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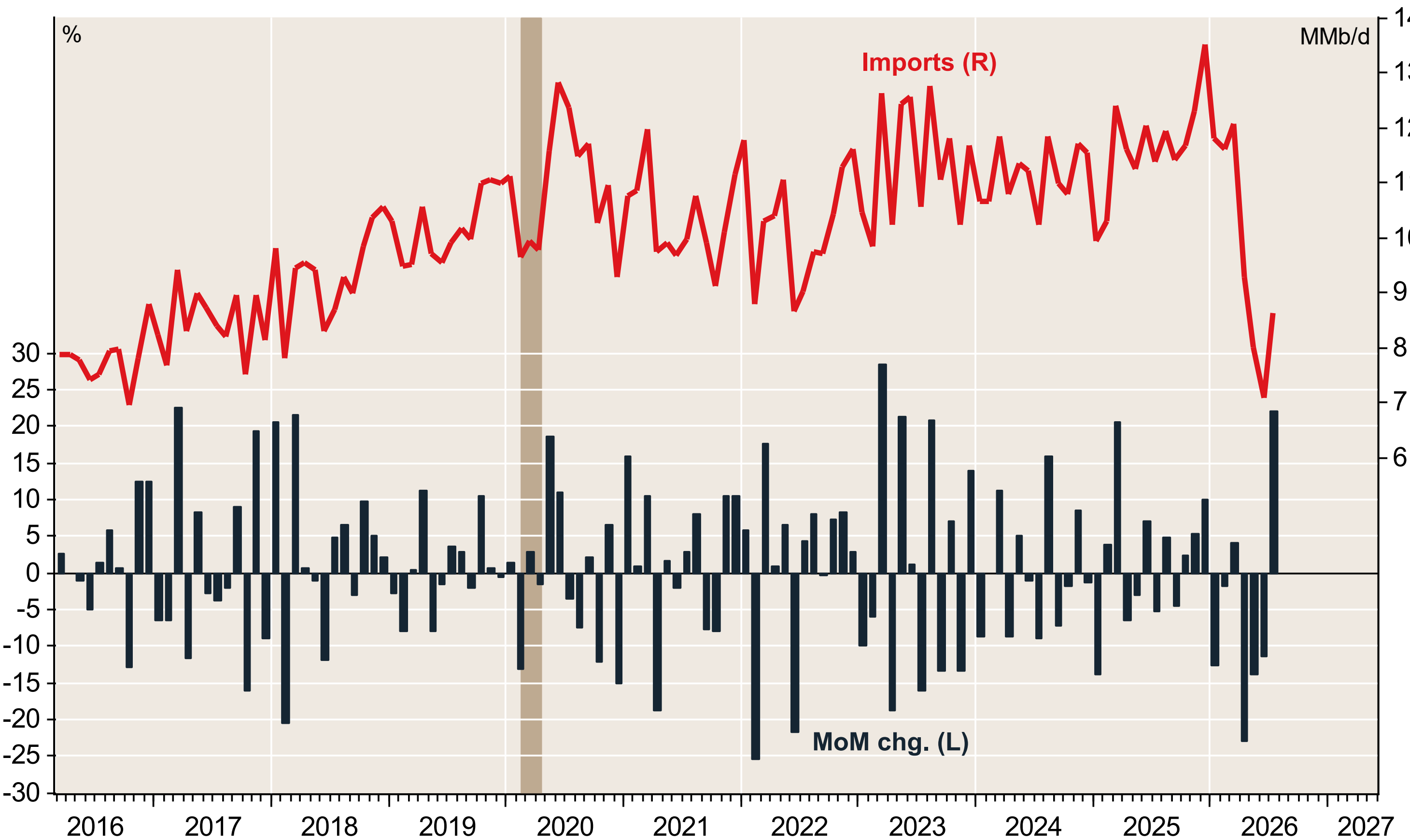
World Watch

By Jocelyn Paquet

The behavior of energy prices since the outbreak of the conflict in the Middle East has certainly been the subject of much debate, with several commentators highlighting the dichotomy between the relatively modest rise in oil prices and the magnitude of the current supply shock. Several possible explanations have been put forward to reconcile this apparent discrepancy, including the willingness of several governments to release their strategic reserves, the fact that inventories were high at the start of the crisis, and the efforts made by certain Gulf countries to reroute their shipments to ports not dependent on the Strait of Hormuz. But one factor that may not have received as much attention as it deserves is China's response to the crisis. For there is no doubt that the reduction of no less than 5 million barrels per day (or 41.4%) in China's petroleum oil imports between March and June is one of the main reasons that has helped keep prices under control. Combined with the release of strategic reserves, this reduction has made up for the global shortfall and kept shortages in other countries to a minimum. But just as the decline in Chinese demand has helped cap prices, a potential recovery could have the opposite effect in the future if the Strait were to remain closed for an extended period. The partial rebound recorded in the July data was therefore significant. As shown in today's Hot Chart, imports of petroleum products indeed rose by 1.2 million barrels per day during the month (or 22.1%). Although this left the total volume well below its pre-crisis level, it was nonetheless, in percentage terms, the largest monthly increase for the month of July since China joined the WTO in 2001. Granted, it is difficult to know whether this rebound will continue in the coming months—China could theoretically continue to draw on its reserves and keep its import levels low for several more months—the fact remains that trends in Chinese demand will play a role just as important as developments in the Middle East in determining future energy prices.

World: Chinese demand is an overlooked driver of oil prices

Volumes of crude petroleum oil imported into China, Last observation: July 2026



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