Our View: China Is Sustaining Current Oil Prices

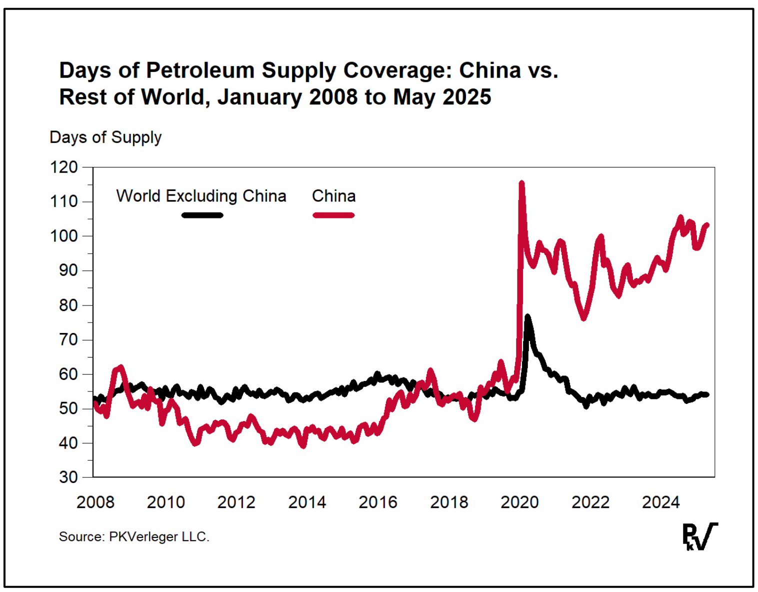
Philip Verleger
July 21, 2025

Oil-exporting nations are boosting production. OPEC forecasters see a need for increased output to meet projected consumption and refill inventories. Other analysts seem to agree. The problem, however, is that the global market has bifurcated. Companies in one country, China, are aggressively building inventories on government orders. Firms elsewhere are striving to shed stocks out of a fear that oil-exporting countries cannot or will not maintain market stability. Oil prices will stay at current levels if the Chinese buy enough, and fall otherwise.

Bifurcation simply means "the division of something into two branches or parts." The adjective form, bifurcated, applies to today's global oil market, where two markets now exist: China and the rest of the world. No one, to our knowledge, sees this as a problem. We assert, though, that Chinese buying has held crude prices above $60 per barrel.

Market watchers should be more concerned than they are because China's economic slowdown, combined with its strong desire to move off oil, could bring oil prices down. Additional downward pressure will come from the global economic chaos created by the United States' erratic trade policies, which threaten to depress growth and oil use in the European Union, Japan, and South Korea, as well as China.

The figure here emphasizes the extreme difference between the Chinese approach to the global oil market and that of other countries. This graph compares the days of supply coverage of oil held in China with days of supply in other nations. As it shows, the Chinese approach to stocks was essentially the same as that of other countries from 2008 to early 2022. Chinese inventory coverage then more than doubled in a few months during its COVID lockdown. Coverage in other nations also shot higher then. However, after the pandemic ended, China continued building inventories relative to consumption as others allowed their days of supply coverage to revert to pre-crisis levels.



We attribute the coverage decline outside China to several factors. The oil industry outside of China being risk averse to price declines is a key cause of the change. The drop in inventories outside of China is understandable. Firms operating in a competitive market without government support or direction seek to maximize profits, reducing holdings whenever the likelihood of input prices decreasing increases.

Oil firms are operating with low stocks. They see potentially lower prices as the oil-exporting nations keep boosting output and so have moved to minimize stocks. Neither refiners nor marketers believe that oil exporters will work to maintain stable prices, especially given the presence of an unpredictable US president who periodically calls for lower oil prices. Buyers have no confidence that OPEC or OPEC+ can or will manage the market

China's aggressive buying of crude has propped up prices. That support will continue if the country keeps acquiring oil for storage. Prices will fall if it does not.