election of Donald Trump and his pro-drilling pledge, we believe that it is not the person sitting in the White House that determines the US crude production path, but the prevailing spot price. With the US crude price (WTI) starting to trade into the production curve, year-over-year changes in US crude production could be flat or even negative if current prices prevail. Moreover, energy executives have indicated an ongoing focus on capital discipline. Tariffs remain a risk for oil demand growth in 2025, but further rate cuts and fiscal stimulus measures would likely offset the associated economic growth drags.

While we have revised down our oil demand growth estimates, and therefore our Brent crude price target (to USD 80/bbl in 2025), we see the oil market as balanced to marginally oversupplied next year. With low positioning of financial investors owing to their view of a strongly oversupplied market, we believe oil prices have room to recover from current levels.

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