Oil prices recover from recent lows; OPEC+ Production increase and U.S. trade deals in focus

Oil prices rose slightly on Tuesday, recovering from three-week lows, as traders awaited more news on potential trade deals ahead of the upcoming OPEC+ meeting.

As of 1:15 PM Brasília time, Brent crude futures for September rose 0.7% to $67.18 per barrel, rebounding from their lowest level since June 11, shortly before the start of the war between Israel and Iran, while West Texas Intermediate futures gained 0.8% to $65.62 per barrel.

Oil markets are becoming cautiously optimistic that the Trump administration will manage to strike trade deals, as the July 9 deadline set by President Donald Trump for reaching agreements with the U.S. approaches.

President Trump harshly criticized Japan on Monday and hinted at the possibility of ending trade negotiations with Tokyo, while U.S. Treasury Secretary Scott Bessent warned that countries could face steep tariffs despite ongoing negotiations.

Markets fear that increasing trade disruptions could hurt global economic growth, thereby reducing global oil demand.

However, the U.S. and China—the world's two largest economies—have already reached a deal, and Canada recently repealed a tax on large U.S. tech firms just before the first payments were due, allowing negotiations to restart.

Additionally, the European Commission, which coordinates the EU's trade policy, is pushing three key points in Washington this week as both sides work toward a framework agreement, with final details to be settled later.

Beyond trade agreements, the main focus is on the Organization of the Petroleum Exporting Countries and allies (OPEC+), which will meet later this week, with expectations that the cartel will continue scaling back two years of production cuts.

Reuters reported last week that OPEC+ will increase production by 411,000 barrels per day in August, following similar increases in May, June, and July.

The hike would bring OPEC+'s total supply increase for the year to 1.78 million barrels per day, although the rise is still smaller than the total production cuts implemented by the group over the past two years.

"Given their shift in strategy, we believe the group will continue with these larger hikes. This would fully reintegrate the 2.2 million bpd of supply by the end of Q3, 12 months ahead of the original schedule," ING analysts said in a note.

"These larger supply increases should leave the global oil market well supplied for the remainder of the year. A large surplus is expected to return in Q4. Clearly, recent price action suggests the market is mostly focused on this supply. The geopolitical risk premium has eroded quickly after the ceasefire between Israel and Iran. Expectations of a comfortably balanced oil market, along with significant spare production capacity from OPEC, appear to be reassuring the market," ING added.

Oil prices rise but head for steep weekly losses

Oil prices rose on Friday amid some signs of resilient demand in the U.S., although they are still set for heavy weekly losses as concerns over supply disruptions in the Middle East have eased.

As of 1:10 PM, Brent crude for August delivery was up 0.6% at $67.07 per barrel, while West Texas Intermediate crude rose 0.8% to $65.76 per barrel.

Oil benchmarks recorded late-week gains, supported by data from the U.S. Energy Information Administration showing that crude and fuel inventories dropped sharply the prior week amid increased refining activity and demand.

However, oil contracts were down more than 12% each this week, having suffered steep losses after U.S. President Donald Trump announced a ceasefire between Israel and Iran.

The ceasefire, although fragile at first, appeared to be holding steadily as the week progressed.

Trump also signaled that Iran could continue selling oil to China—a bearish signal for oil markets—while promoting upcoming nuclear talks with Tehran scheduled for next week.

Additionally, Iran did not block the Strait of Hormuz as initially feared, maintaining the flow of oil shipments to Asia and Europe.

Adding to bearish signals, the Trump administration said on Thursday that it has no immediate plans to begin replenishing the country’s Strategic Petroleum Reserve (SPR).

The SPR is currently at its lowest level since the 1980s, after being heavily drawn down by the Biden administration to stabilize U.S. gasoline prices during the early stages of the Russia-Ukraine war in 2022.

But low SPR levels leave the government with fewer emergency reserves to deal with supply shocks or sudden oil price spikes.

Another key focus is OPEC+'s upcoming decision on August production levels, with the group expected to make an announcement on July 6.

“We believe the group will continue to aggressively unwind supply cuts and announce another output increase of 411,000 barrels per day for August. These supply increases should ensure the oil market moves into a large surplus by year-end. This assumes we don’t see a re-escalation in the Middle East, which would lead to supply losses,” said analysts at ING in a note.