Crude oil comment

18 March 2025

Oil prices climb, but fundamentals will keep rallies in check

Brent crude prices have risen for three consecutive days, gaining USD 1.7 per barrel since last Thursday's close. On Friday afternoon, prices briefly dipped to USD 69.9 per barrel before rebounding to a high of USD 71.8 per barrel yesterday morning. As of this morning, Brent crude is trading at USD 71.67 per barrel, up USD 0.77 per barrel since midnight.

Why?

1. Chinese economic data
Two days ago, China released better-than-expected consumption, investment, and industrial production data for the start of the year, signaling economic resilience despite the need for further stimulus. With Donald Trump's tariffs posing a risk to growth, China has responded by committing to policies aimed at boosting incomes, stabilizing equity and real estate markets, and reviving economic consumption – all of which naturally support crude and refined product demand.

2. U.S. strikes on Yemen's Houthis
The U.S. airstrikes on Yemen's Houthis on Sunday, March 16 served as a stark reminder of geopolitical risk, a factor that has not been fully priced into the market recently.

3. Rising tensions in the ME
Escalating tensions in the Middle East are currently (short-term) overshadowing concerns about a potential global oversupply. Overnight, Israel launched a series of military strikes on Gaza, breaking a nearly two-month ceasefire.

4. U.S. sanctions on Iran
Iran's Oil Minister stated over the weekend (March 15) that Iranian oil exports are "unstoppable" and that Iran will not relinquish its share in the global oil market. The new U.S. administration has already imposed sanctions on Iranian crude, but these have yet to impact production levels significantly.

As of February 2025, Iran's crude production stood at 3.23 million barrels per day (bpd), remaining above 3 million bpd since September 2023 (Platts data). Of this, Iran exports approximately 1.7 million bpd. For comparison, under Trump's previous presidency, the U.S. withdrew from the Iran nuclear deal, and Iranian crude production fell to 1.95 million bpd by August 2020, significantly reducing its export capacity.

If the Trump administration reintroduces maximum pressure sanctions on Iran, the market impact could be substantial. In a worst-case scenario, where Iran loses its entire 1.7 million bpd of exports, and if Saudi Arabia or other major producers do not immediately compensate for the loss, global oil prices could theroretically see an upside of as much as USD 10 per barrel (Platts).

Bearish fundamentals still loom:
Despite these bullish factors, crude remains on track for a quarterly loss due to fundamental market

weaknesses. Escalating global trade tensions threaten oil demand. OPEC+ is set to increase production from April, adding additional supply to a market already at risk of oversupply.

As a result, while geopolitical risks and bullish headlines provide short-term support to prices, **SEB:** forecasts that fundamental market conditions limit the potential for sustained price rallies.

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