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Top News - Oil

US oil refiners beat Wall Street bets, expect demand to grow in 2024

Major U.S. fuelmakers beat Wall Street's earnings expectations in the fourth quarter on strong refining margins and operating performance, and they predicted profits would rise again this year thanks to global demand growth.

For 2023, three of the biggest U.S. independent refiners - Marathon Petroleum, Phillips 66, and Valero Energy - posted combined adjusted earnings of $25.7 billion. While that beat forecasts, it was down from combined profits of $33.9 billion in 2022, when market disruptions from sanctions on Russia's energy industry drove record earnings.

Shares of Marathon are up 11% year-to-date, Phillips 66 is up about 9% and Valero has gained 8%, far outpacing the S&P 500 energy sector's slight decline so far this year.

"Investors have turned positive on refiners and metrics, especially for gasoline demand, look good," said Matthew Blair, a refining analyst at Tudor, Pickering, Holt & Co, in an interview.

Marathon posted a profit of $2.24 per share last quarter, while Phillips 66 earned of $3.09 per share and Valero earned $3.55 per share.

Refiners benefited from lower prices for U.S. crude oil during the quarter after Houthi rebel attacks in the Red Sea drove up freight costs. Crude prices are the greatest cost for refiners who process oil into transportation fuels, heating oil and other products.

"We had a period of time where you could export from the U.S. Gulf Coast to Northwest Europe crude in the low $2 a barrel range. That spiked to $6 a barrel," said Gary Simmons, chief operating officer for Valero.

"For our system, that is an advantage because it gives us a crude cost advantage versus our global competitors," he added.

Valero saw margins of $33 a barrel for ultra-low sulfur diesel in the U.S. midcontinent and north Atlantic and $24 a barrel on the Gulf Coast during the quarter.

For its part, Phillips 66 saw margins of $14.41 a barrel in the fourth quarter, down from $19.73 a barrel the same period last year as fuel prices weakened.

The company increased its yield of clean products by 2% to its highest levels since 2017.

U.S. crude is at roughly a $5 a barrel discount to the European Brent benchmark. The discount is expected to remain wide if tensions escalate in the Middle East.

GLOBAL DEMAND OUTLOOK

Globally, gasoline demand rose by 3% and distillate demand grew by 2% throughout the year, according to Brian Mandell, executive vice president of marketing of Phillips 66. Global gasoline demand is expected grow by 1% in 2024 while distillate demand will grow by 0.5%, he added.

The bump in global demand growth will keep encouraging U.S. refiners to focus on exporting fuels. U.S. petroleum product exports totaled nearly 6.0 million barrels per day in the first half of 2023, the highest ever for the first six months of a year, according to the U.S. Energy Information Administration.

The U.S. has also increased distillate exports to Europe, which previously imported sanctioned Russian diesel and heating oil. U.S. distillate fuel oil exports to Europe averaged 138,000 bpd in the first half of 2023 more than double the 56,000 bpd in the first half of 2022, according to the EIA.

Still, U.S. fuelmakers must compete with an additional 1.5 million barrels a day of global refining capacity to come online this year, more than the projected 1 million bpd of oil demand growth projected globally.

Startups of some of the biggest new refineries in the world, such as the 650,000 barrel per day Dangote refinery in Nigeria, should begin running at higher rates in the second half of 2024.

Any delays in such projects could squeeze supply/ demand balances, said Valero's Simmons.

Gasoline and diesel inventories, currently at or below their five-year averages, could also tighten as several large U.S. refineries shut units for heavy maintenance in the first quarter, executives said. This could boost fuel prices.

"We'd anticipate draws through the spring maintenance season that should take inventories even closer to last year's levels," said Mandell of Phillips 66.

Russia's refinery damage casts doubt on OPEC+ supply cut commitments

Damage to refineries from drone attacks and technical outages led Russia to export more crude than it planned in February, potentially undermining its pledge to curb sales under an OPEC+ pact.

Under the deal with the OPEC+ group of leading oil producers Russia is capping its crude oil production at 9.5 million barrels per day (bpd). It is also voluntarily reducing exports of crude oil and fuel by 300,000 bpd and 200,000 bpd of fuel respectively from the average May-June level.

Analysts say it would be hard for Moscow to stick to this as amounts of unrefined crude accumulate and Russia's ability to refine oil remains limited.

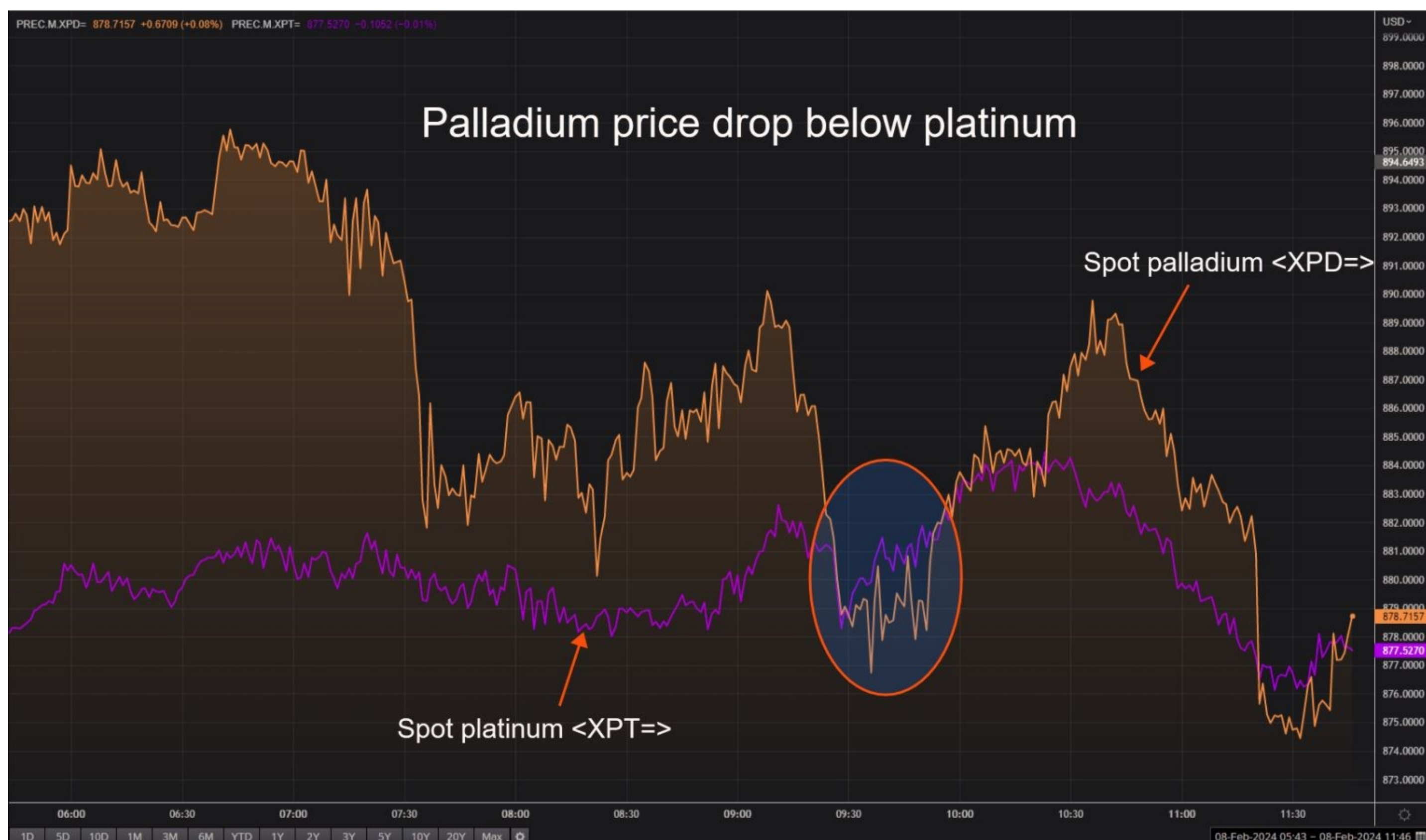
OPEC's office in Vienna has not replied to a request for comment, while Russia's energy ministry declined

comments.
There are already signs of increasing oil supplies from Russia. Oil loadings from the ports of Primorsk, Ust-Luga and Novorossiisk are seen up by some 0.7 million metric tonnes compared to the preliminary plan at 8.2 million tons (2.1 million barrels per day). "To the extent that gasoline and diesel exports contract, (one) would expect crude exports to rise," Ronald Smith from Moscow-based BCS Global Markets brokerage, said.
Russia's Tuapse refinery on the Black Sea will not resume operations until March, sources have said, citing damage from a Ukrainian drone attack.
Other incidents affecting Russia's energy infrastructure could also lead to additional oil exports in February, traders say. Drones attacks have damaged the Ust-Luga and Volgograd refineries in the Baltic and southern Russian in recent days.
That will result in exports of naphtha falling by a third or some 127,500-136,000 bpd, according to traders and LSEG ship-tracking data, while jet fuel exports could fall by some 20,000 bpd.
"If primary processing is declining, then - taking into account unchanged oil production and limited storage capacity - crude oil exports should rise. This would have a negative impact on the commitments to OPEC+ on crude oil," Alexei Kokin, an industry analyst, said.

Top News - Agriculture

Brazil farmer bankruptcy filings worry global grain traders
Brazilian grain exporters lobby Anec on Thursday warned it was concerned about a rise in farmer bankruptcy filings in the country, adding a recent increase in cases potentially compromises the execution of grain contracts.
The rise in farmer bankruptcy cases, which may affect delivery of committed grains throughout the season, may also hamper traders' ability to complete their export programs, Anec said.
Farmer groups, including Aprosoja-Mato Grosso and Aprosoja Brasil, did not have an immediate comment.
"Anec views with great concern the growth in the number of requests of judicial recovery," the statement said.
"Farmers have been offered - indiscriminately and often maliciously - the judicial recovery procedure as a means of renegotiation of debts and contracts," Anec said referring to loans and also soy and corn contracts.
Anec represents global grain merchants, including ADM, Bunge, Cargill, Louis Dreyfus Commodities and China's Cofco, among others.
Brazil is the world's biggest soybean producer and

Chart of the Day



exporter, and a major corn provider to clients in Asia, Europe and the Middle East.
In the current season, however, Brazilian grain production will be below expectations because of the negative effect of the El Nino weather pattern on crops.
El Nino caused a severe drought in the center-west of Brazil, reducing soy yields and production potential in the nation's largest farm state Mato Grosso.
Excessive rains in the South also hurt summer corn prospects in states like Rio Grande do Sul.
Overall, Brazil's total grain production will drop to an estimated 299.7 million metric tons this season, from 319.8 million tons in the preceding one, according to crop agency Conab.
Soy output, initially forecast at 162 million tons in 2023/24, will be 149.4 million tons, Conab said.
El Nino also compromised Brazil's corn.
In a fresh report on Thursday, Conab said Brazil's total corn production will fall by nearly 14% to a projected 113.7 million tons in the current cycle.

Palm oil buyers switch to cheaper rival oils, hampering price recovery
The rebound in palm oil prices is likely to be capped by abundant supplies of rival soyoil and sunflower oil, "soft" oils that are available at discounts to tropical palm oil for the first time in more than a year.
Benchmark Malaysian palm oil futures have risen nearly 5% in 2024 after losing 11% last year.
Primary competitor soyoil typically trades at a premium to palm oil, but a record South American soybean crop has driven down prices, and buyers are taking more soyoil shipments.
Soft oils production is rising while palm oil production is falling, driving divergent price trends, said Vipin Gupta, chief executive officer of Dubai-based trader Glentech Group.
"Higher prices are pushing away buyers from palm oil, which will limit the price rise," Gupta said.
Crude palm oil (CPO) imports are being offered at about $930 a metric ton, including cost, insurance and freight (CIF), in India for March delivery, while soyoil and sunflower oil are offered around $915 and $910 a ton, respectively, dealers said.
Palm oil, available at a discount of nearly $200 a ton to soyoil in November, is trading at premiums as dryness caused by an El Nino weather is limiting output in the two largest producers, Indonesia and Malaysia.
In India, the top vegetable oil importer, buyers are trimming palm oil imports and increasing soyoil for shipments in coming months, said Sanjeev Asthana, CEO at Patanjali Foods Ltd, India's top palm oil buyer.
Palm oil imports by India fell to their lowest in three months at 787,000 ton in January as soyoil purchases rose 24% to 190,000 tons.
India's soyoil imports could jump to 300,000 tons in March and further to 400,000 tons in April, while palm oil imports could fall to around 700,000 tons, said Sandeep Bajoria, CEO of Sunvin Group, a vegetable oil brokerage.
Negative refining margins for palm oil for Indian refiners contrasts with the positive margin in soyoil and sunoil, prompting increases soft oil purchases, said Rajesh Patel, managing partner at edible oil trader and broker GGN Research.
India buys palm oil mainly from Indonesia, Malaysia and Thailand, while it imports soyoil and sunflower oil from Argentina, Brazil, Russia and Ukraine.
Due to higher freight costs, palm oil is even more expensive for European buyers and is trading in Europe at a premium of up to $100 a ton over soyoil, canola oil and sunflower oil, said a Singapore-based dealer with a global trading house.

CORE DEMAND INTACT
While high prices are likely to squeeze household consumption, industrial demand for palm oil is likely to remain intact, the Singapore dealer said.
In Pakistan, palm oil is primarily used to make vanaspati ghee, a cheaper substitute for clarified butter, for which demand will persist, said Rasheed JanMohd, chief executive of Karachi-based Westbury Group.
Palm oil is expected to maintain its premium for at least a few months, as production in Indonesia and Malaysia declines and demand for biodiesel in Indonesia rises, said a Kuala Lumpur-based vegetable oil trader.
"Palm oil stocks are decreasing in producing countries, which will give them leverage to quote higher prices," the trader said.
Malaysia's palm oil stocks likely fell for the third straight month in January, a Reuters survey showed.

Top News - Metals

Palladium price drops below platinum for the first time since 2018
Spot palladium prices fell below those of sister metal platinum for the first time since April 2018 on Thursday, as growing demand concerns and bets on stable supply weighed on the metal.
By 1303 GMT palladium was down 2.8% at $869.6 per troy ounce, its lowest in five years, while platinum stood at $874.5.
Palladium fell by 39% in 2023 as its strong price growth in 2018-2022 caused the auto sector, accounting for 80% of demand for the metal, to start replacing it with cheaper platinum in the autocatalysts curbing harmful emissions.
The rising market share of battery-powered electric vehicles, which do not require any offgas treatment system, worsened the metal's prospects further.
"That means that demand will shrink while supply will remain more or less stable," said Henrik Marx, head of

precious metals trading at Heraeus.
Platinum depends less on the auto sector thanks to its use in jewellery and other industries.
"Palladium prices could easily spike on major supply headlines given the thin liquidity. But we consider such rallies as opportunities for producers to add more hedging positions and for speculators to open fresh short positions, as the long-term outlook remains very negative," Citi said in recent research.
Bets on stable future supply rely on the fact that the majority of mined palladium production comes in a basket with other metals, limiting producers' ability to slow palladium output even when the market price is below their costs.
South Africa and Russia account for 80% of global palladium mined output, with the rest mined in North America. Russia's main miner, Nornickel, will produce slightly less palladium this year, but no further reductions are planned, it said in January.
No major production cuts were announced during the African Mining Indaba conference in Cape Town this week, where a number of producers were present, though South African miners said they would cut costs.
"South Africa and America are not going to shut down production. That's the main conclusion," a source at a major miner told Reuters, referring both to palladium's Thursday price fall and the mood towards the end of the four-day conference.

Rivals Rio Tinto, BHP tie up in Australian 'green iron'

Mining rivals Rio Tinto, and BHP Group joined with Australia's largest steelmaker on Friday to announce a pilot "green iron" project to help cut emissions for steelmakers around the globe who rely on Australian iron ore.
Australia's two largest iron ore producers and BlueScope Steel, will study the feasibility of building a pilot ironmaking electric smelting furnace (ESF), the country's first, with a potential start date of 2027, according to a joint statement on Friday.
If successful, it could help slash the emissions involved in preparing iron for steelmaking. This "green iron" could help cut the carbon footprint of steelmakers around the world who rely on Australian iron ore.
The production of steel, a key material for infrastructure and the net-zero energy transition, currently contributes around 8% of global carbon emissions.
"The carbon intensity of iron and steelmaking requires profound change to meet the needs of our planet and our climate objectives," Rio Tinto Iron Ore Chief Executive Simon Trott said.
One potential ambition for the project could be to make commercial quantities of “green iron” that could then be shipped to steelmakers in Asia, said Tania Archibald, CEO of BlueScope.
However, the pilot would need to run for several years, so commercial production was unlikely before the 2030s, she added.
The announcement was made at BlueScope's Port Kembla steelmaking operations, Australia's largest steel

MARKET MONITOR as of 07:32 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$76.25 / bbl	0.04%	6.42%
NYMEX RBOB Gasoline	$2.55 / gallon	-0.23%	21.15%
ICE Gas Oil	$889.75 / tonne	0.34%	18.51%
NYMEX Natural Gas	$1.83 / mmBtu	-4.75%	-27.37%
Spot Gold	$2,033.19 / ounce	0.00%	-1.43%
TRPC coal API 2 / Dec, 24	$95.75 / tonne	-0.26%	-1.29%
Carbon ECX EUA	€60.31 / tonne	-0.77%	-24.96%
Dutch gas day-ahead (Pre. close)	€27.52 / Mwh	-3.71%	-13.59%
CBOT Corn	$4.44 / bushel	-0.34%	-8.37%
CBOT Wheat	$5.94 / bushel	0.04%	-7.08%
Malaysia Palm Oil (3M)	RM3,901 / tonne	0.70%	4.84%
Index	**Close 08 Feb**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	314.42	1.21%	4.32%
Rogers International	26.95	0.63%	2.37%
U.S. Stocks - Dow	38,726.33	0.13%	2.75%
U.S. Dollar Index	104.13	-0.03%	2.76%
U.S. Bond Index (DJ)	425.03	-0.33%	-1.32%

plant, roughly 75 km (47 miles) south of Sydney.
If successful, this would be the first partnership between the two global miners on a downstream project.
"If we can crack it, it's going to be a significant uptick for the mining industry ... Australia in general and the globe," Tim Day, BHP's incoming Western Australia iron ore asset president, said at a news conference.
The project will incorporate work done since October 2021 between Rio and BlueScope on ways to cut emissions during an earlier stage of the iron ore processing process by replacing coal with green hydrogen, known as direct reduction.
Iron ore could then be converted to direct reduced iron (DRI) before it is fed into an ESF. Together, the DRI-ESF equipment could cut emissions by more than 80%, the companies said in the joint statement.
The companies said they would assess several locations in Australia, the world's top exporter of iron ore, for the proposed pilot facility.
The pre-feasibility study work programme is expected to conclude at year-end.
Costs for the project will be shared equally, although the companies declined to provide any estimates.
BHP is also working with global engineering firm Hatch to design a similar electric smelting furnace pilot plant in Australia.

Top News - Carbon & Power

Top Biden official at Senate hearing defends LNG pause
A top U.S. Department of Energy (DOE) official on Thursday defended President Joe Biden's pause on approvals of liquefied natural gas (LNG) exports at a Senate hearing called by a fellow Democrat who said he will investigate the decision.
Biden paused the approvals late last month so his administration can take a "hard look" at the environmental and economic impacts of the booming industry.
Deputy U.S. Energy Secretary David Turk told the Senate energy committee that the DOE will finish the review as quickly as possible but it he could not predict a timeline other than it would take "months, not years."
"It will not affect our ability to supply our allies," Turk said, adding that it does not affect already approved exports.
A U.S. official earlier on Thursday told Reuters "I don't think we're concerned at all about our ability to meet (European) demand." The review needs to analyze among other things whether more U.S. LNG exports could slow the adoption abroad of green hydrogen - where hydrogen fuel production would be powered by renewable energy instead of gas, the official said.
The United States became the world's top LNG exporter last year amid strong demand from Europe following Russia's invasion of Ukraine, and the shipments are expected to double by the end of the decade and keep growing rapidly after that on projects already approved.
Senator Joe Manchin, a Democrat from natural gas producer West Virginia who called the hearing, said the pause sends the wrong signal to allies in Europe and Asia. The pause signals "the wrong direction for our country, a very wrong direction," Manchin said.

'VERY COMFORTABLE'
The European Commission however has said that the move will not have any short- to medium-term impacts on the EU's security of supply. The pause has exceptions for any supply or national security emergencies.
Turk said that as the administration talks with allies and partners about the pause, "we feel very comfortable," about their gas supply going forward. "As we export more, already under construction already under authorization, the demand for many of our allies, it's actually decreasing," including from Japan which is increasingly relying on nuclear power, Turk told reporters after testifying. Environmentalists and youth groups, an important part of Biden's base, had pressured Biden to slow approvals of fossil fuel projects on concerns about their emissions of greenhouse gases. Domestic businesses ranging from chemicals and steel to food and agriculture also oppose unrestricted exports of U.S. gas, saying it could raise fuel prices.
Opponents of the pause including Senator John Barrasso, a Republican, said that it was a political stunt ahead of the Nov. 5 election.
Turk said the review will also consider pollution impacts on people living near LNG facilities. "We need to hear from frontline communities, we need to take into account all of the health environmental impacts," Turk said about the review.
It is unclear how lawmakers who oppose the pause can overturn it. Legislation in both the Senate and the House of Representatives would strip the DOE's power to approve exports, giving all approvals to the independent Federal Energy Regulatory Commission (FERC).
But it is hard to pass legislation in an election year. Even if it passed the House, it would likely struggle in the Senate, led by Democrats.
The pause could face court challenges. A group of 23 Republican state attorneys general in a letter sent to the administration on Tuesday claimed that the Biden administration's pause is illegal, arguing that the natural gas law requires the DOE to approve LNG exports unless it shows that doing so would not be in the public interest. The group claimed that the pause is based on "allusions to environmental harms" and conflicts with the congressional intent in the gas law.

COLUMN: Germany cranks gas-fired electricity output to 2-year highs: Maguire
German gas-fired electricity generation jumped to its

highest levels in two years in January as power firms dialled up output to compensate for the closure of the country's nuclear reactors and meet higher heating demand during a cold snap last month.
The 8.74 terawatt hours (TWh) of electricity generated from gas-fired power stations was the highest since January 2022, according to think tank Ember, which was just before Russia's invasion of Ukraine led to the severing of gas pipeline flows to Europe's largest gas consumer and economy.
Gas-powered generation was 13% above January 2023 levels, and helped lift Germany's total electricity generation to its highest level in a year.
Higher gas generation also lifted natural gas' share of Germany's electricity generation mix to 18.6%, the highest since early 2021, which indicates that German power firms remain reliant on fossil fuels for electricity production despite ongoing energy transition efforts.

COAL DOWN, BUT NOT OUT
While German power producers lifted generation from gas power plants in January, use of coal-fired generation remains below previous levels.
Coal-fired electricity production in January was 10.83 TWh, which was down 29% from January 2023 and around 22% below the average coal generation levels of 2022.
However, January's coal-fired total was largely flat from the generation levels seen in November and December of 2023, Ember data shows, suggesting utilities remain unable to entirely cut coal from their generation mix.
Coal's share of Germany's electricity mix in January was 23%, below the 28.6% share of January 2023 but well above the share of cleaner-burning natural gas.
Coal also remains the second largest source of electricity in Germany behind wind, which remains a highly volatile source of electricity generation that requires power firms maintain a reliable source of dispatchable power at the ready for periods of low output from renewable sources.

NUCLEAR FALLOUT
The shuttering of Germany's last remaining nuclear power reactors last April is also putting strain on Germany power firms to deploy more fossil fuels.
In 2021, nuclear reactors accounted for an average of 12% of annual electricity output in Germany, or around 65 TWh.In 2022, nuclear output halved as some reactors were phased down, before the entire fleet was shut off last year.
To make up for the cut to nuclear generation Germany's utilities must now rely on coal or gas-fired plants, which are now the most effective means of bringing dispatchable power onto the grid whenever intermittent renewable output drops off.
So far in 2024 utilities seem to be relying on gas more than coal to balance system needs.
And by opting to boost gas generation by more than coal, utilities have kept Germany's power sector emissions in check at around 18 million metric tons of carbon dioxide (CO_2) in January, compared to more than 20 million in January of 2023.
However, those emissions levels may creep higher going forward if total power generation needs start to climb.

INDUSTRIAL SCALE
A key determinant of total German power needs this year will be the level and trend of industrial output.
A combination of sharply higher power prices, rising interest rates and weakening consumer demand forced German producers of steel, chemicals and several manufactured goods to pare output to multi-year lows in 2023.
That widespread weakness spurred Germany's government to work with industrial bodies to foster a recovery in economic activity going forward, which involved working with power firms to cap prices for certain businesses in 2024.
However, Europe's largest economy still faces a slew of challenges that cloud the business outlook, including a weakened government coalition and a tattered budget that may restrict policy moves going forward.
Nonetheless, the enduring weakness of Germany's industrial sector - which is a vital employer and a key revenue driver for the entire economy - means that engineering an industrial revival will likely remain a political priority. In turn, any such revival will result in greater overall energy demand, and more use of fossil fuels in electricity generation.
If natural gas and power prices remain under pressure, German power producers will likely continue favouring natural gas over coal when boosting overall generation.
But if natural gas costs start to climb going forward amid increased industrial and power use, then power producers may start to lift coal-fired generation, which may accelerate any increase in Germany power sector emissions.

Top News - Dry Freight

Japan buys 136,321 metric tons of food wheat via tender
Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) bought a total of 136,321 metric tons of food-quality wheat from the United States, Canada, and Australia in a regular tender that closed on Thursday.
Japan, the world's sixth-biggest wheat importer, keeps a tight grip on imports of its second-most important staple after rice, buying a majority of the grain for milling via tenders typically issued three times a month.

Jordan tenders to buy up to 120,000 metric tons wheat
Jordan's state grain buyer has issued an international

tender to buy up to 120,000 metric tons of milling wheat which can be sourced from optional origins, European traders said on Wednesday. The deadline for submission of price offers in the tender is Feb. 13.
A new announcement had been anticipated by traders after Jordan purchased 60,000 tons of wheat after seeking 120,000 tons in its previous tender on Tuesday.
Shipment in the new tender, for hard wheat, was sought in a series of possible combinations in 50,000 ton to 60,000 ton consignments.
Possible shipment combinations were between May 1-15, May 16-31, June 1-15 and June 16-30.

Picture of the Day

A serviceman of Ukraine's coast guard mans a gun on a patrol boat as a cargo ship passes by in the Black Sea, amid Russia's attack on Ukraine, February 7, 2024. REUTERS/Thomas Peter

(Inside Commodities is compiled by Rohit James in Bengaluru)

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

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