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MONDAY MORNING QUARTERBACK

ENERGY MARKETS CEO BRIEFING NOTE

"Demand Mirage in the Desert: Why China's Storage Addiction Is About to Reshape Global Oil Markets?"

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Demand Mirage in the Desert: Why China's Storage Addiction Is About to Reshape Global Oil Markets?

By Sean Evers, Managing Partner, Gulf Intelligence

For much of the past two years, global oil markets have been held together by an illusion. China, the worlds' largest crude importer, appeared to defy economic gravity by sustaining strong oil buying despite slowing growth, a collapsing property market, and weakening conditions across its industrial landscape. But behind the surface of those impressive import numbers lay a more fragile reality. China was not consuming more oil. It was storing it.

Beijing's accumulation of crude, estimated at between five hundred thousand and eight hundred thousand barrels a day during 2024 and 2025, created a misleading sense of market strength. The apparent resilience in imports was not rooted in economic activity but in storage activity. China became a silent absorber of excess global supply at a moment when the market did not know what to do with it. Now, as storage space tightens, that cushion is disappearing. And with it, one of the most important buffers preventing a deeper fall in global oil prices is fading quickly.

The question confronting the global market is no longer whether China can sustain demand growth. It is whether the world is ready for the consequences once China stops performing this quiet role as the buyer of last resort. What is at stake is the potential for a sharp correction in oil prices when the storage driven illusion of demand vanishes while supply remains elevated.

THE ILLUSIONS OF DEMAND: WHAT HAPPENS WHEN THE STORAGE TANK FILLS UP?

China's stockpiling has concealed deep structural weaknesses in its real oil demand for more than a year. Industrial production has slowed. Investment has weakened. Consumer spending has softened. In this environment, Beijing relied on strategic stockpiling both as a hedge against geopolitical volatility and as a form of market arbitrage. But every storage strategy has a limit. Experts warn that large scale additions to crude storage are already slowing. Once capacity is reached, import levels will fall quickly. The market will then confront pure underlying demand without the support of strategic buying.

The global implications are significant. Storage driven purchases do not represent real consumption. They distort global balances and hide the oversupply that has quietly accumulated. As storage saturation approaches, this distortion will unwind. The world will face the true size of the demand gap without the cushion China had provided.

China's structural challenges extend further. Petrochemical demand, once the most reliable driver of Chinese crude consumption, is weakening due to oversupply in global plastics markets and reduced export momentum. The country's extraordinary adoption of electric vehicles is steadily eroding demand for gasoline and diesel. This is not a temporary trend but a new trajectory that reduces long term fuel consumption.

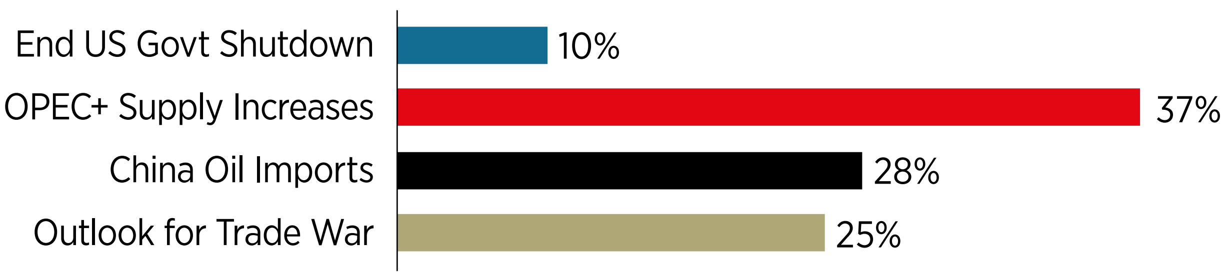
Manufacturing weakness is also eroding demand for diesel, the essential fuel of construction and heavy industry. Purchasing Manager Index indicators continue to show contraction, confirming that one of the most oil intensive segments of the economy has lost momentum. When Chinese factories slow, global oil markets lose one of their most dependable engines.

Meanwhile China has become a more sophisticated and price sensitive buyer. It no longer purchases to meet predictable demand patterns. Instead, it buys opportunistically, taking advantage of price dips and shifting global flows. This diminishes the connection between Chinese buying and underlying economic strength. China is no longer a stabilising force in oil demand. It is now a tactical buyer with its own timing and incentives.

Geopolitical factors also distort the picture. China's continued appetite for discounted crude from Russia and Iran boosts import numbers without indicating genuine domestic demand strength. These flows are driven by

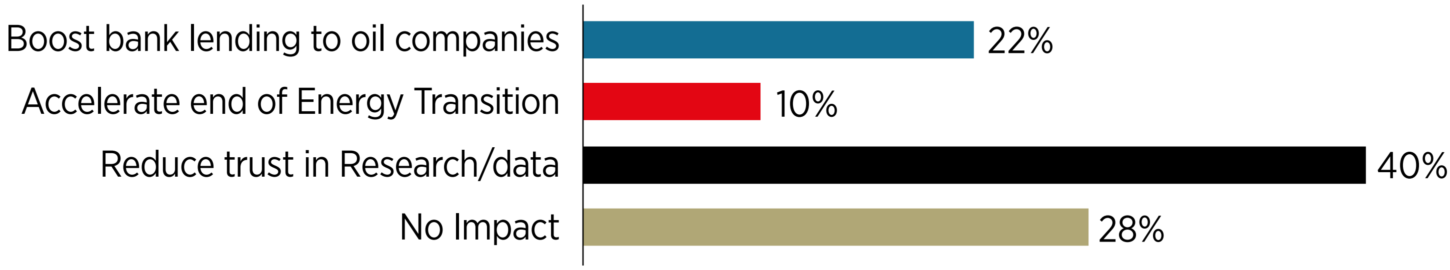
End of US government shutdown not sufficient to lift wet blanket weight of weak demand and over-supply in oil markets?

What will have greater bearing on direction of oil prices through end of the year?



Has Trump single handedly bent the curve up on the outlook for oil demand beyond 2050 or did the IEA just get their peak oil Forecast Wrong?

The IEA decision to abandon peak oil demand forecast will have greatest impact on:



Trump is readying substantial tariff cuts designed to address high food prices -- what impact will that have on oil prices moving into 2026?

(nb. Polling conducted with 100 Energy Market Stakeholders Nov. 10-14)

cost advantage and diplomatic alignment rather than consumption growth. They make it more difficult for traders and producers to interpret China's import volumes accurately.

The only plausible path to a meaningful resurgence in Chinese demand would require a major wave of global liquidity. That would entail significant monetary easing from the United States Federal Reserve or deep domestic stimulus inside China. Without such intervention, China's oil demand will remain subdued. It will no longer deliver the automatic uplift to global balances that defined previous cycles.

OPEC PLUS AT A CROSSROADS: PROTECTING PRICES IN AN UNSTABLE LANDSCAPE

If China represents a fading illusion of demand, OPEC Plus represents the delicate supply management effort that has prevented prices from falling further. Yet the alliance enters 2026 facing the most complicated strategic environment it has encountered in years.

Despite a consistent oversupply through 2024 and 2025, Brent crude did not collapse. OPEC Plus discipline was the shield. The alliance paused increases and carefully rationed supply at decisive moments, preventing a slide toward damaging low price territory. Without this coordinated restraint, the market could have fallen into a price range that would have undermined producer budgets and investment pipelines.

But a tougher challenge lies ahead. Ministers have already warned that the first quarter of 2026 represents the most dangerous period of imbalance. Seasonal demand drops sharply at the start of the year. Inventories remain elevated. Non OPEC supply is steady. And now the prospect of China stepping back from its storage driven buying adds further volatility. The alliance has responded by pausing any further increases to avoid a sudden and destabilising break in prices.

Behind these decisions is a deeper structural truth. Many OPEC Plus members simply cannot increase production despite receiving higher quotas. Productive capacity has not kept up with political allocation. As a result, a significant portion of official quota increases never appear as real barrels. This gap between paper capacity and physical output risks undermining confidence in the alliance and confusing the market.

Sanctions add an unpredictable dimension. Russian and Iranian crude continues to reach the market through alternative logistics, but tighter United States financial enforcement could remove as much as one to two million barrels a day from circulation. Such a sudden shift would immediately convert an oversupplied market into a tight market, creating a rapid price spike with far reaching geopolitical implications.

Floating storage further complicates visibility. Large volumes of crude sitting on ships blur the true supply picture. When these barrels start moving, they tend to do so in concentrated waves that can swing market sentiment quickly. Traders risk misjudging balances until these barrels either flood refineries or disappear due to sanctions pressure.

Long term dynamics are also shifting. United States shale production has plateaued. The era in which shale acted as a rapid response swing producer is effectively over. This places greater pricing power in the hands of OPEC Plus, but it also increases the stakes. The alliances internal cohesion will become more important as its role expands.

At the same time, geopolitics introduces the greatest uncertainty of all. Energy infrastructure attacks, disruptions across the Red Sea and Black Sea, cyber threats and unpredictable shipping risks have turned global oil logistics into a new arena of geopolitical tension. The next major supply shock may not come from a traditional outage. It may come from a sudden disruption in maritime security or digital infrastructure.

A MARKET APPROACHING A TURNING POINT

China's fading storage driven demand and the increasingly delicate strategic posture of OPEC Plus signal a global oil market approaching a significant turning point. For two years the world assumed that China was recovering and OPEC Plus was gradually increasing supply. In reality China was storing oil it did not need and OPEC Plus was allocating quotas that many members could not meet.

The illusion is ending. Markets must now face what happens when China stops absorbing surplus barrels and OPEC Plus struggles to balance caution, discipline and credibility. What is at stake is the stability of the global oil market in 2026. The world could face either a gentle soft landing or a sharper and more destabilising correction.

This moment is different from previous cycles. The vulnerabilities developing now are structural rather than sudden. As China steps back and supply diplomacy becomes more complex, the market must navigate a new era in which familiar assumptions no longer apply.

The next phase will reveal these hidden fragilities. When it does, the world will discover whether the oil market is entering a new period of managed stability or whether the quiet supports of the past two years give way to a more turbulent and unforgiving cycle.■

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