Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

By: Daniel Lacalle

Oil markets show signs of normalisation

The latest readings for Arab Light and Dubai crude show that prices are falling while the Brent forward curve sits in deep backwardation.

These signs of normalisation and relief suggest that OPEC+ is trying to act as the central bank of oil in the middle of the war in Iran, elevated geopolitical risk and a fragile global recovery.

Furthermore, the United States is now the largest oil producer in the world, and, as such, US production capacity acts as a cushion against geopolitical shocks.

Aramco has been cutting the official selling price (OSP) of Arab Light into Asia for several consecutive months, taking it from a premium over Oman/Dubai to a discount for March 2026 cargoes.

According to Reuters, expectations point to a 50–85 cent per barrel cut for March, implying Arab Light at around 20–55 cents below the Oman/Dubai benchmark, the lowest differential in more than five years.

In 2025, the same grade was priced at close to 4 dollars per barrel above Oman/Dubai, as Asian demand was strong and Russian supplies were limited, according to Reuters and Oil Price.

Dubai crude, the primary medium sour benchmark for Asia, has also seen a decline from its recent peaks.

The Brent forward curve, currently in deep backwardation, indicates a tight market at present, even as it anticipates a well-supplied market in the months ahead.

Managing oil prices

Spot crude is expensive because of a higher geopolitical risk premium: inventories are depleting fast, immediate supply is highly valued and buyers are willing to pay a premium to secure deliveries now rather than in six or twelve months.

However, at the very same time, key Middle East benchmarks such as Arab Light and Dubai are easing, which indicates that markets expect a rapid normalisation of supply.

This is where OPEC+ steps in as the closest thing we have to a monetary authority in oil and where the United States becomes the global cushion for geopolitical risk.

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In 2008, the United States produced around 5 million barrels per day, and geopolitical risks tended to amplify because of its inelastic demand for imported oil.

That situation has completely reversed as domestic production has soared to almost 14 million barrels per day, and now the US acts as a cushion that limits geopolitical risk instead of amplifying it.

At the same time, OPEC+ wants to show the world that it is the most competitive, reliable and flexible supplier. In the same way that central banks manage the price of money by controlling liquidity and shaping inflation expectations, OPEC+ tries to manage the price of crude by providing ample supply and anchoring expectations of additional barrels in the market.

Managing supply amid geopolitical shocks

The Iran war and the broader conflict risk in the region have raised the perceived probability of supply shocks. Tankers, pipelines and export terminals have become part of the geopolitical risk premium embedded in oil prices.

However, instead of a long-dated super spike driven by panic, we see a curve that is steeply

in backwardation but not pricing a crisis.

The market believes that OPEC+ still holds enough spare capacity and the willingness to deploy it if needed and sees the immediate response of US producers as a source of relief, as we saw in 2022 and 2018.

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OPEC's credibility is built every month in the physical market. When buyers see that Aramco and other suppliers are facilitating supply to Asia at a reasonable price, it is not only a reaction to softer demand and competition from discounted Russian barrels or Iranian threats.

It also signals that Saudi Arabia prioritises volume stability and reliability over simply seeking higher prices. By keeping exports flowing and adjusting differentials rather than shutting the tap abruptly, Aramco reinforces the idea that OPEC+ is the guarantee of supply in a world of political disruption.

Deep backwardation also implies that inventories are not ample. OECD stocks sit close to or below their five-year averages, and commercial and strategic reserves have been drawn down recently.

Backwardation penalises holding inventories: each month that passes, the value of stock in the tank falls relative to the spot price.

The market is effectively discounting a system that will continue to flow without disruption, which is exactly the role OPEC+ is trying to play. It provides insurance, substituting barrels in the ground for barrels in storage.

Asia is the marginal buyer of Middle East crude, the key driver of incremental demand and the main arena where OPEC+'s "central bank of oil" role is most important.

All actions so far suggest that OPEC+ and US producers are prioritising reliable and constant supply instead of maximising the short-term benefits of rising prices and a tight market.