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REUTERS EDITORS BRIEFING
OPEC'S BIG DECISION – ANALYZING THE OUTLOOK FOR OIL SUPPLY AND PRICES

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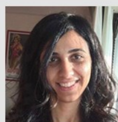
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Top News - Oil

OPEC+ unlikely to deepen oil supply cuts at June 4 meeting, sources say

OPEC and its allies are unlikely to deepen supply cuts at their ministerial meeting on Sunday despite a fall in oil prices toward $70 per barrel, four sources from the alliance told Reuters. OPEC+, which groups the Organization of the Petroleum Exporting Countries and allies led by Russia, pumps around 40% of the world's crude and supplies around 60% of the oil export market, meaning its policy decisions can have a major price impact. As the economic outlook worsened, several members of OPEC+ in April pledged voluntary cuts starting from May and to continue to the end of the year.This was in addition to a 2 million barrels per day (bpd) cut agreed in early October to output targets versus an August 2022 production baseline. It brought total output cuts to 3.66 million bpd, or about 4% of global consumption. The group of late has cut by more than its targets mainly because of capacity limitations in West African producers Nigeria and Angola. A Reuters survey found the two countries missed their output targets by a combined 600,000 bpd in May, while outages in the Kurdistan Region of northern Iraq meant the country produced 220,000 bpd below its target last month. The surprise announcement in April helped to drive benchmark Brent crude prices about $9 per barrel higher to above $87 over the days followed, but Brent has since lost those gains to trade below $73, under pressure from concerns about global economic growth and its impact on fuel demand. Last week, Saudi Energy Minister Prince Abdulaziz bin Salman told investors he said were shorting the oil price to "watch out," which many market watchers interpreted as a warning of additional supply cuts.
Russian Deputy Prime Minister Alexander Novak subsequently said he did not expect any new steps from OPEC+ in Vienna, Russian media reported.
The Kremlin on Thursday did not comment on the meeting's outcome, but Kremlin spokesman Dmitry Peskov said relations with Saudi Arabia were "constructive, based on mutual understanding, mutual respect, mutual trust".

'EVERYTHING CAN CHANGE'
"At this precise time, no change for the meeting but as usual, depending on the mood of some, everything can change," one OPEC+ source said. This view was echoed by three other sources, all of whom asked not to be named.
Two other sources said it was too soon to be sure of the meeting's outcome. Beyond the unexpected April decision, the group has surprised markets several times in recent years.
In March 2020, it abandoned production quotas altogether, launching a Saudi-Russian price war at the onset of the COVID-19 pandemic that sent oil prices 25% lower. It quickly re-established quotas with its biggest

output cut to date of about 10 million bpd, agreed in April, 2020. HSBC said in a note on Wednesday it did not expect OPEC+ to change its policy, but that the group may cut output later if an expected market deficit in the second half of the year does not materialise and prices remain below $80 per barrel. "We think the current set of cuts, in addition to the stronger oil demand we expect from China and the West from the summer onwards, will bring about a deficit in the market in 2H23," the bank said. OPEC has said it expects oil demand growth to reach 2.33 million bpd this year as non-OPEC supplies grow by 1.4 million bpd. Goldman Sachs anticipated no change to OPEC+ policy this week, but predicted the group could "utilise some partly offsetting hawkish rhetoric". The bank also said OPEC+ may act later if prices remain below $80 in the second half of the year.

US crude inventories post surprise rise, fuel stocks mixed – EIA

U.S. crude oil stockpiles rose unexpectedly last week, as imports jumped, while distillate inventories gained and gasoline drew down, the Energy Information Administration said on Thursday. Crude inventories rose by 4.5 million barrels in the week to May 26, the EIA said, compared with analysts' expectations in a Reuters poll for a 1.4 million-barrel drop.

"It's all about imports," said Bob Yawger, director of energy futures at Mizuho. "Imports were up huge. That contributed basically to the big build."

Net U.S. crude imports rose by 1 million barrels per day (bpd), the EIA said.

Oil prices extended gains following the data. Brent crude futures and U.S. crude futures were last up over 2% to $74.18 and $69.91 a barrel, respectively.

Crude stocks at the Cushing, Oklahoma, delivery hub rose by 1.6 million barrels last week, the EIA said.

Refinery crude runs rose by 96,000 bpd, while refinery utilization rates rose by 1.4 percentage point in the week.

Gasoline stocks fell by 200,000 barrels in the week, the EIA said, compared with analysts' expectations for a 500,000-barrel drop.

The four-week average for product supplied of gasoline - a proxy for demand - rose to the highest since December 2021, the data showed.

Distillate stockpiles, which include diesel and heating oil, rose by nearly 1 million barrels in the week, versus expectations for a 900,000-barrel rise, the EIA data showed.

Top News - Agriculture

Palm oil dispute won't have bearing on Indonesia, Malaysia EU trade talks, minister says

A dispute between the European Union and major palm oil producers Indonesia and Malaysia over a new deforestation law will have no bearing on the two countries' stalled negotiations with the bloc on free trade agreements, a Malaysian minister said on Thursday. Responding to a Financial Times report which said the talks could be delayed over the palm oil issue, commodities minister Fadillah Yusof said Malaysia's negotiations with the EU on a trade deal, which have been on hold since 2012, could be resumed if the EU would treat Malaysia with fairness and as a partner. Fadillah also said Indonesia had been negotiating on an EU FTA for seven years and was "very patient" about waiting longer. Top officials from Indonesia and Malaysia, the world's biggest producers of palm oil, have been in Brussels voicing concern over an EU Deforestation Regulation (EUDR), which they believe could be detrimental to small farming businesses. "The first step is to look into EUDR," Fadillah, who is also deputy minister, told reporters in Brussels, a recording of which was provided by the ministry. "We went to see them, we presented our case in particular the fair treatment and how they are going to respond as far as smallholders are concerned ... if there is a good response from them, definitely FTA will be one of the areas that we are looking at." Indonesia's economic ministry and trade ministry did not immediately respond to requests for comment. Malaysia and Indonesia account for about 85% of global palm oil exports and the EU is their third-largest market. Both Southeast Asian countries have accused the EU of discriminatory policies targeting palm oil and Malaysia had previously said it could stop exporting it to the EU over the deforestation law. According to the EU, talks towards an FTA with Indonesia were launched in 2016, with the latest round in November 2021. Negotiations on a deal with Malaysia started in 2010 but were stopped two years later. The EU's landmark deforestation law bans imports into the bloc of coffee, beef, soy and other commodities unless companies could provide "verifiable" information the products were not grown on land that was deforested after 2020. Indonesia's Coordinating Minister for Economic Affairs Airlangga Hartarto said last month that the law would burden smallholders with onerous administrative procedures, which might see them excluded from the global supply chain.

Ukraine grain and oilseed crop expected to fall by 7.9%, traders union says

Ukraine's combined grain and oilseed crop harvest is set to fall to 68 million tonnes in 2023, from 73.8 million tonnes in 2022, Ukrainian grain traders union UGA said on Thursday. The grain harvest could include 17.9 million tonnes of wheat and 23.3 million tonnes of corn, the union said. Ukraine harvested 20.2 million tonnes of wheat and 27.3 million tonnes of corn in 2022. UGA said combined exports of grains and oilseeds could total 43.9 million tonnes in the 2023/24 July-June season, against 56.4 million tonnes in 2022/23. It said exports could include 15 illion tonnes of wheat and 19 million tonnes of corn in 2023/24.

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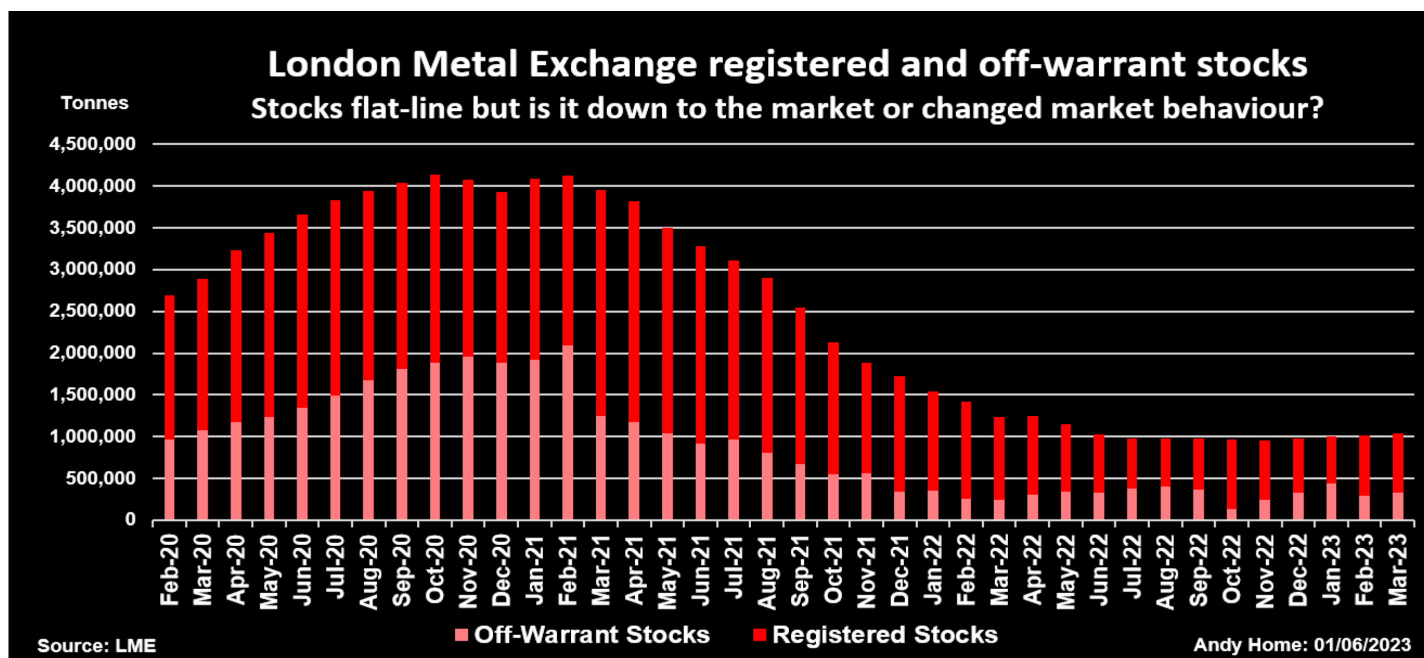
Chart of the Day



Top News - Metals

Copper price to fall to $7,000 in second half of 2023, says Antaike

Global copper prices are set to fall to $7,000 per tonne in the second half of this year, predicted influential Chinese research firm Antaike, as rising risks of recession and a lack of solid demand growth in China weigh.

Copper prices rallied to a seven-month high of $9,550.50 in mid-January, thanks to bullish bets on prospects of a Chinese economic recovery, but the benchmark contract on the London Metal Exchange fell below $8,000 a tonne last week, the lowest since November.

Contracting manufacturing activity and slumping industrial profits in China have turned investors bearish.

The country consumes about half of the world's copper and the metal, used in construction and power, is often viewed as an economic bellwether.

"Most sectors except air conditioning and solar are subdued," said state-backed Antaike in a report last week.

Citi and Goldman Sachs forecast copper prices to fall to $8,000 and $7,750 a tonne respectively in three months, according to their latest forecasts.

Financial market turmoil in the West is also weighing on sentiment, with the Federal Reserve's interest rate hike path and U.S. debt ceiling negotiations being closely watched.

Copper briefly fell to $7,000 in mid-July last year before recovering, and was at around $8,237 on Thursday.

Antaike said it expects growth of 2.7% in Chinese copper demand this year, while negative growth outside China is very likely.

Low stocks of the metal will however add some support, Antaike added.

Other Chinese analysts are also bearish on the metal.

"Copper prices will fall further to $7,500 or lower due to a lack of demand and persistent macro pressure," Zhang Weixin, an analyst at China Futures, said on Wednesday.

Copper often provides an indication of economic performance in three to six months time, Luo Xufeng, the chairman at Nanhua Futures, told Reuters in an interview earlier this month.

"Higher interest rates have increased the costs of trading and warehousing for participants, translating into great pressure to the metals market," Luo said.

LME loses benchmark status in part of nickel market - Bloomberg News

The London Metal Exchange (LME) has lost its benchmark status for a part of the nickel market to the Shanghai Metals Market, Bloomberg News reported on Thursday citing French mining company Eramet.

An index produced by Shanghai Metals Market "has become the benchmark" for pricing ferronickel, the report quoted Eramet's chief executive officer Christel Bories as saying.

"There's an increasing disconnect between the market fundamentals and the product that's physically stored in the LME warehouses," Bories said.

"The LME's problem is that it's pricing the pure ore. Meanwhile nickel is less and less used as a pure metal," Bories added.
Eramet says it is the world's second-largest producer of ferronickel, which accounts for just over 10% of global nickel output and is used to make stainless steel, the report added.
Eramet could not be immediately reached for a comment by Reuters.
The LME launched two consultations on Wednesday on possible reforms in the wake of last year's crisis in nickel trading, saying it was following up on an action plan set out in March.
The move is part of sweeping reforms to boost investors' confidence in the wake of last's year's crisis, when the exchange suspended trading and annulled billions of dollars of deals.

Top News - Carbon & Power

China Energy starts operations at Asia's largest coal carbon capture facility
Chinese state-owned power generator China Energy Investment Corporation has started operations at Asia's largest coal-linked carbon capture, utilisation and storage (CCUS) facility, according to a report in state media outlet CCTV on Friday. The facility, adjoined to the group's Taizhou thermal coal power plant in the country's eastern Jiangsu province, has the annual capacity to store 500,000 tonnes of carbon dioxide, the report said.
Carbon capture has become a focus area for China's major power generators, as the country pursues a plan to hit its carbon emissions peak by 2030. Last year, state-owned oil and gas giant Sinopec launched a 712,000-tonne-per-year CCUS project - the country's largest - at one of its oil refineries in Shandong province. China has around 40 CCUS demonstration projects in operation or under construction, with a total annual capture capacity of around 3 million tonnes per year, the CCTV report said.

COLUMN- Poland defies big polluter expectations with coal use cuts: Maguire
Poland is expected to soon surpass Germany as Europe's top power polluter due to aggressive planned reductions in fossil fuel use across Germany and assumptions that Poland will have no choice but remain Europe's most coal-reliant nation for years to come.
But so far in 2023 Poland has defied expectations by cutting coal use and pollution to the lowest since at least 2014, and by raising clean power output to record highs just as Germany cut its clean generation by shutting nuclear reactors. So instead of emerging as a climate laggard compared to wealthier European peers, Poland is keeping pace with the cuts to coal use and power emissions seen elsewhere, and may soon force emissions forecasters to trim their future pollution projections across the region.

TARGETED CUTS
Emissions forecasters using planned power generation data from major economies estimate that Europe's total carbon dioxide emissions will drop by 47% from 2022's total by 2030, largely due to planned steep cuts to coal use in Germany. Germany, currently Europe's top overall CO2 emitter, is seen cutting CO2 discharge by nearly 70% by 2030 from over 200 million tonnes in 2022 to less than 65 million tonnes, data compiled by Refinitiv shows.
All major European economies are also expected to notch up double-digit declines in CO2 pollution, but Germany's cuts are expected to be by far the steepest, and will help push Germany to second in Europe's pollution rankings behind Poland by 2028. However, those future pollution tables are based on assumptions that Poland will be far slower than other countries in reducing coal emissions, as Poland is not expected to be able to afford the extensive energy system upgrades that are planned in wealthier Western Europe. Poland's gross domestic product (GDP) per capita is roughly 35% of Germany's, and less than half of the average for the European Union, according to data from the World Bank. That places the country's government, utilities and businesses at a significant disadvantage to peers when it comes to marshalling the funds and subsidies needed to pay for power system upgrades and overhauls. The heavy manufacturing bias to Poland's economy also makes it the most energy intensive country in Europe, according to Ember, which means it can ill afford any drops to energy supplies or jumps in power costs that may undermine economic activity. Nonetheless, Poland has managed to boost clean electricity supply capacity by 156% since 2018, which in percentage terms is nearly seven times more than Europe's average over the same period, and four times more than the global average, Ember data shows.

PUSHING AHEAD
A nearly 4,000% jump in solar power generation in January to May 2023 from the same period in 2018, along with an 80% increase in wind power, have been the drivers of Poland's clean power advances. Over the same time frame, Poland's electricity generation from coal has dropped by roughly 20%, resulting in an equal magnitude drop in coal-fired emissions. So far in 2023, Poland's total emissions from electricity generation have dropped to new lows, falling even below the diminished levels of mid-2020 when Poland's economy was stalled by COVID-19 lockdowns. Patchy global demand for some of the goods

produced in Poland - led by motor vehicles, electric batteries, furniture and electronics - have also resulted in a slight slowdown in factory production and energy demand in recent months. However, Poland's peak period for air conditioner use - which is a key source of electricity demand in every country - looms over the coming months, and should result in a rise in overall power demand through September.

PRICE PAIN

Going forward, a key factor that will drive Poland's overall electricity demand will be the price of it. In 2022, Poland's heavy reliance on its own coal supplies shielded the country from the worst effects of the cut-off of Russian natural gas to Europe, which sent power costs across the continent to record highs. However, so far this year Poland's wholesale electricity prices have climbed above those of Germany, France, The Netherlands and Spain as natural gas prices have declined by more than international coal prices. If coal prices remain stubbornly strong relative to gas, then Poland's power producers may find themselves in the unenviable position of potentially ranking among the highest cost electricity generators in Europe. But such a scenario would likely underscore the attractiveness of further increasing renewable energy supplies, which in most countries are already cheaper than fossil fuel alternatives. In any event, previous commitments to invest more than $100 billion in grid upgrades and expansions to renewable power supplies should sustain Poland's clean power momentum, and put the country in a strong position to continue exceeding emissions reduction expectations.

MARKET MONITOR as of 06:52 GMT

Contract	Last	Change	YTD
NYMEX Light Crude	$70.85 / bbl	1.07%	-11.72%
NYMEX RBOB Gasoline	$2.40 / gallon	0.80%	-3.35%
ICE Gas Oil	$686.25 / tonne	0.70%	-25.49%
NYMEX Natural Gas	$2.16 / mmBtu	0.23%	-51.66%
Spot Gold	$1,977.59 / ounce	-0.01%	8.40%
TRPC coal API 2 / Dec, 23	$91.75 / tonne	-2.91%	-50.34%
Carbon ECX EUA / Dec, 23	€78.96 / tonne	0.30%	-5.97%
Dutch gas day-ahead (Pre. close)	€23.90 / Mwh	-8.08%	-68.37%
CBOT Corn	$5.25 / bushel	0.05%	-22.64%
CBOT Wheat	$6.24 / bushel	-0.08%	-21.85%
Malaysia Palm Oil (3M)	RM3,352 / tonne	2.23%	-19.69%
Index (Total Return)	**Close 01 Jun**	**Change**	**YTD Change**
Thomson Reuters/Jefferies CRB	285.01	1.40%	-5.42%
Rogers International	25.79	0.29%	-10.03%
U.S. Stocks - Dow	33,061.57	0.47%	-0.26%
U.S. Dollar Index	103.56	-0.73%	0.04%
U.S. Bond Index (DJ)	407.70	0.19%	3.69%

Top News - Dry Freight

Ukraine says Russia again blocking Black Sea grain export deal

Ukraine's ministry of renovation and infrastructure said on Thursday the U.N.-brokered Black Sea grain export deal had been halted again because Russia had blocked registration of ships to all Ukrainian ports.

A U.N. spokesman said Russia had informed officials overseeing the initiative that Moscow would limit registrations to the port of Pivdennyi, in Ukraine's Odesa province, until all parties agree to unblock the transit of Russian ammonia.

The United Nations and Turkey brokered the Black Sea Grain Initiative between Moscow and Kyiv last July to help tackle a global food crisis aggravated by Russia's invasion of Ukraine, a leading global grain exporter.

Russia agreed in May to a two-month extension of the deal, which covers three Ukrainian ports including Pivdennyi, but has said the initiative will cease unless an agreement aimed at overcoming obstacles to Russian grain and fertiliser exports is fulfilled.

"The Joint Coordination Centre in Istanbul (which oversees the initiative) has announced that it is impossible to draw up an inspection plan for June 1 due to another unjustified refusal of the Russian delegation to register the incoming fleet for participation in the Initiative," the Ukrainian ministry said on Facebook.

U.N. spokesman Stephane Dujarric said there had been a "continuous slowdown" in vessel departures under the Black Sea deal from April through May, and that the average daily inspection rate for ships had fallen to three.

"This is a very serious situation. We need to move forward," Dujarric told reporters at the U.N. in New York.

The Ukrainian ministry said Russia had registered only one incoming ship for inspection in the last two days of May and had given no explanation for the move, calling it a "gross violation" of the initiative.

Russia did not immediately comment on the ministry's statement.

Ukrainian officials have said that since mid-April, Russia has "unreasonably restricted" the work of the Black Sea grain deal.

It said 50 vessels are waiting for inspection in Turkish territorial waters and that they were ready to deliver 2.4 million tonnes of Ukrainian food abroad. Some vessels had been waiting for inspections for more than 3 months.

The ministry also criticised what it said was Russia's blocking of Pivdennyi, Odesa's largest port. Russia has previously denied any wrongdoing while urging parties to allow the transit of Russian ammonia via a pipeline from Russia to Pivdennyi.

A senior government source has told Reuters that Kyiv would consider allowing Russian ammonia to transit its territory for export on condition that the Black Sea grain deal is expanded to include more Ukrainian ports and a wider range of commodities.

Argentina's grain export revenue steady in May at $4.2 bln

Argentina's revenue from exports of grain, oilseeds and their derivatives totaled $4.2 billion in May, broadly on a par with the same month a year earlier, the country's CIARA-CEC chamber of grains exporters and oilseed producers said on Thursday.

May export revenues were marginally down 0.45% versus the year-ago period. However across the first five months of the year, export revenues dropped 38% compared with the same period a year earlier.

The drop resulted from the extreme drought that has drastically reduced production, CIARA-CEC said, adding that the preferential exchange rate for exporters of 300 pesos per dollar that expired on May 31 broke the balance between supply and demand.

Argentina is set to lose its status as the world's top exporter of processed soy meal during this harvest due to the toll of a historic drought on the country's main cash crop, the Rosario stock exchange (BCR) said in April.

The South American country implemented a third round of the so-called "soy dollar" preferential exchange rate for farm exports in April to boost agricultural shipments and increase central bank reserves.

May exports were up 78% versus April.

Most of the sector's foreign exchange earnings occur well in advance of exports, around 30 days in advance in the case of grain exports and up to 90 days in the case of oil and protein meal exports, the statement said.

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Picture of the Day

A Palm Civet stands near Arabica coffee cherries in a coffee plantation owned by state plantation firm PT Perkebunan Nusantara XII in Bondowoso, in Indonesia's East Java province. REUTERS/Sigit Pamungkas

(Inside Commodities is compiled by Indrishka Bose in Bengaluru)

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

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