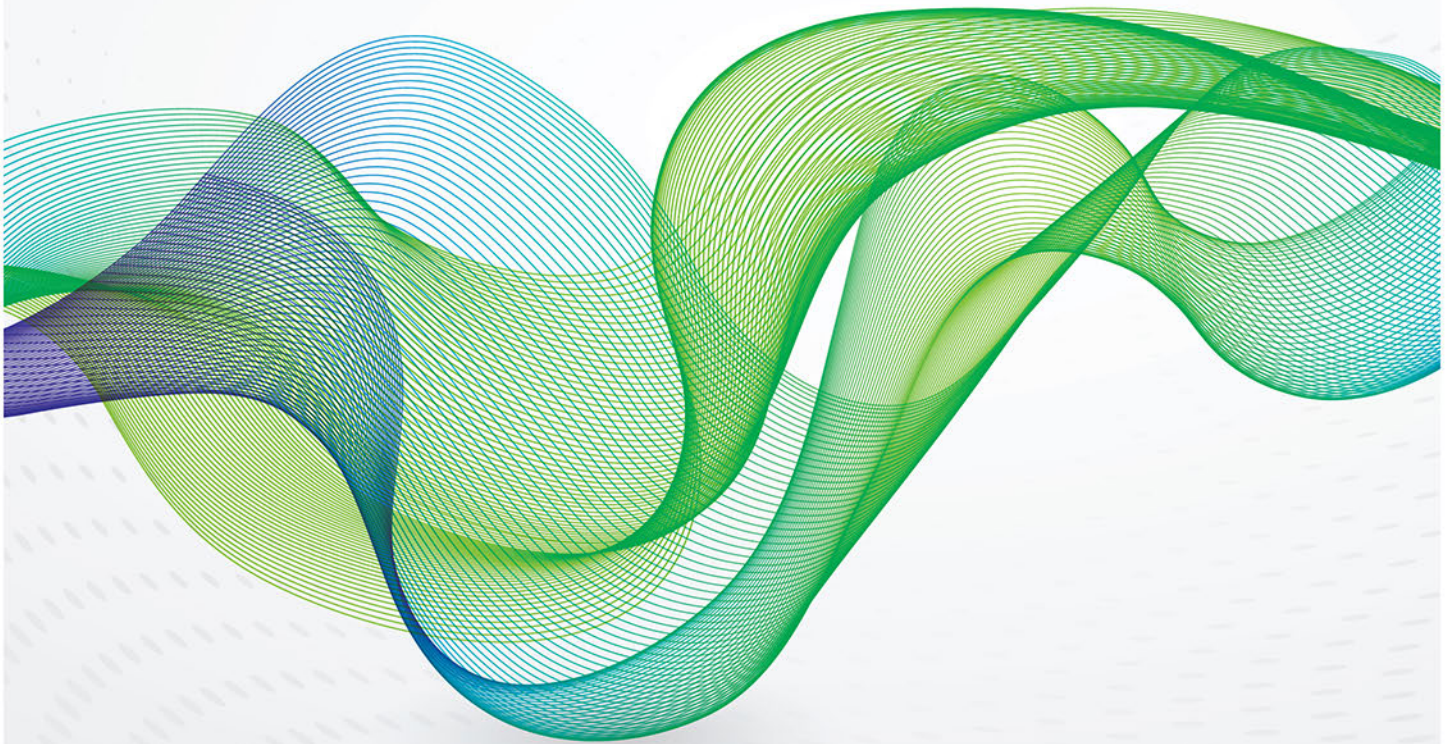


February 2025

Oil Markets in 2025: Divergence in narrative



The year 2024 ended with fundamentally different views about the status of the oil market with many projecting a large oil surplus for 2025 (**Table 1**). For instance, in its 2024 December *Oil Market Report*, the IEA projected a surplus of 900 thousand barrels per day (kb/d) for 2025, even assuming that the OPEC+ voluntary cuts remain in place throughout the entire year.^{1,2} In its 2025 January report, the IEA revised lower the projected oil surplus to 700 kb/d and again lower to 500 kb/d in its February report, still assuming that the OPEC+ voluntary cuts remain in place throughout 2025.^{3,4} Similarly, Morgan Stanley projects a surplus of 700 kb/d for 2025,⁵ while Argus and EIA estimate lower surpluses of 540 kb/d and 410 kb/d, respectively.^{6,7} In contrast, OIES's *Oil Monthly* reference scenario projects the oil market registering a deficit of -240 kb/d in 2025 and total OECD commercial stocks remaining below the 5-year average throughout the year.⁸ Standard Chartered Research also projects an oil deficit of -200 kb/d for the entire year.⁹ So, what factors can explain this divergence in the oil market outlook for 2025?

Table 1. Selected monthly oil outlooks

December 2024 forecasts											
	IEA		US EIA		OPEC		Argus		OIES		
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	
Demand	102.8	103.9	103.0	104.3	103.8	105.3	101.7	102.8	102.8	104.1	
y/y chg.	0.8	1.1	0.9	1.3	1.6	1.4	0.5	1.2	1.0	1.3	
Supply	102.9	104.8	102.6	104.2	-	-	101.8	103.5	102.2	104.0	
y/y chg.	0.6	1.9	0.6	1.6	-	-	0.3	1.8	0.4	1.7	
Balance	0.1	0.9	-0.4	-0.1	-	-	-0.0	0.6	-0.5	-0.1	
February 2025 forecasts											
	IEA		US EIA		OPEC		Argus		OIES		
	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	
Demand	102.9	104.0	102.8	104.1	103.7	105.2	101.7	103.0	102.7	104.0	
y/y chg.	0.9	1.1	0.9	1.4	1.5	1.4	0.5	1.2	1.0	1.3	
Supply	102.9	104.5	102.8	104.6	102.4	-	101.8	103.6	102.3	103.8	
y/y chg.	0.6	1.6	0.6	1.7	0.3	-	0.3	1.8	0.4	1.5	
Balance	0.0	0.5	0.1	0.4	-1.4	-	-0.1	0.5	-0.5	-0.2	

Notes: Totals may not add up due to rounding.

Sources: IEA Oil Market Report, US EIA Short-Term Energy Outlook, OPEC Monthly Oil Market Report, Argus Fundamentals, OIES Oil Monthly.

¹ IEA. 2024. Oil Market Report, Dec 12.

² On December 5, 2024, OPEC+ countries Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman agreed to gradually phase out their 2.2 mb/d voluntary cuts between April 2025 and September 2026, collectively raising their production in 2025 by 1.2 mb/d. This also includes a 300 kb/d adjustment in UAE's production agreed to be phased gradually in the same period.

³ IEA. 2025. Oil Market Report, Jan 15.

⁴ IEA. 2025. Oil Market Report, Feb 13.

⁵ Morgan Stanley. 2025. 2025 Outlook: Balancing Act Continues, The Oil Manual, Jan 5.

⁶ Argus. 2025. Argus Fundamentals. Feb 19.

⁷ US EIA. 2025. Short-Term Energy Outlook, Feb 11.

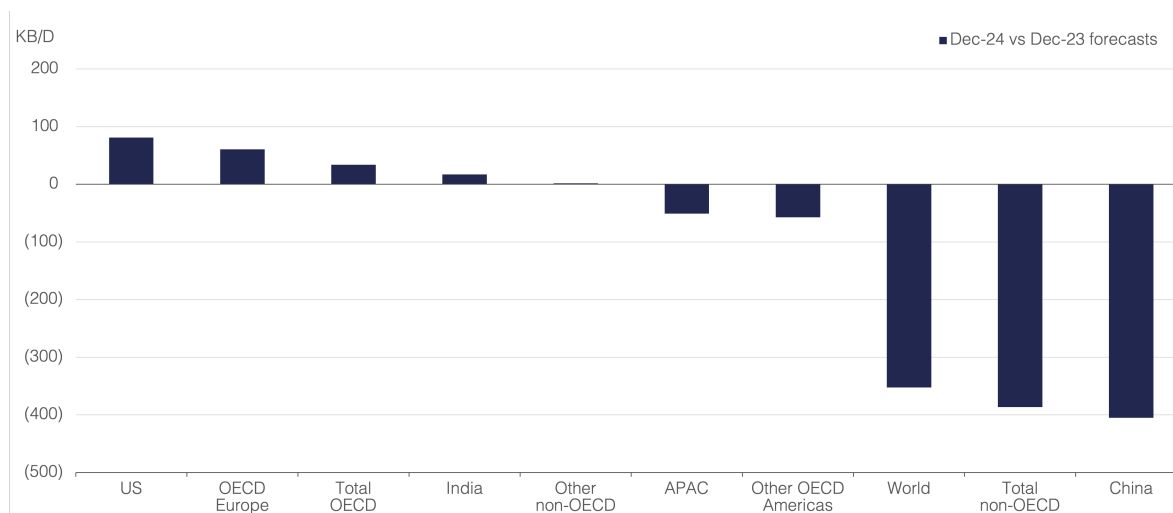
⁸ OIES. 2025. OIES Oil Monthly, Feb 18.

⁹ Standard Chartered Research. 2025. Commodity Roadmap, Jan 7.

Looking backwards

Part of the divergence is due to different assessments of oil market balances in 2024, a year which was particularly difficult for oil market forecasters, and which produced a wide range of estimates regarding supply, demand and resulting global balances (see **Table 1**). While some estimate that the oil market registered a small surplus or remained balanced in 2024 (i.e., the IEA, US EIA, Standard Chartered and Morgan Stanley), others estimate that the market was in deficit. For instance, OIES estimates a deficit of -470 kb/d and Argus estimates a deficit of -100 kb/d for 2024, while OPEC sees a 1.4 million barrel per day (mb/d) deficit.

Fig. 1: Global oil demand growth revisions in 2024



Source: OIES

This divergence in estimates reflects in part the large revisions throughout 2024 both on the demand and the supply side. On the demand side, 2024 saw large divergence in short-term demand growth estimates and major revisions in global demand mainly driven by China (**Figure 1**). At the start of 2024, we projected oil demand to grow y/y by 1.4 mb/d.¹⁰ By December 2024, this was revised lower by 360 kb/d to 1 mb/d mainly driven by a slowdown in China's oil demand (primarily in gasoline and diesel demand) which registered a growth of 160 kb/d compared to 570 kb/d projected at the start of the year.¹¹ A battered real estate market and reduced activity in the construction sector, alongside LNG-diesel substitution in trucking, resulted in weak Chinese diesel demand, which contracted by 50 kb/d in 2024, after expanding by 200 kb/d in 2023. The rise in the share of new electricity vehicles (NEVs) in car sales also contributed to slow gasoline demand growth estimated at 70 kb/d, with others such as the IEA estimates a y/y contraction of 90 kb/d. In addition to China's underperformance relative to expectations, the main drivers of global oil demand have been changing over time, which complicates projections and comparisons particularly between 'liquid balances' and 'crude only' balances. In 2024, the petrochemical sector accounted for the bulk of the annual growth with LPG/ethane and naphtha contributing 770 kb/d to global oil demand growth. The main-four fuels (gasoline, jet/kero, gasoil/diesel and fuel oil) combined registered growth of 560 kb/d led by jet fuel and gasoline demand, while gasoil/diesel and fuel oil demand contracted by 70 kb/d and 120 kb/d respectively driven mainly by Europe and China.

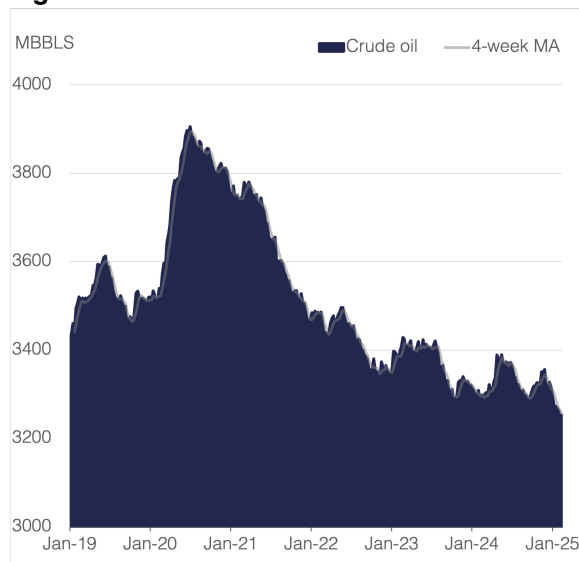
But the revisions have not only been confined to the demand side of the equation. Non-OPEC+ supply in 2024 was also revised lower by 300 kb/d from 1.1 mb/d to 810 kb/d almost offsetting the revisions on the demand side. The biggest growth revision occurred for Brazil, which was lowered from 340 kb/d at the start of the year to little changed y/y ending-2024 due to project delays at -40 kb/d. In the US, the

¹⁰ OIES. 2023. OIES Oil Monthly, Dec 18.

¹¹ OIES. 2024. OIES Oil Monthly, Dec 17.

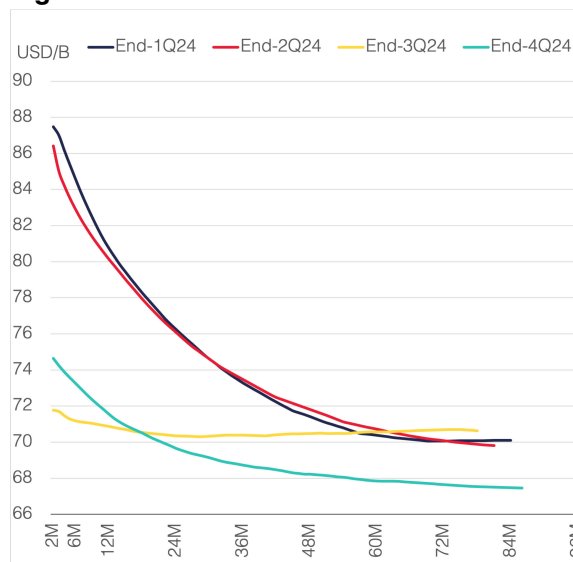
December-to-December crude production growth stood at only 120 kb/d, compared to 1.1 mb/d in 2022/23, though this growth was achieved with lower rig count indicating continued productivity gains.

Fig. 2: Global observed crude oil stocks



Source: Kpler, OIES

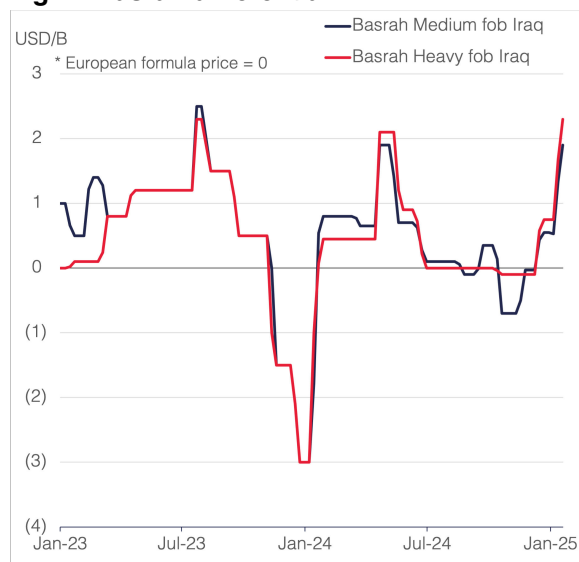
Fig. 3: ICE Brent forward curves



Source: ICE, OIES

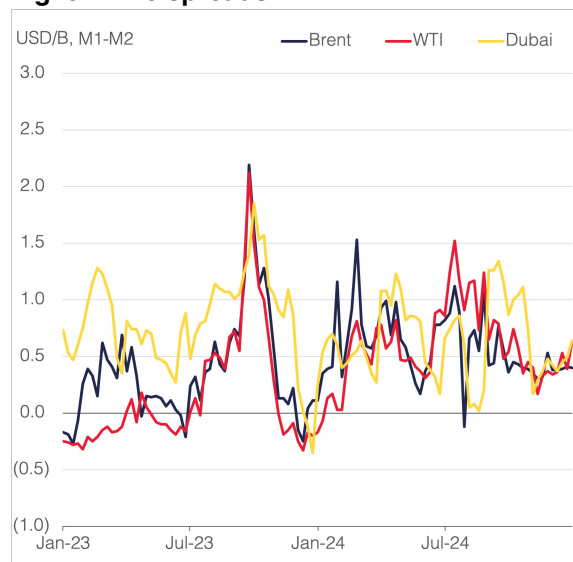
OPEC+ policy continued its proactive approach in 2024, preventing crude stocks from building and keeping the market term structure in backwardation (**Figures 2 and 3**). Also, based on secondary sources, 2024 saw an improvement in OPEC+ compliance, with output compliance from the eight OPEC+ producers¹² that committed to voluntary cuts averaging 90% in 2024 and reaching as high as 98% in 4Q24. This continued into 2025, with January compliance from the same group of producers averaging 99%. For 2024, OPEC+ production is estimated to have declined by 1.1 mb/d, despite output from the exempt OPEC-3 (i.e., Iran, Venezuela and Iran) growing y/y by 450 kb/d, providing price support for heavy/medium and sour crudes (**Figure 4**).

Fig. 4: Basrah differential



Source: Argus, OIES

Fig. 5: Time spreads



Source: Argus, OIES

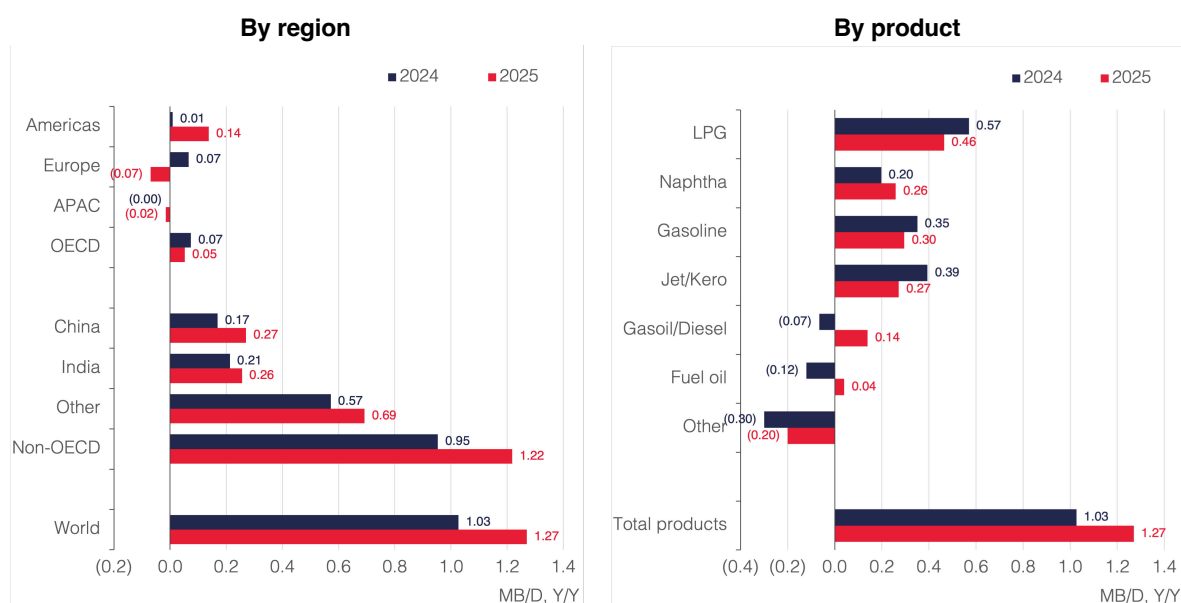
¹² Namely, Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria and Oman.

Although there remains much noise in the 2024 data, market indicators suggest that most likely the market was in deficit or balanced in 2024. Despite the downward revision in global demand, there was no build in observable crude oil stocks. Based on monthly Kpler data, ending-December 2024, observed global crude stocks stood 13 mbbls below year-ago levels and 207 mbbls below December 2019 levels. According to the IEA, total OECD commercial oil stocks (crude and products) remained below their 5-year average with the gap widening to 91 mbbls compared to 69.5 mbbls ending-December 2023. Also, in 2024, Brent, WTI and Dubai term structures were mostly in backwardation, suggesting a market in deficit (**Figure 5**).

Demand prospects for 2025: Steady growth

In addition to the different estimates of global balances for 2024, there is divergence in global oil demand expectations for 2025, though much less than in 2024 (see **Table 1**, p.2). Based on our model, global oil demand is projected to grow by 1.3 mb/d in 2025 (**Figure 6**), on the higher side of estimates (for instance IEA and Morgan Stanley project growth of 1.1 mb/d and 1 mb/d, respectively, while OPEC estimates global demand growth of 1.4 mb/d).

Fig. 6: Global oil demand growth



Source: OIES

Our higher demand number reflects primarily a steady growth for the global economy, while the recent tariff developments have had a minimal impact on global growth projections so far. In its latest report, the IMF left its projections for global growth unchanged at 3.3% for both 2025 and 2026, from 3.2% for 2024, with robust growth in the US offsetting some of the weaknesses in other parts of the world.¹³ The 2024 growth pattern in the products mix is expected to continue in 2025 with LPG and naphtha leading the annual gains with the startup of new petrochemical plants in China, rising annually by 720 kb/d combined (see **Figure 6**). This is followed by gasoline and jet fuel growing y/y by 295 kb/d and 270 kb/d, respectively, though gasoil/diesel demand is expected to post a y/y recovery of 140 kb/d this year providing some reprieve for refining margins, especially if the projected closures of refineries in Europe and the US in 2025 materialise (around 375 kb/d and 450 kb/d of refining capacity in Europe and the US respectively is scheduled for closure in 2025). Also, this considers a boost for oil demand in Europe as gas prices continue to rally encouraging gas to diesel substitution.¹⁴ In terms of the non-OECD

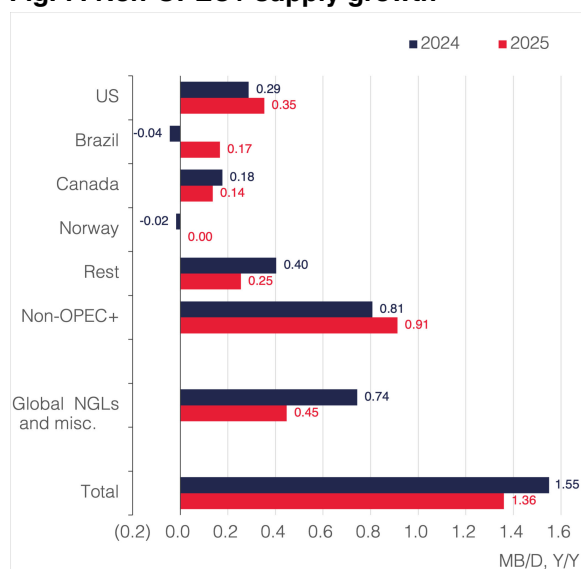
¹³ IMF. 2025. World Economic Outlook Update, January 2025: Global Growth: Divergent and Uncertain, Jan 17.

¹⁴ Bloomberg. 2025. 'Gas at \$100 a Barrel in Europe Makes Burning Oil More Attractive', Feb 10.

countries, China and India are expected to contribute most to oil demand growth in 2025 with 270 kb/d and 260 kb/d of growth respectively (see **Figure 6**). China's contribution is projected to be driven by petrochemicals (+298 kb/d y/y combined)¹⁵, with demand for gasoline expected to flatten and diesel and jet registering a modest annual growth of 90 kb/d combined. Our numbers are higher than CNPC's Economic and Technology Research Institute (ETRI), which estimates a reduction in demand for gasoline, diesel and jet fuel of 140 kb/d.¹⁶

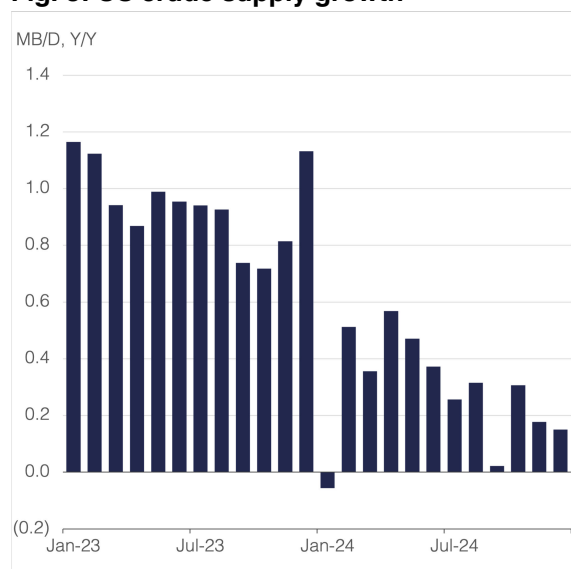
Our model shows that demand side factors contribute the most to the uncertainty around our projections, with demand in the high case scenario reaching 1.4 mb/d and low case scenario reaching 1 mb/d. With the emerging risk of tariffs and reciprocal tariffs, the downside risks to economic growth and global demand have increased. Risks of trade wars, further deterioration in US-China relations, increased inflation and therefore a revision in expectations for monetary easing could undermine oil demand, especially for 2026. In its latest report, the IMF said that *'economic policy uncertainty has increased sharply, especially on the trade and fiscal fronts, and that 'geopolitical tensions, including those in the Middle East, and global trade frictions remain elevated'*. Another key source of uncertainty is China. This not only in terms of its economic growth and the impacts of US tariffs and stimulus measures on its economy, but as in 2024, how the demand for gasoline will be impacted by rising new energy vehicles sales and the balance between battery electric vehicles (BEVs) and plug-in hybrids (PHEVs). More generally, the debate on how much of the shift in demand is structural and driven by the energy transition will only accelerate in 2025.

Fig. 7: Non-OPEC+ supply growth



Source: OIES

Fig. 8: US crude supply growth



Source: US EIA, OIES

Non-OPEC+ supply: A repeat of 2024 or new momentum?

Despite its underperformance in 2024, non-OPEC+ crude production in 2025 is projected to recover some momentum and register a robust growth of 910 kb/d, from 810 kb/d last year (**Figure 7**). The projected annual growth is primarily confined to the Americas, driven by the US (+350 kb/d), Guyana (+200 kb/d), Brazil (+170 kb/d) and Canada (+140 kb/d). Global NGLs and other liquids supply that surprised to the upside in 2024, are projected to register growth of 450 kb/d. Combined, our non-OPEC+ supply and global NGLs and other liquids are projected to grow by 1.4 mb/d in 2025, in line with other forecasts including the IEA, while higher than others such as OPEC forecasts that see growth of 1.1

¹⁵ This also reflect more structural shift in yields and capacity closures and replacement by mega refineries with integrated petrochemical operations.

¹⁶ Argus Global Markets. 2025. China transport fuel demand to fall. Jan 31.

mb/d for the full year. This divergence is in part based on the assumption that the factors that led to non-OPEC+ underperformance in 2024 will be reversed and part of the growth that did not materialise in 2023 will further boost production growth in 2025. The evidence so far however warrants some caution. The IEA in its February report already revised non-OPEC+ supply growth lower for this year by 100 kb/d from 1.5 mb/d previously. Also, at the start of this year, y/y growth of crude exports from the main projected non-OPEC+ contributors slowed sharply to nearly 300 kb/d, from 670 kb/d in January 2024 and 740 kb/d in 2023. That is despite Canada's TMX accounting for 180 kb/d of new y/y growth in January 2025.

The impact of Trump 2.0 policies on non-OPEC+ supply is likely to be limited in the year ahead. While President Trump has threatened to impose tariffs on key producers such as Canada and Mexico, these are unlikely to affect production in these countries, with the impact to be felt on trade flows, differentials, refinery optimization decisions and products prices. On the domestic front, a key component in President Trump's 'Unleashing American Energy' plan is to increase US oil and gas production. President Trump has revoked few of the Biden administration's executive orders that withdrew acreage from oil and gas leasing and has taken measures to facilitate permitting. But US oil producers are unlikely to sacrifice returns for the sake of output growth, especially in this very uncertain environment and as the US shale sector has undergone consolidation impacting companies' strategies and investment cycles. There is also an implicit assumption that capital expenditure has been held back by regulation, while other factors such as expectations of oil prices, quality of acreage, inflated costs, and profitability play a much more important role. For 2025, we expect US crude production to increase by 350 kb/d, following 290 kb/d growth in 2024 (**Figure 8**).

OPEC+ Policy: Cohesion is key

In its meeting on December 5, 2024,^{17,18} OPEC and non-OPEC participating countries (OPEC+) agreed to extend the level of overall required production of 39.7 mb/d until the end of 2026, with the 300 kb/d adjustment to the UAE's production to be phased in gradually from April 2025 until September 2026. Also, the voluntary cuts of 1.65 mb/d, agreed by the eight OPEC+ producers in April 2023, were extended until December 2026. Finally, the additional voluntary cuts of 2.2 million b/d, agreed by the same group of OPEC+ producers in November 2023, were extended until the end of March 2025 with a plan to phase out the production cut gradually until the end of September 2026, while retaining the flexibility to pause or reverse the monthly increases depending on market conditions (**Figure 9**).

President Trump has recently called on OPEC+ and Saudi Arabia to 'bring down the oil price' claiming that this will end the Russia-Ukraine war and 'with oil prices going down, he will demand 'that interest rates drop immediately'. While there was much speculation as to whether this will cause a shift in OPEC+ strategy, the latest JMMC meeting in February put such speculation to rest. OPEC+ producers reaffirmed their cohesion and commitment to the current agreement and to the additional voluntary cuts which 'have ensured the stability of the oil market'.¹⁹ This decision is rooted in a few factors. First, OPEC+ decisions are driven by market fundamentals. Second, a belief that oil policy and prices are not effective means to resolve geopolitical conflicts. Lastly, issues of interest rates and inflation should be addressed by appropriate monetary and fiscal policies, not through oil markets.

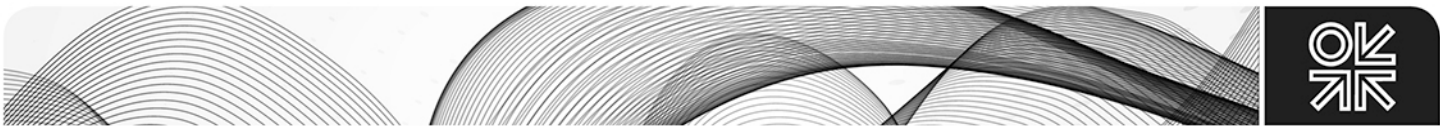
As argued in a recent OIES Comment,²⁰ rather than prices, market share considerations or geopolitical factors, and as emphasized in the various OPEC+ announcements, it is *full compliance and compensation* for historical overproduction that will remain the key focus for OPEC+ in 2025 and 2026. These criteria are essential for the group's cohesion and for the agreement to have its desired effects

¹⁷ OPEC Press Release. 2024. 38th OPEC and non-OPEC Ministerial Meeting, Dec 5.

¹⁸ OPEC Press Release. 2024. Saudi Arabia, Russia, Iraq, United Arab Emirates, Kuwait, Kazakhstan, Algeria and Oman held a virtual meeting on the sidelines of the 38th OPEC and non-OPEC Ministerial Meeting (ONOMM), Dec 5.

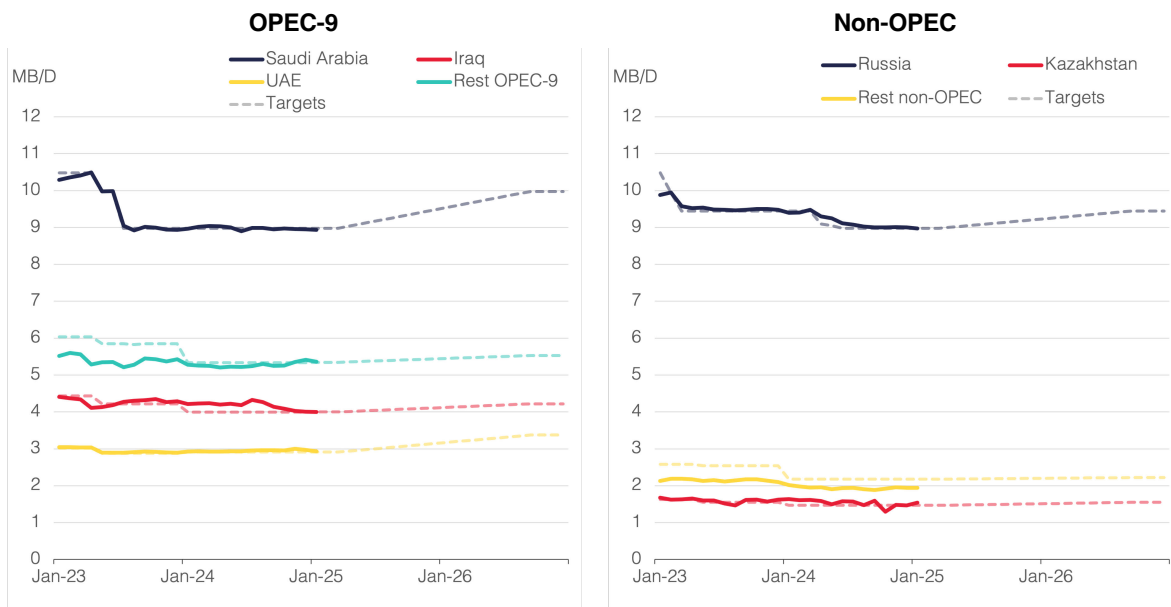
¹⁹ OPEC Press Release. 2025. 58th Meeting of the Joint Ministerial Monitoring Committee, Feb 3.

²⁰ Fattouh, B. and Economou, A. 2025. OPEC+ in 2025: Navigating an uncertain environment. OIES Energy Comment, January 2025.



on market balances and shaping market expectations. Achieving these criteria will also provide OPEC+ with more flexibility in navigating current market uncertainties.

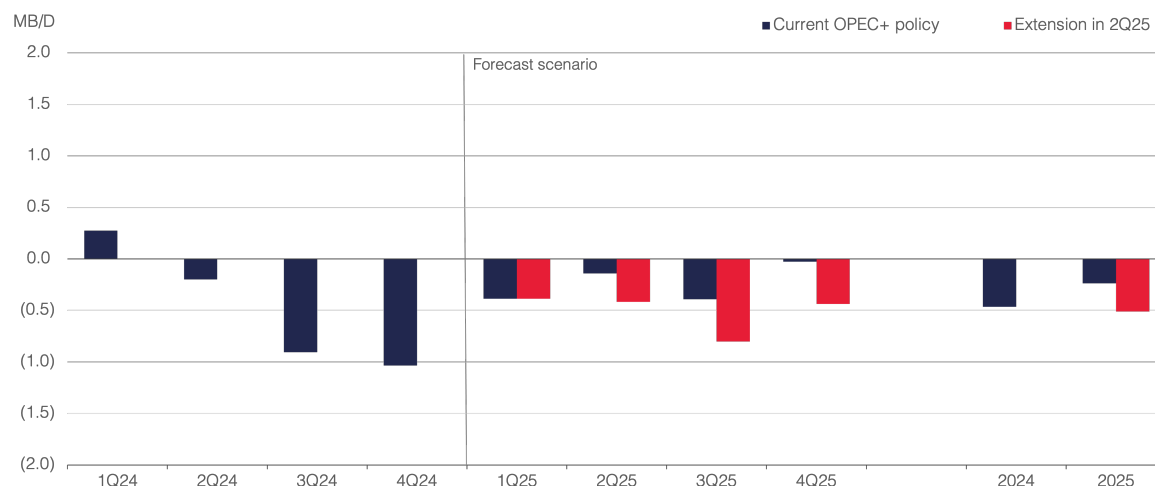
Fig. 9: OPEC+ production vs target



Notes: Ex-condensates. Excludes Iran, Libya, Venezuela and Mexico. Source: OPEC, OIES

OPEC+ ‘forward guidance’ on production indicates that for 2025 and 2026, it plans to continue on its current ‘production management’ mode, with a gradual increase in production over an extended timeframe. Assuming compliance remains strong, this limits the range of uncertainty around OPEC+ production for 2025, though as we proceed into the year, OPEC+ next steps in 2026 will come into focus. If OPEC+ decides to extend its production cuts for another quarter, assuming that the gradual phase-out of the 2.2 mb/d voluntary cuts happens between July 2025 and December 2026, the 2025 balances will tighten further, deepening the projected deficit to -510 kb/d from -240 kb/d under our reference case, all else remaining equal (Figure 10).

Fig. 10: Global balance under different OPEC+ policy scenarios

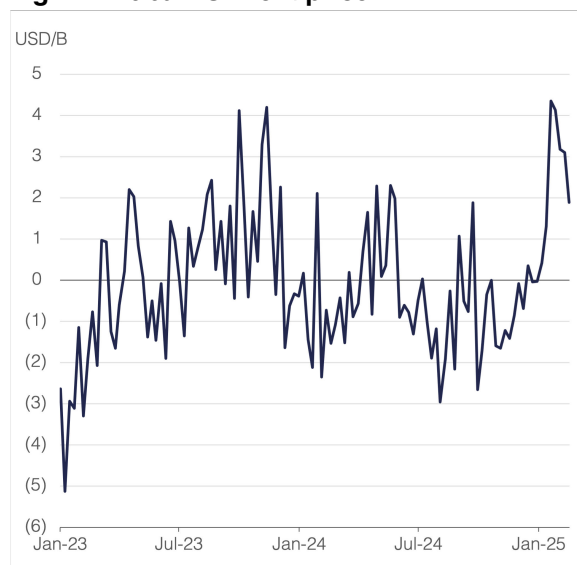


Source: OIES

Geopolitical factors will continue to feed volatility

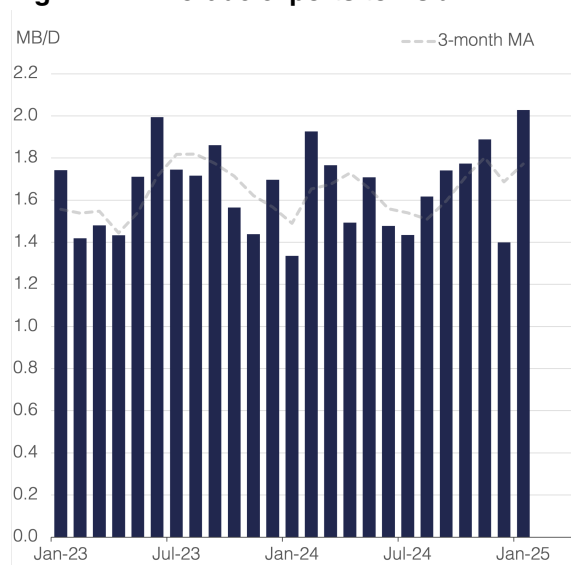
With the start of 2025, sanctions have come to the forefront of oil markets. The outgoing Biden administration escalated sanctions on Russia's oil sector including Russian firms, individual oil tankers and opaque trading companies willing to sell and ship Russian oil. The newly sanctioned tankers handled more than 530 million barrels (mbbls) of Russian crude in 2024, which accounted for 42% of the country's seaborne crude exports.²¹ These tougher sanctions had the effect of further complicating Russian trade logistics, impacting buyers of Russian crude, particularly refineries in India and China. These had to scramble for spot barrels, pushing up Dubai benchmarks that traded at large premiums to Brent before easing recently (**Figure 11**), as well as on freight rates and Official Selling Prices (OSPs). Also, West African (WAF) cargoes have been clearing relatively fast as demand from Asia has increased (**Figure 12**).²² However, the impact of these tougher sanctions on Russian production and exports remains highly uncertain, while the impacts of sanctions tend to weaken over time. Following the Russia-Ukraine war in 2022 and the imposition of full sanctions on exports from Russia by the G7 and the EU on December 5, 2022, Russian crude exports experienced a massive drop to 2.9 mb/d in the same month from their 2022 highs of 3.7 mb/d in April/May 2022, but these recovered to 3.5 mb/d in January 2023 and exceeded 3.7 mb/d by April.

Fig. 11: Dubai vs Brent price



Source: Argus, OIES

Fig. 12: WAF crude exports to Asia



Source: Kpler, OIES

Media reports indicate that after a few weeks of inactivity, Russian Urals are being offered again in India with Indian refineries buying Russian Urals for March arrivals,²³ though India is refusing to accept shipments from US-sanctioned entities.²⁴ There are also reports that refineries in China have been offered ESPO at lower premiums and that Chinese port operators are finding ways to navigate around the sanctions.²⁵ This has eased the pressure on the value of medium crudes with the Dubai premium over Brent weakening (see **Figure 11**). These all indicate that although the tougher sanctions (and drone strikes on Russian refineries) are having some impact, Russian crude is still finding ways to reach its main buyers with Russian production slightly falling m/m by 30 kb/d in January 2025, albeit in line with required production target of 8.98 mb/d. There might have been expectations that President Trump

²¹ Reuters. 2025. Tougher US sanctions to curb Russian oil supply to China and India, Jan 12.

²² Argus Global Markets. 2025. Angola crude clears quickly, Feb 7.

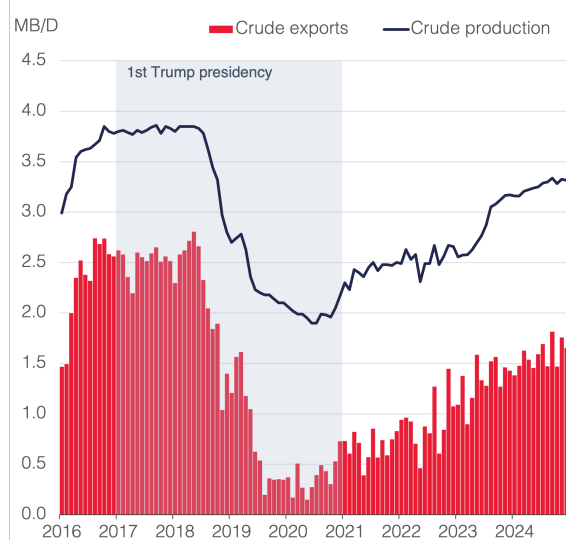
²³ Reuters. 2025. Traders offer March-delivery Russian oil to India at narrower discounts, sources say, Jan 31.

²⁴ Bloomberg. 2025. Tanker With Oil From Sanctioned Russian Producer Idles Off India, Feb 11.

²⁵ Bloomberg. 2025. China Offered Cheaper Russian Oil as Sanctions Fallout Persists, Feb 11.

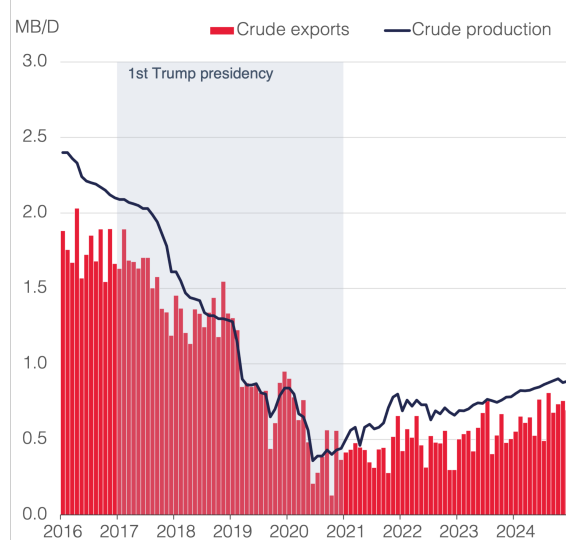
may enforce or tighten these sanctions to gain leverage in any potential negotiations with Russia²⁶. But Trump's announcement that he has agreed with Russian President Putin to start negotiations to end the war in Ukraine has eased these expectations.²⁷ If sanctions on Russian oil companies and ships are removed, the volume of supplies is not expected to increase as Russia is already producing at its OPEC+ quota, but this would allow Russia to export to more destinations and to reprice its crude. The flow of data and news about Russia will be a major contributor to uncertainty this year.

Fig. 13: Iran supply



Source: OPEC, Kpler, OIES

Fig. 14: Venezuela supply



Source: OPEC, Kpler, OIES

President Trump has also restored 'maximum pressure' sanctions on Iran with the aim of bringing the country's exports close to zero (100 kb/d)²⁸ while also keeping the door open for a deal. However, Iran's Supreme Leader Ali Khamenei has rejected negotiations with Trump describing them as 'not rational, intelligent or honorable'.²⁹ Also, President Trump has announced that the US may stop buying oil from Venezuela though a deal seems to have been reached in which Venezuela accepted receiving Venezuelan deportees in exchange for partial lifting of sanctions on its oil sector.³⁰ The US Treasury Department has extended the license issued under the Biden Administration to allow Chevron to continue operating in Venezuela at the start of February 2025. Oil exports from Iran and Venezuela have increased during the Biden Administration and in 2024 reached new highs at 1.58 mb/d and 660 kb/d respectively on an annualized basis (**Figures 13 and 14**). For Iran, in particular, that is an increase from 350 kb/d ending-2019, when Trump was leaving office after his first term. The US has already started tightening sanctions on ships and entities transporting Iranian oil³¹ and the volumes of Iranian oil in floating storage has been rising in recent months.³² Tougher sanctions on Iran may reverse some of the past production gains though it is difficult to predict by how much. This will depend among other factors on US enforcement, the cost competitiveness of Iranian crudes especially as the cost of delivery has been rising, and the willingness of Chinese refineries to stop buying discounted Iranian crude, a potential bargaining chip with the new US administration. If easing sanctions on Russia results in

²⁶ Center on Global Energy Policy. 2025. Q&A: How Will New US Sanctions Affect Russia's Energy Sector, Columbia SIPA, Jan 16.

²⁷ Bloomberg. 2025. Oil Steadies as Tariff Delay Offsets Lower Risk to Russian Flows, Feb 13.

²⁸ Kemp, J. 2025. Oil traders sanguine about return of maximum pressure on Iran, Feb 19.

²⁹ NBC. 2025. Iran's supreme leader rejects negotiations with Trump as 'not rational, intelligent or honorable', Feb 7.

³⁰ Miami Herald. 2025. Florida tycoon is behind oil-for-migrants deal U.S. reached with Venezuelan strongman, Feb 7.

³¹ Reuters. 2025. Iran condemns new US shipping related sanctions, Feb 7.

³² Bloomberg. 2024. Iranian Oil Stored at Sea at Five-Month High as Sanctions Bite, Dec 19.

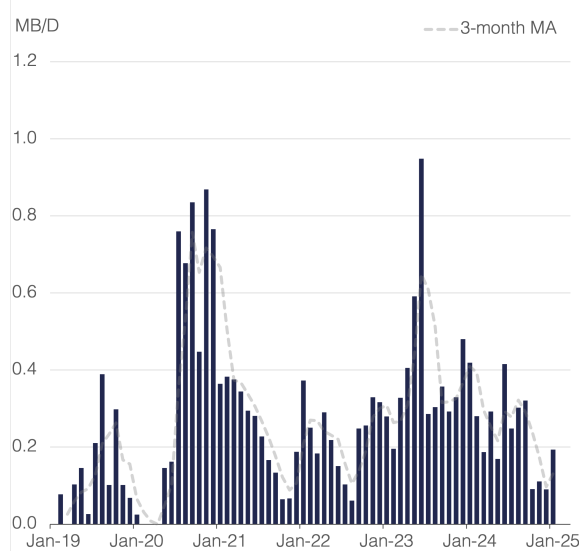
repricing of Russian crude, this could push Chinese refineries to rely more heavily on cheaper Iranian barrels.³³

Tariffs and trade flows

Alongside changes in supply and demand dynamics, the shift in crude and products trade flows continues. The biggest transformation occurred with the start of the Russian-Ukraine war in 2022 and the imposition of sanctions on Russia. Russia has now diverted most of its crude exports to Asia, with the bulk of its exports diverted into China and India that together accounted for nearly 90% out of total Russian crude exports in 2024.

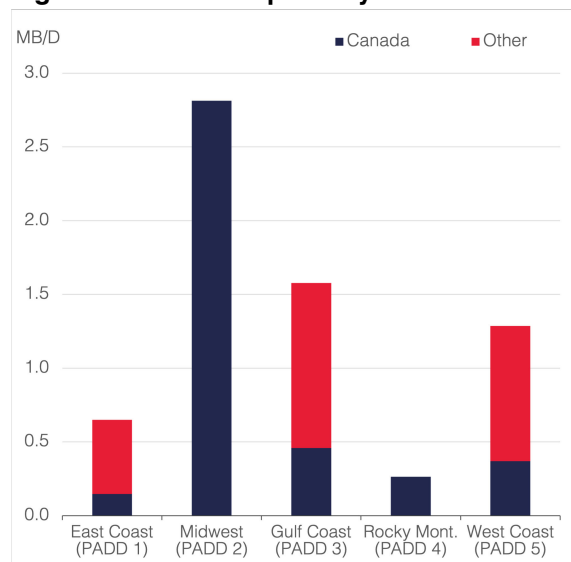
Tariffs and retaliation to tariffs will cause further reshuffling of crude trade flows. In response to US tariffs, China has imposed a 10% tariff on US crude imports. The impact is likely to be limited given that US crude is easy to replace and China's crude imports from the US have already been in decline from 400 kb/d in 2023 to 245 kb/d in 2024, remaining below 200 kb/d on a monthly basis at the start of this year (see **Figure 15**). This is in contrast to propane and ethane, which with the expansion of the petrochemical sector in China and NGLs in the US, have reached record levels in 2024 of 300 kb/d and 220 kb/d respectively. However, the imposition of tariffs on US crude imports and restricted access to sanctioned crudes from Russia, Venezuela and Iran could impact refining margins and runs.³⁴ Also, it may push US producers to redirect their crude exports to new locations including to India which announced that it will purchase more oil and LNG from the US. It may also push Chinese refineries to resell US cargoes already purchased if the government does not provide them with special exemptions.

Fig. 15: China crude imports from US



Source: Kpler, OIES

Fig. 16: US crude imports by PADD



Source: US EIA, OIES

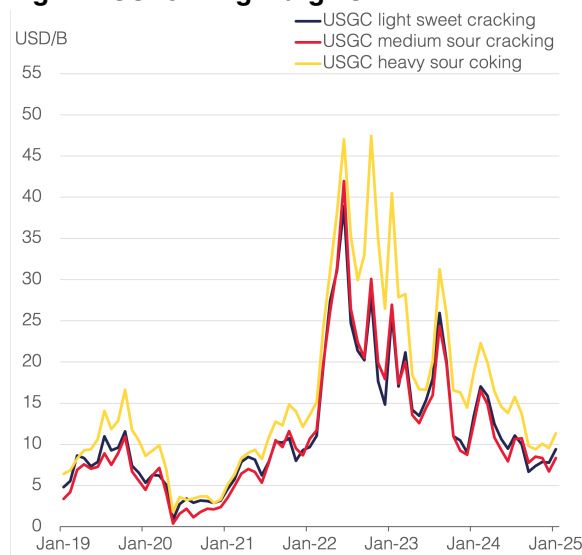
The shift in trade flows has also been driven by new infrastructure. The TMX pipeline expansion in Canada has already resulted in higher volumes of heavy Canadian crude reaching Asia. Canadian crude exports to Asia rose from less than 50 kb/d prior 2024 to 164 kb/d in 2H24 alone, reaching as high as 270 kb/d in November. If the US were to impose tariffs on crude imports from Canada (lowered from 25% to 10%), slightly higher volumes of Canadian crudes can be redirected to Asia (only around 900 kb/d out of 4.6 mb/d of total Canadian crude export capacity can be diverted via the TMX pipeline

³³ In addition to Iran, Venezuela and Russia, there are recent reports that the US has exerted pressure on Iraq to resume crude oil exports from the Kurdistan Regional Government (KRG) or face sanctions alongside Iran (see Reuters. 2025. Exclusive-U.S. piles pressure on Iraq to resume Kurdish oil exports, sources say, Feb 21).

³⁴ Bloomberg. 2025. China's Oil Teapots Cut Runs to Pandemic Levels After Sanctions, Feb 7.

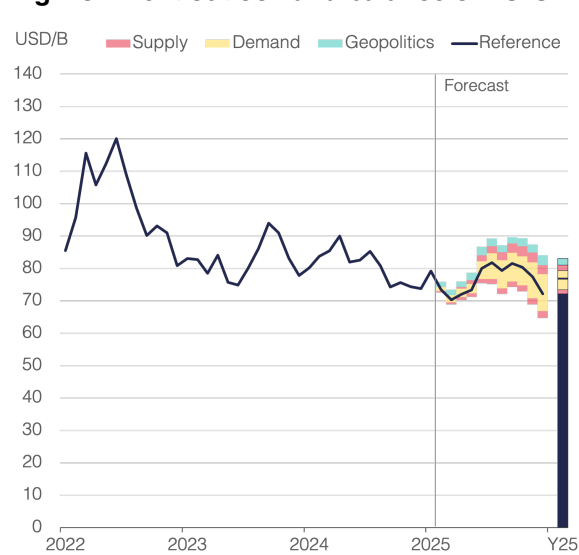
expansion),³⁵ one of the unintended consequences of tariffs. Given the limited export options for Canadian crude outside of the US and the high reliance of refineries in PADD 2 on Canadian heavy crudes (in 2024, US imported around 4 mb/d of crude oil from Canada; see **Figure 16**), the imposition of tariffs is like to be felt both on Canadian producers through higher discounts and on US consumers through higher local retail prices. Though US tariffs on Canada and Mexico have been postponed for now, the threat of tariffs is creating uncertainty and distorting markets. If eventually imposed, they are likely to squeeze refining margins, especially given the tightness in heavy and sour crudes. US refining margins have already been in continuous decline from their high levels in 2022 (see **Figure 17**).

Fig. 17: US refining margins



Source: IEA, OIES

Fig. 18: Brent outlook and balance of risks



Source: OIES

Wide set of uncertainties

Every year brings its new set of uncertainties but for 2025, these uncertainties are amplified due to Trump 2.0 policies (which are transactional in nature and hence constantly changing) and the potential impact of such policies both on demand (for instance, through increased uncertainty) and supply (for instance, if sanctions are tightened or if higher tariffs increase the cost of US oil production) as well as on market sentiment. Our reference Brent price forecast is \$77/b in 2025, and the price band ranges from \$72/b to \$83/b on an annual basis (**Figure 18**). While the narrow price range may give the impression that this would be a tranquil year, 2025 will most likely prove to be an eventful year with many moving parts pushing the oil market in different directions. While Trump 2.0 policies are creating uncertainties, the impacts on growth and oil demand may not be felt this year. Also, potential demand impacts could be offset by supply factors such as geopolitical disruptions, more cohesive and proactive OPEC+, and a repeat of the 2024 non-OPEC+ performance to mention a few factors. These moving parts are reflected in the wide bounds around our reference price forecast (see **Figure 18**). 2025 started with a ‘dominant’ narrative of an oil market characterised by a large over-supply and a sharp departure from last year’s oil market dynamics. But after only couple of months into 2025, market developments and uncertainties are starting to change the narrative.

³⁵ CAPP. 2025. Canadian Oil and Gas Export Infrastructure, January 2025.