

China Could Be About to Remove Oil's Biggest Safety Net

By Tsvetana Paraskova - Jul 16, 2026, 6:00 PM CDT

Summary:

1. Global oil market buffers are rapidly disappearing, with low inventories, disrupted Strait of Hormuz shipments, and dwindling excess supplies raising the risk of higher oil prices.
2. China's sharp reduction in crude imports has helped cap prices, but analysts expect the world's biggest oil importer to resume buying soon as it draws down its stockpiles.
3. If Hormuz disruptions persist and Chinese demand rebounds, analysts warn oil markets could tighten significantly, with the strongest price pressures emerging later this year.

The oil market may soon run out of the supply and demand cushions that have kept prices from soaring to record highs during the huge loss of flows through the Strait of Hormuz.

The window provided by the U.S.-Iran memorandum of understanding, during which Middle Eastern producers rushed the crude amassed in the Gulf in the previous four months out of the region, abruptly shut down with the renewed hostilities and all-but-dead ceasefire.

Inventories of crude and fuels in key markets, including the United States, are running dangerously low with no buffers left, while most of the oil from the world's biggest-ever coordinated stocks release has already reached refiners.

Last but not least, China may soon end its absence from crude purchases and the decade-low crude oil import volumes from the past weeks, removing the single biggest demand buffer that capped oil price gains in March-June.

The Return of China?

China slashed its total crude oil imports to a decade low in June, culminating three months of very low import levels amid high prices and constrained supply from the Middle East. Beijing could afford to dramatically reduce its crude buying, slashing import volumes last month by an estimated 4.4 million barrels per day (bpd) compared to the 2025 average.

Chinese imports of crude oil plunged by 41.3% in June from a year earlier, to just 29.27 million tons, or 7.12 million bpd, according to official Chinese customs data released on Tuesday.

The June volumes hit a decade low as they were at their lowest level since October 2016, according to the data series.

China's huge stockpiles amassed before the Iran war began, and its ability to curtail imports during the first four months of the conflict has kept oil prices from spiking to record highs despite the loss of more than 10 million bpd of daily flows through Hormuz.

China is the world's top crude importer, but it was also the importer best prepared to weather a global supply crisis. In the year before the Iran war started, China is estimated to have amassed between 1.2 billion and 1.3 billion barrels of oil in commercial and strategic reserves. These could be even higher as the inventories are a closely guarded secret, as are China's imminent plans about stockpiling or drawing down reserves.

China may soon return to buying more oil as it has already started to tap reserves and wouldn't want to see the stockpile it had amassed run through too fast, too deep, analysts say.

China is estimated to have tapped its huge reserves in May, with drawdowns extended into June. China last month drew 41 million barrels from inventories, according to estimates in the International Energy Agency's (IEA) latest monthly report.

Despite the drawdowns, China is not in any rush yet to buy more oil, as it still holds substantial stocks, Goldman Sachs said in a note carried by the Wall Street Journal.

But the tipping point could come soon, and China could accelerate buying for July and August, according to analysts at Goldman, also because the Gulf producers have slashed their official selling prices for this month and next.

Since the beginning of the Middle East crisis in February, China has become the swing demand buyer on the global oil market.

The world's top crude oil importer, through very low import volumes in the past months, prevented a major spike in oil prices. This low-Chinese-demand cushion may be exhausted soon.

Crashing Inventories

The end of the Chinese demand buffer could coincide with the still-disputed status of the Strait of Hormuz, not allowing oil cargo evacuations at the rate seen in the three weeks after the MoU was signed.

The re-escalation and the fresh, abrupt halt to Hormuz tanker traffic would delay the expected recovery of oil flows from the Middle East, further tightening the global oil and fuel markets.

The trend of the dramatic slowing of ships transiting the Strait of Hormuz is set to continue, while the reinstated U.S. blockade on Iranian oil exports and the lack of buffers in the oil market are laying the foundations of higher oil prices if the current situation does not improve soon, Amrita Sen, founder and director of market intelligence at consultancy Energy Aspects, told CNBC this week.

The world has drawn down about 600-700 million barrels of oil stocks since the crisis began, Sen noted.

“If we are still in this situation by the end of this month or early next month, I don't think we've seen the worst, and I think the worst is actually going to come later on, maybe later in Q3 or early Q4,” the expert told CNBC.

In comments to the Financial Times, Sen said that “Now we have close to nothing” left of the excess inventories, not counting the strategic stocks held by governments, with which the world faced the start of the war.

“Market complacency around Hormuz flows is being severely tested,” Sen said.

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