
China raises fuel prices which Sinopec and PetroChina gain

Thursday, 12 Nov, 2009

Bloomberg reported that China, the world second largest energy user raised gasoline, diesel and jet fuel prices for the first time in more than two months as crude costs climbed.

National Development and Reform Commission, China top economic planner said pump prices for 90 octane gasoline will be set at a maximum of CNY 5.98 a liter or about CNY 22.6 a gallon in Beijing. The price increases of as much as 8% boosted shares of China Petroleum & Chemical Corp and PetroChina Co, the nation two largest refiners.

The adjustment will be China fifth under a system introduced in December that keeps oil product prices in line with global crude costs and ensures refiners a profit. The Chinese government is raising prices as the economy expands at the fastest pace in a year, spurring fuel consumption and the international price of crude oil climbs.

Mr Gordon Kwan the head of energy research at Mirae Asset Securities said "If oil prices hover around current levels of USD 78 to USD 80 during the remainder of the year, we estimate Beijing will need to raise prices by another 5% to 8% on December 11th to ensure that refiners will enjoy USD 7 to USD 8 a barrel of gross margin. The price gain was in line with his expectation for an 8% to 10% increase at the pumps."

1. Inflation Boost

The reform commission said in May that China controls fuel prices to keep inflation in check. Under the new pricing mechanism, the government may adjust prices when crude oil costs change more than 4% over 22 working days. China has revised prices eight times since December, including today move, compared with two adjustments in 2008. In dollar terms, the increase will take the pump price of gasoline to about USD 3.31 a gallon in China compared with USD 2.68 in the US.

The commission said the fuel price increase will lift November's consumer price index reading by 0.12 percentage point. Still, it doesn't pose an inflationary risk.

Mr Ben Simpfordorfer chief China economist with Royal Bank of Scotland Group Plc in Hong Kong said "I was looking for inflation to return in November. That will make the return of inflation all the more quicker."

2. Fuel Surcharges

The commission said China's airlines will resume fuel surcharges on domestic flights after the price increase. Taxi drivers will be able to charge higher fare rates or add fuel surcharges to pass on the higher costs.

The relaxation of price curbs helped China Petroleum & Chemical Corp or Sinopec, post a record profit in the Q2. Q3 profit for Sinopec slipped 25% from the previous quarter as state set price increases lagged behind gains in crude costs.

The commission said the prices of gasoline and diesel will have risen by about 27% this year after the increase, while crude has doubled.

Crude oil for December delivery traded at USD 79.03 a barrel down 40 cents, in electronic trading on the New York Mercantile Exchange at 9:46 AM Singapore time. Prices have gained 77% since the start of the year.

3. Refining Margins

Mr Wang Xinhua Chief Financial Officer said Sinopec refining margins fell to USD 5.20 a barrel in the three months to September from USD 9.20 in the Q2 and the company's refining business incurred losses in September and October.

The commission said in the statement "The fuel price adjustment will encourage refineries to boost production and guarantee domestic supply. It will also help energy conservation and reduce emissions."

Mr Zhang Liquan a senior researcher at the State Council Development and Research Center said the increases will boost costs for manufacturers, farmers and airlines. Still, rising corporate profits and a recovering economy will help consumers cope with higher fuel prices. The world's third biggest economy may expand at a 9.5% annual pace this quarter.

(Sourced from Bloomberg)

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