China Balloon Furor Increases Odds Congress Bans Beijing from Bidding on SPR Releases to 85% and Raises Risk of General Oil Export Ban to 20%

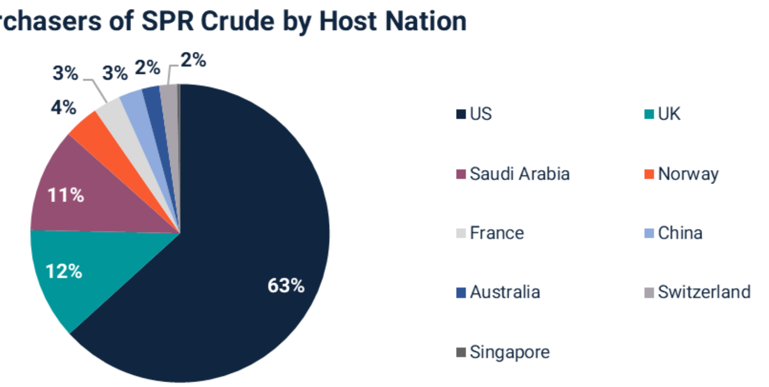
Public anger at China over the early-February balloon incident is galvanizing congressional support for retaliatory actions that will affect energy commodities. Odds are now 85% that a ban on SPR sales to China passes, likely by unanimous consent in the Senate. More importantly, Sen. Rubio's (R-FL) reintroduced bill banning oil exports to China may have legs, though for now, we would put enactment odds at 20%. If US-China tensions continue escalating, however (the latest risk being that China provides lethal aid to Russia, as Secretary of State Blinken warned over the weekend), then enactment odds would rise. Rubio's ban on crude and products would be *marginally* bearish for US crude producers and refiners because China accounts for 10% or less of total monthly oil exports. So far, restricting LNG or ethane exports to China is off the table and excluded in Sen. Rubio's bill. But banning LNG remains under discussion in Washington. Color:

Banning SPR sales to China is now very likely (85%) but minor for markets

In January, the House passed a bill banning SPR sales to China with a large, bipartisan majority (331-97). The Senate has yet to hold a vote, although Maj. Leader Schumer suggested adding the likes of North Korea and Russia to the list (see our Feb 3 Weekly Bullets). We understand that the passage of a China SPR sale ban, likely by unanimous consent, is largely a matter of time, and we are raising our odds of enactment from 70% to 85%.

The impact of banning SPR sales to China on oil markets is minor. DOE does not plan to conduct any additional drawdowns after this year's 26 mb mandatory sale (see our Feb 13 Bullet). Instead, they plan to refill 60 mb over the next two years (see our Jan 26 Brief). Of course, if pump prices roof above $4 per gallon again, the White House could order more emergency releases.

Even if there were more releases, China is only a small buyer. A recent CRS report found that since FY17, just 7.5 mb of a total 296 mb released from the SPR were sold to Chinese companies. As such, a ban on sales to China – or a broader ban on sales to China, Russia, Iran, and North Korea – would be symbolic and have no market impact (see our Feb 17 Weekly Bullets).



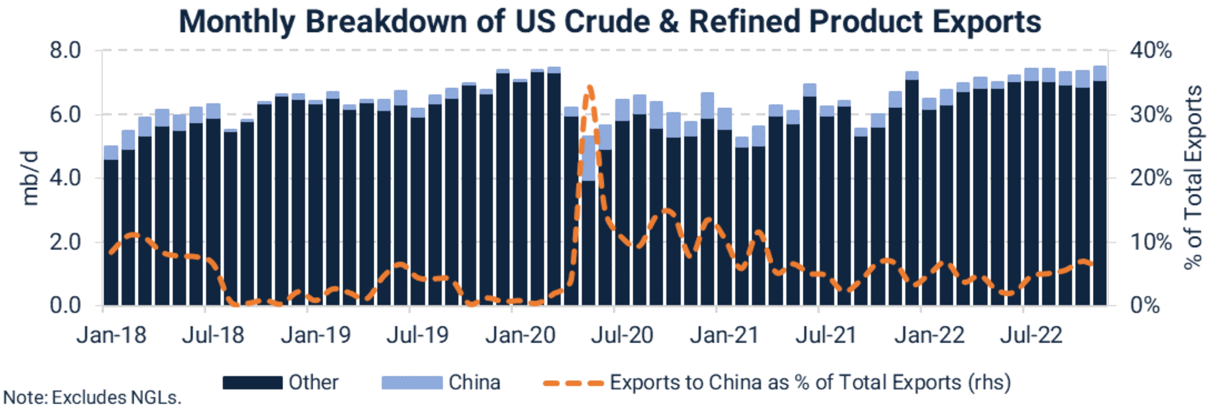
Source: Rapidan Energy Group, CRS

Sen. Rubio's bill banning oil exports to China may have legs – we assign 20% odds with upside risk if congressional anger at China keeps rising

We doubt Rubio's bill will pass on the above-mentioned unanimous consent because at least one Senator would oppose it on the grounds that it will hurt US oil producers and refiners. More likely, Sen. Rubio's bill would ride on a must-pass bill later in the year or possibly a broader anti-China bill. Our 20% odds are skewed up and would rise if the balloon furor was followed by additional escalatory provocations.

- Rubio introduced the same bill last year, but it only won the support of fellow Floridian Senator Rick Scott (R-FL) and went nowhere. The current version still has no Democratic co-sponsors, and many in Washington consider it to be largely for messaging. But, in the current, balloon-driven frenzy, banning all oil exports has better – although still low – odds of passing as part of a broader China retaliation bill later this year.

- From 2015 to 2021, the US exported ~0.2 mb/d of crude to China (10% of total crude exports) and ~0.2 mb/d of refined products – largely NGLs (4% of total refined product exports). However, Sen. Rubio's bill excludes NGLs, which would exempt between one-third and one-half of product exports to China from the ban.
- While China's share of US oil exports is small (~6% of combined crude and product exports excluding NGLs – see chart below), on the margin, a ban would be negative for US producers and refiners, as their pool of willing buyers would shrink.

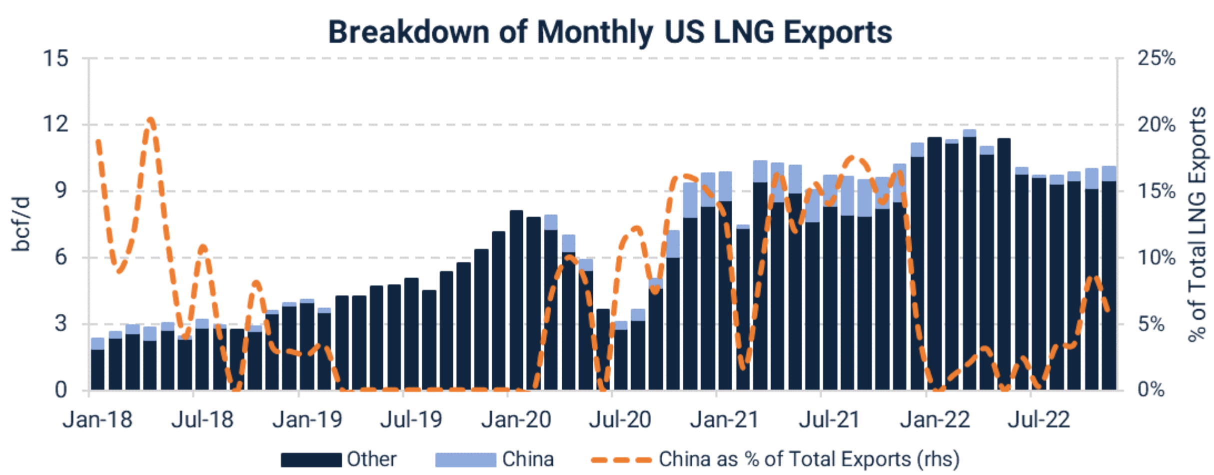


Note: Excludes NGLs.
Source: Rapidan Energy Group, EIA

No talk of LNG so far, but that option continues to float around in Washington

Democrats in particular could back a bill restricting LNG because they see it as a twofer: In the short-term, it would keep US natural gas prices from rising compared to prices around the world, giving US manufacturers a competitive edge and helping consumers; in the long term, it would hurt investment in the US natural gas sector, supporting their decarbonization priorities.

Rubio has previously called for 'extra scrutiny' of US LNG sales to China in response to pressure from Industrial Energy Consumers of America (IECA), which advocates on behalf of US manufacturing interests. On October 7 of last year, IECA wrote to the Senate Select Committee on Intelligence recommending that long-term US LNG contracts with China be prohibited and spot sales restricted. But banning sales of LNG, unlike crude oil, would have a more concentrated impact on a small number of US LNG companies - some that have sales arrangements currently in place with Chinese buyers and others that have signed contracts with Chinese buyers to underpin investment in new export capacity. The potential damage to these companies' commercial interests makes an export ban on LNG harder to justify.



Source: Rapidan Energy Group, EIA