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Top News - Oil

Russia's Lukoil reaches deal to sell Italian refinery

Russia's Lukoil has sold its Italian refinery to a group of firms backed by a major trading house in its first significant asset sale since Moscow's invasion of Ukraine, the companies said on Monday.

Since its inception following the collapse of the Soviet Union, Lukoil had been one of the most active western asset-buyers of Russian companies, but these overseas assets became problematic after the West imposed broad sanctions on Russia in response to Moscow's invasion of Ukraine.

The sale of the plant to a group led by Cypriot private equity firm G.O.I. Energy and backed by Geneva-based Trafigura, caps months of talks and can be viewed as a partial success given disorderly processes elsewhere as Moscow and the West confiscate each other's assets.

Global sanctions have frozen around $300 billion, almost half of what Russia had in its gold and forex reserves, though Lukoil has not been directly targeted by Western sanctions.

The sale process is in contrast to Germany's confiscation of Rosneft's Schwedt refinery and Gazprom Germania, or Russia's takeover of Sakhalin 1 from Exxon Mobil.

G.O.I. Energy is run by Michael Bobrov, who is also CEO of Israeli firm Green Oil that holds a major stake in Israel's biggest refiner Bazan Group.

Trafigura will provide some financing and handle crude oil supplies and refined products output, the companies said. Trafigura will not hold a stake in the plant.

The deal marks an expansion into the refining sector for Trafigura that concluded a similar deal with Prax in 2021 for a refinery in Britain. Trafigura also holds a 3% stake in Italian refiner Saras, an indirect stake in India's major Nayara refinery and runs two small refineries via its subsidiary Puma Energy.

The ISAB plant in Sicily refines 320,000 barrels per day of crude, accounting for a fifth of Italy's refining capacity, and directly employs about 1,000 people in an economically depressed area in the country's southernmost region.

In a statement, the companies said the deal was expected to close in March. They did not provide a value for the deal. Earlier price discussions with other bidders were just under 1.5 billion euro ($1.61 billion).

The agreement to sell the plant needs approval from Italy's government, which under what are known as golden power regulations, reserves the right to block or impose conditions on deals involving companies deemed of strategic importance.

"The government will demand commitments in terms of converting the plant to green energy and its industrial revitalisation," Italy's industry ministry said in a statement, adding guarantees on jobs would also influence Rome's assessment.

COLUMN-China's reopening isn't a one-way bullish street for crude: Russell

There is a rather simple narrative gaining currency in the crude oil market that China's re-opening from COVID-19 is bullish for prices.

But the problem with one-dimensional views is that they ignore the myriad of other factors at play in the world's biggest importer of crude.

Some of these are indeed bullish, others perhaps not so much, but the overall message is that China's oil demand is not quite as locked in as the market appears to think.

The latest cog in the bullish machine is China granting a second round of 2023 crude oil import quotas, which are 20% above what was made available to refiners at the same time last year.

According to a document from the Ministry of Commerce, reviewed by Reuters on Monday, 44 mostly independent refiners were given 111.82 million tonnes in import quotas, adding to a first round of 20 million tonnes in 2023 quotas granted in October last year.

The theory is that refiners are being allowed to import more crude in order to meet any increase in domestic fuel demand, but more importantly, to allow them to increase exports of refined fuels.

Boosting product exports is in some ways an easy economic stimulus for Beijing, as it allows refiners to capture some of the strong margins for refined fuels in Asia and the rest of the world, particularly for diesel.

China has already increased export quotas for refined products, with 18.99 million tonnes issued already, up 46% from the same period last year.

The question then becomes if China does increase crude oil imports, is it still bullish if much of the extra volumes are being exported in the form of refined fuels?

The answer is while any increase in China's crude oil imports may drive crude oil prices higher, a corresponding increase in fuel exports may weaken regional refining margins.

If margins for refiners outside China drop, it becomes possible that they will lower processing rates and demand less crude.

In other words, there are many moving parts to the overall balance between China's crude import demand and regional fuel markets.

RUSSIAN CARGOES

Another question to ask is where is China sourcing its crude from, especially now that Russian oil is largely disconnected from global markets as a result of the Group of Seven nations price cap and the European Union ban on imports.

If China's independent refiners boost crude oil imports mainly from Russian crude, is that still bullish for oil prices linked to the main global benchmarks of Brent and West Texas Intermediate?

China's crude imports for December were assessed by Refinitiv Oil Research at 10.93 million barrels per day (bpd), down from 11.42 million bpd in November, but up from October's 10.20 million bpd.

Saudi Arabia regained the top supplier slot with 1.85 million bpd in December, ousting Russia, which supplied 1.51 million bpd.

Russia and Saudi Arabia have tag-teamed as China's biggest supplier since the middle of last year, when Chinese refiners stepped up purchases from Russia amid steep discounts as Western buyers shunned its oil following Moscow's Feb. 24 invasion of Ukraine.

China has the capacity to increase imports of Russian crude, even from the country's distant western ports, given its access to tankers. That means independent refiners may use their import quotas to buy cheaper Russian cargoes, rather than rely on traditional suppliers in the Middle East, Africa and the Americas.

CRUDE IMPORTS RECOVERING?

Another point is that so far there is little evidence that China's crude oil imports are recovering.

While November was a strong month, December wasn't especially robust and January is looking modest as well, with Refinitiv expecting sea-borne volumes to be lower this month than in December amid signs of a weaker manufacturing sector.

Of course, physical oil is generally bought several months ahead of actual delivery, and so far traders aren't reporting a surge in demand from Chinese refiners, rather a picture of imports from countries other Russia being steady.

Much will depend on prices, as China has in the past shown a willingness to use commercial and strategic inventories to reduce imports, even if these moves aren't discussed publicly.

China doesn't disclose its stockpiles, but it likely added to inventories in 2022 even as total crude oil imports declined.

An estimate of oil flowing into storage can be made by subtracting the volume of crude processed from the amount available from imports and domestic output.

For the first 11 months of last year this was around 700,000 bpd, meaning Chinese refiners likely have the ability to draw on inventories should they deem crude prices have risen too high.

China's crude oil demand isn't necessarily a one-way bullish street, even if the re-opening from COVID-19 is a success.

Rather, what's important is the interplay between crude imports, inventory builds, prices and refined fuel exports, not to mention the wider state of China's and the global economy.

Top News - Agriculture

Brazil's soybean harvest off to slow start -AgRural

Harvesting of Brazil's 2022/2023 soybean crop had reached 0.04% of the national planted area on Thursday last week, compared with 0.2% at the same time a year earlier, agribusiness consultancy AgRural said on Monday.

The consultancy cited disruption to field work because of wet conditions in states including top soybean grower Mato Grosso.

Additionally this year, the soy harvest in Parana state will start later because of lengthening of the crop cycle in the west and southwest, where cloudy weather at the beginning of the season slowed plant development.

In Brazil's southernmost state of Rio Grande do Sul, where planting of the last soybean areas is still in progress, the hot and dry weather is worrying farmers, but there is still no definitive confirmation of crop failure.

The same cannot be said of summer corn sown in the region, where the heat wave is expected to spoil part of the crop, AgRural said.

Brazil has harvested 2.3% of the country's center-south corn area, below the 3.1% at the same time last year.

If hot and dry weather persist throughout January, Brazil's soybean production potential will be reduced in Rio Grande do Sul as well, AgRural said.

In the rest of the country, the crop is developing well so far and good soybean yields are expected.

In mid-December, AgRural estimated Brazil's soy production at a record 153.6 million tonnes for 2022/2023. A new estimate will be released in mid-January.

COLUMN-USA, former wheat giant, posts a 40-year export low as demand sags -Braun

Wheat exporters in the United States, formerly the world’s breadbasket, ended 2022 on the lowest note in over four

decades as short supplies and cheaper overseas competition continued pushing U.S. wheat aside.
The paltry shipment volumes are not necessarily disappointing considering expectations, and the new year may bring some better luck to exporters as U.S. supplies may build in 2023.
Only 85,672 tonnes of U.S. wheat were inspected for export in the week ended Dec. 29, the smallest on record for any week in data back to January 1983. That breaks the prior low of 127,306 tonnes set in late December 2008.
That number was originally published last week, but no adjustments were made on Monday morning, meaning the record is more likely to stand. The meager performance continued into 2023 as preliminary wheat inspections for the week ended Jan. 5 totaled 201,673 tonnes, the lightest for that week in more than 40 years.
The United States was gripped by a frigid Arctic blast in late December, affecting transportation and commerce. But wheat inspections had already flirted with record lows in the prior months amid very thin demand.
The U.S. Department of Agriculture already projects 2022-23 U.S. wheat exports at a 51-year low of 21.1 million tonnes (775 million bushels). Late fall through winter is also the slowest period for shipments.
That volume is 26% lower than in 2016-17, the last time the United States was the world's leading wheat exporter. It is projected at No. 4 in 2022-23 with a record-low 10% share of global shipments.
One positive for U.S. wheat is that in recent years, exports have declined by a lesser degree than production. Another plus is that exporters got a leg up in the first half of the current marketing year, perhaps leaving room for the weak December showing without needing to further shrink exports yet.
Through the first half of 2022-23, which began on June 1, U.S. wheat exports covered 54% of USDA's December forecast. That is a nine-year high and a few points above average.
Recent shipments have been limited by poor export sales, which are at more than 20-year lows for the date with plentiful, cheaper wheat in rivals like Russia, Canada and Australia commanding market share.
But so far in 2022-23, cumulative U.S. wheat exports as a percentage of total sales are near historical averages, meaning shipments have not been relatively worse than demand levels would suggest.
MORE WHEAT IN 2023?
U.S. wheat supplies have contracted after two disappointing harvests, driven by both low area and yield. Analysts peg U.S. wheat stocks as of Dec. 1, the halfway point of 2022-23, at 1.344 billion bushels, a 15-year low for the date and down 2.5% from a year ago.
But stocks may have bottomed out this year if planting ideas are realized and the weather cooperates. USDA on Thursday will publish U.S. winter wheat seedings for the 2023 harvest, and the average trade guess of 34.485 million acres would be a seven-year high, up 3.6% on the year.
Widespread drought still threatens much of the U.S. Plains and crop health is low, raising yield risks. However, things are heading in the right direction as 64% of all U.S. winter wheat areas were covered by drought last week, down from the November peak of 75%.
Winter wheat drought coverage was 65% at the start of 2022 and 32% the same week in 2021.

Top News - Metals

Alcoa's Australia unit flags 30% production cut at alumina refinery

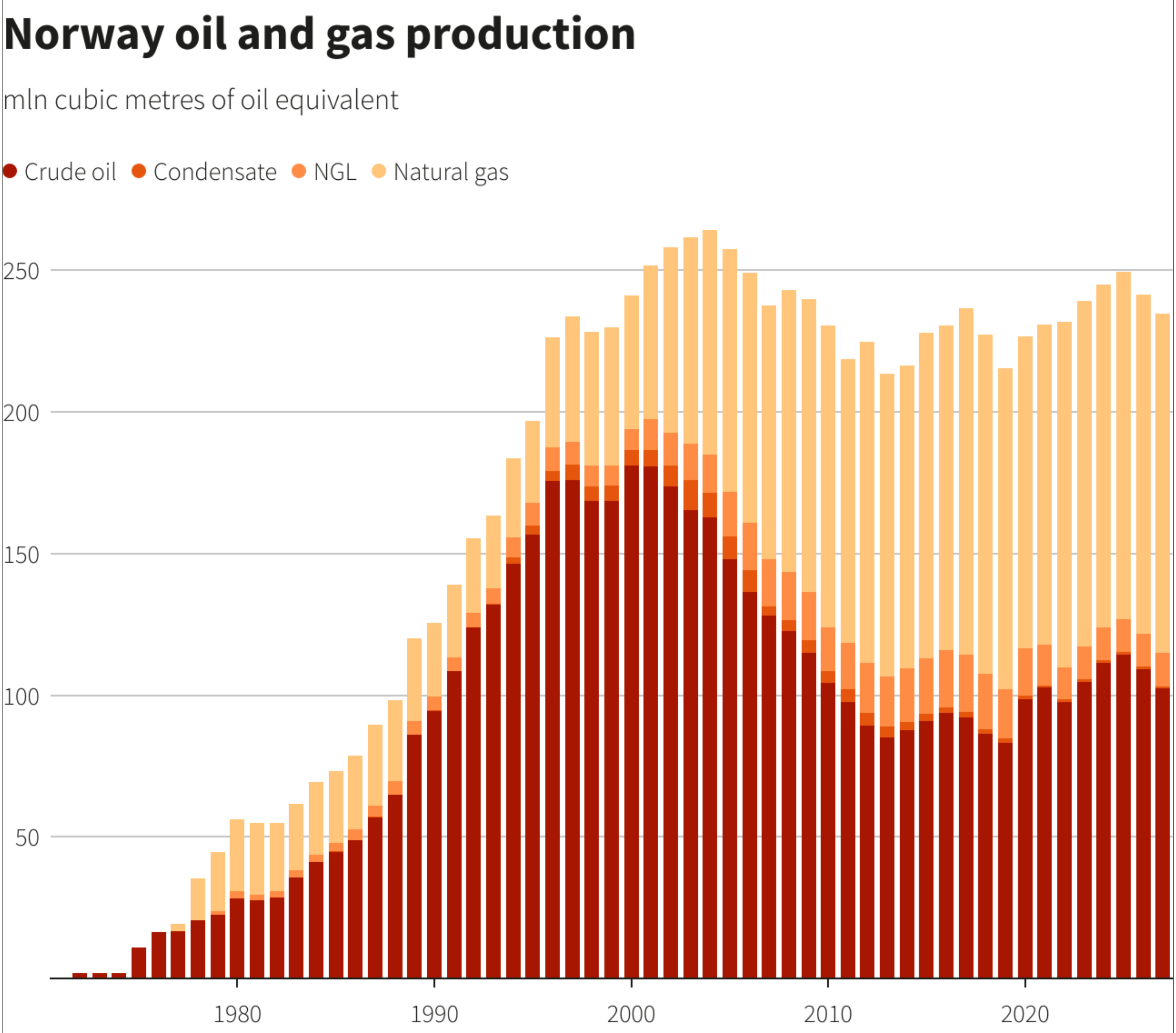
Aluminium producer Alcoa Corp said on Monday it expects production at its partially owned Kwinana alumina refinery in Western Australia to be cut by about 30% due to a shortage of gas supply.
A unit of the refinery, majority owned by Alcoa in a joint venture with Alumina Ltd, has been taken offline, hitting process flows, the aluminium producer said in statement.
Alcoa's Kwinana refinery - with a nameplate capacity of 2.2 million tonnes a year - has resorted to using diesel instead of gas for some of its operations, as a result of an ongoing gas shortage.
Gas supply into Western Australia has been cut due to an equipment failure that knocked out Chevron Corp's 215 terajoules a day Wheatstone domestic gas plant on Jan.5.
A Chevron Corp spokesperson said on Monday the Wheatstone plant was expected to resume production "in the coming days" and the company was working with customers, the regulator and the broader market to meet demand.
The Wheatstone outage came on top of a loss of supply from Santos Ltd's Varanus Island operation, which has been shut since late November due to a leak on a gas pipeline from an offshore platform.
Santos said in November the gas leak would be repaired within about six weeks. It had no further updates on Monday.
Alcoa did not set out a timeline for when it will resume full production.

COLUMN-New fund friends will find lead in unusually lively mood: Andy Home

Lead has just joined the commodity A-list, bringing a new set of players to a market that has been trying to rebalance supply and demand for two years.

Although commanding a weighting of just 0.936%, lower than any other industrial metal, lead is included in the Bloomberg Commodity Index (BCOM) for the first time this year.
Lead's entry in one of the most widely-tracked benchmark indices will generate a significant investment booster during the BCOM January roll window which starts on Monday.
The new fund flows arrive at a time of unusual volatility in what has historically been a relatively staid and stable market.
The London Metal Exchange (LME) three-month lead price has rebounded from a September low of $1,746 to a current $2,290 per tonne, partly thanks to its BCOM inclusion.
Depleted LME inventory, which has slumped to its lowest level this century as a two-year physical supply squeeze shows every sign of rolling into the new year, has also helped.

Chart of the Day



Note: 2023-2027 figures are forecast
Source: Norwegian Petroleum Directorate

STOCKED OUT

LME lead stocks fell by 54% to 25,150 tonnes over the course of last year. The headline figure has recovered slightly to 25,775 tonnes after some warranting activity last week at the Taiwanese port of Kaohsiung.

However, a string of cancellations in late December means that 64% of that metal is now awaiting physical load-out.

Live tonnage is just 9,225 tonnes, the lowest this century and equivalent to around six hours' worth of global usage.

Time-spreads are unsurprisingly volatile, the LME cash premium over three-month metal flexing out to $63 per tonne at one stage last week, its widest since December 2021.

The distribution of LME warehouse stocks says a lot about the underlying stresses in the physical supply chain.

All the remaining available volume is located in Asia with the bulk in Kaohsiung. There are no registered stocks in the United States and just 1,775 tonnes in Europe, all of it cancelled.

European and North American markets have been tight for over two years due to a sequence of smelter hits, most notably the loss since mid-2021 of the Stolberg smelter in Germany.

The International Lead and Zinc Study Group (ILZSG) estimates that refined lead production slid by 1.3% year-on-year in the first 10 months of 2021, pushing the global market into a 46,000-tonne supply deficit, compared with an equivalent 48,000-tonne surplus last year.

CHINA TO THE RESCUE?

China has emerged as a supplier of last resort to a stretched Western market.

The country was a modest net importer of refined lead in the 2017-2020 period but that changed in 2021 as exports mushroomed to 95,000 tonnes, the highest annual total since 2007.

The export surge continued last year with outbound shipments totalling 100,040 tonnes in January-November. They included a 15,000-tonne cargo to Turkey in January, an 11,000-tonne dispatch to the Netherlands in March and a 30,000-tonne shipment to the United States in June.

All are highly unusual destinations for Chinese exporters, attesting to the economic incentive created by positive arbitrage and high physical premiums.

However, the pace of exports appreciably slowed over the second half of 2022 with lower tonnages heading to more routine destinations such as Taiwan, South Korea and Vietnam.

Shanghai is no longer sitting on a mountain of lead. Stocks registered with the Shanghai Futures Exchange (ShFE) were over 200,000 tonnes in September 2021. They currently stand at just 37,925 tonnes.

Exports of refined metal have obviously played their part in that inventory reduction. But so too have exports of lead-acid batteries.

China's zero-COVID policy last year did not help vehicle sales, a core component of lead's usage profile. The China Association of Automobile Manufacturers (CAAM) in July cut its forecast for 2022 sales growth to 3.0% from 5.4%. Sales through November were tracking that forecast with 3.3% growth on 2021.

Chinese battery-makers have compensated by turning to the export market. Exports hit a record 199 million units in 2021 and were up another 10% year-on-year in January-November last year, more than offsetting any domestic weakness.

Battery export demand has helped underpin domestic usage, while the shipment of almost 200,000 tonnes of primary refined metal to Western markets over the last two years has left China's own inventories looking depleted.

It's highly uncertain if China has the capacity to keep plugging Western supply-chain gaps going forwards.

REBALANCING

The lead market that has been trying to rebalance for two years and the return of Nyrstar's Port Pirie smelter in Australia after three months of maintenance should help.

Still missing in action, though, is the 155,000-tonne per year Stolberg plant, which is in the process of being purchased by trade house Trafigura and which will be managed by Nyrstar. Although repairs to the 2021 flooding have been completed, a restart is dependent on regulatory approval of Trafigura's purchase which is still pending.

Lead demand, meanwhile, will be determined by the state of play in the automotive sector with Chinese recovery playing out against European recession.

It's worth remembering, though, that lead is in part insulated from the broader economic cycle by the need for replacement batteries, which tend to fail every few years, particularly in the sort of wintry conditions that have just hit North America.

What normally acts as something of a price cushion for lead may this year accentuate the continuing supply-demand imbalances in Western markets.

The ILZSG's most recent October forecast was for another consecutive year of supply shortfall in 2023 to the tune of 42,000 tonnes.

Lead's new fund friends could be in for a turbulent ride before a return to the more pedestrian performances of the past.

Top News - Carbon & Power

Norway expects jump in oil output and gas near record highs

Norway's oil output is expected to rise by 6.9% this year as the huge Johan Sverdrup field ramps up production while gas volumes are predicted to remain unchanged near record highs, the Norwegian Petroleum Directorate (NPD) said on Monday.

Production of crude oil and other petroleum liquids such as condensate is likely to increase to 2.02 million barrels per day (bpd) in 2023 from 1.89 million last year, NPD's forecasts show.

Norway last year overtook Russia as Europe's biggest gas supplier, with Equinor the top exporter, after Russia's Gazprom cut off much of the gas on which Europe previously depended.

Investment by oil and gas producers, including for exploration, is expected to rise to 189 billion Norwegian crowns ($19.1 billion) this year and peak at 202 billion crowns in 2025, up from 172 billion crowns in 2022, the NPD said in a statement.

Companies last year submitted more than a dozen plans for developing new fields or upgrading existing ones, aiming to produce a total of 1.6 billion barrels of oil equivalent over the investment's lifetime, with half the output being natural gas, NPD said.

"This will help to ensure that Norway can continue to be a reliable supplier of energy to Europe," said NPD Director General Torgeir Stordal.

Norway's combined oil and gas output is expected to rise to 4.12 million barrels of oil equivalent per day (boed) in 2023, up from a preliminary 3.99 million boed last year, the NPD's forecasts show.

Production is forecast to continue to rise in the following years, hitting a two-decade high of 4.3 million boed in 2025, just shy of a record 4.54 million barrels produced in 2004, before starting to decline gradually, the NPD predicted.

The country's gas output is expected to stay virtually unchanged in 2023 at 122 billion cubic metres (bcm), or 2.1 million boed, the NPD said, in line with a recent government projection.

"After 2030, we will depend on finding more resources to arrest the decline," Stordal said.

The NPD expects oil companies to drill about 30-40 exploration wells in 2023, compared with 32 last year.

UK slashes energy subsidies for businesses in 2023/24

Britain announced plans on Monday to scale back energy subsidies for businesses for the next financial year by about 85% to 5.5 billion pounds, after the government described the current level of support as "unsustainably expensive".

The current six-month programme of energy support that will expire at the end of March was predicted to cost 18.4 billion pounds when the government's budget watchdog published forecasts in November.

"My top priority is tackling the rising cost of living - something that both families and businesses are struggling with," finance minister Jeremy Hunt said in a statement. "That means taking difficult decisions to bring down inflation while giving as much support to families and business as we are able."

The finance ministry has been looking at ways to pare back the energy support packages as it tries to stabilise the nation's public finances after the political and economic turmoil under former Prime Minister Liz Truss's short-lived government.

The government said most businesses would receive a discount on their energy bills of up to 6.97 pounds per megawatt hour (MWh) for gas and 19.61 pounds per MWh for electricity between April 2023 and March 2024.

This is a different and less generous structure than the current programme, where the government set a maximum business tariff of 75 pounds per MWh for gas and 211 pounds per MWh for electricity, and compensates energy suppliers in case of higher wholesale rates.

Under the new programme, businesses rather than government will have to pay the extra costs if energy prices surge.

The new programme will include extra support for some energy-intensive businesses, mostly in manufacturing.

PRICE VOLATILITY

British natural gas prices began to pick up sharply in the second half of 2021, and soared after Russia invaded Ukraine in February 2022.

Prices have been extremely volatile since. Although they are now back around the same level as a year ago - and lower than when the current support package was announced - they are still several times higher than in early 2021.

Hunt said he was concerned that the benefit of falling prices was not being passed on to businesses, so he has written to the energy regulator Ofgem asking for an update on whether action is needed.

The government had originally been due to publish its proposals for business energy support before the end of 2022, but the decision was delayed, angering some businesses facing uncertainty over their energy bills.

Britain's Federation of Small Businesses said the reduced support was "a huge disappointment".

"Many small firms will not be able to survive on the pennies provided through the new version of the scheme," FSB National Chair Martin McTague said.
UK Steel - most of whose members will benefit from the extra support for high energy users - gave the programme a cautious welcome, but said it was still less generous than the aid Germany had offered to its steel producers.
"The government is betting on a calm and stable 2023 energy market, in a climate of unstable global markets, with the scheme no longer protecting against extremely volatile prices," UK Steel Director General Gareth Stace said.

Top News - Dry Freight

Ukraine grain exports down 29.6% at 23.6 mln T so far in 2022/23

Ukraine has exported almost 23.6 million tonnes of grain so far in the 2022/23 season, down from the 33.5 million tonnes exported by the same stage of the previous season, agriculture ministry data showed on Monday.
The volume included around 8.6 million tonnes of wheat, 13.3 million tonnes of corn and about 1.7 million tonnes of barley.
After an almost six-month blockade caused by the Russian invasion, three Ukrainian Black Sea ports were unblocked at the end of July under a deal between Moscow and Kyiv brokered by the United Nations and Turkey.
The government has said that Ukraine could harvest about 51 million tonnes of grain this year, down from a record 86 million tonnes in 2021, because of the loss of land to Russian forces and lower yields.

Traffic in Suez Canal normal after ship breakdown dealt with- SCA

Shipping traffic in the Suez Canal was proceeding normally on Monday after tugs towed a cargo vessel that broke down during its passage through the waterway, the Canal Authority said.
The breakdown was expected to cause only minor delays, with convoys of ships resuming regular transit by 11:00 local time (09:00 GMT), shipping agent Leth said.
The M/V Glory, which was sailing to China, suffered a technical fault when it was 38km into its passage southward through the canal, before being towed by four tugs to a repair area, the Suez Canal Authority (SCA) said in a statement.
The Suez Canal is one of the world's busiest waterways and the shortest shipping route between Europe and Asia.
In 2021, a huge container ship, the Ever Given, became stuck in high winds across a southern section of the canal, blocking traffic for six days before it could be dislodged.
The M/V Glory is a Marshall Islands-flagged bulk carrier, data from trackers VesselFinder and MarineTraffic showed.
It departed Ukraine's Chornomorsk port on Dec. 25 bound for China with 65,970 metric tonnes of corn, according to the Istanbul-based Joint Coordination Centre (JCC) overseeing Ukraine grain exports.
The JCC, which includes representatives from the United Nations, Turkey, Ukraine and Russia, said the ship had been cleared to carry on its journey from Istanbul after an inspection on Jan. 3.

MARKET MONITOR as of 07:18 GMT			
Contract	**Last**	**Change**	**YTD**
NYMEX Light Crude	$74.34 / bbl	-0.39%	-7.38%
NYMEX RBOB Gasoline	$2.30 / gallon	-0.09%	-7.30%
ICE Gas Oil	$883.00 / tonne	0.28%	-4.13%
NYMEX Natural Gas	$3.73 / mmBtu	-4.58%	-16.63%
Spot Gold	$1,871.79 / ounce	0.01%	2.60%
TRPC coal API 2 / Dec, 23	-	-	-
Carbon ECX EUA / Dec, 24	€85.17 / tonne	4.86%	-3.22%
Dutch gas day-ahead (Pre. close)	€73.15 / Mwh	10.30%	-3.20%
CBOT Corn	$6.50 / bushel	-0.46%	-4.24%
CBOT Wheat	$7.34 / bushel	-1.05%	-6.38%
Malaysia Palm Oil (3M)	RM3,934 / tonne	-4.47%	-5.75%
Index (Total Return)	**Close 09 Jan**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	291.81	1.48%	-3.16%
Rogers International	27.92	-0.02%	-2.62%
U.S. Stocks - Dow	33,517.65	-0.34%	1.12%
U.S. Dollar Index	103.0	-0.85%	-0.50%
U.S. Bond Index (DJ)	403.75	0.52%	2.34%

Picture of the Day

A view shows areas of an installed solar panel project by Mexican solar company Enlight at a client's company in Mexico state, Mexico. REUTERS/Henry Romero

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(Inside Commodities is compiled by Shoubhik Ghosh in Bengaluru)

For questions or comments about this report, contact: **commodity.briefs@thomsonreuters.com**

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