

Our China monthly import tracker uses our unique tanker and pipeline tracking technologies to provide a consistently accurate estimate for international flows into the Asian country at least a month before the release of the official data.

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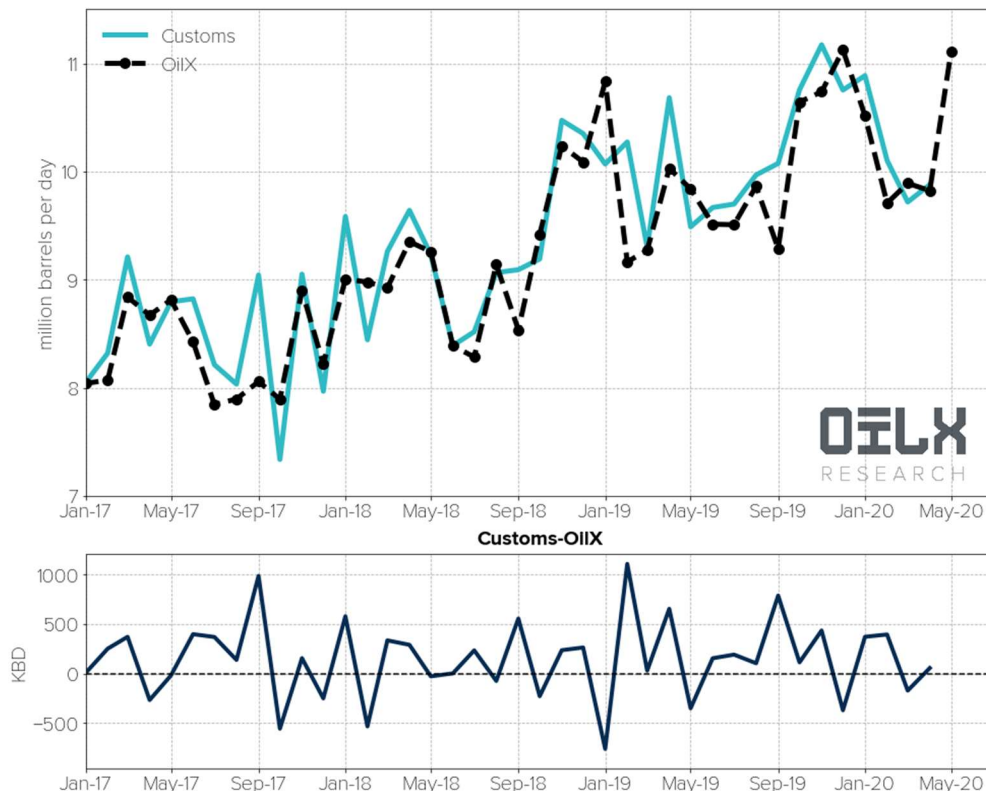
Our import series has a correlation of over 0.9 with the Chinese customs data with an average deviation of less than 500 KBD.

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**Key takeaways:**

- May crude imports rebounded in May to 11.11 mb/d, close to record highs, after a monthly increase of over 1.2 mb/d
- Although we do observe a steady recovery in throughput in Chinese refineries, the increase in imports was partially driven by Shanghai INE crude futures trading at a premium over other deliverable grades<sup>1</sup>
- Furthermore, independent refineries have remained active in crude oil procurement most likely due to lower crude oil prices

**Figure 1 - China total crude imports<sup>2</sup>**



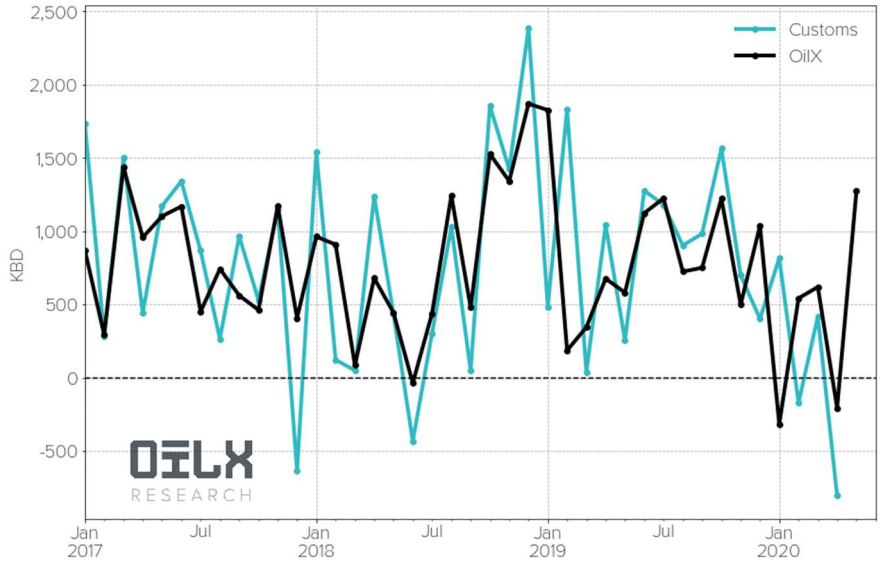
Source: OilX Research, SIA Energy

<sup>1</sup> INE allows one domestic crude (Shengli) and six foreign grades (Basrah, Oman, Qatar Marine, Upper Zakum, Dubai and Masila) to be delivered against the contract

<sup>2</sup> SIA Energy estimates for January and February 2020 individual breakdowns

We expect May total imports to average 11.11 mb/d, this would imply a monthly increase of 1.28 mb/d (13.12%) and a year on year growth of 1.27 mb/d (12.93%) (Figure 2).

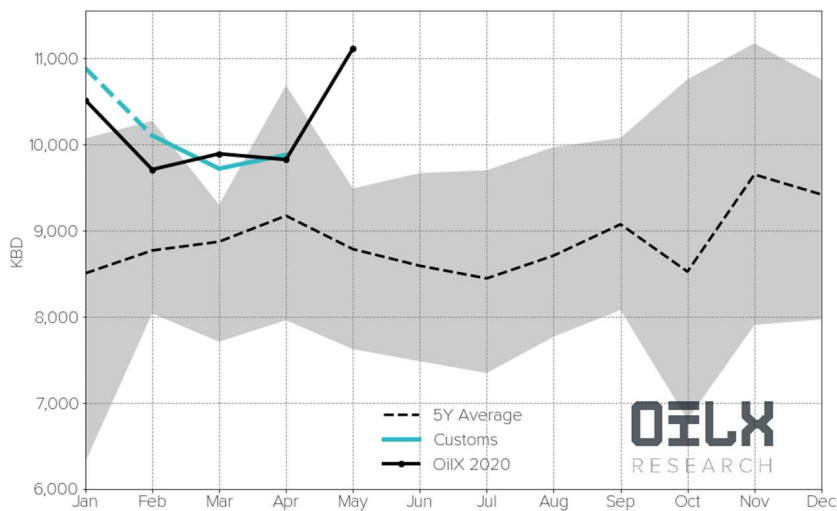
**Figure 2 - China total crude imports yearly growth (KBD)**



Source: OilX Research

An increase of this magnitude is not in line with the typical seasonal pattern (Figure 3), and although part of the increase can be attributed to Chinese refining activity catching-up with the economic recovery, some of these flows were triggered by the arbitrage opportunity opened by favorable spreads between Shanghai’s International Energy Exchange (INE) crude future and its deliverable grades.

**Figure 3 - China total crude imports<sup>3</sup>**



Source: OilX Research, SIA Energy

<sup>3</sup> SIA Energy estimates for January and February 2020 individual breakdowns

Last month, INE expanded its storage capacity<sup>4</sup> (**Figure 4**), allowing investors to build new positions and benefit from the contango market and low flat prices.<sup>5</sup>

**Figure 4 – INE futures designated delivery storage facilities**



Source: OIIX Research, INE

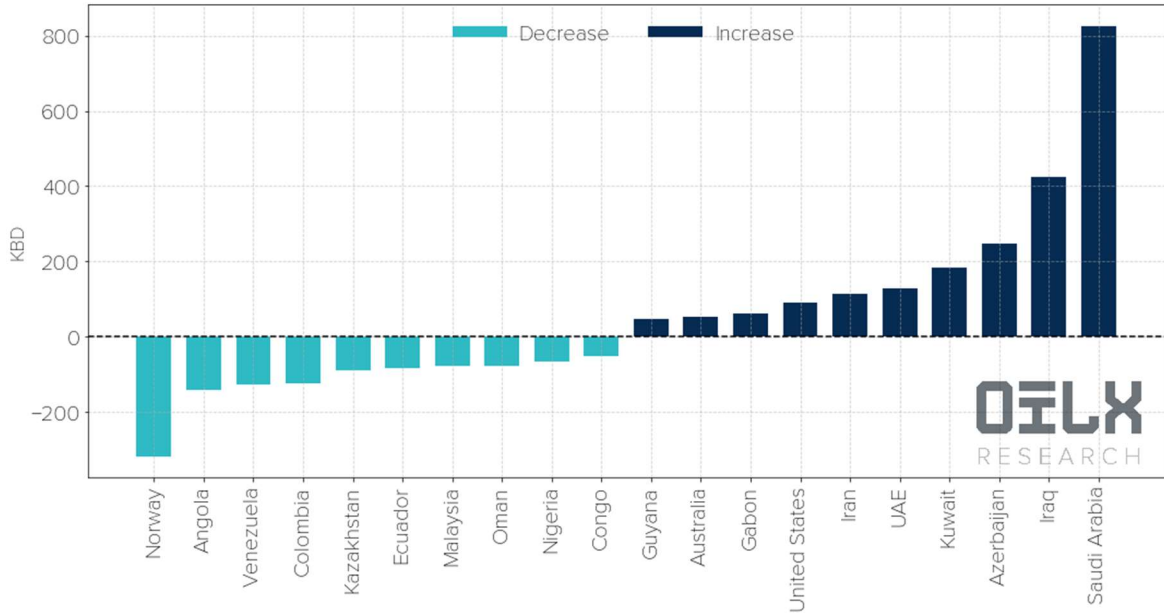
Furthermore, independent refineries have remained active in crude oil procurement most likely due to lower crude oil prices. SCI99 reported furthermore that, China will issue a 3rd batch of crude import quotas in June of around 27 mln tons (200 mln bbls). The 1st batch amounted to 104 mln tons and the second batch to 54 mln tons.

The breakdown of imports by country shows most of the monthly rebound coming from Middle Eastern countries (**Figure 5**), with Saudi Arabia exports increasing by 800 KBD after having declined in the previous two months. Unsurprisingly, imports from Iraq increased more than 400 KBD as Basrah is one of the seven grades allowed under the INE contract.

<sup>4</sup> INE Notice of Approval <http://www.ine.cn/en/news/notice/>

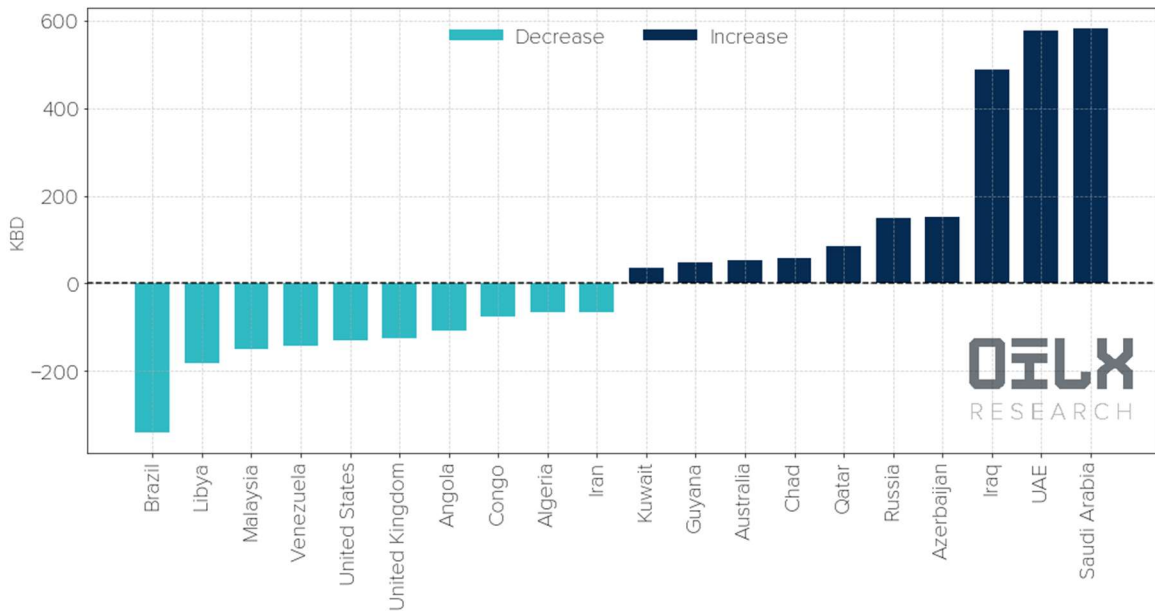
<sup>5</sup> Reuters (2020) *China's 'hermit' investors fill doubled oil storage with crude bet* <https://www.reuters.com/article/us-china-oil-stockpiling-ine/chinas-hermit-investors-fill-doubled-oil-storage-with-crude-bet-idUSKBN2310GS>

**Figure 5 – China crude imports, countries with largest monthly changes (KBD)**



Source: OilX Research

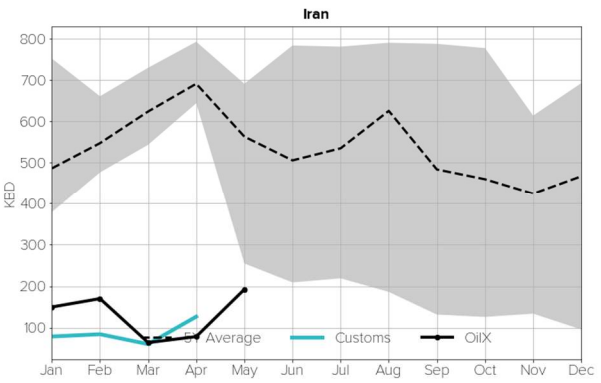
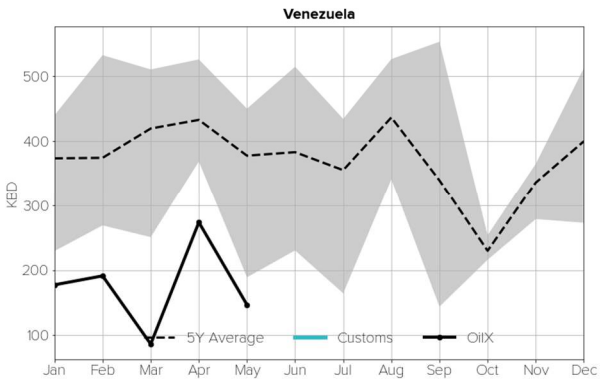
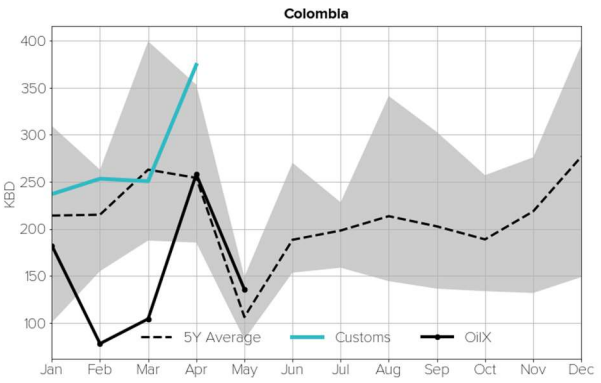
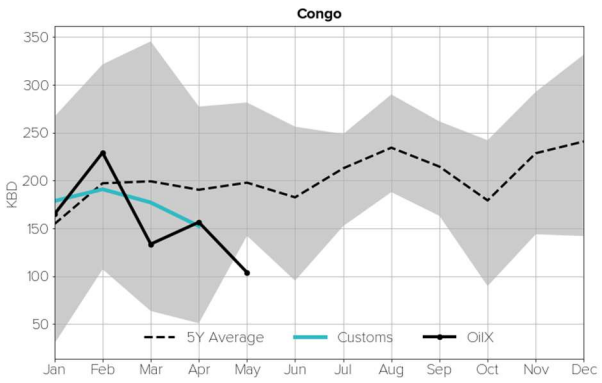
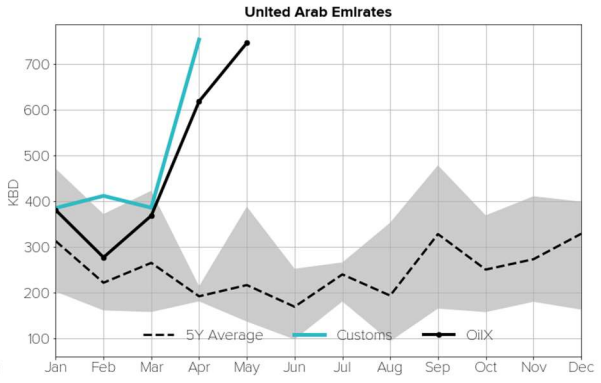
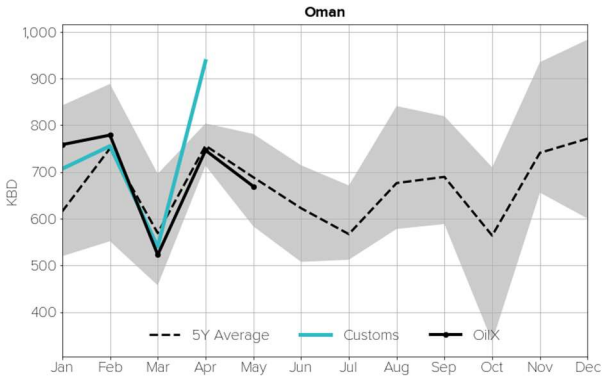
**Figure 6 – China crude imports, countries with largest yearly changes (KBD)**

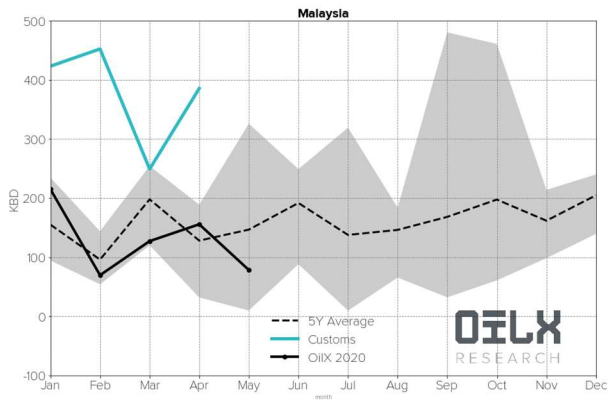


Source: OilX Research

**Figure 7 - China total crude imports by country (KBD)**

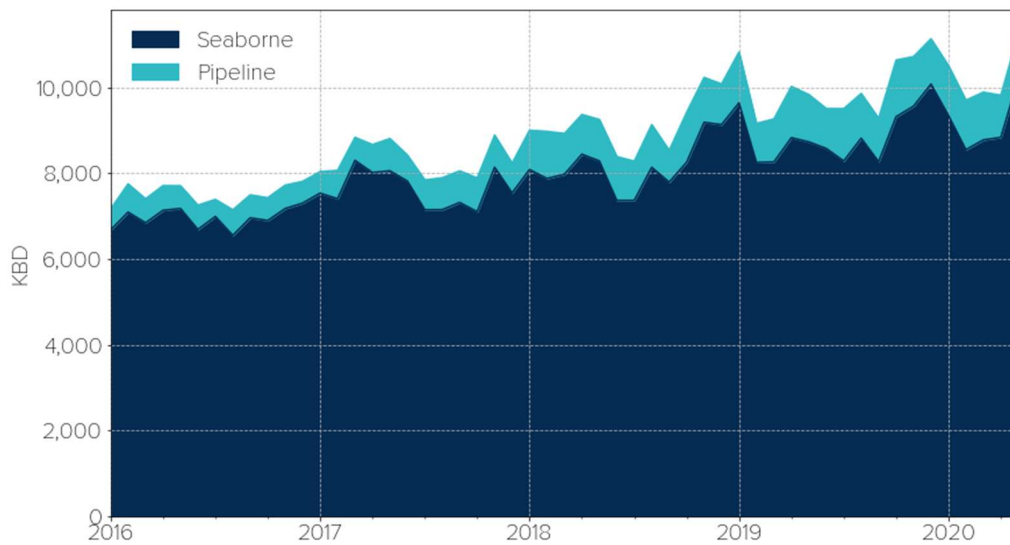






Finally, Figure 8 illustrates the increasing importance of pipeline imports in China, which in previous months accounted for over 10% of total imports.

**Figure 8 - China imports by mode of transport**



Source: OilX Research



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