## Our View

### China: The Oil Price Stabilizer

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Price stabilization was once a major subject of debate among economists. Those discussions began in earnest toward the end of World War II. John Maynard Keynes was a major supporter, writing in 1942, "Assuredly nothing can be more inefficient than the present system by which the price is always too high or too low and there are perpetual meaningless fluctuations in the plant and labor force employed."[1] Keynes even pushed for creating commodity stabilization groups during the Bretton Woods conference where the International Monetary Fund and World Bank were established. His efforts failed.

Following World War II, several attempts to stabilize commodity prices occurred. Most had ended by 1985, the year in which the tin stabilization program terminated. Since then, the subject has received little attention among academics, especially regarding oil. The consensus now seems to be that oil prices will fluctuate.

This view was frequently evident in the fall of 2025, when commentators predicted a sharp oil price decline because global oil production exceeded projected consumption. Some saw oil falling as low as $50 per barrel. In November last year, Bloomberg even warned that prices could plunge to the 40s if oil producers did not cut output.[2] Their expectations did a rapid about-face in March 2026 after the US and Israel attacked Iran.

In the immediate aftermath of the initial bombing campaign and the subsequent closure of the Strait of Hormuz, some suggested oil prices could reach $180 per barrel by the end of April if the disruption continued. The IMF's chief economist also asserted that prices would average $110 in 2026 and $125 in 2027 if the conflict and supply constraints continued.[3] Other forecasters saw prices rising to $200. The IMF also warned that global economic growth could slump to 2% in 2026.

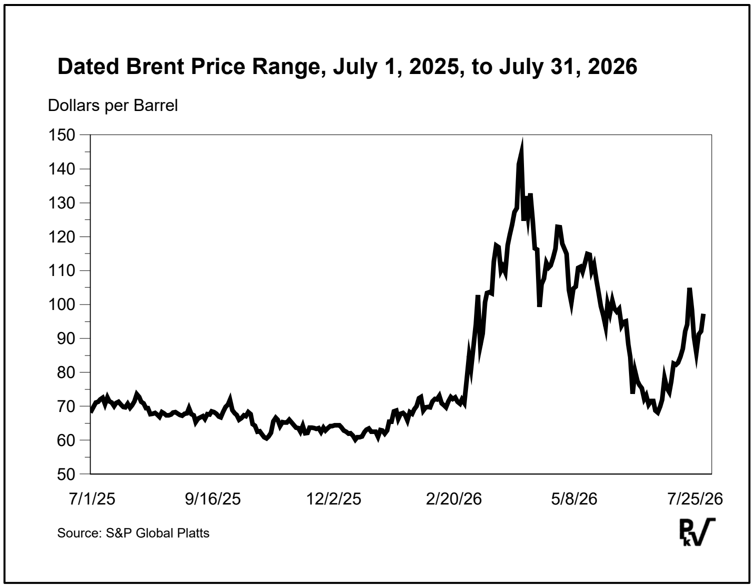
None of these scenarios came to pass. Oil prices did not drop to $40 before the Iran war started. Afterward, they rose only briefly above $100, even though the conflict was significantly constricting supply. As the figure on the following page shows, but for that fluctuation, crude prices have

[1] J.M. Keynes, "The international control of raw materials" (1942), *Journal of International Economics* 4, No. 3 (1974), pp. 299 -315 [https://tinyurl.com/2rv76wfm] .

[2] "OPEC+ Nations Again Face Thorny Issue of How Much They Can Pump," Bloomberg, November 25, 2025 [https://tinyurl.com/5n74dpzh].

[3] David Lawder, "IMF cuts growth outlook, warns world already drifting toward more adverse scenario," Reuters, April 15, 2026 [https://tinyurl.com/4tyv7mx8].

remained in a relatively narrow range from July 2025 to July 2026, despite the "sturm und drang" in the global oil market.




The actions of the world's largest oil consumer, China, explain their surprising stability. Regarding the absence of a price drop in 2025, Carol Ryan wrote the following in *The Wall Street Journal*:

> Some analysts were forecasting $50 oil toward the end of 2025 because of an oversupplied market. A widely expected glut never materialized because Beijing was hoovering up so much crude to add to storage.[4]

Ryan also focused on China's efforts to cut consumption following the outbreak of the Iran war, as did Lisa Friedman and Alexandra Stevenson in *The New York Times*:

> The biggest oil buyer in the world, China has kept a lid on prices by rapidly reducing the amount of oil it imports. Before the war began, China imported an average of 11.6 million barrels per day. By May, its purchases of overseas oil had plunged to below eight million barrels a day, its lowest point in over eight years, according to customs data released by Beijing.[5]

Separately, Rebeca Fang explained in *The Wall Street Journal* that the drop in Chinese imports had kept "the global economy humming."[6] The IMF supports this optimistic view. In its July 2026 forecast, the bank noted, "Global growth is projected at 3.0 percent for 2026 and 3.4 percent for 2027."[7] The bank's director of research added this comment, "The world economy has weathered the shock from the war better than feared so far, with limited evidence of second-round effects."

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[4] Carol Ryan, "How China Went From Dream Customer to a Nightmare for Big Oil," The Wall Street Journal, July 29, 2026 [https://tinyurl.com/s6jstzk7].

[5] Lisa Friedman and Alexandra Stevenwon, "How China Can Move the Price of Oil Even by Not Buying," *The New York Times*, June 15, 2026 [https://tinyurl.com/4998n5xc].

[6] Rebecca Fang, "China Is Propping Up the World Economy by Importing a Lot Less Oil," *The Wall Street Journal*, June 10, 2026 [https://tinyurl.com/mtb36uty].

[7] Petya Koeva Brooks, "Opening Remarks at the July 2026 WEO Update Press Conference," IMF, July 8, 2026 [https://tinyurl.com/2ky5tj34].

Missing from the IMF's July note was any mention of China's action. Yet a review of the evidence shows that the country has become the world's global oil price stabilizer. Specifically, China has become the current "oil buffer stock manager."

There have been other such managers. Tin prices, for example, were kept within a set range until the end of 1985 by the International Tin Council, which dictated how much member countries could produce while buying and selling the commodity to hold prices steady. Today, China is doing the same behind the scenes, acting to keep crude oil between $60 and $70 per barrel. So far, its strategy is working.

In 2025, China kept adding to strategic reserves as oil prices weakened. At the time, we suggested that it increased its buying just as Saudi Arabia was boosting output to recover market share, possibly hoping to drive prices down and to force high-cost producers, particularly those in the United States, to shut down.

China likely reacted to maintain higher prices in 2025, preserve its export markets to oil-exporting countries, and maintain competition in the oil market. The latter countries purchased $320 billion in goods and services from China in 2023, the most recent data available. Chinese officials likely worried that their Middle East export market would suffer if oil prices declined precipitously. Buying oil for its strategic reserves helped keep prices up.

In 2026, China has cut its oil consumption sharply and drawn from its reserves to hold prices lower. The Chinese government understands that the country's exports could fall if oil prices shot up and global activity decreased, as the IMF predicted in April 2026.

Many will challenge the idea of China acting as buffer stock manager in the oil market to further its economic interests. However, the evidence shows that China is consistently aggressive when it comes to boosting its economy, particularly regarding commodity markets.

Take the rare-earth market, for example. China's dominance there is not accidental. The country has repeatedly flooded the market with products to undermine its competitors. Its victims have included the Mountain Pass mine in California, which was forced to close when China dumped rare earths on the global market in 2015 to drive prices down.[8]

Today, China is acting similarly in oil markets. In 2025, it bought volumes to keep prices up. In 2026, it has pulled back substantially to stop prices from spiraling to record heights.

Given these actions, it is clear that China has become the stabilizer of world oil prices.

[8] Sangita Gayatri Kannan, Brad Handler, and Ian Lange, "MP Materials Corporation-Department of Defense Partnership," The Payne Institute for Public Policy, Colorado School of Mines, July 30, 2025 [https://tinyurl.com/2jh9k4dt].