MiC | MATICHON INFORMATION CENTER

Subject Heading :

61048560

Source : BANGKOK POST

Date : 10 FEB 2018 Page : 10

No :

US exports transforming the global oil game

Sales to China are now worth billions of dollars

HENNING GLOYSTEIN 10

SINGAPORE: Bit by bit, the US petroleum industry is turning world oil markets inside out.

First, sharp drops in US imports of crude oil eroded the biggest market that producers like the Organization of the Petroleum Exporting Countries had relied on for many years. Now, surging US exports – largely banned by Washington until just two years ago – challenge the last region Opec dominates: Asia.

US oil shipments to China have surged, creating trade between the world's two biggest powers that until 2016 just did not exist, and helping Washington in its effort to reduce the nation's huge trade deficit with China.

The transformation is reflected in figures released in recent days that shows the US now produces more oil than top exporter Saudi Arabia and means the Americans are likely to take over the No.1 producer spot from Russia by the end of the year.

The growth has surprised even the official US Energy Information Administration, which this week raised its 2018 crude output forecast to 10.59 million bpd, up by 300,000 bpd from their last forecast just a week before.

When US oil exports appeared in 2016, the first cargoes went to free trade agreement partners South Korea and Japan. Few expected China to become a major buyer.

Data in Thomson Reuters Eikon shows US crude shipments to China went from nothing before 2016 to a record 400,000 barrels per day (bpd) in January, worth almost $1 billion. Additionally, half a million tonnes of US liquefied natural gas (LNG) worth almost $300 million, headed to China from the US in January.

The US supplies will help reduce China's huge trade surplus with the US and may help to counter allegations from US President Donald Trump that Beijing is trading unfairly.

"With the Trump administration, the pressure on China to balance accounts with the US is huge... Buying US oil clearly helps toward that goal to reduce the disbalance," said Marco Dunand, chief executive and co-founder of commodity trading house Mercuria.

As the energy exports rose, China's January trade surplus with the United States narrowed to $21.895 billion, from $25.55 billion in December, according to official Chinese figures released on Thursday.

The energy sales to China are still modest compared with the $9.7 billion of oil shipped by Opec to China in January. But they are already cutting into a market dominated by the likes of Saudi Arabia and Russia – with the threat of much more competition to come.

"We see US crude as a supplement to our large base of crude from the Middle East

and Russia," said a refinery manager for oil-major China Petroleum & Chemical Corporation (Sinopec), declining to be named as he was not cleared to speak to media.

He said that Sinopec was looking to order more US crude this year.

China's crude imports climbed to a record 9.57 million bpd in January, official data showed on Thursday.

Meanwhile, US imports have fallen below four million bpd, against a record 12.5 million bpd in 2005.

At average December/January volumes, American oil and gas sales to China would be worth around $10 billion a year. Including exports to Japan, South Korea and Taiwan, the figure doubles.

US exports would be even greater but for infrastructure constraints: no US port can handle the biggest oil tankers, known as Very Large Crude Carriers (VLCC).

To address that, one of the biggest facilities in the Gulf of Mexico, the Louisiana Offshore Oil Port Services (LOOP), is expanding in order to handle VLCCs soon.

For Chinese buyers, the main attraction of US oil has been price. Thanks to the shale boom, US crude is cheaper than oil from elsewhere.

At around $60.50 per barrel, US crude is currently some $4 per barrel cheaper than Brent, off which most other crudes are priced.

For many established oil exporters like the Middle East-dominated Opec or Russia, who have been withholding production since 2017 in an attempt to push prices higher, these new oil flows mark a big loss in market share.

"Opec and Russia accepted that the US will become a big producer because they simply wanted to get the price where it is today," Mercuria's Dunand said.

Since the start of the Opec-led supply cuts in January 2017, oil prices have risen by 20%, though prices in February have come under pressure again in large part due to soaring US output.

The flood of US oil may even change the way crude is priced.

Most Opec producers sell crude under long-term contracts which are priced monthly, sometimes retro-actively.

US producers, by contrast, export on the basis of freight costs and price spreads between US and other kinds of crude oil.

This has led to a surge in traded volumes of US crude futures, known as West Texas Intermediate (WTI), leaving volumes of other futures like Brent or Dubai far behind.

"Buyers, like sellers of US oil, started hedging WTI," said John Driscoll, director of Singapore-based consultancy JTD Energy Services.

Despite all these challenges to the traditional oil order, established producers are putting on a brave face.

"We have no concern whatsoever about rising US exports. Our reliability as a supplier is second to none, and we have the highest customer base with long-term sales agreements," said Amin Nasser, president and chief executive officer of Saudi Aramco, Saudi Arabia's state-owned oil behemoth. REUTERS