



IS CHINA ABOUT TO REMIX GLOBAL ENERGY MARKETS?

The Macro Mixtape Series

October 2026

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The Macro Mixtape series is a curated collection of capital market insights told through songs that help define the moment. Consider this your essential playlist for understanding and navigating market dynamics.

Track: **Running on Empty** – Jackson Browne

THE SOUND BITE

The energy shock many investors feared in 2026 has not materialized. Yet.

Over seven months into the conflict in the Middle East, flows through the Strait of Hormuz remain constrained. Still, the black swan event long feared by global energy markets hasn't lived up to the folklore. Much of the reason comes down to China, which quietly set the tempo by drawing down vast domestic stockpiles and pulling back on imports, helping muffle the immediate impact.

But that buffer is now being tested. With global reserves increasingly depleted and Beijing's demand function shifting, the forces that helped markets absorb the disruption may no longer be working in the same way. What happens when act two begins?

THE MAIN STAGE

For decades, the closure of the Strait of Hormuz was billed as the ultimate black swan event that nobody wanted tickets to, given the significant global energy supplies that typically flow through. When the chokepoint was disrupted earlier this year, the market consensus was straightforward: oil prices would quickly surge, effectively putting the world on the clock as finite inventories were drained.

But as investors braced for the beat to drop, prices remained relatively constrained, with oil peaking at around \$120 per barrel in April even as the world absorbed the loss of over a billion barrels of supply since the conflict began¹. By historical standards, a shock of this magnitude should have vaulted crude to a chart-topping new record, but a solid lineup of economic cushions was in place to dampen the blow. A well-supplied starting point for global inventories, coordinated releases from strategic reserves, and rerouted energy supply flows all deserve some credit, but China has flown under the radar as the composer behind this unexpectedly quiet performance.

Rather than competing for expensive product in a constrained market, the country drew heavily on its reserves that were built up when oil was cheap. China held an estimated 1.5 billion barrels in storage at the start of the conflict, far exceeding the combined holdings of all 32 member countries of the International Energy Agency (IEA), including the roughly 413 million barrels held in the U.S. Strategic Petroleum Reserve².

1. International Energy Agency, FactSet as of September 24, 2026. 2. U.S. Energy Information Administration, "[China, the United States, and Japan hold most strategic oil inventories in 2025](#)." April 20, 2026.

When the conflict began, China was able to capitalize, orchestrating a shift in its energy mix that included drawing down reserves, restricting refined product exports, and scaling back refinery runs. Instead of buying at wartime premium prices, China simply turned its volume knob lower: in the second quarter of 2026, the country slashed crude imports by 30% year-over-year³. This centralized approach by the world's largest oil importer stabilized energy markets, enabling the rest of the world to enjoy a quiet intermission.

However, this interlude appears to be ending, and supply-demand conditions are at risk of tightening. While China's outsized role in global oil markets was advantageous for markets this year, recent data suggests the tune may be changing, potentially amplifying price pressures and volatility within the energy complex.

After months of relying on domestic stockpiles, China's reserves have declined just as demand for crude imports and refined oil are turning back up. These dynamics are no longer just about building strategic reserves, but also are being driven by compelling refining economics. The conflict in Iran and broader damage to energy infrastructure in the Middle East have taken a meaningful share of global refining capacity offline. As a result, crack spreads on distillates have surged, sending profit margins on refined products soaring. Chinese refiners now have significant incentives to ramp up production, which will require buying more crude to supply a starved global market.

Policy dynamics add further noise to the mix: Beijing eased export restrictions on refined products in July, but heightened tensions across the Middle East up the risk that China reverses course and reimposes the restrictions to ensure supply for their domestic market, which would pull a valuable source of diesel off a market that is already battling record high prices.

Meanwhile, the noise-cancelling headphones that absorbed the initial shock are running out of power. Global oil inventories are at their lowest level since 2023, the U.S. Strategic Petroleum Reserve sits at 40-year low, and continued attacks on energy infrastructure have removed bypass routes around the Strait of Hormuz¹. Taken together, the cushion has gotten thinner across the board: crude and refined product stocks, rerouting capacity, and strategic reserves are running on empty as China appears to be transitioning from a source of relief to a source of potential pressure for markets.

Against this backdrop, the global energy system appears far more vulnerable today to potential shocks and supply disruptions. While the geopolitical environment is the main soundtrack driving the risk premium in energy markets, China seems to be rapidly climbing the charts in influence. The key question is if Chinese demand picks up faster than expected, the risk shifts from price volatility to actual physical shortages. That is not our base case today, but is the scenario we are monitoring closely, and the deciding factor is how quickly and aggressively China steps up to the mic as a buyer.

3. Center on Global Energy Policy at Columbia – SIPA. "[How China is Managing Lower Oil Imports](#)." August 13, 2026.

Bonus Tracks (Other Items to Monitor)

- **China's monthly trade and refinery data:** serves as a real-time sound check detailing China's crude import volumes, refinery throughput, and product exports, which signal China's role in shifting global supply-demand dynamics.
- **Diesel prices:** Diesel is a critical input for freight, agriculture, and manufacturing. Sustained price increases can be passed through to consumers, triggering inflationary pressures which, if left untethered, may put meaningful pressure on household spending.
- **Global Inventory Reserve Levels:** With global inventories hovering near multi-year lows, further constriction in supplies could trigger parabolic price increases that can restrict economic movement, and constrain growth.

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