Global Insights: US-China Trade War

Boxing Gloves Remain Tightly Fastened

What's Next for the Middle East?

FEATURED SPEAKERS:

- H.E. Admiral Mohab Mohamed Hussein Mamish, Presidential Adviser, The Suez Canal Economic Zone Projects and Egyptian Seaports & Former Chairman, Suez Canal Authority, Republic of Egypt
- Roger Chia Kim Piow, Founder & Chairman, Rotary Group of Companies
- Arif Mahmood, Executive Vice President and CEO of Downstream, PETRONAS
- Thomas Waymel, President, Trading and Shipping, TOTAL

Moderator: Dyala Sabbagh, Partner, Gulf Intelligence

Moderator: *China was the US' biggest trading partner when US President Trump took office almost three years ago. It is now number three behind Canada and Mexico. During the same period, US tariffs on Chinese goods have increased from 3% to 21%. We have all witnessed the negative impact that the trade war is having on global GDP, energy demand growth and oil prices. Is there an end in sight for this battle between the world's two largest economies and how is it impacting countries along the New Silk Road?*

Thomas Waymel: We're closer to the beginning than to the end of this trade war, which has been going on for years and hasn't made any decent progress. I don't see any breakthrough in the negotiations ahead of the US presidential elections next year.

Moderator: *What has been the main impact been on countries and downstream industries?*

Arif Mahmood: The three areas that the trade war impacts are demand, trade flows and pricing margins. If the sweet spot of prices is not right, it impacts investments. Some refining projects take years to build and the market needs stability for this, so having these erratic tariffs leads to a lot of uncertainty. I do

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see potential positive points. If you look at petrochemicals, the tariffs against the US can open new markets for those operating in Asia and offer more flexibility to producers in the region. There were a lot of polymers coming into the Asian market from the US and these are now looking for new ports. But by the same token, there are not many markets in Asia that can give the volume of demand that China does.

Moderator: *Large Chinese refineries, such as Sinopec, are relying on orders of US crude made months ago. Can this be easily replaced by West African crude or Middle Eastern crude?*

Arif Mahmood: China is currently importing 10mn barrels of African crude but whether that's enough to supply long-term may be a challenge. China has ramped up supplies from Nigeria, Angola and the Middle East, but questions remain. Will demand be further

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suppressed? Will product start to flow in different directions in and out of China? The whole supply-demand dynamic on pricing and margins triggers a lot of uncertainty from an investment point of view.

Moderator: *Do you see the change in crude flows impacting China's strategy of building strategic oil reserves?*

Thomas Waymel: I don't see any huge change in long-term policy. China has been building strategic reserves for the last ten years and they may now speed that up. They are securing long-term supply for large new refineries, some of which are being built as joint ventures with the likes of Saudi Aramco.

Moderator: *Shipping accounts for 90% of global trade and the Suez Canal is a critical part of that. Have the trade dynamics between the US and China led to any significant rerouting of trade flows and how have volumes at the Suez Canal fared?*

H.E. Admiral Mohab Mohamed Hussein Mamish: The movement of world trade is changing to move from the East – China, India and Vietnam – through Europe and onto the US. We are actively preparing for that. We must be ready for the number of ships needed and build the infrastructure and facilities to supply the ships. The Suez Canal touches the Red Sea and Mediterranean with around 20,000 vessels a year and investments

Middle East: *Impact on Trading and Shipping Routes?*

Thomas Waymel: **The US and Asia are the two regions most affected, not the Middle East. The US export market for crude and gas now has limitations. Most of the LNG that was destined for China now can't find a home and this has impacted the price of LNG significantly. There is obviously enough crude supply in the market today and US crude is being redirected to Europe instead of China, while Europe continues to take West African crude. The Middle East has perhaps been benefiting short-term with more Abu Dhabi and Saudi Arabian crude going to China. In terms of the impact on flat prices, if President Trump tweets that negotiations are going well, the market jumps $3/bl and if not, it drops by the same amount. But that is sentiment and not fundamentals. Although that type of volatility is not ideal, it's totally unpredictable.**

Moderator: ***So, there's no tangible opportunity for traders to capitalize on then? Are they shifting their focus at all on what products to trade over others?***

Thomas Waymel: **A trading company must continuously look for opportunities and sort out the imbalances created by the market and those are there today as a result of the trade war, the most recent being the tariff by China on US crude. Flows will always be rearranged, creating a new optimum and that is an opportunity for trading houses. But, there's good and bad volatility. If it's volatility like an unexpected and significant strike on Saudi Arabian oil facilities, traders will be hurt.**

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along the New Silk Road will only lead to increased volumes.

Thomas Waymel: Shipping has been a bad investment for the last few years as there have been too many new builds. As a trader, you want to have long options, long storage and long ships. IMO 2020 may provide some respite with new flows expected to materialize, so the market has been pricing a stronger shipping for 2020. But on the other hand, we have a slowing global economy, which is stymying trade and is bearish for shipping rates.

Moderator: *There's a lot of investment going into refineries across the Middle East and into China itself. Can refiners still have peace of mind knowing that crude flows will not be disrupted on the back of the escalating trade war?*

Arif Mahmood: My main concern is that we don't see demand increasing and that means bad margins for refiners. One tactic has been to get closer to where markets are and take advantage of distance logistics. The other challenge at the moment for Asia is that there are a lot of changing specifications for products and many countries in the Association of Southeast Asian Nations (ASEAN) are behind. I don't see margins for refiners as very optimistic as we move towards IMO 2020 in January.

New Silk Road: *Flow of Funds?*

Moderator: ***As part of its Belt and Road Initiative (BRI), China is one of the biggest investors in new oil and gas infrastructure across the New Silk Road and beyond. How are countries like Singapore being impacted by the dynamics of the trade war? Is there a shift or refocus of Chinese investment? China has also been opening up its own economy to outside investors in the last few years to boost internal infrastructure.***

Roger Chia Kim Piow: **Singapore is very strongly dependent on investors and our GDP took a big hit in the second quarter of this year on the back of the slowdown in China and the global economy. China as a state is playing a very important part in eastern trading and that's where economies are being impacted. The energy storage and trading industry by itself will not be affected too much. Manufacturing businesses like electronics will be, for example. In general, China's BRI investment is continuing to take advantage of new centers of demand. Singapore's small and medium enterprises (SMEs) are also venturing into some of those same countries that offer opportunities.**

Arif Mahmood: **Energy security is key for China and when the trust of a free market is disrupted by excessive tariffs, countries secure supply either through partnerships or new investors. There will be an increase in the pace of investment to ensure this security through joint ventures. China is still growing at 6%, which is huge for a population of 1.2bn people. It needs to create new markets and the Middle East and Russia will increasingly become more important regions for that. The tariffs are also triggering a new dynamic in regards to innovation in China. It does not want to become reliant on any particular region or country like the US, so we are seeing this increased pace of innovative thinking on energy product flows, intellectual property (IP), software and technology.**

Moderator: *Are energy companies prepared for the long-term structural impact of the US-China decoupling?*

Thomas Waymel: Companies don't expect this to last; it will be resolved one way or another. We don't expect to be planning for a global meltdown of worldwide trade.

Arif Mahmood: The oil business has always been impacted with abrupt changes. Refiners, traders, shippers and storage companies have always been expected to adjust. Long-term, things will eventually normalize in this new trade dynamic, but that is not to say that we will continue as we are today. A new normal will have to be established.

**Edited transcript*