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China's Tighter "Teapot" Rules Could Increase Refining Margins In Asia

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HONG KONG (S&P Global Ratings) Nov. 7, 2016--China's stepped up scrutiny of its independent refiners, known as "teapots," could benefit regional oil refiners. That's according to a report, titled "China's Tougher "Teapot" Measures Could Ease The Strain On Asian Refiners," that S&P Global Ratings published today.

"Asian refining margins may start to rise again following China's tightening of its teapot measures," said S&P Global Ratings credit analyst Danny Huang.

Margins fell across Asia in the first half of 2016 mostly due to an increase in the volumes of oil products from China. Much of the increase in these exports stemmed indirectly from China granting teapots the right to import and use crude oil for the first time, which led to increased exports from the national oil companies.

The Chinese government's slowing of approval of import rights for crude oil, and ensuring the payment of consumption tax and the phasing-out of small capacity could reduce throughput at some refineries. That could rein in the supply in the regional market and ease the margin pressure on Asia's oil refining industry.

"We believe that the worst is over for Asian refiners," said Mr. Huang. "Asian refiners have performed well this year due to inventory gains and good chemical spreads. We expect them to maintain their strong financial performances over the next 12 months, with a possible boost if oil prices recover further."