SECURITY INTELLIGENCE BRIEFING

The Hormuz Shock: How the 2026 Strait Crisis Is Redrawing China's Oil and Gas Map

Assessing China's exposure, response, and the structural divergence between its oil and gas import dependence

~72%	~44%	-95%	~120 days
Crude oil import dependence	Gas import dependence	Hormuz transit collapse	China's SPR cover

July 2026

Executive Summary

The 2026 Strait of Hormuz crisis — triggered by the US–Israel military campaign against Iran and Tehran's parliamentary vote to authorise closure of the strait — has delivered the sharpest test of Asian energy security in a generation. Daily vessel transits through the 21-nautical-mile chokepoint collapsed from roughly 130 to as few as six by March 2026, and China's June 2026 customs data recorded a 41% year-on-year fall in crude oil imports. As the single largest destination for Hormuz-transiting crude — importing around 5.4 million barrels per day through the strait in early 2026, more than double its Russian pipeline volumes — China sits at the epicentre of this shock.

Yet the crisis has not produced the price spiral or supply collapse many analysts initially feared. China entered 2026 with roughly 1.39 billion barrels in storage (about 120 days of net import cover), pre-crisis stockpiling that lifted imports 16% in January–February, and a two-decade-long diversification programme that has already cut its dependence on seaborne Hormuz flows to 40–50% of maritime imports. The result is a China that is absorbing the shock rather than being destabilised by it — while using the crisis as the catalyst to accelerate a supply-security pivot that was already underway.

This briefing examines three things: how the Hormuz crisis has hit China's energy trade, the concrete diversification moves — pipelines, LNG contracting, reserves, and demand-side substitution — that Beijing is deploying in response, and why China's oil and gas import dependence, though both structurally high, differ in scale, composition, and vulnerability in ways that matter for how the crisis plays out.

1. The 2026 Hormuz Crisis: Anatomy of the Shock

Hostilities escalated in late February 2026 after US and Israeli strikes on Iranian nuclear facilities prompted Iran's parliament to approve closure of the Strait of Hormuz, with implementation left to the Supreme National Security Council. Roughly a fifth of global oil consumption — and close to 20% of global LNG trade — normally transits this single corridor, which carries crude, condensate and refined products from Saudi Arabia, the UAE, Iraq, Kuwait, Qatar and Iran with almost no viable alternative routing for most Gulf producers.

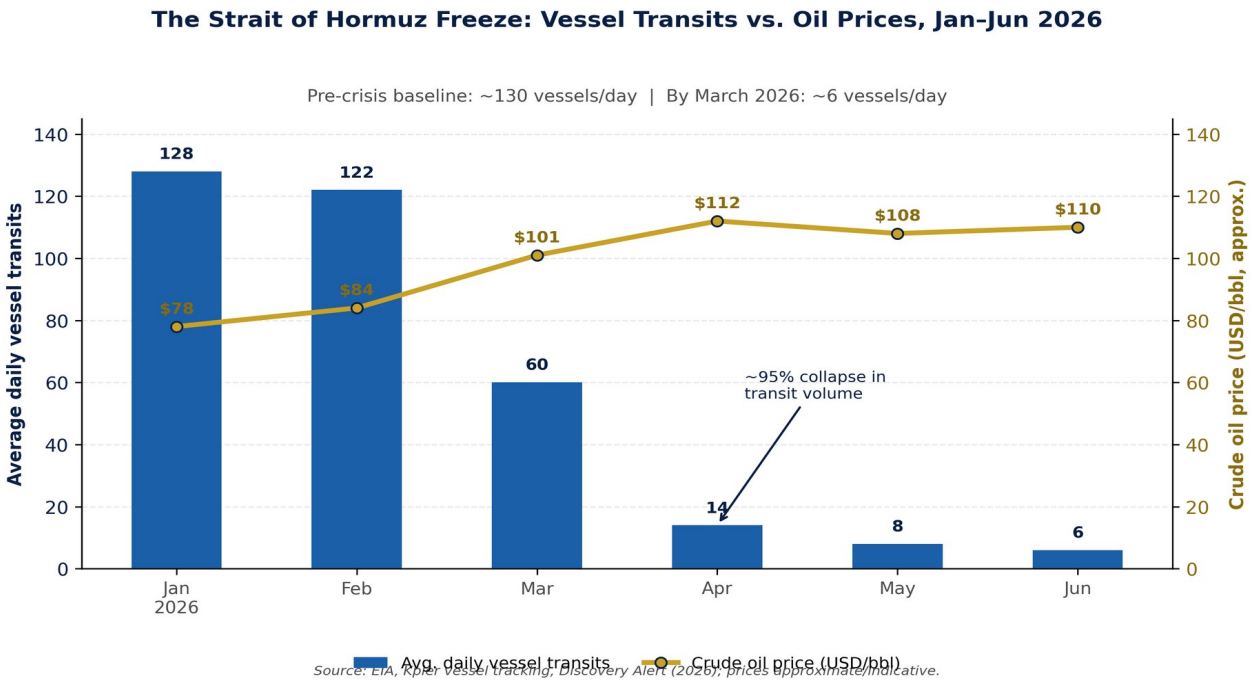


Figure 1: Average daily vessel transits through the Strait of Hormuz collapsed roughly 95% between January and March 2026, coinciding with a run-up in crude prices past $110/bbl.

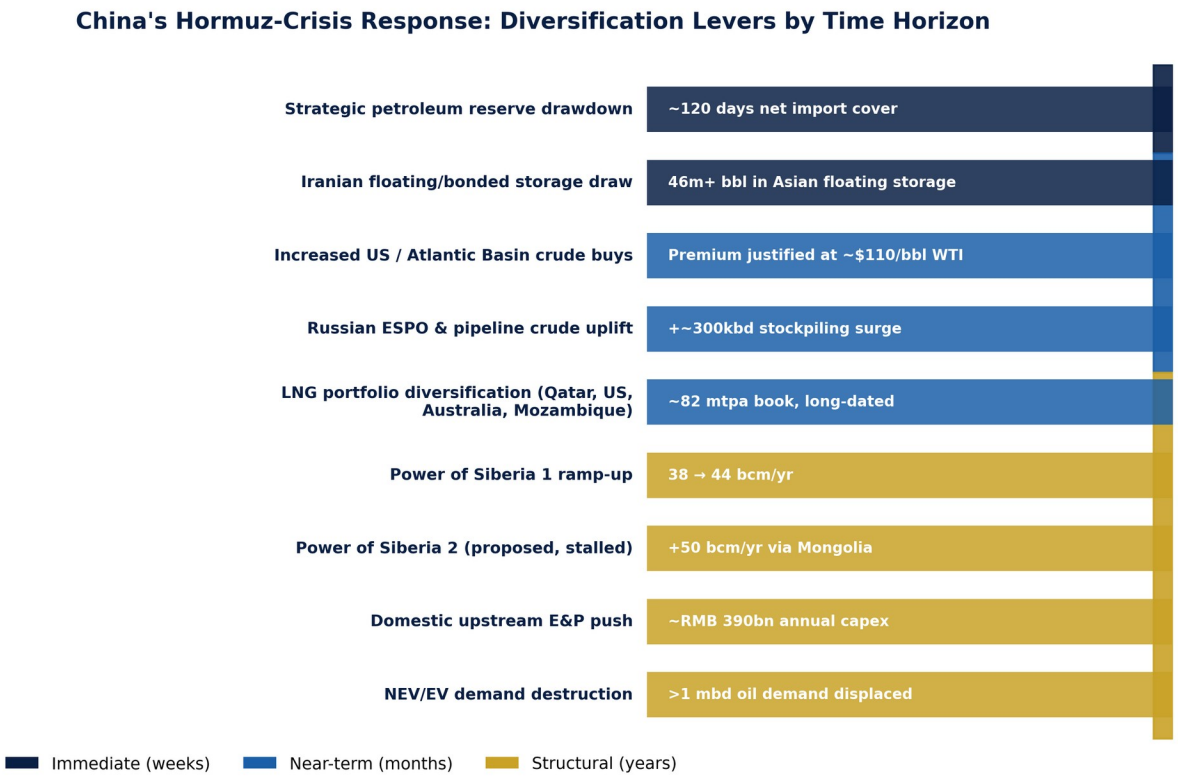
Asia carries the concentrated exposure: China, India, Japan and South Korea together account for an estimated 69% of all Hormuz flows, with China alone the single largest historical destination for Hormuz crude every year since at least 2020. China's June 2026 trade data showed the impact in hard numbers — total crude inflows falling to 29.27 million tons (about 7.1 million barrels per day equivalent) as contracted Gulf cargoes went undelivered and spot procurement seized up.

> ***"The near-total freeze on tanker traffic effectively severed the most direct supply corridor connecting Persian Gulf producers to their largest customers. This was not a gradual decline — it was an abrupt wall."***

China's near-term response drew on assets built up well before the crisis. Anticipating the risk of a US–Iran confrontation as tensions built through early 2026, Chinese refiners front-loaded purchases, lifting oil imports 16% in January and February for stockpiling purposes, while Russia raised pipeline and seaborne deliveries by roughly 300,000 barrels a day. China also holds an outsized position in Iranian crude specifically — more than 90% of Iran's oil exports flow to China, with over 46 million barrels held in floating storage across Asia and in bonded tankage at the ports of Dalian and Zhoushan, giving Beijing a buffer that most other importers lack.

2. China's Diversification Response

China's reaction to the crisis has run on two tracks simultaneously: immediate buffering using reserves and alternative crude grades, and an acceleration of the structural pivot away from Gulf-Hormuz dependence that Beijing has pursued for two decades. Analysts note China now relies on the strait for only 40–50% of its seaborne oil imports, down from a far higher share a generation ago, reflecting sustained investment in overland pipelines, non-Gulf sourcing and, increasingly, demand-side substitution through electrification.



Source: CGEP Columbia SIPA, Bruegel, Deluair Consultancy, East Asia Forum, CNBC (2026 reporting).

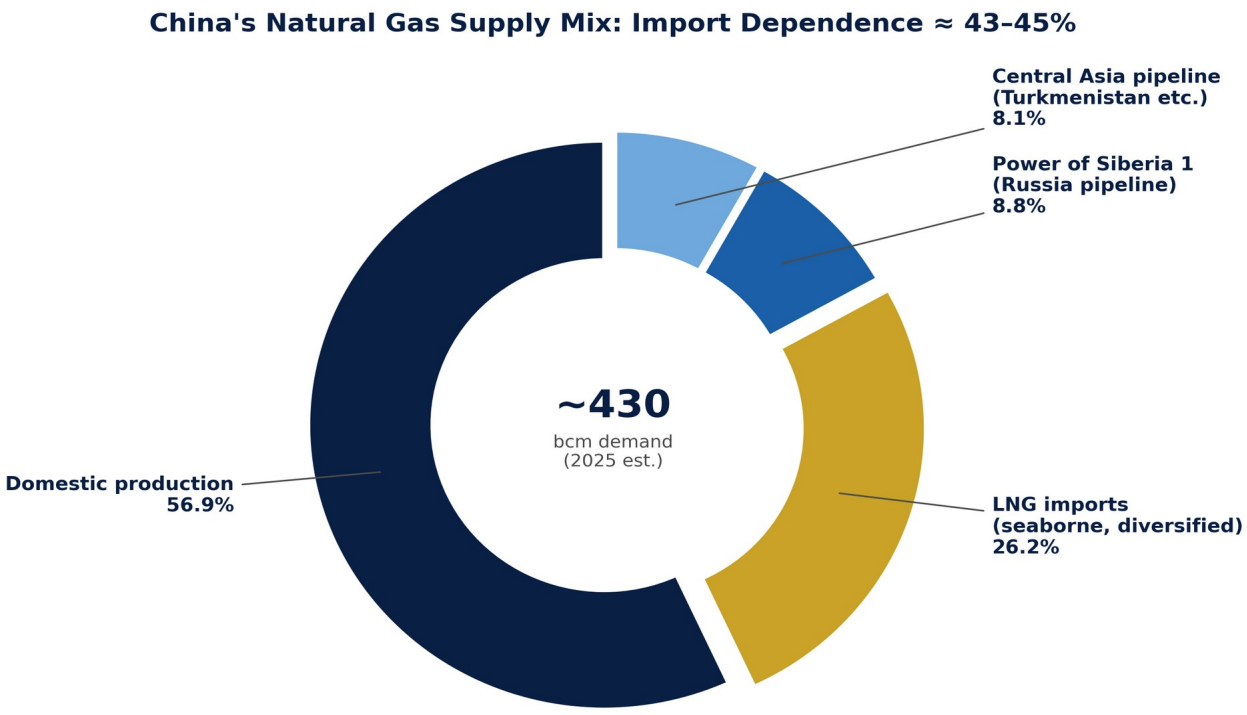
Figure 2: China's response spans immediate reserve drawdowns, near-term substitution toward Atlantic Basin and Russian barrels, and structural pipeline, upstream and demand-side levers.

2.1 Crude oil: reserves, alternative grades, and Atlantic Basin barrels

- Strategic and commercial reserve drawdown: with roughly 120 days of net-import cover in storage, China can absorb a multi-month Gulf disruption without rationing.
- Iranian floating and bonded stocks: over 46 million barrels already in Asian floating storage and Chinese bonded tanks reduce the immediate need for fresh Hormuz-transiting cargoes.
- US and Atlantic Basin crude: with WTI trading near $110/bbl, the supply-security premium of non-Gulf barrels increasingly outweighs the extra freight cost; Chinese buyers — and reportedly President Xi himself in discussions with US counterparts — have signalled interest in expanding US crude purchases, alongside continued reliance on West African and Latin American grades.
- Russian pipeline and ESPO crude: Russia lifted exports to China by roughly 300,000 barrels/day during the stockpiling surge, though Moscow's spare capacity is far smaller than the Gulf volumes it is displacing.

2.2 Natural gas: pipelines, LNG contracting, and price leverage

China's gas diversification is structurally different from its oil strategy because gas arrives through a genuinely mixed portfolio of overland pipelines and seaborne LNG, rather than being concentrated in tanker flows from a single chokepoint. Domestic production still covers the majority of the roughly 430 billion cubic metres (bcm) of gas China consumed in 2025, with Central Asian pipeline gas (chiefly Turkmenistan), Power of Siberia 1 Russian pipeline gas, and a large and increasingly diversified LNG book covering the remainder.



LNG book diversified across Qatar (~17 mtpa, 27-yr contracts), Australia, Mozambique Coral South & resumed US cargoes.
Power of Siberia 2 (50 bcm/yr proposed via Mongolia) would raise pipeline share further but remains stalled on pricing as of mid-2026.

Source: NDRC/CNPC ERIC estimates, Deluair Consultancy (2026), East Asia Forum.

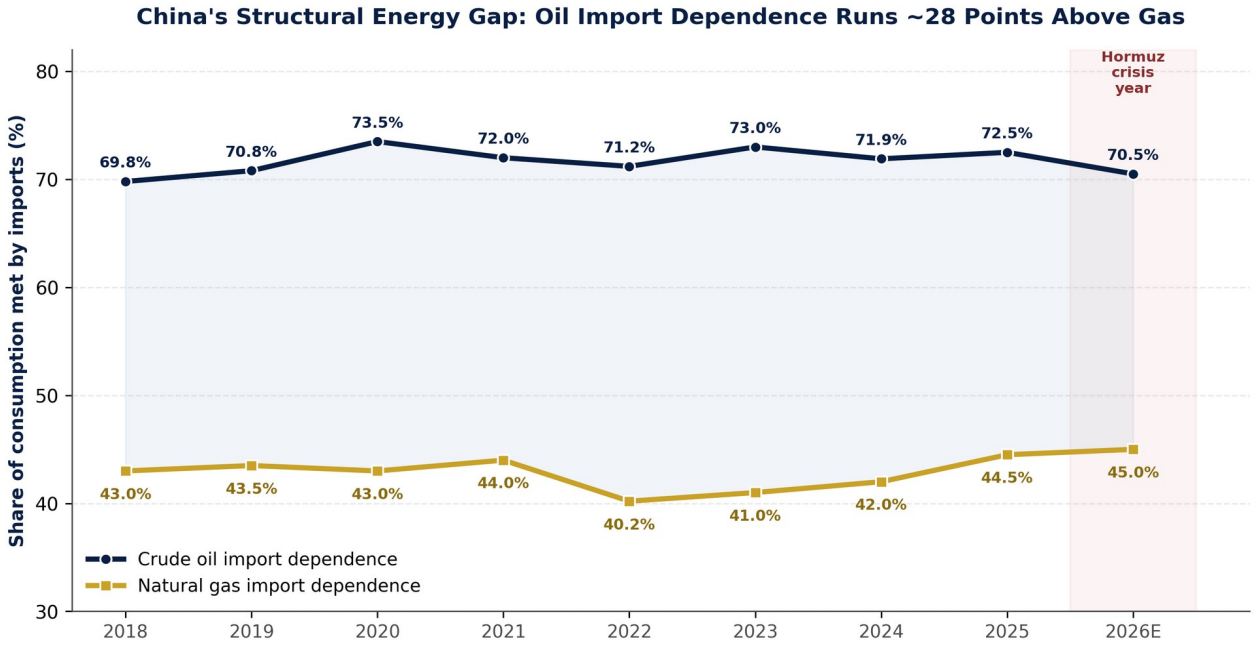
Figure 3: China's gas supply mix leans heavily on domestic output and a diversified LNG book, giving it more flexibility than its oil position.

The centrepiece of China's pipeline diversification push is Power of Siberia 2 (PoS2), a proposed 2,600-kilometre, 50 bcm/year line running from Russia's Yamal fields through Mongolia. Xi, Putin and Mongolia's president signed a legally binding memorandum on the project in September 2025, alongside an agreement to lift Power of Siberia 1 deliveries from 38 to 44 bcm/year. As of mid-2026, however, PoS2 remains stalled: Beijing's opening price bid sits far below the roughly $240–280 per thousand cubic metres China already pays for PoS1 gas, and Chinese negotiators have reportedly told Moscow to stop raising the subject. China's leverage stems from having options — its 2025 LNG book already includes roughly 17 million tonnes per annum (mtpa) in 27-year contracts with QatarEnergy signed with Sinopec, CNPC and PetroChina, plus Mozambique's Coral South floating LNG, established Australian supply, and a recently resumed flow of US LNG cargoes after a year-long pause.

- Domestic production covers an estimated ~57% of demand, underpinned by shale gas, coal-bed methane and rising conventional output.
- Central Asian pipeline gas (~35 bcm/year, chiefly Turkmenistan's Galkynysh field via Uzbekistan, Tajikistan and Kyrgyzstan) is being expanded with the planned Line D, adding a further ~30 bcm/year capacity.
- Power of Siberia 1 is ramping toward 44 bcm/year, while PoS2's additional 50 bcm/year remains a bargaining chip rather than a committed supply.
- LNG diversification gives China the fastest-moving lever: new supply purchase agreements can be signed in months, unlike multi-year pipeline construction timelines.

3. Comparing China's Oil and Gas Import Dependence

China is simultaneously the world's largest crude oil importer and its largest natural gas importer, but the two dependencies are not equivalent in scale, composition, or strategic risk. Understanding the difference is central to reading how exposed China really is to a Hormuz-style shock.



Source: CNPC ERIC 2025/2026 Outlook, EIA China Country Analysis Brief, Andaman Partners (2025). 2026 figures estimated.

Figure 4: China's crude oil import dependence has held in the 70–74% range since 2018, roughly 28 percentage points above its natural gas import dependence of 42–45%.

Oil import dependence has hovered around 70–74% of consumption for most of the past decade, and CNPC's own 2025 industry outlook projects it will remain near 70% through the 2026–2030 period covered by China's 15th Five-Year Plan, even as demand-side electrification erodes absolute consumption growth. Gas import dependence, by contrast, has moved in a narrower band around 40–45%, edging upward in 2025–2026 as LNG imports grow faster than domestic production.

The gap exists for structural reasons rather than policy choice alone. China's proven oil reserves and production growth have plateaued relative to a refining base that is the world's second largest, leaving a persistent and largely irreducible import gap that new exploration investment — roughly RMB 390 billion a year across CNPC, CNOOC and Sinopec — can only slow, not close. Gas, by contrast, benefits from three advantages oil lacks: a much larger relative domestic resource base (shale and coal-bed methane still in early development), a ready substitute in coal that still supplies more than half of China's primary energy, and a delivery system split between pipelines and LNG that is inherently harder to disrupt at a single chokepoint than oil's concentration in seaborne Gulf tanker flows.

Dimension	Crude Oil	Natural Gas
Import dependence, 2025	≈ 72–74%	≈ 44–45%
Primary import mode	~65–70% seaborne tanker	Mixed: pipeline + LNG
Domestic substitutability	Limited — reserves plateauing	Higher — shale, coal-bed methane, coal-to-gas
Alternative domestic fuel	None at scale (EVs erode demand, not supply	Coal (~55% of primary energy) is a ready

	gap)	substitute
Strategic buffering	~120 days via SPR + commercial stocks	Storage far thinner; more flow-dependent
Hormuz exposure	45–50% of crude imports; ~34% of total consumption	LNG transits Hormuz too, but a smaller absolute share
Diversification trend	Structural but slow (decades-long reserve/pipeline builds)	Faster-moving (new LNG SPAs signed in months, not years)

Table 1: Structural comparison of China's oil versus gas import dependence and vulnerability profile.

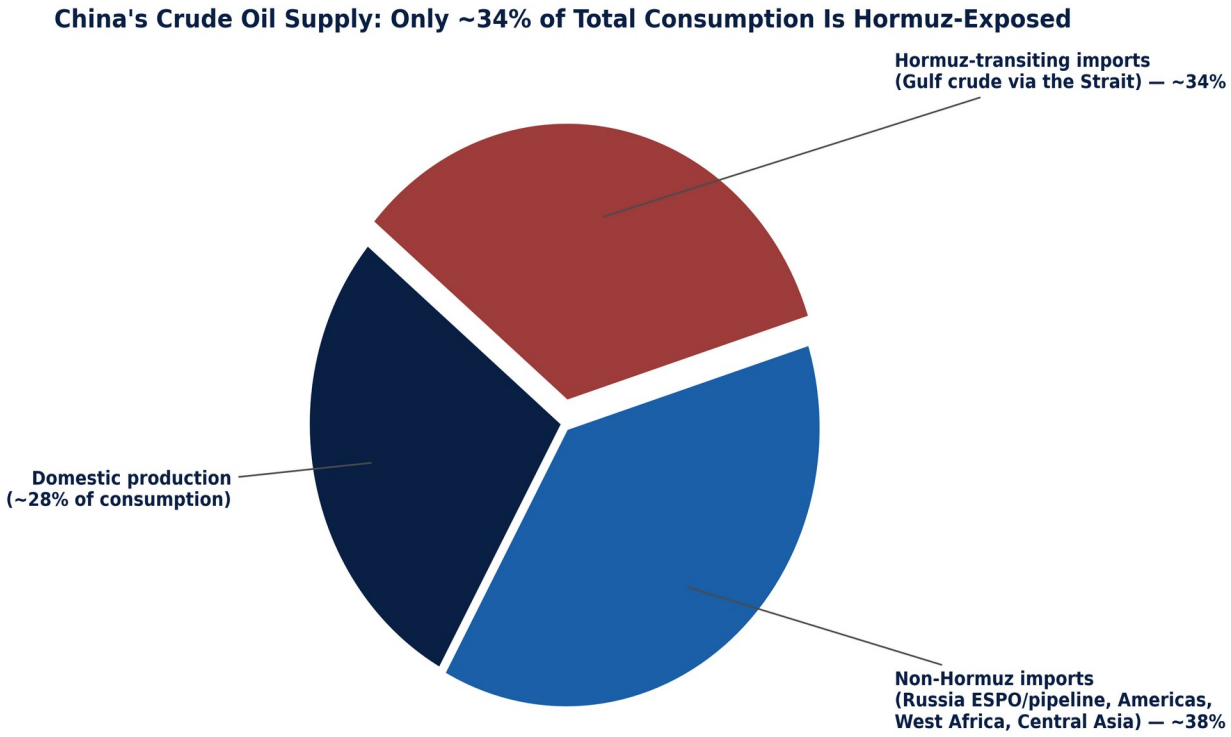


Figure 5: Even a full Hormuz closure would directly threaten only around a third of China's total crude oil consumption once domestic production and non-Gulf imports are accounted for — though the shock to global pricing would still be felt economy-wide.

Nomura's China economics team estimates that oil shipments through Hormuz account for only about 6.6% of China's total energy consumption, with natural gas transiting the same route contributing a further 0.6% — a reminder that headline import-dependence percentages overstate the country's vulnerability to any single chokepoint once the full energy mix, including coal and renewables, is considered. This is the analytical core of why China has weathered the 2026 crisis without the acute disruption seen in 2022's European gas shock: its energy system, while import-heavy, was never single-threaded.

4. Outlook and Assessment

- Near-term (2026): China's reserves and alternative sourcing should allow it to manage a continued partial Hormuz disruption for several more months without physical shortage, though refiners will face margin pressure and buying costs will remain elevated.

- Medium-term (2027–2028): Expect continued LNG contracting momentum (Qatar, US, Australia, Mozambique) to outpace pipeline gas growth, given PoS2's pricing deadlock; a Mongolia-routed Russian pipeline deal remains possible but is not imminent.
- Structural (2030 horizon): Oil import dependence is set to stay near 70% through the 15th Five-Year Plan even as absolute oil demand growth slows, meaning the strategic vulnerability persists even as its economic weight (as a share of energy consumption) shrinks; gas import dependence will likely continue drifting toward 45–50% as coal-to-gas switching policy continues, partly offsetting the exposure oil is losing.
- Structural driver to watch: NEV penetration above 50% of new passenger vehicle sales has already displaced over 1 million barrels/day of oil demand — the most consequential long-run lever reducing China's sensitivity to any future strait-of-Hormuz-style shock, oil-specific rather than energy-wide.