Analysis: After brief resurgence, China's oil demand falters yet again

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China's oil demand fell to 11-month lows in July on the back of erratic weather and feeble industrial growth, crushing hopes of a recovery in consumption which the market had expected after the country in June pulled itself out of the red for the first time in many months.

But analysts are hopeful that the fall would be temporary and demand would recover in the remaining months of the year.

Total apparent oil demand in the world's second-largest oil consumer fell to 10.75 million b/d in July, dropping 6.9% from June and witnessing the steepest year-on-year decline of 5.4% since January 2009, S&P Global Platts calculations showed.

China's apparent oil demand in June had increased 1.8% year on year to 11.54 million b/d, which was 6.1% higher from May.

"Apparent demand was dragged down by record high oil product exports in July, at around 860,000 b/d, a further reflection of overflowing supplies, overwhelming refiners," said Song Yen Ling, senior analyst at Platts China Oil Analytics.

Demand for key oil products grew either in single digits or fell year on year in July.

LPG, naphtha and jet fuel have largely been registering double-digit year-on-year growth in recent months.

The slowdown in July pulled down apparent oil demand over the first seven months by 1% year on year to 11.12 million b/d, lower than the average of 11.19 million b/d seen in the first half of the year.

Analysts said China's July real economic activity had disappointed, but they thought that would be temporary.

Manufacturing PMI edged down to 49.9 last month from 50 in June, dipping below the 50 mark for the first time since March 2016, with value-added industrial production growing at 6% year on year, which was slower than the growth rate of around 6.2% in June.

Fixed asset investment growth also softened to 8.1% in the year to date, slowing significantly from 9.8% in June and from 9.6% in May.

Growth in fixed asset investment and industrial output are related to energy consumption.

The National Bureau of Statistics partly attributed the slowdown to extremely hot weather and heavy rains following flooding.

Citing government data, Standard Chartered Bank said around 60 million people were affected by flooding in July.

The bank expects a modest pick-up in growth in H2, supported by post-flooding reconstruction, although sluggish private investment poses downside risks.
GASOLINE'S SHARP FALL

Beijing does not release official data on oil demand and stocks. Platts calculates apparent or implied oil demand by taking into account official data on monthly product output at Chinese refineries and net imports.

Apparent demand for gasoline in July fell by 4.1% year on year to 2.62 million b/d, the sharpest year-on-year fall since March 2010. It was also 5.45% lower than the average of 2.78 million b/d over the first seven months. Actual consumption would probably still witness single-digit growth because of destocking.

In addition, extremely hot weather encouraged gasoline consumption for air-conditioners, which could partly offset the fall in demand because of heavy rains.

The National Reform and Development Commission on August 26 said China's gasoline consumption in July increased 5.8% year on year.

Gasoline demand also found some support from a 25.3% year-on-year increase in sales of gasoline-guzzling sport utility vehicles, which jumped 47.8% year on year in July, according to data from the China Association of Automobile Manufacturers.

Moreover, gasoline stocks at the end of July retreated by 2.2% from the end of June, according to Xinhua.

Actual gasoline demand also include blended gasoline, in addition to the barrels produced from the refining sector. Blended gasoline is not included in apparent demand calculations because of a lack of official data.

It is hard to tell how many barrels of blended gasoline flowed in to domestic market in July, but heavy imports of mixed aromatics in 2016, used as blending material for gasoline, indicated the volume was unlikely to be low. China in July imported 669,737 mt of mixed aromatics, helping total inflows in the first seven months to surge 160% year on year to 7.41 million mt, data from the General Administration of Customs showed.

Almost all of China's mixed aromatics imports go into the gasoline blending pool, with 3 mt of mixed aromatics needed to blend 10 mt of gasoline.

GASOIL, JET FUEL

Gasoil in July was also hit by hot weather and heavy rains, which disrupted construction, mining and transportation, pulling down apparent demand by 8.8% year-on-year in July to 3.17 million b/d, lower than the average of 3.3 million b/d in the first seven months and only slightly higher than the recent 70-month low of 3.14 million b/d recorded in May.

The NDRC said that China's gasoil consumption in July fell 4.1% year on year.

According to data compiled by Xinhua, China witnessed a 3.53% month-on-month gasoil inventory increase by the end of July, following a 6.29% stock draw at the end of June, It suggested that actual consumption would be lower than implied demand.

Sinopec's chairman Wang Yupu said Monday that demand for gasoil was expected to fall further in line with structural changes in the Chinese economy.

Apparent demand for jet fuel edged up by 1.5% year on year to 766,000 b/d in June, lower than the average demand growth of 7.4% year on year to 753,000 b/d in the January to July period.

The slow growth in July was mainly due to heavy rainfall in the central and eastern regions in China, which resulted in widespread flight cancellations.

The latest data from the Civil Aviation Administration of China showed that overall aviation traffic turnover continued to register growth, rising 14.1% year on year in June and by 12.5% in the first six months. NAPHTHA, LPG

Apparent demand for naphtha in July was at 949,000 b/d, with year-on-year growth dropping to 0.6% from double-digit levels over the previous eight months.

But the slower growth rate was mainly because of a high base registered in July 2015.

Apparent demand was still considered healthy, with average consumption hovering at 978,000 b/d in the first seven months, gaining 15.6% year on year. The growth was attributed to increasing production from independent refineries, which are increasingly using light feedstock to generate more light-end products than before. Production of naphtha rose 9.7% from July 2015, to 822,000 b/d.

Inflows were mainly used as feedstock to produce ethylene, output of which grew 0.3% in last month to 1.46 million mt. This may explain the reason for the 34.7% year-on-year decrease in naphtha imports in July.

Apparent demand for LPG rose 9.1% year on year to 1.48 million b/d in July, which was actually the lowest since March, and lower than the average of 1.51 million b/d for the first seven months of 2016.

Market sources said actual consumption in July should be higher despite demand from the residential sector remaining low. Propane dehydrogenation plants were actually running at very high operation rates because of healthy profit margins, but the plants were consuming their existing stocks which were imported in previous months instead of processing new inflows.