

## Macro Outlook Summary

April 2025

Inflation in most major economies has remained persistent with food and services largely to blame. What has helped over the past year is energy where cost pressures are abating fairly quickly. Albeit oil is only one component of the complex including clean energy, but recent developments in the world of oil are noteworthy in this new world where the long range outlook for numerous macro factors has become virtually unpredictable.

Earlier this year OPEC expressed frustration with peripheral members like Kazakhstan and Iraq blatantly flouting their agreed quotas. This is hardly a new story but perhaps OPEC's reaction is. Maybe emboldened by the change in global political styles from collaboration and gentle pressure to outright force and threats, OPEC announced earlier in the year plans for three supply hikes in May, June and July.

The first two were 411k bpd and the July was to be 140k. But in May the leak was that a hike of another 411k bpd was on the cards for the 1<sup>st</sup> June meeting. The rationale purportedly is to meet rising global demand. But this doesn't square with generally weakening economic activity across the world as a result of tariffs and trade wars resulting in weakening oil demand. Normally OPEC would be expected to support prices in the face of such demand weakness and cut supplies. This would also be consistent with giving the US room to increase production further as promoted by Trump. In the short term however, from OPEC's perspective, sliding prices may bring some discipline back to OPEC, will take pressure off global inflation and will hurt rogue members. It will also put pressure on Russia which might be part of the Saudi-Trump agenda.

To put the price level into context Brent Crude is now back to where it traded just before the pandemic. It's not in a slump but the likelihood of prices over \$100 seems to have fully receded and the debate going forward will be about the winners and losers in a softer oil price environment. Saudi Arabia needs prices nearer to \$90 in the medium term to pay for Vision 2030 and balance their books but has a track record of resilience and survival when prices are low. Low oil prices will hinder any US production lift, but perhaps that's one policy goal that's on the back burner for now.