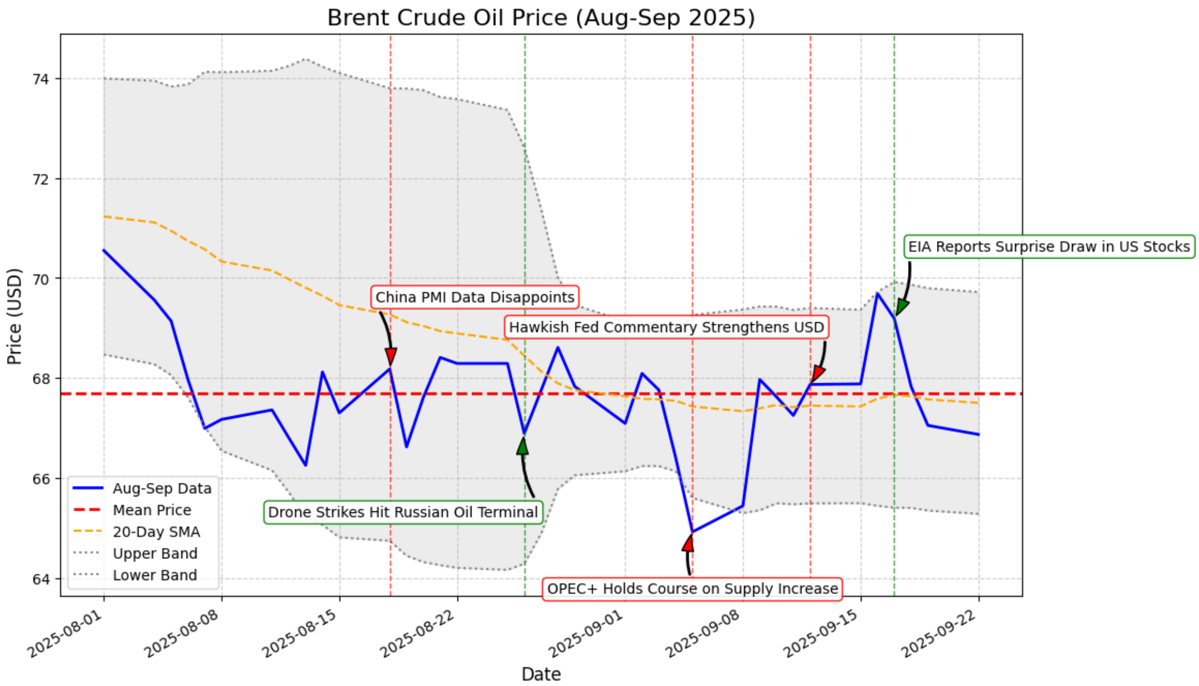
Oil’s Slippery Slope: Don’t Be Fooled

Brent crude oil has been trading sideways for the last two months, but this should not be taken as a sign of a stable commodity. Under the hood, there is a constant pressure for the price to drop, backstopped only by a few, temporary shocks. Fundamental factors, such as the coordinated increase in supply and falling demand, all show a clear tendency for oil to slip down further – and recent geopolitical events and surprise draw reports can be a mirage to the real underlying performance.



The bearish case is compelling and built on both technical and fundamental evidence. From the above graph, it is shown that oil has been trading under its mean price for the last 2 months and its 20-day SMA – a classic indicator of an asset in downtrend. Furthermore, the constriction of the volatility bands shows that there is high chance of “coiling”, where the price consolidates before a major price move. Fundamentally, the trends are even stronger. A group of key OPEC+ members are methodically phasing out their voluntary production cuts, adding incremental supply back to the market through 2025[i]. This managed increase acts as a formidable price ceiling. In addition, the PMI values from U.S. and China show that the manufacturing output from the world’s largest two manufacturing hubs is stagnating, which realises into less demand for oil, the fuel of industry. The recent strength of the dollar also means that the demand for oil is reduced, as countries struggle to finance the cost. Other factors, like the relative ease with which the UAE and Saudi Arabia could deploy their spare capacity, ensures that the price remains sensible and demand is not destroyed. With the long-term headwind of oil demand looking to be reduced with its replacement by renewable energy supplies, the bearish case seems very plausible.

However, a potent bullish case prevents a straightforward price collapse. The possibility of a weaker US dollar, potentially spurred by a future trade war, presents a significant wildcard that could quickly boost oil's appeal. Furthermore, one can assume that as the current inventory of oil is low, the industry would need to acquire more to ensure that the amount of oil that they have is sufficient – providing a crucial floor for the price. Of course, this assumes that the economy *still* requires that much fuel – which a contracting economy might not adhere to. Most potently, the recent geopolitical tensions caused by the recent strike by Ukraine on Russia’s oil signals instability in the supply of oil, as Russia currently supplies around 10% of the world’s oil.

These competing forces are further complicated by the key catalyst of central bank policy. An unexpected increase in interest rates would boost the US dollar and drive oil prices down. Conversely, a decrease in rates –

which its own forecast agrees is the more likely next move[ii] – would weaken the dollar and rally the price of crude.

In conclusion, the analysis presents a clear case that Brent crude is in a fundamentally bearish market. The long-term, structural headwinds of rising supply and weakening demand exert a constant, heavy weight on the price. The bullish factors, while powerful enough to cause sharp, reactive spikes, appear to be more event-driven and temporary. Therefore, the path of least resistance appears to be to the downside, with the current sideways action representing a consolidation before the next leg lower. A definitive breakout will likely require a major catalyst that fundamentally alters one of these core pressures, such as a dramatic escalation of geopolitical conflict or a surprise policy reversal by the US Federal Reserve or OPEC+.

---

[i] Source: https://www.opec.org/pr-detail/243573-07-september-2025.html

[ii] Source: https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250917.htm