Oil | Agriculture | Metals | Carbon & Power | Dry Freight

Click on headers to go to that section

Top News - Oil

Oil majors rejigger portfolios with $30-per-barrel price in mind

Oil majors are targeting new oilfields that can be profitable even if oil prices fall to about $30 per barrel, using a third year of rising demand to reshape portfolios amid uncertainty over the industry's future.

Investors have not returned to oil stocks despite recent high earnings. Even the world’s lowest-cost oil producer, Saudi Aramco, has joined the rush to cut costs.

The shift to fields with favorable break-even points follows deeper and more frequent boom-cycles in the last decade. It also reflects executives' belief that current high prices may not last.

"After three major oil price crashes in 15 years, there is wide acceptance that another one is likely to happen," said Alex Beeker, director of corporate research at energy consultancy Wood Mackenzie.

That uncertainty and inventor demands for returns underpin executives' focus on buying lower-cost crude production and the flexibility to adjust output in response to price swings. Exxon Mobil and Chevron last year spent more on shareholder payouts than on new oil projects, a sign of the industry's desire to regain investor favor.

The energy sector accounted for just 4.4% of the overall weighting of the S&P 500 Index of top U.S. publicly traded companies as of Jan. 30, according to S&PGlobal, down from nearly three times that a decade ago.

HIGH PRICE FOR LOW-COST OIL

Exxon, Chevron and Occidental Petroleum recently struck deals worth a combined $125 billion to acquire companies that will help them pump oil for between $25 and $30 per barrel. In Europe, Shell and Equinor are pursuing projects with $25-30 per barrel breakevens, while France’s TotalEnergies aims to get its production costs under $25.

Those low costs are about half the break-even level for oil projects a decade ago, and are about 40% of today's Brent global oil benchmark. But they are a bet that improved productivity of wells will continue.

"You get efficiency gains in every downturn cycle in activity," said Peter McNally, global head of sector analysts at Third Bridge, an energy research firm. "Rig count would still need to go up by two-thirds before you get any real oilfield inflation."

The cost imperative has led companies to conduct wholesale restructurings of their portfolios and to concentrate operations in fewer areas. They have also shed jobs and outsourced operations to lower-cost countries.

Out is some high-cost, legacy production in Africa, Canada and regions of the United States. Shell and last year sold century-old California production and, together with TotalEnergies, are seeking to exit or scale back their presence in Nigeria.

Chevron has left Indonesia and BP sold assets in Canada, Alaska and the North Sea.

New production tends to be highly prolific deepwater fields, where platforms turn into cash machines once paid off, or shale, where a collection of small and easy-to-tap wells allows for adjusting volumes depending on energy prices.

"It's good business" that allows for higher profit and consistent shareholder distributions during the inevitable industry downturns of the energy transition, Exxon Chief Financial Officer Kathryn Mikells told Reuters.

Oil companies need high-return projects in order to pay investors hefty shareholder returns which totaled $111 billion last year. Those payouts took up more than half of the companies' cash flow.

China-, US-led global refill of depleted oil stocks seen buoying demand

A push to replenish depleted oil stocks notably in China, the United States and Europe could buoy demand and prices in coming months, analysts and traders said, as tensions in the Middle East threaten key shipping lanes.

Heavily depleted by supply disruptions wrought by sanctions on Russia in the middle of 2022, as well as protracted OPEC+ output cuts, global oil inventories have barely recovered with traders unable to justify the costs for storing oil.

Shipping disruption in the Red Sea due to escalating attacks by Iran-aligned Houthi rebels has increased concerns about supply, spurring buyers to rebuild inventories.

Morgan Stanley raised its quarterly outlook for Brent crude prices on Tuesday to an average of $82.50 a barrel in the first and second quarters - compared with $80 and $77.50 previously - suggesting the bank now expects a tight oil market this year.

Consultants FGE said that available data so far this year has shown a large counter seasonal fall in crude and fuel stocks of almost 29 million barrels, compared with a typical average build of 20 million barrels during January in 2015-2019.

Energy watchdog the International Energy Agency said global inventories had slipped by 8.4 million barrels last November - the last month for which full data exists - to

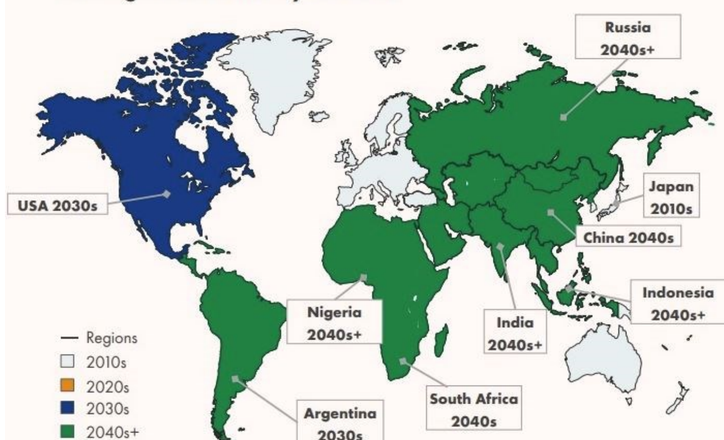
the lowest since July 2022, but that preliminary December data indicated a rise.

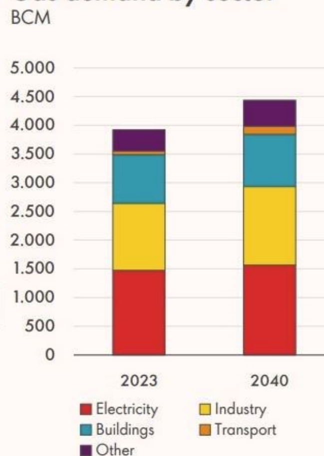
RESTOCKING INVENTORIES
Traders say they have so far seen strong buying from China, Europe and the United States.
"Chinese buying is high as it restocks in the first half", a trader for a European refiner told Reuters. "U.S. and European buying is also stronger this month as the situation for barrels from East of Suez could get much worse at any time."
The Chinese are buying heavily oil arriving this spring to replenish stocks while the United States is gradually topping up its Strategic Petroleum Reserve after selling a record amount from the government oil stores in 2022.
"In terms of days of demand cover (from oil storage), we expect the market to get to around 67 days by year end 2025 from current 64 days, which is still above pre-pandemic levels of around 60 days, assuming OPEC+ keeps cuts in place through 1H25." Citi energy strategist Francesco Martoccia told Reuters.
The Organization of the Petroleum Exporting Countries and allies like Russia (OPEC+) have sought to rein in supply with output cuts to buoy prices since 2022. Those plans were underscored when the group's de facto leader Saudi Arabia halted plans to boost its maximum production capacity.
Riyadh's energy minister on Monday suggested the reason behind the decision was to aid the energy transition, adding the kingdom has plenty of spare capacity to cushion the oil market.
Oil prices largely shrugged off the decision late last month, with high demand in the form of stock rebuilding and a gush of non-OPEC+ oil supply appearing to more than offset Riyadh's change of tack.
"We continue to see a long-term imbalance, with OPEC supply around 2 million bpd too high relative to the implied call on OPEC crude by 2028", HSBC analysts said.
In a note last week as Brent crept near $80 a barrel, J.P. Morgan analysts predicted a price rise of $10 by May, assuming no geopolitical shocks and that Saudi Arabia and Russia will reintroduce a combined 400,000 barrels per day back into the market starting in April.

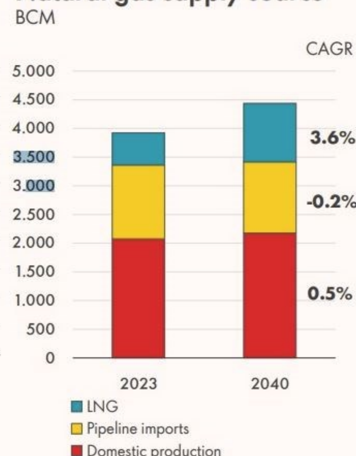
Chart of the Day

Gas use peaks in some markets, continues to grow globally
LNG to play increasingly important role in global gas supply

Shell LNG Outlook 2024







Source: Shell interpretation of Wood Mackenzie data
CAGR: Compound annual growth rate

Top News - Agriculture

Abundant rains lift Argentina soy, corn crops
Plentiful rains in recent days across Argentina's main growing regions have provided much-needed relief to the country's soy and corn crops, which had been punished by a heat wave and dry weather in the weeks before, the Rosario grains exchange said on Wednesday.
The South American nation, a top exporter of both crops, is expected to bring in 52 million metric tons of soy and a record 59 million tons of corn in the season, the exchange estimates.
"After weeks of heat and growing concern for the crops, over the long weekend (due to the Carnival holiday) rains finally hit the core growing region," the exchange said in a weather report.

In the key Pampas region, between 45mm and 100mm (1.8 inches and 3.9 inches) of rains were recorded.
"What we're waiting to see now is what the crops' reaction will be," exchange analyst Cristian Russo said in the report.
Further rains are not expected over the next few days, the exchange said, giving growers time to examine their crops.

POLL: Global raw sugar prices expected to rise 20% this year
Raw sugar prices are expected to post an annual gain of nearly 20% in 2024 as the global market shifts into a deficit in the upcoming season, a Reuters poll of 12 traders and analysts showed.
Sugar is set to close the year at 24.5 cents per lb, up 5% versus the close on Tuesday and as much as 19% above levels at the end of last year, according to the poll's median forecast.
Output in Centre-South Brazil, the leading production region, is expected to remain strong despite a modest drop in the cane crop with mills favouring production of the sweetener over biofuel ethanol.
A drop in production is, however, expected in number two producer India.
"The sugar market remains stressed. Relying on a single source of supply is unhealthy, and Centre-South Brazil cannot save the market alone. Without growth in India, global sugar production in 2024/25 is likely to fall," trader and supply chain services company Czarnikow said.
The poll's median estimate was for a global sugar surplus of 500,000 metric tons for the current 2023/24 season (October to September), which will flip into a deficit of 700,000 tons in 2024/25.
Top producer Brazil's Centre-South sugar output was expected at 42.1 million tons in the upcoming 2024/25 (April to March) season, according to median estimates, versus an estimated 42.1 million tons so far this season, according to the International Sugar Organization (ISO).
The possible small increase in Brazilian output next season is despite a Centre-South cane crop that poll participants forecast at 620 million tons in the upcoming 2024/25 versus an estimated 645 million tons this season, according to the ISO.
Brazilian mills are diverting more cane to sugar production in place of the cane-based biofuel ethanol, with Reuters' poll participants forecasting a production mix of 51.5% next season in favour of the sweetener.
"The 24/25 Brazil crop seems very unlikely to fulfil the high figures that were around late Dec/early Jan. Global stocks remain tight whereas a substantial surplus would be needed to replenish them – which now seems very unlikely," said analysts Green Pool.
White sugar prices were forecast to `end the year at $700 per metric ton, up 6% from Tuesday's close and as much as 17% above levels seen at the end of 2023.
No. 2 sugar grower India was forecast to produce 31.6 million tons of sugar in the current 2023/24 (October-September) season, moving down to 29 million in the upcoming 2024/25 season.

Top News - Metals

BHP flags $5.7 bln impairments on Samarco dam failure, nickel operations
BHP Group will record another $3.2 billion impairment in relation to its Brazilian Samarco dam failure, and a $2.5 billion impairment charge for its Western Australia Nickel business, the world's biggest listed miner said on Thursday.
BHP flagged the two-non cash impairments ahead of its half year results next week where its earnings are expected to have broadly held up against the same time last year, underpinned by strong iron ore prices.
Last month a federal judge in Brazil ruled that BHP and Vale and their joint venture, Samarco, must pay up to 47.6 billion reais ($9.67 billion) in damages for the 2015 dam collapse, in a decision still subject to appeal.
The collapse in the southeastern city of Mariana caused a giant mudslide that killed 19 people and severely polluted the Rio Doce river, compromising the waterway to its outlet in the Atlantic Ocean.
The additional $3.2 billion income statement charge will raise BHP Brasil's provision for the Samarco dam failure to $6.5 billion as at Dec. 31, 2023, BHP said.
"The first thing to note is they are book writedowns not cash writedowns.. Nickel West wasn't contributing anything to their profits," said head of research Hayden Bairstow at Argonaut Securities in Perth. The writedowns are unlikely to impact dividend payments which stem from its iron ore unit.
The miner last month flagged a potential writedown at its Western Australian nickel operations as a jump in nickel supply from Indonesia has led to a swathe of writedowns and restructures across the sector. It has an arrangement to supply nickel to Tesla from the operations.
"Due to the deterioration in the short-term and medium-term outlook for nickel, BHP has lowered its nickel price assumptions," the miner said. "These unfavourable operating conditions are expected to endure for a considerable time."
BHP produced 80,000 tonnes of nickel in the financial year ending June but the division contributed -1% to its underlying earnings.
BHP said it would record a $2.5 billion non-cash impairment, including closure and rehabilitation provisions of approximately $900 million, which would reduce the carrying value of its Nickel West assets to minus $300 million.
The operations are now under review with the potential to be placed on care and maintenance.

BHP's Kambalda concentrator will be placed into care and maintenance in June after its supplier, mining company Wyloo, decided to suspend its Cassini and Northern Operations mines, which feed the plant, from late May.
It is also assessing development plans for its West Musgrave nickel project which is 21% complete.
BHP will report first-half results on Tuesday, Feb. 20.

Australia flags grants for global investment in its green metals processing
Australia will offer a total A$40 million ($26 million) in grants to international companies for investing in the country's critical minerals processing industry, its resources minister Madeleine King said on Wednesday.
The resources-rich nation is seeking investment from allies in the supply chain of minerals essential to the energy transition that are at risk of production or supply disruption.
The grants of a minimum A$2 million and a maximum A$20 million would be open to Australia's global partners such as the United States, the United Kingdom, Japan, India, the Republic of Korea, the European Union and its member states, King said.
"Secure supply chains for our critical minerals are essential if we want to build the windfarms, solar panels and batteries we need to reach net zero," King said in a statement. "These supply chains will also be essential in working with our allies and friends in developing technology needed by (the) defence industry."
Grants can be used for pilot and demonstration plants, capacity expansions, research and development activities, development or commercialisation of technology and intellectual property, critical minerals processing technologies, and development of downstream processing capabilities.

MARKET MONITOR as of 07:32 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$76.44 / bbl	-0.26%	6.69%
NYMEX RBOB Gasoline	$2.53 / gallon	-0.70%	20.32%
ICE Gas Oil	$845.25 / tonne	-1.37%	12.59%
NYMEX Natural Gas	$1.62 / mmBtu	0.37%	-35.76%
Spot Gold	$1,994.09 / ounce	0.09%	-3.32%
TRPC coal API 2 / Dec, 24	$89.35 / tonne	-4.23%	-7.89%
Carbon ECX EUA	€56.53 / tonne	-0.18%	-29.66%
Dutch gas day-ahead (Pre. close)	€24.67 / Mwh	-2.68%	-22.54%
CBOT Corn	$4.36 / bushel	-0.34%	-9.97%
CBOT Wheat	$5.82 / bushel	-0.17%	-8.99%
Malaysia Palm Oil (3M)	RM3,906 / tonne	-1.06%	4.97%
Index	**Close 14 Feb**	**Change**	**YTD**
Thomson Reuters/Jefferies CRB	310.80	-1.03%	3.12%
Rogers International	26.98	-0.57%	2.47%
U.S. Stocks - Dow	38,424.27	0.40%	1.95%
U.S. Dollar Index	104.65	-0.07%	3.27%
U.S. Bond Index (DJ)	418.82	0.39%	-2.76%

Top News - Carbon & Power

Shell expects 50% rise in global LNG demand by 2040
Global demand for liquefied natural gas (LNG) is estimated to rise by more than 50% by 2040, as China and countries in South and Southeast Asia use LNG to support their economic growth, Shell said on Wednesday.
The market remains "structurally tight", with prices and price volatility remaining above historic averages, constraining growth, the world's largest LNG trader said in its 2024 annual LNG market outlook.
Demand for natural gas has peaked in some regions, including Europe, Japan and Australia in the 2010s, but continues to rise globally, and is expected to reach around 625-685 million metric tons per year in 2040, Shell said. That is slightly lower than Shell's 2023 estimates of a global demand increase to 700 million tons by 2040.
"While things are relatively balanced and seemed relatively comfortable today, the market is still quite fragile," Steve Hill, executive vice president for Shell Energy, told analysts on a call following the outlook report.
"We have a structurally tight market that's been balanced by near-term market weakness for where we see fragility and volatility continuing," Hill said.

CHINA DOMINANCE
Shell said that global demand for LNG is estimated to rise by more than 50% by 2040, as China and countries in South and Southeast Asia use LNG to support their economic growth.
China, which in 2023 overtook Japan as the world's top LNG importer, is likely to dominate LNG demand growth this decade as its industry seeks to cut carbon emissions by switching from coal to gas, the report said.
"China is the market that we are most bullish about this decade. And one of the reasons for that is the massive amount of new gas infrastructure that is coming on stream at the moment," Hill told analysts.
China's 2024 LNG imports are expected to rebound to nearly 80 million tons, from about 70 million tons in 2023, according to ICIS and Rystad forecasts, surpassing 2021's record 78.79 million tons.
From 2030 to 2040, declining domestic gas production in parts of South Asia and Southeast Asia could drive a surge in demand for LNG as these economies need fuel for gas-fired power plants or industry.
Shell's report predicted a balance between rising demand and new supply for those regions, but said significant investments would be needed in gas import infrastructure.
"In the medium term, latent demand for LNG – especially in Asia – is set to consume new supply that is expected to come on to the market in the second half of the 2020s," the report said.
As supplies were ample last year as the world market started to recover from the major disruption linked to the onset of the Ukraine war in 2022, prices have eased.
Asian spot prices averaged around $18 per million British thermal units (mmBtu) in 2023, easing from an all-time high of $70/mmBtu in 2022.
Prices fell further this year and remain below $10/mmBtu, encouraging buyers from China to Bangladesh to lock in new term supplies from Qatar and the United States.
Hill said that long-term LNG contracts which Europe has signed so far will not fill a demand-supply gap for the rest of this decade, adding that there was a structural shortage of 50 million to 70 million metric tons a year for the rest of the decade or more that Europe needs to secure.
In the U.S. market, he said that an extended ban on new LNG export projects would have "quite an impact" on the fast-growing global market.
The ban "is probably okay if it lasts a year or so, but if it was a long-term ban, then it would have quite an impact on the market," Hill told analysts.

FOCUS: Falling power prices threaten debt-laden EDF's revival
Falling electricity prices are slowing EDF's negotiations with industrial customers for long-term contracts, four sources and experts say, threatening the debt-laden energy group's long-term finances and ability to keep its aging nuclear plants running.
Financial results for 2023 on Friday will likely show progress in cutting some of EDF's 65 billion euros ($69.5 billion) of debt and a rise in profits bolstered by soaring power prices following Russia's invasion of Ukraine in 2022.
But the lack of forward deals will renew concerns about the state-owned power company's long-term commercial outlook after its nationalisation last June. EDF needs those deals to shore up its finances and reduce risks of price swings so it can invest to extend the life of its 56 nuclear reactors and build at least six more.
A power price deal EDF agreed with the government in November aims to stabilise electricity prices for retail and industrial customers at 70 euros per megawatt-hour (MWh) on average from 2026 when current contracts expire. The current breakeven level for production costs is 60 euros/MWh.
But sinking prices are undermining that strategy. The drop in prices is "seriously disrupting both the market and EDF", said one EDF source who declined to be identified because the talks are private. He described the market as being in a "real paralysis" because both sides are in a wait-and-see mode.
An absence of deals could make it harder for EDF to secure funding or hurt its credit ratings. Top agencies Fitch, S&P and Moody's have lower-medium grade ratings for its long-term debt.
"We'll closely monitor how the amount of long-term contracts picks up over time," Antonio Totaro, Fitch's

head of EMEA utilities and transport, said. Aluminium producer ArcelorMittal signed a letter of intent for an electricity production allocation contract with EDF in mid-January. EDF declined to comment on the progress of any talks.

HOLDING OUT
EDF and customers have blamed each other for the slow pace of talks. The EDF source said it "makes no sense" for customers to book far forward contracts while prices are trending downwards. Yet EDF could also be stalling, hoping that prices stabilise above current levels.
Industrial customers are ready to sign deals, Nicolas de Warren, president of Union of Energy Using Industries (Uniden) said. "Things are not moving fast enough," he said. Uniden represents about 70% of France's industrial energy users, such as Renault and train operator SNCF.
Uncertainty over future prices is slowing investment decisions for energy-intensive industries even as the government aims to reindustrialize France while reducing carbon emissions, he said. "These industries cannot live with increasing market price variability, so we absolutely need these contracts," de Warren said.
While the scheme is off to a bad start, there is no alternative currently on the table, the EDF source said. EDF and the government said last year they plan to review its success around May.
An alternative to the November plan could be to set a floor price for nuclear electricity sold by EDF, through a "contract for difference" scheme for example, which would require approval from Brussels.

BREAKEVEN
The French baseload contract for 2026 has more than halved over the past year, piercing the 70 euro/MWh level on Feb. 5 that was set as the market reform reference price. On Wednesday, it hit a fresh contract low of 63.75 euros/MWh.
Front-year contracts traded around 50 to 60 euros from 2018 before spiking in 2022 after Russia's invasion of Ukraine when they peaked at 1,200 euros/MWh. They have fallen rapidly over the last year and are now at around 70 euros/MWh.
EDF's other new pricing strategy, aimed at setting rates to sell to rivals such as Engie and TotalEnergies, includes auctions for 2028 and 2029 contracts. Demand has been lacklustre for those too.
Out of 54 total auctions since the start of the year, only a dozen have been successful and at prices below 70 euros, EDF data showed.
"The relatively low level of participation shows a limited interest on the part of the French market for this type of product, probably due to EDF's reserve prices, which might be considered too high," said ICIS analyst Lucca Urbanucci.
The French economy ministry said it has no plans to help the group if power prices fall below the 60 euros per megawatt-hour (MWh) breakeven level. It reiterated this month that market reform agreed in November will help EDF manage price volatility and invest in assets.

Top News - Dry Freight

Ukraine exports 1.6 mln T food cargo by sea and river in Feb 1-9, brokers say
About 1.6 million metric tons of Ukrainian agricultural goods had been exported or declared for future exports from Ukraine's Black Sea and Danube ports in the first nine days of February, brokers said on Wednesday.
Spike Brokers, which tracks and publishes export statistics, said 116,000 tons were shipped through the Danube ports and 1.5 million tons through Black Sea ports.
"Traders are slowing down export activity due to the ongoing decline in global commodity prices," brokers said.
The farm ministry said Ukraine exported almost 2.4 million tons of grain so far this month, slightly lower than the 2.7 million tons exported over the same period in 2023. Ukraine has traditionally shipped most of its exports through its deep water Black Sea ports.

Jordan buys 60,000 metric tons feed barley in tender
Jordan's state grain buyer has purchased about 60,000 metric tons of animal feed barley to be sourced from optional origins in an international tender which closed on Wednesday, European traders said.
It was bought at an estimated $219.00 a ton c&f for shipment in the first half of June. The seller was believed to be trading house Dreyfus.
Traders said these other trading houses participated in the tender with their estimated offers per ton c&f: Viterra $229.00, Bunge $240.50, Olam $239.88, The Andersons $231.80,
Grainflower $230.00, Cargill $232.69, CHS $226.48 and TOI Commodities $243.00. Cerealcom Dolj also participated but its price was not revealed.
Reports reflect assessments from traders and further estimates of prices and volumes are possible later.
Jordan is expected to issue a tender for 120,000 tons of barley in coming days closing on Feb. 21 seeking April and May shipment, they said.
Jordan has been regularly buying wheat recently but has been less active in the barley market. Its last barley tender was on Dec. 20 when it purchased about 60,000 tons at an estimated $243.50 a ton c&f for shipment in the second half of June.

Picture of the Day

Trailers and other vehicles waiting in line as they are affected by railroad workers blocking the Zaragoza-Ysleta border cargo crossing bridge, demanding progress from the Mexican government in the economic compensation and social justice program for the thousands of railway workers affected by privatization, in Ciudad Juarez, Mexico, February 14, 2024. REUTERS/Jose Luis Gonzalez

(Inside Commodities is compiled by Rohit James in Bengaluru)

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

To subscribe to Inside Commodities newsletter, **click here**.

© 2024 London Stock Exchange Group plc. All rights reserved.

LSEG
10 Paternoster Square, London, EC4M 7LS, United Kingdom

Please visit: **LSEG** for more information

Privacy statement