

China Oil Demand Update

IP Week 2019

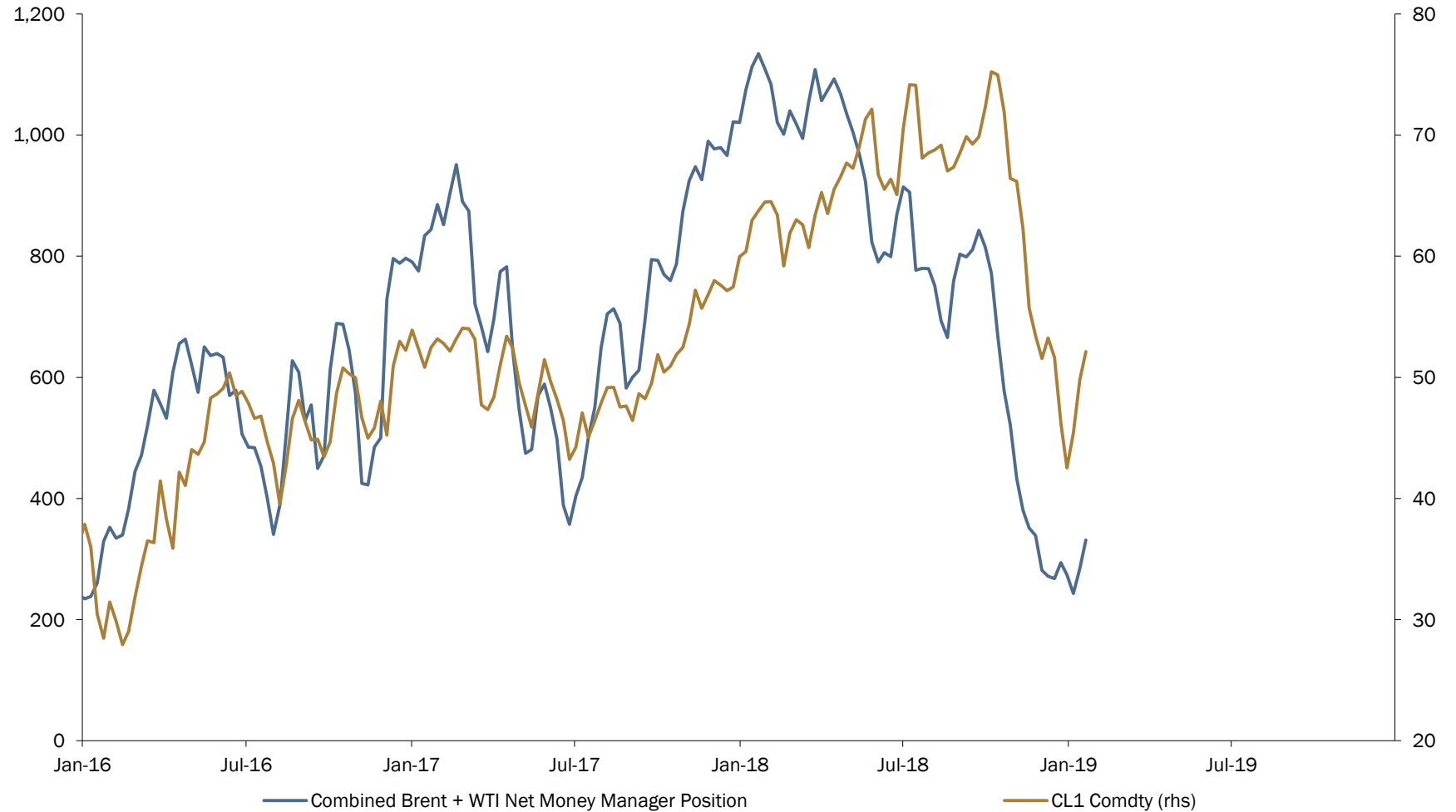


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The past 12 months have been a roller coaster ride

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

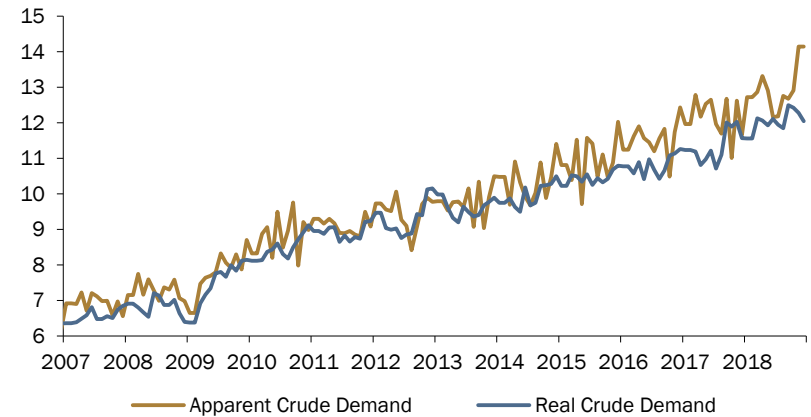


Source: ICBC Standard, Bloomberg, ICE, CME, CFTC

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

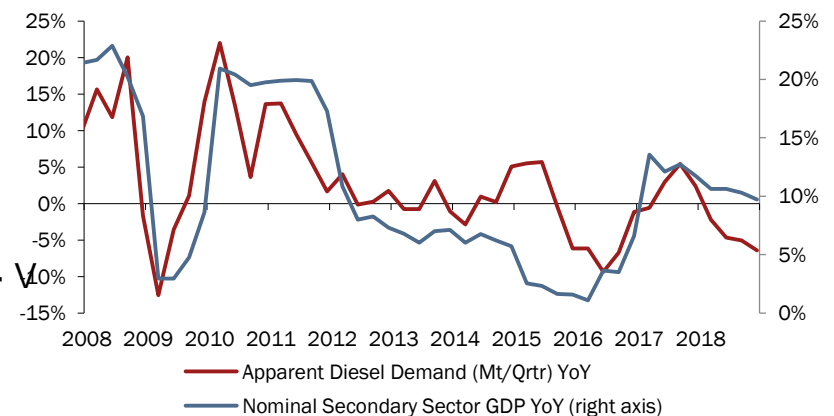
- Chinese demand was only c.13% of global crude demand.
- But has an outsized international market impact because
 - ↑ It has accounted for c.45% of demand growth since 2005.
 - ↑ Demand growth has been met by imports, not increased domestic production.
- Apparent demand exaggerated real demand because:
 - ↑ 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, & K L Q D · V demand outlook is set to play an equally important role in determining the future of the oil market**

& K L Q D · V D S S D U H Q W F U X G H F R Q V X P S W L R Q R X



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

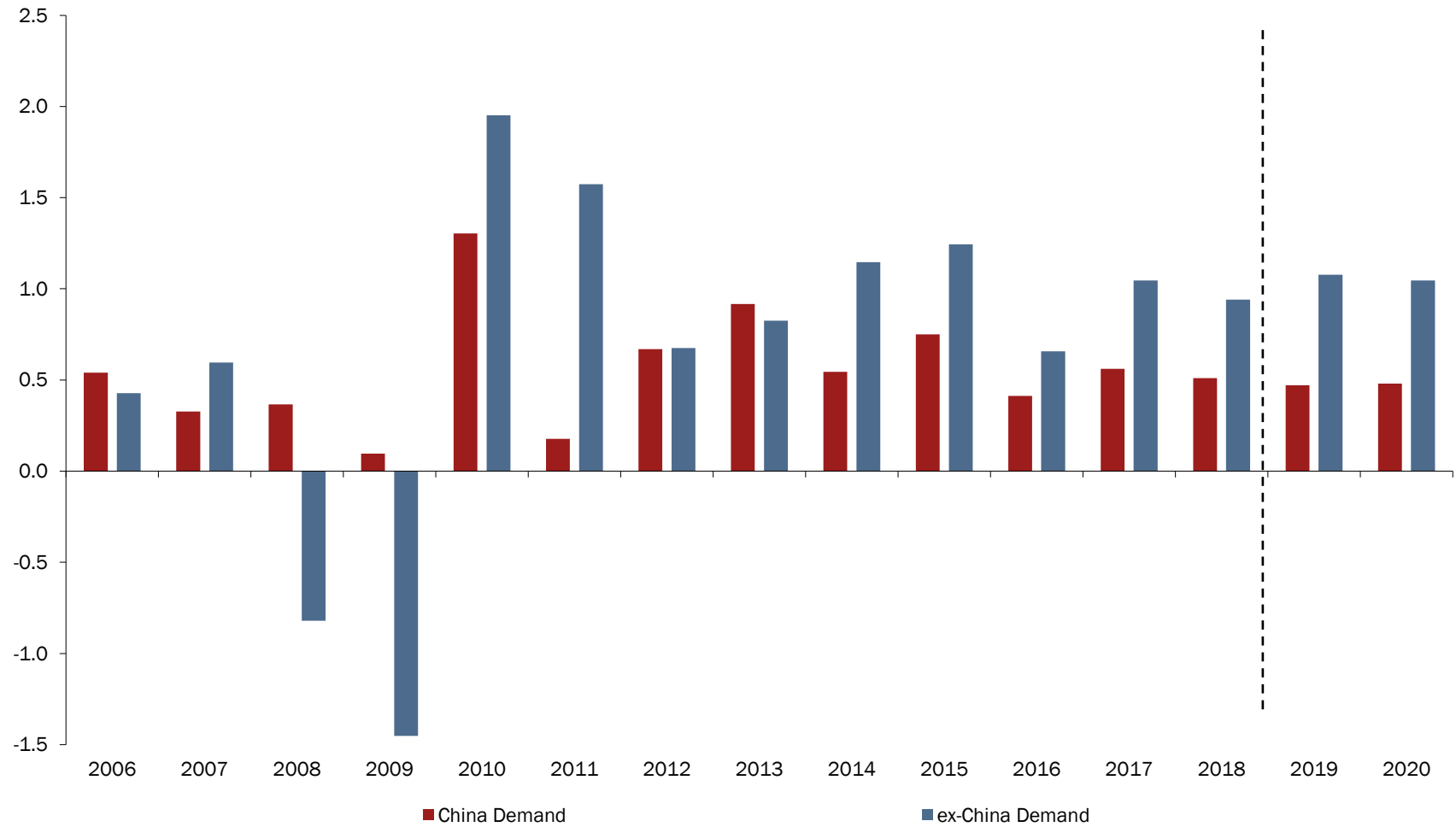
Diesel demand has given back its 2017 bounce



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

Agency forecasts point to steady Chinese demand growth

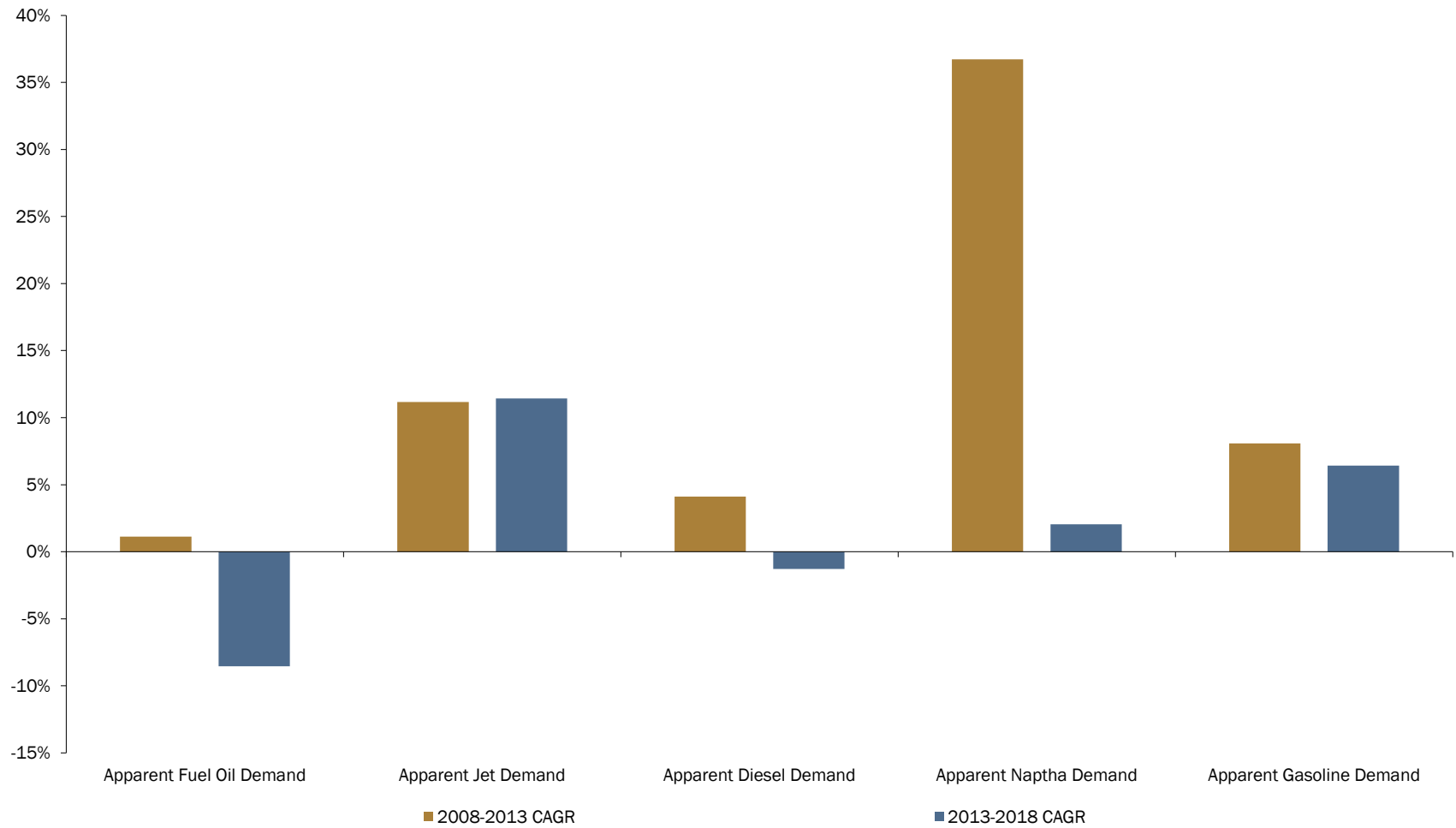
China and ex-China contribution to annual global crude demand growth



Source: ICBC Standard, Bloomberg, EIA

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

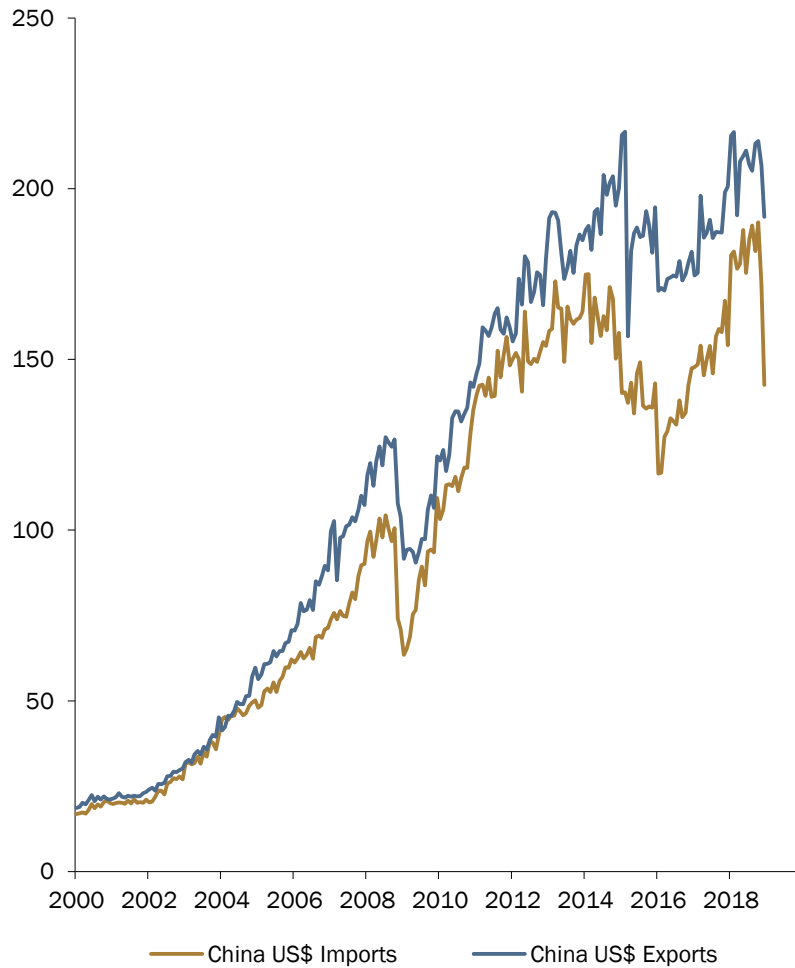
China apparent demand growth by product



Source: ICBC Standard, Bloomberg, EIA, China NBS

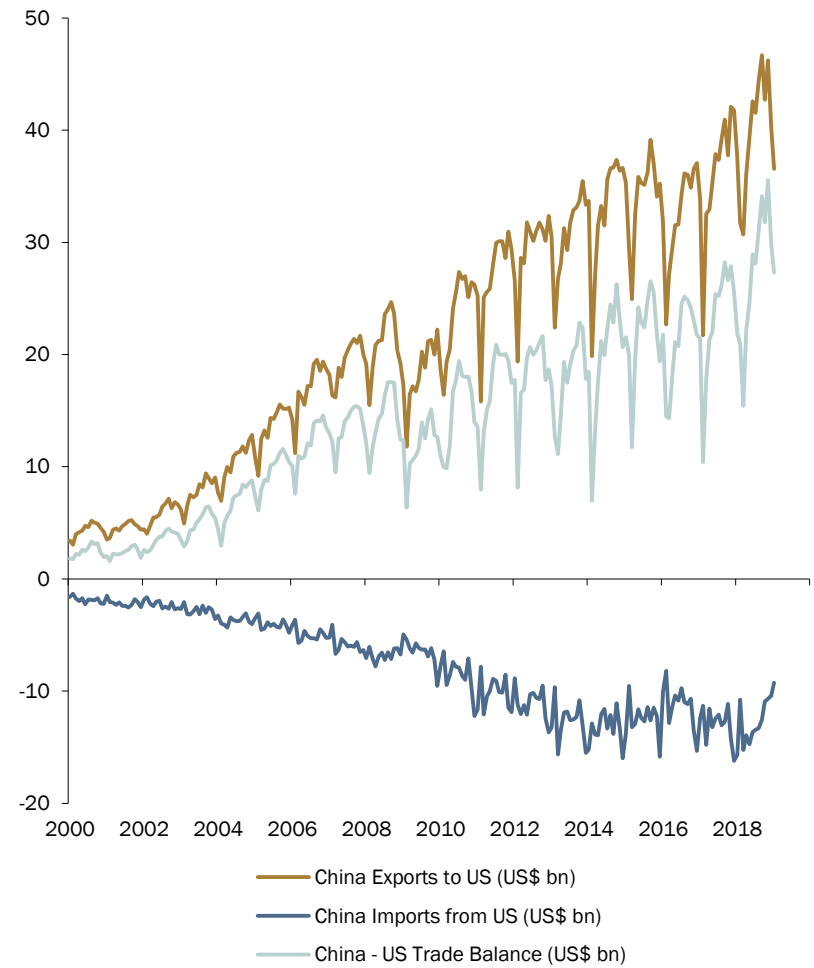
Trade tensions a headwind to sentiment, not growth, in 2018

Only in December did trade data roll over



Source: ICBC Standard, Bloomberg, China Customs

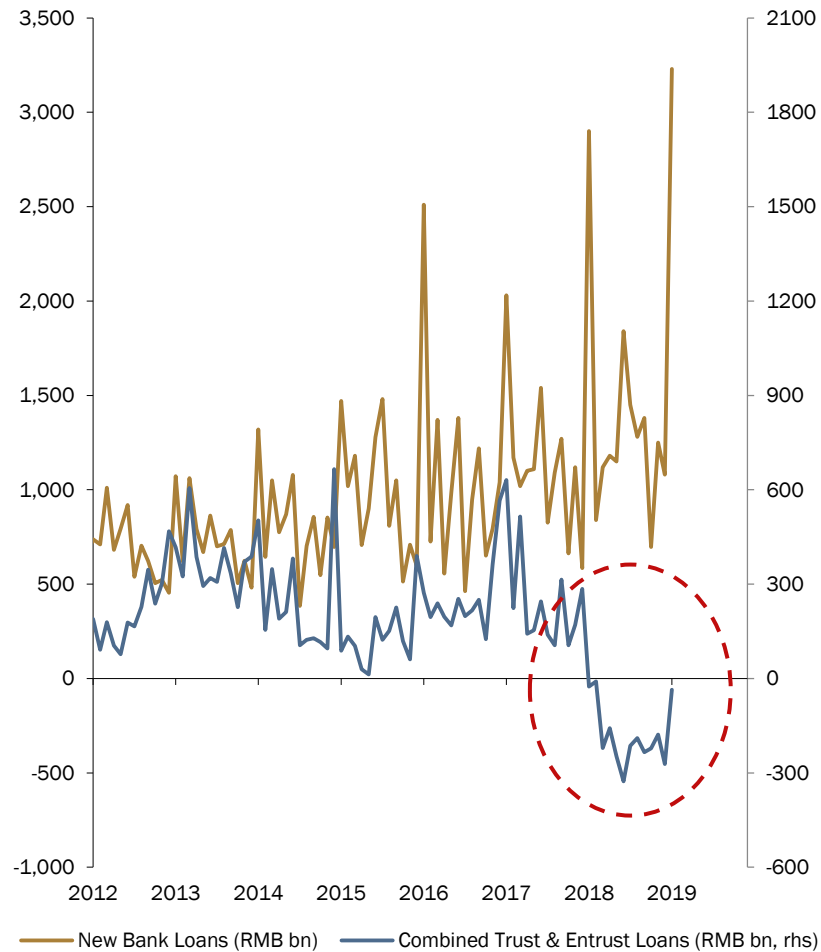
With the US-China deficit continuing to expand



Source: ICBC Standard, Bloomberg, China Customs

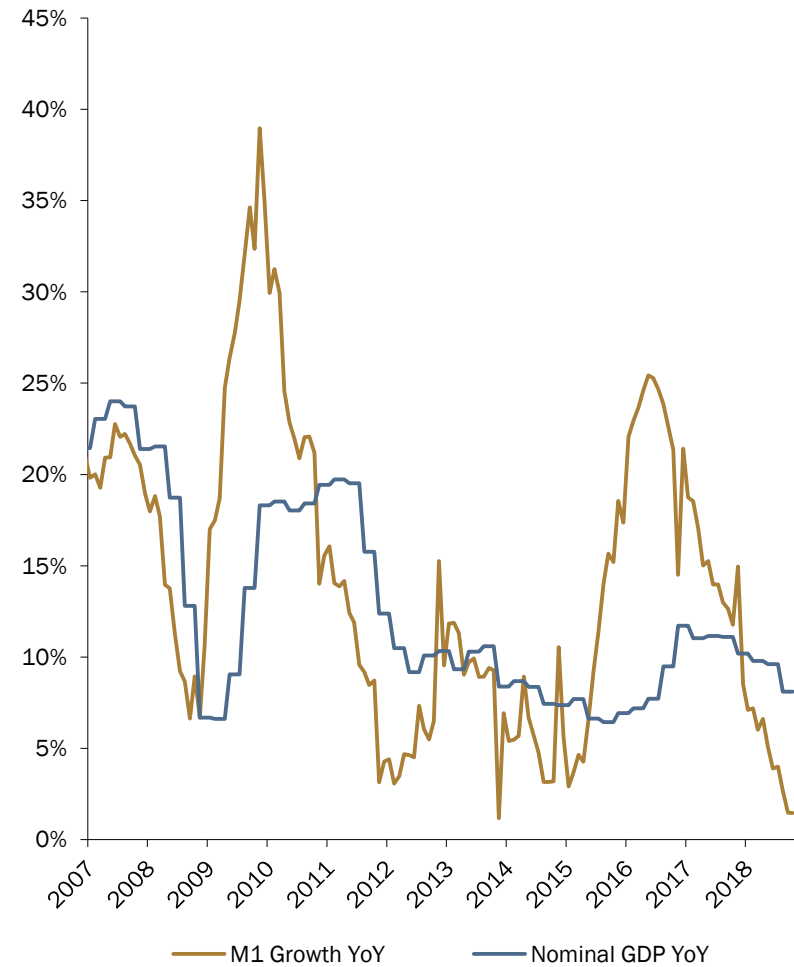
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8 Q W L O - D - Q Bank deleveraging was a drag on credit growth



Source: ICBC Standard, Bloomberg, PBoC

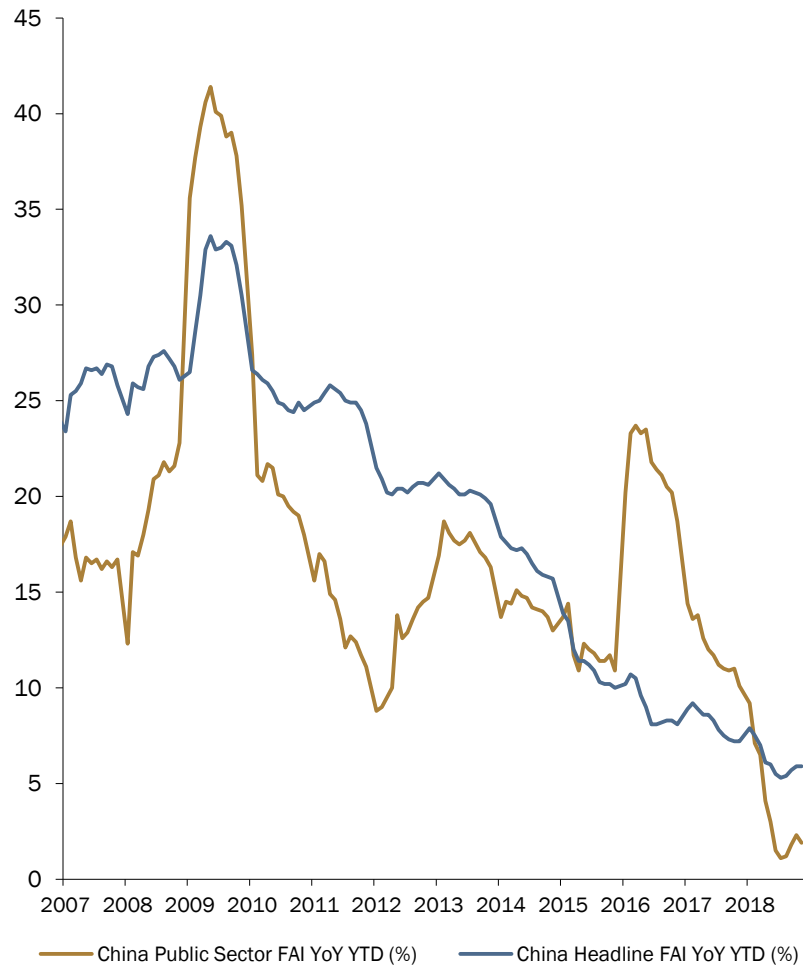
Weighting on money supply and, hence, GDP growth



Source: ICBC Standard, Bloomberg, China NBS, PBoC

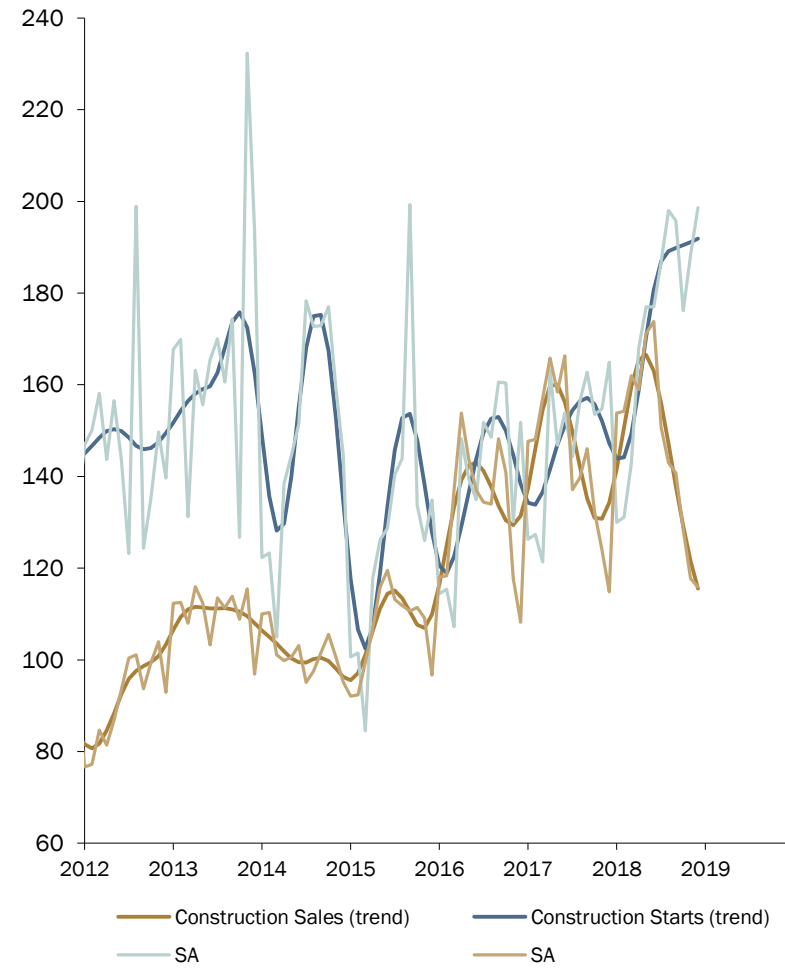
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Public sector infrastructure investment slowed dramatically



Source: ICBC Standard, Bloomberg, China NBS

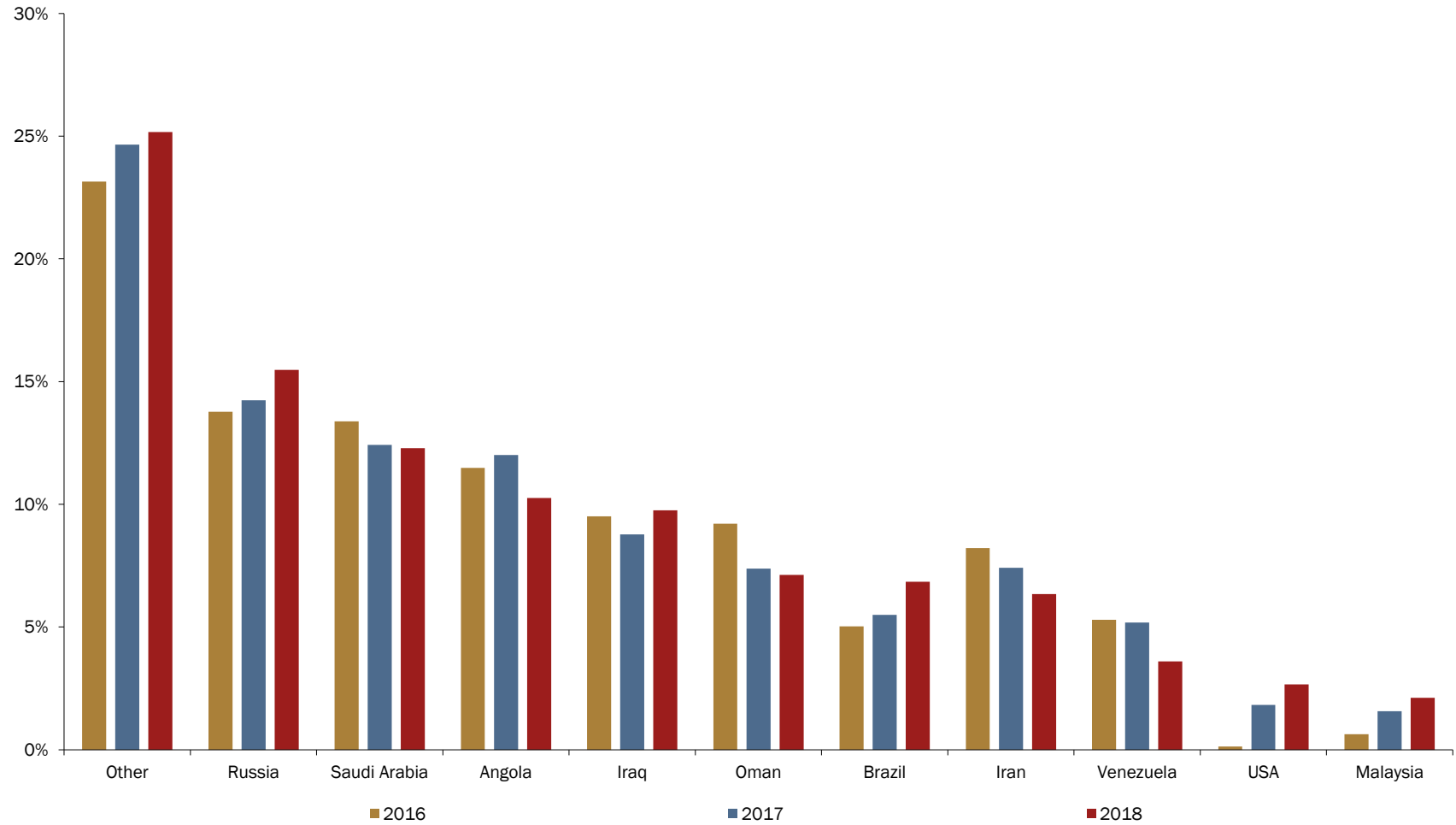
Construction starts steady but sales point to a slowdown



Source: ICBC Standard, Bloomberg, China NBS

Energy has a potential role in any trade deal

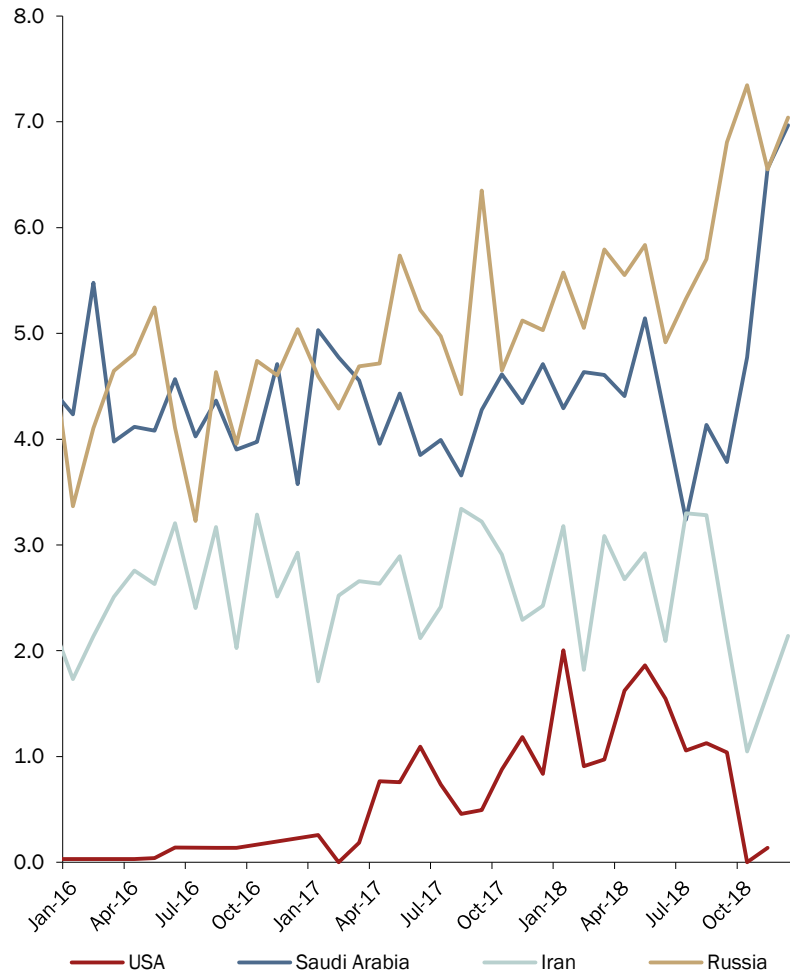
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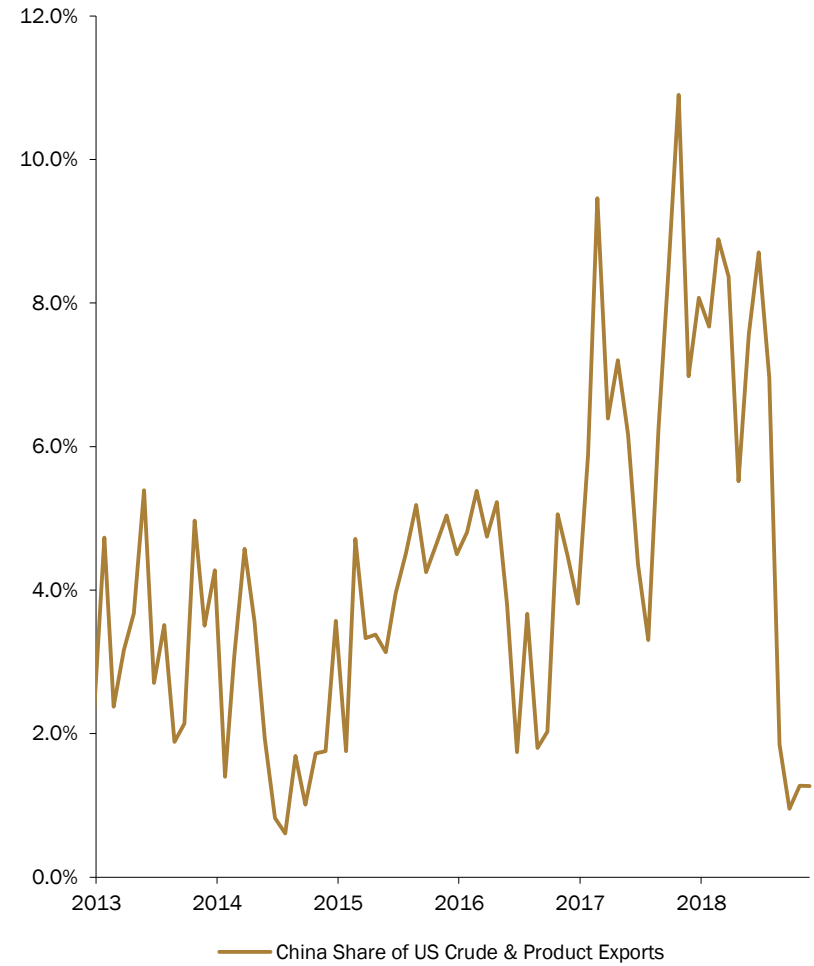
Source: ICBC Standard, Bloomberg, China Customs

With ample capacity for China to take more US crude

86 VKDUH RI & KLQD·V LPSRUWV UHWUDFH **But not for lack of export potential**



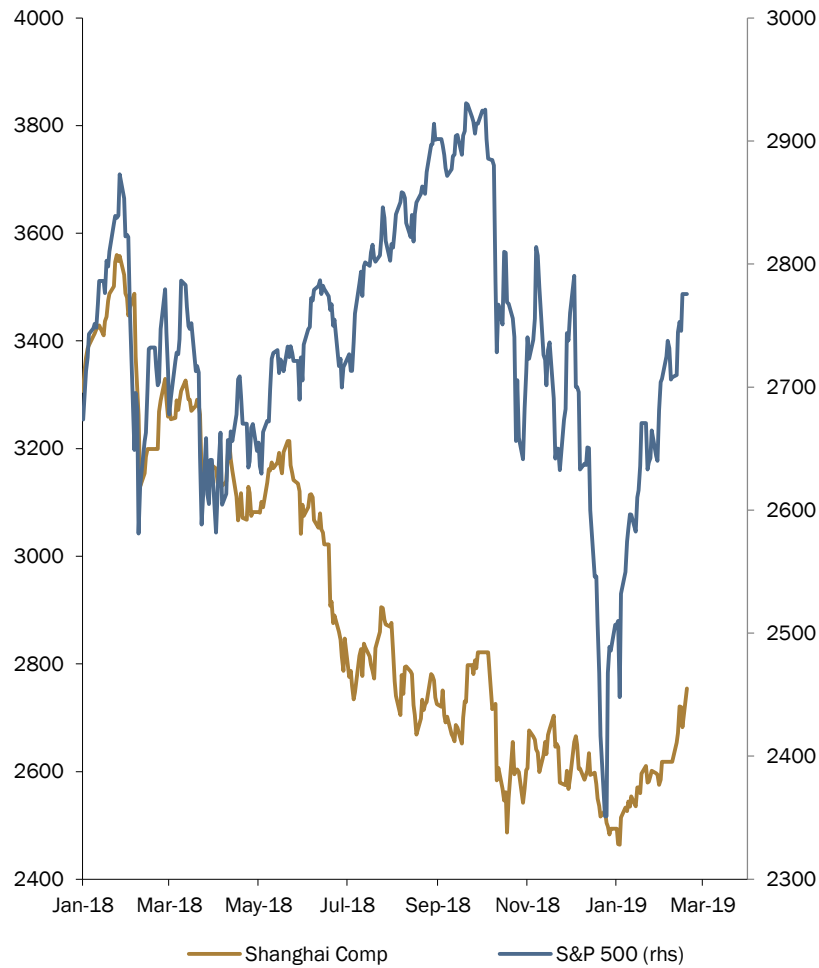
Source: ICBC Standard, Bloomberg, China Customs



Source: ICBC Standard, Bloomberg, US DOE

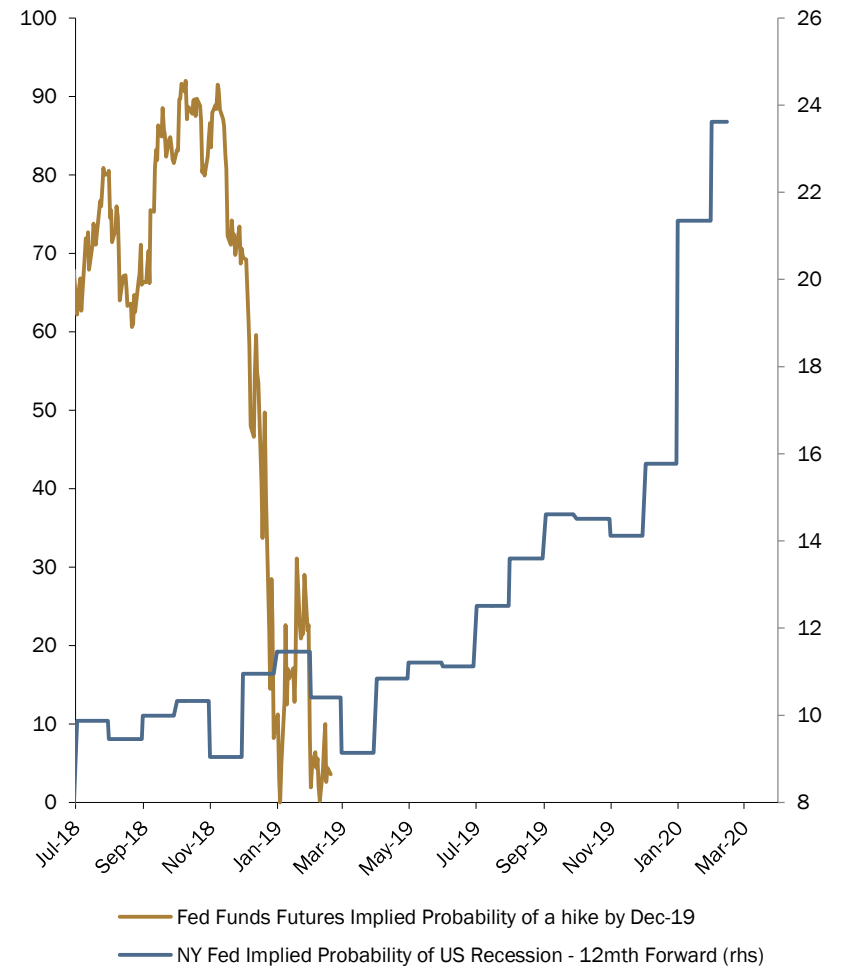
The macro-financial backdrop may increase the prospects of a resolution

The US equity bull market has been brought into question



Source: ICBC Standard, Bloomberg.

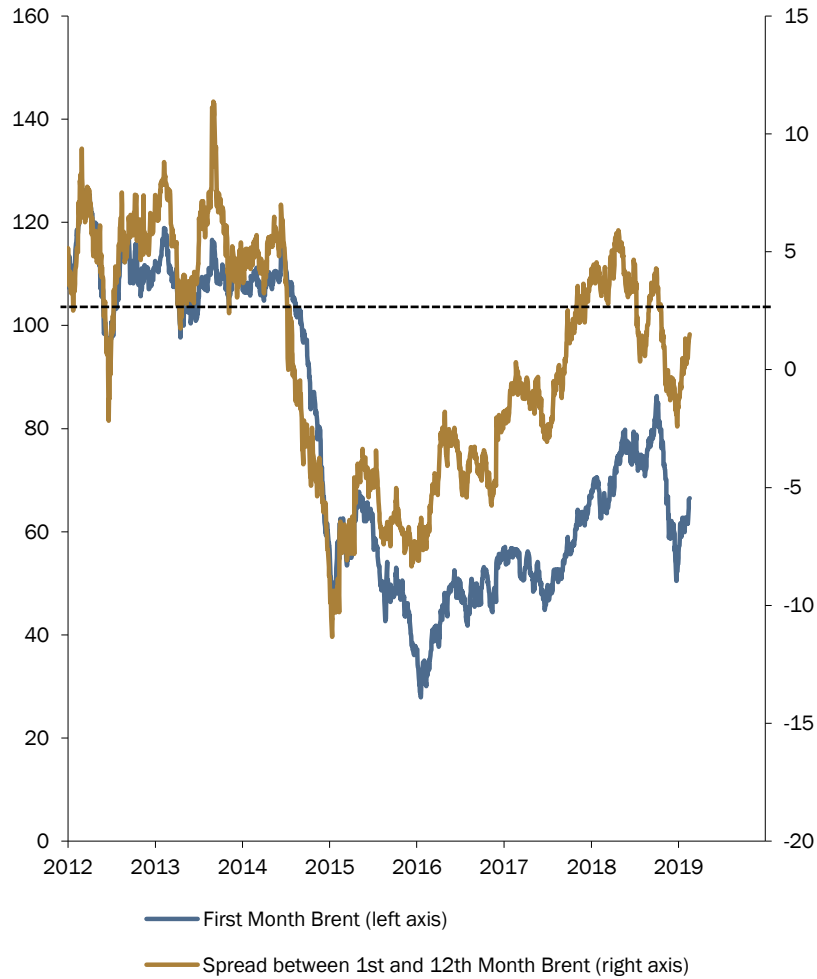
With recession probability rising and reduced rates expectations



Source: ICBC Standard, Bloomberg, NY Fed

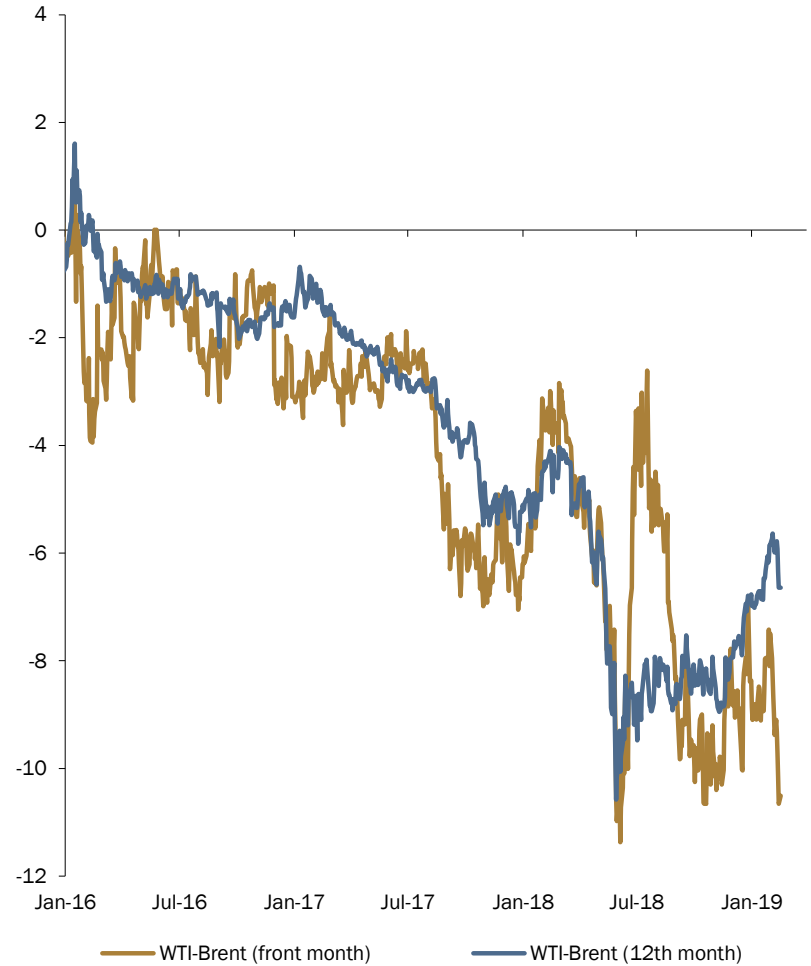
7 K L V G R H V Q R W F K D Q J H F U X G H . V V W U X F W X U D O

Crude spreads have recovered, while absolute price languishes



Source: ICBC Standard, Bloomberg, ICE

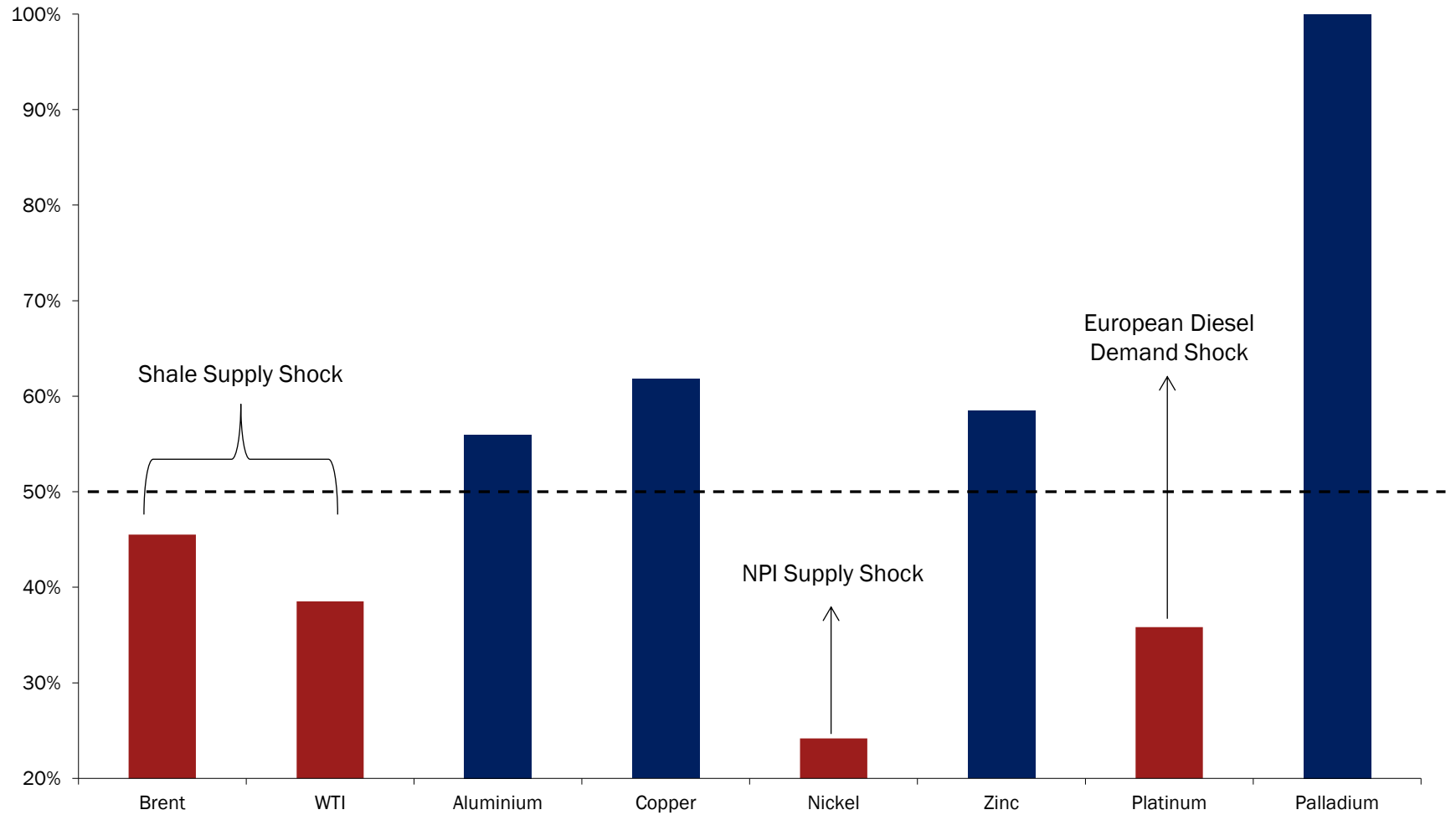
As WTI ² Brent remains deeply negative



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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