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## Top News - Oil

**G7 seeks two price caps for Russian oil products**

The Group of Seven (G7) coalition will seek to set two price caps on Russian refined products in February, one for products trading at a premium to crude oil and the other for those trading at a discount, a G7 official said.

The coalition - which consists of Australia, Canada, Japan and the United States, plus the 27-nation European Union - introduced a $60 per barrel price cap on Russian crude from Dec. 5, on top of the EU embargo on imports of Russian crude by sea.

From Feb. 5, the coalition will also impose price caps on Russian products, such as diesel, kerosene and fuel oil, to further reduce Moscow's revenue from energy exports and its ability to finance its invasion of Ukraine.

But capping oil product prices is more complicated than setting a price limit on crude alone, because there are many oil products and their price often depends on where they are bought, rather than where they are produced, the official said, asking not to be named.

Citing the example of diesel and kerosene that tend to trade at a premium to crude, while fuel oil typically sells at a discount, he said this was why the G7 was considering two price caps.

While keen to deprive Moscow of revenues, the coalition wants to avoid unbalancing the global energy market and raising prices for consumers in their own countries.

International oil prices gained some value after the original Dec. 5 price cap, because of fears of disruption, but have since retreated.

Russia has pledged not to sell oil to countries adopting the caps, which for Europe could be particularly complicated in the case of refined products.

Europe remains heavily reliant on Russian diesel, with volumes last month accounting for nearly half of the continent's total imports based on Refinitiv data.

Product prices depend on specifications, including sulphur and metals content. For example, low-sulphur fuel oil currently trades at about $150 a tonne above the high-sulphur variety.

Diesel prices are trading at a premium of $40 a barrel above Dated Brent prices, based on Reuters assessments.

**U.S. crude output and petroleum demand to rise in 2023 – EIA**

The U.S. Energy Information Administration on Tuesday raised its forecast for this year's crude output and petroleum consumption growth, projecting even higher growth in 2024.

The EIA projected that crude oil production would rise by 550,000 bpd to 12.41 million barrels in 2023, compared with its previous estimate of a 470,000 bpd rise.

Crude oil production is expected to rise by 400,000 barrels per day to 12.81 million bpd in 2024, the EIA said.

U.S. petroleum and other liquid fuel consumption is expected to rise by 170,000 bpd to 20.44 million bpd in 2023 and rise by another 190,000 bpd to 20.63 million bpd in 2024.

## Top News - Agriculture

**Brutal drought in Argentina seen ending in coming months, says grains exchange**

A drought that has parched Argentina's fields and slashed production of key cash crops is likely to break in coming months, though it could be March before rain and soil moisture levels fully return to normal, the Buenos Aires Grain Exchange (BdeC) said on Tuesday.

Argentina is one of the world's top food producers, but dry conditions over much of the past year have taken a toll on its key agricultural regions, delaying its soy and corn crops and halving wheat production this season.

"Precipitation will pick up, improving soil moisture reserves and moderating the intensity of heat waves, but the process will be slow," the exchange said in its monthly climate report.

"Only towards the end of March will the soils replenish their moisture reserves in most of the agricultural area," the BdeC added.

Argentine farming has been strained for three years in a row by the La Nina weather phenomenon, which for the 2022/23 season caused a particularly painful drop in rainfall.

As a result, the exchange expects the 2022/23 wheat harvest to reach just 12.4 million tonnes, down from the 22.4 million tonnes harvested the prior year.

While the summer season, which began in late December, is likely to bring relief, the fall season could bring El Nino in late March, the exchange said.

Unlike La Nina, the El Nino phenomenon could cause higher-than-usual rainfall in Argentina's agricultural provinces.

**India wheat harvest could hit record on higher planting area, favourable weather**

India's wheat production is set to jump to a record after all-time high prices prompted farmers to expand planting areas with high-yielding varieties and good weather conditions, scientists and traders told Reuters.

Higher wheat output could encourage India, the world's second-biggest producer of the grain, to consider lifting a ban on exports of the staple and help ease concerns over persistently high inflation in food prices.

"This year production could rise to 112 million tonnes because of the higher area and favourable weather," Gyanendra Singh, director at the Indian Institute of Wheat and Barley Research, told Reuters.

India, also the world's second-biggest consumer of wheat, banned exports in May 2022 after a sharp, sudden rise in temperatures clipped output, even as exports picked up to meet the global shortfall triggered by Russia's invasion of Ukraine.

India's wheat output fell to 106.84 million tonnes in 2022 from 109.59 million tonnes a year earlier, the government estimates.

The surge in wheat prices to a record despite the ban on exports of the grain indicates a far bigger drop in this year's output.

The U.S. Department of Agriculture's Foreign Agricultural Service has pegged production at 100 million tonnes, while traders estimated output fell to as low as 95 million tonnes because of a heatwave early last year.

This year, the weather in key wheat-producing states such as Uttar Pradesh, Madya Pradesh, Punjab and Haryana has been favourable with temperatures hovering below normal levels.

"The current cold wave is good for the crop's growth. Farmers have opted for newer high-yielding varieties which are more resilient to climate change," said Singh.

Farmers have planted wheat on 33.22 million hectares since Oct. 1, when the current sowing season began, up nearly 1% from a year earlier.

India grows only one wheat crop in a year, with planting in October and November, and harvests from March.

While the weather has been supportive for the crop so far, the temperature needs to remain on the lower side in February and March, said a New Delhi-based dealer with a global trade house.

"The sudden spike in temperature during February and March affected grain formation last year. Let's hope this year's weather remains cool," he said.

## Top News - Metals

**LME to decide nickel reforms by end of first quarter**

The London Metal Exchange (LME) said on Tuesday it will set out by end-March how it will implement recommendations to prevent market distortions and improve risk monitoring after a review into the nickel crisis last year.

Months after turbulence highlighted shortcomings in LME oversight, the nickel contract remains broken. Volumes and liquidity are sliding, leaving the nickel industry without a global reference price.

Worries about supplies from major producer Russia after it invaded Ukraine and the cutting of large short positions, or bets on lower nickel prices, culminated on March 8 in disorderly trade which saw prices double to above $100,000 a tonne in a matter of hours.

The world's largest and oldest metals forum annulled all nickel trades on that day, for which it is facing legal action, and suspended the market for the first time since 1988.

It appointed management consultants Oliver Wyman to carry out a review of the nickel trading debacle last June.

"It's a good and fair report, it clearly identifies things that we need to improve," LME Chief Executive Matthew Chamberlain told Reuters.

The recommendations build on measures the LME took shortly after the crisis, including 15% daily price limits and over the counter (OTC) position reporting for all physically delivered metals.

Recommendations include extending the LME's risk and control functions to identify and prevent market distortions, monitoring significant risks in the OTC market and tightening rules and enforcement processes.

Chamberlain said recommendation range from "fairly straight-forward implementation ... through to quite a lot of technical work" and that "implementation will be over a reasonably long period of time".

The report also recommends improvements to operational readiness for managing extreme events and stricter price volatility controls.

CONCERNS CONFIRMED

"The independent review has confirmed our concerns that the LME lacked the systems and controls to manage through the March 2022 nickel crisis," said Jennifer Han, Head of Global Regulatory Affairs at the Managed Funds Association (MFA).

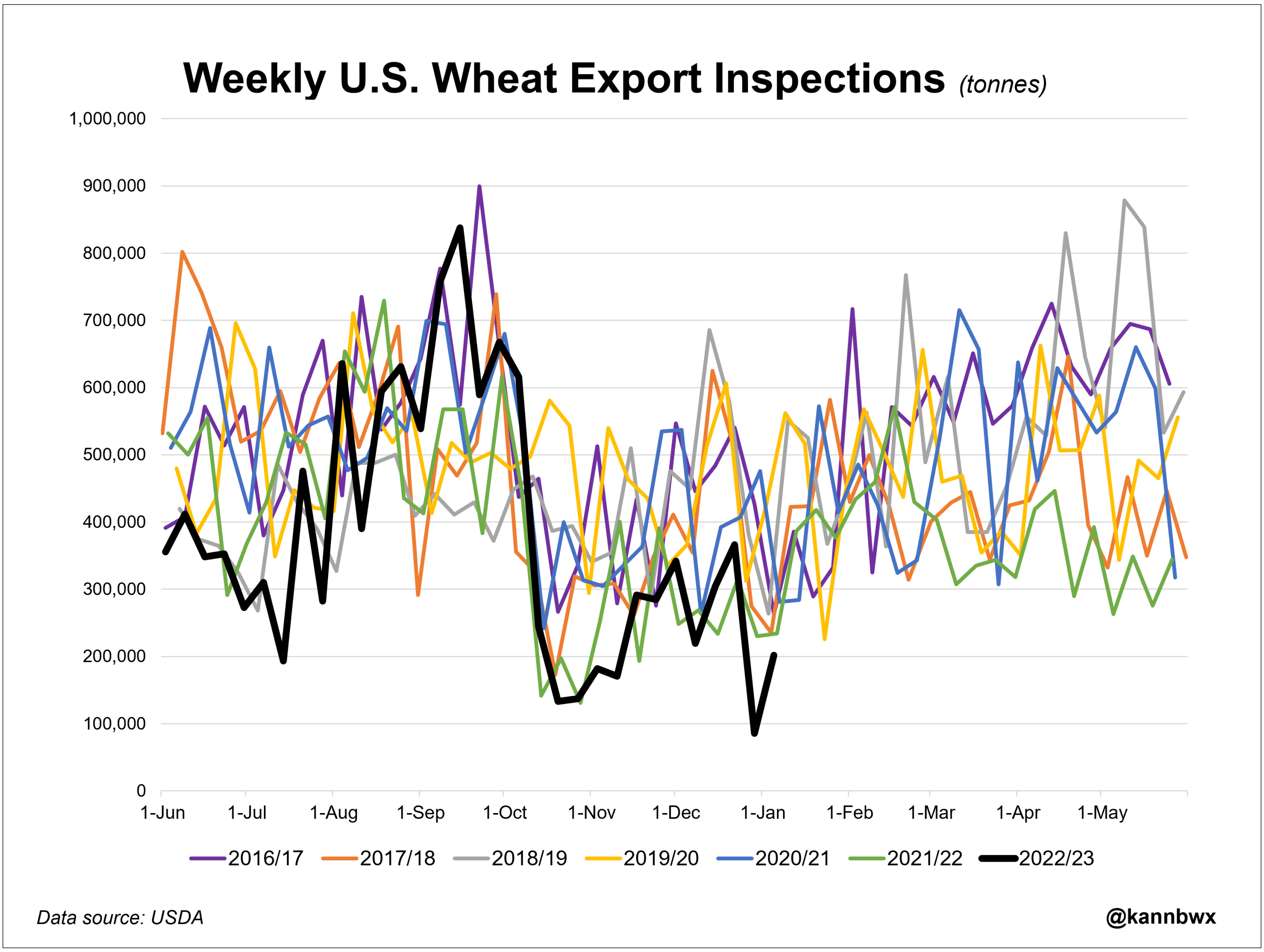
"It is essential that a robust regulatory review addresses how LME failed in its regulatory function."

The Bank of England and the Financial Conduct Authority in April launched a sweeping probe into the nickel trading halt.

Regulators said the episode underlined questions about the transparency of the 145-year-old LME and they would determine if further action should be taken.
The FCA is looking into how the exchange handled the situation while the BoE is looking into the LME's clearing house.
Part of the problem is that only about 21% of global production or 650,000 tonnes can be delivered against the LME nickel contract.
"The LME Nickel Committee will continue to explore whether any changes to the LME Nickel contract ... may be beneficial to the market," the LME said.
The exchange said it expects to soon announce the return of Asian nickel trading, which was halted in March last year, which it expects will help boost liquidity in the market.

**Panama says Canada's First Quantum operating without contract**
Panama's government on Tuesday doubled down on an order that Canada-based miner First Quantum Minerals halt operations at its local copper mine, saying the miner had been operating without a contract since 2017.
Earlier, First Quantum said it would submit an appeal against Panama's order by the end of the day.
The Panamanian government and the Canadian miner have been at odds for more than a year over a new deal in which the Central American government aims to raise annual mining royalties from First Quantum to a minimum of $375 million.
Panama's government ordered the firm last month to pause operations at its flagship copper mine after missing a deadline to finalize the deal.
On Tuesday, Panama's commerce and industry ministry said First Quantum had been operating without a contract

## Chart of the Day



after the previous one was annulled by the Supreme Court in 2017.
That court ruling was published in the government's official gazette in December 2021, but First Quantum continued operating as a new deal was negotiated.
First Quantum's Chief Executive Tristan Pascall said in a call with investors on Tuesday morning that following the Supreme Court decision, the government of Panama issued public statements "reaffirming that the contract remained valid."
He cited "the government's good faith engagement" with First Quantum and its local subsidiary.
On the call, Pascall said First Quantum was prepared to agree to, and in part exceed, the objectives that the government outlined in January 2022 concerning revenues, environmental protections and labor standards involved in a new contract.
But there are "more than a few disagreements" between the miner and the government, Panama's commerce and industry ministry said later in its statement.
"The parties disagree on certain fundamental issues," the ministry said, including royalties, depletion deductions, and international measures to mitigate tax evasion.
Pascall said current sticking points include legal protections against expropriation and early termination, as well as the long-term stability of the contract and royalties.
Panama defended the terms of the proposed new deal with First Quantum as being "in line with international standards", adding that the miner's recent proposals "have put more distance between both parties."

## Top News - Carbon & Power

**EXCLUSIVE-Shell energy transition prompted talks to sell Norway business**
Shell held talks with Harbour Energy to sell its Norwegian oil and gas fields last year but could not reach a deal due to gas price volatility and uncertainty over the long-term outlook, three company sources told Reuters.
London-based Shell has said it will focus its oil and gas operations in nine basins around the world, triggering a growing internal competition among assets as it aims to gradually reduce its oil and gas output and grow renewables and low-carbon operations to cut its greenhouse gas emissions.
A sale of Shell's oil and gas portfolio in Norway, where it has been for more than 110 years, would mark a continued retreat from the North Sea by the world's largest energy companies which are focusing investments on newer, more profitable basins.
Shell and Harbour Energy declined to comment.
Shell shares were little changed at 1145 GMT, while Harbour Energy's were up by 2.5%.
Talks with Harbour Energy, the largest British North Sea producer, reached an advanced stage towards the end of 2022, the sources said, just as Norway cemented its position as Europe's top natural gas supplier after Russia's invasion of Ukraine.
Shell and ConocoPhillips are the last two oil majors to operate offshore fields in Norway, while TotalEnergies only retains stakes in non-operated fields.
Negotiations with Harbour Energy included Shell's assets in Norway and its small-scale operations in Italy and several ageing assets in the British North Sea, the sources said.
Shell's new chief executive Wael Sawan, who succeeded Ben van Beurden on Jan. 1 after his nine year tenure, is not currently reviewing these assets, two of the sources said.

WINDFALL TAX
Harbour Energy, led by CEO Linda Cook, wants to expand its operations beyond the British North Sea after the government imposed a 35% windfall tax on oil and gas producers, bringing the total tax rate to 75%, one of the highest in the world.
Shell's hopes of expanding its oil and gas production in Norway were dealt a blow last year after partners in its Linnorm gas discovery could not agree on its development as a standalone field, sources said. It is also a partner in the Ormen Lange Phase 3 project, the country's second largest gas field.
British rival BP holds a minority stake in independent oil and gas firm Aker BP, the second largest Norwegian producer, while both Exxon Mobil and Chevron divested their offshore assets in Norway completely in 2019 and 2018, respectively.
Beyond oil and gas, Shell is involved in several major renewables and low-carbon projects in Norway including in offshore wind blocks, a biofuels plant and the Northern Lights carbon storage and use project.
Shell's annual report shows it held stakes in 21 Norwegian oil and gas production licences at the end of 2021, including a 17.8% stake in Ormen Lange, a 45% stake in the Knarr field and 8.1% of the Troll oilfield.
It produced around 13,400 barrels of oil per day (bpd) and 490 million standard cubic feet per day (scf/d) in Norway in 2021, around 7% of the company's total gas production.

**Russian gas transit via Ukraine lower amid warm weather in Europe – source**

Russian gas transit to Europe via Ukraine has been some 16% lower in the past week from previous levels amid mild weather in Europe, a source familiar with the data said on Tuesday, and as the region remains well supplied with gas from other sources.

Kremlin-controlled gas giant Gazprom has said that Russian daily gas deliveries via the Sudzha entry point through Ukraine to Europe have been at 35.5 million cubic metres (mcm) for the past five days, down from more than 40 mcm in the past few months.

Gazprom did not reply to a request for comment about why volumes have declined.

The source, speaking on condition of anonymity, said the lower volumes probably reflected record-high winter temperatures seen across much of Europe over the new year period.

Hundreds of sites have seen temperature records smashed in the past days, from Switzerland to Poland to Hungary, which registered its warmest Christmas Eve in Budapest and saw temperatures climb to 18.9 degrees Celsius (66 degrees Fahrenheit) on Jan. 1.

British and Dutch prompt wholesale gas prices mostly edged lower on Tuesday morning as continued milder weather curbed gas demand for heating and as liquefied natural gas (LNG) supply rose.

Europe's gas prices are slumping as the combination of mild weather and reduced industrial consumption has produced an unusual seasonal increase in inventories which threatens to overwhelm the storage system.

"NWE (North West Europe) is generally well supplied now with storages across Europe at more than healthy levels, so makes sense to slow down the take from Russia," Refinitiv gas analyst Marina Tsygankova said.

"Our assumption is that importers from January started to take less under remaining Russian long term contracts, as after the recent collapse of European spot prices Russian contracts are not in the money in January."

CONFLICT

Russian commodity exports have become increasingly politicised amid what Moscow calls its "special military operation" in Ukraine, now in its 11th month.

Russia's gas exports to Europe via pipelines plummeted to a post-Soviet low in 2022 as its largest customer cut imports due to the conflict in Ukraine and a major pipeline was damaged by mysterious blasts.

The European Union has spoken for years about cutting its heavy reliance on Russian energy, but it only started to get serious after the Kremlin sent troops into Ukraine in February.

Gas storage operators in Germany, which used to be Gazprom's largest consumer of gas, expressed optimism on Tuesday there would be no supply problems next winter due to declining consumption and said there was no chance of shortages this winter.

Milder temperatures for the time of year across much of Europe have meant gas stock levels have remained stable, rather than being drawn down as would normally be the case during winter.

Overall, Europe's gas stores were 83% full on Jan. 8, according to the latest data from Gas Infrastructure Europe, little changed from the end of last year.

Separately, Gazprom Mezhregiongaz, a branch of Gazprom responsible for domestic gas supplies, said on Tuesday that on Jan. 8 it saw a daily record-high of gas deliveries to Russian consumers for the past three years, or 1.74 billion cubic metres, due to low temperatures across many regions.

## Top News - Dry Freight

**Egypt's GASC books Russian wheat in tender - traders**

Egypt's state grains buyer, the General Authority for Supply Commodities (GASC), is believed to have booked at least 60,000 tonnes of Russian wheat in an international tender on Tuesday, traders said.

An additional 60,000 tonnes could be bought depending on the arrangement of bid bonds by the supplier Aston, traders added.

The World Bank, which is funding purchases from the tender, is believed to have approved the initial 60,000 tonne purchase late on Tuesday.

More detailed estimates of the quantities purchased and price are expected to be announced later this week but traders believe the cargoes were offered at a price of $337 per tonne on a cost and freight basis.

The state buyer was seeking an unspecified amount of wheat in an international purchasing tender as part of a World Bank-funded food security programme.

GASC said the tender was to supply 30,000, 40,000, 50,000, 55,000 or 60,000 tonnes on a C&F basis for shipment from Feb. 10-25 from any origin in the tenderbook. The wheat will be paid for at sight.

**Brazil's Anec says corn exports to China already exceeds 1 mln tonnes in January**

Anec, a Brazilian trade group representing grain exporters, on Tuesday said the country has booked shipments of more than 1 million tonnes of corn to China in January, putting Brazil on course to export a record overall volume in the current month.

Earlier in the day, Anec revised its Brazilian corn exports estimate for January to 5.024 million tonnes, up from 4.326 million tonnes forecast in the previous week, reflecting a surge in sales to China.
Chinese customs authorities updated a list of approved Brazilian corn exporters at the end of last year, a move that jump-started sales of the commodity to the world's second-largest economy.
A potential surge of Brazilian corn exports to China may also reshape global trade flows and result in fewer corn sales from farmers in the United States, the world's top corn supplier.

| MARKET MONITOR as of 07:17 GMT | | | |
|---|---|---|---|
| **Contract** | **Last** | **Change** | **YTD** |
| NYMEX Light Crude | $74.48 / bbl | -0.85% | -7.20% |
| NYMEX RBOB Gasoline | $2.32 / gallon | -0.79% | -6.59% |
| ICE Gas Oil | $896.00 / tonne | 1.41% | -2.71% |
| NYMEX Natural Gas | $3.63 / mmBtu | -0.14% | -18.79% |
| Spot Gold | $1,882.15 / ounce | 0.26% | 3.17% |
| TRPC coal API 2 / Dec, 23 | $171 / tonne | -7.44% | - |
| Carbon ECX EUA / Dec, 24 | €84.74 / tonne | 0.26% | -3.70% |
| Dutch gas day-ahead (Pre. close) | €68.07 / Mwh | -6.94% | -9.92% |
| CBOT Corn | $6.54 / bushel | -0.11% | -3.57% |
| CBOT Wheat | $7.28 / bushel | -0.48% | -7.70% |
| Malaysia Palm Oil (3M) | RM3,923 / tonne | -1.53% | -6.01% |
| **Index (Total Return)** | **Close 10 Jan** | **Change** | **YTD Change** |
| Thomson Reuters/Jefferies CRB | 291.25 | -0.19% | -3.35% |
| Rogers International | 27.83 | -0.32% | -2.93% |
| U.S. Stocks - Dow | 33,704.10 | 0.56% | 1.68% |
| U.S. Dollar Index | 103.24 | 0.23% | -0.28% |
| U.S. Bond Index (DJ) | 401.80 | -0.48% | 2.88% |

## Picture of the Day

*Electric pylons are seen at an Engie subsidiary Electrabel combined-cycle gas turbine power plant in Drogenbos, Belgium. REUTERS/Yves Herman*

The Financial and Risk business of Thomson Reuters is now Refinitiv.

(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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