Venezuela falls behind on oil-for-loan deals

HOUSTON/CARACAS: Venezuela's state-run oil company, PDVSA, has fallen months behind on shipments of crude and fuel under oil-for-loan deals with China and Russia, according to internal company documents reviewed by Reuters. The delayed shipments to such crucial political allies and trading partners - which together have extended Venezuela at least $55 billion in credit - provide new insight into PDVSA's operational failures and their crippling impact on the country's unraveling socialist economy.

Because oil accounts for almost all of Venezuela's export revenue, PDVSA's crisis extends to a citizenry suffering through triple-digit inflation and food shortages reminiscent of the waning days of the Soviet Union. The total worth of the late cargoes to state-run Chinese and Russian firms is about $750 million, according to a Reuters analysis of the PDVSA documents. At the end of January, PDVSA was late on nearly 10 million barrels of refined products that the company owes the firms - with shipments delayed by as much as 10 months, according to the documents. It also failed to make timely deliveries of another 3.2 million barrels of crude shipments to China's state-run China National Petroleum Corporation (CNPC).

Shipments to China and Russia are critical for PDVSA's financial health because firms from the two countries purchase about a third of the PDVSA's total oil and fuel exports. The administration of Venezuela president Nicolas Maduro has for years relied on credit from the two nations, particularly China, to finance infrastructure and social investment in Venezuela. PDVSA did not respond to requests for comment. Venezuela's Petroleum Ministry declined to comment.

During the decade-long oil boom that ended in 2014, Venezuela borrowed nearly $50 billion from China that it agreed to pay back in crude and fuel deliveries to state-run Chinese firms. Venezuela was the seventh largest crude supplier to China in 2016 and the largest in Latin America. Russia's state-run Rosneft lent at least $5 billion under similar arrangements, but the details of those deals have not been disclosed. Now, PDVSA is struggling to make good on those promises. A total of 45 cargoes bound for Russian and Chinese companies are late for a variety of reasons, according to internal operational reports about shipments of crude and refined products.

The problems include operational mishaps, such as refining outages and delayed cleaning of tanker hulls, and financial disputes with service providers owed money by PDVSA. The backlog of delayed or canceled fuel cargoes represents about three months of the 88,000 barrels per day (bpd) of jet fuel and diesel that PDVSA must deliver under financing deals to Russia's Rosneft, China's PetroChina and ChinaOil. Rosneft, the Kremlin and the Russian Energy Ministry declined to comment.

In Beijing, Foreign Ministry spokesman Lu Kang said China paid great attention to its relationship with Venezuela. "What I can tell you is that at present Venezuela's providing of oil to China to repay the loan is basically normal," Lu told a daily news briefing. PetroChina did not respond to requests for comment, and ChinaOil, a unit of PetroChina, declined to comment. The Chinese commerce ministry did not respond to requests for comment.

Operational, financial struggles

The delayed deliveries suggest that PDVSA will struggle this year to meet a planned increase in shipments to China and other countries, as laid out in a broad strategy document seen by Reuters. That document said PDVSA aims to boost crude deliveries to China by 55 percent in 2017, in part by reducing exports to India by 15 percent. Last year, the company produced about 2.5 million barrels a day, lowest in 23 years, and this year's production projections are virtually unchanged, according to the PDVSA strategy document. An internal PDVSA email exchange from Nov. — Reuters

Australia heat wave leads firms to power down

SYDNEY/MELBOURNE: Major energy users in Australia shut down yesterday, and the public were asked not to go home and cook or watch television, averting big blackouts amid strained supplies as an extreme heat wave moved from the desert interior to the east coast. The temperature climbed to 47 Celsius in parts of New South Wales (NSW) state and the Australian Capital Territory yesterday, while today is expected to see a record for the hottest February day on record.

The extreme heat caused power prices to soar to an unprecedented A$14,000 per megawatt-hour (MWh) as power stations struggle to meet skyrocketing demand for cooling. Authorities had been preparing to temporarily suspend power to selected areas of New South Wales late on Friday to prevent overload just days after 40,000 homes and businesses lost electricity in the state of South Australia.

But the Australian Energy Market Operator (AEMO) said late yesterday tight power supply conditions had subsided for the day, without power cuts to residents. "AEMO can confirm that residential load shedding was not required at any point throughout the day ... predominantly due to reduced electricity consumption across the state," it said in a statement.

Earlier, NSW Energy Minister Don Harwin urged households and businesses to save electricity. "Rather than going straight home and turning on the television and cooking, (you might) want to consider going to a movie, going out to a shopping centre, keeping the load low, every bit like that helps," Harwin told reporters in Sydney.

A paper mill, water treatment operations and Australia's largest aluminium smelter, Tomago, were among businesses that halted operations to conserve energy, with many industrial users required to do so under their contracts. The Tomago smelter, which exports to Southeast Asia, Japan and China, is the single largest consumer of electricity in NSW and is jointly owned by Anglo-Australian group Rio Tinto and Oslo-based Norsk Hydro.

Too hot for ice cream

Weather forecaster Olenka Duma said a build-up of heat in the vast interior outback was being pushed east across NSW, the country's most populous state. "It was like the windows and doors were closed for a long time, and now a weather front has dragged the hot air here," Duma, an official of the Bureau of Meteorology, told Reuters. It was even too hot for ice cream."I'm not doing any business today, I'm just sitting in the air-conditioning at home," said Ned Qutami, owner of six mobile ice cream bars in Sydney. — Reuters

Robust China trade data boon for Asia

Protectionist risks loom

BEIJING: China posted much stronger-than-expected trade data for January as demand picked up at home and abroad, an encouraging start to 2017 for the world's largest trading nation even as Asia braces for a rise in US protectionism under President Donald Trump. Trump criticised China, Japan and Germany last week, saying the three key US trading partners were engaged in devaluing their currencies to the harm of US companies and consumers.

But he has not followed through yet on threats to label China a currency manipulator and slap heavy tariffs on Chinese goods, and took a major step on Thursday to improve ties by holding a phone call with President Xi Jinping. "China's trade data are going to be pretty good in the first part of this year because of the very good run that we had in the last part of 2016," said Louis Kuijs, head Of Asia economics at Oxford Economics in Hong Kong. "The worry we have is really about US trade policy, which is undeniably turning more protectionist...It is pretty obvious to me that the climate for exports to the US is going to be much harsher in the coming years."

China's imports in January rose at the fastest pace in four years, fueled by a continued construction boom which is boosting demand and global prices for resources from copper to steel, preliminary customs data showed yesterday. The 16.7 percent bounce easily eclipsed an expected rise of 10.0 percent in a Reuters poll. China's imports from the United States rose 23.4 percent in January, the fastest pace in at least a year, while its monthly trade surplus with the US dipped to $21.37 billion.

Both Chinese and US data show China's surplus with the US narrowed last year, but it remained well above the sustained level of more than $20 billion that is one of three criteria used by the US Treasury to designate another country as a currency manipulator. The surplus decreased $20.1 billion to $347.0 billion in 2016, the US Commerce Department said Tuesday, while Chinese data put it somewhat lower. Led by electronics, China's January exports climbed the most in almost a year, adding to evidence that Asia's long trade recession may be bottoming out.

BEIJING: A vendor smiles as he waits for customers at a market yesterday. — AFP

January shipments rose 7.9 percent, more than twice as much as expected, after 2016 exports slumped nearly 8 percent. China had been lagging a recent export recovery seen in Japan, South Korea and Taiwan, dragging on the regional supply chain. Its integrated circuit shipments rose 14.5 percent last month, while exports of mobile phones rose 7.9 percent. That left the country with a initial trade surplus of $51.35 billion for the month, the highest in a year. Customs is due to release updated data for trade on Feb 23.

"The export outlook for China is good, except for the potential risk of a Sino-US trade war. The most important risk for China is what the Trump administration will do," Jianguang Shen, chief economist at Mizuho Securities in Hong Kong. China watchers warned the long Lunar New Year holidays may have distorted the data to some degree, with companies pumping up production or rushing to build inventories before the break, which can last for weeks. But most economists agreed the trend backed the view that manufacturing demand is improving in China and globally. — Reuters