Our View: US Sanctions on China Will Depress Crude Prices

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On October 9, the United States imposed sanctions on a Chinese independent refinery and terminal for conducting transactions with Iran.[1] The sanctions disrupted oil movements from the port of Rizhao to refineries.

Argus Media described the sanctions' impact: "US sanctions on China's Rizhao Shihua terminal target a key source of crude supply to Sinopec refineries along the Yangtze River, which may force the oil giant to reshuffle crude deliveries and cut runs, with freight costs also rising."[2] This action marked the first time the United States has sanctioned a subsidiary of China's state oil company. Shihua operates three VLCC terminals in the Rizhao port. After the sanctions, all three stopped unloading crude oil.

The terminals typically handle 1 million barrels per day of oil, most of which gets shipped to refineries in Jiangsu, Hunan, Jiangxi, and Shandong provinces. Runs at these facilities will likely be reduced due to the sanctions, according to Argus.

The Argus article also noted that, after the sanctions' announcement, Chinese firms reduced their potential November and December purchases of Saudi crude oil by 430,000 barrels per day.

Chinese firms may also have cut purchases from other producers. Argus Media reported, for example, that Angola encountered difficulties finding buyers for its crude after the sanctions were imposed. Between January and September 2025, 160,000 barrels per day of the country's crude had been delivered to the now-sanctioned terminals. As of mid-October, one-third of the 34 Angolan cargoes scheduled to load in November had still not been sold.

History tells us that the oil will be sold. However, buyers will wait for prices to fall.

Meanwhile, Bloomberg writers noted a significant build-up of oil at sea worldwide:

> More than 1 billion barrels have been amassed on the world's tanker fleet, according to consultant Vortexa Ltd. It's the biggest flotilla of oil on the water since 2020, when a price war between Saudi Arabia and Russia flooded the market during the Covid-19 pandemic.[3]

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[1] Timothy Gardner, "US imposes sanctions on China refinery, others for Iran oil purchases," Reuters, October 9, 2025 [https://tinyurl.com/373xaex5].

[2] "US-China measures pose major Sinopec dilemma," Argus Global Markets, October 17, 2025, p. 2.

[3] Grant Smith, Yongchang Chin, Archie Hunter, and Mia Gindis, "Oil's Long-Awaited Surplus Arrives on Billion-Barrel Flotilla," Bloomberg, October 18, 2025 [https://tinyurl.com/mrdhet9k].

The Bloomberg authors also noted that the Brent forward price curve had moved into contango. This shift also appeared in the WTI curve.

OECD stocks have not increased significantly yet despite the build-up of stocks at sea. Vitol's CEO Russell Hardy emphasized this point:

> "The reality of the market is that we haven't built any stock in western market centers—the excess has ended up predominantly in China. "More supply has hit the market in the second half because OPEC has steadily increased."

Previously, we had written that China was acting as the swing buyer of crude, adding to its strategic stocks when prices weakened. Reuters' Clyde Russell reinforced our view when he wrote the following:

> China's stockpiling becomes a stabilizing factor for oil prices.
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> China will buy more crude if prices stay relatively low and stable, thus providing a floor to the market, but will pull back on imports if prices move higher, thus providing a ceiling.[4]

Pressures on prices should intensify if China reduces its crude purchases by choice or due to the sanctions on its terminals. The US action will also likely end its efforts to stabilize oil markets. The consequence will be falling prices. The irony is that blame for the ensuing price collapse will fall on the US Treasury's Office of Foreign Assets Control, which levied the sanctions.

One wonders whether the independent US oil producers who strongly backed the current administration understand that the Treasury's action may cause financial problems for them.

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[4] Clyde Russell, "The China crude oil storage conundrum gives price floor and ceiling," Reuters, October 12, 2025 [https://tinyurl.com/mvyhxvmn].