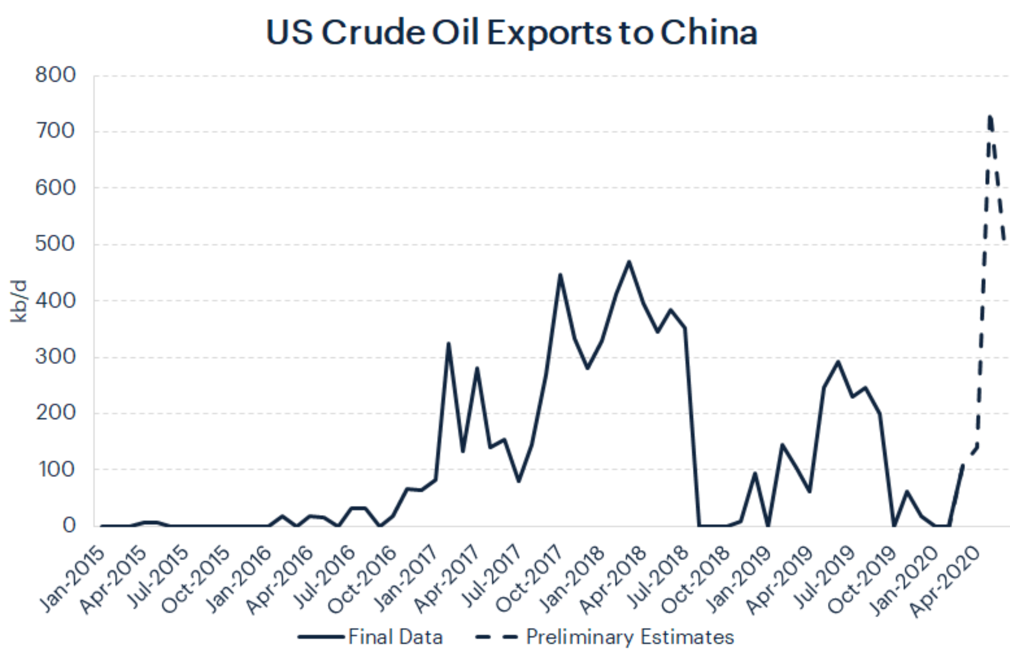
***** Recent surge in China's US energy purchases will continue through the summer as Beijing seeks to appease Trump by hitting Phase 1 trade targets, but potential Hong Kong/COVID sanctions and Trump's weakening poll numbers risk a pullback this fall.** Beijing sharply increased purchases of US energy commodities starting in March to demonstrate its commitment to the Phase 1 trade deal. We expect that surge will continue, but with two caveats: (1) purchases will occur primarily in the spot market, as Beijing wants to avoid long-term contractual obligations until it's confident Trump will be re-elected; and (2) if it appears Trump will lose in November, Beijing will slow all Phase 1 purchases in anticipation of a Biden administration. Along with accelerated purchases of Iranian crude and regulatory headwinds for US shale, diminished Chinese purchases of US energy is one of the key overlooked energy market impacts of a Biden victory (see our medium-term forecast highlighting differences between a Biden and Trump presidency).

- Early estimates indicate Chinese imports of US crude surged to 0.74 mb/d in May before settling at 0.5 mb/d for the first three weeks of June. That's up from a 1Q20 average of just 0.04 mb/d (EIA reports no exports of crude to China in January or February). If final data validates the May estimate, it will be ~60% higher than the previous record for US crude exports to China. We expect China to sustain purchases around May-June levels through September barring a sudden deterioration in US-China relations (see below).



Source: Rapidan Energy Group, EIA, TankerTrackers

- After 13 months of taking no US LNG, Chinese imports jumped to 17.7 bcf in March after Beijing issued waivers for its 25% tariffs enacted during the trade war. Since then, ~10 cargoes have arrived from the US in April and May.
- A similar story has unfolded in LPG, where suspension of Chinese tariffs in March ended an 18-month stoppage in US shipments. Press reports indicate Chinese imports of US LPG jumped to ~2.9 mb in April and doubled to ~5.8 mb in May.
- We expect Beijing to sustain the surge in US energy imports so long as officials believe Trump can win in November (through end-year if he does win) in order to claim compliance with the Phase 1 obligation to purchase $27.6 bn in US energy commodities this year. Should Trump

lose, however, Beijing will slow purchases and prepare for a Biden admin, which would put a higher emphasis on climate cooperation.

- Similarly, should the Trump administration impose meaningful sanctions on China related to Hong Kong autonomy or COVID-19 culpability (e.g. restricting Chinese banks' access to the US dollar and/or SWIFT or freezing SOE assets), Beijing would cut US energy imports back to 1Q20 levels, as such sanctions would essentially kill the Phase 1 trade deal.

1-5 star scale (1=FYI, 5=high importance) reflecting probability an event significantly influences energy prices or assets.

Washington D.C.
insight@rapidanenergy.com