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Top News - Oil

COLUMN-Asia diesel profits wane as China boosts exports, market adapts to Russia: Russell

The profit for making diesel in Asia has dropped to the lowest in almost a year, a sign that the market is adapting so far to the European ban on imports of the transport fuel from Russia.

The profit margin, or crack, on producing a barrel of gasoil, the building block for diesel, at a typical Singapore refinery slipped to $22.05 a barrel on Feb. 17, the lowest since March 16 last year.

The crack is down 43% from its peak so far this year of $38.89 on Jan. 25, and is also 69% below its record high of $71.69 from June last year, reached in the aftermath of Russia's Feb. 24 invasion of Ukraine.

Rather than being driven by concerns over the potential loss of Russian shipments of diesel, the market in Asia appears more reflective of ongoing strength in diesel exports from China and India.

China is expected to export about 2.4 million tonnes of diesel in February, equivalent to about 643,000 barrels per day (bpd), according to data compiled by Refinitiv Oil Research.

This would be up from January shipments of around 1.78 million tonnes and 2.32 million in December.

China's vast refining sector has been ramping up throughput in order to produce more gasoline as domestic demand rebounds in the wake of Beijing abandoning its strict zero-COVID policy, which had led to a slowing economy.

However, diesel demand is lagging the growth in gasoline consumption as it takes more time for construction projects to get going.

This means China's refiners are likely producing more diesel than domestic requirements, meaning they are likely to export the surplus.

While the profit margin on diesel is shrinking, it's still strong by historic standards, having rarely traded above $20 a barrel between 2014 and the end of 2021.

However, it's worth noting that gasoline in Asia is currently treading a different path to diesel, largely because China is exporting less.

China exports of gasoline have been declining in recent months as domestic demand recovers, and Refinitiv has tracked only about 300,000 tonnes so far in February, well below the 625,000 tonnes in January and December's 1.9 million tonnes.

The profit margin on producing a barrel of gasoline from Brent crude in Singapore ended at $11.94 a barrel on Feb. 17.

While this is below the peak so far in 2023 of $18.32 a barrel, the crack has been on an uptrend since its 2022 low of a loss of $4.66 a barrel on Oct. 26.

INDIA EXPORTS

The profit for making diesel is also been hit by ongoing strength in exports from India, which is expected to ship about 2.0 million tonnes of diesel in February, similar to January's 2.01 million, although the daily rate is likely to be higher given February only has 28 days.

The impact of the European Union ban on imports of Russian oil products, which came into effect on Feb. 5, can be seen in India's exports, which are increasingly shifting to the West of Suez markets in Europe and Africa.

Almost 88% of India's February diesel exports are heading West of Suez as refiners on the country's west coast take advantage of the gap left by Russian diesel exiting Europe.

It also appears that Russia is still able to find buyers for its diesel, despite losing its biggest market as Europe used to buy about 500,000 bpd of Russian diesel prior to the war in Ukraine.

One new avenue of trade is Middle Eastern countries such as the United Arab Emirates and Saudi Arabia buying Russian diesel, most likely to use in their domestic markets, thus allowing them to export locally-produced fuel that is compliant with European and other Western sanctions.

Middle East imports of Russian diesel are expected to hit a record high of 338,000 tonnes in February, or almost eight times the pre-invasion average of around 43,500 tonnes a month, according to Refinitiv data.

Overall, the message from physical oil products markets is that they are able to adapt and cope with the disruptions caused by the re-alignment of Russian exports.

This is similar to what has already been seen in the crude oil market, where China and India effectively replaced Europe and other Western buyers, and were happy to take the discounts offered by Russia as Moscow sought to keep earning revenue from its energy exports.

The question is whether all the shuffling of the trade in oil products like diesel cut the flow of cash to Russia by enough to be deemed a success by Western governments, or whether the real beneficiaries are the traders and refiners who adapt best.

India's Russian oil imports surge to a record in January – trade

India's Russian oil imports climbed to a record 1.4 million barrels per day (bpd) in January, up 9.2% from December, with Moscow still the top monthly oil seller to New Delhi, followed by Iraq and Saudi Arabia, data from trade sources showed.

Last month Russian oil accounted for about 27% of the 5 million bpd of crude imported by India, the world's third-biggest oil importer and consumer, the data showed.

India's oil imports typically rise in December and January as state-run refiners avoid maintenance shutdowns in the first quarter to meet their annual production targets fixed by the government.

Refiners in India, which rarely used to buy Russian oil because of costly logistics, have emerged as Russia's key oil client, snapping up discounted crude shunned by Western nations since the invasion of Ukraine last February.

Last month India's imports of Russian Sokol crude oil were the highest so far at 100,900 bpd, as output from the Sakhalin 1 field resumed under a new Russian operator, the data showed.

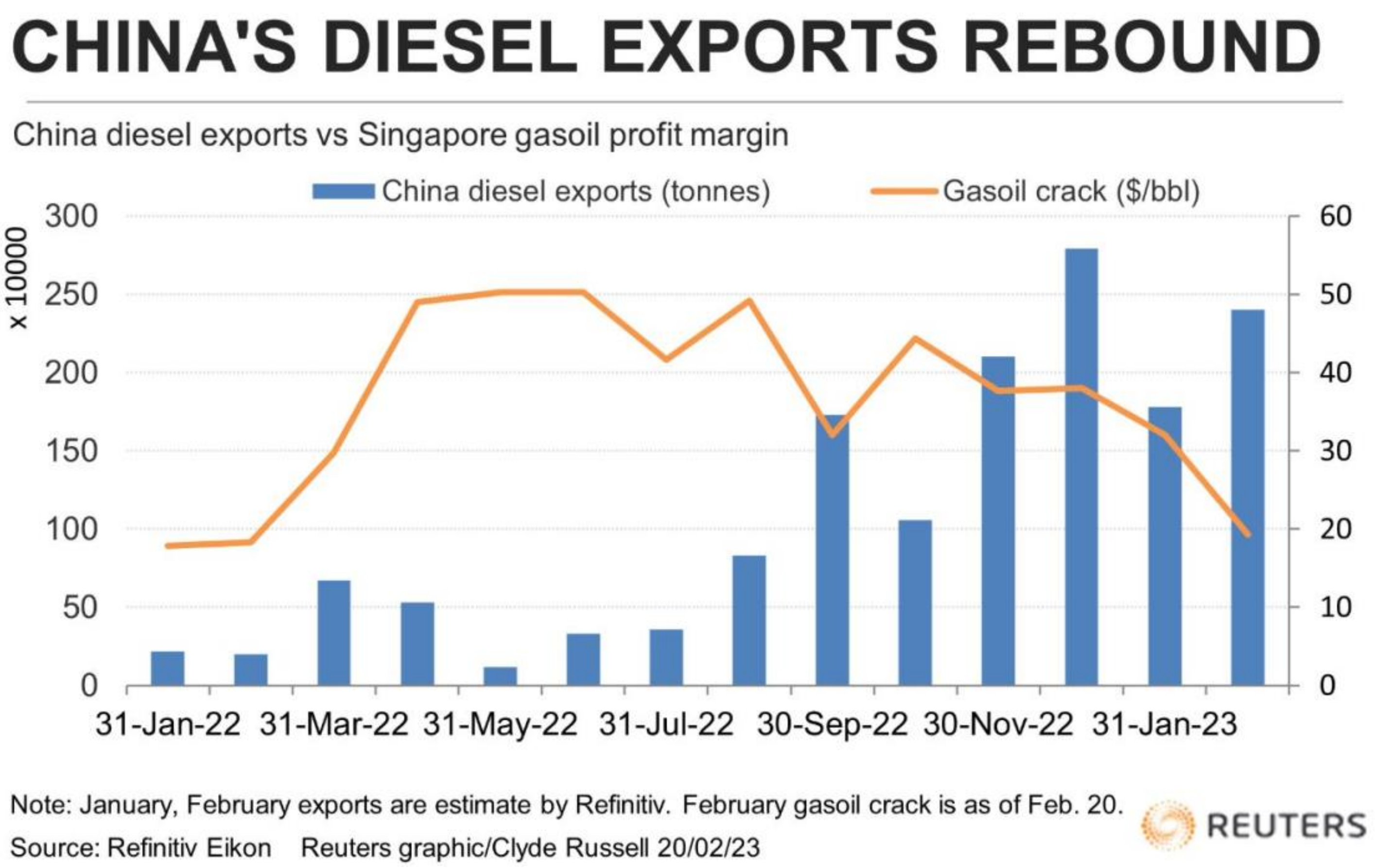
In January, India's imports of oil from Canada rose to 314,000 bpd as Reliance Industries boosted purchases of long-haul crude, the data showed.

Canada emerged as the fifth-largest supplier to India in January after the United Arab Emirates, the data showed.

India's Iraqi oil imports in January rose to a seven-month high of 983,000 bpd, up 11% from December, the data showed.

During April-January, the first ten months of this fiscal year, Iraq continued to be the largest oil supplier to India, while Russia became the second-biggest supplier, replacing Saudi Arabia which is now in third place, the data showed. Higher purchases of Russian oil dragged down Indian imports from the Middle East to an all time low of 48% and member nations of Organization of Petroleum Exporting Countries (OPEC) declined to the lowest ever, the data showed.

Chart of the Day



Top News - Agriculture

Brazil farmers hoard soybeans creating storage glut, large coop says

Brazilian grain growers are hoarding soybeans as domestic prices drop, according to the board chairman of Brazil's biggest farmer cooperative Coamo, based in the south of the country.

In an interview on Friday, Jose Aroldo Gallassini said this year's forward soybean sales are estimated at 5% of total projected output of 6 million tonnes by Coamo, compared with the 25% to 30% range last year at this time.

Gallassini said Coamo receives and stores grains from its member farmers even if the terms of the sale have not been set. This provoked a shortage of storage space, forcing the cooperative to rent additional warehouses and increasing use of so-called "silo bags."

Last season, Coamo's farmers harvested 3.8 million tonnes of soybeans, smaller than this year's estimated crop because drought ruined part of the production.

Soybean prices started 2022 at 162 reais ($31.43) per 60-kilogram bag and quickly reached a record 200 reais at the harvest period, the executive said.

But prices have since fallen to levels close to last year's 162 real level, Gallassini added, encouraging farmers to wait. In 2022, Coamo received 7.470 million tonnes of grains like soybeans and corn at its 114 units, located in the states of Parana, Santa Catarina and Mato Grosso do Sul. This represented 2.8% of Brazilian overall production. With more than 30,000 associate farmers, Coamo's exported 2.1 million tonnes of grains last year, the executive said.

Argentine exchange warns of 40% slump in early corn exports

Argentina's corn exports should fall some 40% year-on-year between March and June, the Rosario Grains exchange (BCR) said on Friday, as fewer hectares were planted early this season due to the impacts of a historic drought.

The BCR forecast just 8.7 millions tonnes of corn exports in those four months, after just 19% of an estimated 7.3 million hectares (18.04 million acres) were sown in the early weeks of the campaign, as many farmers awaited rains which in many regions did not materialize.

Last week, the BCR for the second time cut its corn production estimate to 42.5 million tonnes, due to what it has declared the worst drought in 60 years. At the start of cycle in September, it had forecast a 55 million-tonne harvest. "This year there will be less corn overall," the exchange said, "but also a change in the seasonal pattern of grain availability, with only a very small portion available for consumption and export in March to April."

Early corn yields are higher than those planted late, and are usually shipped abroad during this period. Late corn is usually exported between July and September.

The BCR forecast total corn exports for the current season at 27.5 million tonnes. Argentina's government imposes limits on corn exports to guarantee domestic supply. As campaigns progress, the volume of grain allowed to be shipped abroad is adjusted. The current allowance for 2022/23 is 20 million tonnes.

Top News - Metals

COLUMN-The devil's metal strikes again in Trafigura nickel fraud case: Andy Home

Another year, another nickel scandal as the devil's metal lives up to its reputation.

When German miners first came across the stuff in fifteenth century Saxony, they dubbed it "Kupfernickel", or "Devil's Copper" because it looked like copper but wasn't.

Appearances can be deceptive when it comes to nickel, as Trafigura has just found out half a millennium later.

The commodity trader will take a $577 million charge in the first half of 2023 against potential losses arising from what it called a "systematic fraud" involving cargoes of nickel that were not nickel.

It's an age-old scam but this one is big, involving 1,104 containers with up to 25,000 tonnes of nickel. Or not, as Trafigura is discovering to its cost.

This year's scandal follows hot on the heels of the market blow-out in March last year, when the London Metal Exchange (LME) had to suspend nickel trading for fear of a complete market collapse.

Though unrelated, the two incidents reinforce a sense of crisis around how nickel is currently traded.

AN AGE-OLD SCAM

The scam of delivering metal that isn't what it appears to be is, quite literally, as old as the hills.

The British Museum hosts a clay tablet dating from around 1750 BC, in which a Babylonian merchant called Nanni berates a supplier for trying to cheat him on a shipment of copper ingots.

The Babylonians didn't have formal assaying but Nanni obviously knew he was getting dud metal, warning his supplier that "from now on I will not accept here any copper from you that's not fine quality".

Misrepresenting the quality of shipments continues to this day, particularly in the murky world of raw materials such as metals scrap and concentrate.

UK newspaper The Guardian ran a lengthy feature in September last year about a Romanian entrepreneur accused of exporting large amounts of what he claimed was copper concentrates from the disused Baia Mare mines but which turned out to be a mixture of dirt and rubble.

When it comes to trading refined metals, the scam is now more commonly perpetrated in the opaque world of stocks and cargo financing, where physical metal underpins a carousel of repurchase and credit transactions. The whole edifice can come crashing down if the metal isn't physically there or has been multi-pledged, which happened in spectacular fashion in the Qingdao warehousing scandal of 2014.

Chen Jihong, the man at the centre of a multi-pledging scam that cost banks and trading houses an estimated $3 billion was last year sentenced to 23 years in prison.

DEVILISH NICKEL

Nickel has become the fraudsters' favourite industrial metal for the simple reason that it is high value, currently worth around $26,000 per tonne, and highly financialised.

A nickel repo deal between Natixis and Marex unravelled in 2017 when it turned out that it was based on false receipts for metal stored by Access World, then part of Glencore. A multi-party legal tussle ended with the French bank winning a $32m claim against Marex in 2019. ED&F Man last year won a $283m claim in the High Court in London against Singapore commodity trader Straits for what it claimed was "a carefully constructed fraud" also based on fake nickel warehouse receipts. In Singapore prosecutors have filed 105 charges against Ng Yu Zhi, who is accused of cheating investors out of $1.1 billion for fictitious nickel trades.

Joining the list is Prateek Gupta, the Indian businessmen alleged to be at the centre of a web of companies that Trafigura accuses of misrepresentation.

A lawyer in Singapore representing Gupta and one of his companies has said: "The matter is before the courts and is therefore subjudice. Our client will respond accordingly in court." Trafigura has secured a $625m freezing order against Gupta as it goes through the laborious process of tracking down each container and opening it to see what's inside. By the time it had filed papers in the British courts, it had inspected 156 of them, none of which held anything remotely resembling nickel.

MARKET BLOW

Trafigura faces some hard questions about its compliance functions but it will weather the financial impact.

Even including the financial charge of $577 million in its first-half accounts, "the group's net profits in the first half of its 2023 financial year are expected to exceed first half 2022 net profits," it said.

The blow to an already faltering global nickel market may be longer lasting. There is the immediate question of whether a 25,000-tonne black hole has just opened up in the nickel supply chain. LME warehouse stocks have fallen by over 10,000 tonnes so far this year and at 45,174 tonnes are the lowest they've been since 2008. Is metal being redirected to compensate for the missing nickel or is the steady drawdown completely unrelated? It's impossible to say. Just as it's impossible to say whether some of the recent price volatility on the LME nickel contract was down to Trafigura restructuring hedge positions. The problem is that LME nickel trading has been volatile and unpredictable ever since last year's

MARKET MONITOR as of 07:25 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$76.84 / bbl	0.65%	-4.26%
NYMEX RBOB Gasoline	$2.63 / gallon	0.44%	6.27%
ICE Gas Oil	$802.00 / tonne	1.36%	-12.92%
NYMEX Natural Gas	$2.20 / mmBtu	-3.16%	-50.77%
Spot Gold	$1,844.79 / ounce	0.17%	1.12%
TRPC coal API 2 / Dec, 23	$143.5 / tonne	-1.03%	-22.33%
Carbon ECX EUA / Dec, 23	€96.07 / tonne	-0.19%	14.41%
Dutch gas day-ahead (Pre. close)	€48.60 / Mwh	-6.00%	-35.69%
Malaysia Palm Oil (3M)	RM4,170 / tonne	0.94%	-0.10%
Index (Total Return)	**Close 17 Feb**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	292.10	-0.98%	-3.06%
Rogers International	27.63	-1.22%	-3.63%
U.S. Stocks - Dow	33,826.69	0.39%	2.05%
U.S. Dollar Index	103.86	0.01%	0.33%
U.S. Bond Index (DJ)	399.34	0.13%	1.75%

meltdown. Volumes in January were down by 60% on year-ago levels. The combination of falling participation and falling exchange inventory has caused LME three-month nickel to trade skittishly across a wide $26,000-$31,000 price range this year. There is something of a crisis of confidence in the LME's nickel price discovery role with globalCOAL planning to launch an alternative spot index for refined nickel. There is now also a growing crisis of confidence in the world of physical nickel trading. Trafigura is just the latest in a long list of companies to be stung on nickel financing in recent years. But the status of the company and the scale of this particular fraud makes it a headline-grabbing story. And one that at the very least is likely to make banks even more wary of lending against nickel trades at a time when commodity financing in general has been shrinking. Nickel could really do with a reputational break but recent history suggests it's just a matter of time before the devil's metal strikes again.

China's Maike Group applies to court for restructuring

Chinese copper trader Maike Group has submitted a court application to start restructuring, it said on Friday, marking a further low for the company that was once China's top copper buyer.

The application, revealed in a statement published on Maike's official WeChat account, is one of the steps in a bankruptcy proceeding, said Vincent Qian, a lawyer at Beijing Dacheng law firm. The application was filed with Xi'an Intermediate People's Court, He Jinbi, Maike's founder and chairman, told Reuters. He declined to comment further. Maike says it imported more than 1 million tonnes of refined copper per year, accounting for 29% of China's total imports in 2021. It said last year it was facing a liquidity crunch after COVID-19 lockdowns hampered its ability to generate income and repay loans. Its problems led to thousands of tonnes of copper being stranded in warehouses as it struggled to pay suppliers, and its absence from the market continues to support premiums in some regions. "Operational financial difficulties struck Maike last September as a result of unprecedented uncertainty and market volatility amid the pandemic and geopolitical uncertainty," it said in Friday's statement. The court application was to design a reasonable debt settlement plan, ensure fair compensation of creditors, restore the company's operation and profitability, and safeguard the interests of employees and all parties, it added. "If the company fails to restructure, it will enter liquidation," said Qian. The company had sought to sell assets to the local government to address its liquidity problems. In January, state-owned metals trader Xiamen Xinde filed a lawsuit against Maike for its failure to fulfill contract delivery and repayment of money owed, according to a notice.

Top News - Carbon & Power

COLUMN-Europe nears end of winter with bulging gas stocks: Kemp

Europe is on course to end the winter with a near-record volume of gas in storage as a result of industrial closures, high prices and a milder-than-normal season.

Combined inventories in the European Union and the United Kingdom were equivalent to 731 terawatt-hours (TWh) on Feb. 15, according to data from Gas Infrastructure Europe (GIE).

Inventories were 260 TWh (+55% or +2.57 standard deviations) above the prior 10-year seasonal average, up from a surplus of 95 TWh (+11% or +0.86 standard deviations) when the industry's winter season started on October 1. Stocks were essentially the same as the previous seasonal record of 732 TWh set on Feb. 15, 2020, when front-month futures prices were trading below 9 euros per megawatt-hour.

Northwest Europe is roughly 70% of the way through the heating season so there is now a high level of visibility about end-of-winter inventories, which are projected to decline to a low of 604 TWh before winter ends on March 31, with a probable range from 499 TWh to 673 TWh.

The projected carry out would be the second-highest on record and only just below 609 TWh at the end of winter 2019/20.

If this projection is realised, storage sites across the EU and the United Kingdom will end the winter 53% full (with a probable range of 44% to 60%). Relatively mild temperatures so far this winter have played a part in reducing heating demand and gas consumption. Frankfurt in Germany (a proxy for the Northwest Europe macro-region) experienced 1,268 heating degree days between July 1 and February 16. The number of heating degree days so far is the lowest since the winter of 2019/20 and -7.5% or -0.96 standard deviations below the prior 10-year average. Exceptionally high prices have forced energy-intensive industries, including makers of fertiliser, steel, chemicals, ceramics, glass and cement to close plants, which has saved large volumes of gas.

High prices and public relations campaigns to conserve energy may also have had some impact on the behaviour of households and other businesses, though the impact is less clear. At the same time, high prices continued to maximise the inflow of liquefied natural gas (LNG) to Europe at the expense of importers in China and South Asia. As a result, Europe's outlook has been transformed from fear of shortages at the start of winter 2022/23 to a comfortable surplus at the end. In response, futures prices for gas delivered in March 2023 have slumped to less than 50 euros per megawatt-hour down from 177 euros at the start of the winter and a record 338 euros at one point in late August 2022. The recent fall should start to buy back some of the consumption previously lost from energy-intensive industries and power generators, and staunch LNG inflows, curbing the accumulation of excess inventories and leaving some room in the storage system for gas to be added during the summer 2023 refill season.

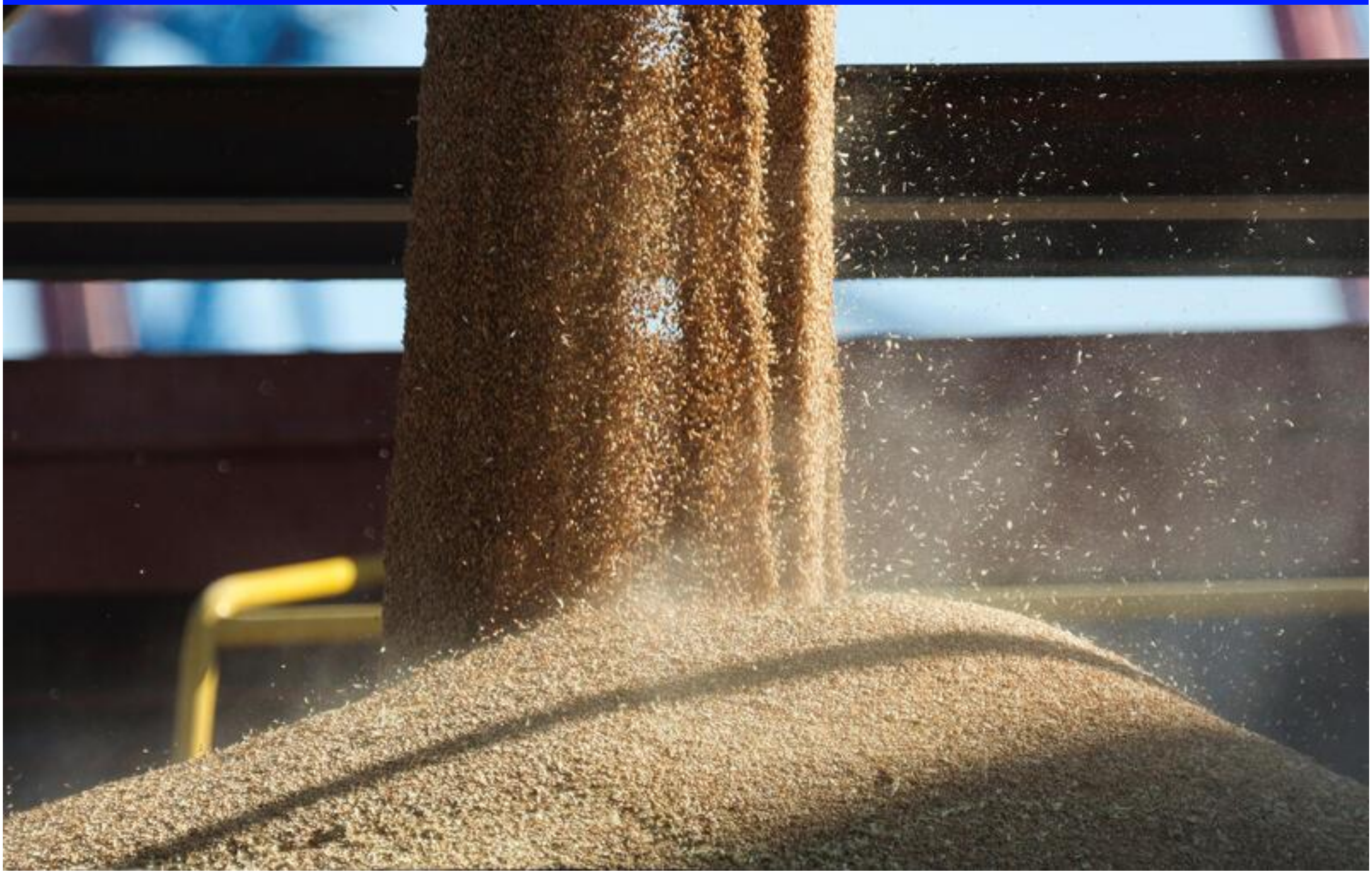
European companies caution EU against major power market revamp
Fourteen energy companies have urged the European Union to act with "caution" in an upcoming revamp of the bloc's electricity market, proposing limited tweaks instead of sweeping changes. The European Commission is preparing reforms to EU electricity market rules, aimed at cushioning consumers' power bills from fossil fuel price spikes like those triggered last year by cuts to Russian gas supply. In a letter to the Commission this week, firms including Iberdrola RWE, Engie, Orsted, Fortum, Enel and Uniper urged Brussels to focus on reforms that will drive massive investment in renewable energy, low-carbon generation and energy savings.
"This reform of the electricity market needs to be handled with caution, as it bears the risk of creating fragmentation of the internal energy market," said the letter, which was published by Swedish utility Vattenfall, another signatory. The companies endorsed an idea suggested by the Commission to incentivise more Power Purchase Agreements and Contracts for Difference (CfDs) - types of long-term, fixed-price power contracts that aim to guarantee a revenue stream for renewable energy projects and offer consumers more predictable prices. However, they said such measures must remain voluntary and not be forced upon generators. Short-term electricity markets could be improved, but should not be scrapped, the companies added. Their letter broadly aligns with the stance of seven EU countries including Germany and Denmark, who this week told Brussels not to rush into major power market reforms, and instead focus on limited changes that could incentivise green energy investments. Like those countries, the energy companies opposed the idea of extending emergency measures the EU imposed last year to cope with the energy crisis - among them a scheme to claw back windfall revenue from power plants. The reforms must also avoid "any retroactive effect which could lead to significant litigation," the companies added. That could put them at odds with Spain, which is in favour of a deeper market reform and has suggested allowing countries to sign CfDs with existing power plants to prevent them from reaping excess profits in electricity markets.

Top News - Dry Freight

Russia, Turkey leaders may talk Black Sea grain deal soon -RIA
Turkish and Russian leaders may soon discuss a U.N.-backed initiative that has enabled the export of grain from Ukrainian ports, but there is no date set yet, a source familiar with the negotiations on the deal told RIA Novosti on Monday. Broader negotiations on extending the Black Sea Grain Initiative that has allowed grain to be exported from three Ukrainian ports are expected this week, Ukraine said. The agreement is for renewal in March, but Russia has signalled that it is unhappy with some aspects of the deal and has asked for sanctions affecting its agricultural exports to be lifted.
"The topic of the grain deal, proposals in this regard are always on the agenda of the leaders. Therefore, it should not be ruled out that the leaders will touch on this topic at talks in the near future," state-owned RIA news agency quoted its source as saying. When asked when these negotiations could take place, the source said that he "does not have exact data on the date."

Tunisia buys soft wheat and barley in tender -traders
Tunisia's state grains agency is thought to have purchased around 100,000 tonnes of soft wheat and around 75,000 tonnes of barley in an international tender on Friday, European traders said.
The agency had sought the same volumes in its tender, which required shipment during March.
For the soft wheat, traders said 25,000 tonnes were booked from trading house Casillo at $337.68 per tonne, cost and freight (c&f) included, 25,000 tonnes were purchased from Viterra at $339.24 a tonne c&f, and two 25,000-tonne consignments were bought from Aston at $339.00 a tonne c&f.
For the barley, 25,000 tonnes were bought from Aston at 303.45 a tonne c&f, 25,000 tonnes were booked from GTCS at $299.00 a tonne c&f, and a further 25,000 tonnes were purchased from GTCS at $298.00 a tonne c&f, according to traders. Results reflect assessments from traders and further estimates of prices and volumes are still possible later.

Picture of the Day



A truck is loaded with wheat at Beirut's port, Lebanon, February 17. REUTERS/Mohamed Azakir

(Inside Commodities is compiled by Sravanthi Bhamidi in Bengaluru)

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