

Platts China Oil Analytics: China Oil Demand Little Changed Year over Year in June

Apparent* Demand from January-June Slipped 0.6% from a Year Ago

SINGAPORE, Aug. 11, 2016 /PRNewswire/ -- China's apparent oil demand was largely unchanged in June 2016, dipping just 0.1% from a year earlier to 11.32 million barrels per day (b/d), according to a just-released analysis of Chinese government data by S&P Global Platts, the leading independent provider of information and benchmark prices for the commodities and energy markets.

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Refinery throughput in June averaged 11.01 million b/d, data from the China's National Bureau of Statistics (NBS) showed July 10. This was a 3.1% rise year over year and a 5.3% increase month over month.

However, net imports of key oil products in June averaged 308,000 b/d, the lowest level since November 2015 and a 53.3% slump from the same month last year, data from China's General Administration of Customs showed.

Over the first half of 2016, China's apparent oil demand growth declined 0.6% to an average 11.15 million b/d. This is a significant moderation from expansion of 8.4% in apparent oil demand during the first six months of 2015 and comes on the back of economic growth easing to 6.7% in the first half of this year, compared with 6.8% in the fourth quarter of 2015.

However, S&P Global Platts China Oil Analytics, an on-line platform for supply/demand and trade data, indicates China's oil apparent demand derived using the existing calculation method is likely being understated this year. This is because of higher refinery utilization achieved by independent refiners following the government's deregulation of the sector last year by allowing them to utilize imported crude oil.

"Official data show refinery runs have risen only 1.9% this year, but we think refinery runs are at least 400,000 b/d higher than they should be, as it is likely that some production by independent refiners is not being captured by the government data," said *Song Yen Ling, senior analyst with Platts China Oil Analytics.*

While the customs data reflects growing exports of transport fuels by state-owned refiners as they face increasing competition in the domestic market from independent refiners, the official production data likely does not accurately indicate the higher refinery runs that have been achieved by independents.

This would explain why growth in apparent oil demand this year has been lower than the original forecast of 2% made by Platts China Oil Analytics.

On a product level, gasoil and gasoline have most likely been affected the most from this underreporting, particularly as independent refiners mainly produce these two fuels.

Gasoil

Calculations based on the official data show that gasoil apparent demand in June fell by 6.4% year on year, signaling the 10(th) consecutive month of negative growth since the fourth quarter of last year. Consumption of gasoil has likely been sluggish on the back of stagnant industrial activity although indications by the government that it could boost infrastructure investment could provide a fillip to demand.

The fuel is used in the industrial and heavy transport sectors. Demand has taken a hit in recent years on the slowdown in the manufacturing sector, amid China's transition towards more service-sector-led economic growth. Over January-June this year, gasoil apparent demand has fallen by 8.2% to an average 3.32 million b/d.

Gasoline

The domestic gasoline market has seen some change this year, with production of blended gasoline by fuel blenders rising to new highs, as indicated by record volumes of mixed aromatics, or reformate, being imported into China this year. Reformate is used as a blending component for finished gasoline. This added supply of blended gasoline is also likely not being captured by the official government data. Coupled with higher gasoline production by independent refiners, this has posed a significant competitive threat to the state-owned refiners and forced the latter to raise their own gasoline exports.

In June, China's gasoline exports hit a new record level of 1.1 million mt, the first time that monthly exports had surpassed the 1 million mt mark.

As a result, China's gasoline apparent demand in June increased just 2.6% year on year to an average 2.8 million b/d, bringing apparent demand growth over January to June to 5.4%. This compares with a more robust growth rate of 8.9% over the same period of 2015.

Fuel Oil

China's fuel oil apparent demand in June fell 31.6% year on year to 765,000 b/d. Fuel oil demand is on a decline in China because independent refiners which now have access to imported crude oil no longer need fuel oil as a primary processing feedstock. This has been happening since the second half of last year, when the government started approving crude oil import quotas for the country's independent refiners. To date, a total of 1.2 million b/d of crude oil import quotas have been approved for these refiners, displacing a significant volume of fuel oil.

During the first half of this year, fuel oil apparent demand slumped 20.2% to 750,000 b/d, mainly due to a 44.4% slide in imports. With fuel oil not as popular with refiners as processing feedstock, consumption is mainly focused on the bunker market, with some buying by petrochemical plants as feedstock.

China's crude oil imports between January and June surged 13.6% to 7.51 million b/d, surpassing growth of 8.8% seen in 2015.

MONTHLY CHINA OIL DATA IN '000 B/D

	Jun '16	Jun '15	% Chg	May '16	Apr '16	Mar '16	Feb '16
Net crude imports	7,447	7,195	3.8	7,623	7,897	7,562	8,018
Crude production	4,051	4,450	-9.0	3,989	4,053	4,124	4,167
Apparent demand	11,321	11,338	-0.1	10,882	11,364	11,199	11,101

Sources: China's General Administration of Customs, National Bureau of Statistics, S&P Global Platts

Month-to-month demand in China is generally viewed to be subjected to short-term anomalies which are of interest and important to note, but often fail to reveal the country's underlying demand trends. Year-to-year comparisons are viewed by the marketplace to be more indicative of the country's energy profile.

*S&P Global Platts calculates China's apparent or implied oil demand on the basis of crude throughput volumes at the domestic refineries and net oil product imports, as reported by the NBS and Chinese customs. S&P Global Platts also takes into account undeclared revisions in NBS historical data.

The government releases data on imports, exports, domestic crude production and refinery throughput data, but does not give official data on the country's actual oil consumption figure and oil stockpiles. Official statistics on oil storage are released intermittently.

In view of some significant shifts in Chinese consumption and trade patterns in recent years, S&P Global Platts has revised its methodology starting July 2015 to include production and net imports of liquefied petroleum gas (LPG), as well as imports of petroleum bitumen blend, a popular imported feedstock for China's teapot refineries.

S&P Global Platts has also refined its calculation of exports of jet fuel and fuel oil to exclude international marine bunker sales and aviation fuel delivered to international flights. This also impacts net imports, and hence apparent demand calculations.

All historical figures used for comparison have also been calculated using the new methodology to ensure consistency.

S&P Global Platts aims to release its monthly calculation of China's apparent demand between the 18th and 26th of every month via press release and via its website. Any use of this information must be appropriately attributed to S&P Global Platts. Note: S&P Global Platts uses a conversion rate of 7.33 barrels of crude per metric ton, the widely-accepted benchmark for markets East of Suez.

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As a result, China's gasoline apparent demand in June increased just 2.6% year on year to an average 2.8 million b/d, bringing apparent demand growth over January to June to 5.4%. This compares with a more robust growth rate of 8.9% over the same period of 2015.

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