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Pricing the Future: China's Ambitions for Commodity Derivatives Markets

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Executive summary

China's efforts to develop commodity futures markets and enhance its influence over commodity pricing are best understood as part of a broader strategy to reduce financial vulnerabilities and increase strategic autonomy within a hierarchical global financial system. Commodity pricing power – defined as the capacity to shape the infrastructures, regulation, participation and currency denomination of derivative markets through which prices are formed – has become an increasingly important component of geopolitical competition. For China, this is not about economic efficiency, but control over the terms under which strategically important commodities are valued and traded.

The global commodity pricing system was historically embedded in a U.S.-centered financial order. Benchmark prices for oil, metals, and agricultural commodities are predominantly determined through futures exchanges located in the United States and its allies. These benchmarks are supported by an ecosystem of market participants, regulatory institutions, and dollar-denominated financial infrastructures. As a result, pricing power is not easily shifted through increases in physical market share alone. Instead, it is sustained through financial regulation, institutional credibility, and network effects of said futures markets.

China's strategy has evolved significantly over the past decade. Initially focused on developing domestic futures markets to support internal price discovery and industrial policy objectives, China has more recently moved toward selectively internationalizing its commodity futures markets. This includes expanding foreign investor access, internationalizing strategically important contracts, building delivery and settlement infrastructures, all aimed at increasing the global use of Chinese benchmarks.

China's position as the world's largest importer of many commodities and its growing role in extracting, processing and refining key materials – particularly in with respect to energy transition supply chains – provides an increasingly important foundation for its pricing ambitions. By aligning its financial market development with its physical dominance in certain commodity sectors, China is thus incrementally increasing the relevance of its pricing mechanisms.

Despite these advances, China's influence over globally recognized benchmark prices remains limited. Chinese futures contracts are widely used domestically and increasingly relevant regionally and in select commodities, but they have not achieved the level of international adoption necessary to rival Western benchmarks. Key constraints include restrictions on capital flows, market intervention, trading limitations, and concerns about transparency and governance.

These features reflect a broader tension in China's approach: efforts to internationalize its markets are pursued alongside a continued commitment to maintaining state control over financial activity. China's approach to commodity pricing power is best characterized as one of controlled internationalization. This model has proven effective in supporting domestic stability and industrial development, but it also limits the extent to which Chinese markets can serve as globally trusted price discovery mechanisms.

Looking ahead, China is likely to continue pursuing its gradual strategy to enhance its pricing power. This will involve further expanding foreign access to its futures markets, promoting the use of the renminbi in commodity transactions, and strengthening the integration between physical supply chains and financial markets, particularly in strategically important commodities such as energy, critical minerals, and metals.

The most likely outcome is not the replacement of existing global benchmarks, but the emergence of a more fragmented, multipolar pricing system in which Chinese benchmarks play a growing role alongside established ones. Such a development would have important implications for the United States. While U.S. exchanges and dollar-based financial infrastructures remain dominant, the gradual expansion of parallel pricing systems could reduce the centrality of existing benchmarks in certain markets and regions, particularly in areas of the Global South where China's economic influence is strongest.

For U.S. policymakers, the key challenge is to understand the drivers of success in commodity pricing – that pricing power ultimately rests on long-term control over the institutions and infrastructures that underpin global markets.

Maintaining U.S. leadership will require sustaining the credibility, openness, and liquidity of its own financial markets, while carefully monitoring the evolution of alternative pricing systems and rebuilding ties with commodity-producing countries in the Global South that might overwise align more closely with China. Efforts to respond to China's strategy should avoid undermining the institutional structures that have historically supported U.S. pricing mechanisms.

1. Introduction: Commodity pricing power in an era of geoeconomic competition

Commodity pricing has long been treated as a technical function of markets – an outcome of supply and demand dynamics mediated through spot markets and trading platforms. Yet in practice, the ability to shape how commodity prices are formed has always been closely tied to financial power. In today's context of intensifying geoeconomic competition, states are increasingly concerned not only with securing access to critical resources, but with influencing the structures through which those resources are priced and traded. Within this broader shift, China's efforts to develop commodity derivatives markets and enhance its role in price formation represent a significant and strategically important development.

China's interest in commodity pricing power (大宗商品定价权) reflects its position within the global economy. As the world's largest consumer as well as importer of a wide range of commodities – including energy, metals, and agricultural products – China is highly exposed to price fluctuations determined largely outside its jurisdiction. The reference prices more many of these commodities have historically been established in futures markets in the United States and its allies. These benchmarks are embedded in dollar-denominated financial infrastructures and supported by dense networks of financial intermediaries and physical commodity traders. For Chinese policymakers, this configuration represents not only an economic vulnerability, but a form of structural dependence within the global financial system.

Understanding China's commodity pricing strategy therefore requires moving beyond a narrow focus on trade flows or physical supply chains. Commodity pricing power is rooted in the ability to shape the infrastructures of price formation – futures contracts, market access, delivery networks, and the regulatory frameworks that govern them. These infrastructures determine which prices are considered authoritative, which contracts are widely used for hedging and settlement, and which currencies underpin global transactions.

This perspective highlights the hierarchical nature of the contemporary global commodity system. A small number of benchmark prices – such as Brent crude oil, West Texas Intermediate, and other key contracts traded on major Western exchanges like the Chicago Mercantile Exchange (CME), Intercontinental Exchange (ICE) or London Metals Exchange (LME) – serve as global reference points. These benchmarks are not simply the result of market efficiency; they are sustained by institutional credibility, regulatory frameworks, and the participation of a broad range of global actors. Once established, such benchmarks benefit from powerful network effects: the more widely they are used, the more indispensable they become. As a result, the global pricing system is path-dependent and resistant to rapid change.

China's efforts to develop commodity derivatives markets must be understood against this backdrop. Over the past two decades, China has built a comprehensive set of domestic commodity exchanges, including the Shanghai Futures Exchange (SHFE), Dalian Commodity Exchange (DCE), Zhengzhou Commodity Exchange (ZCE) and, more recently, the Shanghai International Energy Exchange (INE) and Guangzhou Futures Exchange (GFEX), which now rank among the largest commodity exchanges in the world. These markets have played an important role in

supporting domestic price discovery and facilitating hedging opportunities for Chinese firms. More recently, however, China has begun to pursue a more outward-looking strategy. This includes the introduction of internationally accessible contracts – such as crude oil futures on the Shanghai International Energy Exchange – as well as regulatory reforms aimed at expanding foreign participation in domestic markets such as through the Qualified Foreign Institutional Investor (QFII) scheme, all with the aim to gain more influence in global price formation. Efforts to promote renminbi-denominated commodity contracts also intersect with China's broader ambitions to internationalize it's the renminbi.

At the same time, China's approach differs in important respects from the model that underpins most established global benchmarks. Rather than focusing on market efficiency, Chinese exchanges operate within a regulatory framework that emphasizes stability, control, and alignment with broader state objectives. The authorities retain significant discretion to intervene in markets, including through position limits, trading restrictions, and other forms of administrative guidance. While these features can support domestic policy goals – such as limiting excessive speculation, stabilizing prices or directing market activity towards supporting industrial development – they also raise questions about the extent to which Chinese markets can serve as globally trusted mechanisms for price discovery.

This tension – between internationalization and control – is central to understanding both the progress and the limits of China's strategy. On the one hand, capital controls remain in place, regulatory intervention continues to shape market dynamics, and participation by foreign investors is still subject to constraints. These features limit the extent to which Chinese benchmarks can be seamlessly integrated into global trading and risk management practices. On the other hand, recent developments suggest a clear acceleration of efforts to integrate Chinese commodity markets into global trading networks as regulators have taken steps to expand foreign access to futures markets[1] as well as to encourage the use of these benchmarks in physical commodity trade.[2] These initiatives reflect a recognition that pricing power requires not only domestic scale, but also international participation and acceptance. And especially countries in the Global South are increasingly amenable to using Chinese prices in their bilateral commodity trade.

For the United States, these developments raise important strategic questions. While U.S. exchanges and dollar-based financial infrastructures remain dominant, the gradual expansion of China's role in commodity pricing could, over time, alter the structure of global markets – particularly in sectors and geographies where China holds a central position as a consumer, processor, or producer. Understanding these dynamics requires a focus not only on immediate market dynamics, but on the longer-term evolution of the institutions that underpin global price formation.

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[1] Xinhua (2026) China expands futures market access, adding 14 varieties for overseas traders. *Xinhua*, 24 January, https://english.www.gov.cn/news/202601/24/content_WS6974b1f1c6d00ca5f9a08c11.html.
[2] Lim, P. et al (2025) Iron ore the new pawn in global geopolitics as China pushes yuan payments. *Fastmarkets*, 17 October, https://www.fastmarkets.com/insights/iron-ore-the-new-pawn-in-global-geopolitics-as-china-pushes-yuan-payments.

This testimony is based on extensive research of China's futures markets that I have conducted since 2015, including more than 250 interviews with market participants and regulators in China, Hong Kong, Singapore, London and Chicago. Part of these findings were published in an article titled "China's Quest for Pricing Power" in *International Affairs* (September 2025).[3] In March and April, I conducted another 25 interviews in China with Chinese and global trading companies, futures brokers, and exchanges which further substantiate the findings of this report.

This testimony proceeds as follows. It first situates commodity pricing within the broader structure of global financial hierarchy, highlighting the institutional foundations of existing benchmark systems. It then examines China's strategy to build pricing power through the development and internationalization of its commodity derivatives markets, as well as the constraints it continues to face. The subsequent section then analyzes the conditions of pricing power and potential pathways through which China's influence may expand. The testimony concludes by assessing the implications for the United States and offering policy recommendations aimed at sustaining the integrity and competitiveness of U.S. financial markets.

2. The global commodity pricing system

Commodity prices are often understood as the outcome of physical market dynamics – shaped by supply, demand, and trade flows. While these factors remain fundamental, commodity markets have become highly financialized, and increasingly the prices of commodities are determined by trading in futures markets.[4] These are exchanges on which standardized contracts can be traded which precisely specify the quality and quantity of a commodity that was to be delivered at a specific location and time.

On the one hand, these futures markets provide sellers and buyers with risk management tools to hedge against price movements (as well as a speculative outlet). On the other, they were crucial in creating a single price for a commodity that producers and consumers from around the world could – and increasingly had to – trade and reference their physical trading to.[5] Understanding this system is essential for assessing both the resilience of existing pricing structures and the challenges facing efforts to reshape them.

Rather than emerging directly from spot transactions, prices are now increasingly discovered in organized exchanges where standardized contracts are traded continuously.[6] Futures markets

[3] Petry, J. (2025). China's quest for pricing power: Financial hierarchy, autonomy and commodity futures markets. *International Affairs*, 101(5), 1343-1360.
[4] European Central Bank (2011) *Financial stability review*. December 2011, https://www.ecb.europa.eu/pub/pdf/fsr/financialstabilityreview201112en.pdf.
[5] Clapp, J. & E. Helleiner (2012) Troubled futures? The global food crisis and the politics of agricultural derivatives regulation. *Review of International Political Economy*, 19(2), 181-207
[6] Massot, P. (2024) *China's vulnerability paradox: how the world's largest consumer transformed global commodity markets*. Oxford: Oxford University Press.

aggregate expectations about future supply and demand and incorporate information from a wide range of market participants. These resulting prices, in turn, are widely used as reference points in physical transactions. In many commodity sectors, spot prices are no longer primary, but are instead quoted as differentials to benchmark futures contracts, adjusted for location, quality, and timing.

Futures contracts were originally designed to facilitate hedging by producers and consumers, allowing them to manage exposure to price volatility. Over time, however, these markets have expanded to include a diverse set of financial participants, including banks, hedge funds, and asset managers. Their participation has increased liquidity and deepened markets but has also embedded commodity pricing more firmly within the broader financial system. As a result, price formation is now shaped not only by physical fundamentals, but also by investor behavior and expectations about macroeconomic developments.[7]

Futures markets have become central to price discovery because they perform several critical functions. They concentrate liquidity, often vastly exceeding the scale of underlying physical markets. They provide standardized contracts that can be widely used for hedging physical trading as well as speculation. And they facilitate risk transfer, allowing market participants to manage exposure without engaging directly in physical trade. These features make them efficient venues for aggregating information and establishing widely accepted reference prices. At the same time, futures markets operate in interaction with physical markets, with arbitrage linking prices across different venues and ensuring a degree of alignment between financial and physical pricing.

The emergence of benchmark prices is a direct outcome of this setup. Benchmarks such as Brent crude oil, West Texas Intermediate, and other key contracts traded on major Western exchanges serve as global reference points, not because they fully represent global supply and demand, but because they are embedded in liquid markets, widely used contracts, and trusted institutional frameworks. Physical transactions across the world are priced in relation to these benchmarks, creating a system in which a relatively small number of reference prices structure a vast range of economic activity.

Once established, benchmarks are reinforced by powerful network effects. Market participants prefer to transact using prices that are widely recognized and supported by deep liquidity. This creates a self-reinforcing dynamic: the more a benchmark is used, the more indispensable it becomes. As a result, the global commodity pricing system exhibits a high degree of path dependence.

Importantly, this system extends beyond exchanges themselves. It is sustained by a broader ecosystem of financial intermediaries and market actors. Commodity trading firms arbitrage price differences across markets, linking futures and physical prices. Financial speculators like hedge funds provide the volumes of transactions that make these markets highly liquid. And price reporting agencies aggregate prices from the multitude of physical spot markets thus contributing

[7] Cheng, I.-H. & W. Xiong (2014) Financialization of commodity markets. *Annual Review of Financial Economics*, 6, 419-41.

to price transparency, particularly in less liquid or less financialized segments of the global commodity market. Together, these actors form an interconnected network that underpins global price formation.

Currency and legal frameworks further reinforce this structure. Most global commodity benchmarks are denominated in U.S. dollars, reflecting the central role of the dollar in international finance.[8] This dominance is supported by deep and liquid financial markets, the availability of dollar funding, and the legal enforceability of contracts. Commodity pricing is therefore closely tied to the broader dollar-based global financial order – which long enhanced the stability of existing benchmarks and raised barriers to the emergence of alternatives.

Taking together, these dynamics give rise to a hierarchical structure in global commodity pricing. Historically, a relatively small number of benchmarks – primarily located in the United States and its allied financial centers – occupied a central position, defining prices used across global markets. These include the Chicago Mercantile Exchange (CME),[9] Intercontinental Exchange (ICE)[10] and London Metals Exchange (LME).[11] Other markets typically operate as price takers, pricing physical transactions as differentials to futures contracts formed in these financial centers. This dependence not only exposes them to externally driven volatility but can also result in systematic under- or over-pricing relative to domestic market conditions and limits their ability to use pricing infrastructures as instruments of economic policy.

Control over physical supply and demand does thus not automatically translate into pricing power. In a system where prices are shaped through financial markets, institutional credibility and global participation, influence depends on the ability to shape the financial infrastructures of price formation. Displacing established benchmarks requires building alternative infrastructures that can match the liquidity, credibility, and global reach of current systems.

3. China's quest for commodity pricing

China's position within this hierarchy reflects both its strengths and its limitations. As the world's largest importer of many commodities and a key player in processing, refining, and, increasingly, extraction, China has significant influence in physical markets. However, it has historically played a more limited role in the financial infrastructures that underpin global price formation. This context is critical for understanding China's commodity pricing strategy.

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[8] Spiro, D. (1999) *The hidden hand of American hegemony: petrodollar recycling and international markets*. Ithaca: Cornell University Press.

[9] Incorporates the Chicago Board of Trade (CBOT), the Commodity Exchange (COMEX) and the New York Mercantile Exchange (NYMEX).

[10] Includes the New York Board of Trade (NYBOT), the London International Financial Futures and Options Exchange (LIFFE) and the International Petroleum Exchange (IPE).

[11] In 2012, LME was acquired by the Hong Kong Exchanges and Clearing (HKEX), which is relevant for China's commodity pricing strategy (see below).

China's interest in commodity pricing power is rooted in its position as the world's largest importer of a wide range of commodities. By 2016, China consumed between 50-65% of the world's iron ore, coal and copper production, but given it is not endowed with natural resources it needs to import between 60-70% of these any many other commodities.[12] This position creates a structural asymmetry: while China plays a central role in physical commodity markets, it has historically had limited influence over the benchmarks used to price those commodities. Instead, prices are largely determined in offshore financial centers through benchmarks such as Brent crude oil traded on ICE, soybean futures traded in Chicago, or metals contracts from the London Metal Exchange.

For Chinese policymakers and market participants, this arrangement has long been viewed as a source of vulnerability. Domestic firms are exposed to price fluctuations determined in markets over which China has little control, while lacking effective tools to hedge risks and steer pricing in a manner aligned with domestic conditions. More broadly, reliance on external benchmarks is seen as a form of financial dependence, in which China's economic activity is influenced through pricing systems embedded in a U.S.-centered financial order.

This concern has been articulated in Chinese policy discourse through the concept of 'commodity pricing power' (大宗商品定价权), which has become a recurring theme in discussions of economic security and industrial policy, informed by events such as the 'battle of the beans' in 2004 to the global food crisis in 2007-2008.[13] In 2010, Yao Jian, spokesperson for the Ministry of Commerce, for instance noted that 'China's pricing system in the international trading system has almost collapsed [and that] a major problem facing China today is the absence of pricing power for commodities'.[14] After it was mentioned by newly elected President Xi Jinping during the Central Rural Work Conference on 23–24 December 2013 'commodity pricing power' became a key policy objective in China's financial market internationalization.

Chinese policymakers recognize that increasing physical market share does not automatically translate into having a say over prices. As such, China's strategy is closely linked to broader efforts to enhance financial autonomy and reduce exposure to external influence. The goal is therefore not to displace existing benchmarks directly, but to first build domestic prices which would then be internationalized to increase China's influence in the existing system while supporting alternative pricing systems over time.

Beginning in the 1990s and accelerating in the 2000s, China established a set of commodity exchanges – the Shanghai Futures Exchange (SHFE), the Dalian Commodity Exchange (DCE) and the Zhengzhou Commodity Exchange (ZCE), as well as more recently the Shanghai International Energy Exchange (INE) and Guangzhou Futures Exchange (GFEX) – which have since grown into some of the largest futures markets globally by trading volume.

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[12] Petry, J. (2025). China's quest for pricing power: Financial hierarchy, autonomy and commodity futures markets. *International Affairs*, 101(5), p. 1756.
[13] Giraudo, M.E. (2020) Dependent development in South America: China and the soybean nexus. *Journal of Agrarian Change*, 20(1), 60-78.
[14] Wang, T. (2018) The Impact of RMB International on Pricing Power of China's Bulk Stock. *Journal of Financial Risk Management*, 7(1), 139-47.

between 2005 and 2024, the number of commodity futures contracts increased from 10 to 119 products. While some of these were established to challenge existing global benchmarks, other contracts were the first of their kind and were specifically designed to support China's industrial development with commodities like purified terephthalic acid (PTA), ethylene glycol or aluminum oxide. Importantly, all these contracts were renminbi-denominated and traded almost exclusively by Chinese actors on China's state-owned futures exchanges under the auspices of the CSRC.

Besides broadening the scope of the market, the authorities also facilitated a steady growth in trading volume. In 2004, Chinese exchanges accounted for only 25% of trading volume, 15% of open interest and 3% of notional value in global commodity futures markets. By 2023, almost 75% of commodity futures globally were traded in China, accounting for 42% of open interest and 18% of notional value.[15] While traditional commodity exchanges in the West had increasingly focused on financial futures, Chinese exchanges had become among the largest commodity futures markets in the world.

The core functions of these state-owned exchanges included facilitating domestic price discovery, managing volatility, and providing hedging tools for Chinese firms, particularly state-owned enterprises and large industrial producers. In this sense, they were created as instruments of developmental policy, helping to support industrial upgrading and stabilize domestic markets during a period of rapid economic transformation.

The design of these markets reflected these objectives. Trading rules are designed to facilitate stability and control, and regulatory authorities retain the ability to intervene through market infrastructures like position limits, margin requirements, or trading restrictions. Participation was dominated by domestic actors, including retail investors and state-linked firms, and access by foreign investors was only allowed in recent years.[16]

As China's role in global commodity markets expanded, the limitations of a purely domestic strategy became increasingly apparent. While domestic futures markets could support internal price discovery, their influence over global benchmarks was only limited. Chinese firms continued to rely on offshore prices for international transactions, and domestic benchmarks remained largely disconnected from global pricing. Policymakers began to recognize the importance of international participation in establishing pricing power. as CSRC Vice Chairman Fang Xinghai put it: 'We must accelerate the opening of the commodity futures market to the outside world and continuously enhance the international pricing influence of our country's futures market'.

In response, China began to pursue a more outward-looking strategy. A key milestone was the launch of internationally accessible futures contracts, most notably INE crude oil futures in 2018, which was soon followed by other strategically important commodities like iron ore or copper.

[15] Data from World Federation of Exchanges Statistics.

[16] Speculation by retail investors was long a big issue in China's commodity futures markets, the authorities gradually facilitated the development of a more mixed investor structure. By 2019, for instance, corporate clients—that is, commercial hedgers—held between 50-80% of daily open positions in most agricultural/industrial futures.

These contracts were designed to attract foreign participation and serve as regional reference prices, particularly for Asian markets. They were complemented by gradual regulatory reforms aimed at expanding access for qualified foreign institutional investors. In 2021, for instance, the Qualified Foreign Investor (QFI) license scheme was extended to include commodity futures trading, allowing for much more foreign participation. At the same time, however, China did not move toward full liberalization. Instead, it sought to balance internationalization with continued state control and regulatory oversight.

The acquisition of the LME in 2012 by Hong Kong Exchanges and Clearing (HKEX) also represented an important step. While not officially state-led, it was highly welcomed by Chinese authorities. Since its acquisition, the LME has been gradually restructured to facilitate Chinese pricing power. In 2014, the LME approved its first Chinese-owned trading member, of which there were six by 2024. In December 2014, the LME launched a series of renminbi-denominated metals contracts that were 'designed to meet the needs of Asian participants who want to mitigate or take on metal price risk using offshore [renminbi]'.[17] Since 2015, LME members can also use renminbi to cover their margin requirements for all their LME trading – essentially allowing them to back their trades with Chinese currency rather than dollars. In 2025, the LME also opened its first warehouses in Hong Kong, which many market participants viewed as a major development.

Overall, China's strategy to achieve greater commodity pricing power involves a combination of several factors:

Infrastructural expansion. China has significantly expanded its commodity pricing infrastructures. Domestic exchanges continue to grow in scale and sophistication, while new initiatives aim to connect these markets more directly to global trading networks. Since 2025, Chinese exchanges have expanded foreign access to a wider range of futures and options contracts, including in key contracts for the green energy transition such as nickel and lithium.[18] At the same time, China has sought to extend its pricing infrastructures beyond its borders. The integration of Hong Kong into global metals storage networks through London Metal Exchange warehousing represents an important step in aligning physical delivery systems with Chinese market structures.[19] Similarly, the expansion of offshore gold trading infrastructures, including an offshore vault in Hong Kong by the Shanghai Gold Exchange, enhances the international appeal of Chinese price benchmarks, essentially providing the option to back RMB-denominated commodity trading with gold.[20]

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[17] HKEX (2020) *Research report: the opportunities offered by greater connectivity between the LME and the mainland commodities market*. https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2020/LME_LMEvision_e_202007.pdf.
[18] Orient Futures (2026) China's Internationalised Futures and Options: A Market Overview. 29 January, https://www.orientfutures.com.sg/china-market-access/china-internationalised-futures-options-2026.
[19] LME (2925) LME approves first warehouse facilities in Hong Kong. 15 April, https://www.lme.com/news/press-releases/2025/lme-approves-first-warehouse-facilities-in-hong-kong.
[20] Xie, Y. & S. Gross (2025) China Opens First Offshore Gold Vault in Hong Kong. Bloomberg, 26 June https://www.bloomberg.com/news/articles/2025-06-26/china-opens-first-offshore-gold-vault-and-contracts-in-hong-kong.

Regulatory power. Chinese commodity markets remain subject to a high degree of regulatory control. Exchanges operate within a framework that allows authorities to intervene in response to volatility, speculative activity, or perceived market instability. Tools such as position, margin adjustments and window guidance are used to manage market dynamics and align outcomes with broader policy objectives.[21] Recent regulatory developments suggest that this approach is being reinforced rather than relaxed. New measures targeting program trading and high-frequency strategies indicate a continued emphasis on controlling market behavior, even as participation expands.[22]

Market participation. Chinese futures markets are still dominated by domestic actors, including a sizeable portion of retail investors and state-linked firms. While foreign participation has increased in recent years, it remains limited relative to major Western exchanges, where global institutional investors play a much more central role. This reflects the original design of these markets as instruments serving domestic constituencies and policy objectives, rather than as globally integrated trading platforms. It is also a reflection of regulatory hurdles, since some access channels like QFII are cumbersome and capital-intensive. As a result, participation patterns continue to be shaped by a regulatory and access framework that prioritizes stability and control over broad international integration.

Currency dimension. China's efforts to build pricing power are also closely linked to the internationalization of the renminbi. Chinese commodity futures contracts are denominated in RMB, reflecting an ambition to reduce reliance on dollar-based pricing systems. This is complemented by broader initiatives to expand the use of the RMB in cross-border transactions, including in trade finance, bond issuance and international lending. These efforts position commodity markets as a key channel through which the RMB can gradually expand its role in global finance, linking currency internationalization to China's broader strategy of financial and economic statecraft.

Taken together, these developments reflect a strategy of building state-directing pricing infrastructures. By August 2023, 24 Chinese commodity futures/options contracts had been internationalized, with more products accessible via the QFII scheme. Thereby, China is gradually gaining influence in and create alternative pricing points within global markets.

After the internationalization of iron ore futures, China' Baosteel completed the first cross-border renminbi settlement for iron ore in 2020, delivered by Australia's Rio Tinto at a value of 100 million renminbi, by 2022 the world's top four iron ore producers had all set up Chinese trading arms, and in 2025 the Chinese Mineral Resources Group had negotiated the use of RMB benchmarks in China's now coordinated iron ore buying efforts.

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[21] Lee, A. (2026) China Lithium Tumult Spurs Futures Exchange to Step In Again. Bloomberg, 21 January. https://www.bloomberg.com/news/articles/2026-01-21/china-s-lithium-tumult-spurs-futures-exchange-to-step-in-again.

[22] Reuters (2026) China tightens market oversight to create 'slow bull' momentum, 1 February, https://www.reuters.com/sustainability/boards-policy-regulation/china-tightens-market-oversight-create-slow-bull-momentum-2026-02-10/.

Lithium carbonate futures on GFEX have also 'rapidly [become] the accepted reference point for lithium pricing, even though non-Chinese entities will struggle to access it';[23] while CME's lithium contract had an open interest of 22,275 tons by February 2024, GFEX's contract had an astonishing 321,329 tones. This further highlights the *potential* pricing power China might have, once it internationalizes more of its major contracts.

Moreover, other exchanges have started using Chinese reference prices for their own products. Both the CME and the Dubai Gold Exchange have listed renminbi-denominated contracts based on Shanghai Gold Exchange's benchmark price, while Bursa Malaysia launched a soybean contract based on DCE's Soybean Oil Futures settlement price in March 2024. In June 2025, the Shanghai Gold Exchange also opened its first international gold vault in Hong Kong (with plans to open another in Riyadh), essentially enabling commodity exporters to convert their RMB proceeds into gold. These cases illustrate the growing, if nascent, impact of Chinese reference prices abroad.

4. Structural constraints of Chinese pricing power

China's efforts to internationalize its commodity derivatives markets represent a significant shift. However, expanding market access and infrastructure does not automatically translate into pricing power. The key reason lies in how these markets are institutionally structured. Unlike their counterparts in established financial centers, Chinese commodity futures exchanges are embedded within a broader framework of state-led economic governance and serve multiple objectives simultaneously.

On the one hand, exchanges perform developmental functions: they facilitate domestic price discovery, provide hedging tools for industrial firms, support broader industrial policy goals, and are used to manage volatility and stabilize markets. On the other hand, they are expected to support China's ambition to increase its influence over global price formation. This requires attracting international participants, generating deep liquidity, and establishing prices that are widely perceived as credible and representative.

These two functions are not fully compatible. The use of exchanges as instruments of domestic market management can undermine their role as globally trusted pricing centers. Conversely, fully liberalizing these markets to enhance credibility would reduce the state's ability to guide market outcomes in line with domestic priorities. This dual function creates a trade-off between control and trust that lies at the core of China's pricing power ambitions.

The key question going forward is how – and under what conditions – China's influence over price formation could expand further. This requires not only examining domestic reforms and market

[23] Home, A. (2024) Albemarle looks to shed more light on lithium pricing. *Reuters*, 20 March, https://www.reuters.com/markets/commodities/albemarle-looks-shed-more-light-lithium-pricing-2024-03-19.

development but also assessing the external conditions under which Chinese pricing infrastructures might gain broader international adoption.

Participation and benchmark formation. Chinese futures markets remain dominated by domestic actors, including retail investors and state-linked firms, while participation by global institutional investors and commodity trading firms remains limited. This matters because benchmark formation depends on sustained engagement by global market actors. Yet, major global commodity traders and financial institutions have only a limited presence in Chinese markets which constrains both the quality of market liquidity and the transmission of price signals beyond domestic or regional contexts. Without broad and continuous participation by these actors, Chinese contracts can generate high trading volumes but remain peripheral to global price formation.

For a wider adoption, deeper and more sustained foreign participation is essential. While China has made expanded access to its commodity futures markets, participation by global institutional investors remains limited. Achieving benchmark status requires not only formal access, but active and continuous use by a broad set of international actors, including commodity trading firms, financial institutions, and physical hedgers. An important indicator of progress is therefore not overall trading volume, but the composition of participation – particularly the presence and activity of globally active intermediaries and the degree of integration with international trading networks.

Pricing power also depends on the development of a participant base that extends beyond speculative trading and financial arbitrage to include hedgers – firms that actively use futures markets to price, hedge, and settle commodity transactions. While internationally accessible futures contracts such as INE crude oil are a necessary precondition, they are not sufficient. For these contracts to have pricing power, they must be used as reference prices in physical commodity trading. This requires that producers, traders, and end-users not only trade on Chinese exchanges, but use these prices for physical transactions – for example, using INE crude futures as a pricing benchmark in commodity contracts between international oil majors and Chinese independent refiners.

Governance and credibility. Exchanges operate within a regulatory framework that prioritizes stability, control, and alignment with broader policy objectives, with regulatory authorities retaining the capacity to intervene in markets outcomes. From a domestic perspective, this model has supported market development and volatility management. From an international perspective, however, it introduces uncertainty regarding the independence and predictability of price formation.

Benchmark prices must be perceived as the outcome of transparent, rule-based processes to be widely adopted. The possibility of discretionary intervention can undermine confidence among global participants accustomed to more market-driven systems. The same regulatory capacities that support domestic stability also limit the global credibility of Chinese pricing infrastructures. he extent to which Chinese benchmarks are adopted internationally will depend on whether these markets are regarded as sufficiently transparent, predictable, and rule-based to serve as reliable reference points in cross-border transactions.

Currency constraints. While RMB-denominated contracts have expanded and are increasingly used in transactions involving China, their use as a pricing currency beyond China-centered trade remains limited. This distinction is critical. Pricing power requires not only that contracts are denominated in each currency, but that this currency is widely used for pricing, settlement, and hedging across a broad range of transactions. In the current system, the U.S. dollar continues to dominate these functions, supported by deep financial markets and a well-developed ecosystem of financial instruments.[24]

It is useful to distinguish between different degrees of RMB-based pricing. At a first level, the RMB is used as a pricing currency in transactions involving China – for example, in commodity trade between Chinese firms and foreign suppliers. Given China's central role as a global commodity importer, this form of RMB-denominated pricing already represents a meaningful expansion of its influence over price formation. At a second, more encompassing level, the RMB is used as a pricing and benchmark currency in transactions that do not directly involve China. This would imply that Chinese pricing power and currency usage extend beyond China-centered trade into the broader global system The first reflects China's ability to shape pricing within its own economic orbit; the second a more systemic role in global price formation – the role that the U.S. dollar currently holds in the global financial system.

However, Chinese financing, particularly in infrastructure and resource sectors, may be increasingly linked to the use of RMB-based contracts,[25] especially as lending in RMB has become much cheaper than USD-lending.[26] In addition, some countries may seek to diversify away from dollar-based systems, particularly in contexts where geopolitical tensions or sanctions risks are salient – a development that could be observed in Iran or Russia.

The extent to which such a transition occurs depends on the depth of RMB financial markets, the availability of hedging instruments, the willingness of market participants to denominate contracts in RMB, and – crucially – it also depends on the continued credibility of existing dollar-based pricing systems.

Taken together, these conditions highlight that China's ability to expand its influence over commodity pricing does not follow automatically from market size or state strategy but emerges from the interaction of these elements within the broader global system. While China has expanded the scale and international reach of its commodity derivatives markets and begun to embed them more deeply within global commodity flows, the core conditions required for benchmark dominance – broad global participation, institutional credibility, and currency usability – remain only partially fulfilled. These limitations partially reflect the institutional design of China's

[24] Hofman, B., & Petry, J. (2025). *Internationalization of the RMB: Status, Options and Risks*. China Knowledge Network.

[25] Since October 2025, Chinese mining companies in Zambia are now allowed to use RMB to pay taxes and royalties, in a country where corporate taxation of mining operations accounts for a large part of the state's budget.

[26] Kenya, for instance, wants converted USD loans worth up at least $3.5 billion into RMB, with several countries like Ethiopia considering similar options.

exchanges as state-mediated pricing infrastructures as well as the institutional inertia of the existing global pricing system.

China's strategy has increased its capacity to shape pricing outcomes indirectly and at the margins, particularly in sectors where it is materially dominant. Rather than displacing established benchmarks, Chinese pricing mechanisms are likely to gain importance in specific sectors, regions, and trading relationships, while coexisting with dominant global benchmarks in the near to medium term.

5. Future scenarios for Chinese pricing power

Recent policy signals, including the 15th Five-Year Plan, suggest that China's approach to commodity pricing power remains embedded in a broader strategy of securing supply chains, upgrading industrial capacity, and enhancing resource security, rather than focusing narrowly on financial market liberalization.

Three potential scenarios emerge for China's pricing power ambitions, each defined by the extent to which Chinese benchmarks are adopted beyond domestic and China-centered contexts.

Incremental Integration. China expands its commodity futures markets and foreign participation stagnates or slightly increases, but without fundamentally altering the structure of global pricing. Chinese markets function largely as complementary rather than substitutive infrastructures, gaining only modest influence, for instance international players might arbitrage prices between Chinese and global markets, but without using Chinese prices as benchmarks for physical trading.

Parallel System. Chinese benchmarks become widely used within China-centered trade networks and by a broader set of international partners, particularly in the Global South, as RMB-denominated pricing becomes more common in transactions involving China and its economic partners. Established benchmarks continue to operate globally, and the global pricing system becomes more fragmented, with multiple coexisting pricing centers.

Replacement. Chinese benchmarks achieve global adoption and replace established reference prices. The RMB becomes widely used as a pricing currency not only in China-related trade, but also in transactions where China is not directly involved. Chinese exchanges become central nodes in global price formation, supported by deep liquidity, broad participation, and high levels of institutional trust.

Based on the existing setup of China's pricing system, the most likely trajectory is either an incremental integration or the creation of a parallel, China-centered pricing sphere. This process is likely to unfold unevenly across sectors.

In areas where China plays a dominant role in physical commodity chains – particularly in metals and battery-related supply chains – its pricing infrastructures are already gaining more traction. In

these sectors, Chinese firms already occupy central positions in processing, refining, and consumption, creating conditions under which Chinese benchmarks become increasingly relevant.

Especially when Chinese corporations dominate supply chains – from mining to processing and refinement – the use of RMB-denominated prices might increase. For many base metals, for instance, contracts on SHFE rather than LME have emerged as primary benchmarks for deals involving Chinese counterparties (while third parties would rely on SHFE).

If liquidity deepens and participation broadens, these benchmarks could potentially extend beyond trade with China. One important factor here is also funding costs, as since 2023 borrowing RMB has become much cheaper than borrowing USD, which might incentivize countries that already have a lot of RMB-denominated trade to use RMB-denominated contracts. However, this is neither automatic nor guaranteed. It depends on whether other market participants find it advantageous to adopt Chinese pricing mechanisms.

In energy markets, the pathway is likely to be more complex. While China is a major importer of oil and gas, pricing in these markets remains heavily anchored in established benchmarks such as Brent and WTI. Chinese contracts may gain regional importance, but overall oil benchmarks will likely continue to be US-anchored. This also reflects the broader trajectories of the two economies as China is facilitating green technologies and electrification which the United States is continuing to intensify fossil fuel production.

Overall, Chinese pricing power will likely be partial and sector-specific rather than systemic – becoming central within certain networks and regions, while remaining peripheral in others.

6. Policy implications and recommendations

The analysis presented in this testimony highlights that while China has made significant progress in building domestic markets and expanding their international reach, its ability to reshape global pricing systems remains constrained by several domestic and international factors. For the United States, this presents both risks and opportunities.

Reinforce U.S.-anchored pricing system. U.S. influence in global commodity pricing is rooted in the strength of its financial infrastructures, including deep and liquid derivatives markets, broad international participation, and a highly trusted legal and regulatory framework. Maintaining these advantages should be a priority.

- Incentivize commercial hedgers (producers, traders) to remain anchored in U.S. benchmarks.
- This includes engaging with commodity producers from the Global South who might otherwise start to adopt Chinese reference prices.

Stabilize global role of the dollar. The U.S. dollar is central to global commodity pricing, but this position cannot be taken for granted. Policies that support the dollar's role should focus on maintaining deep and liquid dollar funding markets and supporting global access to dollar liquidity.

- Expand Fed swap lines and FIMA repo facility access for key commodity-producing countries, ensuring they can reliably access USD liquidity in stress periods.
- U.S. policy should leverage EXIM and DFC more actively to finance commodity production, trade, and infrastructure in strategically relevant sectors, while conditioning support on the use of established pricing benchmarks.
- Policymakers should recognize that excessive reliance on financial sanctions can incentivize other countries to diversify away from dollar-based systems, underscoring the need for a more calibrated and strategically targeted use of sanctions.

Engaging third party countries. The diffusion of pricing power depends on adoption by third countries and market actors. U.S. policy should therefore consider how trade relationships and financial ties influence pricing choices, the role of U.S. partnerships and alliances in shaping global market practices, and the incentives faced by commodity exporters and importers in adopting alternative pricing systems.

- Support commodity exporters in hedging via existing benchmarks by improving access to U.S. derivatives markets, while providing technical and financial support to enable effective use of these instruments.
- Integrate commodity pricing considerations into trade agreements and strategic resource partnerships, encouraging the use of transparent and widely accepted benchmarks in long-term supply contracts.

Monitor development of China's pricing system. Data on commodity pricing is difficult to obtain, particularly in physical markets where benchmark usage and settlement practices are embedded in opaque, privately negotiated contracts and are not systematically reported.

- Establish an interagency Commodity Pricing Task Force that tracks global pricing. Key indicators include the adoption of US and Chinese prices in physical trading, the participation of major traders and physical hedgers in Chinese markets, the currency denomination of contracts, and the adoption of Chinese benchmarks in third-country contracts.

Ultimately, U.S. pricing power in commodity markets is grounded in a combination of financial infrastructure, institutional credibility, currency dominance and global economic networks. China's efforts challenge elements of this system, but do not yet fundamentally alter its structure. The most effective response is therefore not to mirror China's approach, but to reinforce the institutional and market foundations that underpin existing advantages, while remaining attentive to areas of emerging change.

7. Conclusion

Pricing power is not simply a function of market share or trade flows, but of control over the institutional infrastructures through which prices are formed. In this domain, China is not seeking a rapid overthrow of existing benchmarks. Instead, it is pursuing a more gradual and strategic approach – gaining influence within the existing system while simultaneously building parallel infrastructures alongside it.

Over the past two decades, China has constructed large domestic commodity futures markets, embedded within a framework of state-led economic governance. More recently, it has moved toward selectively internationalizing these markets by expanding foreign access, developing internationally oriented contracts, and linking its exchanges to global delivery and settlement systems. At the same time, China's strong position in physical commodity markets – particularly as a major importer and processor and increasingly in mining and extraction – provides an important foundation for these efforts.

Yet significant constraints remain. Pricing power depends not only on market size, but on global participation, institutional credibility, and currency usability. While the policy-oriented design of China's commodity futures markets supports domestic stability and developmental objectives, regulatory structures have slowed down international participation and have limited their global credibility as neutral pricing platforms. Similarly, the international role of the renminbi remains constrained, particularly beyond China-centered trade. As a result, China's growing presence in commodity markets has not yet translated into equivalent influence over globally recognized benchmarks.

Rather than displacing existing Western benchmarks, China is contributing to the emergence of a more fragmented global pricing system. In this system, established benchmarks remain dominant but are increasingly complemented by Chinese pricing mechanisms in specific sectors, regions, and trading relationships – particularly where China's economic influence is strongest. Such a fragmented landscape could reshape patterns of financial interdependence and introduce new forms of geopolitical contestation into commodity markets.

For policymakers, the key question is therefore not whether China will replace Western benchmarks, but whether the global commodity pricing system is evolving toward a more dual-centered structure – one in which competing pricing infrastructures coexist, fragmenting market authority and reshaping the distribution of economic and geopolitical power.