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China to Keep Oil Markets Supported in Q4 with Continued Buying for Storage!

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BRIEFING SINGAPORE

APPEC 2025

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RYSTAD ENERGY OIL MARKETS BRIEFING

Top 9 Takeaways from Mukesh Sahdev
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1.

DEMAND DENT IS REAL: Global oil demand has slowed sharply compared to the steady growth seen from 2010–2019. Instead of adding 1–1.5 million barrels per day each year, growth has faltered, reflecting structural changes in gasoline and diesel demand that petrochemicals and jet fuel cannot fully offset.

2.

REFINERY RUNS PEAKED: Refinery throughput peaked in 2023. A small uptick came in 2025 due to new capacity additions, but going forward, refinery runs will flatten under pressure from weaker overall demand. China's refiners will change their output mix, but volumes won't keep rising as before.

3.

QUALITY SHIFT IN CRUDE: Declines are concentrated in light, sweet barrels, while medium and sour grades remain more resilient. This changing quality mix will shape refining economics and could invert traditional differentials, making sour crudes more valuable relative to sweet crudes in the years ahead.

4.

CHINA'S HEAVY LIFTING: China has stockpiled over 300 million barrels between early 2024 and the end of 2025, providing crucial support to oil prices and sustaining backwardation. This extraordinary storage build has cushioned global surpluses, but uncertainty remains over how long it can continue at this pace.

5.

US PRODUCTION PLATEAU: US shale growth is slowing compared with the boom years of 2014–2015. Production appears to be flattening, with meaningful corrections likely only after 2025. Challenges include geological limits, investment cycles, and infrastructure bottlenecks, delaying any rebound until closer to 2026.

6.

MIDDLE EAST PRODUCT STRATEGY: New Middle East refineries are processing more crude into diesel and products for export, especially to Europe. By injecting around 500–600 kb/d of diesel into Europe, they reduce European refinery runs, effectively displacing about 1 million b/d of crude demand and reshaping global balances.

7.

MARGINS AND CLOSURES: By expanding product exports, Middle East refiners compress global refining margins, accelerating closures elsewhere, particularly in Europe. This strategy strengthens OPEC+ by using downstream power to manage markets. "Downstream as the new upstream" is becoming a core approach for stability and influence.

8.

MARKET SIGNALS AND POSITIONING: Beyond fundamentals, trading signals show commercial accumulation supporting prices. Commitment of Traders analysis indicates a floor is forming, with backwardation expected to persist. Prices may dip but remain range-bound, with no sustained rally likely in the near term without a major disruption.

9.

BLACK SWAN RISKS: Potential shocks include geopolitical tensions, more conflicts, weather-driven disruptions, or unexpected fractures in OPEC+. Risks also include accidents in the dark fleet and economic flashpoints like Europe's fragile growth. Such black swan events could create volatility and reshape balances unexpectedly, even against current surplus trends.

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RYSTAD ENERGY OIL MARKETS BRIEFING

Top 9 Takeaways from Priya Walia
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Rystad Energy

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1.

WELLS AND FUTURE SUPPLY: Global production depends heavily on wells under development and discoveries. By 2026, around 13 million barrels per day—out of 85–86 million—will come from these projects. Without them, output would fall sharply, underscoring how much supply growth relies on new fields entering production in the next few years.

2.

OPEC+ VS NON-OPEC DYNAMICS: Supply adjustments will hinge on both OPEC+ and non-OPEC countries. While some face geopolitical constraints, others bring new projects online. The interplay between sanctioned producers, compliance challenges, and new developments will shape how the surplus is managed and whether balances can be stabilized through 2026.

3.

IRAN'S SANCTIONS IMPACT: Iran currently produces around 3.2 million barrels per day under U.S. sanctions. Depending on whether a U.S.–Iran deal materializes, supply could either shrink by about 500,000 barrels per day or rise by 400,000 within months. This makes Iran a key swing factor with both downside and upside potential.

4.

VENEZUELA'S FRAGILE OUTPUT: Venezuela's production faces challenges from sanctions, cash shortages, and reliance on Chevron for diluent and investment. While output is about 1.1 million barrels per day, disruptions have already cut 100–150,000 barrels. Stability depends on Chevron's role, with risks of further losses if financial or logistical constraints intensify.

5.

RUSSIA'S SANCTIONS AND WAR: Sanctions have had limited impact due to steady buying by China and India. However, the Russia–Ukraine war introduces risks. Ukrainian strikes on refineries could reduce domestic processing capacity, leading Russia to export more crude. If damage persists, long-term supply impacts are possible, though signals remain uncertain.

6.

KAZAKHSTAN'S OVERPRODUCTION: Kazakhstan consistently exceeds OPEC+ quotas by 300–400,000 barrels per day. With 70% of production controlled by international firms and only 30% by government, compliance is difficult. Even if authorities wish to follow targets, they lack leverage, making persistent overproduction a structural feature of Kazakhstan's contribution to the market.

7.

CHEVRON'S STRATEGIC ROLE: Chevron plays an outsized role in both Venezuela and Kazakhstan, providing cash, technology, and operational support. Its involvement can sustain production or mitigate declines, but any withdrawal disrupts volumes significantly. This illustrates how major international firms indirectly influence OPEC+ output compliance and broader supply balances.

8.

GLOBAL SURPLUS UNCERTAINTY: The effectiveness of rebalancing efforts depends on multiple fragile variables—Iran's negotiations, Venezuela's constraints, Russia's wartime exports, and Kazakhstan's non-compliance. This makes the market highly uncertain, as upside and downside risks coexist across different producers, complicating the task of adjusting to expected surpluses.

9.

KEY MESSAGE: Global oil supply in 2026 will hinge less on demand than on political, operational, and compliance outcomes across key producers. The outlook is uncertain but manageable, provided OPEC+ and its partners adapt flexibly. However, risks of sanctions, wars, and governance gaps leave significant room for volatility.

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RYSTAD ENERGY OIL MARKETS BRIEFING

Top 9 Takeaways from Lin Ye
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1.

CHINA'S GROWING MARKET INFLUENCE: Even though domestic oil demand growth is slowing, China's impact on global markets is rising through its role as a buyer and stockpiler. Its storage decisions increasingly shape global balances, supporting prices and sustaining market structures despite weaker end-use consumption growth.

2.

RECORD STOCKPILING: China stored about 800,000 barrels per day during the price collapse and another 650,000 barrels per day in the first half of this year. This pace of accumulation is massive—larger than India's daily output—making China one of the most decisive actors in absorbing global surpluses.

3.

STRATEGIC STORAGE CAPACITY: China has consistently expanded crude storage capacity, prioritizing energy security. This ensures it can continue stockpiling even as consumption plateaus. Capacity expansion is a deliberate policy, reinforcing Beijing's ability to stabilize domestic supply and influence global oil balances.

4.

ENERGY SECURITY PRIORITY: Stockpiling is driven primarily by energy security. Escalating geopolitical risks, U.S. tariffs, and sanctions incentivize China to secure crude reserves. The logic is precautionary—building buffers against external shocks—making continued accumulation through 2026 a reasonable base case.

5.

BLACK SWAN POTENTIAL: Unexpected shifts in Chinese stockpiling or exports could be market-moving black swan events. A sudden surge in refinery runs or expanded export quotas would disrupt balances in Asia, impacting refinery margins and reshaping regional product flows.

6.

REFINERY SPARE CAPACITY: China's refining system, particularly independent "teapot" refineries, has significant spare capacity. If policy allows, China could sharply raise product exports, using this latent capacity. This flexibility creates uncertainty for competitors in Asia who may face unexpected competition in diesel, gasoline, and petrochemical markets.

7.

PRODUCT EXPORT QUOTAS: Export volumes depend heavily on quotas issued to state-owned refiners. A policy shift toward higher quotas could release large volumes of gasoline and diesel into global markets. Such a move would depress margins elsewhere and shift competitive pressure onto Asian and European refiners.

8.

PETROCHEMICAL SHIFT: China is reconfiguring refineries to reduce gasoline and diesel output while increasing petrochemical feedstocks. This pivot reflects long-term strategy to capture value in chemicals while offsetting declining transport fuel demand. The trend will reshape global trade flows and alter the composition of Chinese exports.

9.

REGIONAL MARKET IMPACT: If China raises refinery runs to consume stockpiled crude and export petrochemical feedstocks, other Asian refiners, especially in India, will face pressure. Higher Chinese exports would crowd regional markets, reduce space for competitors, and weigh on crack spreads across Asia, with ripple effects globally.

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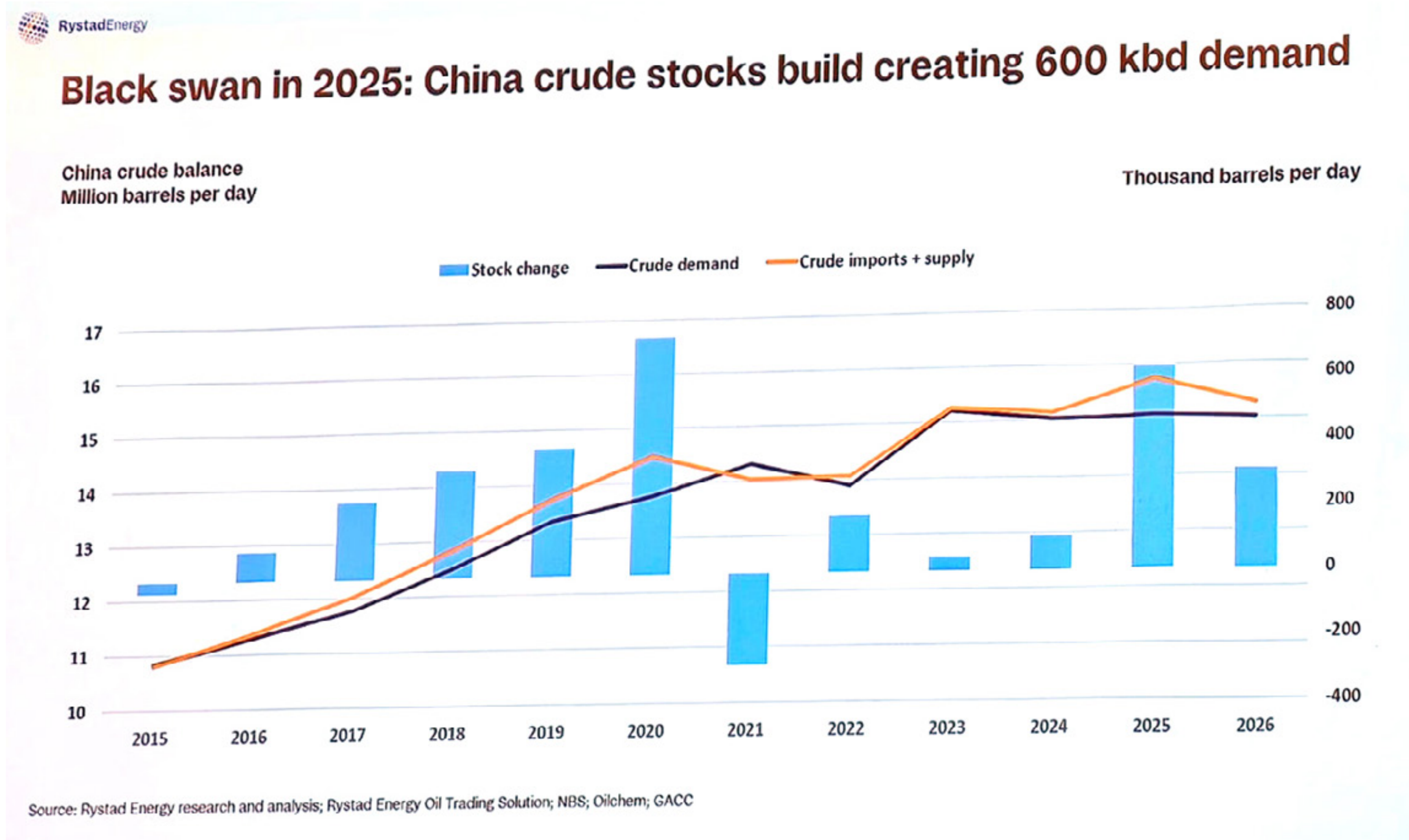

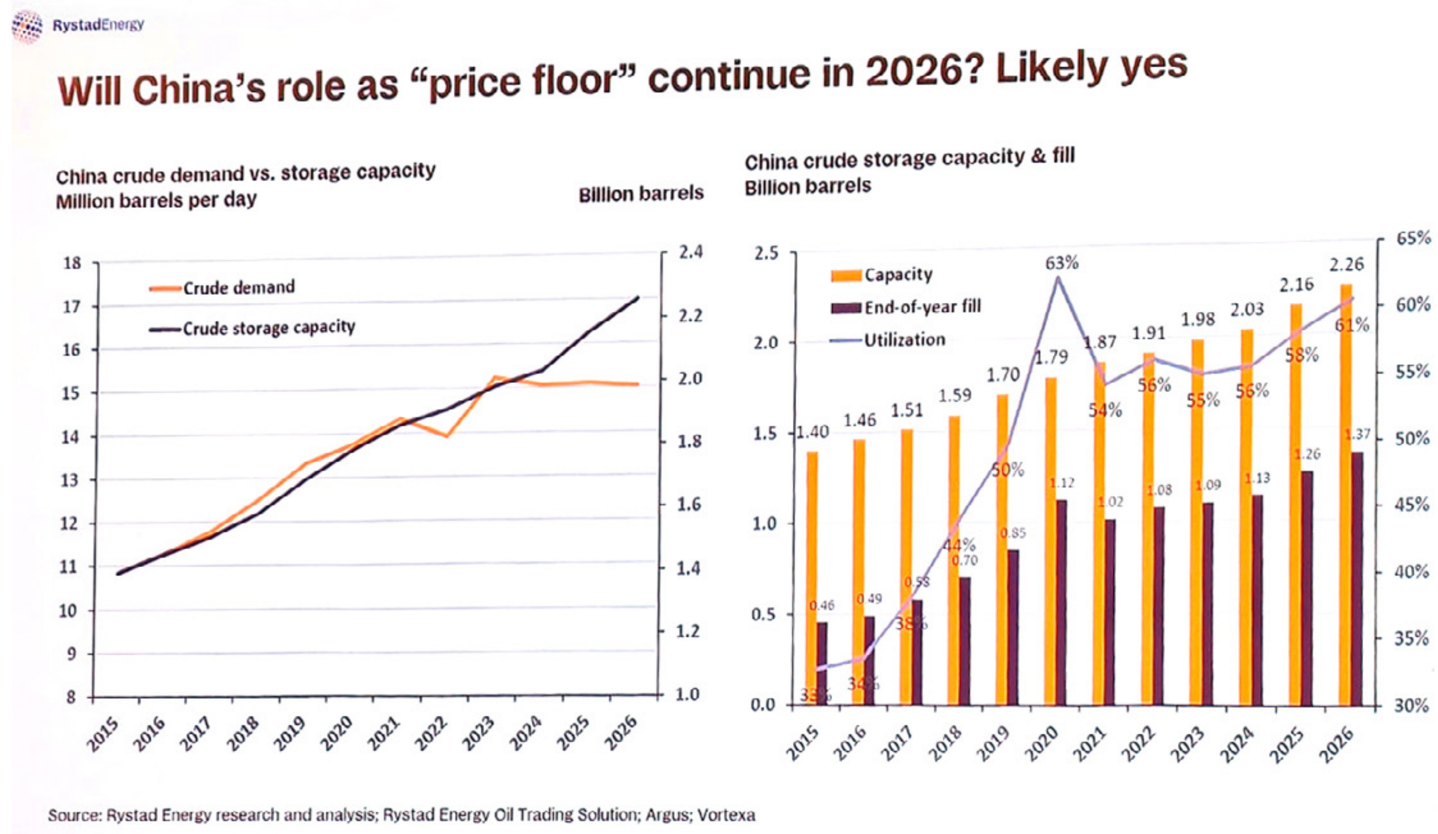

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APPEC BRIEFING SINGAPORE – ENERGY PRICES FORECASTS

TOP 9 TAKEAWAYS
BY RYSTAD ENERGY OIL TRADING SOLUTION

RystadEnergy

1.

OIL PRICES: Expected to stay range-bound at \$60–70, with backwardation to roll.

2.

WTI–BRENT SPREAD: Likely to widen as WTI faces headwinds.

3.

BRENT–DUBAI SPREAD: Projected to stay narrow, with Dubai maintaining strength.

4.

SAUDI OSPs: Asian OSPs will track Chinese demand; EU OSPs expected to weaken, while US OSP premiums remain.

5.

REFINERY MARGINS: Greater divergence across regions: APAC margins suppressed, Atlantic markets seeing seasonal spikes.

6.

DISTILLATE CRACKS: Strong in the Atlantic Basin, weaker in APAC, with the Middle East balancing.

7.

ETHANE & NGLS: Ethane recovery in sight; propane remains under pressure due to rapid energy transition; Europe–Asia naphtha divergence to persist.

8.

HEAVY-END CRACKS: HSFO fundamentals remain under pressure; VLSFO volatility expected to continue.

9.

EAST-WEST ARBITRAGE: Arb spreads expected to widen, with the Middle East staying a tricky hotspot and freight markets remaining tight.

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