

UAE exits OPEC — first thoughts



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The UAE's exit from OPEC is one of those events whose true significance only becomes clear over time. In the short term, the market reaction tells us this is a non-event — Brent actually pared gains after the announcement. In the medium term, however, this marks a structural shift in how oil markets are coordinated, and that matters far more than the headline suggests.

The facts

The UAE will exit OPEC and OPEC+ effective May 1st, 2026, after nearly six decades of membership since 1967.

It is OPEC's third-largest producer behind Saudi Arabia and Iraq, and the world's seventh-largest producer overall, accounting for roughly 4% of global oil output. Its production capacity stands at 4.85 million barrels per day, with an ambition to reach 5 million by 2027, while OPEC+ quotas had constrained it to around 3.2 million — roughly 30% below capacity. The decision means OPEC's share of global supply control drops from approximately 30% to 26%.

Why now — and is this really about OPEC?

It would be a mistake to read this purely as an oil quota dispute, but it would also be wrong to read it purely as geopolitics. It's the alignment of all three — economic, geopolitical, and strategic — that made this moment possible.

1. The economic driver is genuine and longstanding.

The UAE has chafed at production quotas for years, with ADNOC pushing toward 5 million barrels per day while OPEC+ held it back. Tension with Saudi Arabia over production quotas has been building for years. From this angle, the exit is overdue — a rational decision given the country's invested capacity.

2. The geopolitical driver is what made it happen now.

The Iran war fundamentally changed the calculus. The UAE has spent months absorbing Iranian missile strikes largely alone, with diplomatic adviser Anwar Gargash publicly criticising the Gulf Cooperation Council's "weakest historically" political and military response — just hours before the OPEC announcement. Meanwhile, Washington's response was markedly different: Israel deployed Iron Dome on UAE soil, operated by IDF personnel — believed to be the first time Iron Dome has ever been deployed in a foreign country during an active conflict. Abu Dhabi has clearly chosen its side.

3. The strategic driver is the most subtle.

The UAE announcement came just days after Treasury Secretary Scott Bessent publicly backed an emergency dollar swap line for Abu Dhabi before the US Senate. Washington is effectively building a parallel energy architecture — dollar-aligned, US-backed, outside OPEC. That's the bigger story.

This had been stewing for a while. The timing was opportune because the oil market is, as we know, very undersupplied, so their departure would cause limited impact.

Impact on oil prices — short term vs. medium term

Short term: genuinely muted. Brent crude was up 3.1% to USD \$111.60, WTI up 3.7% to USD \$100.09 — but prices pared gains after the UAE announcement. The dominant driver remains the Iran war and the Hormuz disruption, not the UAE decision. With Hormuz still largely constrained, the UAE physically cannot export more oil regardless of OPEC membership.

Medium term: structurally significant. Once Hormuz reopens, the UAE could feasibly pump 1 million more barrels per day, meeting about 1% of the world's daily demand. More importantly, the market loses a coordination mechanism. As Rystad's Jorge Leon put it: "Saudi Arabia is now left doing more of the heavy lifting on price stability, and the market loses one of the few shock absorbers it had left".

Long term: two scenarios

1▶ A bull case: OPEC tightens discipline, Saudi Arabia cuts more aggressively to defend prices, and a smaller cartel becomes more cohesive — similar to how Qatar's 2019 exit didn't break OPEC.

2▶ The bear (and high volatility) case: The exit triggers contagion. "You might see Kazakhstan leave as well. That's another significant producer that wants to grow," per Robin Mills of Qamar Energy. If defection becomes contagion, OPEC's price-floor function collapses — leading to lower average prices but much higher volatility.

➡ Our base case is that this is moderately bearish for the medium-term oil price equilibrium, but unambiguously bullish for oil price volatility. The shock absorber is gone — that's the key takeaway for investors.

The investment implications — what does this mean for portfolios?

Energy equities: Mixed. Lower equilibrium prices are negative for high-cost producers; higher volatility benefits trading-oriented majors and integrated oil companies.

Commodities allocation: Oil becomes a more volatile, less predictable hedge. This argues for diversifying real-asset exposure — gold, broader commodity baskets, energy infrastructure with contracted cashflows rather than spot exposure.

Defence and security: Structurally bullish. The UAE has signalled it expects any US-Iran peace settlement to explicitly guarantee freedom of navigation through Hormuz. Sea lane security is becoming a privatised, sovereign concern — that creates demand for defence platforms, naval capability, and dual-use infrastructure.

The petrodollar / FX angle: Worth flagging but with caution. The dollar's share of global FX reserves has fallen to roughly 57% — a 25-year low — down from a peak of 72% in 2001. The UAE exit doesn't break the petrodollar, but the broader fragmentation is real. As CSIS's Paul Blustein has argued, the Saudis chose the dollar in the 1970s not because of a secret deal, but because of TINA — there is no alternative. That's still largely true, but the conviction is fading.

For diversified portfolios, the takeaway is **to expect more frequent commodity-driven shocks, less reliable correlations between oil and traditional risk-on/risk-off behaviour, and a structural premium on assets that can absorb geopolitical volatility — gold being the most obvious.**

Answers to FAQs:

Is this the end of OPEC?

No, but it's the end of OPEC as we knew it. The cartel has survived the Iran-Iraq war, Venezuela's collapse, and the 2020 Saudi-Russia price war. What it has never really survived is the loss of a founding-era major producer. OPEC will continue, but with materially less ability to set prices. The next meeting in Vienna will be the most important since 2020.

Will oil prices fall?

In the short term, no — the Iran war and Hormuz constraints dominate everything. In the medium term, yes, modestly — once Hormuz reopens, you're looking at potentially one million extra barrels per day. But the more important point is that volatility will rise structurally. The market is losing its main coordination mechanism.

Who are the winners and losers?

The clearest winner is the UAE itself, which gains strategic autonomy and the ability to monetise its invested capacity. Saudi Arabia is the clearest loser — it now carries price stability alone. The US is a quiet winner: a fragmented OPEC means lower geopolitical leverage from oil-producing rivals. For consumers, it's mildly positive in the medium term but at the cost of higher volatility.

Could other countries follow?

Kazakhstan is the name analysts are watching most closely. It has invested heavily in production capacity and has chafed at quotas. Iraq has long produced above its quota in practice. The risk of contagion is real, and that's why the next OPEC+ meeting matters so much. If Riyadh handles this well, the cartel survives. If not, we could see a fundamental restructuring of the global oil market within twelve months.

What does this mean for the energy transition?

Counterintuitively, lower and more volatile oil prices can slow the energy transition by making fossil fuels more competitive in the short term. But they also reduce the political power of incumbent oil producers, which historically have lobbied against transition policies. The net effect is ambiguous.

What should investors do?

Three things:

- ▶ First, expect more volatility in oil — position accordingly, whether through reduced direct exposure or through volatility-aware structures.
- ▶ Second, treat sea lane security and defence as a structural theme, not a tactical trade.
- ▶ Third, don't overreact to the headline — the short-term market response is telling you that this is a slow-burn structural shift, not an immediate shock. Patience and a multi-asset lens are the right approach.

Conclusion

After six decades of membership, the UAE's exit coming on 1 May is the culmination of years of tension with OPEC leader Saudi Arabia, both over oil output policy and competition for regional political influence. It's also the latest indication of how the conflict is reshaping global energy markets: While the UAE has talked in the past about quitting OPEC, Energy Minister Suhail Al Mazrouei said in an interview that the disruption caused by the war created the perfect opportunity time for the move.

"This is a decision that we took after a very careful and long review of all our strategies" he said. "The decision is taken at the right time in our view because it's not going to hugely impact the market: the market is undersupplied."

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