AUGUST
2025

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REPORT

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Markets sober up after war threat averted

July 25, 2025 | 1 p.m. ET

Overview

The dynamics in the freight market continue to evolve as overall demand has declined, but the capacity side of the market has remained fairly stable. Niche markets are facing a more volatile period, which is to be expected during periods of transition.

Broader economic indicators show mixed signals. The Federal Reserve held rates in June, with markets anticipating a September cut amid labor market strength. Trade policy volatility persists, with the U.S.-China tariff pause expiring August 12 absent a deal, new 55% tariffs on Brazil effective August 1, and 25% tariffs on Japan and South Korea. Consumer sentiment rose modestly but remains low; retail sales rebounded in June, though credit data indicates reluctance in short-term borrowing. Inflation ticked up in June, driven by food and energy, while core measures cooled. Housing activity weakened in May and June.

Globally, oil markets are unconvinced that President Trump's recent threat of secondary tariffs against importers of Russian energy have much merit. In mid-July, Trump demanded a peace deal between Russia and Ukraine within the next 50 days, or else China, India and others that trade with Russia would be slapped with a 100% levy. Oil prices fell on the news, as Russia's exports could be covered by OPEC+'s spare production that is currently held in reserve.

Crude inventories in Cushing, Oklahoma, are low, and efforts to refill the Strategic Petroleum Reserve are slow but in motion. U.S. petroleum consumption has fallen throughout 2025 so far but is up slightly over year-ago levels. Rail carloads of petroleum products, after a notable rally at the end of June and early July, are likely to come down in the coming weeks but are well above 2022-2024 at present.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	242 (-11.7%)
Gulf Coast Basin	62 (-6.1%)
Anadarko Basin	50 (+28.2%)
Total	**581 (-3.8%)**

Crude oil prices per barrel (y/y change)

WTI crude	$65.54 (-8.7%)
Brent crude	$67.99 (-9.5%)
Brent-WTI Spread	**$2.45 (-21.5%)**

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven’t necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early ’21.

With rates falling rapidly, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			
Total For-Hire Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			
Total Private Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers have to report the data only once every two years, so the growth over the past two years is evident from the rise in July's numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers have to report this number only biennially, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers having to report only once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			

Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			

Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market, and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

With the Federal Reserve's next meeting fast approaching, monetary policy remains one of the key determinants for how the U.S. economy will fare in the latter half of 2025 and beyond. Recent forecasts peg Q2's GDP growth at an annual rate of 2.6% — a marked rebound from Q1's contraction of 0.5%, but one that will likely be fueled by a steep drop in imports. (Imports count negatively towards GDP.) The Fed's mid-June meeting maintained the target range for federal funds rates between 4.25% and 4.5%, with the minutes indicating that some members are pushing their projections for rate cuts further into 2026. Still, market pricing anticipates a cut of 25 basis points (bps) at the Fed's September meeting.

Trade policy under the Trump administration continues to be characterized by volatility, rapid escalations, subsequent de-escalations and some renewed threats. Despite promising talks between U.S. and Chinese officials in early June, a more permanent trade deal has yet to be finalized or even announced between the two countries. As a result, the current 90-day pause on most U.S. levies against China is still set to expire on August 12. This ceasefire has allowed Chinese exports to the U.S. to beat expectations in June, though President Trump reiterated threats of reciprocal tariff hikes to 55% if concessions on AI chip sales and rare earth exports are not met.

Elsewhere, Asian nations like Indonesia and Taiwan are accelerating trade deals with the U.S. to sidestep potential barriers, while India has further reduced duties on select U.S. goods, like bourbon, to advance ongoing negotiations. Adding to this uncertainty, the administration has announced a 50% tariff on all Brazilian imports effective August 1, citing national security concerns and frustration over Brazil's treatment of former president Jair Bolsonaro. This reveal prompted Brazilian President Lula da Silva to threaten retaliatory 50% duties on U.S. goods.

Simultaneously, Trump sent letters announcing 25% tariffs on Japan and South Korea starting the same date, citing their trade surpluses in autos and electronics. The letters did note that rates could adjust based on negotiations. Talks with these allies have accordingly intensified, with Japan and South Korea seeking exemptions or deals to mitigate the potential impact on their export-driven economies. The Aug. 1 deadline applies broadly to new reciprocal tariffs on 14 countries without finalized agreements, sparking a global scramble for deals and raising fears of broader trade disruptions that could weigh on the U.S.' GDP by 0.5% to 1% if fully implemented, according to analyst estimates.

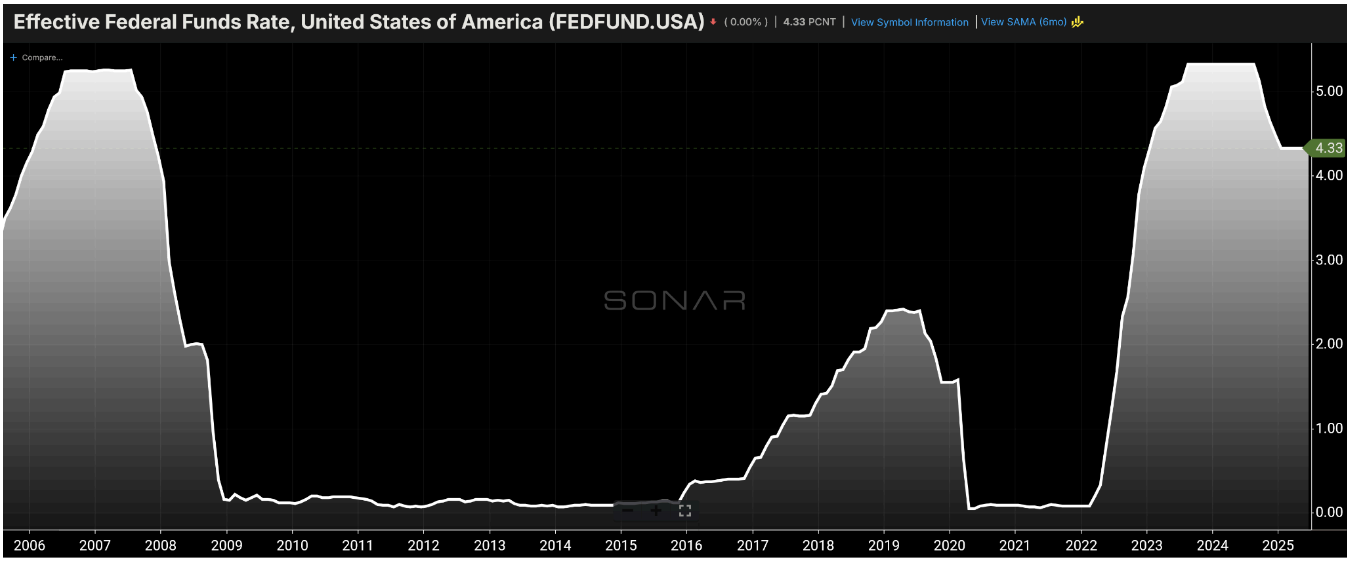


Chart: SONAR. Effective federal funds rate.

Despite these headwinds, the Fed's cautious approach to quantitative easing is secured by the continued health of the labor market. Blowing past the consensus forecast of 110,000 and topping all but one Wall Street forecast, a total 147,000 nonfarm jobs were added in June. The unemployment rate ticked down to 4.1% from 4.2%, defying expectations for a rise to 4.3%.

As has been the case for the past several months, payroll growth in the transportation and warehousing sector (up 7,500 jobs) was driven by the couriers and messengers subsector (up 4,800). This category includes parcel delivery companies like UPS and FedEx — the latter of which announced the closure of two distribution centers and the layoff of nearly 500 workers — but also local food and grocery delivery services such as DoorDash and Postmates. The truck transportation subsector, on the other hand, saw a net loss of 2,700 positions. This grim news is actually welcome for all those hoping to rebalance capacity to shippers' demand, a task that has proved nigh-impossible for years now.

Manufacturing

Amid ongoing — albeit easing — geopolitical tensions in the Middle East that have sustained a rally in energy prices, coupled with the crosswinds of U.S. trade relations following recent deals and impositions, U.S. manufacturing sentiment in July was a mixed bag. While current activity remained in contraction across several surveys, forward-looking indicators showed signs of renewed optimism, suggesting that manufacturers are increasingly hopeful for a recovery as trade uncertainties ease and demand potentially rebounds.

The July print of the Empire State Manufacturing Survey, conducted monthly by the Federal Reserve Bank of New York, was forecast to see a slight improvement that would nevertheless leave the headline index in contraction. Instead, the report's General Business Conditions Index leapt 21.5 points from June's reading of minus-16.0 to 5.5. While this final reading is indicative only of a mild recovery, it easily outperforms Wall Street's consensus forecast of minus-9.0 and points to a potential strengthening of the U.S. dollar, given the historic correlation between the index and the currency.

Growth in the headline index was driven by growth in the survey's freight-intensive subindices: The New Orders Index jumped 16.2 points to 2.0, while the Shipments Index skyrocketed 18.7 points to 11.5. This recovery is expected to last for at least the coming six months, as most of the survey's forward-looking indices remain expansionary: The headline index ticked up 2.9 points to 24.1, while the New Orders and Shipment indices held at 25.3 and 19.3, respectively.

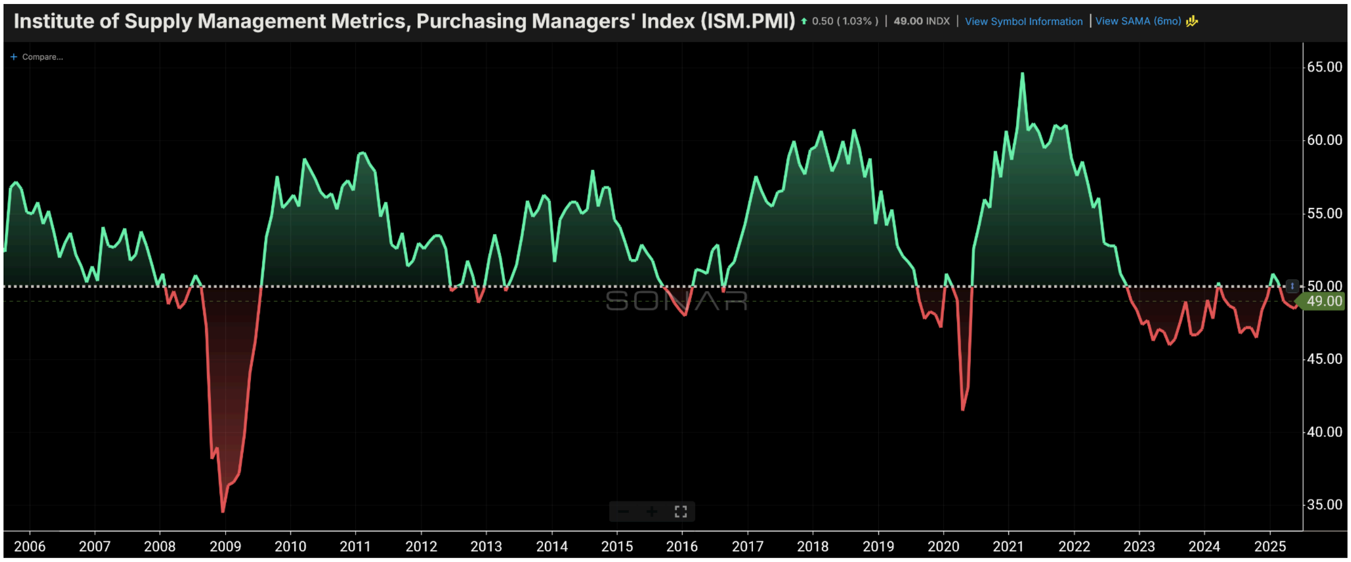


Chart: SONAR. Institute for Supply Management's Manufacturing PMI.

Another key sentiment for the industrial sector, the Institute for Supply Management's Manufacturing PMI, lingered in contraction during June despite a slight bump. The headline PMI came in at 49 after ticking up 0.5 points, just below the no-change mark of 50. The Prices Index registered 69.7, up 0.3 points from May, underscoring continued inflationary pressures on inputs.

In contrast, the S&P Global US Manufacturing PMI for June rose to 52.9 from May's reading of 52.0, indicating expansion at a quicker pace. Employment increased at a rate not seen since September 2022, though — like the ISM's report — input costs rose sharply to their highest level in nearly three years. Tariffs were unsurprisingly blamed for this inflation, particularly for metals like steel.

Chris Williamson, chief business economist at S&P Global Market Intelligence, commented, "June saw a welcome return to growth for US manufacturing production after three months of decline, with higher workloads driven by rising orders from both domestic and export customers. Reviving demand has also encouraged factories to take on additional staff at a rate not seen since September 2022.

"However, at least some of this improvement has been driven by inventory building, as factories and their customers in retail and wholesale markets have sought to safeguard against tariff-related price rises and possible supply issues. It therefore seems likely that we will get pay-back in the form of slower growth as we head into the second half of the year.

"These price pressures are already building, with factories reporting steep cost increases again in June, linked to tariffs, which they are passing through to customers. The big question of course is whether this merely results in a short-term change in the price level rather than a more worrying return of stubborn inflation."

Turning to hard data, the Fed's latest report on industrial production saw output tumble 0.2% from April to May, though production was up 0.6% over May 2024. Manufacturing output specifically increased 0.1% on a monthly basis, with capacity utilization at 77.4%.

There is more coming down the pipeline, however: New manufacturing orders shot up 8.2% from April to May. Factory orders excluding transportation equipment rose by 0.2%, following a downwardly revised 0.6% fall in April. Durable goods orders surged 16.4%, similarly on the heels of a downwardly revised 6.6% decline in April.

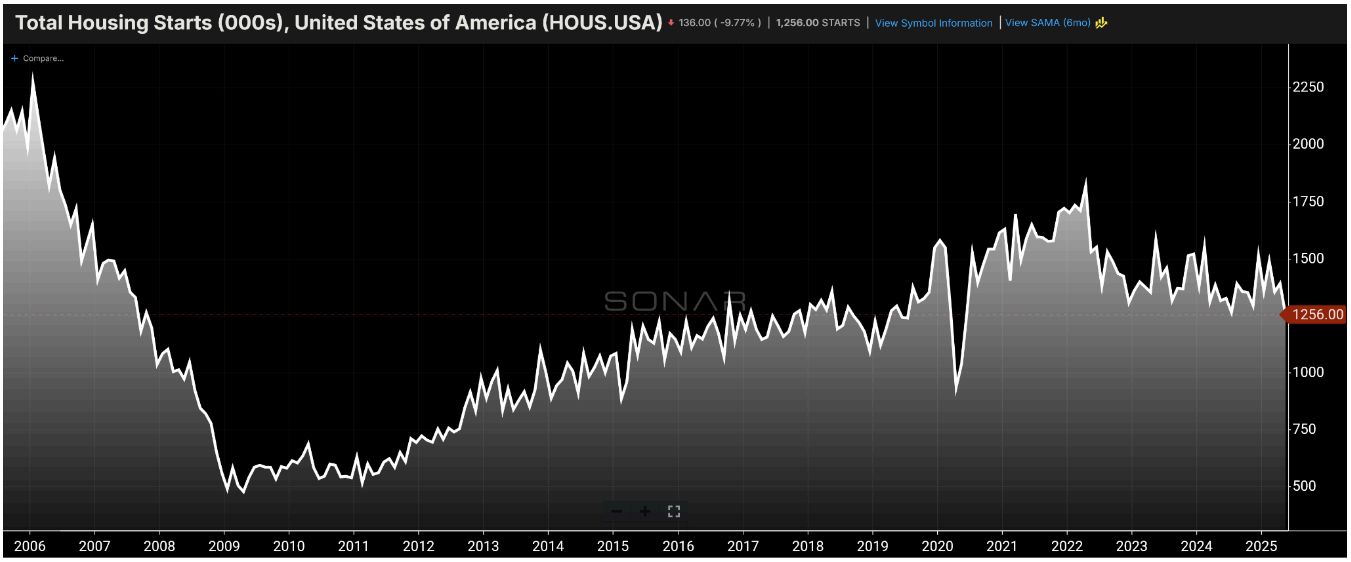
Housing and construction

Since falling from this cycle's peak at 7.79% in October 2023, the average rate on a 30-year fixed mortgage has remained solidly rangebound between 6% and 7%. In 2022-23, rising mortgage rates did not — as they normally do — deter prospective buyers from purchasing homes, given a rare combination of low inventory levels and a nationwide shift to remote work that made rural housing markets more attractive.

But this dynamic has not held over the past year, as intractably high mortgage rates are weighing on housing market activity. Per Freddie Mac, the current average rate on a 30-year fixed mortgage stands at 6.75%, 1 basis point lower m/m and 2 bps lower y/y.

Existing-home sales, which comprise the vast majority of home sales in the U.S., rebounded modestly in May after a period of weakness. According to the National Association of Realtors, existing-home sales rose 0.8% m/m at an annualized rate of 4.03 million units. Still, this gain was insufficient to offset the prevailing headwinds of 2025, with sales down 0.7% y/y. Despite this subdued activity, the median price of an existing home continues to surge, up 5.8% y/y at $419,300.

It is little surprise, then, that this combination of high prices and mortgage rates is weighing on new residential construction. In June, housing starts jumped 4.6% m/m, above consensus' predicted 3.5% m/m gain but only erasing less than half of May's 9.7% m/m decline. While the headline number appears positive, June's growth was due entirely to a 30.6% m/m surge in multi-family (five or more units) starts. Single-family starts, on the other hand, declined 4.6% m/m, with June's completion of single-family projects falling 12.5% m/m.



Source: SONAR. Total U.S. housing starts (in thousands).

"Single-family building conditions continued to weaken in June as housing affordability challenges caused builder traffic to move lower as buyers moved to the sidelines," said Buddy Hughes, chairman of the National Association of Home Builders (NAHB). Robert Dietz, NAHB's Chief Economist, added: "Single-family conditions are measurably weakening as resale inventories levels rise, particularly in previously fast-growing areas such as the U.S. south."

This pessimistic outlook was reflected in homebuilder sentiment from July. The NAHB/Wells Fargo Housing Market Index, which surveys builders of single-family homes, was up a scant point from the previous month. Still, with a sub-50 (that is, contractionary) reading of 33, such improvement is hardly worth the title. Current sales conditions rose one point to 36, thanks to a slight easing in some regional markets. But while expectations for sales in the coming six months rose three points to 43, the traffic of prospective buyers sub-index fell one point to 20.

Oil market

After years of decrying fellow OPEC members for exceeding their oil production quotas, Saudi Arabia — in an ironic twist — exceeded its own quota by 300,000 barrels per day (bpd) in June. While this infraction is, all things considered, minor, it does exemplify the oil-rich kingdom's shifting attitude towards the cartel: Whereas it once viewed itself as the noble, self-sacrificing *de facto* leader of OPEC, it is now most concerned with regaining market share at any cost.

Luckily for Saudi Arabia, however, a strong rally might be in the cards sooner rather than later. President Donald Trump has escalated pressure on Russia over its ongoing war in Ukraine by threatening steep secondary tariffs if no ceasefire is reached by early September. In a meeting with NATO Secretary General Mark Rutte on July 14, Trump stated, "We're going to be doing very severe tariffs if we don't have a deal in 50 days, tariffs that are about 100 percent."

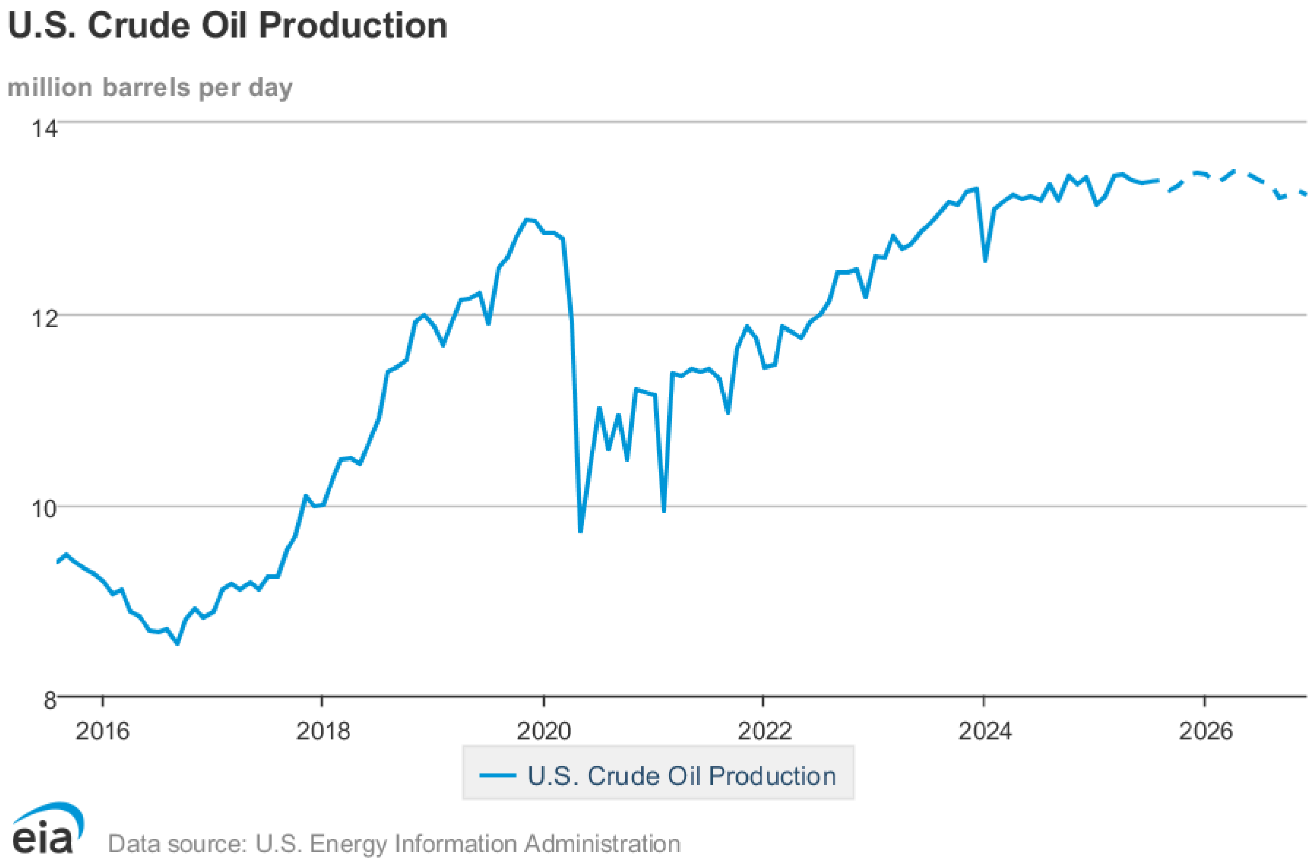
Though many of the details behind this threat remain unclear, it appears that Trump is ready to slap any country that imports Russian energy with a 100% tariff on all of its exports to the U.S. The most likely candidates facing this threat are China and India — both fairly important trading partners with the U.S., to put it mildly.

Surprisingly, oil prices fell on the news. Deutsche Bank analysts explained this counterintuitive drop by noting the “sizable delay” of the 50-day deadline. Taking Trump’s statements literally, however, the ultimatum might be demanding a permanent peace deal between Russia and Ukraine, rather than a temporary ceasefire. If so, 50 days does not feel quite as long.

Still, many analysts doubt whether Trump will follow through on this ultimatum. “Trump has shown very little willingness to do anything that pushes oil prices higher, and he’s trying to get a rate cut,” wrote RBC Capital Market’s Helima Croft. But, even if Russia’s 5 million bpd of crude exports (rounding up) vanish entirely from global markets, it could be covered by the 5.5 million bpd in production currently reserved by the remaining OPEC+ countries. In short, it remains anyone’s guess whether this threat will transpire, be fulfilled, or disappear quietly.

In June, gross domestic oil production fell 40,000 bpd m/m to 13.37 million bpd, furthering May’s decline of 60,000 bpd m/m. Production figures from previous months have continued to be heavily revised, as May’s numbers were lowered by 150,000 bpd from its initial reading of 13.56 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration forecast that domestic crude oil production would fall 140,000 bpd m/m to 13.42 million bpd in June. Given that May’s data was so heavily revised down, the EIA missed the mark on the magnitude of June’s decline but came near its actual output. June’s production was down 50,000 bpd below the EIA’s previous forecast.



After factoring in revisions to prior months' data, the EIA now predicts that domestic crude oil production will top April's all-time peak later this year and will continue to see uneven growth in the first half of 2026. This growth is expected to culminate in April 2026's forecasted output of 13.5 million bpd, after which point crude production will suffer a slow, stepwise decline. The EIA continues to predict that the full years of 2025 and '26 will outpace 2024's production average of 13.21 million bpd, which should solidify the U.S.' status as the top producer globally. In July, the EIA projects that crude oil production will slide 50,000 bpd m/m to 13.39 million.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The Baker Hughes active rig count for the U.S. as a whole totaled 544 rotary rigs as of July 18. This latest count marks a steep decline of 7.2% y/y, continuing a series of y/y losses.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy sector, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	50	2	4.2%	11	28.2%
Appalachia	34	-2	-5.6%	3	9.7%
DJ Basin	10	0	0%	-1	-9.1%
Gulf Coast Basin	62	-3	-4.6%	-4	-6.1%
Permian Basin	242	-5	-2%	-32	-11.7%
Williston Basin	34	4	13.3%	-5	-12.8%
Other	149	12	8.8%	5	3.5%
Total	**581**	**8**	**1.4%**	**-23**	**-3.8%**

Source: Enverus daily active rig count as of July 23.

The Trump administration's energy policies are boosting fossil fuels, with a megabill expanding drilling on federal lands and mandating Gulf of Mexico lease sales, reversing prior curbs. In the Permian Basin, methane emissions intensity declined over 50% in two years, reflecting improvements in operations fueled by technological advances. Supermajors are slowing Permian capex by as much as 10% amid lower prices, while converging operations among them may spur further mergers.

With Israel-Iran risk in rear-view mirror, WTI falls to $65/bbl on weak demand

In mid-July, the United States prepared to grant new authorizations for limited oil operations in Venezuela, allowing oil swaps and easing some supply constraints from the sanctioned OPEC nation. The move aims to stabilize Venezuelan output without fully lifting restrictions. Meanwhile, threats of U.S. sanctions loom over Russian oil exports to major buyers like China, India, and Turkey, which could disrupt global flows if implemented.

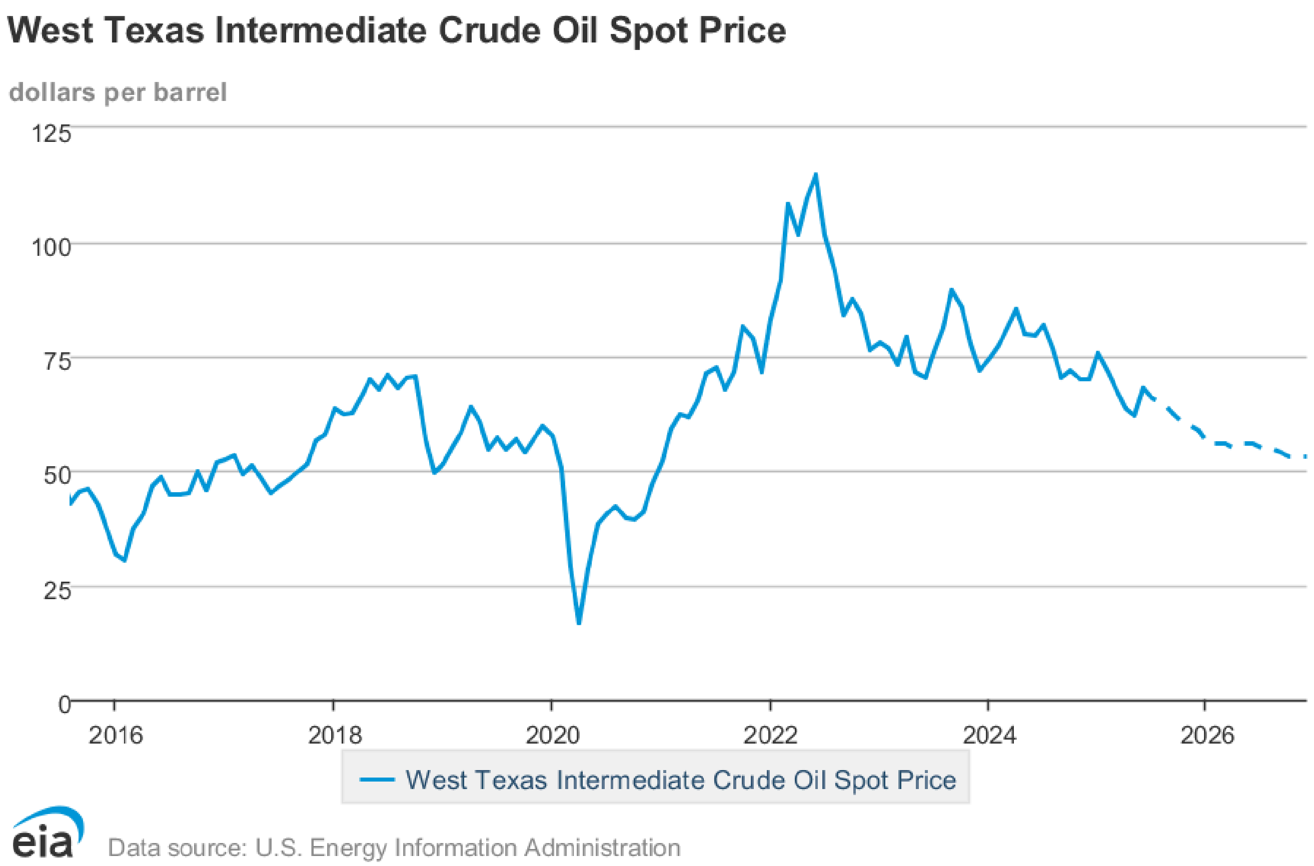
Industrial demand, particularly from China, has emerged as a key downward driver, with weakening economic signals from the world's largest oil importer weighing heavily on forecasts. In July, the International Energy Agency slashed its 2025 global oil demand growth forecast to 700,000 bpd — the lowest since 2009 (excluding COVID). The IEA cited lackluster consumption in emerging markets, with a slowdown from Q1 to Q2.

China played a central role in this revision: Its crude stocks surged by 82 million barrels in Q2 due to new strategic storage policies, effectively removing future demand from the market. OPEC's Monthly Oil Market Report was unsurprisingly more optimistic, projecting 1.29 million bpd growth for 2025, with non-OECD Asia (led by China at 610,000 bpd) driving the increase. U.S. demand remains resilient but faces headwinds from trade uncertainties, while India's growth is steady but not sufficient to offset China's slowdown.

Trade policies have added to the bearish outlook, with ongoing U.S.-China negotiations and potential tariffs creating caution around global economic growth. Fears of resurgent trade wars have stoked inflation concerns, potentially curbing fuel demand further. OPEC+ decisions to accelerate unwinding production cuts have exacerbated oversupply risks, aligning with Saudi Arabia's push for market share despite budgetary needs for higher prices.

Accordingly, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — have trended down amid these headwinds, sliding nearly 13% from June’s peak to $65.54 per barrel at the time of writing. The ultimately inconsequential fluctuations in WTI prices since the conflict with Iran ended were first driven by surprise U.S. inventory draws, which offset some losses early in July, but were ultimately overwhelmed by weak Chinese economic data and the IEA's revised forecast.

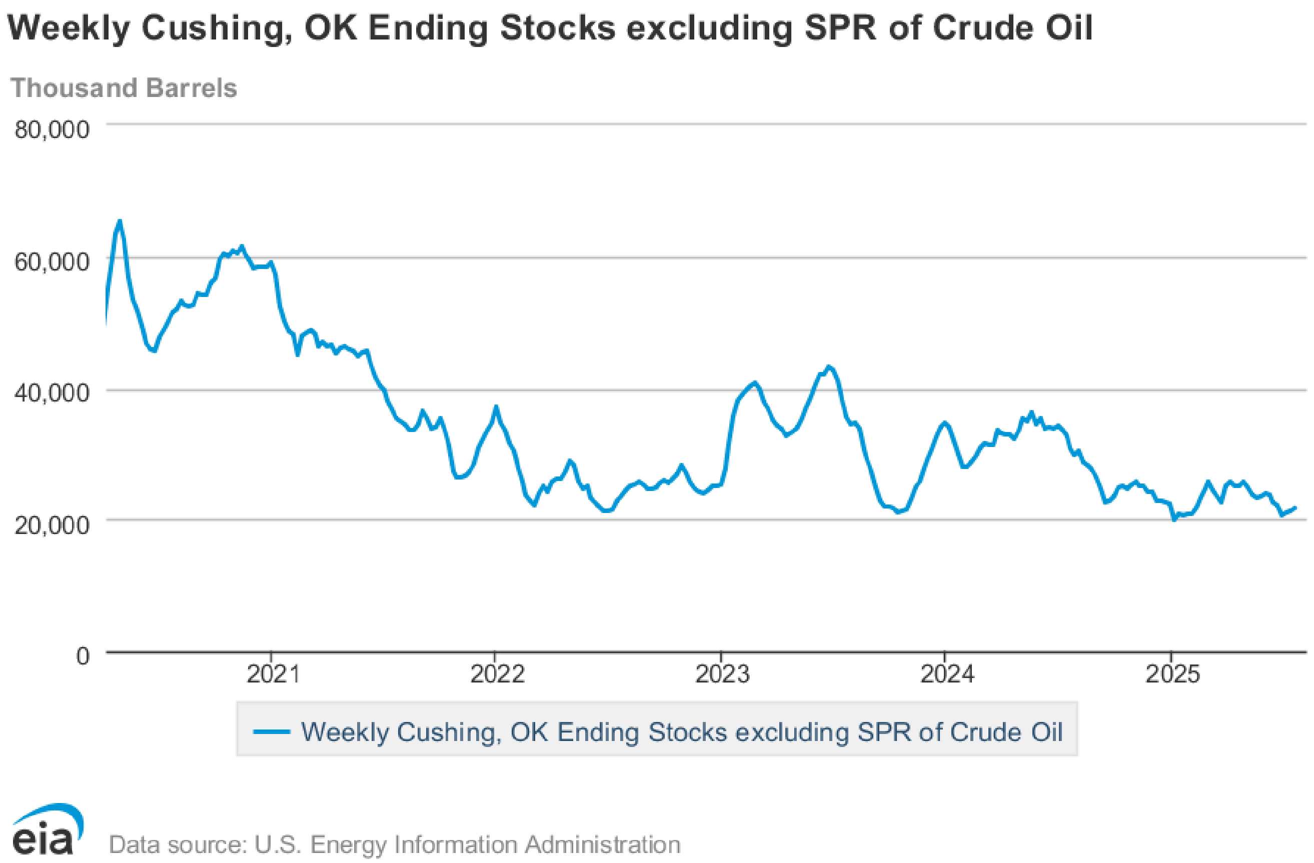
According to EIA projections, WTI will continue its descent through 2026 to $53 a barrel, with most analysts in agreement.



The EIA's latest Short-Term Energy Outlook, released in July, reflects a modest revision from the previous month's forecast, raising the expected spot price for December 2025 to $59 per barrel (up from $57) but lowering their projection for December 2026 to $53 per barrel (down from $54), driven by expectations of persistent oversupply and subdued demand growth. The forecast anticipates a steady monthly decline in WTI prices from $65 per barrel in August 2025 through the end of 2026, reflecting weaker global economic signals and increased non-OPEC production. Relative to its forecast for Brent crude prices, the EIA expects Brent to command a consistent premium of about $3.50 per barrel over WTI, with Brent spot prices projected to fall to $63 per barrel by December 2025 and $57 per barrel by December 2026.

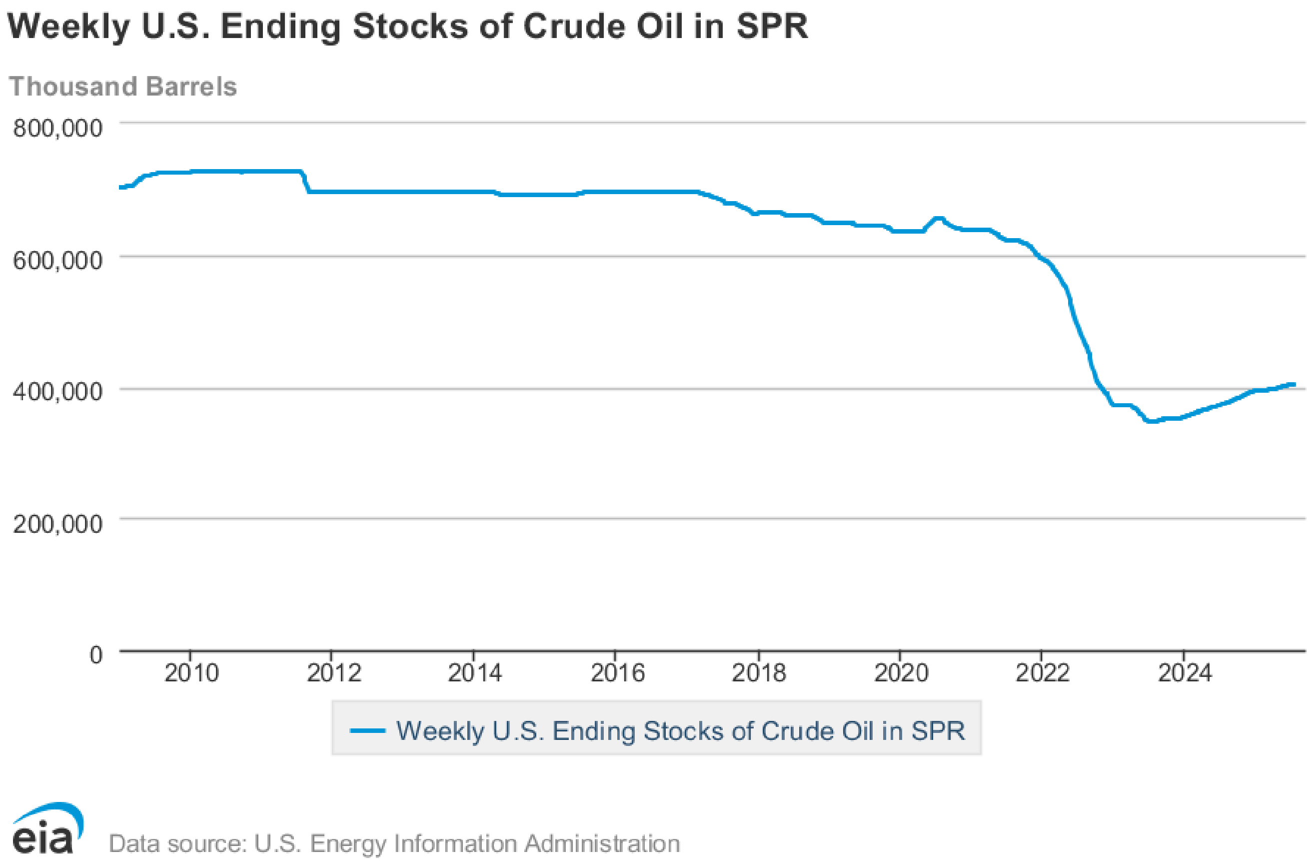
Major investment banks have recently adjusted their oil price forecasts downward, citing risks from escalating trade tensions, potential recessions, and higher OPEC+ supply. Goldman Sachs cut its 2025 average Brent forecast to $63 per barrel and WTI to $59, with 2026 figures at $58 and $55 respectively, emphasizing weaker demand growth and surplus risks that could push prices even lower in extreme scenarios. JPMorgan similarly revised its 2025 Brent outlook to $66 (down from $73) and WTI to $62, with 2026 at $58 and $54, attributing the changes to soft demand amid tariff uncertainties and increased output.

What else we're watching



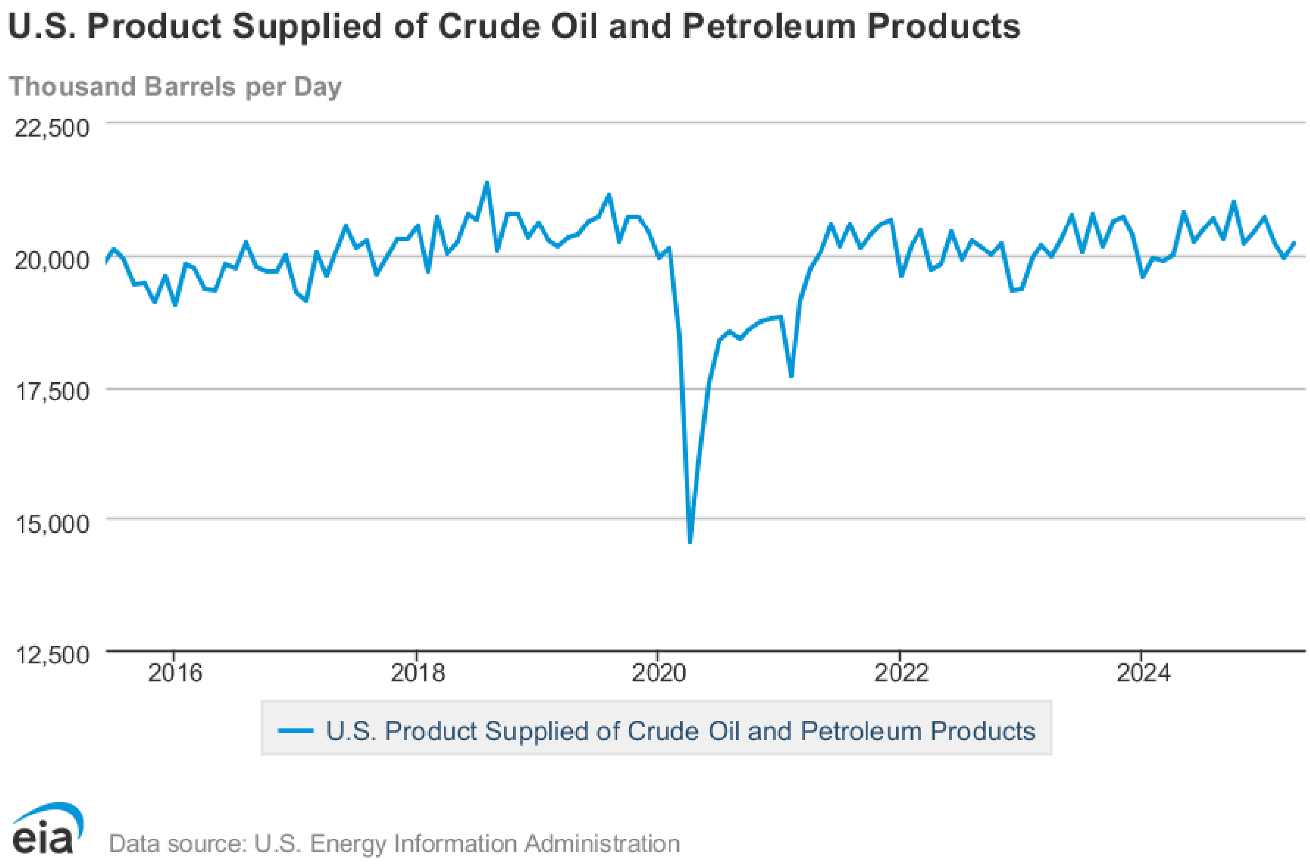
In mid-July, U.S. inventories of crude oil were depleted at a quicker pace than expected. Crude stocks fell by 3.2 million barrels to 419 million barrels in the week ending July 18 — nearly twice the 1.7 million-barrel draw expected by consensus forecast.

Crude inventories at Oklahoma's Cushing Hub slightly reversed a decline stretching back to late May, although they still remain depressed on a yearly basis. In the week ending July 18, stocks at the Cushing Hub rose by 500,000 barrels from the week prior to 21.9 million barrels, marking a 29% y/y decline.

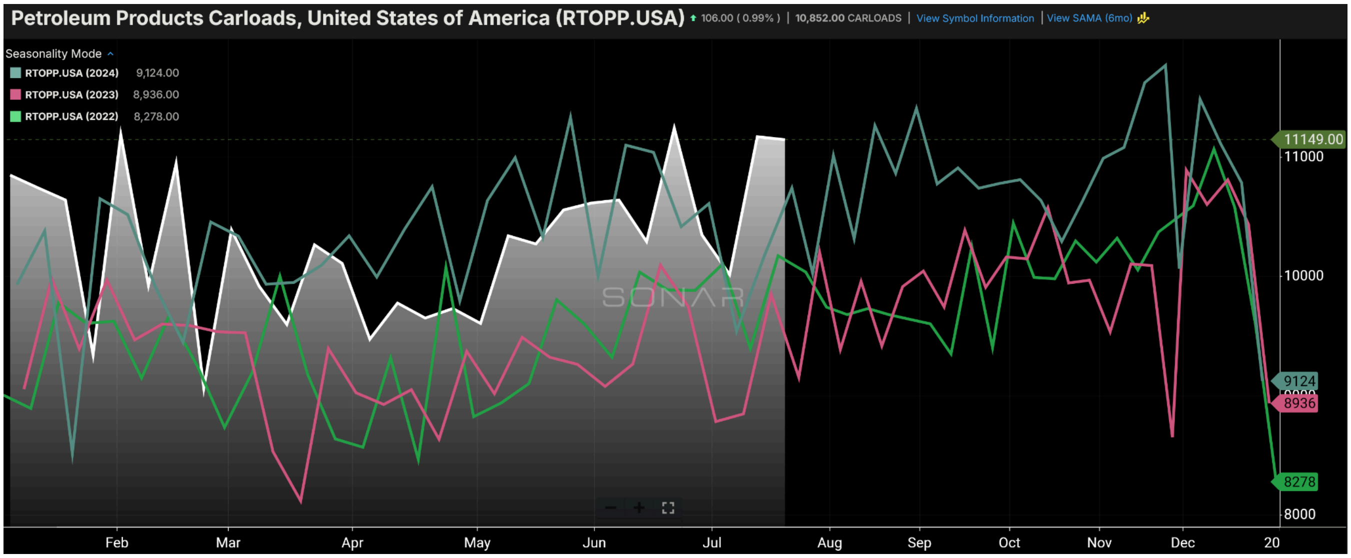


Levels of the U.S. Strategic Petroleum Reserve have been diminished ever since the previous administration drew heavily (and controversially) from it in 2022, in an effort to protect against the sudden loss of Russian supply. This sale of nearly 300 million barrels pushed the SPR to its lowest level in 40 years.

Deliveries of crude oil into the SPR have been delayed by seven months until December 2025 due to site maintenance, with the Trump administration stating it has no imminent plans to refill the reserve but plans to do so once market conditions are right.



With 402.5 million barrels in stock, the SPR is currently well below its maximum capacity. It is nevertheless at its fullest since October 2022, with inventories up 7.5% y/y. In an emergency, assuming that both domestic production and imports were entirely halted, the SPR would be sufficient to meet U.S. demand for almost 20 days. U.S. consumption of petroleum and all other liquid fuels has waned throughout 2025 so far, leading the EIA to expect that domestic consumption will not exceed 2019's pre-pandemic high of 20.54 million bpd until at least 2027. At present, U.S. consumption averages 20.2 million bpd.



Source: SONAR. Rail carloads of petroleum products: 2025 (white), 2024 (green), 2023 (pink) and 2022 (dark green).

After an expected dip around Independence Day, rail volumes of petroleum products started Q3 with a bang, rising to a seasonal high that outperformed the past three years. In late June, rail carloads came within spitting distance of February's year-to-date high, though volumes currently appear to be on a very slight downward trend. Over the past month, total petroleum product carloads have ticked down 0.9% but are up 3.8% compared to the same week in 2024.

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