China imposes 25% tariffs on US oil products

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China on Thursday implemented tariffs on a second tranche of US goods, targeting oil products and coal for the first time, in retaliation to US tariffs effective the same day and paving the way for crude oil and LNG to be hit next.

Energy commodities including propane, butane, naphtha, jet fuel and coal are on the second list of $16 billion worth of US products that attract 25% additional tariffs from August 23, 12:01 pm Beijing time (0401 GMT), according to China's Ministry of Commerce announcement on August 8.

The latest tariffs come in the midst of trade talks between the US and China on Wednesday-Thursday in Washington, but market participants do not expect the talks to yield any firm outcomes to ease tensions.

"Markets have been under pressure in recent weeks as tensions surrounding the trade conflict have intensified. Therefore, some have seen this week's talks between the US and China as a potential circuit breaker in the ongoing tit-for-tat tariffs," Australia's ANZ Research said in a note to clients Thursday.

"However, with the Chinese delegation containing no senior officials, we think investors could be disappointed," the bank said.

This leaves the door wide open for tariffs on two major US energy commodities exported to China in the next round -- crude oil and LNG. Crude oil was pulled from the current round when the final list was announced earlier this month, but there's no indication it is completely off the table. LNG also remains on the drawing board for the next round.

The first tranche of tariffs implemented on July 6 saw China retaliate by imposing a 25% tariff on $34 billion worth of US imports of food products and agricultural commodities such as soybean, and motor cars.

The upcoming third round of US tariffs is on $200 billion worth of goods, at a lower rate of 10% compared to 25% for previous tariffs. The Office of the United States Trade Representative, or USTR, had set a date of August 30 for any final comments in the consultation process, and implementation typically happens within a few weeks.

TRADE FLOWS SHRINK

Meanwhile, Chinese buyers of US energy commodities have already been working to reconfigure purchases to avoid the tariffs, even for crude oil and LNG that have not been triggered yet.

With shifting political rhetoric, uncertainty has prevailed in the market since Beijing first threatened 25% retaliatory tariffs on US oil products in early April.

This raised the supply of US energy commodities in the market and left non-US supplies, which Chinese buyers are looking for, relatively tighter.

Numbers show the steady decline in US-China petroleum flows.

The US exported 141,000 b/d of petroleum products to China in May, a 10-month low, according to US Energy Information Administration data. These exports had averaged 229,000 b/d in 2017 and 181,000 b/d in 2016.

US LPG exports to China fell to an 11-month low of 52,000 b/d in May. US LPG exports averaged 147,000 b/d in 2017 and 115,000 b/d in 2016, the data showed.

Meanwhile, China's crude oil imports from the US fell sharply in July and August from June as state-owned Sinopec, the world's biggest refiner by capacity, was forced to reverse plans to lift significantly higher volumes of US crude this year.

China received 14.1 million barrels of US crude in June, which was a historical high, but volumes subsequently fell to 9.6 million barrels in July, and August arrivals in China are expected at 8.5 million barrels, data from Platts trade flow software cFlow showed on Thursday.