Goldman Sachs | Commodities Research

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Oil Analyst

Trump Scenarios: Upside Risk to Volatility; Downside Risk to Prices

- We still forecast a $75-90 range for Brent given our base cases of trend-like growth in GDP and oil demand (under steady US policies), and OPEC+ market balancing. We analyze the risks to this call from a potential second Trump term.
- **No quick US policy supply boost.** The next US President will have limited tools to significantly boost 2025 oil supply. Regulatory easing may only significantly boost US long run supply, and SPR stocks are low. While OPEC+ decisions and US sanctions can in principle shift international supply, we don't expect a large US policy driven supply boost because 1) OPEC+ is independent, 2) sanctions don't significantly constrain Russia volumes, and 3) Iran supply is already high.
- **Downside to Iran supply.** The sanctions-driven drop in Iran supply under Trump in 2018 suggests that the risks to our flat Iran 2025 supply assumption skew to the downside. In a scenario where Iran supply drops 1mb/d, other OPEC+ producers would likely gradually fill in the shortfall, which would limit the peak boost to oil prices from reduced inventories and spare capacity to $9/bbl.
- **Downside to demand from tariffs.** While there is a lot of uncertainty about trade policy, tariffs on US crude imports seem unlikely. We do estimate a peak hit to 2025 oil prices of $11/bbl as a result of weaker GDP and oil demand in a scenario where the US imposes an across-the-board tariff of 10% on goods imports. Our estimated tariffs hit to oil prices rises to $19/bbl in a scenario where the Fed delays cut beyond 2025 due to higher core inflation (with Brent at $62/bbl in 2025Q4 vs. our $81 forecast), but moderates to $6/bbl if the Fed doesn't delay cuts and OPEC+ reverses its announced supply increases.
- **Upside risk to volatility.** While the ongoing observed drop in oil price volatility was always a key implication of our OPEC range framework, sizable two-sided US policy risks could trigger a pick up in volatility from record lows.
- **Downside risk to prices.** Downside risks from US policy strengthen our view that the risks to our 75-90 range skew to the downside given high spare capacity, and somewhat looser summer oil nowcasts than our balance. Given the drop in implied volatility to percentile 9 over the last 25 years, put options are now attractively priced to hedge 2025 price downside.

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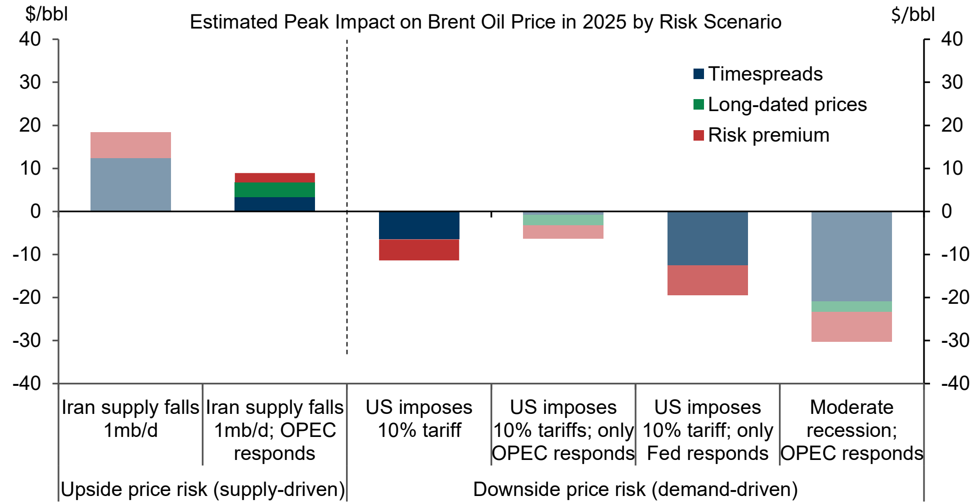
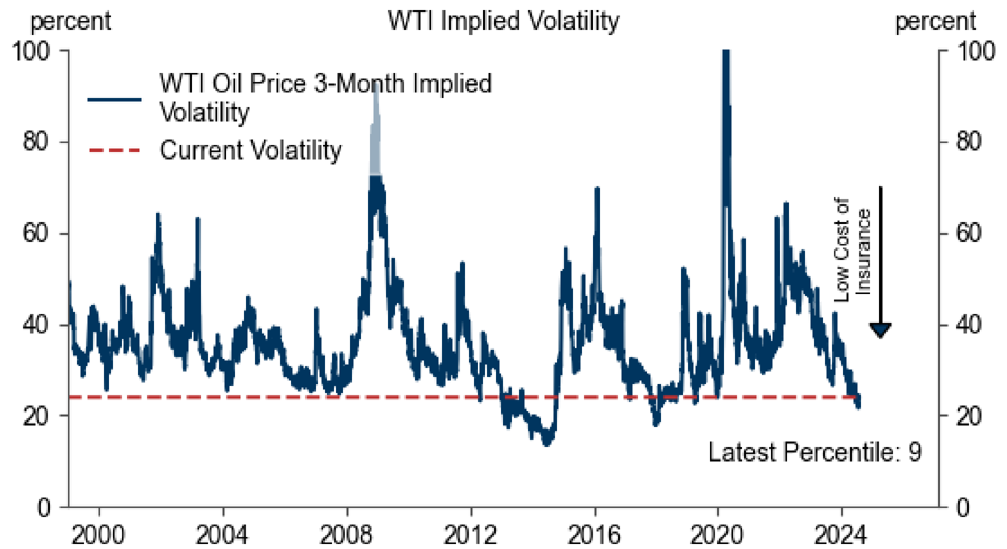
Hedging Downside Risk to 2025 Oil Prices Screens Attractive as 1) Risks to our $75-90 Range Forecast for Brent Skew to the Downside...



The saturation of the bars rises with our subjective probability for each risk scenario.

Source: Goldman Sachs Global Investment Research

... and 2) Crude Oil Price Implied Volatility Has Dropped to Percentile 9 Over the Last 25 Years



Source: Bloomberg, Goldman Sachs Global Investment Research

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Trump Scenarios: Upside Risk to Volatility; Downside Risk to Prices

The Polymarket betting market assigns a 62% probability to former President Trump winning the 2024 US presidential election. We analyze the risks to our oil price call from a potential second Trump term.

Q0. Can you remind us of your range call for oil prices in your base case assuming US steady policies?

We forecast a $75-90 range for Brent and a 2025 average price of $82/bbl given our base cases of trend-like growth in GDP and oil demand under steady US policies, and OPEC+'s commitment to balance the market. Because OPEC has announced a data-dependent plan to gradually unwind voluntary production cuts from Q4 if the market tightens and because spare capacity is high, we continue to see $90 as a ceiling on Brent. Our base case is that OPEC raises production from October 2024 through February 2025. The mechanisms limiting the downside to prices in our base case are the ability for OPEC to forego or reverse the announced production increases, price elastic demand from China and Strategic Petroleum Reserves (SPR), and price elastic US supply.

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US Policy Tools

Q1. Many investors are asking whether a second Trump term could lead to significantly higher supply and lower oil prices. Which tools does the US federal government have to rapidly boost the availability of oil?

On the domestic front, the Strategic Petroleum Reserve (SPR) is the main US federal policy tool that may theoretically boost available oil in the short-term, while regulatory easing may only significantly boost US private sector oil production over the longer term.

On the international front, OPEC+ decisions and US sanctions can in principle significantly shift international supply. But we don't expect a large US policy driven supply boost in 2025 because 1) OPEC+ is independent in pursuing its mission of market stability, 2) sanctions don't significantly constrain Russia volumes (which are self-constrained by OPEC+ cuts), and 3) supply in Iran and Venezuela is already high.

US Supply: Some Long-Run Upside

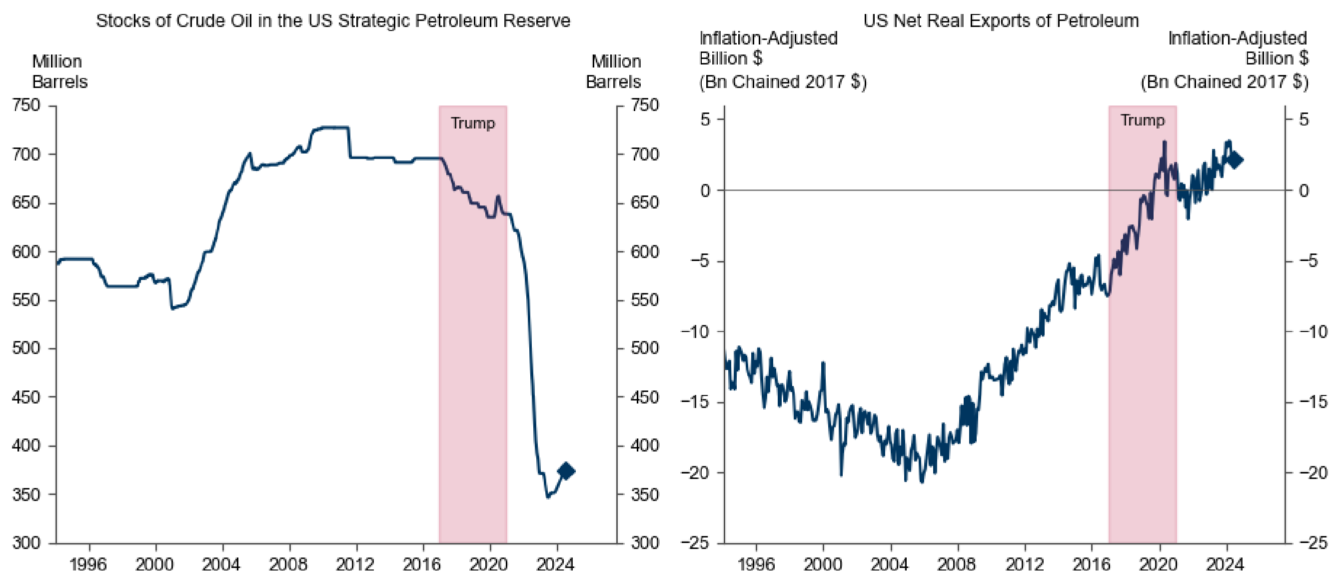
Q2. Could US SPR policy change significantly?

A major shift in US SPR policy, which is being refilled at a slow pace of 2¾ to 3 million barrels per month this year, is not very likely (unless prices move sharply).

First, the relatively low level of SPR inventories (374 million barrels) leaves less room for large drops (Exhibit 1, left panel). At the same time, the US shift from an oil net importer to an oil net exporter (Exhibit 1, right panel) likely reduces the need for large increases.

Second, SPR inventories were relatively stable under Trump's first presidency.[1] Third, major shifts in SPR policy may face political resistance because the US is both a major consumer and producer of oil.

Exhibit 1: Low Level of SPR Stocks Leaves Less Room for Large SPR Drops; The Reduction in Net US Oil Imports Reduces the Need for Large SPR Increases



Source: Department of Commerce, Department of Energy, Goldman Sachs Global Investment Research

Q3. Can regulatory easing significantly boost short-term US oil production?

Oil executives are focused on regulation with 8% of the Dallas Fed Energy Survey respondents perceiving government regulation as the most important factor for profitability in 2023. While our DC economists expect that a potential Trump administration would likely expand oil leases on federal land and offshore energy development, and roll back rules on methane emissions from oil and gas production, we estimate only very small effects from such changes on 2025-2026 oil production.

Expanding Oil Leases

For fiscal year (FY) 2022, federal water and land production accounted for about a quarter of US oil production with contributions from offshore and the Federal mineral estate of approximately 15% and 11%, respectively. In principle, expanding offshore energy development and oil leases on federal land may meaningfully boost long-run production because the acres managed by the Bureau of Ocean Energy Management (BOEM) and the Bureau of Land Management (BLM) are very large[2], and because the availability of high quality assets is one driver of production (although less important than oil prices and capital discipline).[3]

[1] Stocks in the SPR declined moderately from 695 million barrels when he took office in January 2017 to 638 million barrels when he left office in January 2021. Trump proposed to buy 77 million barrels for the SPR as prices collapsed n March 2020, but the Democratic-controlled Congress rejected the $3bn in funding, and the Trump Administration then offered 30 million barrels of space for lease instead.

[2] The BOEM and BLM acres equal 2.5 billion acres and 700 million acres or 30% of the US, respectively.

[3] Researchers at the Dallas Fed have also estimated meaningful long-run effects of potential changes in federal leasing with a restrictive policy scenario lowering Permian production by 9% after 4 years.

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The impact of expanding oil leases on production in 2025-2026, however, is likely to be very small. On the sea side, expanding the five-year leasing schedule Biden approved through the BOEM may eventually significantly increase US offshore production, but only after a decade or so because offshore greenfield projects are long-cycle.[4] On the land side, the industry has already leased the most promising federal land, and the exploration phase before actual production tends to be long. In fact, 46% of the federal acres leased saw no production in fiscal year 2023, and many leases see no activity for the duration of the lease.[5] History also shows no statistically significant link between the party controlling the White House and the share of new oil wells on federal land.

Rolling Back Methane Charges

The IRA introduced a methane fee for petroleum and natural gas production facilities, that overlaps with the Final Methane Rule that the Environmental Protection Agency (EPA) released in December 2023.[6] President Trump would likely roll back the EPA methane rule, and repealing the IRA would require Congressional support. While rolling back these fees would reduce costs for smaller oil producers, we estimate an only modestly positive impact on US oil production (<10kb/d) in 2025 based on CBO estimates of gross revenues from methane charges, EPA cost estimates, and our estimate of the elasticity of US supply. In addition, in our conversations, US oil and gas producers tend to refer to methane emission regulations as only a modest factor in their production plans.

International Supply: Downside Risks

Q4. What are the risks to supply from Iran?

The drop in Iran production after Trump exited the nuclear deal in 2018, and its recent recovery near our 3¾mb/d estimate of production capacity suggest that the risks to our roughly flat Iran 2025 forecast of 3.3mb/d skew to the downside. We believe that Iran crude supply could drop by around 1mb/d drop in a second Trump term (Exhibit 2). While Iran has reportedly built an alternative supply chain to ship most of its oil to small Chinese independent refineries ("teapots") using dark fleet tankers against payments in renminbi through small Chinese banks, a very strict enforcement of secondary sanctions by the US, including on shipping companies, could still lead to a drop in Iran supply.

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[4] The five-year leasing schedule allows for just three leasing rounds in 2025, 2027, and 2029.

[5] According to a Congressional Budget Office (CBO) study, the slow increase in production after leasing partly reflects that "leaseholders are waiting for more information about potential oil and gas resources before developing their parcels." Only 5% of royalty receipts collected in 2013 from onshore parcels came from parcels that were leased in the previous 10 years. The CBO also estimated that most of the receipts from opening the Arctic National Wildlife Refuge (ANWR) to oil production would occur outside of the 10-year period used for budget estimates. Using data from the Louisiana shale natural gas boom, researchers at Texas A&M and Chicago University show that wells' drilling timing is substantially bunched just before the lease expires at the end of the primary term, which is typically 3 to 10 years.

[6] The IRA methane fee is applied on the number of reported tons of methane that exceed 0.2% of the natural gas sent to sale. The rule achieving the greatest emissions is currently set to apply.

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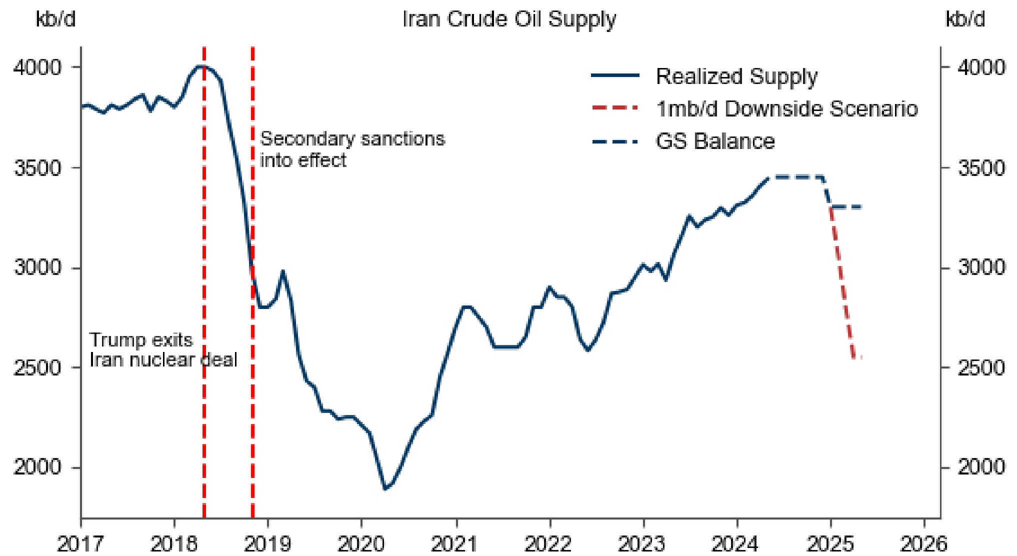
Exhibit 2: Downside Risk to Iran Supply



Source: Goldman Sachs Global Investment Research

Q5. How would a potential drop in supply from Iran and the response from other OPEC producers affect oil prices?

In June 2024, 8 OPEC+ countries signaled to gradually phase out the 2.2mb/d of extra voluntary production cuts over 2024Q4-2025Q3 subject to market conditions. In our base case, Iran supply is roughly stable in 2025, and the 8 OPEC+ countries stop raising production in February 2025 to preserve market stability. We consider two scenarios where Iran supply drops quickly by 1mb/d in January-April 2025.

In the first and most likely scenario, other OPEC+ producers gradually fill in the shortfall by continuing their announced monthly increases through 2025Q3 (vs. February 2025 in our baseline). Although this would leave our 2025Q4 global balance unchanged vs. our baseline, we estimate a peak $9/bbl boost to oil prices in this first scenario as the sum of increases in: 1) inventory-implied timespreads by $3/bbl (the early 2025 deficit reduces inventories), 2) long-dated oil prices (reduced spare capacity boosts long-dated prices) by $3/bbl, and 3) the risk premium by $2/bbl (which we assume initially rises to its 70th percentile as the market prices in some additional geopolitical supply drops).[7]

In the second scenario, other OPEC+ producers don't fill in the shortfall, and Dec 2025 Brent ends up at $100/bbl, $19 above our baseline.

[7] We define the risk premium as the gap between realized Brent 1m/36m timespreads and our estimate of the fundamental value based on 1-4m ahead OECD commercial stocks as a share of OECD demand and US interest rates. We consider the distribution of weekly risk premia since 2005.

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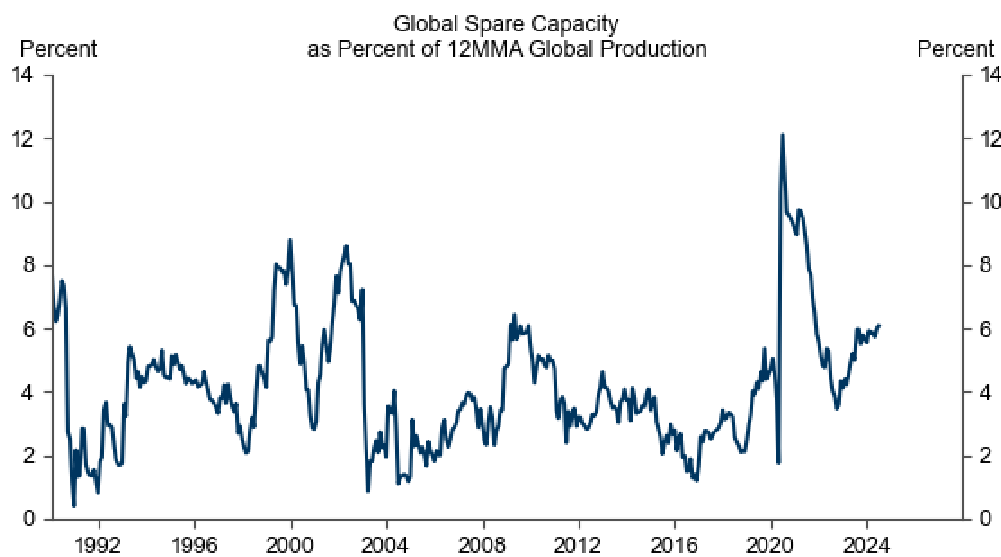
Exhibit 3: Elevated Spare Capacity Implies That Core OPEC+ Producers Would Likely Fill in the Shortfall From a Potential Reduction in Iran Supply



Source: Goldman Sachs Global Investment Research

Q6. What are the US policy risks to oil prices from Venezuela?

We see modest downside risk to Venezuela supply in a potential second Trump term.

Venezuela crude supply declined from 2.1mb/d when Trump entered office in January 2017 to 780kb/d in 2019Q4 following underinvestment, and additional financial sanctions in August 2017 and in August 2019. Venezuela supply has partly recovered by 0.2mb/d over the past two years to 870kb/d after the US government issued licenses in November 2022 (allowing Chevron to resume production at its existing joint ventures in Venezuela) and in October 2023 (authorizing transactions in the oil and gas sector) after President Maduro and the opposition agreed on a roadmap to competitive elections. A second Trump Administration would be unlikely to lift existing sanctions on Venezuela, in our view. The probability of a re-tightening in sanctions would likely rise if the Venezuela elections on July 28 led to a contested election of Maduro. We estimate a modest boost to 2025 oil prices of $2-3/bbl if Venezuela crude supply were to decline by 0.2mb/d (assuming no OPEC+ offset nor change in risk premia).

Q7. Could a potential easing of sanctions on Russian oil significantly boost oil production in 2025-2026?

Unlikely. The reason is that the drop in Russia liquids production from 11.4mb/d in January 2022 to around 10.7mb/d today is driven by OPEC+ production cuts rather than sanctions. As Western policymakers intended, the combination of the G7 oil embargo and the price cap on Russia oil have been effective in keeping Russian barrels on the global market with redirection from Europe to India and China (Exhibit 4).

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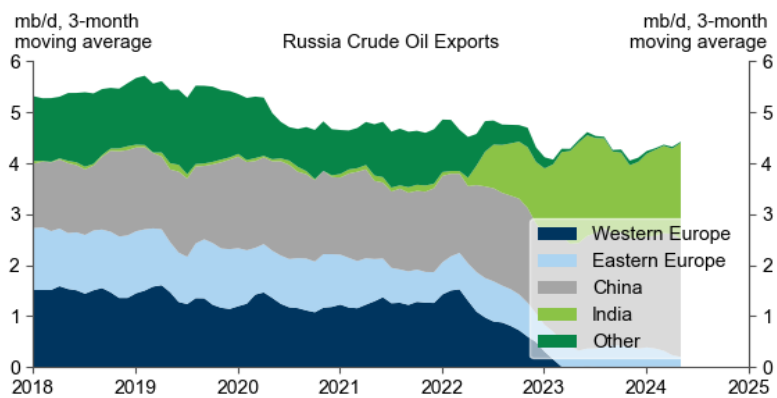
Exhibit 4: Russian Oil Flows Have Been Redirected



Source: Global Trade Tracker, Goldman Sachs Global Investment Research

Global Demand: Downside Risks from Tariffs

Q8. What are the risk of tariffs on US oil imports or US export restrictions?

We think that US tariffs on oil imports or restrictions on US oil exports are unlikely. Former President Trump has proposed tariffs with a focus on trade deficits, while the US is a net energy exporter, and on countries—primarily China—that are not major energy suppliers. Imposing a tariff directly on oil, which could be easily linked to a rise in retail gasoline prices, would also have obvious political downsides that we would expect a potential Trump administration to avoid.

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Q9. What could be the impact of a trade war on oil demand and oil prices?

There is a lot of uncertainty about what policies former President Trump would impose if he returned to office. To get a reference point, our economists have investigated a scenario[8] where:

1. The US imposes an across-the-board tariff of 10% on all goods imports.
2. Everyone else responds with a 10% tariff on imports from the US.
3. Each government recycles the tariff revenue into tax cuts.
4. The trade war raises global trade policy uncertainty to the levels observed at the peak of the 2018-2019 trade war.

In this scenario, our economists estimate hits to GDP in the Euro Area and the US of 1.0% and 0.5%, respectively. With the additional assumption of a ¾% hit to GDP in the rest of the world[9] and our 1.0 GDP elasticity of oil demand, these estimates imply a hit to global oil demand of 760kb/d. The impact on oil prices depends on the reaction of the Fed and OPEC (vs. our baselines of 100bp of Fed cuts in 2025, and OPEC supply increases in October 2024-February 2025):

- **No Fed response; no OPEC response:** We estimate a peak hit to Brent in 2025 of $11/bbl in this scenario based on higher inventories and assuming a drop in the risk premium to its 20th percentile (as the market may assign a probability to further escalation and demand downside). This would reduce Brent in 2025Q4 to $70/bbl (vs. our $81 forecast).
- **Fed responds only:** If higher core inflation as a result of tariffs were to lead the Fed to delay cuts (a possibility our economists discuss) and stay on hold in 2025, then our Fed commodities framework implies that the peak hit to 2025 oil prices rises to $19/bbl, with Brent dropping to $62/bbl by end 2025, well below our $81 forecast.
- **OPEC responds only:** If OPEC were to reverse the October 2024-February 2025 production increase our baseline assumes, then the peak hit from the 10% tariffs downside scenario diminishes to $6/bbl. That said, high spare capacity may incrementally complicate a return from production increases to production cuts.[10]

Q10. Beyond trade, what are the other macro spillovers from a potential Trump election to the oil market?

Our economists have identified trade policy as the most important area of policy differences between a Trump and a Democratic White House for GDP in the US, the Euro Area and China. The following differences across political scenarios seem quantitatively less important for the oil market than trade policy:

[8] Other potential scenarios include tariffs targeting goods imports from China to the US or tariffs on auto imports.

[9] This assumption equals the average of the estimated impacts in the US and the Euro Area.

[10] In a fourth 10% tariffs scenario, both the Fed and OPEC respond by delaying interest rate cuts and cutting oil production, respectively, with a peak hit to 2025 oil prices of around $12/bbl. Arguably, a Fed response to tariffs makes OPEC more likely to respond (i.e. OPEC may respond to the negative demand hit to oil prices from a hawkish Fed response by cutting production) and vice versa (i.e. the Fed may respond to the boost to oil prices and headline inflation from OPEC production cuts by delaying cuts).

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- **Fiscal.** The fiscal and tax impulses on US GDP growth are relatively similar across the four political scenarios (i.e. Republican sweep, a Democratic sweep, Republican President but divided government, and Democratic President but divided government) with only modestly more expansionary policy under a Republican sweep.
- **Financial conditions.** Our cross-assets strategists have previously estimated boosts to the dollar and interest rates from fiscal, tax, and trade policy shifts under Trump with divided government (+10bp for UST 10Y and 3.6% for the USD TWI) and under the Republican sweep (+37bp for UST 10Y and 3.6% for the USD TWI), which are relatively limited but directionally negative for oil demand and oil prices.[11] Based on our -0.03 FX elasticity of non-US oil demand, we estimate a 0.1mb/d hit to oil demand from a potential 3.6% dollar appreciation, worth $1 of downside to 2025 oil prices in our pricing model.
- **Non-energy regulation.** While reduced regulation could boost activity, our economists' analysis suggests that the impact of regulatory policy changes under the first Trump term was limited at a macroeconomic level.

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US Demand: Some Long-Run Upside

Q11. How would a rollback in the IRA EV tax credit impact gasoline demand ?

Our auto equity analysts estimate that reducing the number of vehicles eligible for IRA credits could reduce US EV sales by 5-15%[12]. They also estimate that repealing all the IRA related EV tax credits (which would also require Congressional support) could reduce EV sales by 10-30% given the loss of the 45X advanced manufacturing credit for batteries.

We estimate small boosts to gasoline demand from these policy scenarios, especially in the short term, because gasoline demand depends on the stock of ICE cars, and because our auto equity analysts forecast only moderate US sales for New Electric Vehicles (NEVs) of 2.2 million in 2025 in their baseline.[13] Specifically, we estimate US gasoline demand boosts from reducing the eligibility of the $7,500 IRA new clean vehicle tax credit of under 10kb/d in 2025 and 90kb/d in 2030, and from repealing the IRA EV provisions of 10-20kb/d in 2025 and 170kb/d in 2030, with a negligible boost to late 2025 oil prices (<$0.2/bbl).[14]

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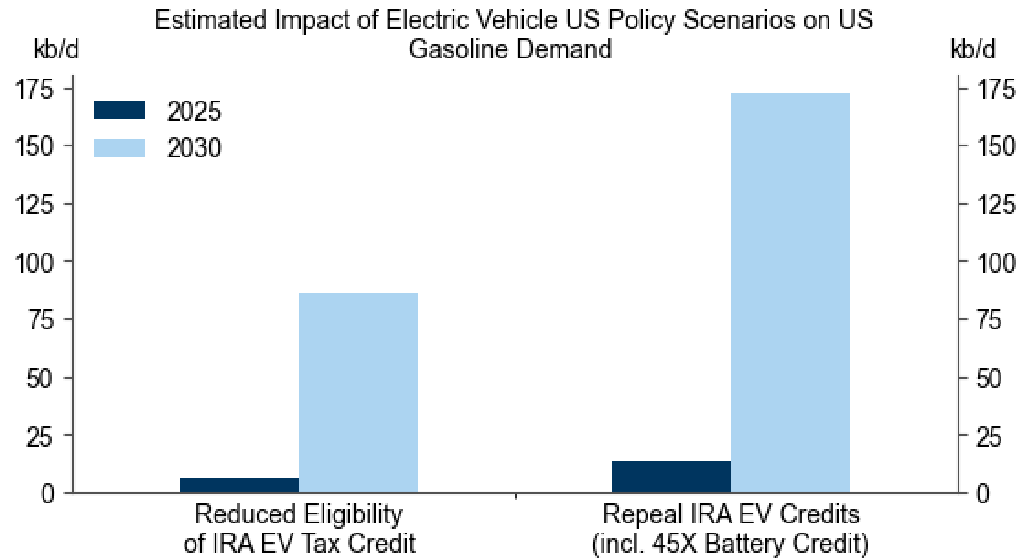
[11] These Republican impact estimates were benchmarked to a 50-50 split across Republican and Democratic outcomes, and would be slightly lower if re-benchmarked to current betting market odds.

[12] A Trump administration would likely tighten the interpretation of EV domestic content requirements. This assumes a 10-15% price increase for a quarter to half of US EV sales.

[13] We define NEVs as the sum of Battery Electric Vehicles (BEVs) and Plug-in Hybrids (PHEVs) excluding traditional Hybrids (HEVs).

[14] We use the midpoint of our auto equity analysts' estimates of the impact of IRA changes on demand, and our estimate that replacing 1 million of NEV cars with 1 million of ICE cars boosts US gasoline demand by 30kb/d.

Exhibit 5: Upside Risk to US Gasoline Demand From Potential IRA Changes Is Small in the Short Term



Source: Goldman Sachs Global Investment Research

We see the risks to these estimates of Trump auto policy scenarios as balanced. On the one hand, the long-run policy boost to gasoline demand could be smaller because the percent impact of IRA changes on NEV sales is likely to diminish as the affordability and convenience of NEVs rise. On the other hand, the total policy gasoline boost could be larger because a second potential Trump administration would likely seek to relax the EPA's recently finalized light and medium duty 2027-2032 auto emissions limits, which automakers would likely satisfy by selling more NEVs.[15]

Upside Risk to Volatility; Downside Risk to Prices

Q12. How do you see the risks from US policy and other factors to oil price volatility and to your $75-90 range Brent oil price forecast?

While the ongoing observed drop in oil price volatility was always a key implication of our analysis of OPEC market management and our range framework, sizable and two-sided US policy risks to prices could trigger a pick up in implied volatility from currently very low levels (Exhibit 6).

[15] Given the rule making process has periods for comments/feedback, the process to change EPA requirements can take a few years.

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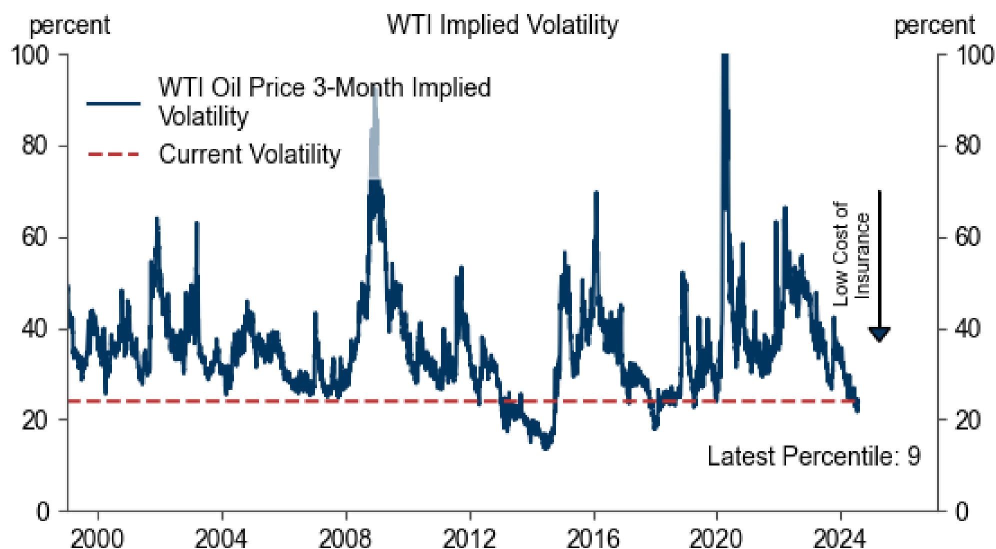
Exhibit 6: US Policy Risks Could Trigger a Pick Up In Implied Oil Price Volatility From Very Low Levels



Source: Bloomberg, Goldman Sachs Global Investment Research

Downside price risks from US policy strengthen our view that the risks to our 75-90 range skew to the downside.

First, while increased US policy risks to the oil balance are two-sided, elevated spare capacity makes it easier to absorb tightening shocks (e.g. lower Iran supply) than to absorb easing shocks (e.g. lower demand from tariffs).

Second, our main oil nowcasts are tracking looser than our balance, including for China demand, US supply, and OECD commercial stocks.

Third, and independently of the US election outcome and the current macro setup (our US economists estimate a 15% probability of a US recession in the next 12 months), recession risk generally skews the distribution of global GDP and oil demand outcomes to the downside.

Our chart with the key risk scenarios (Exhibit 7) also includes a $30 peak hit to 2025 oil prices with Brent falling to $51/bbl by end-2025 in a moderate recession scenario. This scenario assumes a peak 4% hit to global GDP[16] (relative to the baseline) and a reversal of the OPEC supply increases we expect from October 2024. While this simple scenario leaves out some balancing mechanisms that may directionally limit the price downside (i.e. opportunistic buying by US and China SPR, US shale production slowdown, and further OPEC cuts below current production levels), the key point is that high spare capacity makes incremental production cuts more challenging, and that these mechanisms are likely too small to absorb large negative demand shocks.

Given the drop in implied volatility to percentile 9 over the last 25 years, put options are now attractively priced to hedge 2025 price downside for oil producers, in our view.

[16] A peak 4% hit to the level of GDP relative to potential would be slightly more moderate than the median historical recession in G10 economies.

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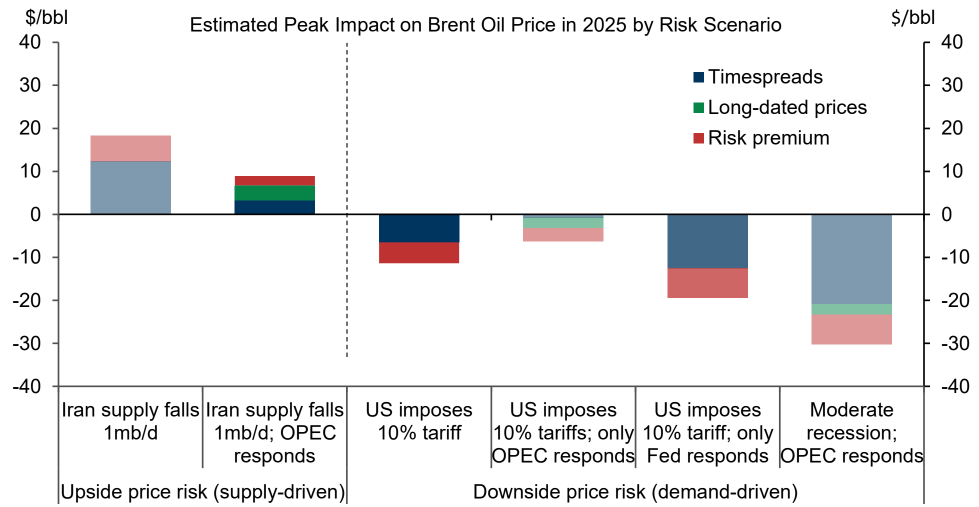
Dec-25 Brent put options currently reflect a c.15% probability of expiring below $60/bbl, equal to the unconditional average annual recession probability and our economists' estimate of the probability of a US recession in the next 12 months. Our scenario analysis, however, suggests that Brent would likely fall to around $50/bbl even in a moderate recession.

Exhibit 7: We See the Risks to our $75-90 Range Forecast for Brent Oil Prices as Moderately Skewed to the Downside



The saturation of the bars rises with our subjective probability for each risk scenario.

Source: Goldman Sachs Global Investment Research

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Disclosure Appendix

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