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Coronavirus Forces Chinese Refineries to Cut Crude Processing

Stratas Advisors

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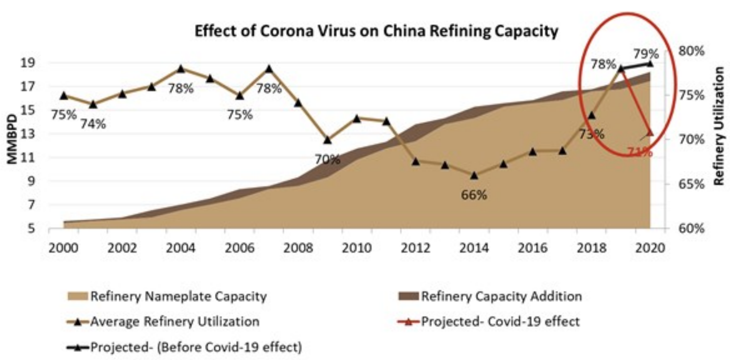
Global oil demand has declined because of the coronavirus outbreak in China. Not only has the virus caused illness and deaths, it has also shut down China's economy. The virus is also having a profound effect on Chinese refiners.

The impact of the virus has impacted crude prices, which have fallen to their lowest level since January 2019. In turn, this affects the world's crude supply-demand balances as China is the world's second-largest refiner and the world's largest oil importer. Chinese refineries processed oil at a high rate -- 13.1 million barrels per day (MMbpd) -- last year; however, the virus outbreak has forced Chinese refiners to cut runs because of decreasing demand.

China is facing major slowdowns in the transportation, construction, manufacturing and aviation sectors. Because of the weak refined product demand (mainly gasoline, diesel and jet fuel), refiners are planning to cut refinery crude throughputs.

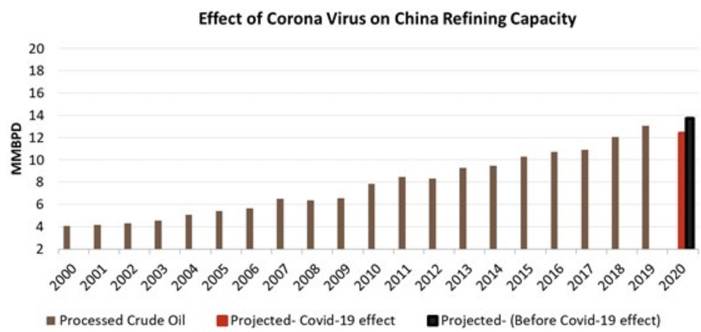
Sinopec and Petrochina expect to cut crude processing capacity by 450 thousand barrels per day (Mbpd) and 360 Mbpd, respectively. China's largest refinery, Hengli, will reduce its utilization by 18%. Independent refiners, which are mostly located in areas that are less impacted by the virus, plan to cut processing rates by about 10%. However, refineries in Hubei and the nearby region will reduce capacity by about 20%. Chinese refinery crude throughputs for the first quarter of 2020 have been cut by at least 1.8 MMbpd, accounting for the sharpest single-month decline in history. Throughouts are expected to shrink by 700 Mbpd on a year-on-year basis.



Source: Stratas Advisors

The average refinery utilization rate is expected to fall to 71% from an expected 78.6% before the coronavirus outbreak. Large Chinese refiners are keeping a close watch on demand and supply to help optimize its refinery run rates. In 2020, China's crude oil processing capacity is expected to decline by 700 Mbpd on a year-on-year basis, which will create pressure on refiners to make better margins.

To reduce the effect of coronavirus, apart from cutting refinery rates, refineries could postpone maintenance plans scheduled for this year.



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