

LETTER | AUGUST 2026

Everybody Wants to Rule the World

“One headline, why believe it?
Everybody wants to rule the world.”

ROCK CAPITAL · AUGUST 2026



Illustration: Rock Capital

I — EVERYBODY WANTS TO RULE THE WORLD

II — CHINA

III - UNITED STATES

IV - ALLIES

In this letter

Oil, weapons and industrial capacity may seem unrelated. Yet all raise the same question: how long can a country sustain a crisis when what it holds today cannot easily be replaced tomorrow?

TOPIC	WHAT WE ARE WATCHING	IMPLICATION	
CHINA	Falling oil imports and use of inventories accumulated before the war.	The unknown size of China's reserves also carries strategic value.	
U.S.	Heavy munitions use and difficulty quickly rebuilding stockpiles.	Industrial capacity has again become central to military power.	
ALLIES	Europe, Japan and the Middle East face the limits of U.S. capacity.	Greater incentive to expand stockpiles and domestic production capacity.	
5.26%	-0.32%	2.60%	US\$ 90.49
ROCK CAPITAL AUG/2026	IBOVESPA AUG/2026	S&P 500 AUG/2026	BRENT 31/AUG/2026

Monthly changes for August 2026. Rock Capital refers to the illustrative performance of its recommended portfolio during the month.
Source: B3, ICE Brent and internal data. Prepared by Rock Capital.

GABRIEL ROCHA | ROCK CAPITAL

Enjoy the read.

Everybody Wants to Rule the World

THE METAPHOR OF THE MONTH

Everybody Wants to Rule the World was released by Tears for Fears in 1985, in a period marked by the Cold War, the arms race and competition for influence among major powers.

Despite its light melody, the song is about power, control and the consequences of trying to impose one's interests. During its development, it even carried the idea of Everybody Wants to Go to War, before taking the title by which it became known.

More than four decades later, the protagonists have changed, but some of these questions remain relevant. Energy, industrial capacity, technology and military power have once again become central to relations among major powers.

Another line in the song is particularly relevant to this letter: “One headline, why believe it?”

We live in the information age, yet some of the most important information remains hidden. We know how much oil China imports, but not exactly how much it stores. We can estimate how much of certain munitions the United States uses and produces, but we do not fully know its arsenals.

We can observe parts of the board. We rarely see all the pieces.

This combination of power and information led us to choose Everybody Wants to Rule the World as the title of this month's letter.

Forty years later, everybody still wants to rule the world. But in a contest among major powers, power lies not only in what a country possesses. It also lies in what it can produce, preserve - and keep others from ever knowing exactly how much remains.

China

Iran's real atomic bomb may never have been nuclear. It lies a few kilometers south of the country, in the Strait of Hormuz.

Under normal conditions, approximately 20 million barrels of oil pass through the strait daily, making it one of the global energy system's most important routes. That is about one-fifth of world consumption.

For decades, the mere threat of disrupting flows through Hormuz was enough to move oil prices significantly. When the conflict began, forecasts of Brent at US\$150-US\$200 per barrel soon emerged - levels that, if sustained, could sharply slow the global economy.

The shock arrived. But not in the way many had imagined.

To understand why, we need to look at the market's physical dynamics.

The world consumes just over 100 million barrels of oil per day, and before the war approximately 20 million passed through Hormuz. As that flow fell sharply, the market faced one of the largest supply disruptions in its history.

Even so, several mechanisms began to cushion the shock.

Saudi Arabia and the United Arab Emirates have pipelines that can partly bypass the strait. The International Energy Agency's 32 member countries approved the largest coordinated reserve release in history, making 400 million barrels available to the market. At the same time, high prices, shortages of refined products and slowing activity began to destroy demand.

But one important piece was still missing from the equation: China.

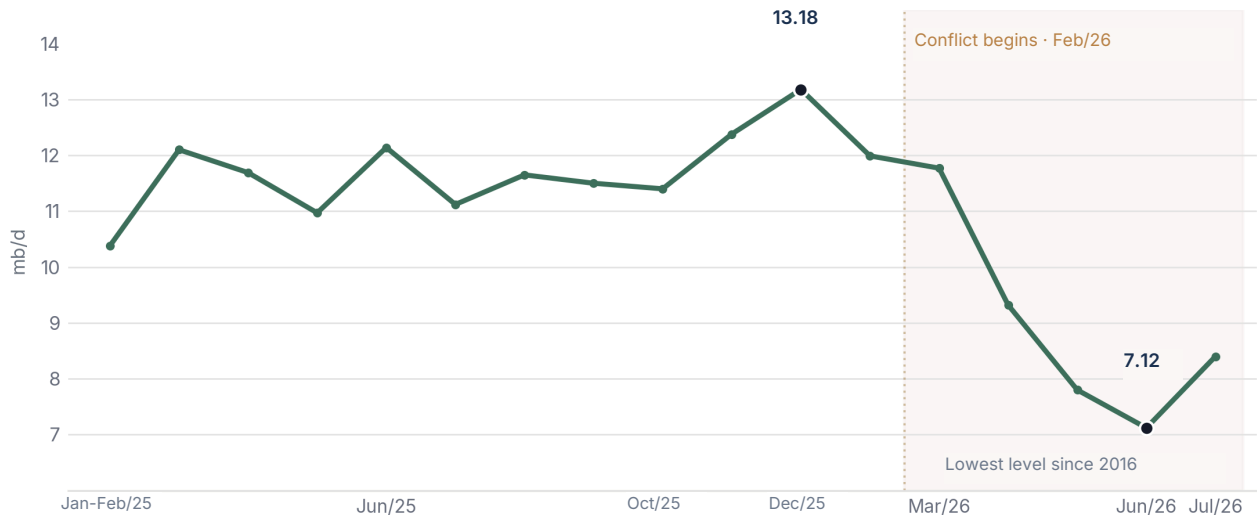
Before the war, China imported approximately 12 million barrels of oil per day. A few months later, its seaborne imports had fallen to just over 6 million.

In other words, just as the world lost a substantial share of Middle Eastern supply, the world's largest oil importer stopped competing for millions of barrels a day in international markets.

CHART 1

Chinese crude oil imports

Million barrels per day | 2025-2026. January and February are combined because China's General Administration of Customs reports the first two months together, reducing distortions caused by the changing date of the Lunar New Year.



Source: General Administration of Customs of China (GACC), EIA and OPEC. Prepared by Rock Capital.

How did China manage this?

Part of the answer came from consumption itself. Beijing restricted exports of gasoline, diesel and other refined products to prioritize domestic supply. China is a huge crude oil importer, but also has one of the world's largest refining capacities. During a crisis, reducing imports of oil that would later be exported as refined products lowers the need to buy crude abroad.

China's economy was also better prepared for such a shock than it would have been a few years earlier. Increasing vehicle electrification, the rise of electric trucks, its extensive rail network and coal use in parts of the petrochemical chain have structurally reduced marginal dependence on oil.

But none of this seems sufficient on its own to explain a decline in imports of several million barrels a day.

This is where inventories come in.

For years, the size of China's oil reserves remained unknown. Unlike the United States, China does not regularly publish detailed information about its strategic reserves.

The market therefore has to estimate them indirectly, combining imports, domestic production, refinery throughput and monitoring of storage facilities.

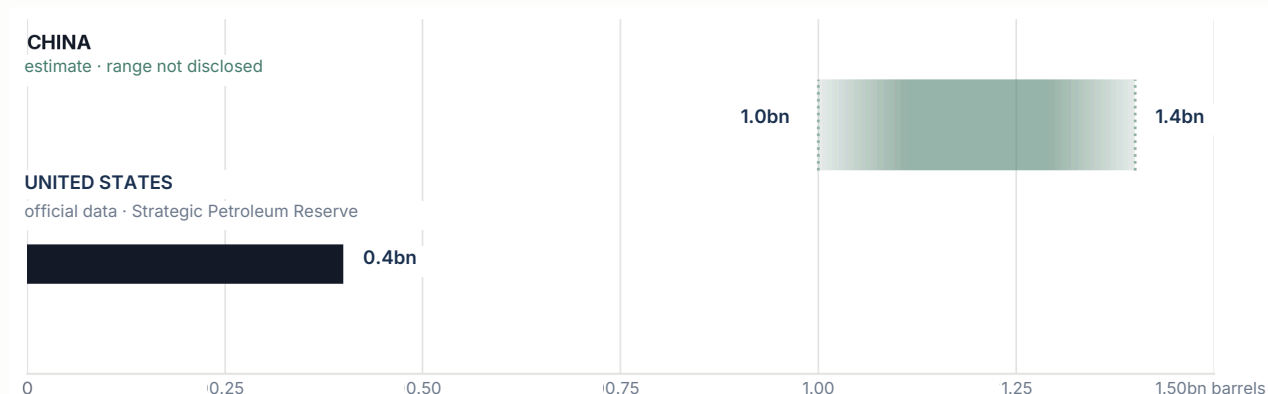
There is an additional complication: in China, the boundary between strategic reserves, inventories held by state-owned companies and commercial stocks is not always clear.

Estimates vary, but suggested that China held between 1 billion and 1.4 billion barrels before the war, while continuing to expand storage capacity.

CHART 2

Oil inventories: China vs. United States

Billion barrels | estimates and strategic reserves. The aim is to show the difference in transparency between the two countries, rather than simply compare volumes.



Methodological note: these figures are not directly comparable. China's estimate may include strategic and commercial inventories, while the U.S. figure refers exclusively to the Strategic Petroleum Reserve (SPR).

Source: EIA, IEA, Reuters and market estimates. Prepared by Rock Capital.

More important than the absolute number, however, is China's behavior before the crisis.

For much of 2025, China imported more oil than its refineries processed. In the first eleven months, the difference was close to 1 million barrels per day.

While oil was relatively abundant and cheap, Beijing accumulated barrels.

When war arrived and oil became scarce and expensive, the strategy reversed.

Instead of competing aggressively for the remaining barrels in international markets, China reduced purchases and began drawing on the buffer built in previous years.

Another feature of Chinese energy policy helped this strategy. Russia and Iran became important suppliers just as Western sanctions reduced the pool of buyers available to those producers.

With greater bargaining power, China could access some of these barrels at a discount and accumulate them during periods of greater availability.

This helps explain what we are seeing now.

China turned yesterday's cheap oil into today's energy security.

But an inevitable question arises: for how long?

Drawing millions of barrels a day from inventories during a crisis is hardly sustainable indefinitely. At some point, Beijing would need to return to the market or accept progressively lower levels of energy security.

This is where we find the most interesting part of the story.

We do not know exactly how much oil China has.

The number the market observes is already an estimate. We do not know precisely how much of China's imports was consumed, how much was stored, how much is in strategic reserves and how much remains in commercial inventories.

Perhaps this uncertainty is not a flaw in the Chinese system.

Perhaps it is part of it.

In a world where markets, governments and adversaries try to calculate how long each country can sustain a crisis, withholding the exact size of an energy buffer also has strategic value.

China does not need to convince the world that it has unlimited oil. It only needs to ensure that nobody knows exactly when it will run out.

United States

In China, the main question was how much oil lies behind the numbers we can see.

In the United States, the question is different.

Washington also does not publicly disclose the full size of its weapons stockpiles. But information on procurement, contracts, production and use allows reasonable estimates. In this case, what we can see is already enough to raise concern.

In just a few months, the war against Iran consumed a significant share of some of the most sophisticated munitions in the U.S. arsenal.

These include long-range offensive systems such as Tomahawk and missile-defense interceptors such as Patriot and THAAD. CSIS estimates suggest that more than 1,000 Tomahawks were used during the conflict, alongside hundreds of Patriot and THAAD interceptors.

TABLE

The challenge of rebuilding U.S. stockpiles

Key munitions | prewar stockpiles, use and replenishment capacity. Prewar stocks and usage ranges are estimates.

MUNITION	PREWAR STOCKPILE	USE IN WAR	ANNUAL OUTPUT	CAPACITY REBUILD TIME
Tomahawk	3,100	+1,000	79	~47 months
JASSM	4,400	+1,100	385	~48 months
PrSM	90	40–70	56	~46 months
SM-3	410	130–250	53	~64 months
SM-6	1,160	190–370	96	~53 months
THAAD	360	190–290	28	~53 months
Patriot	2,330	1,060-1,430	183	~42 months

Methodological note: prewar stockpiles and use during the conflict are estimates based on public information, contracts, procurement and expert analysis; they are not complete official Department of Defense stockpile figures. Capacity rebuild time is the approximate period needed to expand or restore production capacity, rather than the time required to manufacture one unit.

Source: CSIS, U.S. Department of Defense and estimates based on public information. Prepared by Rock Capital.

Funding can be approved quickly. Building missiles takes time.

The issue is not just the size of the remaining stockpiles. It is how quickly they can be rebuilt.

These are sophisticated systems dependent on complex production chains. In a high-intensity war, the United States can therefore consume in weeks quantities of certain munitions that its industry may take years to replace.

That is a fundamental difference.

Between Congress authorizing new funding and a weapon actually entering inventory lies a long sequence: contracts must be signed, suppliers must expand capacity, equipment must be acquired, workers trained, components manufactured and, finally, systems assembled and tested.

The U.S. government's effort to move its defense industry closer to a wartime footing could significantly increase production over the coming years.

But industrial capacity does not appear instantly. This creates the vulnerability window highlighted by CSIS: stocks have fallen now, while much of the new capacity funded to rebuild them will only be available in the future.

This does not mean the United States cannot continue fighting in the Middle East. CSIS itself assesses that Washington has sufficient munitions for plausible scenarios in the current conflict.

The issue is different. These weapons were not stored exclusively for a war against Iran. Some also form part of U.S. planning for other contingencies, particularly in the Indo-Pacific.

At this point, the discussion extends beyond Iran. The United States views China as its main strategic and military competitor. In a potential conflict involving Taiwan, long-range munitions and air-defense systems would be essential to strike Chinese forces, protect U.S. bases and defend regional allies.

Some of these stocks were already considered limited before the current war. Simulations analyzed by CSIS showed that certain long-range munitions could be consumed quickly in a high-intensity war against China.

After the conflict with Iran, that margin narrowed. CSIS itself assesses that reduced stockpiles have created a significant risk to U.S. capacity to fight a Pacific war in the short and medium term.

This does not mean a U.S.-China war is imminent or that Beijing has decided to attack Taiwan.

The discussion around 2027 is often misunderstood. The year gained prominence after Philip Davidson, then commander of U.S. Indo-Pacific Command, warned in 2021 about China's evolving capabilities. U.S. officials later stated that Xi Jinping had instructed the People's Liberation Army to develop the capability to conduct an operation against Taiwan by 2027.

Having the capability, however, is different from deciding to use it. Our point is another: if Beijing ever considers military action, a period of reduced U.S. stocks and industrial capacity still being expanded would probably be more favorable than a scenario a few years later, with replenished arsenals and new factories producing at higher rates.

The concern is therefore not just how many weapons the United States has, but how long it will take to rebuild the safety buffer that existed before the war.

There is a structural reason why this became a problem.

After the Cold War, the United States stopped preparing primarily for a prolonged industrial war against another major power.

The logic made sense at the time. With the Soviet Union gone and perceived threats diminished, maintaining huge factories and ammunition stocks for a war that might never happen seemed economically inefficient.

Industry followed this shift.

Since the 1990s, the number of major companies serving as prime contractors to the Department of Defense has fallen from 51 to just five. The Pentagon itself acknowledges that this consolidation increased dependence on a few suppliers for critical military capabilities.

The resulting system became extremely efficient at one thing: producing highly sophisticated weapons.

But not necessarily at producing them quickly and in large quantities.

During the wars in Iraq and Afghanistan, this was not the same constraint. U.S. technological superiority was enormous, and its adversaries lacked comparable industrial capacity to sustain a prolonged contest of munitions.

Recent wars have changed that perception.

Ukraine, the Red Sea and now Iran have shown again that a prolonged war is also a contest of factories, inventories, suppliers and replenishment speed.

The best missile still matters. But so do how many exist, how many can be produced and how long their use can be sustained.

Even the economics of interception have become part of this equation.

A relatively cheap drone can force an adversary to use an interceptor costing millions of dollars. Militarily, the interception may succeed. Economically, however, the exchange may be unfavorable.

This does not mean sophisticated systems such as Patriot or THAAD are no longer needed. Against ballistic missiles, there is often no comparable alternative.

It simply means that quantity, cost and replenishment capacity have become strategic variables again.

Allies

For U.S. allies, this discussion is particularly important.

For decades, U.S. military capacity served as a safety buffer for much of the Western world. Europe, Japan and Gulf countries knew that, ultimately, they could rely on U.S. military, industrial and logistical capabilities.

The issue is that this model works best when Washington can simultaneously meet its own needs and those of its partners.

When stockpiles shrink, choices arise.

Japan provides a good example. Tokyo ordered approximately 400 Tomahawks from the United States to expand its long-range strike capability, but some deliveries may be delayed as the United States seeks to rebuild its own stocks.

At that point, scarcity is no longer exclusively an American issue: it affects the alliance's own defense capability.

This is precisely why allies' behavior has started to change.

In the European Union, defense spending reached approximately €418 billion in 2025, around 20% above the previous year, and is expected to reach €454 billion in 2026. NATO members pledged to allocate 5% of GDP to defense and security by 2035.

The most important shift, however, is not simply spending more. It is producing more. Europe recognized the same problem as the United States: a military budget is of little use in a crisis without the industrial capacity to turn it into equipment, munitions and inventories.

The same shift is visible in the Middle East. Saudi Arabia, the United Arab Emirates and other Gulf countries have been seeking to expand domestic production and reduce reliance on foreign suppliers. After all, owning sophisticated military systems does not eliminate dependence on munitions, parts and maintenance capacity.

There is therefore an important second-order effect: the more visible the limits of U.S. industrial capacity become, the greater the incentive for allies to develop their own.

This does not necessarily mean weaker alliances. It may mean the opposite. A Europe that can produce more munitions, or allies with larger stocks, also reduces pressure on the United States.

The problem lies in the transition.

Building factories, developing suppliers and rebuilding inventories takes time. Perceptions of threats have changed faster than the industrial capacity needed to address them.

That interval matters.

In the information age, some of the most valuable information may still be precisely what nobody can obtain.

Not knowing a major power's true energy, industrial or military capacity forces its adversaries to plan with a margin of error. Preserving that uncertainty may be almost as strategic as preserving the stockpiles themselves.

DISCLAIMER

This letter is for informational and educational purposes. It does not constitute an investment recommendation.

The content is not an offer, solicitation or suggestion to buy or sell any asset, nor investment, legal, accounting or tax advice. References to companies, sectors and instruments illustrate the reasoning presented and should not be interpreted as allocation recommendations.

The opinions and investment theses reflect Rock Capital's views as of publication and may change without notice. Past performance does not guarantee future results, and all investments involve risk, including loss of invested capital. Before making any decision, consider your objectives, financial situation and risk profile, and seek guidance from a qualified professional. Data and charts come from the cited sources and have not been independently audited.