BPI PRIVATE WEALTH

May 11, 2026

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IN FOCUS

NEW OIL ORDER: UNPACKING THE UAE'S OPEC EXIT

KEY POINTS

- Citing national interest, the UAE has left the OPEC and the wide OPEC+ alliance, disrupting the global energy landscape characterized by coordinated price-fixing championed by cartel members.
- UAE's decision to exit poses medium to long term implications influencing a multitude of market aspects spanning inflation, oil pricing dynamics, and energy transition (creating clear winners and losers).
- For investors, this shift further feeds into a global backdrop characterized by multi-polarity – wherein global oil prices could be influenced more by diverging interests across various oil producers instead of a powerful cartel.

What Happened

On April 28, 2026, the United Arab Emirates announced its departure from the Organization of the Petroleum Exporting Countries (OPEC) and the wider OPEC+ alliance, effective May 1. The decision, which the UAE's Energy Ministry attributed to a desire for greater flexibility in setting national output, removes the cartel's third-largest producer and one of its most reliable members. This historic announcement arrives amid extreme market stress, as the ongoing US-Israel-Iran conflict has effectively disrupted the Strait of Hormuz - a critical shipping route through which 20% to 30% of global crude oil supply normally passes.

"Pump Now": Why the UAE Left

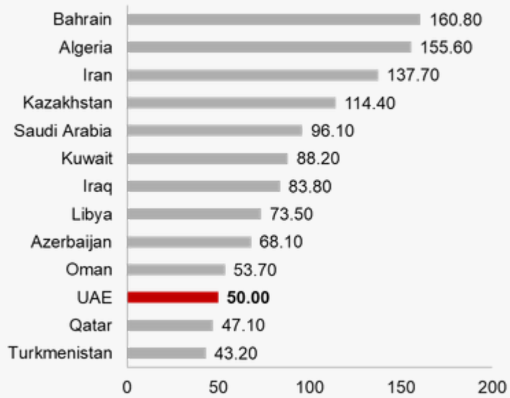
The UAE's exit signals a fundamental shift from a decade of OPEC price-fixing toward a more competitive energy market. Driven by a "pump now" philosophy, the UAE aims to monetize its reserves before the global transition to non-oil alternatives erodes long-term demand—a strategy directly opposing Saudi Arabia's preference for limiting supply to elevate prices.

As the world's 6th largest producer, the UAE is uniquely positioned for this independence. Its estimated fiscal breakeven oil price is just $50/barrel—drastically lower than Saudi Arabia (~$96), Iraq (~$84), and Iran (>$137)—meaning it faces little pressure to curb output for profitability. Furthermore, roughly 1.38 mb/d of its 4.85 mb/d capacity sat idle under OPEC quotas in 2025, while state oil company ADNOC continues investing heavily to reach a 5 mb/d capacity by 2027.

Impact on OPEC's Role as Market Stabilizer

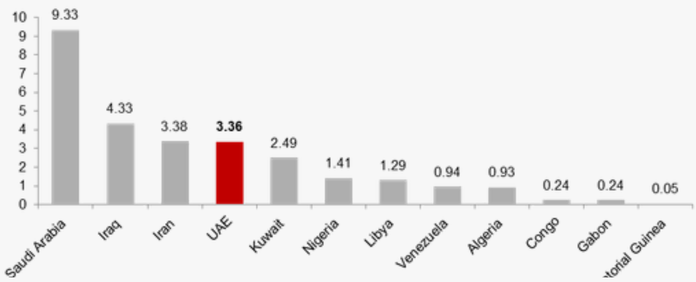
Founded in 1960 and expanded to include Russia and others in 2016, the cartel produces roughly 47% of the world's crude oil (as of end-2025) and utilizes quotas to manage supply. While other nations have exited the group (Qatar, Ecuador and Angola) in recent years, the UAE's departure is far more significant. Alongside Saudi Arabia, the UAE was one of only two OPEC members with substantial spare production capacity, which has historically been central to OPEC's role as market stabilizer. The exit removes roughly 12% of pre-war output of 28.63 mb/d and drops its capacity ceiling from 32.2 mb/d to 27.4 mb/d.

Figure 1. Fiscal Breakeven Price Across Producers (US dollars / Barrel)



Source: IMF Regional Economic Outlook: Middle East Central Asia 2025

Figure 2. OPEC Members and Their Capacities (in Millions of Barrels per Day)



Source: US Energy Information Administration Short-Term Energy Outlook; data is as of FY25

Figure 3. The Habshan-Fujairah Pipeline

Source: DeepResource

Immediate Market Reaction and Long-Term Global Impact

Initial market reaction was muted, with long-dated oil prices falling only slightly due to the Strait of Hormuz closure. Although the UAE's Habshan-Fujairah pipeline bypasses the strait, its limited capacity (1.5 to 1.8 mb/d) restricts full production. Consequently, the exit's immediate implications are macroeconomic and geopolitical rather than strictly market-driven.

However, the more significant impact could unfold over the medium to long term:

- ***A Disinflationary Catalyst***: Once the Strait of Hormuz reopens (expected mid-2026), the UAE could inject roughly 1 mb/d of unregulated supply. This downward price pressure will stimulate industrialized economies by broadly lowering input, transport, and energy costs.
- ***OPEC Instability & Price Wars***: A weakened OPEC will force Saudi Arabia to shoulder more production adjustments. Furthermore, if the UAE thrives independently, it may inspire members like Russia to aggressively chase market share or exit entirely, risking renewed global price wars
- ***Sustainability Risks***: Cheaper oil may boost short-term manufacturing and trade, but it risks delaying the global green transition by diverting capital away from higher-cost renewable energy projects.

Impact to the Philippines

The Philippines stands to benefit from this shift as a net importer of petroleum products. Lower global prices directly translate to reduced fuel and utility costs. This provides significant relief to essential sectors like agriculture, manufacturing, and logistics. Concurrently, cheaper energy supports household incomes, as families spend a smaller share of earnings on transport and energy-sensitive goods. This boosts domestic consumption, a key driver of Philippine economic growth.

On the external front, reduced oil import costs will help narrow the trade deficit and improve the current account balance, providing fundamental support to ease pressure on the Philippine peso. On the side of the government, it can leverage the UAE's newfound flexibility to pursue direct, bilateral supply agreements, potentially securing more stable, favorable long-term pricing and enhancing national energy security.

Investment and Policy Implications

The UAE's departure from OPEC will primarily impact investments by skewing global oil prices lower. However, near-term price effects will be minimal for two key reasons:

- ***Inventory Replenishment***: After Hormuz reopens, the UAE could boost output from 3.64 mb/d to its 4.85 mb/d capacity (+1% global supply). However, severely depleted global inventories will likely absorb this excess over the next 12–24 months.
- ***Gradual Production Increases***: A weakened cartel forces Saudi Arabia to shoulder more production cuts. Moreover, a successful UAE exit could inspire members like Russia to aggressively chase market share or leave entirely, risking renewed price wars.

Any deeper downside to oil prices relies entirely on the speed and scale of the UAE's eventual output increase. Over the longer term, the ultimate investment implications will be shaped by several policy incentives and production constraints, which are summarized below.

Constraint[1]	Strength of Constraint	Comment	Oil Price Impact
Political	Low	ADNOC is state owned and serves national interests. It also helps fund the UAE's long term development agenda. As a result, it does not face meaningful domestic political opposition in the way that a private oil company in a competitive political system might.	↓
Economic	High	The UAE has low fiscal breakevens and abundant reserves. This gives it an incentive to monetize its resources ahead of potential structural demand destruction from the energy transition.	↓↓
Financial	High	The UAE will still aim to maximize revenue through both price and volume. This means it has little incentive to flood the market when prices are already too low, as doing so could reduce the revenue benefit of higher production.	↓
Geopolitical	Medium	The UAE remains economically integrated with the Gulf Cooperation Council (GCC) and continues to rely on the high-cost oil producing United States for security. It needs to preserve regional stability without sacrificing its newfound production flexibility.	↑

1 Based on Marko Papic's Constraints Framework, Constraints refers to the material limitations that ultimately dictate what policymakers can realistically execute, rather than what they might prefer to do.

Ultimately, global oil prices will likely dictate the UAE's production decisions, rather than the reverse. To achieve its long-term objectives, the UAE must balance its domestic economic agenda with geopolitical stability and crucial foreign security relationships. This careful balancing act should cap extreme price swings in either direction, even if weakened OPEC cohesion increases overall market volatility. However, the long-term risk remains skewed toward lower prices as the UAE prioritizes its domestic growth. To reiterate, this event should be viewed as a signal of a fundamental shift in the global energy landscape with long-term implications that will be influenced by various factors. It is not an event that necessitates an immediate overhaul of existing investment strategies.

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