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MONDAY MORNING QUARTERBACK

ENERGY MARKETS WEEKLY BRIEFING NOTE

☞ ***China's Weak Recovery Caps Oil Price Upside
as 25% Drop in Chinese Crude Imports
Raises New Normal Question*** ☞

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China's Weak Recovery Caps Oil Price Upside as 25% Drop in Chinese Crude Imports Raises New Normal Question

By Sean Evers, Managing Partner, Gulf Intelligence

China's structural decline in transportation fuel consumption, substantial crude inventories and weakening domestic demand are reshaping global oil markets, limiting the prospects for Brent sustaining prices above \$110 per barrel.

The global oil market faces an increasingly uncomfortable contradiction. Geopolitical tensions remain elevated, energy supply chains are under pressure, and refined product markets continue to experience shortages. Yet Brent crude has struggled to establish a sustained breakout above \$110 per barrel, despite persistent threats to production, shipping routes and energy infrastructure.

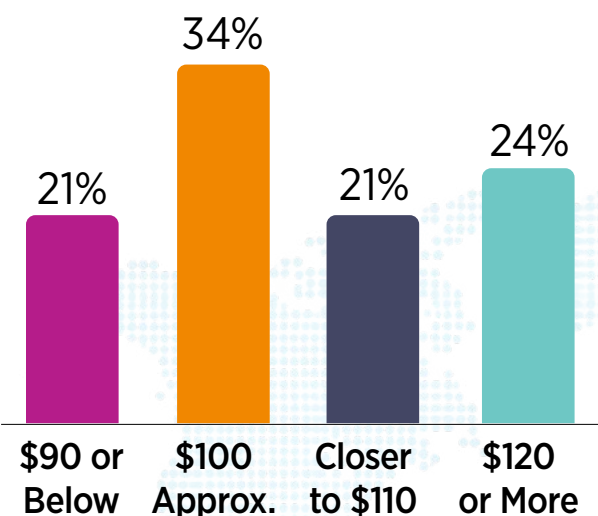
The explanation may increasingly lie in China, the world's largest crude importer, where the challenge extends beyond a disappointing economic recovery. China's crude imports are expected to stabilize around 9 million barrels per day during the fourth quarter of 2026, following their recovery from earlier disruptions. This represents a decline of approximately 25% from pre-Iran conflict levels of around 12 million barrels per day, raising

a fundamental question for global oil markets: could this lower level of Chinese crude imports become the new normal, rather than a temporary consequence of geopolitical disruption?

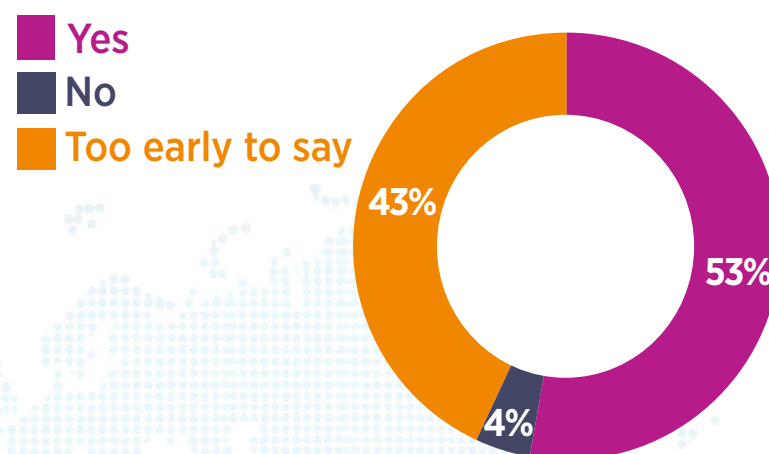
The question extends beyond China. Prolonged friction around the Strait of Hormuz, elevated shipping costs, disrupted trade routes and the reconfiguration of global energy supply chains could become increasingly embedded in commercial decisions, even if the immediate conflict subsides. As importers adapt through alternative sourcing, inventory management and reduced consumption, temporary disruptions risk evolving into lasting structural changes in how oil is purchased, transported and consumed.

China's economic performance also highlights the growing disconnect between headline growth and underlying oil demand. GDP expanded by 4.5% year over year in the third quarter of 2026, supported by strong exports of technology products and electronics components. However, domestic consumption and investment remain weaker, while the country's energy transition continues to reduce dependence on conventional petroleum products.

What will be the Price for a barrel of Brent crude oil on Dec. 31st, 2026?

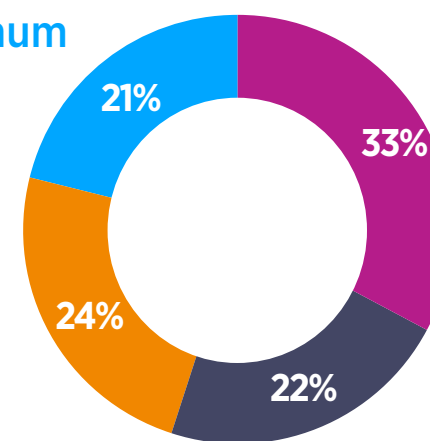


Has the era of "Just-in-Time" energy supplies and delivery logistics ended?



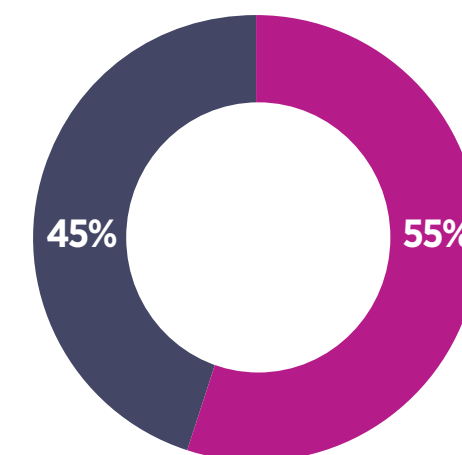
Brent Crude oil has averaged \$93 a barrel year to date – what will be the AVERAGE price in 2027?

- \$80 Approx.
- \$90 Approx.
- \$100 Approx.
- \$110 Minimum



What is most likely next step for Saudi to protect oil exports in conflict with Houthis?

- De-escalate do a deal with H
- Escalate War to beat H



For global oil producers, the implications extend beyond the current trading cycle. China remains an indispensable customer, but its ability to absorb additional crude supplies is becoming less predictable. Combined with elevated global borrowing costs and weakening economic momentum, this transformation is making sustained oil price increases increasingly difficult to justify.

China's Oil Demand Has Entered a Structural Decline

The most significant development in China's oil market is the growing evidence that petroleum demand may already have passed its peak. Industry assessments presented during recent Gulf Intelligence discussions suggest that refinery throughput peaked approximately three years ago, even as refining capacity continued expanding. This divergence challenges the longstanding assumption that additional refining infrastructure automatically translates into higher crude imports.

The relationship between industrial expansion and petroleum consumption is weakening. Looking toward 2030, projections discussed at the same forum suggest gasoline demand could decline by approximately 30% over five years, while diesel consumption could fall by around 29%. Although these estimates remain forecasts rather than established outcomes, their scale highlights the potential transformation underway in the world's largest crude-importing economy.

Electrification is central to this shift. China's expanding electric vehicle fleet is reducing gasoline requirements, while investment in renewable electricity, battery storage and transportation infrastructure is gradually lowering dependence on petroleum. Industrial modernization and the transition toward advanced manufacturing are also changing the composition of energy consumption, with electricity increasingly replacing direct fossil fuel use in selected activities.

These developments reflect more than environmental policy. Energy security has become a strategic economic priority, encouraging China to reduce exposure to imported hydrocarbons and strengthen domestic energy alternatives. Consequently, even a stronger economic recovery may not produce the petroleum demand growth associated with previous expansionary cycles.

The petrochemical sector offers some potential compensation, but its near-term contribution remains uncertain. China's refining industry is increasingly oriented toward chemical feedstocks, including naphtha and LPG, as conventional transportation fuel demand weakens. However, poor downstream profitability, industrial overcapacity and subdued domestic consumption are constraining the sector's ability to absorb additional crude volumes.

Recent industry assessments suggest petrochemical margins could remain under pressure for another two to three years, delaying a more substantial recovery until closer to 2030. The transition toward chemicals therefore represents a gradual restructuring of oil consumption rather than an immediate replacement for declining gasoline and diesel demand.

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What impact will Trump's shift of support for Russia over Ukraine have on oil prices?



The implications for global oil markets are substantial. For much of the past two decades, China provided a powerful engine of incremental crude consumption, helping absorb additional production and supporting expectations of sustained market growth. That relationship is weakening as the country's economy becomes less petroleum-intensive and its refining sector adjusts to changing patterns of domestic demand.

China's Crude Imports Stabilize as Inventories Provide Flexibility

The stabilization of China's crude imports should not be confused with a sustained acceleration in petroleum consumption. Refinery activity is expected to soften seasonally toward year-end as gasoline demand weakens, while accumulated inventories reduce the urgency of additional crude purchases.

The distinction between crude imports and underlying consumption is increasingly important. Higher import volumes can reflect inventory replenishment, changes in refinery purchasing schedules or logistical adjustments rather than stronger demand from households and industry. China's ability to manage these variables provides considerable flexibility when international crude prices rise.

China's inventory position offers another explanation for its ability to resist higher crude prices. Conventional assessments frequently refer to strategic reserves equivalent to approximately 120 days of consumption, while broader industry estimates suggest combined strategic and commercial inventories could represent more than two hundred days. The higher figure remains an alternative assessment rather than a verified measure of immediately accessible reserves, but it illustrates the potential scale of China's accumulated oil stocks.

Such inventories provide an important buffer against supply disruptions and reduce pressure to purchase aggressively during periods of elevated prices. Industry discussions have identified

crude prices around \$90 per barrel as potentially more attractive for replenishment, while prices above \$100 may discourage discretionary buying. These are indicative commercial assessments rather than official Chinese purchasing thresholds.

The result is a more selective crude buyer. China remains essential to global oil trade, but its purchasing decisions are increasingly influenced by price, storage requirements and strategic considerations rather than uninterrupted expansion in domestic consumption. This flexibility could limit additional buying pressure when international crude prices approach or exceed \$110.

However, China's import performance should not be interpreted as an entirely bearish signal. Elevated tanker freight rates, longer shipping routes and logistical disruptions have complicated crude procurement, potentially exaggerating the apparent weakness in demand. A normalization of shipping conditions could release deferred purchases and temporarily strengthen physical markets.

China's dependence on imported crude also remains substantial despite its broader energy transition. A significant share of its refining infrastructure is configured to process Middle Eastern grades, ensuring that Gulf producers retain an important role in the country's energy security. Nevertheless, China's increasing emphasis on supply diversification and strategic flexibility is strengthening its position as a price-sensitive buyer.

Weak Domestic Recovery Limits Demand Growth

China's latest economic figures reinforce the distinction between improving headline growth and a sustained recovery in petroleum consumption. GDP expanded by 4.5% year over year in the third quarter of 2026, accelerating from 4.3% in the previous quarter. However, the improvement was driven primarily by export growth rather than a broad-based recovery in domestic spending.

The country's export performance has remained resilient, particularly across technology products, electronics components and green energy equipment. Yet this expansion does not necessarily translate

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into equivalent growth in oil consumption. Advanced manufacturing and electricity-intensive industries are increasingly replacing the construction, transportation and property-related activities that historically generated substantial petroleum demand.

China's property sector remains a significant obstacle to stronger domestic consumption. Property investment declined approximately 20.2% during the first nine months of 2026, reflecting continued financial pressures and weak confidence. Retail sales growth has also remained subdued, indicating that households have yet to deliver the spending recovery needed to support broader economic momentum.

The International Monetary Fund has urged China to rebalance its growth model away from excessive dependence on exports and toward stronger domestic consumption. This recommendation reflects concern that manufacturing competitiveness and overseas demand cannot indefinitely compensate for weaknesses in household spending and private investment.

For oil markets, the implications are significant. Even if economic stimulus stabilizes growth, the composition of that recovery may provide limited additional support for crude consumption. China's transition toward electrification, advanced manufacturing and renewable energy means that stronger economic activity will not necessarily generate the same petroleum requirements as previous growth cycles.

The broader global environment compounds these challenges. Elevated interest rates, fiscal pressures and uncertain economic growth are limiting investment and consumer spending across major economies. Higher borrowing costs discourage industrial expansion, while a stronger US dollar could increase the cost of crude purchases for energy-importing countries.

These financial pressures reinforce the argument that global oil demand may struggle to accelerate sufficiently to sustain a major price rally. China's weak domestic recovery is therefore not an isolated concern but part of a broader adjustment in which economic growth is becoming less supportive of conventional petroleum consumption.

Brent's \$110 Resistance Reflects a Changing Balance of Risks

Brent's recent trading behavior illustrates the tension between geopolitical supply risks and weakening demand fundamentals. Despite elevated tensions across the Middle East and persistent disruptions to international energy logistics, crude prices have remained broadly constrained within a \$100-\$110 trading range.

This does not mean that geopolitical risks have disappeared. Threats to production facilities, maritime infrastructure and regional export routes continue to support a substantial risk premium. Tight diesel markets and refinery disruptions also demonstrate that physical energy shortages can persist even when broader crude demand growth weakens.

However, sustaining prices materially above \$110 requires more than temporary geopolitical anxiety. Without a significant interruption to global supply, higher prices must ultimately be supported by

sufficient purchasing activity from major consuming economies. China's limited demand recovery makes that requirement increasingly difficult to satisfy.

The country's changing purchasing behavior is especially relevant. When crude prices rise, substantial inventories and flexible procurement arrangements may allow Chinese refiners to postpone replenishment rather than chase additional barrels. Such decisions can reduce incremental buying pressure precisely when international benchmarks require stronger demand to maintain elevated levels.

Economic stimulus remains a potential source of upside. More effective policies supporting household consumption, property market stabilization and industrial investment could improve confidence and lift petroleum requirements. Yet any recovery would occur against a structural backdrop in which transportation fuel demand is becoming less responsive to economic expansion.

The distinction between a temporary price spike and a sustainable rally is therefore essential. A major geopolitical disruption could push Brent decisively above \$110, particularly if production losses coincide with tight inventories or constrained shipping capacity. However, maintaining those prices after the immediate disruption would require stronger demand fundamentals than China currently appears positioned to deliver.

For oil producers, this creates a strategic challenge. The market can no longer assume that Chinese demand growth will absorb additional production at progressively higher prices. Maintaining competitiveness may increasingly depend on flexible supply arrangements, downstream integration, commercial partnerships and pricing strategies that recognize China's growing purchasing leverage.

China's economic transition is also changing the broader relationship between energy security and oil demand. By investing heavily in electrification, renewable energy and strategic inventories, Beijing is strengthening its ability to manage external disruptions while reducing the petroleum intensity of future growth.

The central conclusion is not that Brent cannot exceed \$110. Geopolitical developments could still generate significant upside volatility, particularly if supply disruptions prove more severe or prolonged than anticipated. Rather, China's structural slowdown and the wider deterioration in global financial conditions suggest that sustaining such prices through demand fundamentals alone is becoming increasingly difficult.

China will remain one of the world's most influential crude buyers, but its market power may increasingly derive from its ability to wait, diversify and purchase selectively rather than consume ever-larger volumes. Unless domestic demand strengthens substantially or geopolitical disruptions remove significant supplies, Brent's resistance above \$110 may prove a defining feature of the current oil market cycle. ■

(*nb. Polling conducted October 12th- 16th with 100+ Energy Market Stakeholders)



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