

MARKETING MATERIAL

CHINA COMMENT

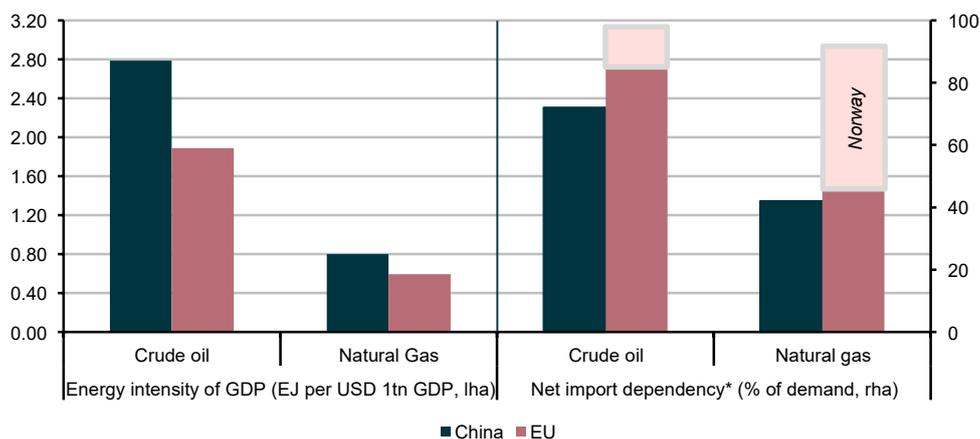
Iran war raises downside risk for China growth

China is exposed to higher oil and gas prices and also needs to replace physical crude barrels and LNG cargoes if disruption around Hormuz persists. Even so, China has more buffers than many may assume. Domestic output, rising pipeline imports, gas-to-coal switching, cargoes already afloat and sizeable inventories cushion a temporary shock – even one which lasts a few months. We do not cut our China macro forecasts at this stage. However, the risks are skewed to the downside, and weeks two and three of the Iran war will be decisive: if tanker disruption triggers wide Gulf shut-ins and strikes cause broad damage to energy infrastructure, the case for downgrading Chinese GDP growth increases.

In our recent [Eurozone Update](#), we argued that if the rise in oil and gas prices were sustained, the shock would likely be stagflationary: weaker growth, higher inflation and a more difficult monetary policy trade-off. The European Commission Working Paper model implied that a sustained 10% increase in crude oil prices implies 0.5–0.6pp downside risk to GDP and 1pp upside risk to inflation at peak quarterly impact.

Compared with the EU, China's economy is more energy-intensive and more directly exposed to disruption around the Strait of Hormuz. All else equal, this could imply a bigger negative impact on Chinese GDP. However, China is also much more buffered than Europe, through coal output and oil inventories. With core CPI running at ~1% Y/Y and PPI deflation, there is less concern over the inflationary impact for the PBOC. We do not cut our China macro forecasts meaningfully yet. More importantly, China is also exposed to second-order impacts of price spikes on Emerging Markets growth: important markets for Chinese exporters. Unlike

China and EU: Gas and oil intensity of GDP and import dependency (2024-2025)



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industrialised economies, the ability to subsidise energy costs are much less given fiscal constraints. In the case of prolonged energy-shocks, ‘demand destruction’ is more likely to occur in low/middle-income economies, in our view.

Although the oil markets are increasingly pricing in a longer-term disruption, we think the actual developments during this second and third week of the Iran-war matters more. In our view, the Iranian regime appears to see the war as existential, which raises the risk of escalation and makes the timing of de-escalation inherently hard to predict.

Yet we note that even as strikes continue, both China and the US appear to double down on finding paths to reopen traffic across the Hormuz Strait. Whether they are successful in the coming weeks will tell us whether this is a short-term logistics shock or the beginnings of a more durable supply shock.

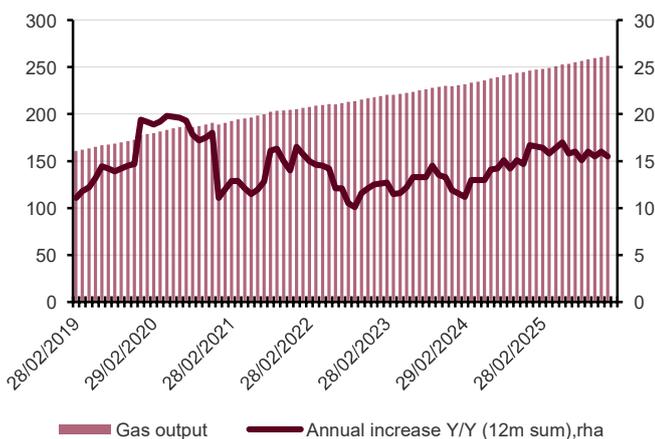
That means watching three things closely: when tanker flows through Hormuz normalise, whether more production systems move closer to tank-top conditions and shut-ins in the Gulf, and whether attacks broaden further towards energy infrastructure after the US and Israel began attacking Iranian oil depots and desalination plants, with Iran retaliating.

Another layer is what the ongoing conflict implies for US-China relations. The planned Xi-Trump summit (31 March – 2 April) is worth watching. Beijing signals it is open to proceeding with the meeting, but the risk is that further escalation in Iran pushes the summit back. Expectations for the trip appear to be more subdued, and a delay would also delay potential new “deals” between China and the US.

Gas-to-coal switching may ease disruption for China

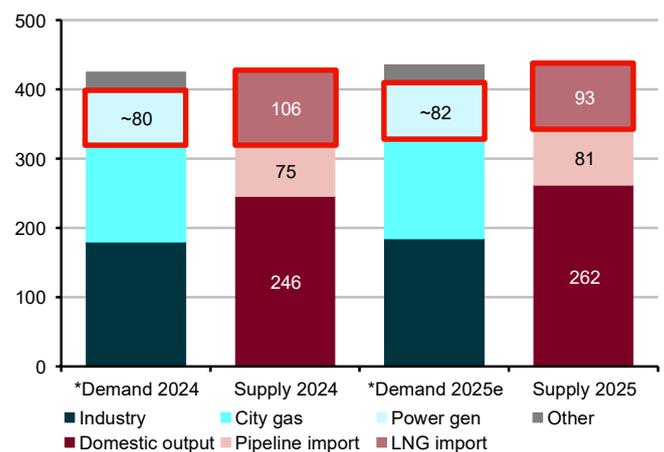
China remains structurally import-dependent on gas, even though domestic output continues to rise steadily adding around 16 BCMa. Pipeline gas and LNG covered 18% and 21% of demand respectively. Pipeline gas has been rising and is not directly exposed to the Iran/Hormuz shock because China’s main pipeline imports come overland from Central Asia, Russia and Myanmar on long-term contracts.

China: Domestic gas output, and change Y/Y (BCMa)



Source: Bloomberg, DNB Carnegie (Mtpa reported by NBS recalculated to BCMa)

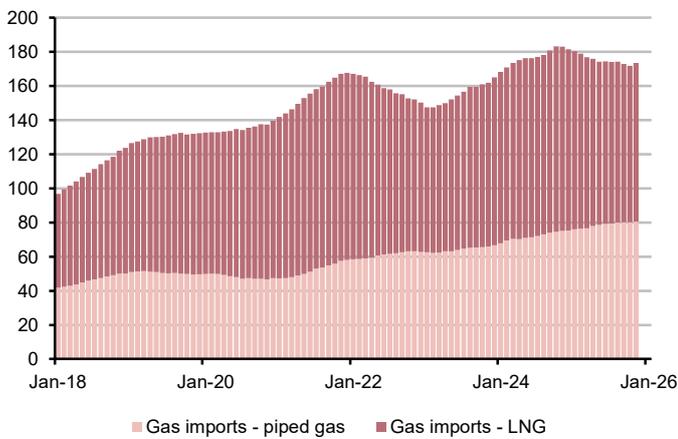
China: Gas demand and supply, 2024-2025e (BCMa)



Source: Columbia SIPA, Bloomberg, DNB Carnegie (*Data replicated using AI, assuming share of total gas consumption by sector remains similar in 2025e as reported 2024)

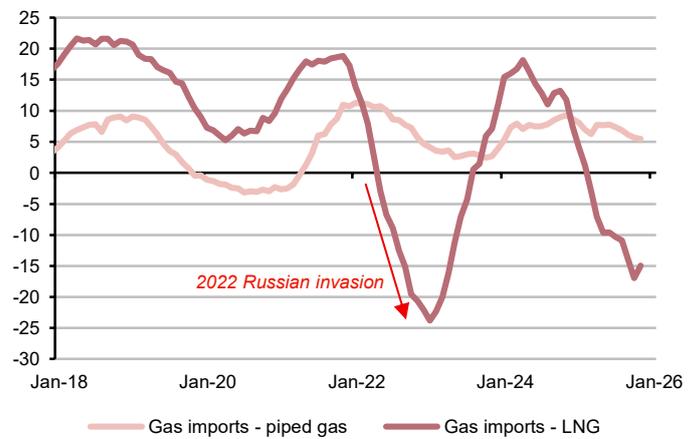
China’s LNG imports, which have fluctuated significantly in recent years, could again act as an adjustment valve for the global market (see charts next page). As in 2022, weaker Chinese demand would free up LNG cargoes for Europe and help cushion the shock there. For Chinese traders, the arbitrage becomes attractive when Chinese LNG imports priced off longer-term and/or oil-linked contracts can be resold into tight spot European gas markets at notably higher prices.

China: Gas imports, 12m sum (BCM/a)



Source: Bloomberg, DNB Carnegie (Mtpa reported by NBS recalculated to BCM/a)

China: Annual change in gas imports, 12m sum Y/Y (BCM/a)



Source: Bloomberg, DNB Carnegie (Mtpa reported by NBS recalculated to BCM/a)

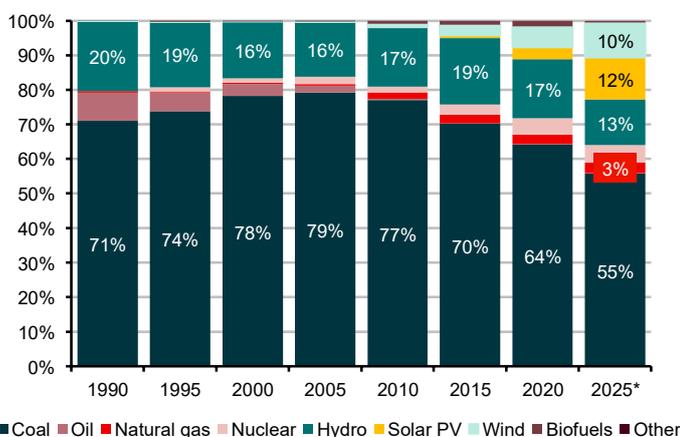
On the demand side, China has some room to reallocate gas use. A meaningful share is used in power generation, creating some scope to switch from gas to coal in order to preserve gas for industrial users. In 2025, Qatar and the UAE accounted for 30% of China's LNG imports, equivalent to roughly 30 BCM per year at risk in a prolonged Hormuz disruption scenario.

In the power sector, China's coal base provides an important backstop. On conservative assumptions, 1 BCM of gas can be replaced by roughly 2.0–2.4 Mt of coal, depending on plant efficiency. Replacing 30 BCM per year entirely with coal-fired generation would require around 60–72 Mt of coal per year. That is material, but still small relative to the scale of China's domestic coal system. China's domestic coal output has increased by more than 1,100 Mt in cumulative terms since 2019. Province- and plant-level constraints limit how quickly gas can be swapped for coal, but in a prolonged severe LNG shock the binding constraint may be carbon targets rather than coal supply or generation capacity.

Coal can offset LNG disruption at the power-system level, preserving gas for industry.

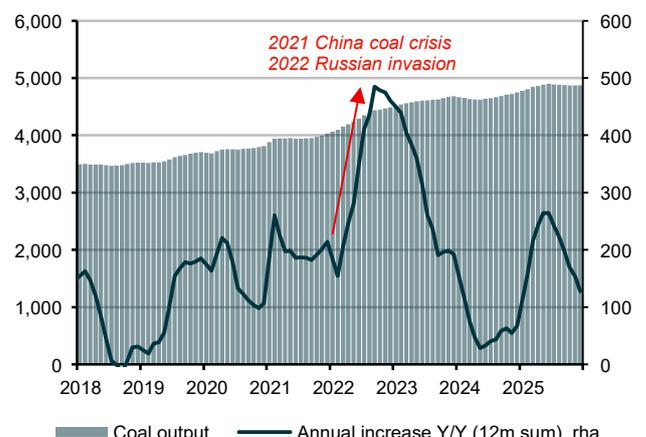
Another important source of gas demand is city gas, including residential and commercial heating and cooking, and transport use. That demand is harder to substitute with coal. However, the winter heating season is ending, and replacement LNG cargoes would not start to matter until late March.

China: Electricity generation by source (% total)



Source: IEA, Rystad Energy, Bloomberg NEF, DNB Carnegie (*Data replicated using AI)

China: Domestic coal output, and change Y/Y (Mt per year)



Source: Bloomberg, DNB Carnegie

Industrial penalty likely heavier for Europe than for China

Higher gas prices are clearly negative for energy-intensive industries outside the US. Because US gas remains priced off Henry Hub rather than LNG benchmarks, US industry retains a durable power-cost advantage over LNG-importing economies. For instance, the IEA estimates that electricity prices for energy-intensive industries in the EU remained roughly twice US levels and still around 50% above China's and India's (see chart next page).

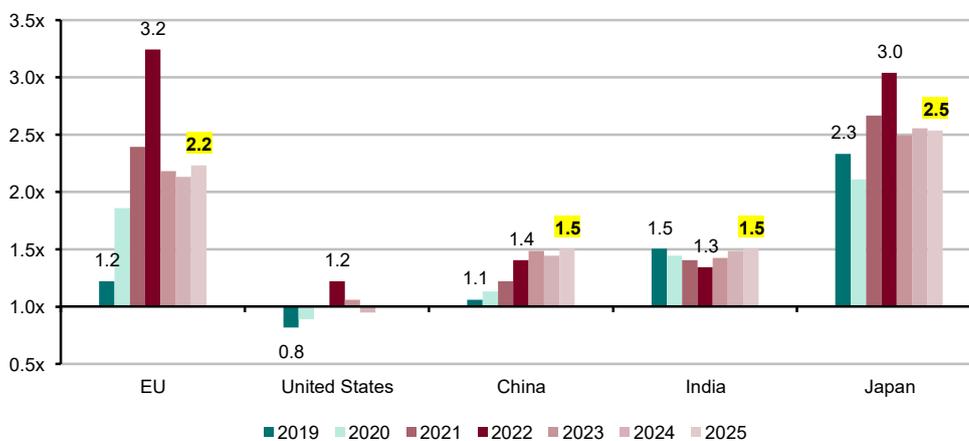
That matters because Europe's vulnerability is not just to volatility in gas prices themselves, but to the way gas shocks spill into wholesale power prices and, in turn, industrial margins. A useful guide was the 2022 energy shock, which was materially more severe for the EU and Japan than for China and India. The broader issue is therefore structural competitiveness: repeated energy shocks do not just compress profits temporarily; they risk hollowing out Europe's energy-intensive industrial base.

China is not immune, but its industry is significantly better shielded by access to domestic coal and by the scale of its build-out in nuclear, renewables, grid infrastructure and battery storage. Our reading of the draft 2026–2030 Five Year Plan (see [China Comment: Key take-aways from 'Two Sessions'](#)) is that Beijing is trying to deepen exactly those buffers through greater grid integration, more storage, more flexible coal and lower marginal power costs over time.

The Iran conflict deepens the same structural divide, as a renewed gas price shock would support US re-industrialisation increasing competition and weaken the competitiveness of Europe's energy-intensive industrial base absent subsidies to cap prices.

Gas shocks risk structurally hollowing out Europe's energy-intensive industry

Electricity prices for large industrial users in energy-intensive sectors Index, US level in 2025 at ~USD 50/MWh = 1x



EU energy-intensive industries have faced power costs around 2.2x those of US peers in 2023–2025

Source: IEA [Electricity 2026](#) and DNB Carnegie (*underlying data in chart replicated using AI)
Note: Values for 2025 are IEA estimates.

China's oil stockpiles should cushion months of Iran shock

China produced a record 216 million tonnes (Mt) of crude oil domestically in 2025, equivalent to nearly 4.3 million barrels per day (mb/d). Even so, that still left it structurally dependent on imports for nearly three quarters of crude oil supply. Crude imports reached 558 Mt, or 11.6 mb/d, and roughly half came from the Middle East; official customs data show 42% came from Saudi Arabia, Iraq, the UAE, Oman, Kuwait and Qatar alone.

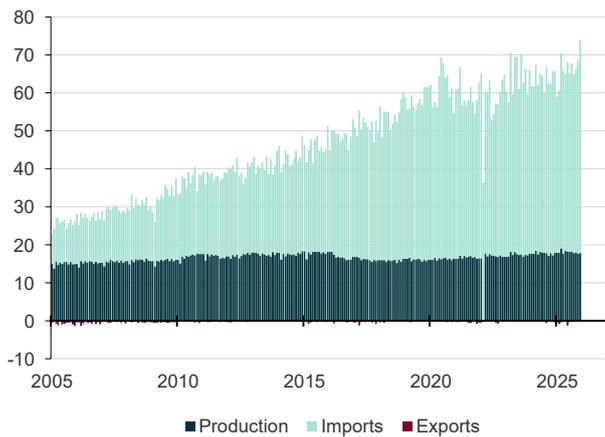
Chinese customs no longer report Iranian crude directly, tanker-tracking estimates suggest China imported about 1.4 mb/d from Iran in 2025, equivalent to roughly 12% of total crude imports (Kepler). The true number is harder to pin down because sanctioned barrels are often relabelled after ship-to-ship transfers. The bottom line is that roughly 42–50% of China's crude

42-50% China's crude oil import remains tied, directly or indirectly, to flows through or near the Strait of Hormuz

import mix remains tied, directly or indirectly, to flows through or near the Strait of Hormuz. By contrast, the Middle East accounts for only around 5% of Europe's crude import mix.

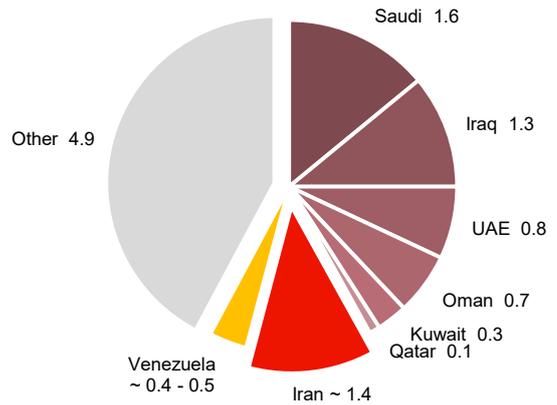
Venezuela matters too, but mainly at the margin. February exports from Venezuela to Asia fell sharply, but Vitol and Trafigura have since been marketing March cargoes to Chinese refiners under US authorisations.

China: Oil production plus net crude imports (Mt/month)



Source: NBS official data as reported, Bloomberg, DNB Carnegie

China: Crude oil imports by region 2025 (mb/d)



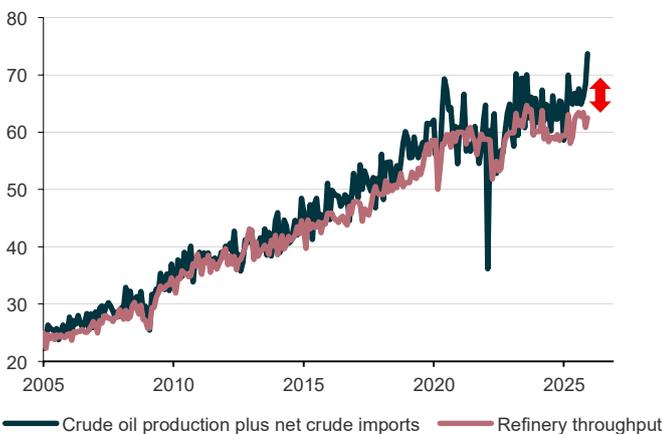
Source: Kpler, Vortexa, NBS, China Customs, Bloomberg, DNB Carnegie

Unlike Europe, which is hit by a stagflationary shock through higher global oil prices, China also faces a physical barrel replacement need. That said, China enters this episode with meaningful buffers.

Cargoes already loaded would still arrive with a lag, Iranian and Gulf exporters appear to have accelerated shipments ahead of the conflict, and Reuters cites around 30mn barrels of Iranian floating storage near Malaysia and China. Russian crude may offer an additional offset: the US has issued a 30-day waiver allowing India to buy Russian crude, and Treasury Secretary Scott Bessent has said Washington could ease sanctions on more Russian barrels. That could allow more Russian oil to be redirected into Asia, including China, before inventory draws become necessary.

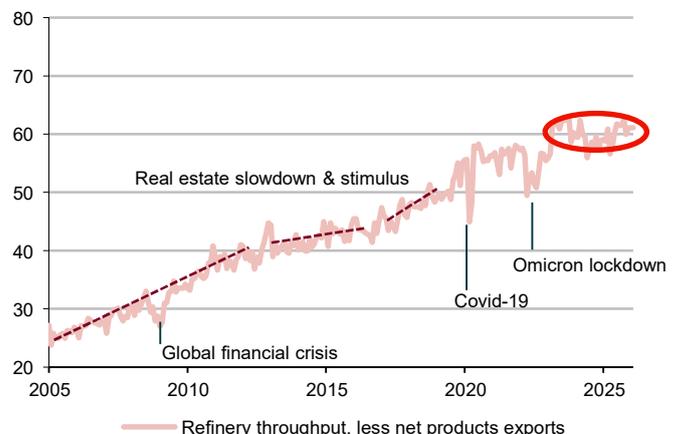
China enters this episode with meaningful better buffers.

China: Missing oil barrels signal stockbuild (Mt/month)



Source: NBS official data as reported, Bloomberg, DNB Carnegie

China: Implied domestic demand has plateaued (Mt/month)



Source: NBS official data as reported, Bloomberg, DNB Carnegie

Although there are no official data on Chinese strategic reserves, some analysts estimate around 900mn barrels in strategic stocks and 1.3bn barrels in total crude inventories (Kepler). On that basis, Beijing appears to have enough stock to smooth a temporary disruption through inventory draws rather than immediate demand destruction. China does not publish full inventory data, but the widening gap between crude available for refining and reported refinery throughput is consistent with substantial stockbuilding. That gap is difficult to explain by refinery processing gains alone and suggests that a meaningful share of crude has gone into storage.

The 'missing barrels' are consistent with meaningful crude stockbuilding to over 1.3bn barrels

The more serious risk is a prolonged closure of the Strait that pushes the system towards tank-top conditions. Once production and export storage fill up, the issue is no longer delayed deliveries but the inability to clear crude from the production system. That is when shut-ins begin. Iraq has already cut production by nearly 1.5 mb/d, and officials told Reuters the cut could widen materially as storage fills. Kuwait and the UAE have begun cutting production at some fields too, and other Gulf producers, such as Saudi Arabia, would face this pressure soon.

China fears the 'logistics shock' in Hormuz becoming a more durable supply shock

Once fields are shut in, restarting output can take days, weeks or months, depending on field characteristics. That is the point at which an acute logistics shock becomes a more durable supply shock lasting months not days. In our view, both China and the US have a strong interest in restoring safe tanker passage through the Strait to prevent the war from becoming a more prolonged supply shock. The US has already said its navy could escort tankers if needed, and is working to restore marine insurance cover. Whether that is enough remains uncertain.

One practical way to think about China's pain tolerance is this: if Beijing were willing to draw down just *half* of its estimated 1.3bn barrel stocks, that would cover roughly *three months* of China's Hormuz-exposed import. Should the Strait reopen after three months, the remaining half would cover an additional one full year of a complete Iran-plus-Venezuela shortfall. Of course, not all inventories are equally usable in practice, given location, refinery configuration and crude-quality constraints. China is unlikely to fully draw down inventories in practice, but it gives a sense of the scale of inventories.

Half of China's inventories covers 3 months of total loss of all its Gulf imports

In addition, OECD economies hold substantial stocks too, which may soon be released along with voluntary and coordinated demand side measures.

A closure of the Strait lasting months rather than weeks would imply a major oil-market shock, with clear implications for global growth and rates. In that scenario, we would expect a more pragmatic US response if energy prices remained high for long enough to destabilise markets.

Strikes on energy infrastructure is a key risk ahead

Keeping our China macro estimates also assumes the conflict does not materially broaden into sustained attacks on energy infrastructure — this is an assumption that is becoming harder to maintain. Israel has on March 8 expanded attacks to fuel depots and oil storage facilities near Tehran, while an Iranian desalination plant has been attacked by the US. The Iranian regime has retaliated with attacks in Bahrain and averted attacks elsewhere. We cannot rule out further escalation. If production facilities are severely damaged in strikes, the time frame for returning barrels (or tonnes) to market will be materially longer than simply restarting after shut-ins.

For China, however, a even worse case scenario is a prolonged conflict inside Iran that leaves the country fragmented and destabilised, and its roughly 3.3 mb/d of crude supply severely impaired for years. We have little basis at this stage for assigning a high-conviction probability to that scenario (or any other scenario). However, notably, Beijing's ability to shape the post-war outcome in Iran is likely limited in our view, thus increasing the incentive for China to double down on policies aimed at reducing energy import dependence.

Conclusions: Short-term uncertainty, structural implications

It is too early to meaningfully cut our China GDP and macro forecasts on the current oil and gas shock alone. Prices currently appear to be trading in a headline-driven squeeze, with high volatility. The risks for escalation and de-escalation are political and difficult to predict.

For oil, China still has meaningful buffers in cargoes afloat, strategic reserves and commercial inventories. The downside risk rises if disruption persists long enough to overwhelm those buffers or if the conflict causes lasting damage to Middle East oil supply.

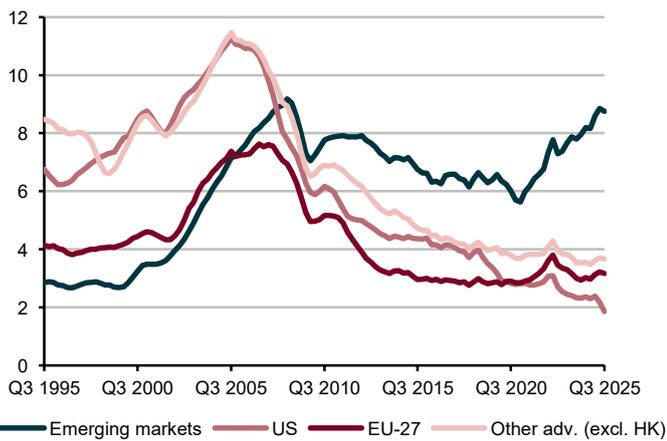
On gas, China is better shielded than many economies through domestic coal, rising pipeline imports and some scope for gas-to-coal switching. While softer Chinese LNG demand could help free cargoes for Europe, the broader fallout risks reinforcing relative power-price divergence supporting US reindustrialisation and adding to Europe's deindustrialisation risk.

To us, the structural point is important. China is still adding around 28 million new cars a year, yet Chinese gasoline demand has already peaked/plateaued and implied domestic oil demand has been broadly flat. We think the current shock will reinforce Beijing's push to reduce reliance on imported crude. To the extent China's electrification and energy-system build-out can be exported to other emerging markets, the latest oil price spike could hasten not just China's oil peak, but the broader plateau in emerging-market oil demand. On the other hand, geopolitical instability means that the case for building up strategic stocks has also received a boost.

No meaningful downgrade to GDP yet — but downside risk rises sharply if logistics turn into sizable lasting supply loss or strikes escalate

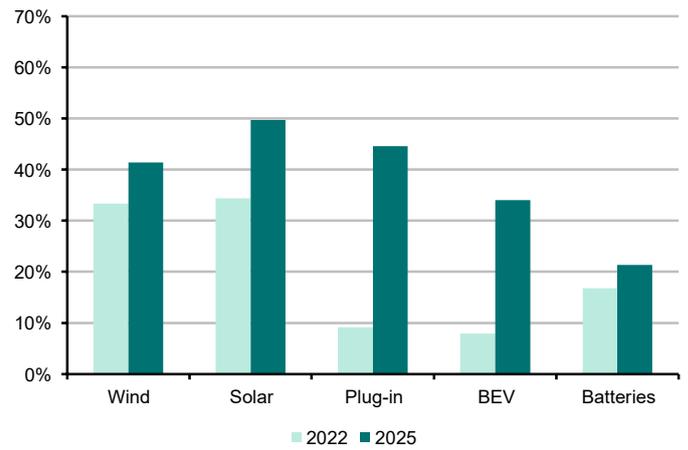
If China's 'new energy system' travels, it could hasten the slowing in emerging-market oil demand growth

China: Export value per region, share of Chinese GDP (%)



Source: IMF, LSEG Workspace, and DNB Carnegie

China: 'Green' exports to low/middle-income countries (%)



Source: Bloomberg NEF, Sinoimex and DNB Carnegie

We will return with more on China's 2026–30 Five-Year Plan for its 'new energy system'.

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