Platts China Oil Analytics: China Oil Demand Fell 5.4% Year over Year in June

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

PR Newswire
SINGAPORE

SINGAPORE, Sept. 14, 2016 /PRNewswire/ -- China's apparent oil demand in July 2016 contracted 5.4% from the same month last year to 10.75 million barrels per day (b/d), according to an 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 July averaged 10.72 million b/d, data from China's National Bureau of Statistics (NBS) showed August 9. This was a 2.5% rise year over year but represented a 4.6% decline from June.

Net imports of key oil products in July averaged just 35,000 b/d, with total exports hitting a record high volume of 862,000 b/d. Imports, averaging 897,000 b/d, were at their lowest since January 2015, data from China's General Administration of Customs showed.

In contrast, net imports of key oil products had been a hefty 915,000 b/d in July last year.

Over the first seven months of 2016, China's apparent oil demand growth declined 1% to an average 11.12 million b/d. This compares with positive growth of 8.8% over the same period last year.

"We believe, however, that China's oil apparent demand derived using the existing calculation method is likely being understated this year," said *Song Yen Ling, senior analyst with Platts China Oil Analytics, an on-line platform for supply/demand and trade data, of S&P Global Platts.*

She explains that 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.

"The official data from the National Bureau of Statistics shows refinery runs have increased by 2.3%, or 240,000 b/d this year, but independent refineries have processed at least an additional 600,000 b/d of crude," said *Song.*

The official production data likely does not accurately indicate the higher refinery runs that have been achieved by independents.

On the other hand, independent refineries are competing aggressively against state-owned refiners to sell fuel to end-users in the domestic market, forcing the incumbents to export increasing volumes of gasoil and gasoline. This is because independent refiners mainly produce these two fuels.

Gasoil
Calculations based on the official data show that gasoil apparent demand in July fell by 8.8% year on year to 3.17 million b/d. Consumption of gasoil was likely at a seasonal low because of the annual fishing ban in the South China sea, heavy rains in many parts of the country which likely constrained construction activity as well as the end of the summer harvest. Gasoil is used not just in transport but is also an industrial fuel and demand has been impacted by the economy's decreasing reliance on investment-led growth.

Taking into account estimated higher production by independent refiners, apparent demand for gasoil over the January to July period averaged 3.44 million b/d, a 4% decline year on year. This compares with an 8% decline when using the official production data to calculate apparent demand.

Gasoline
China's apparent demand for gasoline in July contracted 4.1% from a year ago to 2.63 million b/d, with the decline largely attributed to elevated exports, which surged 146% year on year to 266,000 b/d.

Over the first seven months of the year, apparent demand rose 4%, with gasoline production rising 7.3% to 2.98 million b/d, according to the National Bureau of Statistics.

According to S&P Global Platts estimates, gasoline production was closer to 3.1 million b/d, which would bring gasoline apparent demand over the same period to 2.9 million b/d, an 8.5% rise year on year.

Fuel Oil
China's fuel oil apparent demand continued its downward trajectory, declining by 32.2% to 657,000 b/d in July. 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 evident 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 1.3 million b/d of crude oil import quotas have been approved for these refiners, displacing a significant volume of fuel oil.

During the first seven months of this year, fuel oil apparent demand dropped 20.7% to 749,000 b/d. With fuel oil not as popular to 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 July surged 11.6% to 7.49 million b/d, surpassing growth of 10.4% seen during the same period in 2015.

MONTHLY CHINA OIL DATA IN '000 B/D

	Jul '16	Jul '15	% Chg	Jun '16	May '16	Apr '16	Mar '16
Net crude imports	7,287	7,182	12.0	7,447	7,623	7,897	7,562
Crude production	3,954	4,309	-8.2	4,051	3,989	4,053	4,124
Apparent demand	10,750	11,365	-5.4	11,542	10,882	11,364	11,199

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.

For more information on crude oil, visit the S&P Global Platts website at www.platts.com. For Chinese-language information on oil and the energy and metals markets, visit http://www.platts.cn/.

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