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China's commodity imports are soft, even those that look strong

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China's imports of major commodities were either openly weak in May, such as the decline in crude oil, or those showing apparent signs of strength were deceptive and largely driven by factors other than rising consumption.

Arrivals of crude dipped into negative territory for the first five months of the year, with calculations based on official customs data released on June 7 showing imports of 11.0 million barrels per day (bpd) in the January to May period, down 1.2% from 11.13 million bpd in the same period last year.

China, the world's largest crude importer, landed 11.06 million bpd in May, which was slightly up from April's 10.88 million bpd, but massively down from the 12.11 million bpd in May 2023.

The decline in year-on-year imports has been put down to weak refining margins crimping throughput, and the 7.7% drop in fuel exports in the first five months of 2024 has also contributed to lower demand for crude.

China's imports of crude are down 130,000 bpd in the first five months of the year, an outcome that is starkly at odds with the expectations of the Organization of the Petroleum Exporting Countries (OPEC).

The exporter group forecast in its May monthly outlook that China's crude demand will rise 710,000 bpd for 2024 as a whole, the biggest contributor to world demand growth of 2.25 million bpd.

To be fair to OPEC, the group does expect a stronger second half for China's oil demand, but even so, growth in imports is running so far behind the OPEC forecast that the second half will have to be exceptionally strong.

Expectations of a stronger second half are also likely a factor driving iron ore imports.

China, which buys about 75% of all global seaborne iron ore, saw imports of 102.03 million metric tons in May, up from 101.82 million in April and the third straight month arrivals of the steel raw material exceeded 100 million.

That seems like a strong performance, but the additional iron ore isn't being used to pump up steel production, rather it's mainly going into inventories.

INVENTORIES GAIN

Port stockpiles monitored by SteelHome hit 147.3 million tons in the week to June 7, the highest in 26 months and up 40% from the seven-year low of 104.9 million, reached in October last year.

Steel mills and traders have been encouraged to lift inventories by lower prices, with Singapore futures SZZFc1 dropping to an 18-month low of $98.36 a ton in April.

While the price has recovered somewhat to end at $108.70 a ton on June 7, it's still well below the $143.08 reached in early January.

Copper imports also looked somewhat strong in May with imports of unwrought metal rising to 514,000 tons, up from 438,000 in April.

For the first five months of the year copper imports have gained 8.8% to 2.327 million tons.

But similar to iron ore, it's inventory builds that are accounting for the additional imports, with stockpiles CU-STX-SGH in warehouses monitored by the Shanghai Futures Exchange rising to a four-year high of 336,694 tons last week, up from around 33,000 tons at the start of this year.

Copper imports are being bolstered by increased arrivals from Russia, which is battling to sell some of its production of the industrial metal because of tighter sanctions by Western countries imposed as part of measures following Moscow's invasion of Ukraine.

The major commodity where demand is higher is coal, with China's imports of all grades coming in at 43.81 million tons in May, down from April's 45.25 million, but higher than the 39.58 million from May last year.

For the first five months of the year China's coal imports were 204.97 million tons, up 12.6% from the same period in 2023.

The gain has largely been driven by weak domestic output, with production down 3.5% in the first four months of the year after safety checks were ordered in major coal-producing regions.

With the outlook for coal production uncertain in coming months, it's possible that imports will remain robust, although much will depend on China's hydropower and renewable generation, both of which are expected to rise over the rest of 2024.

The overall message from China's commodity imports is that while they aren't dire, they are hardly indicative of a strong recovery in the world's second-biggest economy.

Source: Reuters (By Clyde Russell; Editing by Christopher Cushing)