

# China Commodities Trade Data

## Weak Domestic Demand Prompts Refined Product Exports\*

- **China became a net oil product exporter in March for the first time since January 2010.** This reflects a structural turn towards greater exports that we have been highlighting, but in the near term should moderate with April swinging back to net imports. Crude oil net imports were weaker than expected, up only 3% YoY, likely due to destocking after Jan-Feb builds, and influenced by weak economic activity. Crude imports should increase in the coming months.
- **Iron ore imports rebounded strongly in March as expected, while steel product exports reached the highest level since 2008.** Iron ore imports were up 14% MoM seasonally adjusted and 15% YoY, driven by strong exports out of Australia and Brazil. Imports should increase further in April. Steel product net exports rose 31% YoY in Q1 due to weak domestic demand. Exports should remain strong, but YoY growth should moderate as domestic demand improves.
- **Copper (cathode, blister, product) imports rose slightly in seasonally adjusted terms but should fall heavily in April.** Cathode/blister/product imports were higher than expected in March but should see a large decline due to the fall in the import arb (which typically acts on a two month lag) and decline in Shanghai physical premiums. Large term contract volumes create a higher floor on imports for 2014, but some importers have defaulted on shipments as spot premiums are now far below term levels.
- **Soybean imports continued to decline, down 20% MoM seasonally adjusted, and should be even weaker in April.** The crush margin for imported beans collapsed starting in February and has been negative for over a month now. The import arb has also fallen, though it remains positive.

### INSIDE THIS EDITION

China shifts to net refined oil product exporter

Strong iron ore imports and steel product net exports

*\*CORRECTION: The original version of this note published earlier today carried incorrect information on copper concentrate imports in a front page bullet, which has been removed in this correction. In addition, we have corrected data in Figure 11.*

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### Net refined oil exports for first time since 2010

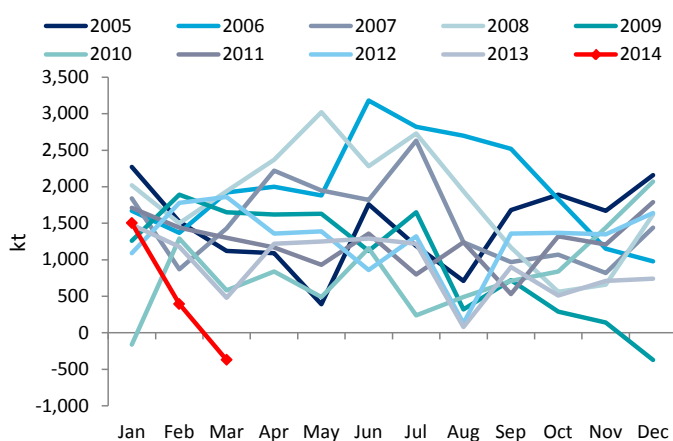
China shifted to a refined petroleum product net exporter in March. This is only the third time on since data began in 2004 that China has been a net exporter, with the others coming in December 2009 and January 2010.

We believe the trend towards China exporting more and importing less refined products will intensify over the course of 2014 and 2015 (see for example [China Commodities Trade Data - China's Role as Refiner of Raw Materials Expands Further](#)), driven by a large expansion of domestic refining capacity, including 800-k b/d this year led by 440-k b/d from two refineries by Sinochem and CNPC.

This is a significant contributor to our bearish view on most petroleum product prices this year, most notably diesel and fuel oil. While the March product trade breakdown will not be released until the second tranche of trade data, we expect changes in fuel oil, naphtha, and diesel flows to have driven much of the shift to net exports.

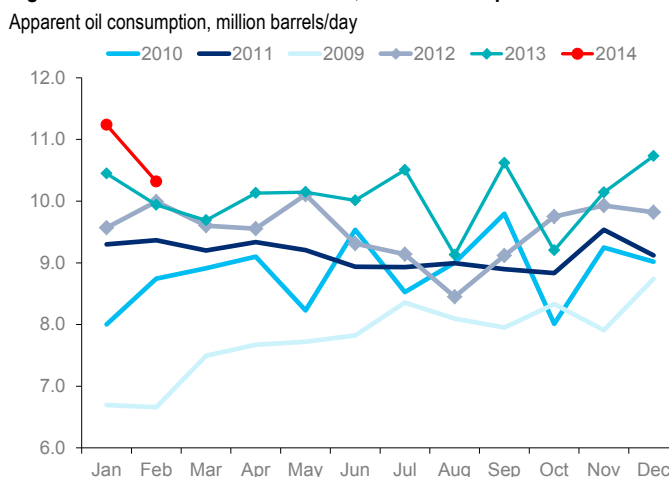
However, weak February net imports and March net exports were driven by weak domestic demand as well as refinery ramp-ups. We believe that demand is bottoming on a cyclical basis and expect April to see a return of net imports and for Chinese oil demand to improve as we move in the second half of the year.

Figure 1. China was a net exporter of refined oil products in March



Source: China Customs, Citi Research

Figure 2. Oil demand was weak in Q1, but should improve in H2



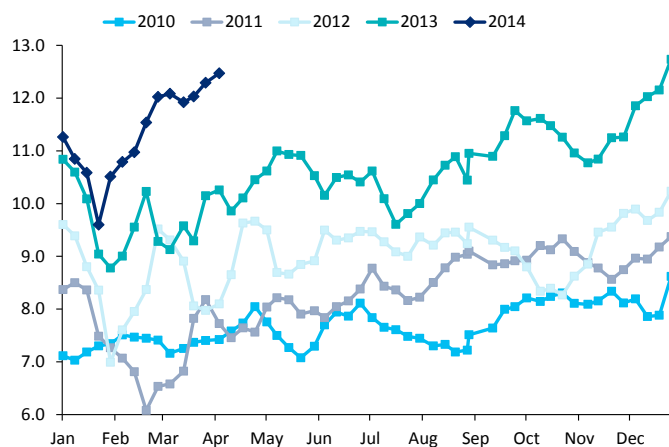
Source: Bloomberg, Citi Research

### Strong iron ore imports and steel product net exports

Iron ore imports rebounded strongly in March after a weak February, up 15% YoY and 14% MoM seasonally adjusted. The increase was expected due to strong exports out of Australia and Brazil and helped drive the large build in iron ore port inventories. In April, we expect a further increase in imports.

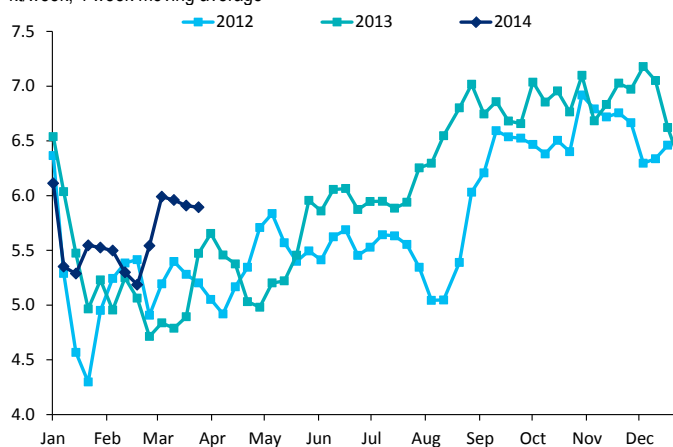
Steel product net exports saw a strong rebound in March, surpassing January's level to reach the highest since 2008. Q1 total net exports were 14.7 Mt, up 31% YoY or 3.5 Mt. These strong export volumes have been in line with our expectation of rapid growth in steel exports in 2014 and 2015 due to acute domestic overcapacity, as well as particularly weak domestic steel demand in Q1.

**Figure 3. Australian iron ore exports continue to show strong volumes**  
kt/week, 4 week moving average



Source: LBH, Citi Research

**Figure 4. Brazilian iron ore exports have been volatile but stronger lately**  
kt/week, 4 week moving average

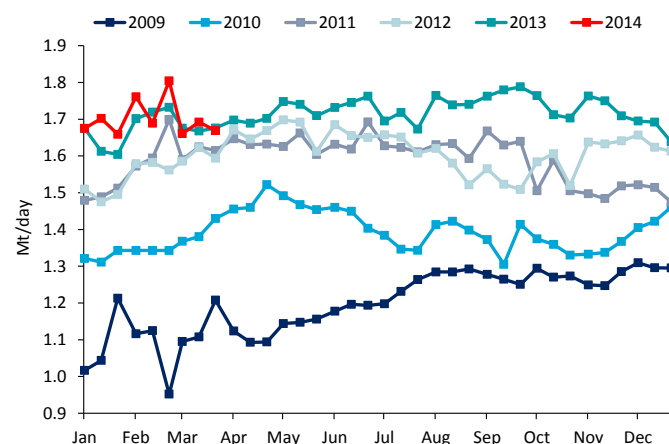


Source: LBH, Citi Research

Steel demand has clearly been very weak to start the year, with CISA member firm production up only 1.6% YoY, net exports up 31%, mill inventories extremely high, and trader inventories following normal seasonality. However, demand is entering a stronger seasonal period and should improve in H2 thanks to credit easing and fiscal stimulus.

As a result, while we expect steel exports to remain strong, YoY growth rates should moderate. Moreover, the large increase in Chinese steel exports has prompted a growing backlash in the form of anti-dumping tariffs which will effectively reduce the accessible markets of Chinese exporters.

**Figure 5. Steel demand has been weak to start the year – CISA member firm production was up only 1.6% YoY in Q1**



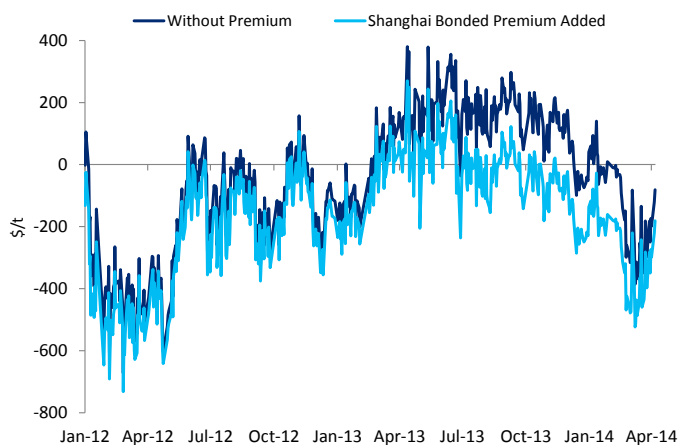
Source: CISA, Citi Research

**Figure 6. Countries are reacting to rising Chinese steel exports with anti-dumping tariffs**

Current	Considering
US	Peru
EU	Guatemala
Australia	Korea
Malaysia	
Columbia	
Indonesia	
Taiwan	
Brazil	
Mexico	
Vietnam	
Thailand	

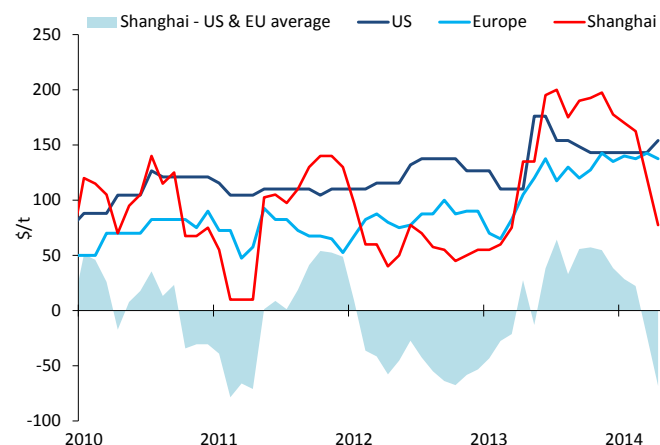
Source: Citi Research

**Figure 7. The copper import arb fell sharply in mid-February and should pressure April refined copper imports lower**



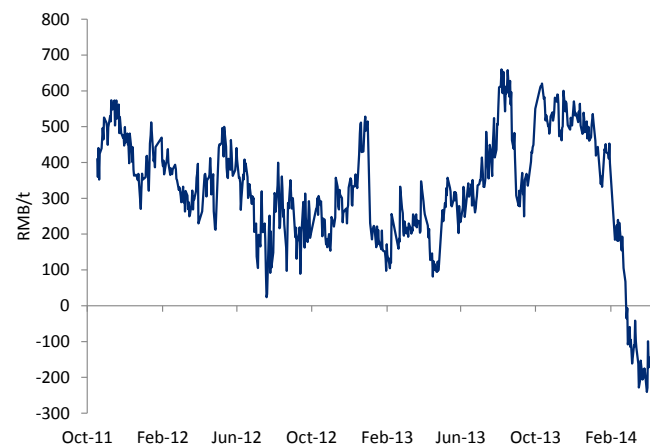
Source: Bloomberg, Metal Bulletin, Citi Research

**Figure 8. Copper physical premiums in Shanghai bonded warehouses have fallen sharply below those in other regions**



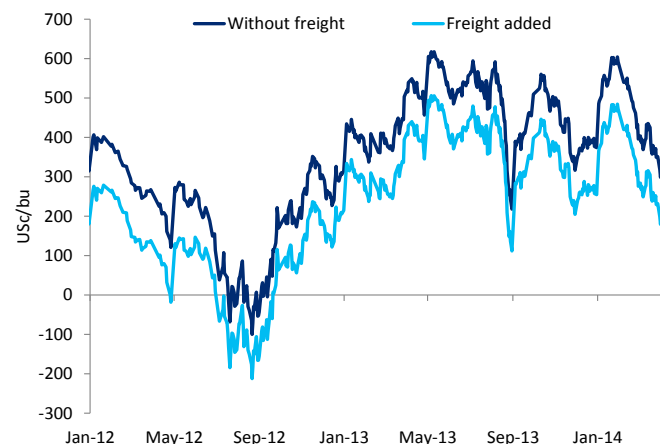
Source: Metal Bulletin, Citi Research

**Figure 9. The soybean crush margin for imported beans has turned negative and should push imports lower**



Source: Bloomberg, Citi Research

**Figure 10. The soybean import arb has fallen as well, though it remains positive**



Source: Bloomberg, Wind, Citi Research

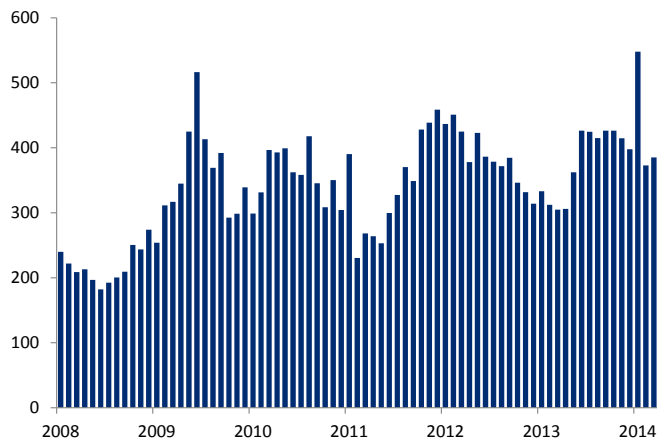
Figure 11. Chinese Commodity Trade Volumes – First of Two Monthly Releases

		Mar-14	Feb-14	Jan-14	MoM (sa)	YoY	YTD YoY
<b>Imports</b>							
Copper - cathode & product	kt	420	379	536	3.4%	31.4%	37.8%
Copper Concentrate	kt cu	275	207	268	30.6%	24.9%	23.8%
Iron ore	Mt	74.0	61.2	86.8	14.3%	14.6%	19.0%
Crude oil	Mt	23.5	23.1	28.2	-5.8%	2.0%	8.3%
Refined oil products	kt	2,370	2,414	3,762	-4.7%	-24.3%	-18.0%
Soybeans	kt	4,620	4,809	5,914	-20.3%	20.3%	33.2%
Steel products	kt	1,250	985	1,354	1.1%	1.6%	11.1%
<b>Exports</b>							
Crude oil	kt	0	170	80	-100.0%	-100.0%	-60.9%
Refined oil product	kt	2,740	2,020	2,260	19.8%	3.4%	-3.6%
Steel products	kt	6,760	4,800	6,770	-3.4%	28.0%	26.9%
<b>Net Imports</b>							
Crude oil	Mt	23.5	22.9	28.1	-5.1%	3.2%	9.0%
Refined oil product	kt	-370	394	1,502	-296.9%	-177.1%	-51.4%
<b>Net Exports</b>							
Steel products	kt	5,510	3,815	5,416	-4.3%	36.0%	31.5%

Source: China Customs, Citi Research

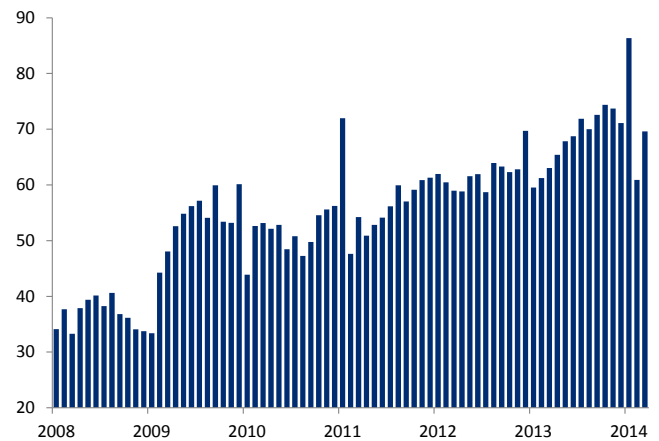
Note: Data are non-seasonally adjusted, except as noted

**Figure 12. Copper Imports (cathode, product, blister)**  
kt, seasonally adjusted



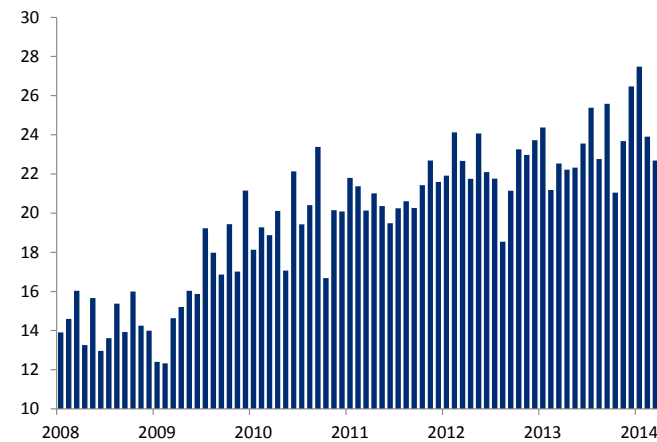
Source: China Customs, Citi Research

**Figure 13. Iron Ore Imports**  
Mt, seasonally adjusted



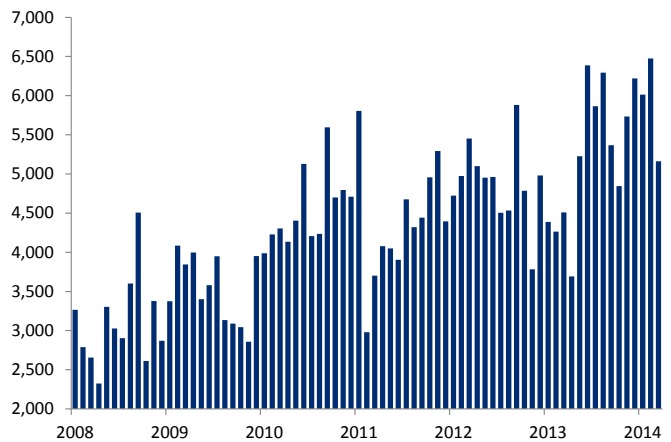
Source: China Customs, Citi Research

**Figure 14. Crude Oil Net Imports**  
Mt, seasonally adjusted



Source: China Customs, Citi Research

**Figure 15. Soybean Imports**  
kt, seasonally adjusted



Source: China Customs, Citi Research

## Appendix A-1

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