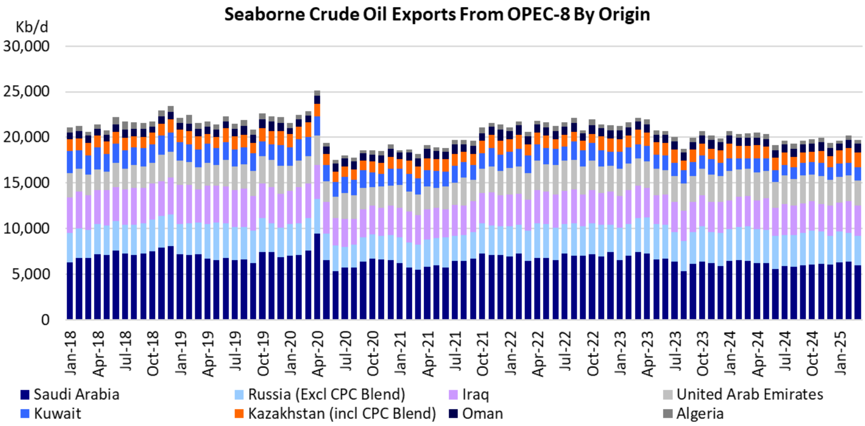
OPEC Springs A Surprise

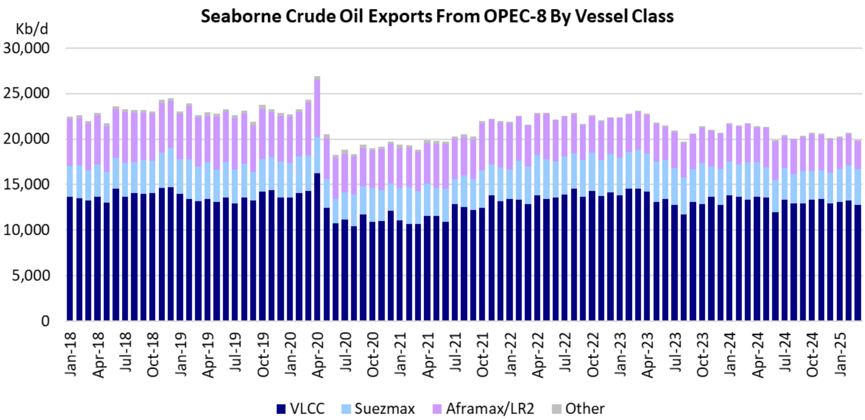
The cartel raises oil production by 411,000 b/d in May

One day after President Trump announced a barrage of tariffs on America's trading partners, eight OPEC+ members surprised the world with an unexpectedly large increase in oil output coming in May. In combination with the announced tariffs, this production increase prompted oil prices to drop below $70 per barrel. The U.S. tariffs were steeper and more wide-ranging than analysts expected (hoped), raising the risks of a global trade war and economic slowdown or even recession. Against this backdrop, the OPEC+ decision came as a big surprise. In this week's Tanker Opinion, we will look into the background of the original OPEC cuts, the possible reasons for yesterday's decision and the potential implications for the oil and tanker markets.

In November 2023, eight OPEC+ members (the "OPEC-8") implemented voluntary oil production cuts of 2.2 Mb/d. These cuts came on top of earlier cuts by OPEC+. These additional production cuts were aimed at stabilizing oil prices during a period of geopolitical unrest and increasing non-OPEC crude oil supply. The OPEC-8 countries were: Saudi Arabia (1 Mb/d), Russia (500,000 b/d), Iraq (223,000 b/d), United Arab Emirates (163,000 b/d), Kuwait (135,000 b/d), Kazakhstan (82,000 b/d), Algeria (51,000 b/d), and Oman (42,000 b/d). In March 2025, the OPEC-8 members announced a plan to start unwinding their cuts. Production targets would increase by an average of 137,000 b/d each month up to September 2026. The plan also included a 300,000 b/d increase in the UAE's production target. The first 137,000 increase was announced for April. However, as mentioned earlier, the OPEC-8 member deviated from their plan yesterday and announced an increase in production of 411,000 b/d in May, three times the planned monthly increase.

Why is OPEC bumping up production now? The official OPEC announcement talks about "continuing healthy market fundamentals and the positive market outlook" as the reason for the production increase. OPEC is bullish about oil demand later in the year, which is a minority position among market analysts who generally have a more downbeat view on oil demand this year and fear a global slowdown. There are several unofficial reasons that may have contributed to this decision. Some pundits have argued that some members of the OPEC-8, Saudi Arabia in particular, are unhappy with the overproduction of some members (Iraq, Kazakhstan, Russia). This production increase and the resulting price collapse serves as a reminder to these other OPEC members what the costs are of non-compliance. Pressure from the U.S. could be another reason. President Trump has asked OPEC repeatedly to open the spigots to bring oil (and gasoline) prices down. The rising tension in the Middle East may be a factor as well. The U.S. has increased its military presence in the Middle East and repeatedly attacked





Source: Vortexa

Houthi positions in the region. At the same time the Trump administration is ramping up the pressure on Iran to come to the negotiating table, or else … OPEC may want to put some more barrels on the market in anticipation of disruptions in Iranian (and Venezuelan) exports as a result of secondary sanctions from the U.S.

So, what are the potential implications on the oil and tanker markets? The oil price has nose-dived in the last two days. Prior to "Liberation Day", WTI was priced at close to $72/bbl. After President Trump announced the tariffs, WTI declined to $66 - $67/bbl. After the OPEC announcement, prices fell to $64/bbl. Today, WTI is trading below $62/bbl, which is costly for oil producers globally.

In theory, the tanker market should benefit from the increased output of the OPEC-8. As chart 2 shows, about 66% of the exports of these countries is done on VLCCs, while 18% goes on Suezmaxes and 15% on Aframaxes. VLCCs should therefore be the main beneficiaries. Increased exports from Russia and Kazakhstan would support Suezmax and Aframax employment, but it is uncertain how much more these countries will be able to produce. In the short-term, exports from Kazakhstan could even go down since Russia temporarily closed two of the three moorings at the Caspian Pipeline Consortium terminal in the Black Sea, which handles approximately 80% of Kazakhstan's oil exports. This will impact Suezmaxes in particular. A low oil price could bring an additional benefit to the regular Aframax and Suezmax fleet. With the price of Russian Urals below the price cap, mainstream owners can again service this trade, replacing vessels from the dark fleet.