Crude refusal: China shuns U.S. oil despite trade war truce

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SINGAPORE (Reuters) - China, the world's top oil importer, is set to start 2019 buying little or no crude from the United States despite a three-month truce in a trade scrap between the two nations, with relatively high freight costs and political uncertainty choking demand.

FILE PHOTO: An oil tanker unloads crude at a terminal in Zhoushan, Zhejiang province, China July 4, 2018. REUTERS/Stringer

That muted appetite means the United States, which became the world's top oil producer this year as its shale output hit record levels, will continue to hold only a sliver of China's market even as a wave of new refining capacity starts up there.

It also suggests that China is unlikely to use crude purchases to help plug a widening trade gap with the United States, which remains a core source of tensions between the world's top two economies.

The U.S. trade deficit with Beijing hit a record $43 billion in October as its firms stockpiled inventory from China to avoid higher tariffs that may kick in next year.

(GRAPHIC: U.S. finishes 2018 as world's top crude oil producer as shale output scales new highs - tmsnrt.rs/2R69s7G)

"Chinese companies have little incentive to buy U.S. crude due to the wide availability of crude supplies today from Iran and Russia," said Seng Yick Tee, an analyst at Beijing-based consultancy SIA Energy.

"Even though the trade tension between China and the U.S. had been defused recently, the executives from the national oil companies hesitate to procure U.S. crude unless they are told to do so."

(GRAPHIC: U.S.-China trade gap widens to all-time high amid trade war - tmsnrt.rs/2R5DNmT)

China stopped U.S. oil imports in October and November after the trade war intensified. It resumed some imports in December, but purchased just 1 million barrels, a minute portion of the more than 300 million barrels of total imports, Refinitiv data showed.

(GRAPHIC: Tankers carrying U.S. crude oil to China - tmsnrt.rs/2Qh0BjN)

Chinese refineries that used to purchase U.S. oil regularly said they had not resumed buying due to uncertainty over the outlook for trade relations between Washington and Beijing, as well as rising freight costs and poor profit-margins for refining in the region.

Costs for shipping U.S. crude to Asia on a supertanker are triple those for Middle eastern oil, data on Refinitiv Eikon showed.

(GRAPHIC: China's appetite for U.S. crude muted by high freight costs, competitive Mid East supplies - tmsnrt.rs/2GyFnJI)

A senior official with a state oil refinery said his plant had stopped buying U.S. oil from October and had not booked any cargoes for delivery in the first quarter.

“Because of the great policy uncertainty earlier on, plants have actually readjusted back to using alternatives to U.S. oil ... they just widened our supply options,” he said.

He added that his plant had shifted to replacements such as North Sea Forties crude, Australian condensate and oil from Russia.

“Maybe teapots will take some cargoes, but the volume will be very limited,” said a second Chinese oil executive, referring to independent refiners. The sources declined to be named because of company policy.

A sharp souring in Asian benchmark refining margins has also curbed overall demand for crude in recent months, sources said.

(GRAPHIC: Singapore refining margins slump 50 pct in 3 ths amid demand growth concerns - tmsnrt.rs/2RhnHXv)

Global markets: shares extend sell-off on growth, U.S. shutdown worries

Despite the impasse on U.S. crude purchases, China’s crude imports could top a record 45 million tonnes (10.6 million barrels per day) in December from all regions, said Refinitiv senior oil analyst Mark Tay.

Russia is set to remain the biggest supplier at 7 million tonnes in December, with Saudi Arabia second at 5.7-6.7 million tonnes, he said.

China’s Iranian oil imports are set to rebound in December after two state-owned refiners began using the nation’s waiver from U.S. sanctions on Tehran.

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