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## Analysis: China's crude imports reach new high as independents step up buying

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China imported record high volumes of crude oil in March at 9.21 million b/d as independent refiners stepped up buying to meet their quota allocations and oil companies generally bought more in anticipation of higher prices later in the year.

Record high import volumes in turn led to record high exports, which crossed the 1 million mt mark for the first time, as traders supplied nearby markets from bonded warehouses.

"China's domestic oil production declines are worse than expected as mature fields like Daqing and Shengli continue to deteriorate," said Gordon Kwon, head of oil and gas research at Nomura. "China believes that escalating geopolitical tensions and extended OPEC cuts will ultimately drive up crude prices in H2. It's cheaper to buy now than later."

The country imported 38.95 million mt (9.21 million b/d) of crude oil in March, rising 19.4% year on year, preliminary data released April 13 by the General Administration of Customs showed. It was also up 10.7% from 8.32 million b/d in February. The last record high was in December 2016 when imports stood at 8.6 million b/d.

"Surging crude imports in March was likely driven by higher imports by independent refineries as they raised refinery runs to a record high of 64.6% of capacity at a time when state-owned refiners reduced utilization due to planned maintenance," said Wang Zhuwei, senior analyst with S&P Global Platts China Oil Analytics.

The last record-high utilization rate was 63.3% in December 2016.

Crude oil imports by independent refineries in China's Shandong, Hebei and Ningxia provinces reached a record high in March, averaging 2.36 million b/d, up 12.4% from the average of 2.1 million b/d in February, according to Platts data.

Over the January-March period, China imported 104.73 million mt of crude oil, averaging 8.53 million b/d -- exceeding imports of 8.17 million b/d by the US in the same period.

### RE-STOCKING

Independent refineries also pushed up crude oil imports as they needed to use up their first batch of import quotas before applying for a second round, market sources said. New quota allocations hinge on the volume used from the first round -- the more they have used, the more they will be subsequently allocated.

"There was also considerable re-stocking in anticipation of future price rises," investment bank NSBO said in a report released on Thursday, adding that while domestic crude oil production declined by 7.3% year on year to 198 million mt in 2016, processed oil production increased 7.8% year on year to 324 million mt.

Latest data from the National Bureau of Statistics showed that China processed 11.23 million b/d of crude oil in March, slightly lower than the average 11.26 million b/d in the first quarter.

This suggested the extra barrels went into storage amid the expectation of oil price rise.

At the same time, domestic crude oil production fell 4.6% year on year to 3.92 million b/d in March.

But analysts expect the inflow to slow down in the second quarter as a new batch of crude oil import quotas are unlikely to be awarded until end of May.

Wang estimated crude oil imports in April would dip to below 8.5 million b/d because of heavy maintenance at state-owned refineries in April and May.

Meanwhile, inflows in Q2 would likely ease to around 8.1 million b/d, from an average 8.5 million b/d in Q1, he said. **CRUDE AND PRODUCT EXPORTS**

In another milestone, China's crude oil exports rose above the 1 million mt mark for the first time in March, taking net crude oil imports to 37.71 million mt, which was still 4.6% higher than the previous record high of 36.04 million mt in December 2016.

The country exported 1.24 million mt of crude oil in March, 66.2% higher than the last high of 746,100 mt in March 2015.

"The barrels were exported from the bonded tanks in southern Hainan province and northeastern Dalian in Liaoning province," a Beijing-based analyst said.

Global trading companies normally store their crude oil barrels in China's bonded storages. While they are mostly sold in the domestic market, they are occasionally shipped to neighboring countries, such as Japan and South Korea.

Record high crude inflows in March was likely a reason for more barrels to move out from the bonded storage to neighboring countries.

China's oil product exports in March also soared, rising 24.5% year on year and 9.6% month on month to 4.67 million mt.

GAC's oil product export data includes both seaborne exports and sales from bonded storage for international flights and vessels.

The country imported 2.7 million mt of oil products in March, up 10.2% year on year and rose 13% from February. This brought China's net oil product exports in March to 1.97 million mt, up 51.5% year on year and higher by 5.3% from February.

China has turned net oil product exporter since June 2015, with the highest recorded net oil product exports at 2.85 million mt for November 2016.

--Oceana Zhou, oceana.zhou@spglobal.com --Sambit Mohanty, sambit.mohanty@spglobal.com --Edited by Irene Tang, irene.tang@spglobal.com

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2

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