

China Oil Demand Update

IP Week 2019

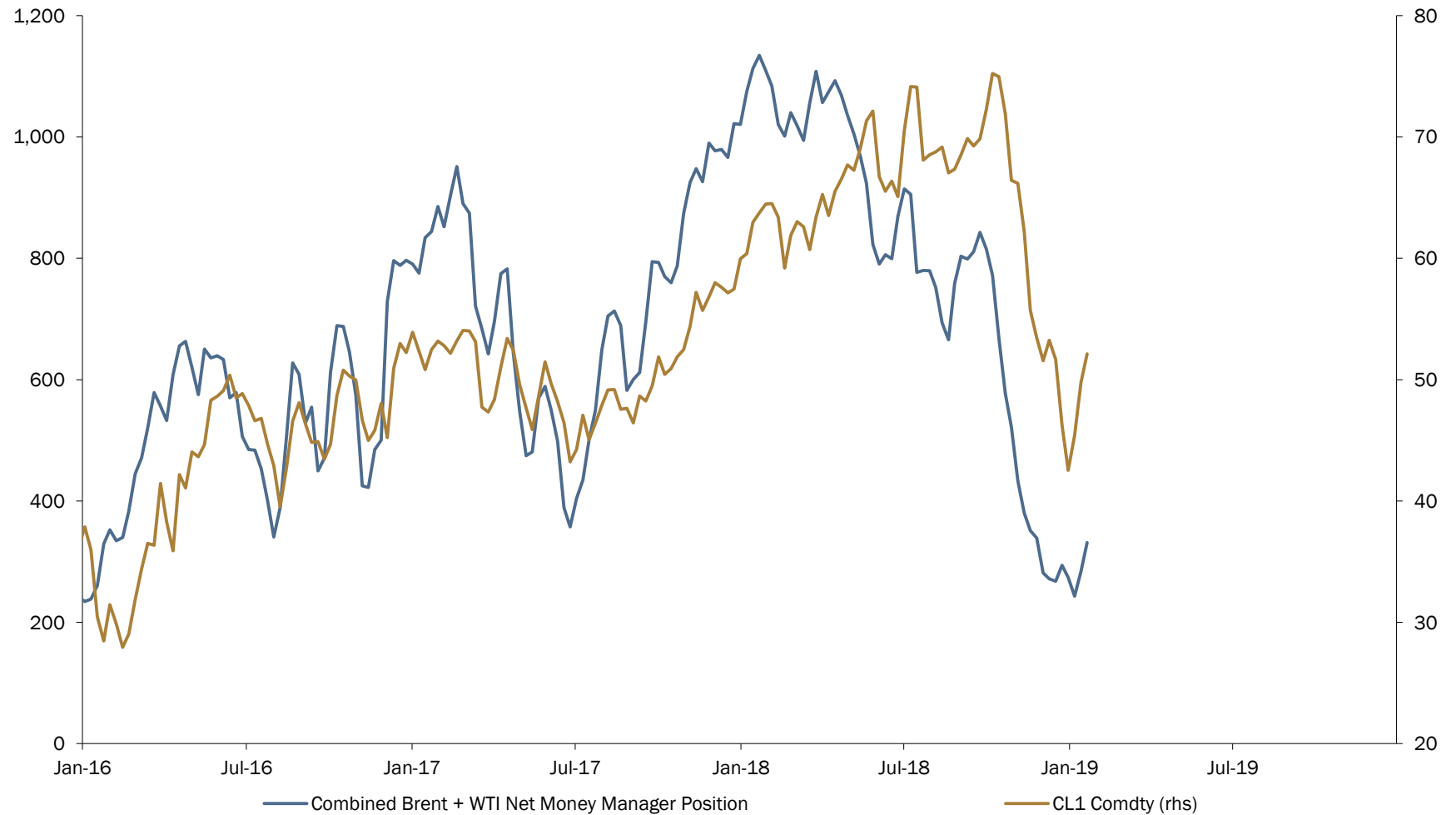


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The past 12 months have been a roller coaster ride

Combined Brent + WTI CFTC money manager net position, thousand lots; WTI price, US\$/t

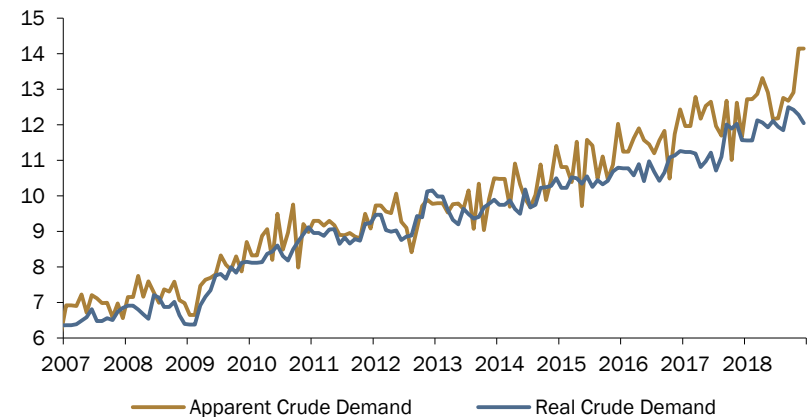


Source: ICBC Standard, Bloomberg, ICE, CME, CFTC

A year ago, we outlined several key themes...

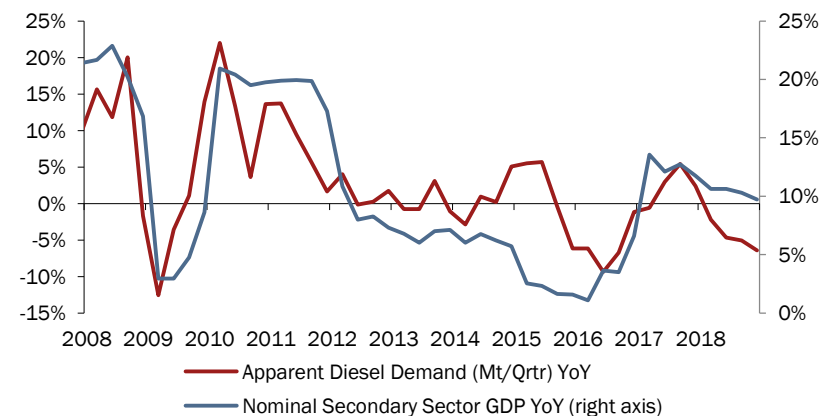
- Chinese demand was only c.13% of global crude demand.
- But has an outsized international market impact because
 - It has accounted for c.45% of demand growth since 2005.
 - Demand growth has been met by imports, not increased domestic production.
- Apparent demand exaggerated real demand because:
 - China has built both commercial and SPR stocks
 - China has become a net exporter of refined products
- 2017 real crude demand growth above 5% was not sustainable because diesel demand growth would slow.
- But that 2-3% growth was sustainable, on the back of consumer and transport, rather than industrial, driven product demand.
- In China, the real question for US shale is about market share.
- Although OPEC+ cuts and US sanctions have recently put the supply-side in the spotlight, China's demand outlook is set to play an equally important role in determining the future of the oil market**

China's apparent crude consumption outstrips real demand



Source: ICBC Standard, Bloomberg, China NBS, China Customs

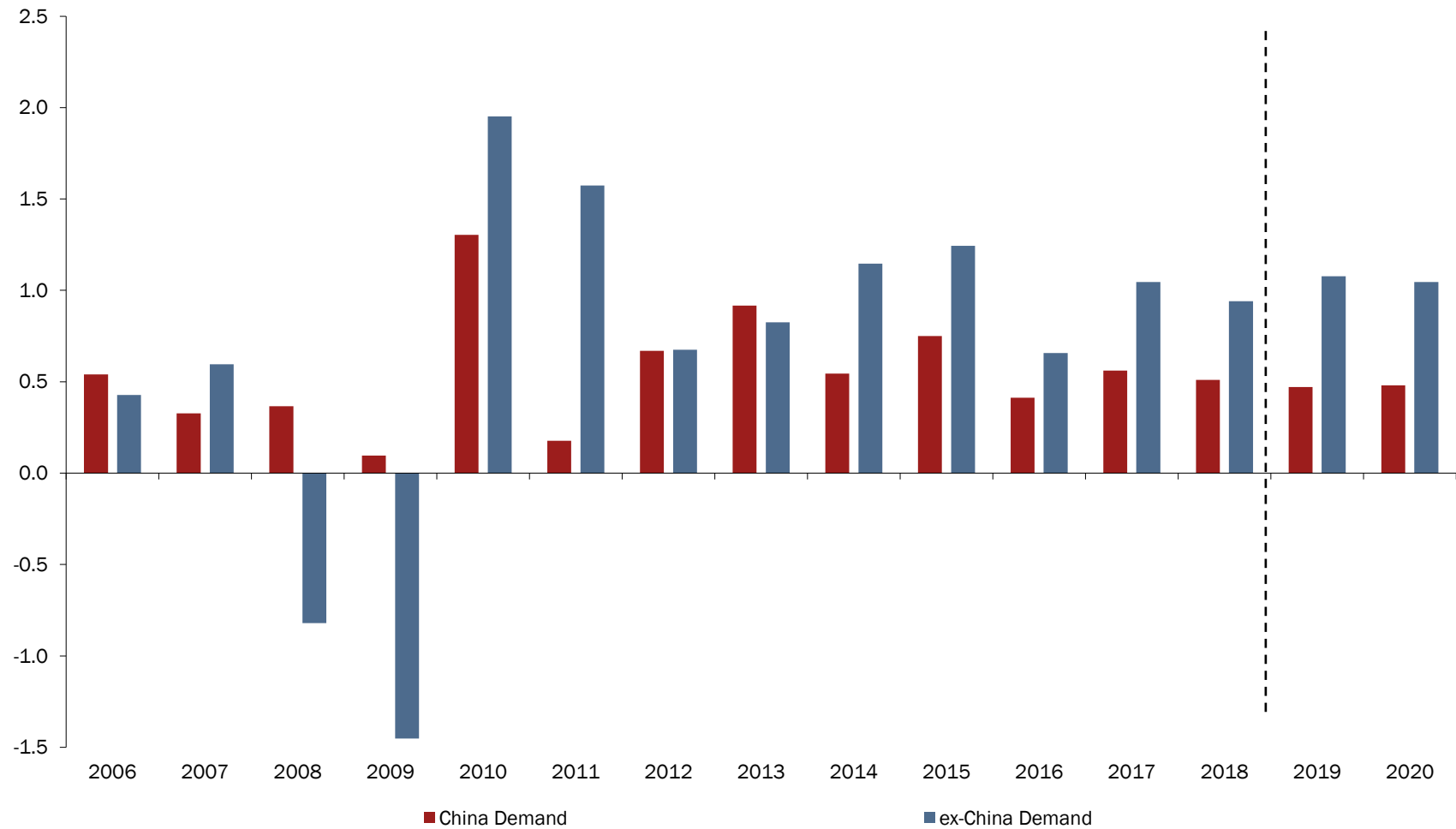
Diesel demand has given back its 2017 bounce



Source: ICBC Standard, Bloomberg, China NBS, China Customs

Agency forecasts point to steady Chinese demand growth

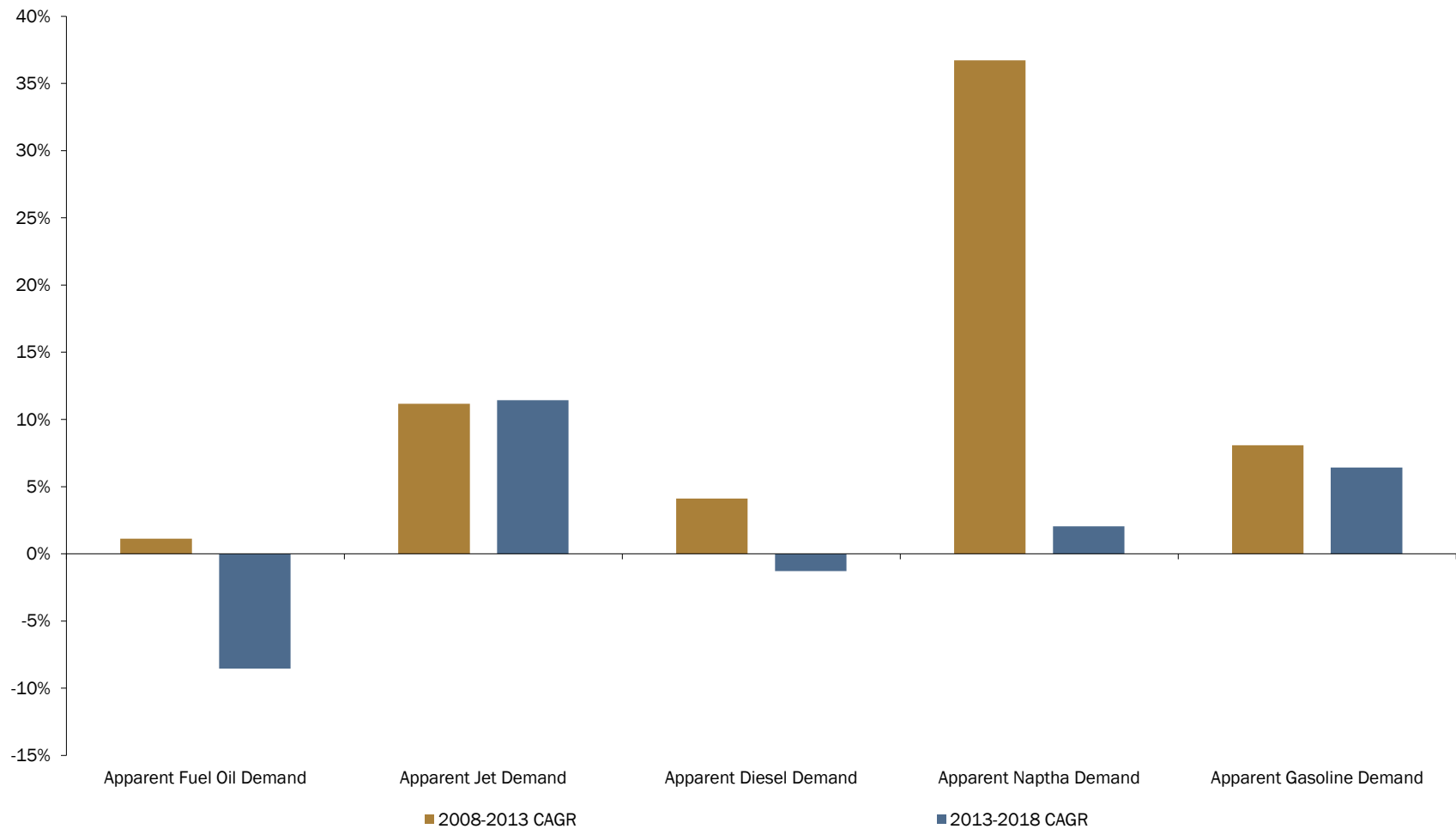
China and ex-China contribution to annual global crude demand growth



Source: ICBC Standard, Bloomberg, EIA

But the product-by-product breakdown highlights a change of composition

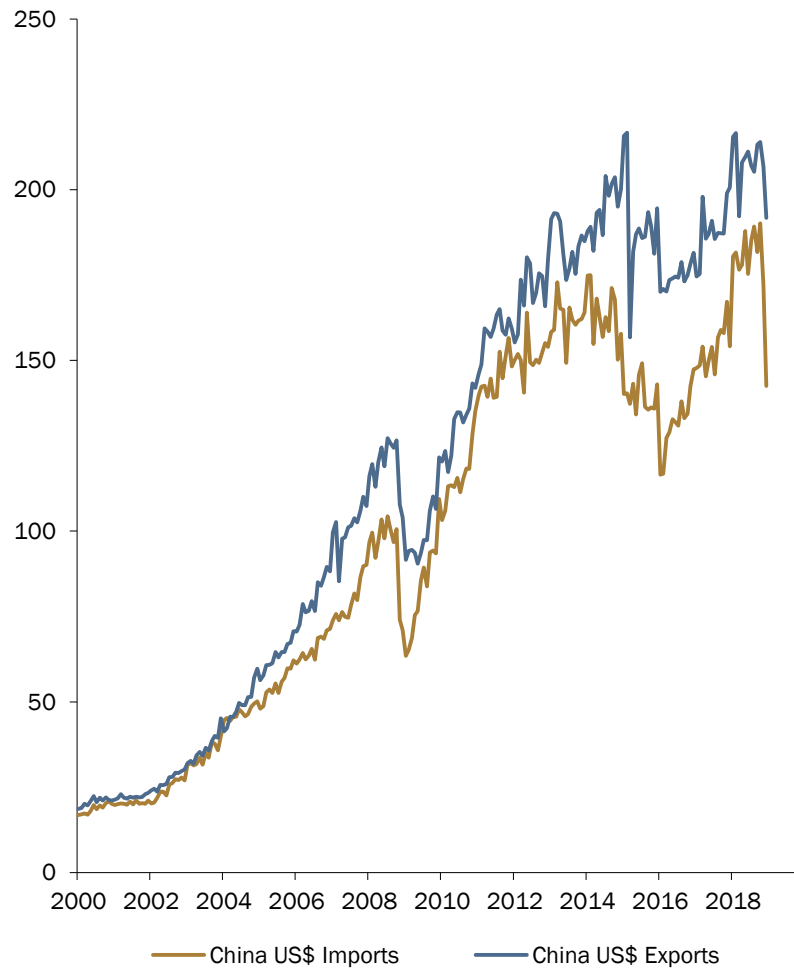
China apparent demand growth by product



Source: ICBC Standard, Bloomberg, EIA, China NBS

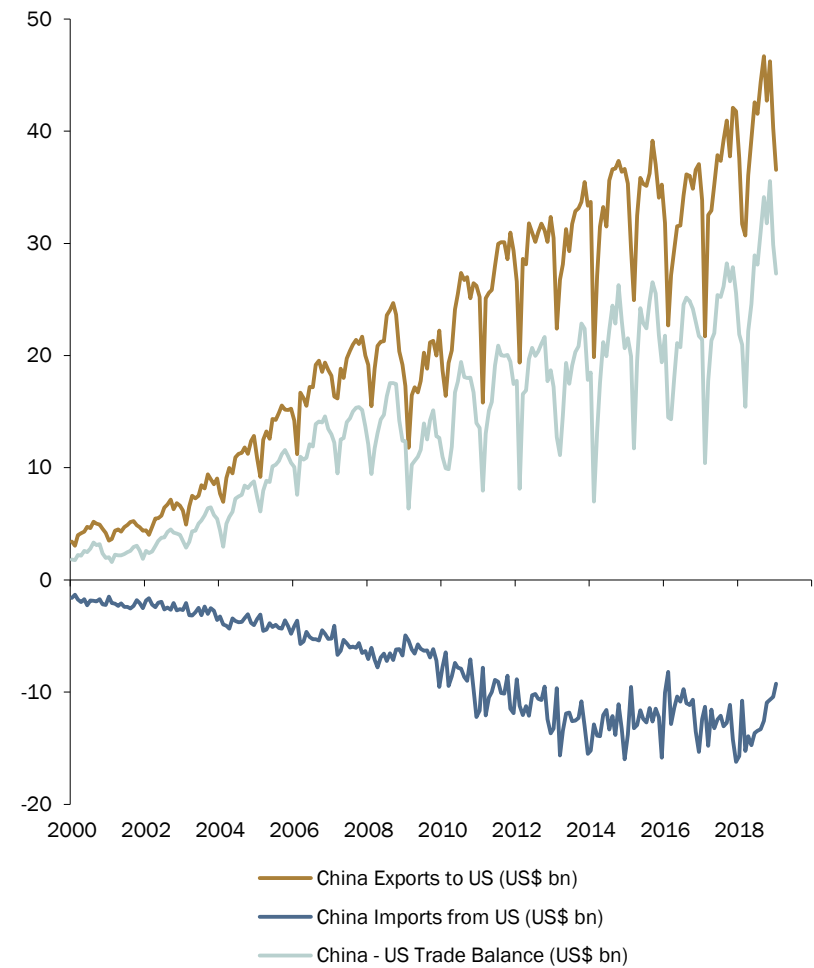
Trade tensions a headwind to sentiment, not growth, in 2018

Only in December did trade data roll over



Source: ICBC Standard, Bloomberg, China Customs

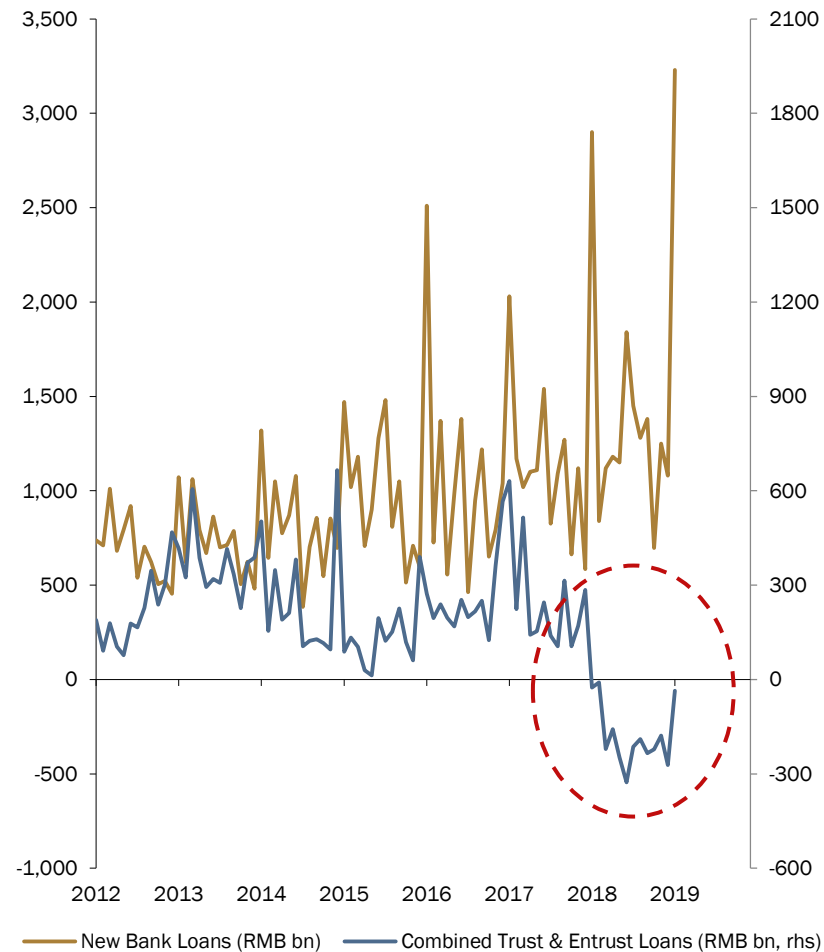
With the US-China deficit continuing to expand



Source: ICBC Standard, Bloomberg, China Customs

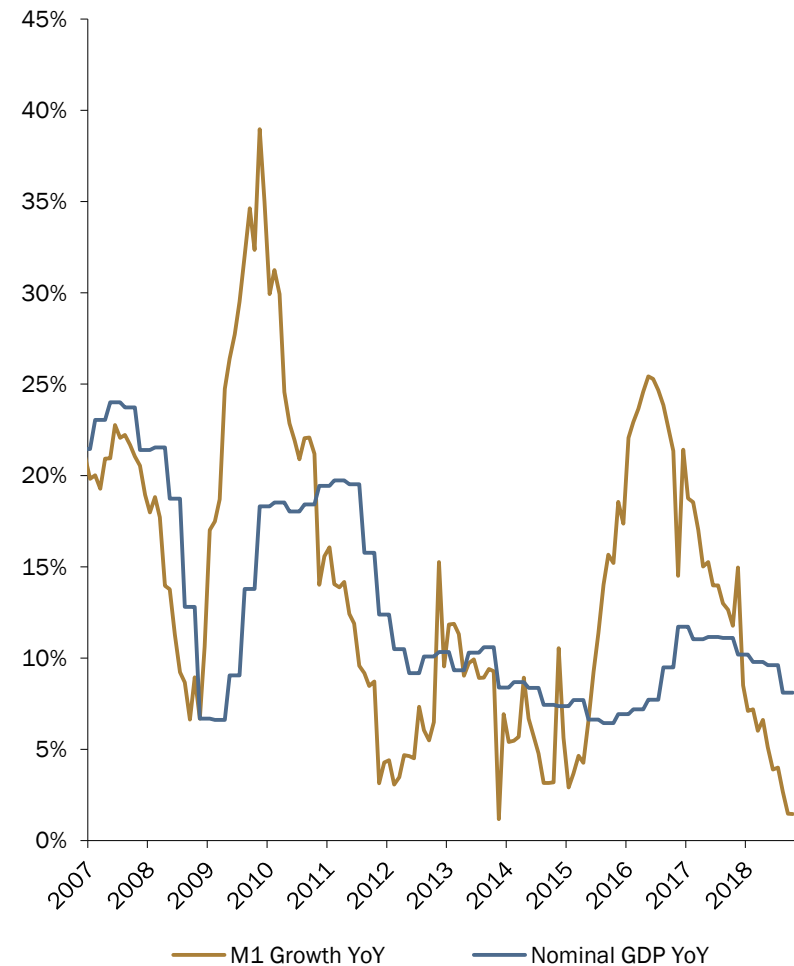
Rather, domestic deleveraging has been the drag on the “old” economy

Until Jan'19, non-bank deleveraging was a drag on credit growth



Source: ICBC Standard, Bloomberg, PBoC

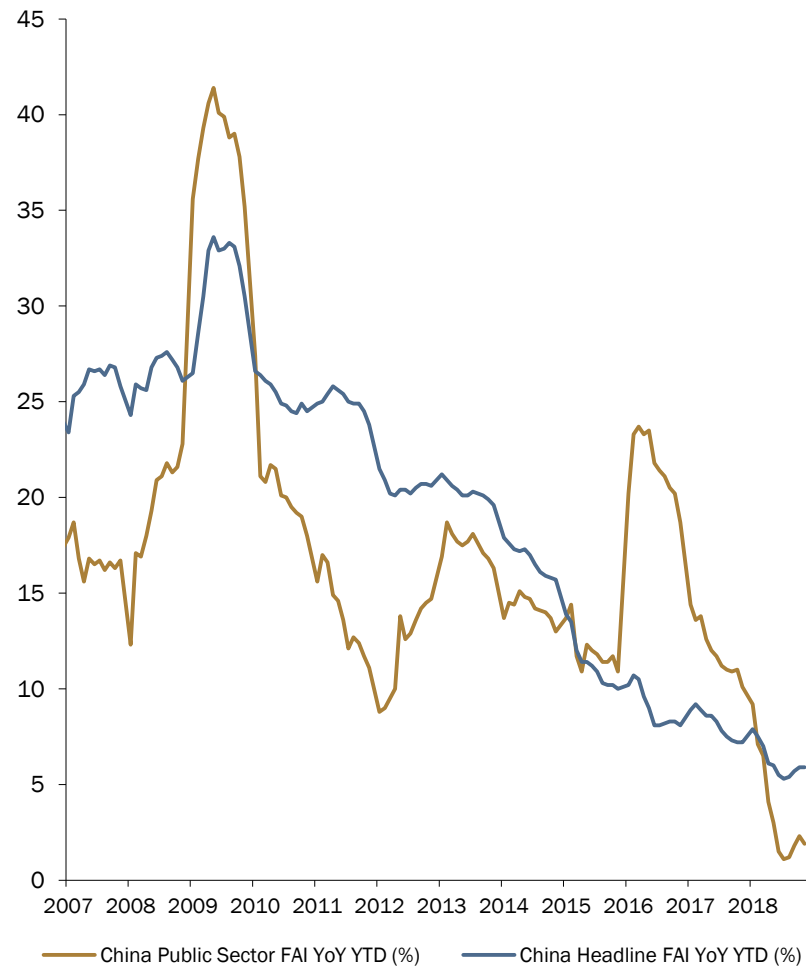
Weighing on money supply and, hence, GDP growth



Source: ICBC Standard, Bloomberg, China NBS, PBoC

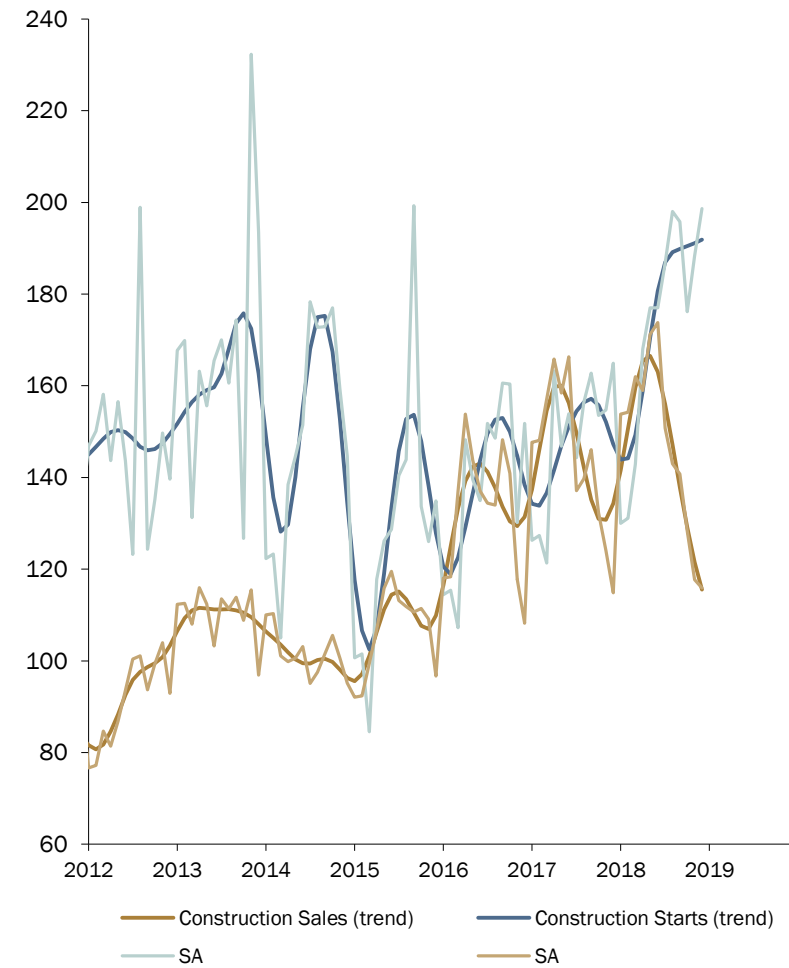
Leading to a reversal of 2017's diesel demand growth

Public sector infrastructure investment slowed dramatically



Source: ICBC Standard, Bloomberg, China NBS

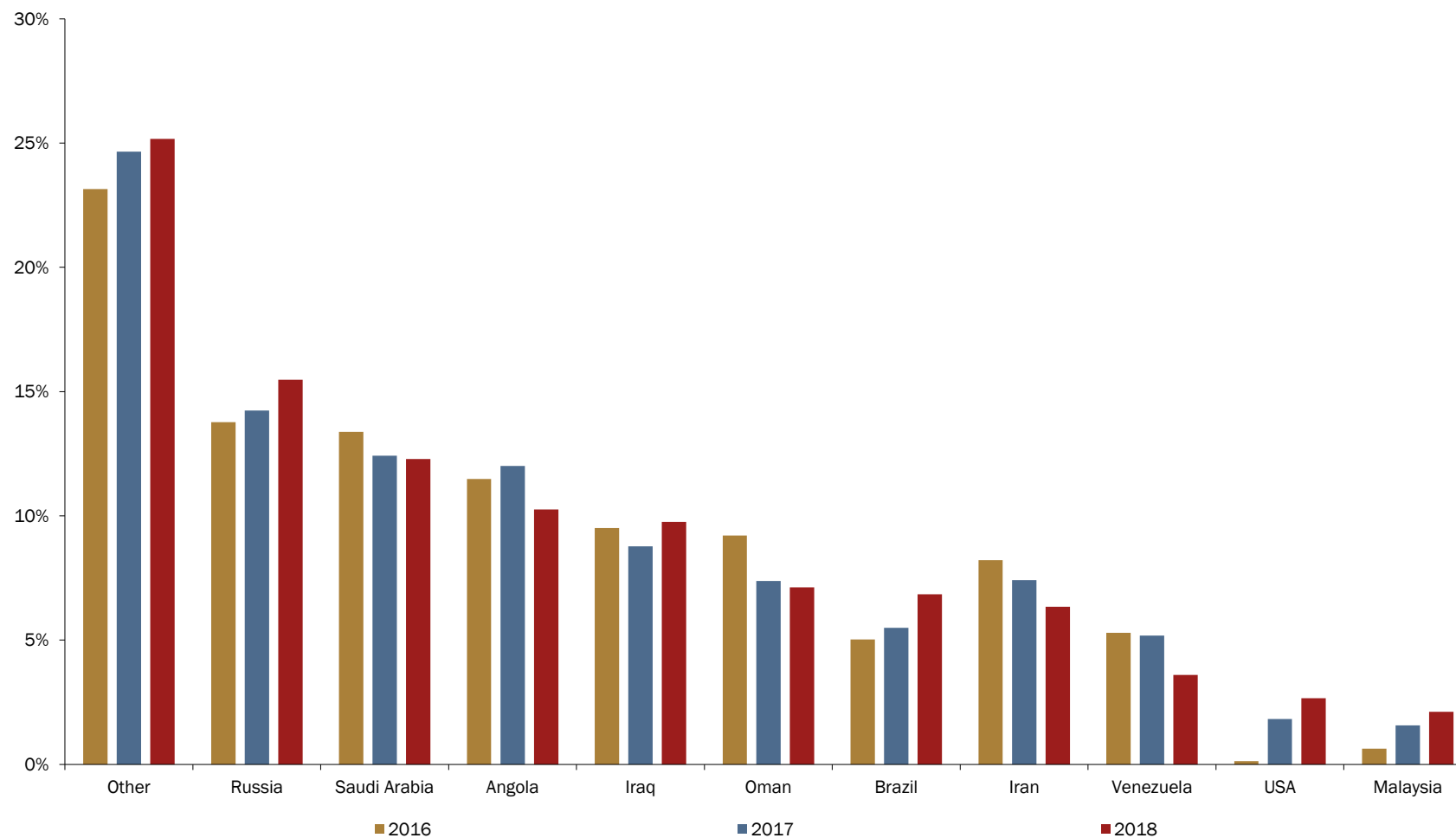
Construction starts steady but sales point to a slowdown



Source: ICBC Standard, Bloomberg, China NBS

Energy has a potential role in any trade deal

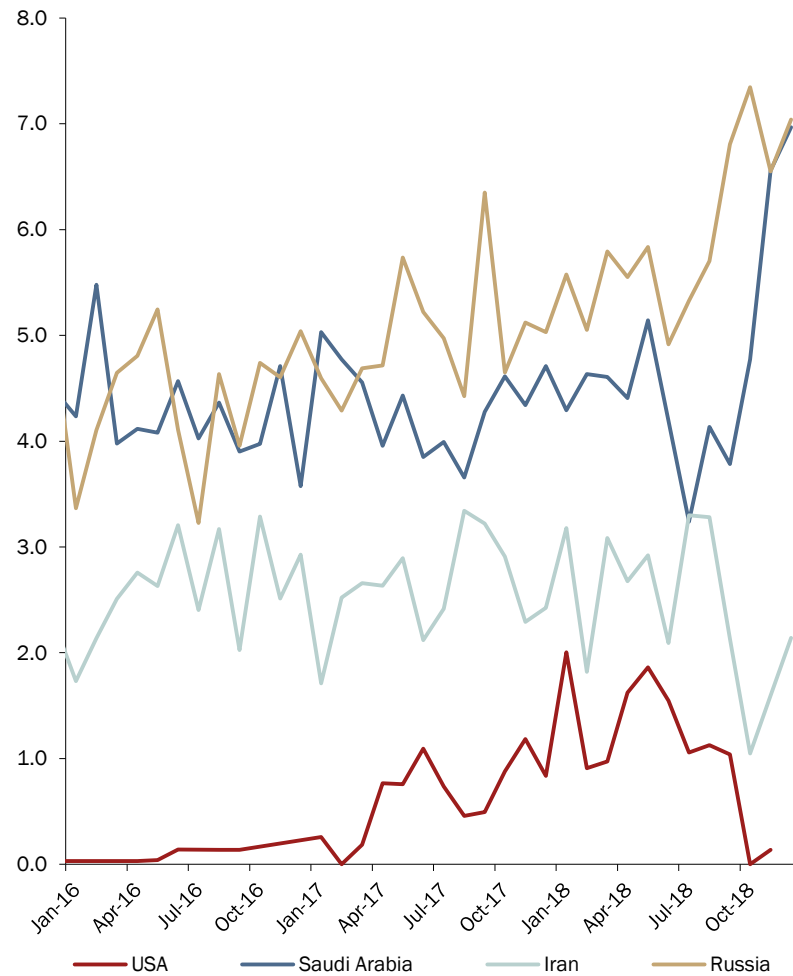
Breakdown of China's annual crude imports by country of origin



Source: ICBC Standard, Bloomberg, China Customs

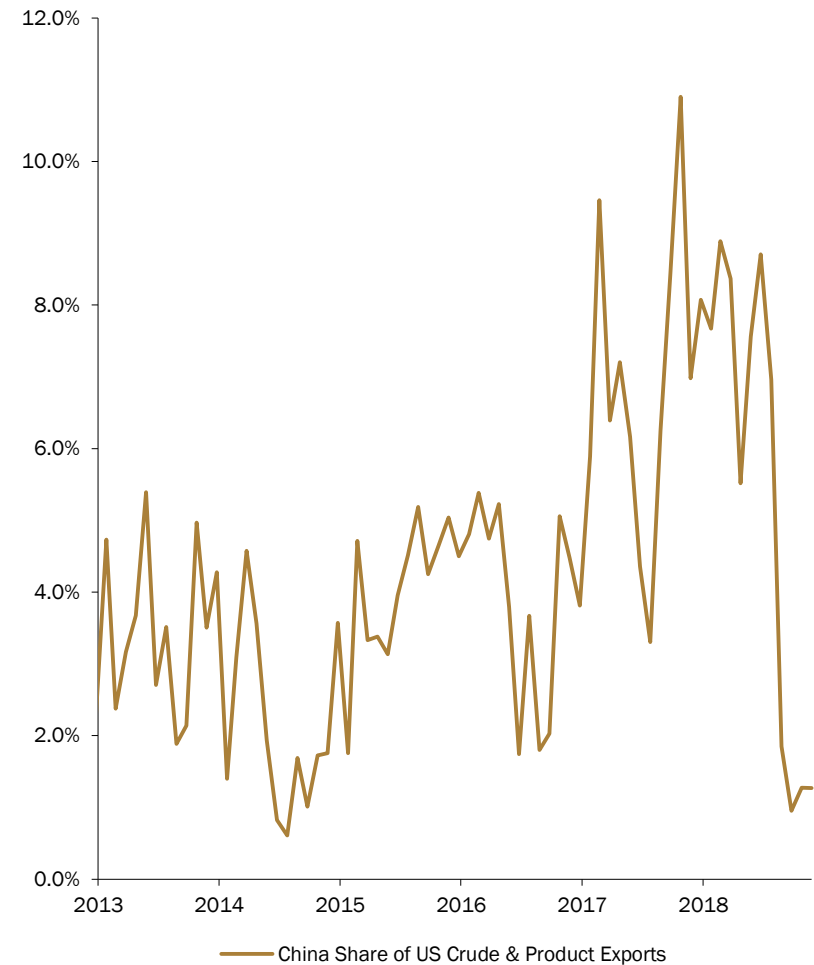
With ample capacity for China to take more US crude

US share of China's imports retraced in H2 2018



Source: ICBC Standard, Bloomberg, China Customs

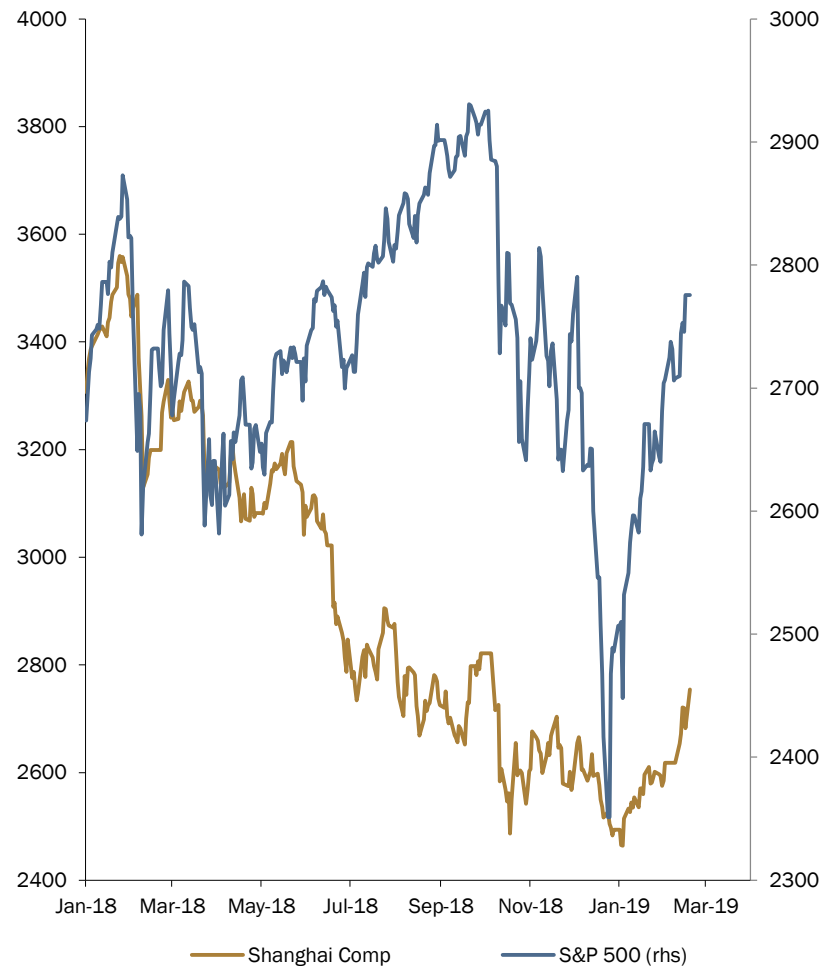
But not for lack of export potential



Source: ICBC Standard, Bloomberg, US DOE

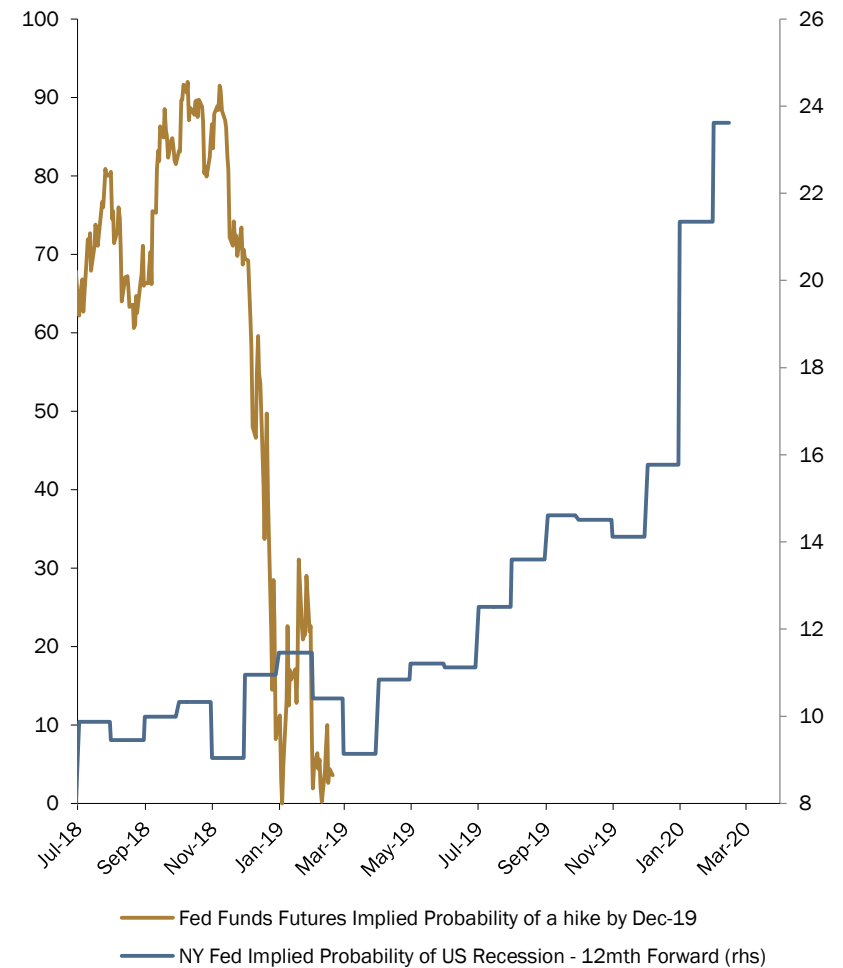
The macro-financial backdrop may increase the prospects of a resolution

The US equity bull market has been brought into question



Source: ICBC Standard, Bloomberg.

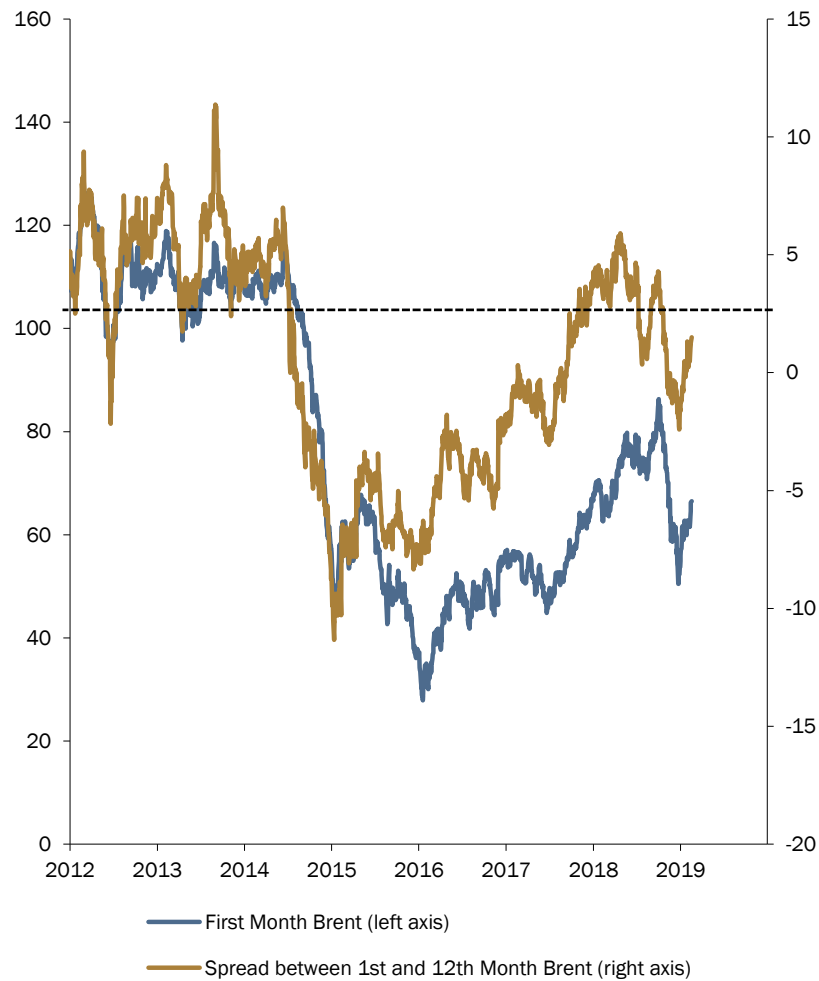
With recession probability rising and reduced rates expectations



Source: ICBC Standard, Bloomberg, NY Fed

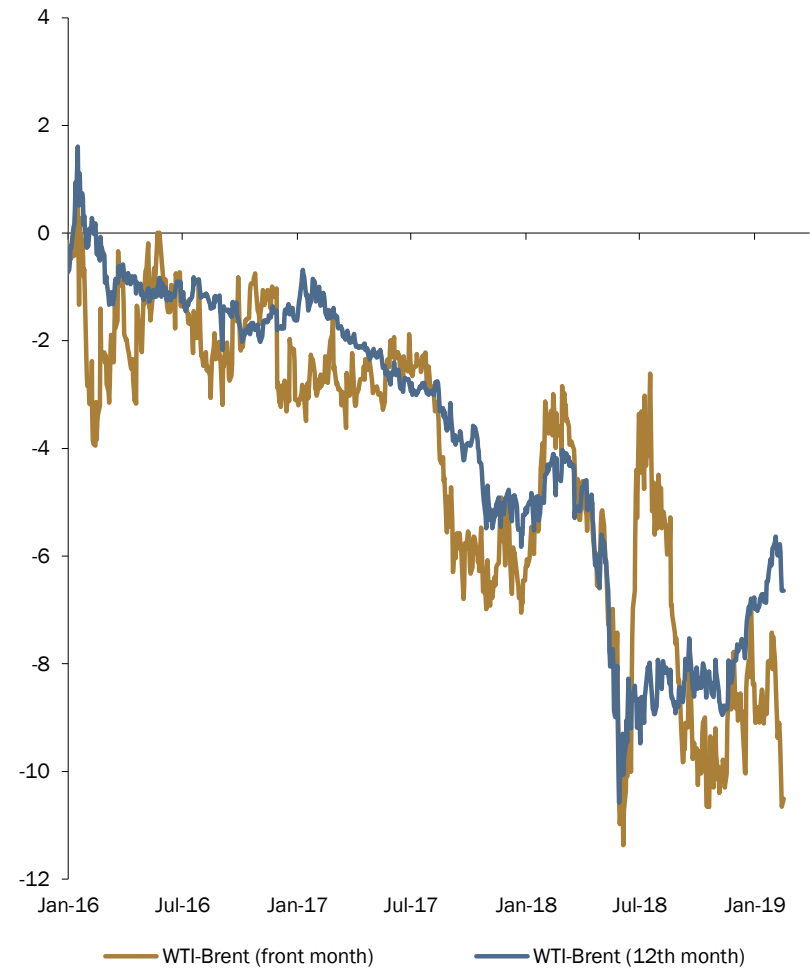
This does not change crude's structural level but could shift relative prices

Crude spreads have recovered, while absolute price languishes



Source: ICBC Standard, Bloomberg, ICE

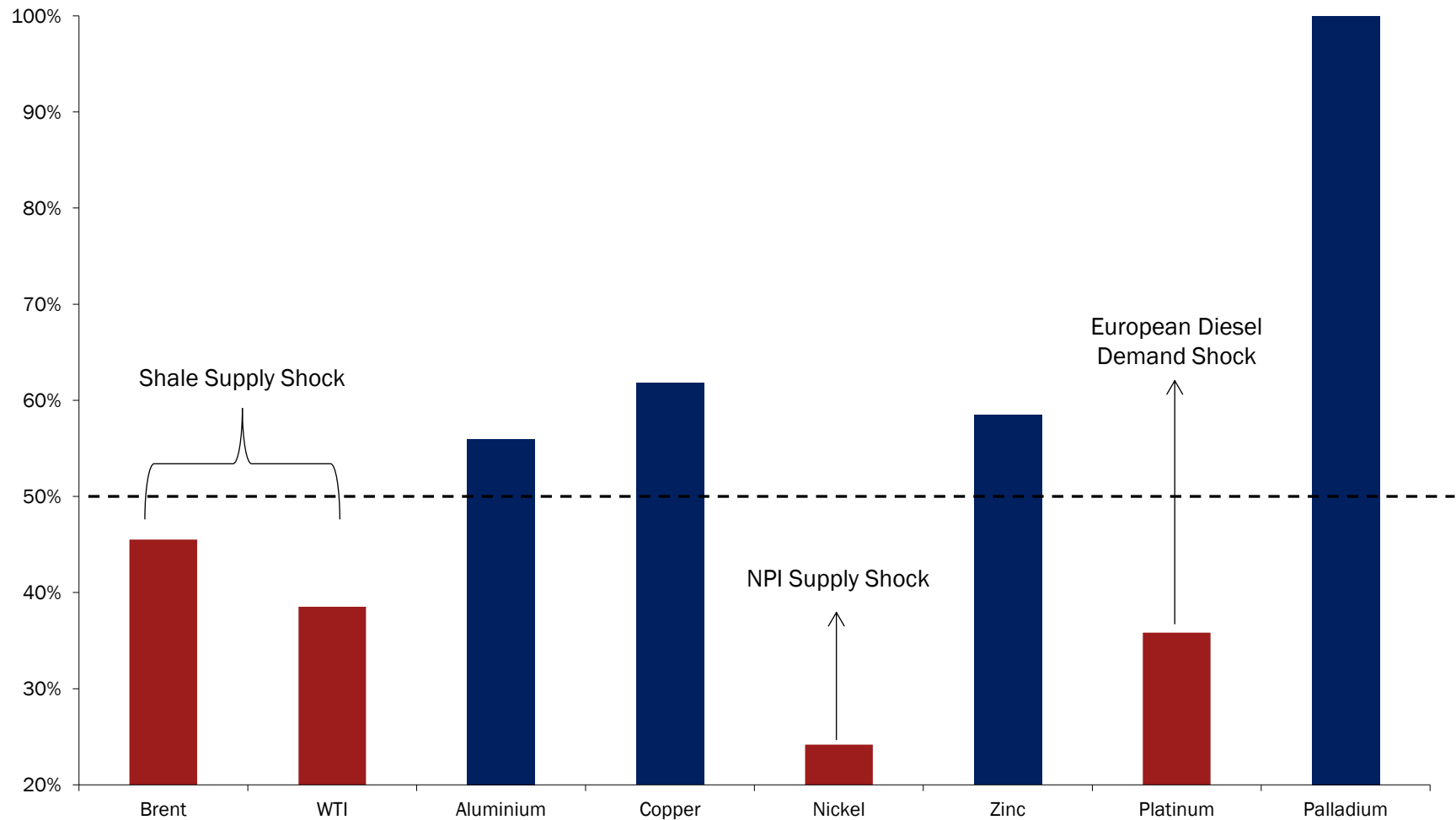
As WTI – Brent remains deeply negative



Source: ICBC Standard, Bloomberg, ICE, CME

Note crude is one of the markets to have endured a structural change

Current price as % of historic high price



Source: ICBC Standard, Bloomberg, ICE, CME, LME, LPPM

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