



# WHAT DOES THE UAE'S OPEC EXIT MEAN FOR ENERGY?

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May 2026

The recent exit of the United Arab Emirates (UAE) from a major oil cartel deals a blow to some of the world's largest oil producers, further fanning the flames of volatility in energy markets rocked by the Iran war.

After nearly 60 years of membership, the departure of the UAE from the Organization of Petroleum Exporting Countries (OPEC) and the OPEC+ alliance—effective May 1—marks a shifting world order where national security and domestic economic interests take precedence over regional alliances.

While OPEC has survived the loss of smaller members in the past, the exit of its third-largest producer and a founding member is expected to hit differently. By prioritizing the country's national interests, the UAE may just be the first domino to fall, causing other OPEC+ nations to reconsider their membership, ushering in a potentially more volatile environment for global commodity prices.

With a smaller share of the oil market governed by OPEC-imposed guardrails, commodities are likely to exhibit more volatility as prices adjust to the absence of OPEC's stabilizing influence. As such, a more fragmented global oil market may emerge as the UAE is now free to pursue bilateral trade deals in hopes of boosting its market share.

The move also weakens OPEC's control over global oil supplies, putting the UAE at odds with its neighbor Saudi Arabia. Furthermore, it allows the UAE to pursue its own strategic goals, offering it full discretion over production, which has been hindered by OPEC+ quotas that have limited the country's output capacity to a fraction of its full potential.

While this will likely bring more volume to the market as the UAE ramps up production, we believe control over the Strait of Hormuz remains the dominant force pressuring energy prices in the near term. Still, as energy markets eventually begin to normalize, the price impact from the UAE's decision will hinge on the amount of spare production capacity the country has and its ability to efficiently transport volumes.

We expect the fallout from the UAE's decision will cascade far beyond Abu Dhabi's borders. We will continue to monitor the impact of the UAE's OPEC exit on the energy sector and commodities. Please contact your NEPC consultant if you have any questions.

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