

China's commodities trade outlook

China's major commodities imports and exports numbers are out today. We take a look at some of the overarching trends



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As China customs administration released their preliminary trade figures and full-year numbers for major commodities imports and exports today for December 2019, we take a look at some of the overarching trends.

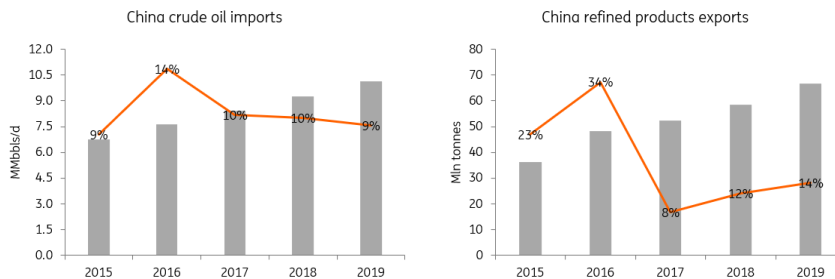
Oil and products trade

Chinese trade data shows crude oil imports in December averaged 10.75MMbbls/d (up 4% year-on-year), which has taken total crude oil imports over the course of 2019 to a record 10.16MMbbls/d, and up 9.5% YoY. Additional refining capacity in the country continues to support crude oil imports, with the two large-scale refineries Hengli and Zhejiang ramping up 400Mbbbls/d and 200Mbbbls/d of refining capacity, respectively, from early 2019. Meanwhile, Zhejiang started an additional 200Mbbbls/d of crude processing capacity towards the end of 2019, which should support demand as we move into 2020.

The additional refining capacity startups over the course of the year have also meant increased exports of refined product from the country. Over 2019, refined product exports totalled 66.85mt, up more than 14% YoY. Net exports for the year totalled 36.29mt, an increase of more than 44%

YoY. These strong Chinese exports have contributed to the pressure that we have seen on refinery margins, particularly in Asia, where they have been in negative territory recently.

In the longer term, given expectations for further refining capacity additions over the next five years, we expect export volumes from China will continue to grow, assuming the government does not step in to tackle overcapacity.

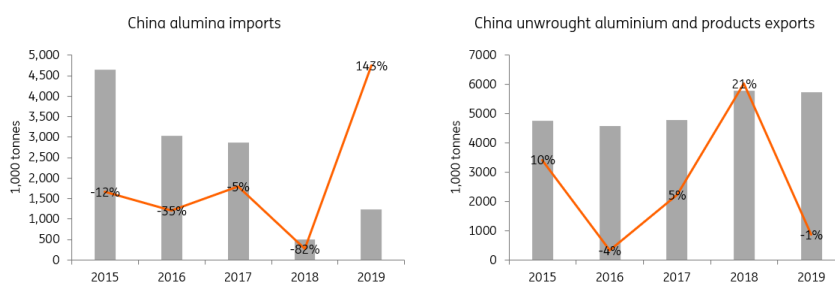


Source: China Customs, ING

Aluminium and aluminium products trade

China returned to being a net importer of alumina in 2019, with import volumes totalling 1.24 million tonnes (+143% YoY). In 2018, the country briefly became a net exporter after a supply crunch in the ex-China market, which made exports profitable. The return to net importer status primarily reflects the fact that supply has been restored after Rusal sanctions were lifted and Hydro's Alunorte gradually restarted. In terms of alumina supply in 2020, we currently expect this to grow by 3% in the ex-China market and 9% in China, barring any disruptions. Both markets are likely to remain in surplus which may weigh on prices and add to the cost deflationary pressures on aluminium.

Turning to aluminium, the data doesn't break down unwrought aluminium and its products. The aggregated data shows that total imports have declined by around 10%, and exports have also decreased by over 1% primarily driven by weaker aluminium semis exports (mainly rolled products) towards the last quarter of the year. On the scrap side, imports have fallen by 13% YoY attributing to Beijing's policy in scrap control, and it has put 25% tariff on the US scrap, a major scrap supplier.



Source: China Customs, ING

Copper

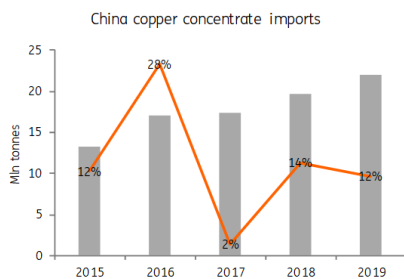
It was another year of stronger imports of copper concentrates with total volume growing by over 11.6% YoY in large part due to an increased smelting capacity.

On the other hand, last year saw world copper mine supply weakened. As a result, the spot treatment charges to China have decreased to a multi-year low posting a margin squeeze risk to smelters. However, the degree of squeeze varies depending on the proportion of concentrate feed made via long term contract that the treatment charges is in reference to the long term benchmark terms. This was US\$ 80.8 in 2019 and decreased to US\$62/tonne in 2020. Mine supply is expected to recover only moderately but on top of a contracted base seen in 2019. The disrupting rate still looked above trend, which implies risks in mine supply still exist. However, the risks also rise on the smelters' supply should margin squeeze continues to push lower, and the slump in the domestic sulfuric acid market continues. That said, concentrate imports should continue to grow, but large uncertainty with the extent of growth as we move into 2020.

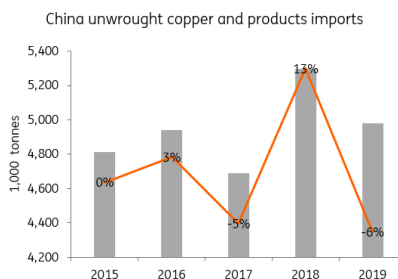
Reduced appetite for refined copper last year saw the total aggregated unwrought copper and copper products dropped by 6% over last year. This is mainly because there has been reduced demand for copper import financing and thin arbitrage opportunities along with increasing domestic supply helping lowering import requirement. Total refined copper outputs have risen by around 2.5% YoY to just below nine million tonnes according to Shanghai Metals Market.

Turning to scrap, it should come as no surprise with a 41% drop in last year's import volumes (in gross) after Beijing band lower grade of scrap imports (mainly category 7) and put restrictions on category 6 imports from 1 July last year. As a result, there should be a significant increase in the average grade, and therefore the decline would be much lower in terms of contained copper.

(Detailed trade data is due to be released towards the end of this month, barring any potential delay due to the Chinese New Year)

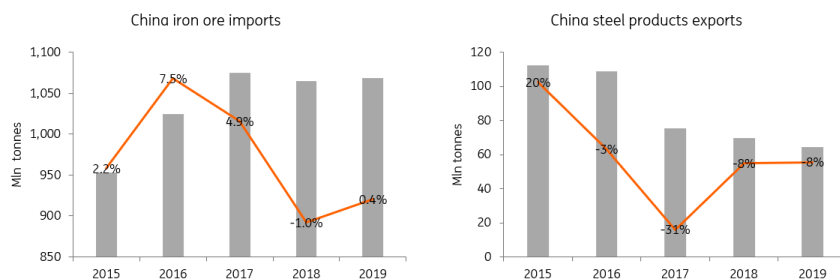


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