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Chinese Oil Demand is Surging

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Tags: angola, automobile, china, implied demand, iran [list all tags]

A spate of stories in the last few weeks told the remarkable tale. China's business newspaper The Standard notes Oil demand growth accelerates to 13.5%.

> Apparent oil demand leapt 13.5 percent last month from the year-ago level to 6.5 million barrels per day, according to calculations based on official data.
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> That was the fastest rate since 2004, when overall demand grew around 15 percent, and exceeded last month's 10.8 percent rise as imports of fuel oil surged and gasoline exports slumped, both indicators pointing to increased domestic needs.
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> Some analysts said the figures were also lifted by refiners stockpiling oil in hopes of more profitable sales later.
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> Apparent demand is based on refinery runs plus net product imports, but does not account for changes in inventory levels.

This short report will focus on "apparent" oil demand, growing Chinese oil imports, where they come from and what is driving this demand surge.

This was the first time, at least in my experience, that a country's demand number was qualified in the mainstream media reports. The "apparent" demand is technically known as the *implied demand* or perhaps I should say the *implied quantity demanded*--this may keep Don Sailorman off my back. For our purposes, this term might be defined as used in this informative document Crude Assessment from Global Energy Research (June 2006). Here, they are talking about US gasoline demand.

> Are higher prices impacting consumption? If we are to take the data at face value this suggests demand for gasoline is running at 0.5% YTD, pretty lackluster given prevailing economic growth. Taking the data at face value can of course be extremely dangerous. With the transition to ethanol taking place this year data are likely being distorted. Readers with a technical aversion can skip to the next paragraph. The addition of MTBE in the past has been done at the refinery. Ethanol is intolerant to water, so can only be blended with gasoline at the distribution depots closer to the customer. **Official data estimates implied demand by calculating product availability (production + net imports + change in primary inventories)**. During the transition to ethanol in gasoline, refinery gate deliveries of gasoline are likely lower for two reasons. First, MTBE is no longer present when gasoline leaves the refinery and ethanol for blending is

> not measured in total gasoline stocks. Second, refiners have estimated that the loss in gasoline yields/output from not using MTBE can be as high as 5-8%. As a result, it is possible that low product availability has muted implied demand growth as measured by the US Department of Energy.

We find then that *implied demand* is demand as measured over the entire supply chain. This definition appears to contradict the Chinese statement at the top. Minyanville is more specific about the implied demand as compiled by Reuters for May:

- Crude Oil Imports up +20.5% yr-yr in May, re-accelerating, and spiking into positive territory from the (-) 1.8% yr-yr contraction posted in April.
- Domestic Crude Oil Supplied up + 9.7% yr-yr in May, accelerating from the rise of +2.6% yr-yr posted in April.
- Product Imports up +416.3% yr-yr, not a typo, up four hundred and sixteen-plus percent, soaring further from the already stratospheric pace of increase posted in April, at +69.5% yr-yr.

Bloomberg reports that Chinese oil imports were up only 19% in May measured year on year. All *implied demand* figures have an associated uncertainty. The demand estimate would also seem to contradict the standard assumption that Chinese domestic oil production is flat at about 3.4/mbd (2005). But let's move on.

While apparent oil demand was estimated at 13.5%, up from 10.8% year on year growth in April, this alarming story from China's People's Daily China's automobile output exceeds 3 million in first five months tells us where the increased demand is coming from.

> China Association of Automobile Manufactures released statistics showing that in the first five months China's automobile output and sales hit a record high to 3.53 million units and 2.9743 million units respectively, an increase of 31.77 % and 30.84% over the same period of last year respectively....
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> In the first five months, China's automobile imports (including the complete sets of automobile spare parts) have soared to 87,000 units, up by 80% over the same period of last year, according to the statistics released by the General Administration of Customs. Analysts said the dealers increased car imports in the first quarter due to the coming increase of consumer tax from April 1st, but the imports saw a decline in April and further drops in May. Despite that, the imports in the first five months witnessed a surge of 80% because of the sharp increase in the first quarter.

Perhaps the People's Daily is not the best source of information and have exaggerated the figures because the Chinese are no doubt proud of their economic progress. From the Asian Times Auto boom worsens China's energy crunch, we learn that 5.7 million motor vehicles were sold in 2005 but the prediction is for sales of 9.6 million in 2010 with a total of 140 million by 2020. I shouldn't neglect to add that the first Toyota has rolled off the factory at Nansha, west of Guangzhou, not far from Hong Kong. It was a Camry. The trend is clear. For some reading here, this probably represents their worst nightmare coming true. I do not mean to scapegoat the Chinese and other "Asian Tigers" as the media often does. They are doing what comes naturally and these figures still pale in comparison with the United States.

Where is all this Chinese imported oil coming from? It is not for nothing that China has dubbed this The Year of Africa.

China's Premier Wen Jiabao (L) and Uganda's President Yoweri Museveni watch the honour guard Surprisingly, Uganda has no oil

The premier met with leaders of seven African nations which we can divide into two camps: Egypt, Ghana (oil), Congo (oil), Angola (oil), South Africa, Uganda and Tanzania. As Wen Jiaboa traveled, spreading Chinese largess throughout the African continent, he did not forget to make that all important stop in Angola.

> China Petroleum & Chemical Corp (Sinopec) has acquired stakes in oil exploration blocks in Angola's recent licensing round through Sonangol Sinopec International (SSI), its joint venture with Sonangol, Angola's national oil company, the official Shanghai Securities News reported.
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> SSI won stakes of 27.5 pct, 40 pct and 20 pct in blocks 17, 18 and 15 respectively, the report said. Sinopec holds a 75 pct stake in SSI.

Quoting from China's Portugal Connection, "In February 2006 Angola became the largest supplier of crude oil to China, beating Saudi Arabia and Iran into second and third place. Recognizing how Angolan oil can contribute to its continuing growth, China has embarked on a massive offensive to secure its vital position in the country". Perhaps it should have been dubbed "The year of Angola" but that would have been unseemly, too crass. Finally, I note that about 5% of Chinese imports come from the Sudan with expectations that exports from there will increase to about 9% of China's needs by 2010.

In the interest of brevity, I'll cut this story off here. There's plenty to discuss.