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China Expanded Crude Oil and LNG Imports on 6.9% GDP Growth in 2017

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On January 18, the National Statistics Bureau of China announced that China's real economic growth came to 6.9% in 2017. After accelerating annual growth to 10.6% in 2010 on the strength of a 4-trillion-yuan economic stimulus package after the Lehman Shock, the Chinese economy continued to decelerate growth until 2016. The 6.9% growth in 2017 represented the first acceleration in seven years.

The growth acceleration came as Chinese exports increased by 7.9% on the robust world economy in 2017 after declining by 7.7% in 2016. Exports to major trading partners such as the United States and Europe expanded, driving economic growth. In addition, domestic infrastructure investment increased in 2017, indicating an effect of domestic economic stimulus measures. As a Communist Party Congress took place in October 2017, the government took growth expansion and promotion policies to support and boost the economy for the political purpose of enhancing and solidifying the Xi Jinping regime.

Economic growth acceleration in China, the world's second largest economy after the United States, has great influence. Its spillover effect exerts a great impact on the global energy market's supply and demand environment through international energy trade.

First, oil demand scored robust growth as automobile sales and use increased under economic expansion. The "Monthly Oil Market Report" by the International Energy Agency in December 2017 said that China's oil demand in 2017 would increase by 590,000 bpd or 5.0% to 12.44 million bpd. Due to crude oil price drops since the second half of 2014, however, China's oil production in 2017 would decrease by 130,000 bpd to 3.86 million bpd. Oil demand growth under economic expansion was combined with the domestic oil production decline to expand imports. According to Chinese trade statistics, China's crude oil imports in 2017 expanded by 10.1% from the previous year to 419.57 million tons (about 8.43 million bpd). The sharp increase in import volume and crude oil price hikes boosted crude oil import value by 42.7%. Crude oil imports accounted for 8.8% of total import value.

Behind crude oil price hikes from the autumn of 2017 have been various factors including geopolitical risks in the Middle East, production declines in Libya and Venezuela and money inflow into the oil futures market. However, a key underlying factor is the supply and demand environment improvement symbolized by an oil inventory decrease. The supply-demand balance improvement is attributable primarily to oil demand expansion, in which China's demand and import expansion undoubtedly played a great role.

China's import expansion was not limited to crude oil. Rather, natural gas and LNG import growth was even more remarkable. China's natural gas imports (covering pipeline gas and LNG imports) in 2017 soared by 27% to 68.57 million tons. While pipeline gas imports posted a firm increase of around 10%, LNG imports logged a dramatic expansion of around 50%. Data in an industry journal indicate that China expanded LNG imports in 2017 by 48% from the previous year to 37.89 million tons, replacing South Korea as the world's second largest LNG importer after Japan.

China began to import LNG in 2006 and has become one of the world's leading LNG importers in a little more than 10 years to greatly influence the international LNG market. The sharp growth in LNG imports in 2017 increased China's presence in the LNG market. China's natural gas imports had traditionally concentrated in pipeline gas imports from Turkmenistan and others. In 2017, however, LNG imports exceeded pipeline gas imports for the first time ever.

Why has China rapidly and substantially increased natural gas imports, particularly LNG imports? Some complex factors are behind the increase. As a matter of course, a basic factor is economic growth acceleration. The vitalization of general industrial activities including energy-intensive production under economic expansion and infrastructure investment has brought about an increase in energy demand including natural gas. In addition, however, China has politically promoted switching from coal to natural gas as cleaner energy to address serious air pollution. For the Xi Jinping leadership, air pollution countermeasures are an urgent challenge. The promotion of natural gas use is a key priority in energy policy.

As for supply to meet growing natural gas demand, domestic production growth has been limited to a moderate level, with it being difficult to rapidly expand pipeline gas imports under long-term contracts to meet growing demand. As the international LNG market was in oversupply backed by abundant supply capacity and growing more flexible with short to medium-term contracts and spot supply made available, LNG imports were promptly expanded to meet rising demand in 2017. Toward late 2017, particularly, natural gas demand increased on cold waves, with gas shortages seen. China's LNG imports in December 2017 hit a new monthly high, exceeding 5 million tons.

While the international LNG market is still in oversupply, further growth in LNG imports by China, now the world's second largest LNG importer, is likely to exert great influence on the future direction of the overall supply-demand balance and market players' psychology, depending on the speed and scale of the growth. In fact, spot LNG prices reflecting the market supply and demand situation rose from around $5 per million British thermal units in the middle of 2017 to more than $10 at the end of the year as Chinese LNG imports increased rapidly. In this sense, China's future LNG import trend will continue to attract global attention.

Crude oil, natural gas and LNG demand and imports are influenced by various factors such as energy and environmental policies, and cold waves and other weather conditions. However, a basic factor is economic growth, as noted above. In this sense, we may have to pay attention to the Chinese economy's performance from 2018 after a 6.9% expansion in 2017. Political needs to stimulate the economy may not be expected for 2018 and on. There are concerns about growing debt for companies and individuals in China, indicating financial risks that cannot be ignored. In anticipating the future courses of the world economy and the international energy market, we may have to closely watch the future course of the Chinese economy and its influence on energy demand and imports.

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