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Top News - Oil

COLUMN-Oil and gas mini-slump all part of a cycle: Kemp

Oil and gas prices are in another mini-slump, nearly three years after they were hit by the first wave of the COVID-19 pandemic in North America and Western Europe.
But the latest downturn is part of a cycle in manufacturing activity and energy prices that has repeated with an average duration of three to four years since the early 1990s.
After adjusting for core consumer prices, the price of Brent crude has fallen by 34% from the peak in May 2022 and U.S. Henry Hub natural gas is down by 73% from the peak in August 2022.
In real terms, oil prices are in the 67th percentile for all months since 1990, down from the 86th percentile in May, while U.S. gas prices have slumped to only the 3rd percentile, down from the 86th percentile in August.
Prices have fallen in response to a combination of factors, including the impact of sanctions on Russian exports, a milder-than-normal winter, the explosion at Freeport LNG, and a slowdown in manufacturing and freight transport.

REGULAR VARIATIONS
Notwithstanding problems identifying, classifying and explaining cycles in output, employment, prices and interest rates, the time series for manufacturing activity continues to show a strong cyclical component.
Since 1995, there have been eight cycles in U.S. manufacturing activity, based on the Institute for Supply Management's purchasing managers' index, averaged over 12 months to smooth some of the short-term volatility.
Troughs around October 1995, September 1998, May 2001, February 2007, January 2009, November 2012, December 2015, November 2019 and tentatively January 2023 have occurred on average every 41 months, with a range from 23 to 69 months.
Since 1995, there have also been eight cycles in oil and gas prices, based on the change in real prices compared with the prior year and averaged over 12 months.
Oil and gas cycles have been closely correlated with each other and with U.S. manufacturing activity.
On average, troughs in oil prices occur within ±3 months of a turning point in U.S. manufacturing activity, while troughs in gas prices occur within ±4 months.

LOSING MOMENTUM
U.S. manufacturing activity appears to be forming a trough at present, with the ISM index falling below the 50-point threshold dividing expansion from a contraction every month between November 2022 and January 2023.
The current manufacturing cycle is 34 months or 39 months long (depending on whether the trough is dated to April 2020 or November 2019), approaching the average duration of 41 months for cycles since 1995.
Some softness in manufacturing activity as well as oil and gas prices should therefore be expected at this point.
Not every cyclical slowdown in manufacturing turns into a full-blown recession; there have been eight manufacturing cycles since 1995 but only three were declared recessions by the U.S. National Bureau of Economic Research.
The others were mid-cycle slowdowns, often termed a "soft patch" by policymakers, followed by a re-acceleration of activity and an extension of the business cycle.
There is no way to determine in advance whether the current manufacturing slowdown will turn out to be a mid-cycle one or a cycle-ending recession. But the type matters enormously.

WHAT NEXT?
If the current slowdown proves to be a mid-cycle soft patch, gas and especially oil prices are likely to rise strongly later in 2023.
Global inventories of petroleum, especially the most cyclically sensitive components such as distillates, are still below the long-term average.
In the event the economy re-accelerates, inventories will deplete quickly, and there is little spare capacity to rebuild them in the short term.
Gas inventories are currently more comfortable after a mild winter in 2022/23 but could also deplete quickly if the economy accelerates and winter 2023/24 reverts to more average weather.
By contrast, if the current slowdown turns into a cycle-ending recession, both gas and oil stocks will accumulate and prices will come under more pressure in the near term.
The resulting accumulation of inventories and spare production capacity would create some cyclical slack and defer the onset of the next upswing in prices until 2024.

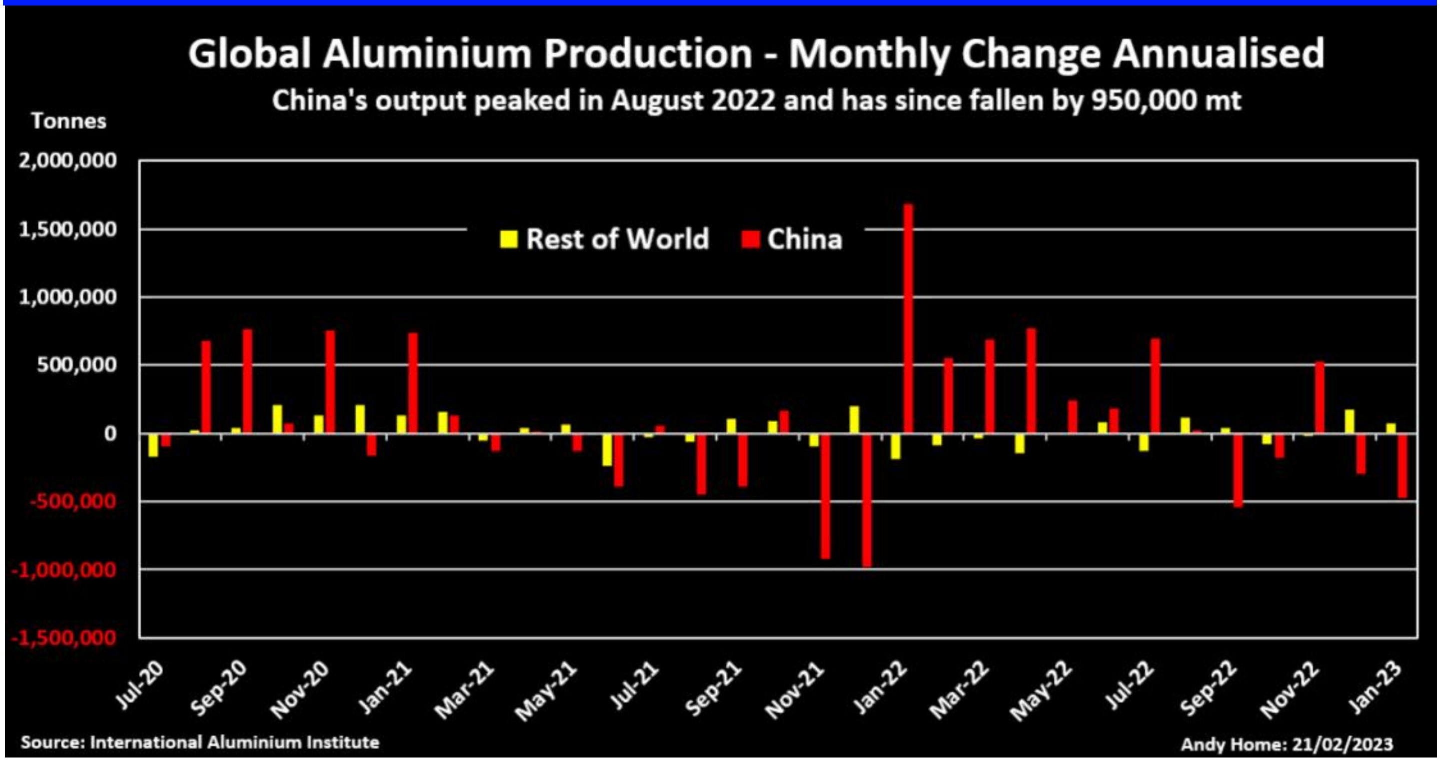
'No excuse': IEA tells energy firms as methane emissions rise

The fossil fuel industry is failing to tackle methane emissions despite its pledges to uncover and fix leaking infrastructure, according to a report by the International

Energy Agency (IEA) published on Tuesday.
In 2022, the global energy industry released into the atmosphere some 135 million tonnes of methane - a potent greenhouse gas responsible for roughly a third of the rise in global temperatures since the industrial revolution.
Last year's emissions rose above 2020 and 2021 levels, and were only slightly below the record amount released in 2019, despite high energy prices and surging demand for natural gas that provided extra incentives to capture methane, the report said.
Methane is the main component of natural gas, so captured emissions can be sold as fuel.
Although some progress has been made, "emissions are still far too high and not falling fast enough - especially as methane cuts are among the cheapest options to limit near-term global warming," IEA Executive Director Fatih Birol said in a statement. "There is just no excuse."
The energy sector accounts for about 40% of all methane emissions from human activity, second to agriculture.
The IEA said methane emissions from oil and gas alone could be reduced by three-quarters with existing technologies and modest investment of less than 3% of the $4 trillion windfall income gained by oil and gas companies worldwide last year.
"The economic incentives to make those reductions were huge last year," IEA's Chief Energy Economist Tim Gould said. "We had record natural gas prices in many markets around the world. There was an extremely strong economic incentive to bring methane to market."
But despite this, "2022 was a disappointing year," he said.

A LOT OF PLEDGES AND NO 'FORCING MECHANISM'
More than 150 countries have pledged to cut global methane emissions by at least 30% from 2020 levels by the end of this decade - although major emitters including China and Russia have not. Dozens of oil companies have also voluntarily committed to reduce emissions through the Oil and Gas Methane Partnership, and the Oil and Gas Climate Initiative.
"There are a lot of pledges around, but what you need is a forcing mechansim," said Georges Tijbosch, CEO of MIQ, a methane emissions certification standard.
NOAA physical scientist Lori Bruhwiler said rapid cuts to methane emissions are important, but deep carbon dioxide emission reductions must accompany them if the world is to avoid global warming exceeding 1.5 Celsius (2.7 Fahrenheit) and unleashing more severe impacts.
"Will this make it tougher for us to meet 1.5? Absolutely," she said, of the consequences if countries and companies fail to curb methane.
The IEA report said there were more than 500 super-emitting events from oil and gas operations detected by satellites in 2022. Another 100 were spotted at coal mines. Altogether, the coal industry was responsible for about 40 million tonnes of methane emissions in 2022.
Coal-related methane emissions in China are equivalent to total CO_2 emissions from the whole of sub-Saharan Africa," Gould said.

Chart of the Day



Top News - Agriculture

India to offer 2 mln T more wheat to cool prices

India will provide an additional 2 million tonnes of wheat to bulk consumers such as flour millers, as part of efforts to lower prices, which jumped to a record high last month, the government said on Tuesday.

The allocation, on top of 3 million tonnes announced last month, could help in dampening local prices, which are ruling above the government-fixed buying price of 21,250 rupees ($256.77) per tonne and lifted retail inflation in January.

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 export demand picked up to meet the global shortfall triggered by the Russia-Ukraine conflict.

Wheat prices have corrected nearly a quarter since the government last month announced release of stocks in the open market.

The government has been trying to bring down prices further near the floor price to ensure it can buy ample quantity from farmers in the new season, said a New-Delhi-based dealer with a global trading firm.

"Farmers will not sell to government if open market prices remain above government buying price," the dealer said.

Last year, state purchases of wheat fell by 53% to 18.8 million tonnes, as open market prices rose above the rate at which the government buys the staple from domestic farmers.

The country grows only one wheat crop in a year, with planting in October and November, and harvesting from March.

Wheat growing north-western states have been witnessing sudden rise in the temperature, which could curtail wheat output like last year, said a Mumbai-based dealer.

Maximum temperatures in some states this week jumped to 39 degrees Celsius, which is up to 9 degrees Celsius above normal, India Meteorological Department (IMD) said in a statement on Monday.

China to expand trial of industrial application of GM corn, soybean – ministry

China will further expand the scope of its trial of the industrial application of genetically modified (GM) corn and soybeans, the Ministry of Agriculture and Rural Affairs said on Tuesday.

Last week, Reuters reported China would likely plant 4 million mu (267,000 hectares or 660,000 acres) of genetically modified corn strains this year as part of a large-scale trial, citing two industry sources with knowledge of the plans.

China has studied GM food crops for decades but has not approved them for commercial release due to opposition to the technology. However, their usage has been increasingly supported by the central government amid a national drive for greater self-sufficiency in the country's key food supplies.

Building on the central government's recent rural policy blueprint, known as the "No. 1 Document", the Ministry of Agriculture and Rural Affairs stated its intention to "anchor the goal of building a powerful agricultural country" and "ensure national food security".

China's corn fields yield only about 60% as much corn on average as in top producer the United States, where GM corn makes up more than 90% of the crop.

In addition to the trial of the genetically modified crops, China will stabilise soybean acreage by all means available, the ministry said.

Top News - Metals

Rio Tinto slashes dividend as profit plunges on slower China demand

Rio Tinto posted a 37.9% drop in annual profit and more than halved its dividend on Wednesday, hurt by weaker iron ore prices due to slowing demand from top consumer China, while higher labour and material costs also ate into earnings.

Strict COVID-19 curbs in top steel producer China curtailed economic activity last year, pulling down iron ore prices from lofty levels scaled a year earlier.

The Anglo-American miner said China consumption showed signs of rebounding and commodity prices had found support in recent months, although the economy remained volatile.

Rio, however, lowered its capital investments guidance for 2023 to $8 billion from a prior estimate of between $8 billion and $9 billion. The capital investment estimates for 2024 and 2025 were hiked to between $9 billion and $10 billion.

On Tuesday, rival BHP Group reported a steeper-than-expected 32% fall in first-half profit owing to a drop in iron ore prices, but flagged a brightening outlook in China, its biggest customer.

Rio Tinto last year earned an average realised price of just $106.1 per dry metric tonne (dmt) of iron ore, compared with $143.8 per dmt in 2021.

Apart from higher wages due to skilled labour shortages, the Anglo-American miner had to pay more for fuel and raw materials.

The company, one of the world's top iron ore producers, reported underlying earnings of $13.3 billion for 2022, compared with a record $21.4 billion in 2021 and missing a Refinitiv estimate of $13.8 billion.

Additional investments to ramp up production at the

Gudai-Darri mine in Pilbara, along with higher diesel prices and labour costs, resulted in Pilbara unit cash costs rising to $21.3 per tonne in 2022, Rio said.
It declared a full-year dividend of $4.92 per share, down from 2021's record payout of $10.40 per share, and maintained its production and unit cost guidance for 2023.

COLUMN-Another Yunnan power blow to China's aluminium output: Andy Home
The Chinese province of Yunnan has ordered its aluminium smelters to take another round of production cuts to stabilise power supplies.
The province's hydro-electric grid has struggled with prolonged drought and low reservoir levels.
Power-hungry aluminium producers in Yunnan and neighbouring provinces were already operating at reduced capacity, some of them since September, dragging down China's national output.
The latest cuts will impact around 740,000 tonnes of annual production capacity, adding to the million tonnes already offline, according to industry consultancy Mysteel.
The aluminium market has taken the news in its stride. London Metal Exchange (LME) three-month metal has edged up to a current $2,465.00 per tonne but is a way off January's high of $2,679.50.
Right now the market can take a relaxed view of Yunnan's problems with visible inventory accumulating on both the London markets and in China.
But with Chinese demand expected to enjoy a strong post-holiday, post-COVID bounce, that could change very quickly.

MORE POWER WOES
Yunnan has become a major aluminium hub in recent years as Chinese operators have relocated from coal-powered provinces to lower their carbon footprint.
Aluminium capacity has grown to around 5.25 million tonnes, making it the fourth largest provincial producer after Shandong, Inner Mongolia and Xinjiang.
On paper Yunnan can churn out as much metal as North and Latin America combined, but only if there is sufficient power to feed smelters' electrolysis production lines.
After the latest mandated curtailments, operating capacity in the province will fall to below 3.30 million tonnes, according to analysts at Citi.
Combined with rolling power restrictions in neighbouring Guizhou and Sichuan provinces, also largely hydro-powered, the cumulative impact will be a fall in China's annualised operating rate to below 40 million tonnes for the first time since March 2022, the bank said. ("Metal Matters", Feb. 21, 2023)
Annualised output in China, the world's largest producer

MARKET MONITOR as of 07:00 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$75.86 / bbl	-0.39%	-5.48%
NYMEX RBOB Gasoline	$2.62 / gallon	-0.22%	5.61%
ICE Gas Oil	$809.00 / tonne	1.03%	-12.16%
NYMEX Natural Gas	$1.99 / mmBtu	-4.20%	-55.62%
Spot Gold	$1,835.59 / ounce	0.07%	0.61%
TRPC coal API 2 / Dec, 23	$144 / tonne	0.35%	-22.06%
Dutch gas day-ahead (Pre. close)	€48.78 / Mwh	-5.28%	-35.45%
CBOT Corn	$6.81 / bushel	0.07%	0.37%
CBOT Wheat	$7.51 / bushel	0.00%	-5.24%
Malaysia Palm Oil (3M)	RM4,220 / tonne	1.91%	1.10%
Index (Total Return)	**Close 21 Feb**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	293.25	0.39%	-2.68%
Rogers International	27.75	-0.48%	-3.19%
U.S. Stocks - Dow	33,129.59	-2.06%	-0.05%
U.S. Dollar Index	104.18	0.31%	0.63%
U.S. Bond Index (DJ)	395.78	-1.02%	1.75%

of aluminium, peaked at 41.46 million tonnes in August last year, according to the International Aluminium Institute (IAI).
January's estimated annualised production was 40.50 million tonnes, a drop of almost one million tonnes over the last five months.
China's monthly production figures have been volatile, reflecting the interplay of capacity curtailments, restarts of smelters hit by previous rounds of power rationing and new capacity coming online.
However, it is evident the rolling power crunch in the Yunnan-Guizhou-Sichuan production hub has dragged on national output and the impact is likely to increase as more capacity is ordered offline.

STOCKS CUSHION...FOR NOW
The price reaction to Yunnan's latest drought has been muted on both the London market and the Shanghai Futures Exchange (ShFE).
Registered inventory on both exchanges has risen fast, cushioning the supply chain from the loss of Chinese production momentum.
LME warehouses have registered 237,325 tonnes of inflow so far this month, bringing the headline stocks total to 581,300 tonnes, up by 134,050 tonnes or 30% on the start of the year.
Europe's industrial sector continues to contract even as the services sector recovers and weakness in end-use markets has been accentuated by a destocking cycle along the aluminium supply chain.
China, meanwhile, is emerging from the seasonal lull in downstream activity over the Lunar New Year holidays and ShFE stocks have mushroomed from 95,881 tonnes at the end of December to 291,416 tonnes.
That is still below last year's seasonal peak of 348,315 tonnes in early March and could quickly disappear if Chinese demand recovers as expected.
Indeed, Citi's view is that aluminium offers the best China recovery trade among the base metals over the next three months. The bank's short-term price forecast is $2,700 per tonne with upside potential to $3,000.
Goldman Sachs is also in the bull camp, forecasting an average price of $3,125 per tonne this year as Chinese demand recovery collides with domestic production constraints. ("Aluminium: Reopening Deficit", Jan. 15 2023).

GREEN DILEMMA
Everything, depends on how long power rationing will last in Yunnan and its neighbours.
The rainy season will only start in May and it is possible, Citi says, that the transition from El Nina to El Nino weather patterns in the Pacific will mean more drought trouble for southwest China.
That could delay smelter restarts or even lead to further cuts.
Aluminium smelters in Yunnan compete with other power-hungry sectors such as silicon, which has also seen producers relocate capacity to the "green" south.
All industrial sectors have to vie with Yunnan's obligations under China's East-West Power Transmission Project, which means that exports to other regions sometimes take priority over internal requirements.
Too much green industry is chasing too little green power straining regional grid dynamics.
The answer is more green power in the form of solar not hydro. Solar generation capacity will dominate Yunnan's new power installations over the next couple of years, according to Citi.
"We expect Yunnan's power supply to gradually stabilise in the next 2-3 years not because of the climate but with the help of more renewable power to come," the bank said.
Until then, a metal critical to future decarbonisation is increasingly vulnerable to the changing weather patterns associated with global warming.

Top News - Carbon & Power

Europe slashed winter gas use amid energy crisis
European countries slashed their gas use from August to January, as unusually warm weather curbed household heating, soaring prices curtailed industrial output and governments launched emergency measures to contain the energy crisis.
Overall gas use in the 27-nation European Union plunged by 19.3% from August to January compared with the five-year average for the same period, according to data published on Tuesday by EU statistics office Eurostat.
Russia, previously Europe's top supplier, cut off most deliveries to EU countries in the months following its February invasion of Ukraine - triggering an energy crisis in Europe of scarce supplies and record-high prices.
Lower gas consumption has helped EU countries near the end of winter with their storage caverns unusually full - increasing confidence that they will avoid shortages.
European gas prices have tumbled since December, although they remain higher than the average in recent years.
EU countries appear on track to overachieve their target to voluntarily cut gas demand by 15% from August to March - one of numerous emergency efforts introduced by Brussels and national governments last year to save fuel and replace Russian supplies with alternatives ahead of the northern hemisphere winter.
Analysts said it was too early to deduce what had curbed demand in specific sectors, but mild winter temperatures and industry curtailing production in response to high gas prices were among the drivers.

"Weather has definitely played a very big role," said Jacob Mandel, senior associate at Aurora Energy Research.
EU gas demand dropped by more than 22% in October, November and January, Eurostat said. December, which began with a cold snap that likely boosted household heating use, recorded a smaller decrease of nearly 13%. Eurostat did not break down the data by sector.
Separate analysis by think-tank Bruegel showed consumption in Germany, Europe's biggest gas market, in January was down by 27% in industry, 25% among households and 12% in the power sector, compared with the 2019-2021 average for the month.
The decline was unevenly spread between countries. Finland's gas use fell by 57%, Spanish demand fell by 14%, and in Malta, an island country not connected to the EU gas grid, consumption increased.

Falling gas costs, rising carbon prices spur change in fuel dynamics
Falling gas prices over recent weeks have paired with rising coal and carbon costs to make European power generation from gas-fired power plants more economical, marking a trend reversal since coal took over as the cheaper fuel source last year.
Analysts say the switch in so-called clean-dark and clean spark prices indicates that gas power is becoming more competitive from a cost perspective, but supply security remains challenging, especially for countries that used to rely on Russian gas.
The clean-dark and clean-spark spreads are the prices paid for the operation of a coal- or gas-fired power plant respectively, when adjusted for mandatory carbon emissions permits and fuel purchases.
The countries that could see significant coal-to-gas switching are Germany, the Netherlands and Italy, Refinitiv analyst Nathalie Gerl said, while Germany will need to fill a 4 gigawatt (GW) generation gap as the country permanently phases out nuclear in April.
However, the gas price would need to fall a bit more to replace more efficient coal plants, she added.
Germany and other European countries relied heavily on both coal and gas power during the energy crisis last year, with coal's share of the power generation mix rebounding after mostly falling over the previous decade.
Competition between the two fuel sources is expected to be much closer in 2023, but there will not be a large-scale coal-to-gas switch as gas is still tight, Rystad analyst Fabian Ronningen said.
Prices have fallen since the import of liquefied natural gas (LNG) has improved during the winter, but should level out as they reach the average long-term LNG contract price. The Dutch benchmark wholesale gas contract slipped to a new 17-month low on healthy supply earlier, while European carbon allowances (EUA) reached a record high over 100 euros per tonne.

Top News - Dry Freight

Jordan buys estimated 60,000 tonnes wheat in tender -traders
Jordan's state grains buyer purchased about 60,000 tonnes of hard milling wheat to be sourced from optional origins in an international tender which closed on Tuesday, traders said. It was bought from trading house Grain Flower at an estimated $333 a tonne c&f for shipment in the first half of July, they said. Traders said these other trading houses also participated in the tender: Agro Chirnogi $338, Nibulon $335, Viterra $353, Ameropa $337.50, The Andersons $340.90, Buildcom $348, Cerealcom Dolj price unavailable, Cargill $346.30 and CHS $336.40.

Turkey tenders to buy estimated 790,000 tonnes wheat – traders
Turkey's state grain board TMO has issued an international tender to purchase an estimated 790,000 tonnes of milling wheat, European traders said on Tuesday.
The deadline for submission of price offers in the wheat tender is Feb. 28. Traders said the unusually large tonnage sought in the tender was thought to be connected to additional needs following the earthquake which caused over 41,000 deaths and massive destruction in the country. Rapid wheat shipment is sought in two periods in March 8-April 7 and April 10-May 10.
Red milling wheat is sought in a series of consignments to different Turkish ports.
Wheat already in warehouses in Turkey can also be offered in the tender. The TMO reserves the right to buy up to 5% more or less than the tender volume at its own discretion, they said.

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Picture of the Day

Power-generating windmill turbines are seen near Binche, Belgium February 21. REUTERS/Yves Herman

(Inside Commodities is compiled by Sravanthi Bhamidi in Bengaluru)

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

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