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How Should We Interpret China's Crude Oil Stockpiling and the "Oversupply" Issue in the International Oil Market?

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Crude oil prices have been fluctuating within the 60-70 dollar range. On September 24, the U.S. benchmark crude oil, WTI, closed at $63.41 per barrel for the front month futures contract, up $1.13 from the previous day. On the same day, the European benchmark, Brent, rose $1.06 to close at $67.63. However, looking at the trend since last week, WTI has remained around the $63 level. More interestingly, since August, prices have continued to move within the $62 to $67 range. For nearly two months, price fluctuations have been confined to a narrow band of about $5.

Looking back at crude oil price movements since the beginning of 2025, another intriguing fact emerges. WTI reached its highest price of the year on January 15 at $80.04, and remained in the above $70 range until mid-February. However, by late February, it fell into the below $60 range, and with few exceptions, has remained in the range between $60-70 ever since.

The first exception occurred on April 8 and during the period from April 30 to May 8, when prices dipped below $60. The main cause of the initial drop on April 8 was the effect of the announcement of Trump's tariffs, which sent shockwaves through the global economy and triggered concerns about future economic prospects, leading to a sell-off in crude oil futures. The late April decline was similarly influenced by ongoing concerns about economic slowdown due to the tariffs, compounded by the OPEC-plus's decision to increase production (reversing previous cuts), which negatively affected market sentiment. Normally, the OPEC-plus would maintain or strengthen production cuts to defend prices during periods of weakness. Choosing to increase production at such a time signaled further downward pressure on prices, resulting in the observed decline.

The second exception was the rise into the $70 range from June 13 to June 20. This was primarily due to geopolitical risks and supply concerns stemming from the "12-Day War" between Iran and Israel. Israel attacked Iran's nuclear facilities, and the U.S. followed with strikes using bunker-busting weapons on Iran's deeply buried nuclear sites. Iran responded, leading to an unprecedented escalation. This heightened tensions in the Middle East and raised fears about the safe passage through the Strait of Hormuz, causing a sharp spike in oil prices. However, as the term "12-Day War" suggests, Iran's retaliation was restrained, and both sides agreed to a ceasefire, preventing further escalation and allowing prices to stabilize.

Excluding these exceptions, WTI has essentially remained in the $60 range since late February 2025. This could be described as a period of "stable oil prices." However, many argue that this "stability" lacks consistency with the actual supply-demand balance and market expectations. Specifically, the ongoing "oversupply" in the international oil market since the beginning of 2025 does not align well with the observed price stability.

For example, the September edition of the IEA's Monthly Oil Market Report—one of the most

important references for analyzing global oil supply and demand—shows that while there was a demand surplus of 400,000 B/D in Q4 2024, Q1 2025 saw a supply surplus of 1 million B/D, and Q2 expanded to 1.9 million B/D. Furthermore, the report forecasts continued oversupply of 1.9 million B/D in Q3 and a significant increase to 3.1 million B/D in Q4. In such a context, it is not easy to explain how crude oil prices have remained in the $60 range for nearly six months.

Various attempts have been made to answer this question. One explanation is the presence of upward pressure factors that counterbalance the downward pressure. That is, while economic uncertainty continues to exert downward pressure on prices, geopolitical risks—such as the Iran issue and strengthened sanctions on Russian oil—act as upward forces, supporting prices. Additionally, the initial shock from Trump's tariff policies has subsided due to successful negotiations with major countries, reducing uncertainty. Although the agreed tariff rates are higher than pre-Trump 2.0 levels, they are lower than initially proposed, easing market concerns.

However, beyond these interpretations lies a more fundamental question: how should we view the actual state of "oversupply"? One of the most significant factors includes reported China's crude oil purchases for strategic reserves. Many market participants have noticed China's aggressive buying since the beginning of the year. Some estimates suggest that China is purchasing around 500,000 B/D for stockpiling. Historically, China has increased its purchase for reserves when prices are relatively low, and it appears to be following that pattern again this year. While accurate statistics on China's strategic purchases are difficult to obtain, if the estimated volume is close to reality, the impact is substantial. For reference, the IEA report estimates global oil demand growth in 2025 at 730,000 B/D, meaning China's stockpiling could nearly match that figure.

Purchases for strategic reserves result in increased inventories. However, this is different from surplus supply being stored as excess inventory. From a market perspective, these purchases represent "additional demand," and even if inventories rise, they do not constitute "oversupply" in the traditional sense. If this additional demand is helping maintain the supply-demand balance, it could explain why downward pressure on prices has not been as strong.

On the supply side, it is also noteworthy that actual production increases by the OPEC-plus have been significantly smaller than announced. According to the IEA, while the announced increase through September was 2.5 million B/D, actual increases amounted to only 1.5 million B/D. For October, the OPEC-plus has announced a further increase of 137,000 B/D, but only a few countries like Saudi Arabia, are capable of delivering, meaning the overall increase will likely remain limited. This also helps mitigate downward pressure on prices.

Of course, this does not guarantee that crude oil prices will remain in the $60 range going forward. For instance, it is uncertain how long China will continue its reported strategic purchases. The global economy still faces downside risks. Depending on future developments, a genuine "oversupply" could emerge, leading to the anticipated price decline. Conversely, escalating geopolitical risks in Iran or Russia could drive prices upward. The international oil market remains highly uncertain, and this uncertainty may eventually bring an end to the current "stable price" phase.

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