China's perfect diesel storm poised to hit Asian fuel market

REUTERS/FILE

A man checks the oil level of his container truck as a gas station employee prepares to fill it up near the port of Shanghai.

REUTERS, *Australia*

Should Asia be bracing itself for a flood of gasoil from China in the second quarter?

It would certainly appear that the conditions for a sharp rise in exports of gasoil, the refinery term for middle distillate fuels diesel and kerosene, are in place.

These include stocks of Chinese oil products at a four-year high, rising refinery runs but soft domestic consumption, and gains in crude imports.

So far this year China has already been ramping up exports of middle distillates, with diesel shipments rising 736 percent to 1.52 million tonnes in the first two months of the year compared to the same period last year, while jet kerosene gained 28.8 percent to 1.92 million tonnes.

Converting the Chinese customs data to barrels per day (bpd) shows diesel exports at 190,000 bpd and jet kerosene at 250,000 bpd in the January-February period.

By comparison China exported about 147,000 bpd of diesel and 264,000 bpd of jet kerosene in 2015, meaning that while jet kerosene shipments are roughly steady so far in 2016, there has been a big jump in diesel shipments.

It's likely that diesel exports will continue to rise in coming months, given the internal dynamics of China's refining and fuel markets.

Commercial fuel inventories reached a four-year high in February, rising 17.3 percent from the previous month, according to a March 28 report from the official Xinhua News Agency.

Diesel inventories were 11.4 million tonnes in February, or about 85.5 million barrels, up 37.3 percent from 8.3 million tonnes in January, according to Reuters calculations based on the official data.

The rapid build in diesel inventories can be explained by the mismatch between refinery output and domestic consumption.

Oil product output was 51.92 million tonnes in the first two months of the year, up 8.5 percent from the same period in 2015, but consumption was only 44.51 million tonnes, a gain of 2.4 percent, China's state planning agency said March 29.

Although the National Development and Reform Commission didn't give precise figures, it said gasoline consumption rose 14.8 percent while diesel consumption fell 9.3 percent in the first two months of 2016.

What this shows is that refineries are more than likely running at rates that will ensure sufficient gasoline to meet domestic demand, but in doing so are producing too much diesel.

Refinery throughput rose 4.6 percent in the first two months of the year to 10.59 million bpd, the National Bureau of Statistics said on March 12.

Pulling together the various strands of Chinese refinery and fuel markets shows that the country is currently producing an excess of diesel and with domestic inventories already bulging, exports become the best way of relieving the pressure.

It's likely that Chinese exports will reach an Asian market that is already well-supplied with diesel.

Inventories of middle distillates in Singapore, Asia's main trading hub, rose to a five-month high of 13.64 million barrels in the week ended March 23, according to data from International Enterprise Singapore.

The comfortable inventory situation and muted demand growth for diesel, which is mainly used for transportation and industry, is already showing up in weaker margins for producing the fuel.

The premium of gasoil in Singapore over Dubai crude dropped to $8.56 a barrel on Wednesday, down 29 percent from its peak so far this year of $12.11 on March 9.

If China's refineries do ramp up exports of the fuel in coming weeks, it's likely that the gasoil margin will lose further ground.

EBL

M Khorshed Anowar, head of direct business at Eastern Bank, and Mohammad Ifzal Ahmed, director of Orion Restaurant, exchange the signed documents of a deal at a programme in Dhaka. The restaurant, a franchisee of Fish & Co Bangladesh, will provide the bank's cardholders with exclusive platters—EBL Ecstasy, EBL Elegant and EBL Excellent—at a price starting from Tk 499.

GSK plans patent-free drugs for the poor

REUTERS, *London*

GlaxoSmithKline said on Thursday it would adopt a graduated approach to patenting its medicines, depending on the wealth of different countries, in order to make drugs more affordable in the developing world.

Britain's biggest drugmaker will not file patents for its drugs in the world's poorest states, leaving the way clear for generic companies to make cheap copies, Chief Executive Andrew Witty said.

For lower middle income countries, GSK will seek patents but it aims to strike licence deals that allow supplies of generic versions of its medicines for 10 years. These licences are expected to earn GSK a "small" sales royalty.

Sharp take-under oddly denotes Japanese success

ROB COX

There's nothing pretty about the details of Foxconn's deal to take control of Sharp. And fixing the loss-making Japanese electronics manufacturer will be a tough slog for the Taiwanese giant led by Terry Gou. But after botched beginnings, this transaction may just make history. It presents Exhibit A that Japan is capable of the sort of corporate reform critical to overhauling its economy.

One month ago, Sharp and Foxconn, which is formally called Hon Hai Precision Industry, appeared to be at odds. Hours after Sharp announced a plan to sell control to various arms of the contract electronics group for 489 billion yen, or $4.4 billion, the Taiwanese firm called a time out. It said it was still mulling over the details, including new material information about Sharp's potential liabilities.

That explains the big drop in the headline price since. Foxconn will now pay $900 million less for its 66 percent stake. It will buy Sharp's shares at 88 yen apiece, a 35 percent discount to their Wednesday close – the classic definition of a "take-under". Moreover, Foxconn is snaffling up new preference shares that will allow it to increase its stake over time.

This is painful for Sharp's backers – and that is the point. It might have been possible to find an all-Japanese solution for Sharp by cutting a deal with state-supported Innovation Network Corp of Japan. But that might have just swept Sharp's problems under a rug. Instead, Sharp is going to the bidder with the most capabilities, and incentives, to make it a profitable and productive enterprise.

It won't be an easy ride for Foxconn. The limited overlap between the two businesses will make it hard to cut costs at the Japanese group, which has forecast an operating loss of some 170 billion yen ($1.5 billion) for the year through Thursday. Gou's bet is that by increasing his firm's position in the supply chain of Apple, which uses Sharp screens on its devices, Foxconn can more effectively revive the ailing group's fortunes.

Either way, the signal that Foxconn's takeover of a century-old stalwart of Japan Inc sends is immediate. Revitalising Japan's economy after decades of stagnation, and in the face of a shrinking population, will require firms to become more productive and less cosseted from competition.

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BSRM

Alihussain Akberali, chairman of Bangladesh Steel Re-Rolling Mills Ltd, attends the company's 54th annual general meeting, at the Institution of Engineers in Chittagong on Wednesday. The company approved 10 percent stock and 5 percent cash dividends for its shareholders.

China-led AIIB eyes first loans to India

REUTERS, *New Delhi*

India hopes to receive one of the first loans issued by the China-led Asian Infrastructure Investment Bank (AIIB) later this year, as it looks to raise $500 million for solar power projects from the newly created lender, Indian officials said.

Funding for clean energy projects would allay fears of environmental lobbyists that the bank's relaxed lending criteria could promote dirty fuels like coal in developing economies, like India, that are in a hurry to ramp up energy output.

The multilateral investment bank, which has authorised capital of $100 billion, plans to join global clean-energy initiatives, and could fund eco-friendly investment projects to avoid allegations of promoting pollution.

India, the bank's second biggest shareholder after China, is looking to borrow from the AIIB, a senior official said, to back Prime Minister Narendra Modi's plan of expanding installed solar capacity to 100 gigawatts by 2022.

"In about six months, funds could start flowing from AIIB," Tarun Kapur, joint secretary at the Ministry of New and Renewable Energy, told Reuters.

Interest on the loan is likely to be 2-2.5 percent and would be linked to LIBOR - a floating benchmark based on the rate at which commercial banks lend to each other - for a term of over 15 years.

The AIIB, which is headquartered in Beijing and was launched in January, did not comment directly on borrowing by India but said it was developing a project pipeline in a number of countries.

"It is expected that the first loan decisions will be taken later this year," it said in written answers to questions submitted by Reuters.

India is in talks with the World Bank, the Asian Development Bank, Germany's KfW and the New Development Bank, set up by big emerging economies that form the BRICS bloc, to raise more than $3 billion in the financial year that starts April 1.

India has requested $500 million in financing from the ADB to support rooftop solar, and a similar sum to expand transmission networks to connect to solar parks. The ADB signed a cooperation agreement with the US Agency for International Development (USAID) to back the solar power expansion.

India estimates it needs to invest up to $100 billion in solar power in the next 6-7 years to meet its ambitious target of boosting capacity by roughly 17 times from current levels of 5,800 megawatts.

"Financing is not an issue but we need cheaper funds," said Kapur. After hedging costs of about 6-7 percent, the cost of funding from the AIIB funds works out at just below 10 percent, compared to domestic rates of about 12 percent, he said.

Another official at the finance ministry who has been liaising with the AIIB, said initial talks had taken place on clean energy projects and more proposals could soon be submitted on other priority areas.

The AIIB is expected to lend $10 billion-$15 billion a year for the first five or six years and could start operations in the second quarter of 2016.

AIIB president Jin Liqun said earlier this year that the bank has a good pipeline of co-financing projects and stand-alone projects.

Britain says state takeover not the answer in steel crisis

REUTERS, *London/Port Talbot, Wales*

British Prime Minister David Cameron said there was no guarantee a buyer could be found for Britain's biggest steel producer after Tata Steel announced it was pulling out, and a state takeover was not the answer.

Cameron said he was doing all he could following the Indian company's decision to sell its British operation, a move that has put 15,000 jobs at risk and exposed the government to accusations of failing to protect the industry from cheap Chinese imports.

Tata's biggest plant in Port Talbot, south Wales, is losing around $1.4 million a day as a result of depressed steel prices and high costs.

"We're going to work very hard with the company to do everything we can, but it is a difficult situation, there can be no guarantees of success because of the problems that the steel industry faces worldwide," Cameron said after chairing an emergency meeting on the crisis on Thursday.

"We're not ruling anything out, (but) I don't believe nationalisation is the right answer."

Cameron's government has faced criticism over its response to Tata's decision, with opposition lawmakers saying it was "asleep at the wheel" when the Indian group said it was pulling out after nearly a decade in Britain.

The prime minister and Sajid Javid, the business minister, were out of the country when Tata's board met in Mumbai on Tuesday, leaving a junior colleague to respond. The opposition Labour party and Britain's media said the handling of the crisis had been "chaotic" after the government rowed back on an initial suggestion from a junior minister that it could nationalise the plants for a period.

"It's absolutely extraordinary that they've been asleep at the wheel for this long," Stephen Kinnock, the local member of parliament in south Wales, told Sky News on Thursday.

"Why is it that the prime minister seems to be reacting to this as if he didn't see it coming. They're in total disarray."

Steelmakers in Britain pay some of the highest energy costs and green taxes in the world, but the government maintains that the fundamental problem facing the industry is the collapse in the price of steel, caused by overcapacity in China.

Britain imported 826,000 tonnes of Chinese steel in 2015, up from 361,000 two years earlier, according to the International Steel Statistic bureau.

Cameron's government, eager to cultivate closer ties with China, has opposed measures in Europe that could increase the tariffs paid on Chinese imports of steel, which are a fraction of the levels imposed by the United States.

Luxembourg's money laundering inquiry into Malaysian 1MDB

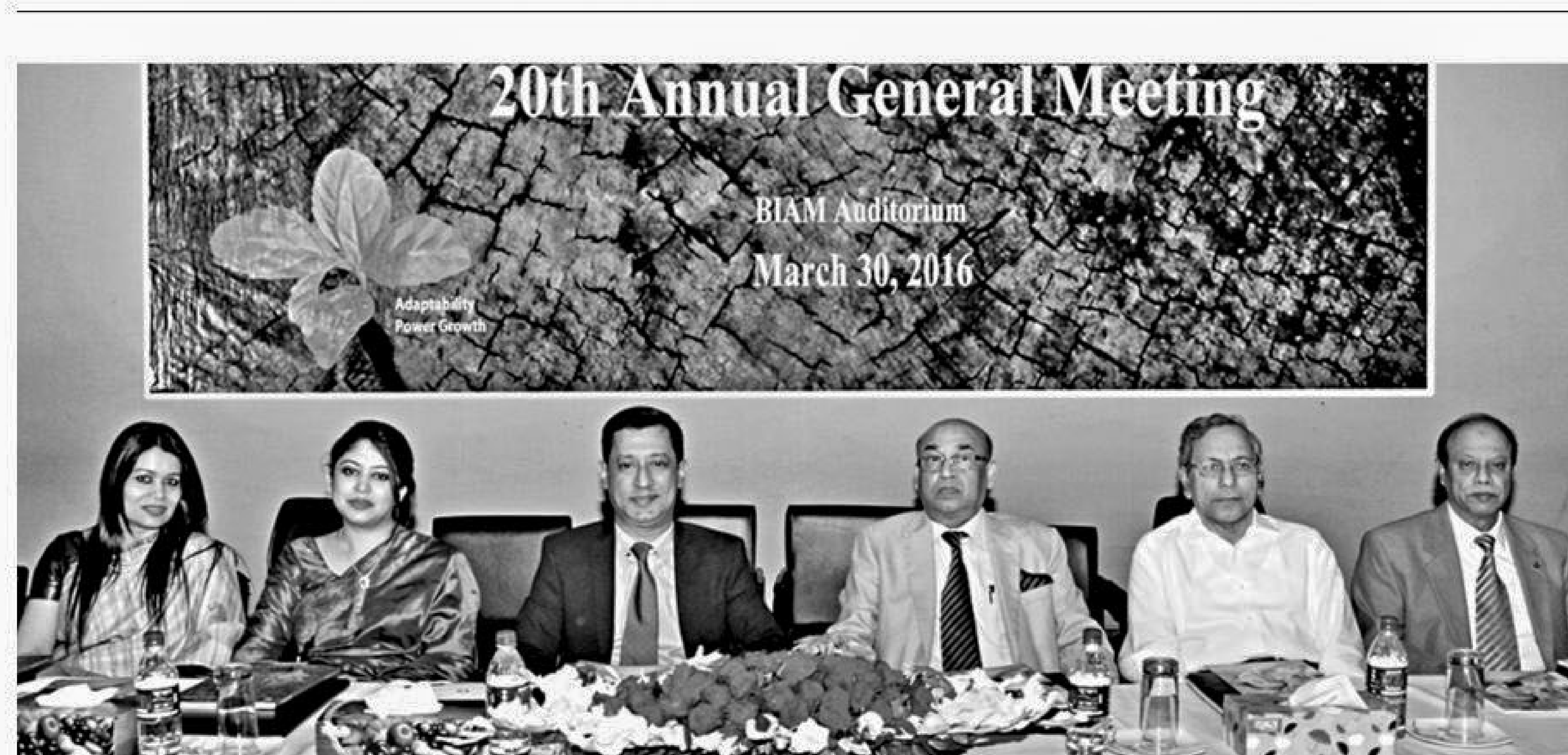
REUTERS, *Brussels/Kuala Lumpur*

Luxembourg's state prosecutor launched a judicial inquiry into allegations of money laundering, covering payments totalling hundreds of millions of dollars, against Malaysia's sovereign wealth fund 1Malaysia Development Bhd (1MDB).

The prosecutor said the inquiry followed evidence that funds held by the Malaysian government in offshore accounts in Singapore, Switzerland and Luxembourg had been misused.

"The investigation aims to trace the origin of four transfers in 2012 and one in at the start of 2013 for a total of several hundreds of millions of dollars," the statement said.

The allegations concerned in particular the sums paid upon the issuance of two bonds in May and October 2012.



PRIME INSURANCE

Md Zakiullah Shahid, chairman of Prime Insurance Company Ltd, presides over the 20th annual general meeting of the company at Biam Auditorium in Dhaka on Wednesday. The company declared 12.5 percent cash dividends for its shareholders.