

China's falling US oil import may have more to do with money than politics

REUTERS, Launceston, Australia

ONE of the side effects of President Donald Trump's escalating trade dispute with China is that US exports of crude oil to the world's biggest importer are now viewed through the prism of politics.

However, this ignores that buyers and sellers of crude are generally more motivated by profit margins and getting the right grades of oil to maximise the productivity of their plants.

While it's true they can't disregard politics, and this is especially the case for the state-controlled Chinese majors, it's worth looking at the economics of the US-China crude trade as well.

US crude exports to China appear set to slow dramatically in September, with vessel-tracking data compiled by Thomson Reuters Oil Research and Forecasts showing about 6.12 million barrels, or about 204,000 barrels per day (bpd), scheduled for arrival.

This would be down from around 363,000 bpd in August, and would also be the weakest month since March this year.

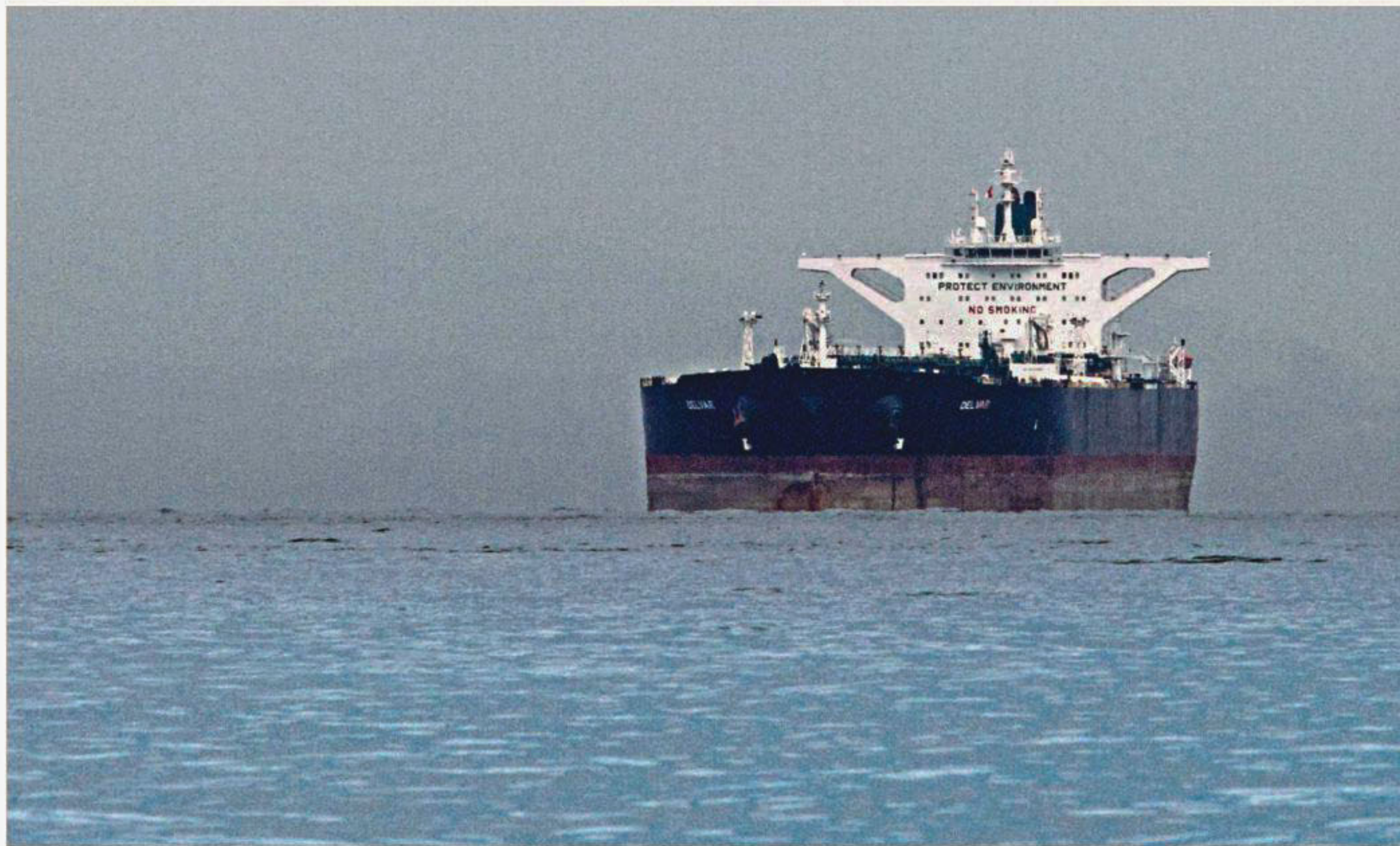
The slowdown in China's imports of US crude has coincided with the imposition of tit-for-tat trade tariffs and speculation that Beijing would add crude to its list of US products to be hit with import taxes.

That hasn't happened yet, although it would have been understandable for Chinese refiners to be wary of buying from the United States in recent weeks.

However, the pricing of the various grades of crude oil also offers an explanation as to why China stocked up on US crude in August, and appears to have shied away in September, and probably October as well.

Chinese traders would have been keen to buy West Texas Intermediate (WTI) types of US crude for August delivery, given these cargoes would have been arranged in late May and early June.

The discount of front-month WTI crude oil futures to Brent futures widened to \$11.39 a barrel on June 6, and traded



REUTERS/FILE

Malta-flagged Iranian crude oil supertanker "Delvar" is seen anchored off Singapore.

close to level for around a three-week period from late May to mid-June.

This means that Chinese refiners could buy WTI at a substantial discount to Brent in the paper market, which would encourage them to take physical cargoes from the US Gulf.

In the physical market the difference between oil linked to WTI and oil linked to Brent wasn't quite as stark, but was nonetheless in favour of the US grades.

Nigerian Bonny Light, a crude oil similar to, and priced against Brent, was trading at \$81.17 a barrel on May 22.

At the same time, WTI delivered at the Magellan East Houston terminal, as assessed by Argus Media, was at \$76.40, a discount of \$4.77 a barrel.

This level of discount is enough to offset the slightly higher freight cost of

shipping to China from the US Gulf as opposed to the west coast of Africa.

However, by the time September cargoes for China would have been arranged, the numbers had moved in the other direction, with Bonny Light trading at \$73.52 a barrel on June 25, putting it at a discount of \$1.47 to WTI Houston.

This would have made buying West African light crudes more attractive than cargoes from the United States.

While the Chinese refiners may have been under some political pressure to cut back on buying US crude, it was probably something they didn't feel the need to push back on, given the profits weren't working anyway.

The current pricing isn't particularly supportive of Chinese buying of US cargoes, with Bonny Light at a slight \$1.11 a

barrel premium over WTI Houston.

For refiners prepared to offset physical trades in the paper market, the discount of WTI futures to Brent contracts was at \$7.05 a barrel on Aug. 24, widening from \$4.82 at the end of July.

However, putting the paper and physical pricing together suggests that US crude is currently not a compelling purchase for Chinese refiners, compared to similar grades from other producers, such as those in West Africa.

While the trade spat between Washington and Beijing could worsen to the point where US crude exports to China are rendered completely uncompetitive, in the meantime it probably pays to look at the underlying pricing to help judge the likelihood of whether exports will rise or fall.

US monitor seeks more transparency from VW over emissions

REUTERS, Frankfurt/Wolfsburg

Volkswagen's external compliance monitor on Monday said he disagreed with some VW executives' use of privacy and attorney client privilege rights to withhold information about a \$27 billion global emissions cheating scandal.

The German carmaker was ordered by the United States Department of Justice to deliver three annual reports examining its violations to Larry Thompson, a former deputy US attorney general, after it was caught manipulating pollution tests.

Thompson is now acting as an Independent Compliance Auditor (ICA) as part of a plea agreement reached after US authorities blew the whistle on Volkswagen's excessive diesel pollution on Sept. 18, 2015.

"With respect to the VW defendants' assertions of privilege and work product, the ICA has disagreed with some of the VW defendants' assertions," Thompson's interim report said on Monday.

"The VW defendants have promised further improvements in their provision of information, and increased the frequency of discussions with the ICA regarding this topic."

Thompson's role is to ensure VW's systems conform to new compliance standards.

In 2017, the ICA identified 176 "corrective actions" to be taken by Volkswagen and a further 240, in 2018, the report said without providing further detail.

Since 2015, Volkswagen has insisted that its diesel cheating was the work of low level executives.

But earlier this year, Rupert Stadler, the chief executive of VW's premium brand Audi, was remanded in custody for potential obstruction of justice related to an emissions probe, and US authorities have filed criminal charges against former VW Chief Executive Martin Winterkorn.

Both executives deny wrongdoing.

Since 2015, prosecutors in Braunschweig, near where VW is headquartered, have identified 39 suspects for their involvement in an emissions cheating scandal and have also investigated other companies including Daimler auto supplier Bosch for separate emissions issues.

Braunschweig prosecutors are also investigating Volkswagen's current chairman and chief executive to see whether VW executives informed markets in a timely manner about the financial fallout from the scandal. Volkswagen has said its management has not violated disclosure rules.

Hiltrud Werner, VW's board member for integrity and legal affairs, said the carmaker was working steadily to adapt its systems and code of conduct to learn from the crisis.

Volkswagen wants to put integrity on an equal footing with world class profitability and manufacturing world class vehicles, a task that will take until 2025, she said.

"We face a marathon ahead of us to implement this," Werner said.

EU-US trade truce boosts German business confidence



AFP

A container vessel reaches the Port of Oakland in California.

AFP, Frankfurt

CONFIDENCE among German business leaders swelled again in August after the European Union and United States backed off an escalating trade showdown, a regular survey showed Monday.

The Munich-based Ifo institute's monthly barometer based on a survey of 9,000 firms rebounded to 103.8 points this month, its highest level since February.

In July, the Ifo index had stood at 101.7 points.

"Confidence in German firms has improved noticeably... in addition to a robust domestic economic situation, the truce in the trade conflict with the US contributed," Ifo president Clemens Fuest said in a statement.

Furthermore, "the German economy is growing robustly," he added, with the

latest data suggesting that third-quarter growth in the eurozone's economic powerhouse could match the 0.5 percent quarter-on-quarter it booked between April and June.

Companies' assessments of both their present economic situation and future expectations improved, while firms in the manufacturing, services, trade and construction sectors were all more confident.

A major reason for the sunnier outlook is a deal struck between European Commission President Jean-Claude Juncker and US President Donald Trump last month to back down from a mounting trade confrontation, initially sparked by Trump's decision to impose levies on steel and aluminium imports.

But while the trade battle appears to on ice for now, tensions could flare up again in future if the mercurial US leader threatens to impose duties on vital European products like cars.

S African farmers 'furious' over Trump land reform tweet

AFP, South Africa

SOUTH African farmers have demanded Donald Trump "leave us the hell alone" after the US president criticised the country's land reform plans, accusing him of trying to deflect attention from his own scandals.

"The people were furious about Trump -- and I think they still are," said Preline Swart, a 37-year-old black woman who farms grain and cattle with her husband east of Cape Town.

"He's an outsider and he knows nothing about farming," she said on the sidelines of a summit of farmers, officials and industry players in Bela Bela, 100 miles (160 kilometres) northeast of Johannesburg. Trump's Wednesday tweet, posted on the eve of the "Land Solution" gathering, touched on the overwhelmingly white ownership of farmland in South Africa -- one of the most sensitive issues in the country's post-apartheid history.

"I have asked Secretary of State... (Mike) Pompeo to closely study the South Africa land and farm seizures and expropriations and the large scale killing of farmers," tweeted Trump to his 54 million followers.

His tweet apparently followed a segment on conservative Fox News about Pretoria's plan to change the constitution to speed up expropriation of land without compensation to redress racial imbalances in land ownership.

"South African Government is now seizing land from white farmers," said Trump's post, which tagged the show's host, Tucker Carlson, as well as the channel. "I think Donald Trump must really take his long hair... and leave our people the hell alone," added Swart.

While many of the farmers at Thursday and Friday's land summit rejected Trump's intervention, many are unsure what the government's plan to expropriate land to fix historical injustices will mean for them.

"The deputy president assured farmers government isn't going to



AP

In this photo taken on October 30 in 2017, people place white crosses, symbolically representing farmers killed in the country, at a ceremony in South Africa.

do anything reckless," said conference speaker Tshilidzi Matshidzula, 30, a dairy farmer with 1,000 cattle on his ranch in the country's Eastern Cape province.

"(But) as a farmer, although I'm black, expropriation is a serious concern. The sooner we get formal clarity on how it will be handled, the better."

As he spoke, other black delegates congratulated Matshidzula for the speech he had just given on how to resolve land inequality.

According to President Cyril Ramaphosa, who himself farms cattle on a 5,100 hectare ranch, the white community that makes up eight percent of the population "possess 72 percent of farms".

In contrast, "only four percent" of farms are in the hands of black people who make up four-fifths of the population.

The stark disparity stems from purchases and seizures during the colonial era that were then enshrined in law during apartheid.

"I'm worried about the politicians and the politics in our country if they don't get (land reform) right," said Andre Smith, 49, who grows pecans and other crops on

100 hectares in the Northern Cape province. "We don't love Donald Trump and his outspokenness."

South Africa's government reacted angrily to the tweet with officials telling their American counterparts Trump's comments were "alarmist, false, inaccurate and misinformed".

"He doesn't understand the South Africa situation. We have to inform him, we have to invite him to visit us," added Smith, overlooking the conference venue's car park, full of the white Toyota pickup trucks beloved of South African farmers.

Trump has a long history of sparking controversy on Twitter.

"Donald Trump was hot-headed -- and not for the first time!" laughed Whiskey Kgabo, a farmer of more than 30 years who grows mangoes on his rented 888-hectare plot in northeastern Limpopo province.

"I don't have anything against Donald Trump... but he should first check that this is the position," said Kgabo who spoke to AFP surrounded by hay bales.

Swart added that Trump, rocked by his longtime lawyer Michael

Cohen pleading guilty to felonies and his former campaign chairman Paul Manafort being convicted of federal crimes, "just wants something new to talk about".

Jannie de Villiers, 56, chief executive of the Grain SA industry trade body, rejected the Fox News segment's suggestion that South Africa was following the same path as Zimbabwe's disastrous Robert Mugabe-era seizures of white-owned farms.

"I don't think we're there, and I definitely don't think we're heading for that. It's definitely not the Zimbabwe solution."

Agricultural production collapsed and the economy almost halved in size following the seizures that started in 2000.

"But we do need to address the past and that's not an easy process. We've got a non-racial consensus that we've messed up land reform so far," added De Villiers.

Conference speaker Riedewaan Marcus, 24, a farmer in the Western Cape province backed by the Agri Dwala foundation which supports emerging black agriculture said he was "not a fan of Donald Trump".